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DISCUSSION PAPER

JUNE 2013



# Engine of Growth

A Western Canadian Energy Policy Framework

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This document has been prepared by Nexen Executive-in-Residence Michael Cleland and the Director of the Centre for Natural Resources Policy Len Coad. The authors extend their thanks to Dylan Jones, Sophie Lacerte, Robert Roach and Rachael Strathern for their contributions to this document. Any errors or omissions are the responsibility of the authors. The opinions expressed in this document are those of the authors and do not necessarily reflect those of the Canada West Foundation's Board of Directors, donors or advisors. More information on the Canada West Foundation can be found at [www.cwf.ca](http://www.cwf.ca).

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ISBN 978-1-927488-06-5

Canada West Foundation is a registered Canadian charitable organization incorporated under federal charter.  
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The Canada West Foundation would like to thank the individuals, organizations and foundations whose support allows us to fulfill our mission and continue to make western Canada a more prosperous and inspiring place to live.

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CENTRE FOR  
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**The Centre for Natural Resources Policy** focuses on the economic importance of natural resources to Canada's current and future prosperity and challenges industry to be world leaders in environmental performance and innovation.

# Nothing is more important to the future of western Canada's economic prosperity than getting energy policy right.

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From natural gas in BC and the oil sands in Alberta to uranium in Saskatchewan and hydro in Manitoba, western Canada is in an enviable position to help supply the world with the energy it needs.

The bad news is that there are numerous challenges to realizing the full benefits of western Canada's energy resources:

- we can no longer just assume a market;
- we are often a high-cost producer;
- we are a relatively weak player in the equipment and services supply sector;
- we are a small player in the global energy business; and
- we need large amounts of capital to grow our energy sector.

Given this, we have a lot of work to do if we want to continue to prosper in the energy business. The majority of this work will be done by the private sector. Nonetheless, if we don't have a clear set of public policy responses to the challenges we face, the work of the private sector will be stymied.

We are proposing a western Canadian energy policy framework focused on realizing the *economic benefits* of the region's energy resources.

For the purposes of discussion, we are proposing that the framework focus on ensuring that western Canada:

- 1 has access to the best markets for its energy resources and the transportation capacity to reach those markets;
- 2 is an international powerhouse in energy services and technology;
- 3 is a global leader in environmental performance and is seen as such;
- 4 has an energy industry with a clear social licence to operate;
- 5 has Aboriginal communities that benefit from and support energy development;
- 6 is working together as a region on energy policy.

**As such, this paper provides a *starting point* for discussion among experts, stakeholders, policymakers and the public about what should be included in a policy framework aimed at realizing the economic benefits of western Canada's energy resources.**

# Narrowing the Focus

From ensuring environmental integrity to providing consumers with access to competitively priced energy, there are numerous viewpoints from which to examine energy policy in Canada. This paper narrows the field of view down to two key considerations:

**1**

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**the specific circumstances of western Canada; and**

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**2**

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**the role energy plays in driving economic prosperity.**

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Within this basic frame, the primary question is: What public policy steps need to be taken for energy to continue to be an engine of growth for western Canada?

The frame encompasses all sources of energy supply in western Canada and energy demand in the West, in Canada and globally. It also includes the economic activity surrounding energy such as investment, equipment and services supply and technology development.

Within the economic engine frame, environmental management still matters a great deal both in substance and insofar as it affects the energy industry's social licence to operate. But given the many challenges facing western Canada's ability to compete as an energy supplier, reducing environmental pressures is addressed within this frame as a critical factor affecting the West's future as an energy supplier rather than as the central question.

## OTHER FRAMES

Realizing the economic benefits of western Canada's energy resources may seem like an obvious frame to some, but it is not the dominant policy perspective in Canada. Other primary policy questions in play include:

- How do we meet our energy service needs while reducing environmental impacts and, in particular, greenhouse gas emissions?
- How do we improve the efficiency of our energy system?
- How do we ensure a secure supply of affordable energy for Canadians?

The viewpoints behind these questions are not mutually exclusive. Energy policy as a whole must ultimately address all of these objectives since they are all interconnected. But if one tries to address all of them at once, it is very difficult to do justice to any of them. It comes down to a question of the starting point and we believe that the most immediate and critical problem facing western Canada at this time is how to sustain the role of energy as an engine of growth.

# Keeping the Engine Running

The good news is that there is a great deal of evidence indicating that the business of supplying energy will remain a mainstay of the western Canadian economy. From natural gas in BC and the oil sands in Alberta to uranium in Saskatchewan and hydro in Manitoba, the West is in an enviable position to help supply the world with the energy it needs.

