



“Canada’s Future and the Future of Canada/US Relations”

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Thank you Derek for that kind introduction. And good afternoon. Ladies and gentlemen, I want to spend the next few minutes discussing one of the most important relationships that Canada has, Our relationship with our best friend and greatest trading partner the United States.

Today I’d like to offer a perspective on Canada's future and on the future of the Canada-U.S. agenda over the coming three to five years.

I am by no means a futurist – but I have been around for some time now, and am guided by experience to believe that the past is our best and most reliable guide of what’s to come.

We need only look to our bilateral relationship with the United States. History has demonstrated that while the relationship between our two countries is rarely static, the opportunity to change the core fundamentals – to initiate a real transformation – occurs only periodically. Almost exclusively, this opportunity comes during the first six to 18 months of a new president’s mandate. That has long been the reality of living alongside such a massive and complicated democracy.

It is therefore incumbent on us to be forward-looking as a country. We must set our priorities, tailor our agenda and make our preparations with that small window of opportunity in mind. The next one will arrive in 2017, when the new president takes office, and I will make the case here today that this will be an opportunity of great consequence for Canada – an opportunity we need to start preparing for today.

Let me begin by taking a look at where we are today. What are the realities of the Canada-U.S. relationship as we move toward a 2015 election here at home, and as President Obama enters his final three years in office? What are the defining trends that will influence this relationship – and the economic performance of our two countries – in the years ahead? Most importantly, what can we do to meet the coming challenges and build with the Americans a relationship that is even stronger, more effective and more beneficial for both nations?

We begin from the indisputable fact that Canadians and Americans have developed one of the most successful, integrated and resilient economies in the world. The Free Trade Agreement has conferred reciprocal benefits on both countries. We have, for example, developed the largest and most integrated energy system in the world. Beyond that, we trade together and manufacture things together. In a volatile and sometimes hostile world, we must protect this relationship, the jobs it supports and the prosperity it helps create.

But notwithstanding our success and despite the efforts of successive governments, we have in the time since 9/11 experienced a thickening of the border and a growth in the number and intensity of trade irritants between our two countries. The list of irritants is long and includes softwood lumber, copyright, border infrastructure and, most recently, the Keystone pipeline. Taken together, these don't amount to a renunciation of FTA but they do reflect institutional impediments to the resolution of disputes and to the harmonization of action.

At the same time, our comfortable and familiar relationship in the realm of energy has been radically transformed by North America's supply revolution. Driven by free markets and technological innovation, this renaissance in oil and gas production has stood the Canadian and American energy relationship on its head, with profound implications for both countries – perhaps the most obvious being that in some areas, such as liquefied natural gas, Canada and the United States find themselves in competition.

As energy production increases, one of the central challenges of this era – environmental quality generally, and climate change specifically – is returning to centre stage, with the risk of further complicating the Canada-U.S. relationship.

The cost of climate change was high on the agenda at the World Economic Forum in Davos, a reflection of growing concern among political and business leaders. Though some still fail to see or accept it, the simple fact of the matter is that in the 21st century energy policy and environmental policy have become two sides of the same coin. This at a time when Canadian and American policies on the environment are increasingly divergent – or, at minimum, disconnected.

In short, there's a lot coming at us. This volatility brings implications for a wide range of factors going forward, among them: North America's industrial competitiveness, hemispheric trade negotiations, Arctic sovereignty, foreign relations and of course continental security, which both of our countries have a keen interest in maintaining and improving.

But today, I will focus primarily on energy and the environment, because that is the primary lens through which the Canada-U.S. relationship is likely to be refracted in the short term. There are urgent issues that will challenge us as partners on the North American continent. But there is also an opportunity that will emerge when the new President takes office in 2017. It's an opportunity that's important to Canada's future. It's a moment we can't afford to miss. And it depends on us making smart and efficient use of the coming three years in order to prepare to engage the Americans from a position of strength.

When it comes to energy, we have entered a new era. The North American renaissance in oil and gas production is transforming the goal of continental energy security from pipe dream to probability. This change is taking place so quickly that scant attention is being paid to the fact that, as friends and partners on this continent, Canada and the United States have 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.

