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CANADIAN DEFENCE & FOREIGN AFFAIRS INSTITUTE

## **"The Free Trade Imperative and North American Energy Security"**

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*Check against Delivery*

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Good evening and thank you for that kind introduction. I welcome the opportunity to speak with you and have been looking forward to tonight's event.

As a politician, I used to joke that Canada was a Nordic country, and that we typically suffered through ten months of winter and two months of poor skating. I always meant it as a joke, but in this, the winter of 2014, it is taking on the appearance of reality.

Today I would like to offer a Canadian perspective on North America's revolution in energy production – and on the opportunities and challenges that have emerged. These include the need for recommitment, innovation and renewal of Canadian and American public policy relating to energy, climate change and the environment.

Energy matters profoundly to the national interests of both Canada and the United States. Even a cursory review of relations between our two countries illustrates that energy, more than anything else, has for half a century driven the bilateral agenda between our two countries.

From the American perspective, the critical issue has been the availability of reliable, affordable energy. Forty-five years ago, Richard Nixon became the first President to highlight the strategic importance of the Canadian oil sands and to propose a Continental Oil Policy. An alignment was achieved: Canada as a supplier, the U.S. as a consumer. This is important because the irrefutable lesson of modern history is that economic prosperity is directly linked to the availability and security of hydrocarbons.

Since the 1980s, sheltered and framed by free trade agreements, Canada and the United States have enjoyed the mutual benefits of an extraordinary partnership. Our two countries have created the largest and most integrated energy marketplace in the world. There is nothing that matches it – anywhere.

The benefits have been reciprocal. Canada consolidated its status as America's largest supplier of natural gas, uranium, refined petroleum products, electricity – and of course, oil. Over the past quarter century, Canada has typically supplied the United States with close to 20% of its oil imports. American, in turn, has reduced its vulnerability to supply and price disruptions.

All in all, the relationship has been a comfortable one. Perhaps too much so, because

until recently we had sublimated the awareness that the energy interests of Canada and those of United States – while certainly interrelated and in some cases similar – have never been identical.

And now, we have together entered a new era. The North American energy renaissance is transforming the supply-demand balance on our continent and transforming the goal of North American energy security from pipe dream to probability.

The scope of this upheaval is unprecedented. The United States is today the world's largest producer of liquid fuels and will be the largest producer of oil itself within a year or so. By 2020, our continent will be self sufficient. We are now in a world in which the US Secretary of Energy is busily reviewing export licenses for American LNG facilities (17 at last count) and is even musing about lifting the 40-year-old ban on oil exports.

Who amongst us thought we'd see the day?

- A day when continental oil and natural gas production has soared far more quickly than forecast;
- A day when the substitution of natural gas for other fuels, especially coal, is happening faster than anyone could have imagined.
- When imports of light, sweet crude from Africa, and heavy oil from the Middle East, Mexico and Venezuela are being pushed aside;
- When both Canada and the United States are aggressively pursuing a future as a global supplier of LNG into the Asia Pacific Basin;
- When Canada is aggressively pursuing a future as a supplier of crude oil into Asia in the time after 2017, something unimaginable even five years ago;

And a day when the U.S. has emerged as one of the world's largest exporters of refined petroleum products.

This energy renaissance has been achieved not by the efforts of successive governments – but by free markets, by private enterprise, by technology and innovation. It has opened up a triple, North American competitive advantage over the rest of the industrial world - a security advantage, an industrial advantage and an environmental advantage.

This is a time of optimism and possibility. Given the pace of change, it is also a time of pronounced volatility. There have been regional and continental implications and we are now beginning to witness global changes, as energy flows, prices and competitiveness shifts.

Amidst this volatility, the pace of political change is also accelerating. President Obama has been working to advance his clean energy agenda – not necessarily through legislation in Congress but by making greater use of the executive levers at his disposal, including agency appointments, regulatory action, rhetorical persuasion and international dealings.

Certainly the evidence suggests that energy-related decisions by the Obama administration will continue to be made with an eye to, and awareness of, their potential impact on climate change and more broadly on the environment.

So how does all this fit into the broader landscape of our continent's energy potential in the years and decades to come?

More directly, what are the geo-political impacts for Canada and the United States?

Scant attention is being paid to the fact that as friends and partners on this continent, we have before us an opportunity that is the envy of the industrial world: the chance to further develop and benefit from our collective resources – and to do so in a way that ensures energy security, encourages environmental responsibility and bolsters our industrial strength.

