

A HARD LOOK AT ENERGY AND METALS, THE WORLD AND NORTH AMERICA:

Address by CARL O. NICKLE, President, Conventures Limited, Calgary, Alberta, before the CANADIAN-AMERICAN SOCIETY OF SAN FRANCISCO, California, March 4th 1980, and the Joint Meeting, PROSPECTORS AND DEVELOPERS ASSOCIATION and the CANADIAN CLUB OF TORONTO, Ontario, on March 10th 1980.

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Canadians have been going through the throes of an unexpected Winter Federal Election, and citizens of the United States are readying for the Presidential-Congressional Election in November. Both have a bearing on what I have to say to you today, but my address is aimed at what I believe to be Reality, not Politics.

We citizens of North America will pay a price in the 1980s for our unrealistic public attitudes in the 1970s towards Energy Resources and, in perhaps lesser degree, towards the Metallic Resources. The extent of that price, in terms of shortages and in costs of available supplies, will depend upon the speed, the courage, the wisdom and the money we pour at rates greater than past years into turning mere "Potentials" into "Useable Supplies".

To some degree it is fair to say we have "looked at forests, and missed seeing trees", have been content to concentrate on debates about price and profits, and have largely ignored realities of supply, and have been so concerned with assessing blame on some, we have failed to adequately recognize that only "Sound Policies" to encourage research, risk-taking and capital investment accomplish results. We have let concern for total environmental protection, native rights, and the like - important as these are - blind us to need of Energy and other Resources to help assure the future of all.

The Eighties must become, without any serious further delay, the Decade in which we go all out to help ensure the Resources we will need in the Nineties and beyond. If we fail to do so, then we - all of us - must accept not only harsher realities of Crises in the 1980s, but also the certainty of Even Worse in such matters as Energy in the 1990s.

By "we" I refer to those whom we elect to govern us, those who are appointed to regulate us, the media whose task is to adequately inform us as well as interest us as viewers, listeners or readers. The "we" also refers to all those who set the policies of corporations and capital sources whom together with a host of individual entrepreneurs, must accomplish the difficult tasks ahead. The "We" also refers to the mass of citizens who, generally, have shown greater concern for Cost of Resources today than to Need of having Adequate Supplies Tomorrow.

For the short term ahead, the 1980s, I tend to be a Pessimist, though - like many others - I continue to put "my money where my mouth is", into resource development. For the longer term, I am an Optimist. I see the huge Potentials for many forms of Energy and other kinds of Minerals in North America. I believe we will awaken to Reality, even if it takes events beyond our borders and beyond our immediate control, to awake us. But awake we must, for every day, month or year that passes without a start on the major projects we now need, means more time of Crises before Potentials become Useable.

What we need, the faster the better, is a doubling and then a tripling of rate at which Capital is invested in finding, developing and connecting to markets, new Supplies of Energy within North America, and a comparable boost in Capital to find and develop new sources of Metallic Resources. We need a very large increase in Technological Research into tapping what are now called Unconventional Forms of Energy, and research into finding better means of utilizing available Metals, including substitutions of one form for another.

In Energy, for example, can we any longer idly watch the Cartel of OPEC call the tune on world oil prices, and create shortages at will, because they control about two-thirds of supply? Can we idly watch any longer the trend for the U.S.S.R. to become a net oil importer, and a competitor for Middle East oil? Can we idly watch a military power expansion add to the uncertainties of our dependence on that Energy supply?

Obviously, achieving of Objectives in Energy and Mineral Security will take Money, vast quantities of it, far more than has hitherto gone into such Resources, because what must be done will face the same problems of Cost Inflation that affect all of us in our personal capacities. That means Capital, domestic and foreign, private and government, must be attracted into willingness to do the job.

As individuals we tend to ask "Is the Profit Potential commensurate with the Degree of Risk?". Even for less risky ventures we tend to ask "Is the Capital secured?" and "What is the Rate of Return?" As Citizens we tend to ask, even if at times our legislators do not, "Is our Tax Money being wisely spent?" or "What is the Real Cost to citizens of the Interest on Government Debts, in addition to ultimate Repayment of Principal?".

These are the same kind of questions asked by those who manage for us the great Pools of

Savings, made up of Pension Funds, Mutual Funds, Insurance Policies and Bank Savings. They have to ask such questions, for serious errors of judgement will be costly to the real owners of the Capital Pools, the many millions of ordinary citizens.

The same questions are asked by those who direct affairs of Investor-owned Corporations, for diminished Investor Confidence, or even Bankruptcy, are the lot for Corporations who fail to adequately recognize importance of Profit and Profit Potential for shareholders. As you know, the great Pools of Savings are also the major sources of Investment in most established Corporations, whether Exxon, I.B.M. or the smaller mining or oil company. The favourable, or unfavourable, results of corporate enterprise thus have a bearing on quality and security of savings of many millions of citizens, just as wisdom or lack of wisdom of those who govern or regulate affect all of us.

