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Chair

Mr. James Maloney

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● (1535)

[*English*]

The Chair (Mr. James Maloney (Etobicoke—Lakeshore, Lib.)): Good afternoon, everybody. Welcome back. I hope everybody had a productive constituency week and is ready to roll here.

We have a full agenda today. I am very pleased to welcome two witnesses for the first hour. We have, live and in person, Katrina Marsh, who is the director of natural resources and environmental policy from the Canadian Chamber of Commerce. We want to thank you, and also apologize again. This is your second time attending, and this time we're going ahead, so we appreciate your patience.

We're also joined through video conference by Byng Giraud, vice-president, corporate affairs and country manager, Canada, from Woodfibre LNG Ltd., who is in Vancouver. Thank you very much, sir, for participating today.

Perhaps, Ms. Marsh, we'll start with you. Thank you.

[*Translation*]

Ms. Katrina Marsh (Director, Natural Resource and Environmental Policy, Canadian Chamber of Commerce): Thank you, Mr. Chair.

I'd like to say how much we appreciate the opportunity to address the Standing Committee on Natural Resources. I think this study on the future of Canada's natural resources sectors is quite timely.

[*English*]

This is my first time presenting in front of a parliamentary committee, and I'm glad I get to present on a topic that has been so central to the chamber's advocacy for the last few years.

The overarching concern of the Canadian Chamber of Commerce can be summed up with one word—competitiveness. Representing businesses of every size from every economic sector, the Canadian chamber focuses on the policies and programs that will help Canadian businesses compete in the global economy. For that reason, improving access to markets for natural resources has been a priority for the chamber since 2013.

Through our resource champions initiative, which brings together over 100 chambers of commerce from across Canada, we've argued that Canada's unique advantage in the global economy is our dual strength as both a resource economy and a knowledge economy. Why are Canada's resource industries so essential to the national competitiveness? I will illustrate using oil and gas.

First, the process of taking hydrocarbons from the earth creates tremendous value added for the Canadian economy. Most people understand that transforming raw materials into manufactured goods, such as auto parts, adds value. When manufacturing an auto part, a firm takes a uniform commodity and transforms it into a unique process. The reverse is true for a natural resource project. Each individual project is unique in terms of the geological attributes of the resource. The value added comes from the design and construction to create a uniform product from very different resources.

According to a report by the University of Calgary, natural resources are the leading creator of value added in the Canadian economy. Oil and gas extraction creates $1.36 million in value added per job per year, which is 15 times more value added per job than the national average for all sectors.

Just as in the manufacturing sector, extensive supply chains are needed to support this process of transformation. These supply chains serve to transfer wealth from remote regions to cities, and even across provincial borders. Doug Porter, chief economist at the Bank of Montreal, states that oil and gas is tied to roughly 20% of Canada's manufacturing sector. This includes not just manufacturers, but also service firms like Maxxam Analytics, a Mississauga-based firm that offers specialized laboratory services. The firm has 500 clients in western Canada's oil and gas sector, which accounted for half of the company's revenues a couple of years ago.

Service chains are also about suppliers. There isn't a single mine, oil rig, or paper mill in Toronto, but the city is a global centre of finance and professional services for the resource industry. Last year more than half of global mining finance happened in Toronto. The TSX and the TSX Venture Exchange have more oil and gas listings than any stock exchange in the world.

One group of oil and gas suppliers that is receiving a lot of attention these days is clean tech firms. *Cleantech Canada* magazine recently surveyed 500 firms on where their main market is. The oil and gas sector was listed as second largest, just one percentage point behind the consumer and public market. One example from our membership is Titanium Corporation. This company extracts heavy metals like titanium and zirconium from oil sands mine tailings, preventing their release in the environment while creating a new revenue stream for the company.

Our energy resources are also an important calling card on the world stage. As we look to Asia, energy will be one of the key reasons that businesses and government leaders in these regions take our phone calls. We recently held an event in partnership with the Japan Chamber of Commerce and Industry in Vancouver. One of the key reasons business people from the world's third-largest economy and second-largest importer of fossil fuels made the trip was B.C.'s LNG industry.

Of course, it's also essential to recognize that oil and gas are fossil fuels. The chamber network has spoken out clearly on the need to act on climate change. The chamber has been calling for a price on carbon since 2011. We listed a lack of clear, substantive climate policies as one of Canada's top ten barriers to competitiveness in 2014, and again in 2016. However, as long as the world needs oil and gas to fuel our cars and power our plants, we need to support the competitiveness of Canada's industry. For our network, this means building export infrastructure, both pipelines and LNG facilities. Stopping pipelines in Canada does not speed up the development of alternatives to oil, and it doesn't slow growing oil demand in emerging economies, which is where most of the growth in energy demand will come from in the future. China and India need petroleum, but they don't much care if it comes from Canada or somewhere else. As investment in the oil sector moves away from Canada, greenhouse gas from oil production just moves with it, likely to jurisdictions with fewer environmental safeguards.

