



**"A Window of Opportunity: Investment in Canadian LNG"
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Conference on Liquefied Natural Gas, Calgary, Alberta**

September 18, 2013

Check Against Delivery

Good afternoon. I welcome the opportunity to speak with you today at this very well-timed conference. There's certainly a lot to talk about when it comes to LNG and what it could mean for our country and for the energy industry in the west, including right here in Alberta.

The emphasis, however, is still very much on the "could."

There has been understandable enthusiasm among political and business leaders – and plenty of projections for what a thriving LNG industry would mean in terms of jobs, profits and increased government revenues.

But given the scope of the opportunity before us, and given the speed with which other countries around the world are rushing to get into the game and fill LNG demand, we in Canada need to push ahead with a much greater sense of urgency.

None of this is to suggest that optimism about the potential of liquefied natural gas is misplaced. A world-leading LNG export industry means jobs and growth.

It means a stronger and more competitive energy industry. It represents an important long-term economic advantage.

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 celebrated this year a deeply symbolic and profoundly Canadian moment: the opening of its first Tim Hortons.

LNG could also be a good news story for Alberta, an opportunity to shift away from a historic reliance on a single international buyer for natural gas – the U.S. – and begin to access Asian markets, where demand for energy is growing.

Consider the potential of the Montney play – a huge resource with good proximity to the B.C. coast. In terms of production, pipeline manufacturing and financing, Alberta's contribution to the supply of cost-effective gas – and to the success of a liquefied natural gas industry in Canada – will be critical.

But even as we consider the benefits of a successful LNG export industry, we must acknowledge that we are not there yet. The logic exists to support major investment in pipelines and export terminals. But anyone with a connection to the energy business here in the west knows that the pace of activity is far from frenetic.

In 2011, LNG-related shale gas mergers & acquisitions activity in Canada reached \$2 billion in aggregate value. Last year, that same segment grew to approximately \$8.7 billion in total M&A activity. However, so far in 2013, there has not been a single LNG-related shale gas transaction to report – and a number of opportunities haven't managed to make it over the finish line.

More broadly in the energy sector we are seeing evidence of the same changes in the marketplace. So far in 2013, Canadian Energy M&A is substantially below historic levels – just \$9 billion, compared to \$60 billion last year and \$34 billion in 2011.

Foreign investment in Canadian energy projects has fallen off significantly. And equity issuance is well below the norm – just over \$2 billion in 2013, compared to almost \$11 billion in each of the preceding three years.

The potential of LNG is not eternal. The success of LNG in Canada is not assured.

There is a window of opportunity, and it is closing. If Canada is ultimately to win in liquefied natural gas, we need to pull together and seize that opportunity before it passes us by.

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, at a time when U.S. oil production is growing at a remarkable rate.
- 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 realize the potential of LNG exports to Asia.

There are some who describe Canada as a global energy superpower. But mere ownership of resources is not enough. You're not a superpower when a single client, or single country, can hold full control over your fate.

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.

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 sustained low prices and displacement from new low-cost supply out of numerous U.S. shale formations – where the regulatory framework encourages a certain amount of activity and development regardless of price.

As a result, industry revenues in Canada are down. Government revenues have been adversely affected. The impact on Western Canadian producers has been acute. And with key plays in the U.S. expected to result in steady or even higher production, the impact on Canadian gas producers is likely to continue.

Less than a decade ago, Liquefied Natural Gas facilities were being constructed to import natural gas to North America. A few years later, the United States has by some estimates a century's worth of gas in the ground.

The U.S. industry is growing so quickly that summer campgrounds in West Virginia and other states have effectively been taken over by throngs of incoming workers. A local newspaper recently reported on a woman who lives in the heart of Pennsylvania gas country – and now refuses to cross the road to pick up her mail because there are just too many trucks.

The former secretary of environment protection in Pennsylvania put it plainly: “We literally have,” he said, “the Saudi Arabia of natural gas under our feet.”