Consider the potential. Consider the advantages that are already accruing to Canada and the United States:

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 something of 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 difficult to see why energy-intensive industries in Canada, including petrochemicals, heavy manufacturing, cement and fertilizers will not be similarly strengthened over time.

Second, 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, Canada is the most trade dependent of any G-7 country and it is not lost on anyone that in both a continental and hemispheric sense, our hand has been strengthened.

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.

Finally, both Canada and the United States are in a position to benefit from a truly global natural gas market, which will loosen the control enjoyed by traditional dominant gas suppliers and compete actively in new gas markets where other suppliers have traditionally been dominant.

In each of these respects, Canada and the United States benefit most if we continue to consider our energy resources together – oil, natural gas, hydroelectricity. They are spread across our continent in a manner that essentially demands economic integration. Our goal should be to build on this success.

We need to develop our continental resources together.

Instead, our relations have for a number of years now been distilled down to a debate over a single pipeline project. I'm on record as an enthusiastic proponent of the Keystone XL and continue to approach with optimism the question of whether it will be approved in the months ahead. It is, quite simply, in the national interests of both countries. But the essential point here is that we need to step back and together consider the larger picture.

Progress toward further integration in energy – and further progress on other elements of the Canada-U.S. agenda – has also been hampered by the modern reality of the U.S. political system, including the stark partisan divisions in Congress and the ever-expanding duration of American political campaigns.

This summer and fall, for instance, the focus south of the border will be on mid-term elections – on whether the Republicans can capture the Senate, and what that would mean for rest of the President’s second term. In 2015, as presidential hopefuls in the U.S. begin declaring their candidacies, our own federal election is scheduled to take place. The resulting government will find itself dealing with a president in his final year in office, and with a Congress again focused on its next election.

More than a year ago, I gave a speech here in town and talked about how challenging it would be to get the attention of the Americans during Obama’s second term – a term that from the outset seemed destined to be focused on internal issues. That has proven to be true in spades. The course for the next few years appears to be set. Absurd as it may sound sitting here today, Canada’s next opportunity to directly engage the U.S. in a profound, substantive and meaningful way will not come until 2017.

This does not mean that there cannot be forward momentum on specific issues over the next couple of years.

And certainly in the meantime we need to safeguard our interests with vigilance across the board – not just with the administration but also at the congressional and state levels, and with the private sector. But we must also turn our attention to 2017 and make urgent use of the time we have available.

First, we need to get our house in order on a number of fronts, including security and border infrastructure.

Second, we need to respond to the fact that we are a country reliant on trade – but have become too dependent on a single market.

With that in mind, we need to build on the work the government – and, in particular, Minister Fast – have done in securing an important new trade agreement with the European Union. Attention must now be turned across

the Pacific and the next few years put to the goal of negotiating accords with some of the leading nations of Asia, including Korea, Japan and China.

Third, we need to set ourselves to the task of securing the best and strongest possible position from which to engage with the United States to strengthen the policy framework of the continental energy marketplace – and confront a policy trend that threatens to work against the free-market standards that define our relationship.

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.

In the absence of concerted cooperative action on energy and environment policy, dozens of U.S. jurisdictions are 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.

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

Let's be clear: Focusing on environment policy isn't exclusively a question of morality. Increasingly, it's an economic imperative. Around the world, the wave of concern over climate change crested a few years ago – but those who are paying attention can see that the next wave is building. That wave will come, and Canada needs to be ready for it.

If you are in the energy business today, you are in the environment business. It is that simple. As such, Canada and the U.S. 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, on my most recent trip to Beijing, 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 leader in intensity reductions and in the application of technology to reduce emissions. Add to that 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.

These are continental solutions that can best – and in some cases, only – be achieved by working in co-operation with the United States. Our opportunity to engage the U.S. will come. When it does, we need to be ready. We need to work with the Americans to achieve an accord relating to climate change and the oil sands. If we miss that opportunity, we are essentially resigning ourselves to another four to eight years in which, at best, we are at drift – and at worst we are cross-threaded with the prevailing U.S. ethic on climate policy.

So what exactly does Canada need to achieve in the coming three years?