The bad news is that there are numerous challenges to realizing the full benefits of our energy resources:

- Old assumptions about a growing market ready and willing to buy our energy are obsolete.
- We have to build access to new markets and do so aggressively while ensuring that we strengthen our position in established markets.
- Western Canada is extraordinarily rich in energy resources, but our production costs are often on the high end of the global continuum, making us less competitive and more exposed to price volatility.
- Western Canada has a relatively weak energy equipment and services supply sector and is therefore missing out on the growth and diversification opportunities this sector presents.
- Western Canadian representation among world energy leaders is modest and our clout in international energy circles is limited.
- Western Canada needs large amounts of capital to grow its energy sector and must show that it can provide excellent returns on investment to investors.

Given this, we have a lot of work to do if we want to continue to prosper in the energy business. The majority of this work will be done by the private sector. Nonetheless, if we don't have a clear set of public policy responses to the challenges we face combined with a high level of policy coherence across the relevant governments, the work of the private sector will be stymied.

# Policy Priorities

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## MARKET ACCESS

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**GOAL:** Western Canada has access to the best markets for its energy resources and the transportation capacity to reach those markets.

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Softening demand in the US, lack of access to the right markets in Canada and the US and growing, but unrealized, opportunities in Asia demand that we diversify our energy markets and build the transportation infrastructure needed to service those markets. We have to simultaneously strengthen our position in established markets and aggressively pursue new markets and our governments have to facilitate this with supportive public policy.

**The United States and Eastern Canada** – North American energy demand growth across the board appears to be on a very slow track. Strikingly, the June 2012 outlook from the US Energy Information Administration envisages energy intensity per capita steadily declining for the first time in history (energy intensity per unit of GDP has been declining for decades). Canadian demand growth will follow a similar pattern. In parallel, technological change has radically increased actual and potential supply for both natural gas (and, by extension, electricity) and oil in North America.

**Asia** – Demand in China and much of the rest of Asia is relatively fast growing; for the next few decades Asia will be the major world market not only for energy commodities but also for expertise, equipment and services. The problem is that western Canada is not the only supplier looking to serve the Asian market; gaining access to it will require

sophisticated government-to-government engagement and we are moving at a snail's pace to develop the infrastructure needed to get significant quantities of western Canadian oil and gas to Asian buyers. In all likelihood, western Canada can successfully capture better returns in Asia and seeking such opportunities should be a priority, but these higher returns are by no means guaranteed when infrastructure constraints—not to mention costs, competitors and tough negotiating partners—are taken into account.

### Specific Policy Objectives:

- Develop the conditions to enable the private sector to access and service the markets that will provide the highest long-term return for western Canadian energy exports. Key actions here include:
  - negotiating intergovernmental agreements that ensure non-discriminatory market access for commodities, equipment and services and investment both within Canada and with other countries;
  - facilitating the construction of transportation infrastructure; and
  - helping to re-establish a positive western Canadian energy brand.
- Improve the ability of the regulatory system to make decisions in shorter timeframes.

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## Energy Services

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GOAL: Western Canada is a global leader in energy services and technology.

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Western Canada has lots of energy to sell, but it also has the potential to gain economically from increasing its ability to sell energy services and technology. The future energy marketplace will be increasingly populated by sellers of services, equipment and know-how for both traditional and non-traditional energy. Western Canadians need to come to grips with the challenge of devising realistic and economically-grounded policies to support the energy services sector and the commercialization of energy technology developed in western Canada.

### Specific Policy Objectives:

- Support the development and commercialization of energy technology.
- Support the development of a vibrant energy services sector in western Canada across the full spectrum of the energy industry from hydrocarbons through alternative energy sources.

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## Environmental Performance

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GOAL: Western Canada is recognized as a global leader in environmental performance of the energy sector.

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Western Canada must become a first-rate environmental steward in all areas related to energy. This is essential to the ecological functioning of our environment but also to obtaining and keeping the social licence to operate at home and abroad. Western Canada has to show that it is not only a responsible energy producer, but one that can show the world how to achieve high environmental standards while realizing the economic benefits of energy resources. In addition, western Canada needs to be *seen* as a first-rate environmental steward.

As for carbon and climate change, Canada has done its reputation very few favours. An ill-advised commitment in Kyoto, which was neither achievable nor likely to contribute anything useful, was followed by a reluctant, partial and economically inefficient set of policies through successive governments. Canada cannot afford to be perceived as a carbon laggard. Nor can it afford to approach carbon through measures that are inefficient or which target mainly export-exposed sectors.

In part for our reputation and in part for the opportunities it could create, Canada needs to frame a plausible, economically achievable long-term carbon policy.

