




Energy, Environment, Trade and Investment: What Does This Mean for Canada?

Joseph Doucet
Academic Director, CABREE

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What does it mean for ...

- ▶ A trading nation?
- ▶ An energy producer?

- ▶ A very diverse economy
- ▶ A productivity-challenged economy?



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Some myths...

- ▶ Energy sector benefits are largely captured by Alberta
- ▶ Canada has become an environmental pariah
- ▶ The US is serious now and real action is imminent
- ▶ Nothing will ever happen and we can continue to stall
- ▶ Harmonization with the US implies identical systems



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Some more...

- ▶ We can have it all... current winners can all continue to win
- ▶ Free allocation of allowances is ... costless
- ▶ Cost containment contributes to ... competitiveness



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Three take aways

- ▶ Cost “support” does not improve competitiveness
- ▶ Leverage may be superior to diversification. The question is how do we improve productivity and competitiveness?
- ▶ Access – are we fully aware of the challenges?



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Shell's Three Hard Truths

- ▶ Energy demand is increasing
 - ▶ And this is a good thing...
- ▶ Carbon-constrained world
 - ▶ Maybe not just yet But at some point we'll face hard reductions
- ▶ No easy oil
 - ▶ This is a political, technological and economic truth



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How to respond to the Three Hard Truths?

- ▶ Different answers for producers and consumers
- ▶ Diversification is often touted as an answer – does it apply to Alberta, the producer?



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Diversification

- ▶ What is “smart” diversification for Alberta?
 - ▶ Economics would dictate that competitive advantage is found in wise development of resources for our location
 - ▶ Should not forego the competitive advantage in hydrocarbon extraction, production and particularly value-added opportunities
 - ▶ Should be capital investments like education or life sciences investments
- ▶ This speaks to leveraging our endowment, rather than diversifying away from it



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What does this suggest?

- ▶ Leverage our energy endowments is possible, if
 - ▶ Supply availability is not threatened
 - ▶ Demand doesn't disappear
 - ▶ We can move to higher value added and compete
- ▶ What does this suggest for Alberta?
 - ▶ Ensure access
 - ▶ Invest in value added and technology



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Sometimes when things go south...

- ▶ Not always bad: case in point - bitumen
 - ▶ Added value, but at what cost?
- ▶ Which should we choose:
 - ▶ Low Value – High Mobility (often the target of protectionism)
 - ▶ High Value – Low Mobility

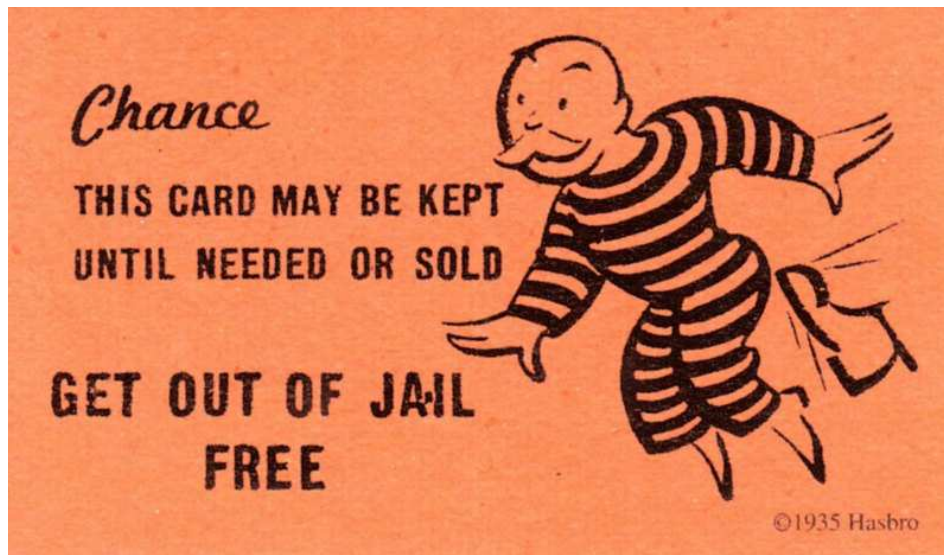


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Don't be fooled by the rhetoric

- ▶ Obama and his administration are very disciplined in their use of language concerning the oil sands
 - ▶ However, it would be a mistake to think that this a “Get out of Carbon Constraints Free” card.
 - ▶ Last month Obama was encouraging NGOs to “keep up the pressure” for climate change and carbon restraints




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Clean Energy Dialogue

- ▶ Currently this is about:
 - ▶ developing and deploying clean energy technologies, with a focus on carbon capture and storage;
 - ▶ expanding clean energy research and development; and
 - ▶ building a more efficient electricity grid based on clean and renewable generation.
- ▶ And ultimately this is about a green economy, and green jobs!



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Clean and green jobs

- ▶ Of course we want green jobs and a green economy...
 - ▶ At what cost? What are the tradeoffs?
 - ▶ Is this another “diversification” trap?



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Access for the energy sector

- ▶ Access to the Market
 - ▶ Risk is not getting the pipes, but rather an environmental footprint “as stringent as the United States”
- ▶ Access to the necessary Capital
 - ▶ Human, Finance and Resource
- ▶ Access to the Technology
 - ▶ A competitive advantage
- ▶ Access to Social Licence
 - ▶ Not at all winning on this front



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Implications for Canada

- ▶ Do we understand the tradeoffs involved?
- ▶ Are we leveraging our endowments to the full extent possible?
- ▶ How are we doing regarding access?

- ▶ Our challenges are both technology and PR. But if we don't solve the technology part, the PR will be useless!



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Additional thoughts

- ▶ Expanding our energy markets
- ▶ The US dilemma – *green* versus *secure*
- ▶ Energy trade versus energy investment
- ▶ Canadian productivity challenge
- ▶ Producers are an easy target
- ▶ Need for better understanding of systems



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