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Fuelling the North American Economy: *Challenges and Opportunities for Canada's Energy Industry*

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CHECK AGAINST DELIVERY

It’s an honour to share with the Canadian Club today my views about energy and our economy.

With high natural gas prices and oil breaking through the $55 per barrel mark, today's session is very timely. I realize that with these high commodity prices – and of course high pump prices – you might be looking at today's luncheon as a good opportunity to get out the tar and feathers. I would caution against that. Tar is a petroleum product. It too is at record high prices.

Tar aside, I won’t deny that high prices are feathering the nests of energy companies in the short term – but just like consumers who feel the pinch at the pump, the leaders of Canada’s energy industry are also concerned with the high cost of oil and gas and the volatility it causes for both their customers and investors.

High energy prices are a lightning rod for consumer discontent and for proponents of government intervention – and that's not good for anyone's business, including energy companies.

High oil and gas prices drive higher manufacturing and transportation costs and inflation. According to leading economists, Canada' s growth will be protected precisely because we are a major energy producer.

The same can't be said for our largest trading partner, the United States. This is cause for concern because Canada's growth will eventually stall without growth south of the border.

So I think we're all in agreement: no one likes the volatility caused by high energy prices, but what I'd like us all – as Canadians – to agree on is that energy is a major driver of our economy. Energy provides Canada with a bright future.

And that's the theme of my speech today: How the energy industry fuels Canada's economy today, and how, if we meet the key challenges we face, energy can generate new opportunities tomorrow.

But first, let me talk a bit about energy in our lives.

ENERGY IN OUR LIVES

We all have an interest in energy issues because we're all energy consumers. We use energy in many forms every day, every minute, from the electrons that heat our coffee in the morning to the hydrocarbon molecules that drive us home every night.

We depend on energy and Canada depends on it too.

The availability of reliable, affordable energy is fundamental to Canada's high quality of life and energy a key driver of our economic prosperity.

Consider, for example, that the oil and gas industry is the largest private investor in Canada – with nearly $29 billion pumped into capital investments last year.

We'll likely see similar – or larger – investments in 2004 and 2005. In fact, announcements of $2 billion or $3 billion projects are becoming so routine, that they're no longer front page news.

These investments may not be worthy of big headlines, but they're still worth noting because they drive employment across the country. The energy industry – including energy resources, generation and energy utilities - directly and indirectly employs some 2.4 million Canadians. That's about four times the employment impact of the auto industry. Contrary to the popular images on TV, jobs in the industry are as likely to be in high-tech manufacturing as on an oil rig.

On top of the benefits of investment and employment, the oil and gas industry contributes taxes and royalties - $16 billion in 2003 alone.

That helps pay for local and national infrastructure, improved health care and social programs. That total doesn't include personal income taxes and other indirect revenues collected from the thousands employed in the industry.

Whatever we may feel about the price of energy consumption, the numbers indicate that energy *production* is a major economic benefit for Canada.

GROWING DEMAND, GROWING OPPORTUNITY

That's today. Now consider the prize if Canada can take the lead in expanding energy production to meet rising global demand – demand that will be driven primarily by developing countries.

We see this clearly in Asia where rapidly growing economies are driving energy demand and dramatically shifting global markets.

For example, Asia is expected to produce about 50 per cent of the world's cars by the end of this decade. In the Chinese manufacturing hubs, the iconic image of streets choked with bicycles will soon look more like the 401 in rush hour.

Experts estimate that as our global population climbs from six billion today to about eight billion over the next 25 years, our appetite for energy will continue to grow. Crude oil demand, for example, is expected to increase from the current 82 million barrels per day to more than 120 million barrels per day in that same time period.

The global price tag for the capital investment required to meet this rising demand has been estimated at $16 trillion.

That's trillion with a 'T'.

The question for Canada is, will *our* share of this growing demand be met by other nations and represent *a lost opportunity?*

Or will it represent *an investment in our economy* as Canada supplies an energy hungry globe*?*

The prize for Canadians is clear: more investment, more jobs and, although you'll never find me knocking on government doors asking to pay more taxes, government revenues will increase with more production and provide more money to fund social programs.

This is not just an opportunity for Western Canadians.

Yes, the natural resources belong to the residents of our individual provinces and territories – a fundamental concept within our constitution - but energy does benefit all Canadians. Our energy industry is about Canada's opportunity… Canada's prosperity… and our role globally.

But to realize the opportunity before us, there are challenges we must overcome.