● (1540)

As this committee considers the future of the oil and gas sector, I would leave you with one key message, which is that getting pipelines and LNG facilities approved and built is a key concern not just for the future of the oil and gas industry, but for Canadian competitiveness as a whole.

The Chair: Thank you very much.

Mr. Giraud, do you want to go ahead please?

Mr. Byng Giraud (Vice-President, Corporate Affairs and Country Manager - Canada, Woodfibre LNG Ltd): Thank you very much. My name is Byng Giraud. I'm with Woodfibre LNG. We are a relatively small LNG facility to be built about seven kilometres south of Squamish in the Howe Sound region. For those of you unfamiliar with the area that's approximately 50 kilometres north of Vancouver. We call ourselves relatively small as we will be exporting 2.1 million tonnes per annum. By comparison that's about one-ninth, or one-tenth, of what might come out of LNG Canada, the Shell project in Kitimat, or Pacific NorthWest in Prince Rupert.

This equals about 36 to 40 ships per year, or one every 10 days. We ship through Howe Sound and then we enter the waters of the Port of Vancouver where we join in some 14,000 ship movements per year. We're owned by a company that's based in Singapore and Hong Kong, Pacific Oil & Gas. We're part of an international group also based out of Singapore called RGE. We're coming from downstream; as opposed to going upstream, assets are coming from downstream looking for products. Related to that is a key asset that we own, which is in partnership with PetroChina and the province in China, an import facility in Rudong near Shanghai.

Our LNG facility is somewhat different—and I think this relates to what this committee is trying to achieve in terms of innovation—from a lot of LNG facilities being built, and it's important to point out those differences. The fist is we have chosen to run this facility on electric drives. This is not an economic decision this is a social licence decision. By choosing electric drives as opposed to gas drives, something we are capable of doing because of the infrastructure in the area, we will be reducing GHGs by approximately 80%. This makes Woodfibre LNG possibly one of the cleanest LNG facilities in the world, and if you look in the presentation I provided there's a quote from Merran Smith of Clean Energy Canada, an NGO, from May 2014 that says that by doing this we may be the gold standard.

The other exception about Woodfibre LNG is our work with first nations. We entered voluntarily into an environmental assessment, possibly the first of its kind in Canada, conducted by, managed by, and with decisions made by the Squamish First Nation. It was a multi-year process. It was a process we entered voluntarily. It was a process that had risk for both parties, but ultimately resulted in a decision that resulted in an environmental certificate from Squamish Nation with conditions that will allow this project to proceed, again, should we meet those conditions. This is possibly the first of its kind in Canada.

There are a few other issues. Obviously we are a brownfield industrial site with existing infrastructure. I won't go through the details, but we have existing powerlines, existing pipelines, passing through site, and it's a historic deepwater port primarily making this a place where you can build a facility with less environmental impact.

I think what I really want to talk about today is our environmental reviews. Again, we have three environmental approvals. We have Squamish Nation's environmental approval certificate with conditions, which we received in early October of last year. We received the provincial government's environmental assessment certificate with its conditions also in October of last year, and with a little more of a delay, because there was an election I understand, we received a federal approval from the minister in March of this year.

I'm going to talk a little bit about Squamish Nation because I think that's what's relevant here in terms of innovation. We are located in the traditional territory of Squamish Nation on a former village site called Swiy'a'at and we voluntarily entered this new environmental assessment process. This process was new for Squamish Nation, was new for us, and probably incorporates a greater degree of decision-making by a first nation than most projects are perhaps even willing to contemplate. It was a closer view of our process and it resulted in the certificate I mentioned.

The next slide provides some of those conditions just to give you a flavour. It's recognizing some of the cultural elements of that site, providing access to Squamish Nation members, involving Squamish Nation in the co-management of many of our environmental plans, preventing certain activities that they objected to, no bulk fuelling in traditional territory. They have a direct say on some of our technology choices. We've created green zones around creeks that pass through the site, and we very much reached an economic agreement. These aren't just promises. We are contractually vowed to our agreement with Squamish Nation to fulfill these conditions, again making this something of a unique process.

● (1545)

This is related to the approach we've taken to first nations. I'm sure you can get a lot of legal experts and experts in this field to give you more detail on past court cases and why things need to be done this way, but we've just taken this philosophical approach. It's clear that first nations have rights above and beyond what's traditionally been applied to major projects. We all know first nations have the ability to help or hinder projects, and they are developing greater confidence in doing so. Business doesn't make the rules. The rules are set by regulators—federal governments, provincial governments, and in this case Squamish Nation, but we live in the environment that results from the consensus or conflicts that these rules make. By trying to reach consensus with the Squamish Nation, we think we've taken that additional step.

I won't really go through the next two slides. They simply summarize the provincial and federal approvals, and the conditions that have been placed upon us. All they do is reiterate that we have three different sets of environmental certificatesand a significant number of conditions, making this perhaps a unique project in terms of its oversight.