### Specific Policy Objectives:

- Articulate a set of environmental principles framed within broader conservation strategies to guide energy regulation.
- Demonstrate through improved monitoring and transparency that world class environmental standards are being met.
- Develop a carbon policy that is aligned with western Canada's role as a natural resource-based economy that includes a straightforward, credible and non-discriminatory system of carbon pricing.

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## Social Licence

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GOAL: Western Canada achieves broad-based social support for the energy economy.

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Lack of social licence is paralyzing all kinds of energy development. The issue is driven primarily by shifting citizen attitudes and it has no single answer. The lack of social licence has the potential to undercut any effort at making regulatory approval processes more timely and efficient. The energy industry and energy policymakers need to be at the forefront of thinking through solutions to this issue.

Social licence needs to be understood as a problem that encompasses local concerns about the distribution of costs and benefits as well as larger societal and reputational concerns. At the local level, the issues center on questions of direct cost and benefit. What are the environmental, aesthetic and social costs to communities affected by energy development? What are the offsetting measures and benefits in terms of economic opportunity and social capital? At the societal level, social licence is a function of brand and reputation; even if some groups and individuals are not directly affected by energy development they may take issue with it and they may be in a position to deny social licence.

#### Specific Policy Objectives:

- Ensure that the communities affected by energy development benefit from it.
- Highlight the positive effects of energy development on the Canadian economy.
- Restore public confidence in the regulatory process.
- Improve environmental performance as per environmental performance objectives.

### Aboriginal Relations

**GOAL:** Western Canadian Aboriginal communities participate in and benefit from energy development.

We need to build on and accelerate efforts to engage Aboriginal communities as beneficiaries of energy development—in terms of government revenues, ownership stakes, community investment, skills development, employment and business opportunities. Given that the critical problem in remote communities is a lack of viable economic opportunity, it seems likely that the primary consideration among this list of possible benefits is in the area of skills, employment and business opportunities. Aboriginal communities should be a natural pool for skills and abilities in energy

resource development. Yet skilled workers are still in shortage and Aboriginal unemployment rates are still extremely high.

Many parts of the energy industry—most notably hydro development, pipelines and the oil sands—have made good progress in the engagement of Aboriginal communities as participants in the economic benefits that come with energy development. However, Aboriginal communities for the most part still do not see themselves as beneficiaries of energy development. As long as the narrative about Aboriginal communities and energy development remains predominantly negative, which it does despite the growing list of success stories, it will undercut all efforts to build social licence or brand reputation in domestic and export markets.

#### Specific Policy Objectives:

- Ensure that the Aboriginal communities affected by energy development benefit from it.
- Disentangle energy development from broader Aboriginal issues such as self-government and land claims.
- Establish relationships of trust between Aboriginal communities, industry and government.

### Intergovernmental Cooperation

**GOAL:** Western Canada develops a consistent regional energy framework through increased intergovernmental cooperation.

Western Canada's four provincial governments need to work cooperatively on common priorities with a shared view of desired outcomes and how those outcomes interact. The alternative is counterproductive skirmishes, unnecessary duplication of efforts, missed opportunities and confused (reluctant) foreign investors. The western provinces also need to work collaboratively with the federal government to ensure that federal energy policy aligns with regional aspirations and that regional aspirations are aligned with the broader national interest.



### Specific Policy Objectives:

- Build institutional mechanisms for addressing interprovincial energy issues in the West.
- Develop interprovincial agreements for achieving energy development objectives.
- Align provincial and federal government energy policy objectives.

# Next Steps

**Testing the Strategic Priorities** – Mindful of the fitful progress of the larger national energy strategy, we are not aiming for widespread and comprehensive concurrence with what we have proposed. Instead, we will be testing our analysis with a variety of key informants by asking them the following questions:

- Have we accurately characterized the main challenges facing western Canada as an energy supplier?
- Do we have the right list of policy priorities and objectives?
- What evidence can or should be brought to bear to reinforce the framework?

# Conclusion

There is a great deal of interest in a national energy strategy. The driver behind this interest and the considerable effort that has gone into supporting it with ad hoc measures are not resolving issues and are leaving us increasingly vulnerable, both in the marketplace and among a variety of stakeholders.

After several years of effort, the idea of a broad national consensus appears increasingly elusive and energy has gone out of the debate as participants find themselves increasingly going their own way or going in circles. If the logic that drove the effort in the first place still holds, then the risk to the energy economy of simply abandoning the effort is very high.

The Canada West Foundation proposes that there is not an either/or between a broad energy strategy and ad hoc policy. Rather, there is a middle level of resolution which can be characterized as a focus on strategic issues related to a specific aspect of the energy debate which, for our purposes, is proactively realizing the economic benefits of western Canada's energy resources.



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