PRESENTATION BY W. P. WILDER, CHAIRMAN
CANADIAN ARCTIC GAS PIPELINE LIMITED
to THE CANADIAN CLUB - TORONTO
on APRIL 1st, 1974

Arctic Gas

As you know, Arctic Gas last week filed applications in Ottawa and Washington for approvals for our proposed pipeline to transport natural gas from the North Slope of Alaska and from the Mackenzie Delta.

The materials which we filed in Ottawa and Washington represent only the first phase filings in support of our applications to construct and operate the proposed pipeline. They relate to the environmental impact of the pipeline; to the engineering, design, construction and operation; to the socio-economic impacts in northern Canada and Alaska, to the pipeline route proposed; and to the studies of alternative routes and systems of transporting the northern gas.

Later we will file additional materials relating to cost, tariffs, gas supply and markets, financing, anticipated impacts on the national economies of both countries, and other factors.

We have filed these materials which are now available in order to expedite the review process, and also to allow more time for review. As a result, of making this information available, we are hopeful that public hearings will be able to get underway before too long.

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Meanwhile, we are continuing our work to prepare the remainder of our materials to complete our submissions. We will file these materials when we are able to finish our detailed studies. By this orderly process, we have tried to move ahead steadily, and to present our facts as promptly as feasible.

We can most effectively assess this area if we start by facing a cold reality. The reality is that the era of bargain-basement energy prices has come to an abrupt end.

Neither Canada, nor any industrialized nation in the western world, can hope to obtain over the long term, adequate and assured energy supplies at prices significantly less than long-term world prices. In Canada, we simply do not have adequate potential resources of energy that can be made available at past prices. The reserves of low-cost oil and gas in in the western provinces will not be adequate to provide for all of our requirements for more than a few years longer. Then we shall have to turn gradually, but increasingly, to our far more abundant -- but higher cost -- fossil fuels: to oil and gas in our offshore and Arctic frontier areas, to the Athabasca tar sands, and perhaps ultimately to synthetic oil and gas supplies from our large coal deposits.

Any attempt to develop long-term national policies premised on an assumed availability of low-cost energy, cannot ultimately succeed. In the end it could lead only to failure to develop our domestic energy resources, possible supply shortages, and a return to reliance on imported energy. This would involve even higher costs and risks in security of supply.

Canada, however, is in a uniquely fortunate position. We are the only industrialized nation in the western world which now produces as much energy as it consumes. Moreover, our potential resources of virtually all forms of energy are more than adequate to sustain a position of self-sufficiency.

While we cannot expect a return to the low energy prices of the past, Canada does at least have a great advantage. We have the ability to provide our own energy needs from our own resources at costs at least competitive with foreseeable world energy prices. In the context of prevailing world conditions, this is an advantage of tremendous economic signifigance.

But it is an advantage which we can enjoy only if we continue to develop these potential energy resources at a pace and on a scale required to economically meet our needs.

One of the projects required to develop these potential energy resources -- and the reason that I am here today -- is, of course, the proposed Arctic Gas pipeline. It is required if we are to provide the additional supplies of natural gas which we believe will be urgently needed by Canadian energy consumers.

Moreover, of all the large potential energy supplies -- whether frontier oil or gas, Athabasca tar sands, synthetic supplies from coal, or even imports -- none now appear to be more economically attractive than natural gas from our western Arctic. This is provided, however, that we have large-volume , economic transportation.

The Arctic Gas pipeline is designed to provide the most economic transportation possible for this potential gas supply.

As you may have already adduced from the coverage of our recent applications filings, newspapers like to portray projects such as Arctic Gas as both dramatic and controversial. I can't blame them. Who wants to read dull newspapers? Thus, our applications have been described as marking the start of -- and I quote -- "Canada's great Arctic Pipeline debate." And also as -- and again I quote -- "the most controversial energy project in this country's history.

Well, the project certainly is large enough to be dramatic. And I must confess to at least some element of controversy -- at least, in the view of some.

But much of this supposed controversy appears to have focused on the claims of Eric Kierans and others. They have argued that the -- quote -- "Industry" -- unquote, deceived the National Energy Board in 1970 with exaggerated claims of natural gas reserves. We are told that the Board was so deceived that it approved a large volume of gas export sales with the result that we now face a shortage of supplies for our own needs.