At the end, I've put the challenge of approval, and I think this is what we need to discuss. If we're talking about innovation, it's not simply innovation of technology. As somebody who has worked in the natural resource sector my entire life, in gas or mining or forestry, I believe what really needs to be innovated is the trust issue. We've adopted sort of a Jim Cooney approach to things. He's the creator of the term “social licence”. You need agreement with first nations. You need agreement with indigenous peoples. You need to do better at communication. You need to go above and beyond in your approach to regulatory processes. This does not necessarily mean having a referendum or getting consent. You can't simply meet regulatory requirements. Our choice of renewable electric, for example, is a clear example of that.

We live in a situation where we have incredibly detailed requirements when we build these massive complex projects—experts on bats, on herring, on different types of plant species. They spent their entire lives trying to understand these things. At the same time, we have a discourse that allows all citizens to participate and all citizens' voices to be heard equally. This is inherently going to create conflict among the scientists, the experts, the professionals, and the voices of the public, the community, and that's something we're going to have to address. Then, of course, an issue to those of us who build projects is the concern with economic cycles. If you take too long to do these things, then perhaps you lose the opportunity. There must be a process, and there must be a defined process.

I don't fundamentally believe that the environmental assessment processes run by the federal and provincial governments are broken. Perhaps they need some tweaking. There are things that can be improved, obviously. What is broken is trust. The issue of trust is not going to be solved simply by tweaking regulatory processes. We need to build processes that people trust. They will trust them only if decision-makers defend those processes and if the decision-makers advocate for those processes. Right now we have a situation of confrontation, in which companies may view environmental assessments simply as hurdles to overcome and may use people who are against those projects as tools to thwart them. Until there's more sincerity in that process, these things will never be overcome.

I would like to talk more about this, but I've probably exceeded my time. If we're going to get product to market, we need innovation in how we're going to improve processes and create the public trust to allow them to proceed in a timely fashion.

Thank you.

● (1550)

The Chair: First in the batting order is Mr. Serré.

Mr. Marc Serré (Nickel Belt, Lib.): Thank you, Mr. Chair, and my thanks to both our presenters this afternoon, and to Ms. Marsh and the Canadian Chamber of Commerce for all the work they've done in promoting small business in Canada.

I wanted to reference a document that the chamber produced in August 2015 entitled “Aboriginal Edge”. Your group says that the industry and government must lead on mitigating the environmental and social impacts of resource production.

Would you agree that the process that projects must go through with the NEB is critical to managing the public expectation in this regard?

Ms. Katrina Marsh: Absolutely, I would say that the Canadian environmental assessment processes are crucial. Our membership is not afraid of, or opposed to, rigorous processes, as long as they are clear and certain. In fact, through discussion with the communities and the regulators, often ideas for how impacts could be mitigated come up and projects can be improved. So it's absolutely essential.

Mr. Marc Serré: Thank you.

In that report, there is the following statement:

> Canadians and our trade partners hold Canada's resource producers to the highest standards when it comes to issues like safety, environmental impact and community engagement. Both at home and abroad, a lack of community acceptance and support for natural resource industries is restricting industry's access to markets and resources.

The report goes on to say that Canada's ability to leverage its forest, mineral, and metal endowment into prosperity will increasingly depend on industry's and government's ability to address concerns over environmental and social impacts of resource development and transport.

Do you agree that the work the National Energy Board is doing with the five interim principles and public consultations supports your organization's view that consultation is key to having development and a thriving environment on the resource side?

Ms. Katrina Marsh: Correct me if I'm wrong but my understanding is that the five interim principles apply to the cabinet decision-making process and not so much to the NEB process.

Mr. Marc Serré: No, it's part of the NEB, the five principles.

Ms. Katrina Marsh: We're not sure that extending the length of the process and having additional consultation is going to result in more confidence in the process itself. We will have more confidence in the process when governments stand up and make a strong case for why approving these pieces of infrastructure will be important for the economy as a whole, and for how this can be done in such a way as to mitigate the impacts.

We understand that the principles were conceived to increase the confidence of the public in the industry. We think that's fine. We're worried, however, that the delay is not going to make the end decision any easier, that it will still be difficult and controversial. We want to be sure that both the Canadian public and members of Parliament know why it is so important to the economy for properly regulated and reviewed export infrastructure to get built.

● (1555)

Mr. Marc Serré: The Quebec government has announced that they will be undertaking an economic assessment of the energy east pipeline. What do you think they should look at and what matrix would you recommend they use?

Ms. Katrina Marsh: Of course, the direct impact of the construction of the actual pipeline has an important impact. I would say that the flexibility it offers to local refineries in order to compete in what is a very competitive refinery market in North America would be another consideration. The ability to get Canadian crude when it's cheaper than imports would be of value to the industry, which is facing a lot of cost pressures, would be another one.