There are four pertinent advantages to consider:

First, both the Canadian and American economies have been strengthened by – and can benefit further from – the energy revolution. Our energy industries have become engines of growth. In fact, the natural gas boom has sparked a renaissance in the re-shoring of North American manufacturing. While Canada has been slow to capitalize on this, the competitive advantage afforded to Canadian and American industry is identical and it is hard to see why energy-intensive industries in Canada, including petrochemicals, heavy manufacturing, cement and fertilizers will not be similarly strengthened over time. Indeed, Canada's competitive position will also be further strengthened by the lower dollar that we have seen over the past few months.

Secondly, on security issues both Canada and the United States are now able to engage internationally from a position of greater strength. While this is of more direct relevance to the United States one should not overlook the fact that the international security objectives of Canada and the United States do not differ materially.

While Canadians do not bear the international security responsibilities that the United States does, Canada is the most trade dependent of any G-7 country and we benefit directly from a strong global economy and from uninterrupted global energy markets. Moreover, our national security interests in the Middle East do not differ in any material manner from those of the US. We both support Israel's security. We share international non-proliferation objectives, including those relating to Iran. Together we support democracy in places such as Yemen, Syria and North Africa and we are allies in deterring aggression and fighting terrorism.

Third, these developments bolster the North American environment as a whole and afford both countries unexpected opportunities to reduce carbon emissions. The U.S., in particular can achieve quantum reductions simply by reducing the use of coal for electricity. And on the subject of climate change, it is worth observing that the international negotiating positions of Canada and the USA have been virtually identical.

Finally, both Canada and the United States will benefit from a more efficient and global natural gas market, which will promote a stronger global economy and loosen the control enjoyed by traditional dominant gas suppliers, in favour of Australia, Canada and the United States.

In each of these respects, Canada and the United States benefit most if we continue to consider our energy resources together – oil, natural gas, hydro electricity. They are spread across our continent in a manner that essentially demands economic integration. Indeed, that has been the genius of NAFTA. Over the past 20 years, our standard of living on both sides of the border has been enhanced by the integration of our energy infrastructure and recent developments should add to, rather than detract from our efforts to build efficient continental markets and infrastructure.

Unfortunately, that is not what we are currently doing. Instead, we have become largely preoccupied by a dispute over a single pipeline – the Keystone XL.

To be clear, I have been an outspoken advocate for the Keystone Pipeline and for its approval by the U.S. government. In my view, it is in the national interests of our two countries. The oil it would carry is produced under environmental standards that are at least as high as those that apply to oil production in the United States – and much higher than those that apply in other countries that are allowed to land their oil in the U.S. market without interference. In fact, Alberta is one of the only jurisdictions in the world that currently places a price on carbon in the production of oil.

The United States has historically addressed its oil security issues by pursuing a policy of diversity of supply – facilitating and supporting open markets for energy trade and the construction of infrastructure to facilitate the import of oil from multiple suppliers. This is what has made the Keystone delay and uncertainty so confusing to Canadians.

But we must move beyond this distraction. In my view, we need a renewed focus on the bigger picture and the longer term.

The United States needs to reflect on the purpose and the importance of the Canada-US Free Trade relationship, and recognize all it has achieved – and can continue to achieve – for both countries. Canada, meanwhile, needs to provide the United States with a clearer picture of where it is headed on issues related to the environment and climate change.

And then, moving forward, there are three dominant 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 to strengthen the policy framework of the North American energy marketplace.

In recent years, we've made progress on certain important issues. We have, for instance, achieved success in harmonizing passenger car and truck fuel consumption standards – measures that have achieved quantum reductions in North American greenhouse gas emissions.

Using this as a foundation, we need to continue to pursue a full continental harmonization of the transportation grid and bring continental standards to the heavy truck, rail and aviation industries.

At the same time, we must recognize and confront a policy trend that threatens to

work against the free-market standards that we both value.

I'm talking about the emergence of sub-national standards in various U.S. jurisdictions – standards that impede the flow of Canadian oil into the U.S. market and the build-out of the most efficient North American renewables.

Markets produce impressive results when they are allowed to work. Americans know this better than anyone else on this planet.

Yet we have allowed sub-national standards to depart from market-based principles. Policy makers have encouraged their proliferation, as a substitute for concerted national or continental action on energy and environment policy. Yet they threaten the very vitality of the most important continental energy policy of all – our free trade arrangement.

We see it in the renewables sector, where a number of U.S. jurisdictions are setting portfolio standards that shut out Canadian hydro.

The essential point is that our two governments should at a national level be focused on how we might, as North Americans, 'green' the American electricity network by bringing on stream up to 25,000 mega watts of clean Canadian hydro electricity – and, in the process, reducing coal emissions by a commensurate amount.