Let me be more blunt. The oft-times faceless Corporation in fact is all of us, just as Government is all of us. The basis of Investor Confidence, the Willingness to Take Risks, hinges in very large measure on the "Climate" established by Governments and Regulators. Many thousands of competent persons are ready and willing to apply brains, efforts and money to getting needed tasks done, in the Public as well as Private Interest, if the Government-set "Climate" is deemed favourable. If the "Climate" is less attractive than needed, Private Capital invests elsewhere, and either Governments have to do the entire job with Taxpayers' Money or Borrowings at Higher Cost and with Less Efficiency, or else we all go down the drain with Economic Slow-down and Inevitable Shortages of Supply.

Canada and the United States face the same basic problems on Energy and Metals, though Canada at the moment is relatively better off, being less dependent on foreign supplies of Energy. Many of us remember, however, that the U. S. was long a large Net Exporter of Energy, and only in recent years has allowed itself to become increasingly dependent on foreign sources. Simple geography, and economics, dictate that we two can go much further together in co-operation, than separately, and this can be accomplished without Canada becoming less sovereign or a "hewer of wood" for its southern neighbor.

Of the Energy situation I can bluntly say Canada's degree of dependence on foreign supplies will worsen in years immediately ahead, as will that of the United States. At the same time, co-operation on Energy between the two nations can improve the Security of

both. High on the priority list for both should be a linking of shut-in gaswells in Western Canada with markets in the U. S., in a pre-build that would later provide North Alaska gas via a pipeline over Canada. Another logical step, to improve economics and financeability, would involve Canadian-U. S. markets for Canadian Offshore and Arctic Gas and Oil. Related might be U. S. steps to encourage new Industrial developments in Canada, including more joint research, and international co-operation in major tar sands, heavy oil and metallic mineral projects.

For the very short term, however, and possibly to lesser degree in years beyond, neither Canada nor the U. S. can forego the prices and insecurity of OPEC oil, except to the degree they can reduce consumption (and thus imports from overseas), and speed up policies that will change the picture for the better in the future.

As a Canadian, I would far rather see economic benefits, such as jobs and goods, within my own country stem from Energy and Mineral developments, rather than a long continuation of drain of Canada's financial resources to buy products from overseas sources that could be produced at home. Were I an American, I would have a comparable view. Our two countries are spending many billions annually to buy OPEC Energy, a necessity now, but not necessarily so in a decade or so, if separately and in co-operation we swing as large an outlay into development of North American potential, in full awareness of both geographical and economic facts.

On the question of prices, is it better to ultimately have much higher prices than now accompanied by security of supply, or have high prices sadly lacking any real security of supply? In fact, Shiek Yamani of Saudi Arabia, least greedy of OPEC leaders and the one perhaps most aware of world economic interests, has been sending that message to us for years in an effort to get us to lessen dependence on the Middle East Energy supply.

It is a fact of life that there will be no Ceiling on the World Price of Energy until a Ceiling can be imposed by availability of very large Volumes of various forms of Energy from areas remote from OPEC, and closer to jurisdiction of nations who badly need supply.

How high will Energy Prices go? Forecasts are difficult in part because of political and possibly military events outside North America. My own guesstimate for the mid-80s, say 1985, is currently about \$50.00 U.S. per barrel of oil, and between \$6.00 and \$8.00 U.S. per MCF of Natural Gas, including that imported in Liquefied form.

Those guesstimates are nearly double the early-1980 average prices for OPEC Oil and Liquefied Gas. They will be less than double current levels to prevail later in 1980. Events overseas could make even the 1985 guesstimates too low - even if it were assumed adequate supplies could be obtained. Inflation rates, unless they are brought under stronger control, could also bring 1985 OPEC costs higher than the guesstimate.

That might be called the "Bad News" for all of us, as Consumers, and perhaps also as Taxpayers, if we continued to try and insulate ourselves from the Realities of the Market-place, by excessive government subsidies and/or domestic prices too low to bring about Energy Security.

But there is an Item of "Good News", if we are realistic enough to recognize it. The mid-1980s prices I now project for OPEC oil and gas happen to fairly closely correspond to the prices that could achieve Energy Security. That kind of price will probably have to apply to Synthetic Oil from Canadian Tar Sands and Heavy oil deposits, and to U.S. Oil Shale Deposits; to Canadian and U.S. recoveries of Conventional Oil and Gas from Deeper and Tighter formations, and from Frontiers both in the Arctic and Offshore; to Synthetic Oil hydrogenated from Coal or Gas synthesized from Coal; to Coal from new, major-sized mining projects; to the presently known Technologies for Energy from Biomass of all kinds, Energy in useable large quantity from the Sun; from untapped Hydroelectric sources; and from greatly expanded Nuclear Power sources, fission now, and ultimately also fusion.

To those who might consider Arctic Alaskan Gas as too costly, it is by today's standard of average costs. It will not be over-priced in relation to other sources of Energy by the middle-80s which will be earliest date of pipeline arrival to U.S. markets. We can apply the same reasoning to oil and gas from Beaufort Sea, gas from the Arctic Islands, gas and oil from offshore Labrador, Newfoundland and Nova Scotia, and other high-cost Frontiers where risk-takers have already demonstrated high Energy Potentials.