An additional one, I think, would be understanding how it improves the competitiveness of Canada's oil industry as well, in terms of being able to again compete in what has turned out to be a very tough market right now. The lack of export infrastructure means that Canadian crude is often, but not always, trading at a deeper discount which, when you're already kind of hurting for prices, is an additional burden to the industry. That benefit, obviously, is concentrated in Quebec, but as I did mention in my remarks, there are service providers, there are manufacturers based in Quebec who also sell into that industry, so it's not only an Alberta phenomenon.

Mr. Marc Serré: We all agree that we need to bring our resources to market, and you mentioned earlier about the length of time and the studies and that it may not necessarily be an advantage, but I'd like to get your opinion on something. We previously had a majority Conservative government for over four years yet they were unable to bring pipelines to tidewater. In your opinion, why was that, and what can be done about it?

Ms. Katrina Marsh: It's an interesting question. Obviously, there is only one—I guess there are two, the Kinder Morgan and the Northern Gateway. I think with the Northern Gateway the big issue that has arisen has been, of course, the aboriginal indigenous communities along the route, and the concerns of some of those groups along the lines. One of the things we're doing at the chamber currently is a major report into the duty to consult. Actually, one of my colleagues is right now in Saskatoon doing a round table; it's like the fifth round table. One of the questions we are exploring is exactly, as the government works with business in order to fulfill the duty to consult, what is the right balance to strike? What kind of guidance is needed to let everybody around the table know what they need to do in order to have these conversations? Also, have government at the table in an appropriate way to make sure that when there are things being asked from the communities that are beyond the reach of a single company, that these discussions are happening.

I would think that the conclusions of our report are not based on only the Northern Gateway, but that's obviously been a piece that has been a learning process. This is something that is new and evolving and I think that as we learn about what happened in the Northern Gateway piece, it's going to apply to future governments as well.

The Chair: Thank you.

Mr. Barlow, over to you.

Mr. John Barlow (Foothills, CPC): Ms. Marsh, thank you very much for being here. For your first time before a parliamentary committee, I think you're doing a phenomenal job. You know your stuff.

● (1600)

Ms. Katrina Marsh: Thank you.

Mr. John Barlow: To refer to my colleague, I just want to say that Northern Gateway was approved by the Conservative government, along with 17 other pipeline projects that were recommended by the National Energy Board and approved by the Conservative cabinet. I simply wanted to clarify that and correct his comment.

Interestingly, you said one of the first priorities of the Canadian Chamber of Commerce is that our energy sector be competitive and you talked about your support since 2011 of a price on carbon. I find those two points not very compatible, and the reason I say that is that now our biggest competition is the United States when it comes to our energy sector. The United States has lifted its ban on exports. It has doubled its production over the last five years, and I know my colleagues will say much the same. Eighty percent of Canadian jurisdictions have some sort of a price on carbon, including Alberta, which announced this earlier this year, and it has made absolutely no difference in terms of getting pipeline projects approved. It hasn't changed the social licence, for lack of a better description.

Has the viewpoint of the Canadian Chamber of Commerce changed its stance in terms of thinking a price on carbon is going to be a critical part of us being competitive? I ask this because I don't think those things mesh.

Ms. Katrina Marsh: Ever since 2011, when our first revolution on carbon pricing was approved, one of the main points we made was that, unless it's aligned with trading partners, the price of carbon can cause a lack of competitiveness. This should be of concern to people concerned about the climate as well as people concerned about the economy, because if you're simply moving business to other jurisdictions, you're not actually reducing overall carbon emissions.

The ideal would be carbon pricing that's North American or even worldwide, which would prevent those kinds of competitive leakages.

In the meantime, we always advocate that carbon pricing policies should be designed to have the industries that are exposed to trade and are carbon intensive be the ones most affected. That should really be considered in the design of the carbon pricing.

Last year, at our annual general meeting, there were two resolutions that passed with margins of about 98%. One of them was a reaffirmation of carbon pricing, and the other was an affirmation of the Kinder Morgan pipeline, so we don't really see a contradiction in supporting both of those policies.

Mr. John Barlow: To clarify, it sounds like the Chamber of Commerce's view on a carbon tax would be something that is North American, not just Canadian necessarily.

I appreciate your answer. It seems like that is the direction you're going with and I would agree. If it's something that we can do as North America, it would make more sense, but for us to do it on our own makes us uncompetitive. We're seeing that already.

For example, I met with an Alberta energy company. Just from the Alberta carbon tax, they'll go from a $60-million profit per year to a $200-million loss when it comes into full swing in 2018. It shows you the implications for Alberta. If we do something across Canada, it could be even more damaging.

I want to switch to Mr. Giraud now. Congratulations on having wood fibre approved in March. I think that's very exciting news for Canada. You talked about some of the economic impacts of having the LNG project approved.

I was doing a bit of research on the project. You talk about $86.5 million in tax revenues for the three different levels of government once the project is up and running and 650 full-time jobs during the construction. There are outstanding opportunities in terms of the economy.