We in Canada have therefore entered a critical period. We face the imperative to match up our resources with the needs of the Asian marketplace.

We must do the hard and urgent 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 shorter 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, Indonesia, India, 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.

Canada also benefits from existing world-class energy infrastructure owned by a host of companies with proven expertise – and the track record to expand this infrastructure and efficiently move natural gas in a safe and cost-competitive manner.

And we have still another advantage: we have stability.

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 period of 25 years or more – 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 has, for decades, 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 bet. The stakes are high and the challenges are formidable. We need to be confident – but we also need to be aggressive, moving with purpose to 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.

Earlier this year, 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 difficult 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.

Already, there are some who hold the view that Canadian LNG projects are, and I quote from a recent report by the International Gas Union, "difficult to financially justify." Others have begun suggesting that costs need to be reduced by having consortiums potentially share pipeline and terminal infrastructure.

What's beyond debate is that the imperative in LNG must be to ensure 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 and cost overruns 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've got a big country with a small population and a number of major infrastructure projects on the go.

- And two, because we may ultimately see the simultaneous construction of at least two 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 the labour 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.

There may be merit to labour market policies that encourage Canadians in higher-unemployment regions to move to where the good jobs are.

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 of B.C. 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 a newspaper columnist 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, the contract standoff that's emerged between project developers here in Canada and potential customers in Asia needs to be resolved.

As in any negotiation, there are differing perspectives depending on which side of the transaction you occupy. Asian buyers, naturally, want to pay North American prices, plus the cost of shipping.

Producers look at the massive investment required to get up and running in LNG and, naturally, they want long-term oil-linked contracts.

One solution appears to be the acquisition of equity positions in Canadian LNG facilities by the very companies that will be buying our gas. The danger here rests in a protracted standoff that halts momentum toward LNG facility construction.

Finally, and with pricing very much in mind, we need to better understand and move to address the competitive challenge that is being posed by the United States. Simply put, the Americans are eager to get into LNG in a big and aggressive way. That could have real implications for our ability to do the same. If we're hesitant, if we continue to move slowly, we could wake up to discover that our competitive opportunity has vanished.

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, our companies desire a long-term agreement and the price stability it entails.

The Americans would offer a different experience. They're willing to sell at floating market prices.

Four licenses have been approved for American producers to ship LNG to countries with or without a free trade agreement with the U.S. Another 18 applications are awaiting review – and there is pressure on the Department of Energy to pick up the pace of approvals.

In fact, we may ultimately see a scenario in which Canadian gas is first shipped overseas not from Canadian soil – but from the proposed Jordan Cove facility in America's Pacific Northwest.

But the U.S. is also a nation that historically has been hesitant to part with its energy – a nation whose domestic and foreign policy has for decades been influenced, and at times driven, by the pursuit of energy security. In the current environment, at the current time, the current administration is amenable to easing those restrictions. However, a number of buyers are uneasy about relying on U.S. exports – and wary of rescission clauses that are included in the export licenses.

It's certainly plausible to make the argument that Canada still trumps the U.S. as a long-term stable supplier.

But what's important today from the Canadian perspective is that the competition – the U.S., East Africa, Australia; particularly the Australians – is moving quickly to seize the Asian opportunity, and we need to keep pace. LNG growth is unfolding in real time, all around the world. The lion's share of investment is up for grabs.

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.

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

Taken together with LNG developments 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 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.

Secondly, 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 and specific opportunities for new economic partnerships with First Nations.

The ongoing jobs at the LNG plants themselves are only the beginning. 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 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 wherewithal 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, there are challenges that remain – but I am an optimist. There is a tremendous opportunity for our country, 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.

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.

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 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.

Success in any one moment does not assure success forever. But the benefits we offer as a competitor – our energy infrastructure expertise and our stability of supply foremost among them – position us as well as possible to thrive and to lead in the coming decades.

Our 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.