The oil and gas industry lied to you before. You better not believe the industry now. Arctic Gas is the industry. You better not believe it, either. That is what we are being told, in blunt words.

I want to deal with these charges frankly. And I assure you that they contain neither substance nor sense.

I want to deal with the historical record, to demonstrate that there is no foundation for the charges. And I want to examine the policies advocated by those who make such charges to demonstrate their folly.

In calculating the volume of gas required to meet Canadian needs at any particular time, the National Energy Board has historically made two determinations. First, from existing proven reserves, it has set aside a volume equal to 25 times the projected annual Canadian demand four years in the future. In addition, it has examined the projected trend of future reserves additions from new discoveries against the projected 30-year growth in Canadian demand. In 1970, the anticipated 1974 level of Canadian demand multiplied by 25, was set aside from then proven reserves. That measure of protection for current demand still exists. It is the future growth in Canadian demand which must be met from new supplies such as Arctic Gas proposes to connect in the Mackenzie Delta and Beaufort Sea areas.

It was on this basis that the National Energy Board and the Government of Canada in 1970 authorized some 6.3 trillion cubic feet in export requests, and rejected requests for an additional 2.7 tcf, as not surplus to Canadian needs. Again in 1971, export requests amounting to 2.7 tcf were also similarly rejected.

Within the past week, the National Energy Board is reported to have again completed another assessment of natural gas supply and demand. And on the basis of its historical procedure, has again found that there are adequate reserves of natural gas to protect Canadian needs.

In all these cases, the growth in future requirements was protected by the forecast in growth of future reserves.

There was, certainly, one circumstance which could not have been anticipated in 1970 or in 1971.

I refer to the sudden increases in the price of oil, the differential that this has created in natural gas prices, and the resultant surge in natural gas demand. For example, the price of heating oil in Ontario is nearly double the average price of natural gas for residential use. Largely as a result of such price differentials, the demand for natural gas this year is now estimated by the Canadian Gas Association at 40 percent more than the 1970 demand.

But while the demand growth in 1970 may have been somewhat underestimated, so, too, was the growth in new reserves of natural gas. Including new supply areas, such as the Mackenzie Delta, the growth of new reserves during the past four years appears to have appreciably more than matched the projections made in 1970.

The effect is that demand for natural gas has grown faster than anticipated, and the reserves in potential new supply areas have also grown faster than anticipated. The result is to attach even greater importance to the task of connecting these new supplies by the most economic pipeline transportation possible. And that is a task in which the Arctic Gas pipeline can play a major role.

Those who have cried deception, have advanced an argument that seems to say this: We do not have adequate reserves of natural gas. Therefore, instead of obtaining additional supplies from the Mackenzie Delta, we ought to cancel our exports to the United States.

That, however, would do no more than defer the need for supplies from new areas. And by that time, it would be considerably more difficult and expensive to transport Mackenzie Delta gas. Because by then we would have lost the opportunity to combine the flow of Alaskan and Delta gas through a single pipeline in order to achieve maximum economies of scale.

But the fact is that Canada does not have any shortage of natural gas. We have no shortage of discovered and presently proven reserves of natural gas. We have no shortage of future potential reserves of natural gas. Our potential reserves, again as estimated by the Geological Survey of Canada, are more than enough to meet our projected needs to the year 2050.

We have adequate reserves of natural gas to satisfy both our own domestic needs, and to honor the export commitments, authorized by the Government of Canada, which have been made to United States consumers.

An appreciable portion of new natural gas reserves now being discovered and developed must, of course, be connected by pipeline before they are available for use. I refer in particular to the new reserves being discovered in the Mackenzie Delta, Arctic Islands, and Atlantic offshore areas. Of these, the Mackenzie Delta reserves represent the most logical and economic for near-term connection.

And this is the real crux of the issue. Implicit in the arguments of Mr. Kierans and others is the assumption that all of the future Canadian requirements for natural gas were to be provided by reserves on tap in the western provinces, with no allowance for the utilization of supplies from discoveries in new areas.

Supply projections have never stated nor implied any assumptions that all of our future requirements for natural gas must be provided by presently proved reserves in supply areas presently served by pipelines. The National Energy Board Act specifically provides that the Board shall have regard to the trend in all future discoveries.