When we come to Metallic Minerals, it is also apparent that the Mining Industry will have to reach harder and harder for higher-cost, lower-yield Deposits to replace the Metals being produced and consumed today. The ability to attract the Capital will depend both on the yield and profitability of current Mines, and the economic attractiveness to Investors to

pour huge sums into seeking and developing what will be, on average, higher cost reserves.

If we fail to get the "Climate" that helps ensure such work, then inevitably North America faces growing shortfalls in internal supplies of many of the Metallic Resources which have helped tremendously to build our economies. In this regard, it would make as much economic sense to ask that Quebec and Ontario deliver gold, silver, nickel, copper, iron and other metals to Canadians at half the world price, as it does to demand that Western Canadian oil and gas continue to be sold to Canadians at half the world level. Obviously, of course, a move to more realistic Energy pricing must be gradual, to avert sudden, severe shock to consumers - but the progress must be sure, if we want to avert grave Crises of Supply down the road.

Now that the rhetoric of a Canadian federal election is over, it may be said without political implication that any government that attempts to move too slowly on oil and gas pricing, to cater to Consumers, will be adding to the burden of the same persons as Taxpayers through subsidies, and restricting the opportunity of turning Energy Potential into Useable Supplies. Americans still have their big election ahead of them, but it would not be out of place to demand of office-seekers very specific answers on how they would vote on the details of a national energy policy designed to bring the U. S. a high degree of Energy Security in the future, despite the pains that would inflict on pocketbooks of Americans over the years immediately ahead.

In both Canada and the U. S. there is a need to provide some measure of protection to Energy consumers who might be hardest hit by a direct rise in their costs, and to be aware of the impact on Rates of Inflation. But, down the road, a citizen is better served by having Energy supply for his needs at higher costs, than having higher costs for non-available supply.

As to the role of governments, whether federal, state or provincial, I consider a basic duty is to create the kind of "Investment Climate" that recognizes need of attracting the host of individual Investors, and the host of knowledgeable oil and mining companies, domestic or foreign, to provide the Lion's Share of Capital Needs. Such Climates must recognize the competition for Capital, between countries, and between parts of countries.

Government policies can, and must, retain a rightful control over production practices and markets, and through the taxation system, ensure that a fair return accrues to governments on actual profits, but not on revenue which is actually return of capital. At the same time, it is reasonable that governmental policy encourage re-investment of a share of returned capital and ultimately profit in new Resource enterprise, provided such policy is not so greedy that it denies those who take capital risks of a fair share of fruits of their enterprise.

Should governments play a role in actual research and development, in addition to establishing a reasonable Climate for private investors? This is a question about which there are widely differing views. In my own case, I say Yes, Governments should get more directly into the act. One route is by wholly-owned government corporations, such as Petro-Canada and certain Provincial corporations. Another is via companies, whose ownership is shared by both investors and government, such as Panarctic and Alberta Energy Company.

But no Government Corporation and no single Investor-owned Corporation should have anything approaching a monopoly position. My reasoning is simple. A large number of actively competing companies, enjoying the brains of a host, can probably do a better and more efficient job than any monopoly. The best situation, in my view, would be Government and Government-Investor joint companies, both competing with and co-operating with a host of investor-owned companies, all working under exactly the same "ground rules", with special privileges to none. Looked at coldly, such an arrangement can assist in the massive task of financing huge Capital investment, recognizing rights of both citizens at large and investors in the Energy and Metallic Minerals future; and in addition providing those in Government with at least full opportunity to monitor the costs, prospects and returns from risk-taking ventures.

My final comments concern the Regulators - the Boards and Commissions established by Governments to examine and to either recommend or rule on matters placed before them. In large measure, Regulators have on balance done a competent job, in some cases an excellent one. But in weeks, months and years ahead, the Regulators face, like the Governments who create them and those who appear before them, the factor of Time. Neither Canada nor the

U. S. can afford the present average of five years of Time and related high costs to move a major Energy or Mining Project through the regulatory process. After the long haul of Time and Effort between concept and regulatory approval, five to ten years more are still required to advance through financing and construction, to completion. If the regulatory decision be rejection, then the proposed project is either dead, or has to start the procedure afresh. In total, it now takes ten to fifteen years from concept to completion. That is Time that North America cannot afford, given the harsh realities of the World Energy and Metallic Minerals picture.

Regulators have a necessary and important function to fulfill. So have Governments. And so have the Corporations and the Investors who conceive and/or make financially possible, the projects. My main theme is that we in North America must do far more, far faster, if we are to face up to and respond to the massive challenges ahead. No person can escape having some share in the awesome responsibility. The main thing is now, for each to do all in his or her power of voice or action to meet the challenges ahead. If we all do our part, we can turn around the present down trend of our economies, and we can achieve for the future nations far stronger, far better and with far brighter opportunities than exist in the North America of 1980's early months.