From what I understand, if you have one GHD fired power plant replacing one 500 megawatt coal power plant, it's like taking 500 000 cars off the road. What would be the environmental impact of having LNG from B.C. marketing itself and finding an access to Asian markets, which are highly reliant upon coal-fired power plants? What would be the environmental impact once the LNG energy from wood fibre starts hitting the market?

● (1605)

Mr. Byng Giraud: Essentially, for this project we're looking at customers in China. We have early stage agreements with customers in Guangdong province. We have an agreement with Beijing. They're looking at this from a purely green perspective.

If anybody's spent any real time in China, you will have seen what the smog levels are like. The WHO says that the standard for approximately one square metre should be 25 micrograms of particulate. You have cities in China where, on certain days, that can well exceed 100. This is causing deaths in that country, and it's a bit of a political issue.

The utilities we're working with in Beijing and Guizhou see this as a green initiative. They see it as an initiative to switch off coal power plants, to clean up their air, and to reduce their GHG emissions. I think this is critical when you're considering the life cycle of GHG emissions, which is something I know is a big discussion. If we're going to evaluate a life cycle, we need to calculate what's actually being reduced and where it's being burnt or consumed.

Certainly there are GHGs being created when we extract. There are some GHGs with our facility, even with our electric drives. But where's the real reduction? The only reason the Americans met their GHG targets for the Kyoto protocol, which they didn't intend to do, was that they switched from coal to gas.

In terms of quantifying reduced GHGs in China, it would depend on what they use it for. It would depend on which power plants use it and what is being replaced. But there's no denying that China wants to go this way, simply because, as they build up a greater middle class, people will just not tolerate that level of smog in their cities.

Mr. John Barlow: When we talk about reducing GHGs in Canada, you're saying if we were exporting our LNG to countries like China to get them off coal-fired plants and reduce GHGs worldwide that would be a much bigger solution than our 1.5% impact on global GHGs.

Mr. Byng Giraud: I agree. Let's be clear, these jurisdictions are going to move to natural gas because the price is right, and the GHG and particulate reduction is huge.

They can buy it from us or they can buy it from somebody else. Prices are very competitive right now. I would argue that our contribution—this supports what has been said by the Chamber of Commerce—creates an economic benefit in a jurisdiction that is highly regulated and highly protected. It's better than China looking elsewhere.

They're going to get the gas. Perhaps they should get it from us.

The Chair: Mr. Cannings, we'll move over to you.

Mr. Richard Cannings (South Okanagan—West Kootenay, NDP): Thank you both for being here today, at least electronically, Mr. Giraud. You mentioned that Woodfibre would be shipping 36 to 40 ships a year out of Woodfibre.

We've been seeing a lot of projects on the B.C. coast getting shelved or delayed over the past few months. I'm wondering how many shipments per month it will take to make your project viable in the long term. At what point does this project break even?

Mr. Byng Giraud: The size of the project is dictated by the pipe that comes to it. We are consuming all the gas that Fortis can give us. This is the existing pipeline that takes gas to Vancouver Island for industry and consumers over there. We asked Fortis how much gas they could give us and this facility was built to that size. The economics work for us.

In early days we possibly could run at a little less, but the economics require the full consumption of gas. That's why the number of shifts is restricted. That's all the gas they can give us. That's all the gas we're able to produce because that's what comes from the pipe. Therefore, those are all the ships we can fill. We need to do it all to make it economic.

Mr. Richard Cannings: There was a recent report from the Brattle Group entitled "LNG and Renewable Power - Risk and Opportunity in a Changing World" that states:

> The investment risk of these proposed LNG export projects is increasing because there is a significant possibility that, over the 20 years of a typical LNG contract, power production from renewable energy sources will become less costly than the LNG sales prices needed to justify the upstream LNG investment cost

With so many of the emerging markets we talked about that we are hoping to sell LNG into, including China, making heavy investments in renewable energy, what's the financial viability of the entire LNG sector in Canada, especially British Columbia, in the long term? Do you see LNG facing some of the same supply and demand problems in the future that the oil sector is facing today?

● (1610)

Mr. Byng Giraud: You are correct; we face those right now. The price is very competitive. There are many producers. This is not an easy thing to do.

We have some advantages in the economics right now. We're a small project. We own port facilities in China with PetroChina. We own gas-fired power plants that produce electricity in China, so we have more of an integrated structure. It's clear that renewables are growing, and as a gas producer we shouldn't be afraid of that, but even if China were to quadruple its renewables over the next decade or so, they are still probably going to need to triple the amount of gas consumption.

There are about 20 to 30 countries importing LNG now; you're going to see that increase to 50. Demand is going to grow. It doesn't mean the demand for renewables isn't going to grow, and there is probably some opportunity there.