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It would make no economic sense to rely only on presently proven and presently connected supplies for future needs. This, in effect, would limit our future supplies to the four western provinces. And since these provinces contain only about 15 percent of our potential resources of natural gas, this would be a limited supply, indeed. Further, to rely only on presently discovered reserves would seriously deter the development of new supplies. To develop new supplies that would not be utilized for 20 or 30 years could not economically be justified unless the price of the product were increased several-fold.

No one would argue that we must build enough factories so that we would be capable of producing now the quantities of manutured goods that we will require 25 or 30 years hence. Such a requirement would clearly bankrupt our manufacturing industries.

It would be every bit as unreasonable to demand that anticipated natural gas requirements 25 years hence be protected by reserves that are presently discovered, developed and connected by pipeline.

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In light of the developments which I have discussed, the discovery of large new reserves in the frontier areas, such as the Mackenzie Delta, assumes even greater importance in assuring the supplies for future Canadian needs. And so, too, does the need to connect these supplies by pipeline.

We believe there is a unique opportunity to most effectively meet this need now by means of a Canadian-owned pipeline to transport natural gas from both the North Slope of Alaska and the Mackenzie Delta.

Transporting this gas from both supply sources through a single pipeline would afford economic advantages of major signifigance to our country. It would provide the required transportation of our gas supplies, in the volumes needed, at the time needed, and at the lowest possible cost.

Those who suggest we can meet our natural gas requirements by cutting off our committed exports to the U.S., rather than by connecting new supplies, would gain us little -- and at very great cost. Such action would not eliminate the need to utilize our Delta gas resources. It would merely defer that need, [redacted] The costs of such deferral would greatly outweigh any advantages, and would include:

1) The most serious impairment in decades of economic relations with the trading partner that accounts for 70 percent of our international trade -- trade that is vital to the economic well-being of every Canadian.

Let me assure you that such unilateral action would be a serious matter. We must not forget that our present export sales contracts, when authorized at various times, were for 20 to 25-year commitments which enabled major pipeline and distribution facilities to be built and amortized over the life of these contracts.

And let's not forget, either, that many of these commitments were essential to the economic development and viability of our present Canadian pipeline systems, as well as to the accomplishments of our exploration and producing industry. To now say, "sorry chaps, we want our gas back", cannot be justified on any basis, moral or otherwise.

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2) Loss of the opportunity for major cost savings by combining the transportation of both Alaskan North Slope and Mackenzie Delta gas through a single pipeline. The effect of this would be to increase energy costs, impose a penalty on consumers, and lessen the competitive strength of our national economy.

3) Most serious of all would be the risk of supply shortages. Without a flow of Alaskan gas across Canada, there is no assurance that Delta supplies could be made available to Canadian consumers by the time that it will be required.

These are the type of penalties that stem from the extremes of economic isolation. It is the type of economic penalties that impoverished the nations of the world during the Thirties.

For three decades, since the Second World War, the world has been struggling towards freer trading arrangements to capture major economic benefits. Canada has been a leader in this effort, and it has benefitted greatly by the progress which has been made.

With one dollar in four of our Gross National Product derived from world trade, there is no nation with a greater stake in co-operative trade and economic relations than Canada.

And seldom has the need to maintain such benefits been more compelling than at the present time of troubled economic uncertainties. We are confronted with persistent unemployment; with shortages of a wide range of goods and services, with near run-away inflation.

I am troubled by the attitude of economic isolation which is woven like a subtle thread into much of the argument over the Arctic Gas Pipeline. We need now more than ever to strengthen and maintain the institutions and tools for international economic co-operation which we have so painstakingly built. I refer to major accomplishments such as the International Monetary Fund, the World Bank, GATT, and the North American automotive trade pact. Are we now to deviate from this couse and tread the path of the Thirties, with its high unemployment rates?

Under prevailing economic circumstances, it is imperative that we make the most of our comparative economic advantages.

The Arctic Gas pipeline represents the largest single current proposal for Canada and the United States to capture the rewards of economic co-operation for the mutal benefit of each of our nations.

But most importantly, it would provide the required supplies of gas to meet Canadian needs at the lowest possible cost and with the greatest possible benefits. It is truly a major energy opportunity for Canada.

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