CHALLENGES

First, we must face the fundamental challenge of increasing energy production. And let me say right now, that I believe the gap that exists between current production and future demand can and must be mitigated with improved conservation and better energy efficiency.

But the fact remains that demand will grow and we will be challenged to meet it.

Look for example at the industry Suncor pioneered – oil sands. It took more than 30 years of investments in oil sands technology to get to today's production of about one million barrels per day.

We'll need to develop the energy equivalent of multiple oil sands industries in a lot less time, in order to meet future demand.

The second challenge we face is the need to reduce the costs of energy development. Oil and gas have become the fuel of choice for good reason - they've been abundant and relatively cheap. That's changing.

The days of increasing Canadian oil production by simply drilling few new holes in prairie are drawing to a close.

New oil is increasingly coming from unconventional sources, like oil sands, or from unconventional locations like the far north.

Oil and gas reserves are increasingly deeper, further from markets, and harder to reach – and that makes them more expensive to produce.

The third challenge we face is reducing the environmental impacts associated with energy development because it’s not just about supplying energy; it's about leveraging the connection between energy, economy and quality of life. Environmental impacts must be considered. We can’t go back to a time when we put economic growth before environmental responsibility, here or in the developing world. Energy and environment must go hand in hand.

THE ANSWER - INVESTMENT IN TECHNOLOGY

The answer to these challenges – increasing energy production, reducing costs and reducing environmental impacts – is the same answer we've used to meet our great challenges since the dawn of history: technology.

And while technology has always been the answer, the need has never been more pressing because with rapidly growing populations and rapidly growing economies, the risk to quality of life has never been greater.

The energy industry needs to build on what works today and invest in the technologies that will improve current energy sources for tomorrow.

Industry also needs to invest in developing new sources of energy that can make a step change in our production.

Our current high energy prices provide the cash flow to help make those critical investments possible.

For its part, Suncor invests nearly $2 billion per year – more than $5 million per day - mostly in implementing new technology aimed at precisely the goals I've talked about: increasing productivity, lowering costs and reducing our environmental footprint.

One of the new technologies already in operation at Suncor is steam-assisted gravity drainage. This innovative "hot" drilling system allows us to develop huge oil sands deposits that are too deep to mine. Not only does this increase our production, and allow us to reach resources that old technology couldn’t, it also reduces the impact of development on the land by 90 per cent compared to surface mining.

As we look to the next generation of innovation, we're investigating technologies such as coal and coke gasification as a replacement for natural gas used in the oil sands.

Gasification holds the promise of taking an abundant energy source – coal or petroleum coke – and turning it into a competitively priced alternative to natural gas or even a source of hydrogen.

That's a *paradigm busting* vision – transforming coal or petroleum coke into a clean fuel source for the future.

But it's not a slam dunk. Even with clean burning technology, when we free the hydrogen, we also free the carbon dioxide. Development of gasification technologies must be accompanied by continuing research into carbon capture if Canada is to make progress on reducing greenhouse gas emissions.

Indeed, without massive technological advances, Canada will never reach its Kyoto goals.

Gasification is an exciting option, but to continue to fuel our economy, the energy industry will need to pursue all energy options.

As the energy industry continues the responsible development of energy sources like oil, gas and hydro – and, yes even nuclear power – we also must pursue alternative energy sources such as solar, biomass and wind.

Suncor is part of a growing number of Canadian energy companies that are investing in alternative energy projects. Just last month, Suncor and its partners celebrated the opening of our second wind power project in southern Alberta. Our first wind power project, began operating in Saskatchewan in 2002.

And here in Ontario, we've proposed a 75-megawatt wind farm. If selected by the Ontario government, this 100 per cent emission-free energy project would have the capacity to generate enough electricity to power 30,000 homes. Suncor also expects to construct a state of the art $120 million, 200 million litre ethanol plant – Canada’s biggest to date.

Suncor sells ethanol blended gasoline in all of its 500 retail stations across the Province, primarily under the brand name Sunoco. We were the first to blend ethanol in gasoline – voluntarily – and Sunoco is still Canada’s largest marketer and blender of ethanol gasoline.

These two projects could play a significant role in helping Ontario meet its renewable energy goals and chart a new path to a more diverse energy future.

Developing new and alternative energy sources needs support. Remember that oil sands, which is expected to account for 50 per cent of Canada's oil production in 2005, was once considered an *"alternative"* energy source.

The federal and Alberta governments worked with industry to bring oil sands into the mainstream with fiscal policies that recognized the unique challenges and characteristics of developing this resource. That policy change spurred $30 billion in investment since 1997.