I happened to read a recent article in *Foreign Affairs* the other day. The reality is the firmness required for renewables still requires something else and the lowest GHG power other than large-scale hydroelectric is gas. With the absence of large-scale hydroelectric, which many parts of the world just don't have, they're going to be looking to import gas to firm that power.

Frankly our facility, by choosing to go to electricity, will facilitate the expansion of renewables in British Columbia.

I don't think these things are necessarily in conflict. They couldn't run in parallel because we're seeing a growing middle class in China. Huge swaths of China are still developing. We're seeing a similar thing in India and other emerging nations: the Philippines, Indonesia, whose middle class is going to be looking to move to the next stage.

They're not going to wait. They're going to move to the product that's available, and hopefully that's gas and renewables, so they can move off coal.

Mr. Richard Cannings: I'd like to ask Ms. Marsh a question.

You mentioned the competitiveness and the price differential that we're facing right now between Canadian oil and American oil, in particular. Part of that, we are told, is because we don't have pipelines to tidewater. I understand from recent events and analyses that this is shrinking.

How do you see those projections going? If we get a pipeline to tidewater, what will that price differential be? How much of that is caused by factors other than accessibility to world markets? At what price will oil drive investment in, say, new oil sands projects?

Ms. Katrina Marsh: I wouldn't say I have the expertise to say percentage-wise.

Obviously, one of the reasons bitumens in particular trade below North American prices is because they tend to be heavier, so that quality differentiation is definitely part of the cost, and that's a natural thing.

My understanding is that the differential has shrunk, and it's smaller than it has been relative to a couple of years ago when it reached tens of dollars in amount. The difference is that even though it might have shrunk, it's obviously a very sensitive time, so that any difference is impacting the bottom line of firms. Even though the differential has shrunk, it still matters to the competitiveness of Canadian oil firms.

Being able to remove the part of the lower cost that's coming from transportation bottlenecks through having pipe to tidewater would help with the competitiveness of the industry, even though the specific bottlenecks are small. It flares up depending on whether there's other production from other parts of the States coming online and whether refineries or storage facilities are open or closed and how much they have in them. It really does vary over time. I couldn't give you a percentage.

● (1615)

The Chair: We're going to go back to Mr. Serré.

Mr. Marc Serré: This question is to Monsieur Giraud. What are the main obstacles you have faced since the beginning of this project?

Mr. Byng Giraud: These are complex projects and the regulatory processes are complex. I wouldn't say they're obstacles but they're quite rigorous. I started on this project in April 2013, and it took us until March of this year to get our third environmental assessment certificate. I think most Canadian companies understand that three years is about right. But I represent a company that's coming from overseas and works in different jurisdictions. Particularly when there are changes, because changes do occur, it makes them very nervous and uncomfortable. They come to North America not because we're necessarily the most economic place all the time but because we offer stability, rule of law, and process. When we disrupt that, it makes foreign investors very nervous.

Obviously we're trying to bring in foreign direct investments. But that's the past. We've achieved the things we've had to do, and we're proud to have received those certificates. Going forward, what remains are the economics. The Americans, who were our customers in the past, are now our competitors. They were able to sell gas out of Louisiana, the south-east, and the Gulf of Mexico at very low rates. They are brownfield projects. We need to be able to compete with that.

With our economics we have an advantage because of distance. We're closer to the Asian markets but our economics are very critical. We are going through an optimization process right now to lower our costs. It's a good time to do it because the markets are down.

We also need to make sure the fiscal regime in North America is competitive internationally. That doesn't mean we have a low tax environment or giving us some sort of break. It just means to be aware of the competitive nature out there. What's Louisiana doing? What's Australia doing? They're going to sell the gas that we probably should be selling. Otherwise, we won't have a customer, because the Americans are producing their own.

Mr. Marc Serré: Thank you.

Also, when are you planning to begin the construction of the LNG plant?

Mr. Byng Giraud: I'm going to knock on wood, sir. All things being equal, we have a number of permits we have to complete now that we have the environmental assessment. We could do some early-stage work within the next 12 months, possibly in building up the actual gas facility, which again means a different set of permits, sometime next year.

This really depends on the oil and gas commission permit process, which the province runs. It also depends on some of our environmental management plans that we have to work on with the federal and provincial regulators and, of course, on some of the decisions of environmental management plans we're working on in conjunction with the Squamish Nation. All of those things have to take place before we can actually begin full-scale construction. Like I said, we're a brownfield industrial site, so there are things we can do within the next 12 months.

Mr. Marc Serré: Thank you.

Also, as you mention on your website, you pay particular attention to environmental protection and sustainable development. Can you elaborate on Woodfibre's efforts in those two areas?

Mr. Byng Giraud: I heard the earlier comments about the five principles. We looked at those when they came out in terms of requirements in the process, and we think we were pretty much covered on four and a half, because we've made these additional efforts. Our effort with Squamish Nation is a huge risk for this company. We're a foreign company coming to North America with no experience with these issues, taking a leap of faith, and saying, "You know what—we're going to fund your process, a new process, because we know we need greater credibility." We know that the public isn't necessarily entirely enamoured with federal and provincial processes, so we had to go above and beyond.