First, we need to move forward – with pace and with purpose – to build the Energy East and Northern Gateway pipelines, among others. This will give us the ability to export to the emerging markets of Asia and elsewhere.

We all know by now that achieving west coast access for oil in particular brings challenges of its own – but they are domestic challenges that we as Canadians can and must confront and overcome together in the short term. The supply-demand balance for energy on this continent is such that Canada must make overseas access nothing short of an urgent priority. Without it, we are heading towards a reality in which there is no market for increased oil sands production beyond 2020. In fact, if you speak with people in the energy sector, they will confirm that the continental marketplace is already producing periodic gluts of Canadian and American oil resulting in prices that are substantially lower than world oil prices.

Achieving access will require corporate flexibility and political leadership.

But the competitive benefits of getting our oil to tidewater would be felt for decades as Canada is able to serve markets where growth is strong and demand for energy is on the rise.

Second, we need to move forward – again, with pace and with purpose – to build facilities along the B.C. coast to facilitate the export of liquefied natural gas.

We've all heard the optimistic projections about what a healthy LNG industry could mean for British Columbia and for Canada as a whole. But natural gas has become a highly competitive global industry. It is, as I've said, an industry in which we will compete with the Americans. The US approved yet another export licence yesterday, bringing total export licences to five. And with every month that goes by without a LNG facility on the Canadian coast, and without the pipelines to bring the gas to the ocean, we fall further behind.

Third, we must initiate and pursue genuine engagement with our native peoples. West coast access for both oil and gas requires the active participation and involvement of First Nations' communities and leaders. This is not a simple process but it is an essential one.

Finally, we must continue to improve our own environmental performance – developing the world's cleanest electricity system and further reducing the impact of oil and gas production.

As I indicated earlier, in a world concerned about carbon, Canada will either be an environmental leader or have other jurisdictions dictate our environmental policies. If you doubted this before, surely your eyes have been opened by the U.S. administration's sustained focus on the scope of greenhouse gas emissions created by oil sands production.

To be very clear: I don't believe that Canada should pursue an independent path on carbon emissions – a path that would lead to a decline in our ability to compete. But we should and we must be prepared to pursue and contribute to a continental solution.

The four imperatives I've outlined should be pursued in concert – by which I mean: greater output from the oil sands, produced with reduced environmental impact, and delivered across Canada, into the United States

and across the ocean to Asia. Along with greater natural gas production, shipped to modern facilities along the B.C. coast, and onward to emerging markets. And all this achieved with the active participation of Canada's Aboriginal people.

As Canadians, we have the resources and the ingenuity required to take the lead in these areas. We have the opportunity to put ourselves in a position of strength from which to engage the Americans on improving and advancing our continental energy relationship.

At some point the question becomes: do we have the foresight? The question becomes: do we have the will?

Allow me to put it another way: if we drift along these next few years, if we arrive at the table with the new American administration in 2017 without pipelines completed or under construction; without one or two LNG terminals under construction along the B.C. coast; without the agreement and participation of First Nations as full economic partners; without action to show leadership and further address the environmental impact of our energy production – if we arrive at the table as a country with no way to sell its oil to anyone but the Americans, and no interest in improving its environmental performance in a world increasingly concerned with carbon, does anyone in this room here today think we'll be taken seriously? Does anyone think the new administration will feel compelled or inspired to hear us out on the benefits of further economic and energy integration?

The same is true on other issues as well. The key to transforming a relationship is declaring what you want, developing a specific plan to achieve it and demonstrating to your partner that you have the wherewithal to help get it done.

When it comes to energy, these next few years are a Canadian opportunity. What we make of them will help to define the success of our industry – and indeed our economy as a whole – for decades to come.

More broadly, we must look beyond the irritants of today and look toward the opportunity that will arrive with the next U.S. president – the opportunity to engage the Americans from a position of confidence and strength, and transform our relationship to the benefit of both countries.

As we look to the future, let us be guided by what we've learned from the past – that our relationship with the Americans is crucial to our own economic prosperity, and that opportunities to advance and improve that relationship come along infrequently, and for only brief periods.

The next window with the U.S. may not open until 2017. When it does, we need to be focused, and confident, and strong. We need to be ready. We cannot afford to waste a moment in preparing.

Thank you.