The oil sands industry in turn invested that capital in technology: new mining and extraction methods that increased recovery rates and lowered operating costs, new scrubbing technology that reduced air emissions, and new recycling initiatives that reduced water use and decreased land disturbance.

All the while, the technology also delivered increased production and job creation for thousands of Canadians.

We need the same kind of regulatory and fiscal foresight to turn today's alternate energy sources into tomorrow's successful businesses.

Let me be clear. I am not proposing long-term subsidies for any industry. I am recommending only that we put in place tax and regulatory regimes appropriate to the industry and that early incentives be available to help *new* industries become fully independent and viable.

The federal government’s Wind Power Production Incentive and Ethanol Expansion Program are good examples of the kind of early support developing industries need to get off the ground and meet their potential as strategic resources in Canada’s energy mix.

Here in Ontario, the government too should be acknowledged for supporting increased ethanol use and production. However, I urge the Ontario government to engage with the petroleum industry and the province’s corn farmers as they consider mandating ethanol use.

When developing new or alternative energy options, market-based approaches are much more effective in achieving change than regulated mandates.

CONNECTING TO MARKETS

I sincerely believe that with investment in technology, we can increase Canada's energy production in a way that is both economic and consistent with our environmental goals.

However, we must also recognize that it’s not enough to boost production of energy; we must also ensure there is a strong connection into the market place. One way to accomplish that is by improving existing trade relationships, especially with the United States. The U.S. is our number one trading partner and it will continue to be our number one energy market.

American energy demand is expected to increase 30 per cent by 2025, while U.S. domestic oil and gas production will remain roughly flat.

To close the gap, the United States will need to rely more on imports – and they're looking north.

Canada is already the ninth largest producer of crude oil in the world. And, while many of the other top producers are facing declining production in the coming years, Canada's crude production is expected to continue to grow.

What's more, Canada has the advantage of being friendly, reliable and politically stable – a combination of qualities that is rare among countries with large oil reserves.

Since 9/11, the security as well as supply of energy has become a serious concern for the world. We now hear the call for accelerating energy development across North America as part of a broader effort to strengthen economic and security ties.

Proof of that interest is here in the room today. The Council on Foreign Relations in the United States, in conjunction with the Mexican Council on Foreign Relations and the Canadian Council of Chief Executives (CCCE), has just launched an independent trilateral task force.

The task force is co-chaired by former deputy prime minister John Manley, former Massachusetts's governor Bill Weld and former Mexican finance minister Pedro Aspe. I am delighted the members have joined us today for lunch.

Their goal is to spell out plans for deepening the economic integration of North America, as well as enhancing the security of the continent.

The work of the task force is, in fact, closely connected to the North American Security and Prosperity Initiative, launched last year by the CCCE, which I have the honour to chair.

Based on the premise that North American economic integration is irreversible and North American security is indivisible, the CCCE strategy calls for action on five fronts:

- reinventing borders to speed the secure flow of goods and people
- achieving new regulatory efficiencies that recognize that integrated markets need integrated regulatory approaches
- reinvigorating the defence alliance to protect our shared interests
- creating new institutions to help manage the many issues and obstacles that arise from economic integration
- and enhancing resource security, most notably in the energy sector, to strengthen the link between *security of supply* that matters to the United States, and the *security of access* that is so important to Canada.

Why is all this so important?

The fact is that on top of security pressures in the wake of 9/11, North America faces an unprecedented degree of competition from emerging economic giants such as China and India.

In shaping a Canadian strategy for North America, we have to recognize that protecting our physical security goes hand in hand with strengthening our economic security. At the same time, this challenge to North America represents a huge opportunity for the Canadian energy industry and for Canada's economy to build on our status as a trusted neighbour.

TOWARD A STRONGER ENERGY FUTURE

Affordable, reliable and sustainable energy is critical to the future of both Canada and the United States. If we don't address the issues I've talked about today – investing in technology to improve and expand our sources of energy, taking care of the environment, and nurturing our trade relationships – we risk losing our energy leadership.

Worse, we risk being pushed into another energy crisis that could seriously damage the North American economy and affect the quality of life we have worked so hard to attain.

The bottom line for Canada is that energy is not an obstacle to economic growth. It's a key driver of economic growth.

Energy, more than any other economic lever, can help make us a better partner in North America and also help ensure a stronger, more prosperous future for all Canadians.

Thank you for having me here today.