On the choice of electricity, this is a cost to us. This is not an economic decision. The rate for electricity for LNG facilities in British Columbia is much higher than the industrial rate that maybe a mine would pay. This is a decision we made because we knew it was the right thing to do. If you want to build an LNG facility in British Columbia next to population centres, you're going to have to go above and beyond. We've made these efforts. They're not perfect. We've tried harder.

We've made other changes that are not as noticeable as that, but if you're not going to go above and beyond regulatory requirements, you're not going to go above and beyond with first nations. If you're not going to go above and beyond in your efforts to communicate, you're not going to succeed, whether you're in British Columbia or anywhere else in Canada. It's hard to build projects, particularly if you don't do it the right way.

● (1620)

Mr. Marc Serré: That's a good job of going above and beyond. Four and a half stars is pretty good.

Also, does this federal government's openness with regard to helping the relationship with the provincial governments and the first nations help you in this regard?

Mr. Byng Giraud: As somebody who has lived through different stripes of governments coming and going in terms of federal-provincial relationships, I would say that's generally been all right, the federal-provincial relationship, but I know, in dealing with the aboriginal people, that there is a change in mood. There is perhaps a greater level of trust. That's for now, and let's be clear, you can burn that ability really fast. Promises only get you so far. The reason that we undertook this Squamish Nation environmental process is that we see this as the future.

A lot of governments and a lot of companies saw us doing this and said that it was a dangerous path Woodfibre was going down and they weren't sure that it was where we should be going. We may not be the best example of how it should turn out, but if people don't start looking at these types of opportunities to work with first nations and take it more seriously, these projects will never proceed. For our approach, I'm not sure you can apply it to the expansion of a facility. Maybe it's not as applicable to linear projects where you have multiple first nations along a power line or a pipeline. I don't want to say that our purpose can be extrapolated to all those things, but if you don't bring sincerity to this game, and if you aren't willing to take a risk with first nations, you're going to fail.

I would say that this is a cautionary tale for your government. It's easy to say that we're going to have a better relationship, but we've heard this before, and I don't mean just in the past four years. We've heard this going back to the Constitution in '82, right? We've had 30 years of court cases and 30 years of fighting.

Mr. Marc Serré: Thank you.

The Chair: Thank you.

We are moving into the five-minute rounds. We probably have time for two of them if we're going to finish this off at 4:30.

Over to you, Ms. Bergen.

Hon. Candice Bergen (Portage—Lisgar, CPC): Thanks very much, Mr. Chair.

Thank you to our presenters.

I'm going to go back to you, Ms. Marsh, and then I will go to Mr. Giraud for a comment on the question I'm going to pose. It has to do with competitiveness and the window of opportunity.

I think Mr. Giraud will be able to comment because Woodfibre was living through it. My understanding is that you thought you had a certain date, Mr. Giraud, when the government would say yea or nay to your project. The election happened, which meant you had to wait, but then all of a sudden there were five new principles, which fortunately you had already gone through. These were five new steps that you had to go through.

Ms. Marsh, in the business world, when a business enters into an agreement with a certain set of rules and expectations and then those change midway through the process, what signal would that typically send? I know that your president, Mr. Beatty, had some comments about that. Can you tell us what that's doing and how that's negatively impacting the oil and gas sector?

Ms. Katrina Marsh: I think any business person across any industry will tell you the one thing that they're really looking for in government regulation is certainty and predictability. If those two conditions don't exist, it's difficult to make long-term investments. This is particularly the case in the natural resource sector where you're talking about capital investments in the millions and billions.

I believe in terms of the specific Trans Mountain and the energy east ones, there was some concern about the changing and how that would impact it. I think both companies have come out and said they're okay with what has been proposed, but in general it's not a good idea midstream to basically add another layer onto the process.

Hon. Candice Bergen: You used energy east and Trans Mountain as two examples. For both of these projects, their final decision will be made by cabinet and the Liberals have been very clear it will be a political decision. Do you think any of these companies are afraid to say anything against...? I mean, is there the possibility that companies are afraid to speak out against the Liberals for fear that there will be retaliation in terms of the political decision?

● (1625)

Ms. Katrina Marsh: I can't speak directly to that issue. I haven't heard that from my membership, so I wouldn't have a background to say that. It would be pure speculation on my part.

Hon. Candice Bergen: Mr. Giraud, what would you say to that? You've been successful with your application, but you probably also know what's going on in B.C. as far as other applications. Talk about the uncertainty and the window of opportunity that exists and when that window closes, when uncertainty grows.

Also, is there some fear with oil and gas executives that they don't want to say anything that would tick off the Liberal government for fear that might affect the political decision that's going to take place?

Mr. Byng Giraud: Motivations...regardless of who's in government, I don't want to say things that are going to upset people. That's not our business. We don't make the rules. We just play by them.