We are also seeing dozens of U.S. jurisdictions developing their own low-carbon fuel standards. These standards are intended to achieve a single purpose – to close the U.S. marketplace to crude from the oil sands. Paradoxically, it was the very availability of oil from this Canadian resource that drove the United States towards the Free Trade Agreement in the first place.

I look at it this way and have said so since 2009: If we want to have a North American low carbon fuel standard, that's fine – but we should negotiate one and it should apply to every barrel of oil produced or landed on our continent.

Instead, we are now heading for the worst of all worlds: a proliferation of diverse sub-national standards that apply to some forms of energy and not others, some kinds of oil and not others, some pipelines and not others, some renewables and not others.

This is not the genius of the Free Trade Agreement at work.

In my view, Canada and the United States need to return to principles of free trade that are enshrined in NAFTA, and we need to address energy matters on a continental basis. We have reaped the benefits of continental energy policies for 25 years now and it would be shortsighted to abandon that path.

The second goal that Canada and the U.S. must pursue together is to establish North America as a world leader not only in energy production but also in environmental performance.

In a world focused on environmental issues generally, and climate change specifically, energy leadership and environmental leadership have become two sides of the same coin. Today, if you are in the energy business, you are in the environment business. It is that simple.

We need to work together to pursue environmental policies that are in our mutual interest – and, just as important, to our competitive advantage.

What do I mean by that? Well, I returned not long ago from Beijing, where I was again astounded by the pollution that citizens must endure in their daily lives. The smog was so thick that I could barely make out buildings that were only a block away. It served as a stark reminder of the dramatic advantage we have as North Americans – and the fact that our environmental standards help us stand out in a competitive marketplace for commerce, investment and talent.

But there is work still to be done. 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 – and its best environmental performance as well. A less impactful oil sands. A cleaner electricity system, with a greatly reduced reliance on coal. And a number of LNG facilities shipping liquefied natural gas across the Pacific, reducing coal use among emerging nations.

If our shared goal is truly to address climate change and environmental quality on a global basis, then surely reducing the number of coal-fired plants in China and other Asian countries is a very good place to start.

The third goal for Canada and the U.S. is to build and support the necessary infrastructure to ensure maximum efficiency in serving – and exporting from – our continental marketplace.

This is a critical issue for Canadians. But we should not ignore the fact that it is also a critical issue for the US as well.

Recent speeches by Ryan Lance, Chairman and CEO of ConocoPhillips and just two days ago, comments from Alaskan Senator Lisa Murkowski, ranking member of the Senate Committee on Energy, have both called for the end to the prohibition on crude oil exports. Murkowski has said that the export ban is "not beneficial to the American people."

Obviously, Keystone – from the Canadian perspective – is a key piece of the continental puzzle. So too is the building or retrofitting of smaller pipelines strategically positioned to reduce or eliminate bottlenecks in the continental transport of oil and gas. Rail now moves some 10 per cent of oil between and within our two countries.

But it goes beyond that. Canada and the United States must also build the infrastructure required to move our oil and gas to the Pacific coast, and onward to Asia.

A couple years ago, I said that west coast access must become a national focus for Canada. That may no longer be a sufficient expression of urgency. Looking ahead, the supply-demand balance for energy on this continent is such that Canada must make overseas access a national imperative. In the time after 2020 – and arguably after 2017 – Canada will need to access growing Asian markets to sustain oil sands production increases. Virtually all incremental demand lies in non-OECD countries, especially those in Asia.

Without access, Canada will face a congested North American marketplace, unable to clear oil sands production increases at global prices. Indeed, this is already happening at certain points in time. The absence of the Keystone Pipeline would exacerbate the problem.

A few years ago, when I first raised this concern, some said my comments were alarmist. No one in Canada says that today. And increasingly there are voices in the US now raising this same concern from a US point of view. This market dynamic weighs heavily on Canada's energy prospects, on the valuation of Canadian assets and on foreign direct investment decisions.

By way of conclusion, I would note that for a period of time, as Canadians, we lived comfortably in a world of insatiable American demand along side a shortage of supply. We forgot some simple truths: that hydrocarbons are valuable only if they can be transported to market. Hydrocarbons are more valuable when they can be transported to alternative markets. They are most valuable when they can access global markets.

Canada must not forget this ever again.

The increase in the North American supply of natural gas and oil promises the people of Canada and the United States a future that is more secure, more prosperous and, if handled properly, greener than in the past.

In my view, we are only beginning to appreciate the scope of what is now underway, a future in which North American energy security and the quality of our environment will be a defining competitive advantage in the global marketplace.

We must not lose sight of the fact that this energy marketplace – and the resource base that will afford us this energy freedom – is continental in scope. It is a North American opportunity. We should and we must work together to realize its promise.

Thank you.