Let me go back, I've been in mining and forestry and I've been in projects under environmental assessment for 14 years on and off.

Making change at the end is scary, even when you're a domestic company. I work for a company that's coming from overseas and British Columbia says to come and build an LNG facility. They're welcoming you. When you arrive, now you have to do this, now you have to do that, and you have to do this.

I kind of prepared my ownership for these things, because I'm a Canadian, a British Columbian, and I understand how it works, that there are changes. But when a foreign investor hears things at the last minute, or when new rules are imposed that they didn't anticipate, I tell you the phone call comes and they're concerned. They're making billions of dollars of investment at a great distance, so of course they're concerned.

I don't have a particular political stripe, because that's dangerous for a business to say, but let's be clear: whether it's the previous government or the previous government or the previous government before that, we keep changing the rules, we keep changing the method, and we create additional time frames that weren't anticipated at the beginning, and investors get scared.

We are in economic cycles. We are in the commodity business. In British Columbia, despite the growth in other sectors, we are in the commodity business; mining, forestry, agriculture, oil and gas, even tourism you could argue. We're in the commodity business. Things don't always last. In the past 12 years we saw a great super cycle for mining, but how many mines were actually built in British Columbia? You can count them on one hand.

I don't want to say I want certainty, as much as I do, because there is no certainty in a social environment. Things change. But if the government is considering reopening the idea that the Environmental Assessment Act needs to be improved, or we need to tweak it a bit, or it needs to be changed, realize that you're never going to satisfy everybody. Certain people will never be in favour of these projects. There will always be a debate on social licence. There will always be a debate that makes these fundamentally political decisions at the end, regardless of whether we listen to science, or traditional knowledge, or the public.

I danced around your question a little bit, but governments need to be aware, regardless of political stripe, that money can go elsewhere and, if it's too risky, it will.

The Chair: Thank you. That's your time.

We're on to Mr. Tan. I understand you'll be splitting your time.

Mr. Geng Tan (Don Valley North, Lib.): Yes, it will be with my colleague Mr. Harvey.

I prepared a few questions, but apparently I have the chance to ask just one. I want to ask a question similar to what Mr. Barlow just asked regarding carbon pricing. The Canadian Chamber of Commerce said it is a long-standing supporter of carbon pricing. Is that the case regarding the price of oil? The chamber also concluded that with a lack of access to global markets, Canada will accept a lower oil price.

If currently more than 10% of our oil is sold to the U.S., how can the Canadian oil remain competitive in the current low-price environment, when on top of that we have to pay the cost of the carbon tax, doing business in Canada? If oil production becomes sufficiently unprofitable, I guess we'll just have to decide to leave the oil in the ground. How will the carbon pricing affect the competitiveness of our oil and gas sector?

Ms. Katrina Marsh: There's a conception, particularly with regard to the oil sands, that they're so high priced they're uncompetitive. But in 2014, if you look at the SAGD, the in situ production, the average costs were cheaper than they were in the U. S. They were cheaper than what they were in Norway and in Russia.

Half the industry is competitiveness. In this low-priced environment, just over the last year Canada's major companies required a $92 break-even price. That's fallen to $53 in the last year. It's more than a 40% tumble in cost—they have found efficiencies and inflationary pressures have been relieved.

Then there's the fact that innovation is happening. One of our members, Nsolv, has the next generation, the third generation of solvent-based technology, in the commercialization stage. It has a price of $50 for new builds. It's pretty cheap and it reduces GHG emissions by 80%. So the short answer is that innovation will keep Canada's sector competitiveness. We shouldn't assume Canada can't compete in a lower-price environment.

As for the carbon price, it would ideally be better if it was globally applied. There are things you can do, though, to reduce an economic impact. One of these is tax rebates. You take some of the money and make the program revenue-neutral. You're using what you're reducing on carbon, and you're playing with the tax system to help competitiveness, or you're investing in clean technologies that might have a competitive impact on the industry.

● (1630)

Mr. Geng Tan: There's still a margin of profit available for the industry?

Ms. Katrina Marsh: It's hard to generalize, because it's project-based. You have some projects that are very competitive and some that aren't. It depends on how you built it and what kind of wiggle room you have.

Mr. Geng Tan: Okay.

Mr. T.J. Harvey (Tobique—Mactaquac, Lib.): In a recent op-ed, Mr. Beatty, your president and CEO, suggested that Canada's review process of energy infrastructure projects, namely pipeline projects, has been inefficient, unpredictable, uncertain, and over-politicized. Do the environmental assessment reforms increase efficiency and predictability, specifically in regard to pipelines and energy east? What else could government do to streamline that process and make it more robust for industry? What role can industry play in this?

Ms. Katrina Marsh: I'm not sure “streamlining” is the right word. I'm not sure what we're looking for in the way of streamlining. I'll repeat: we don't necessarily want it to be an easy process.

Mr. T.J. Harvey: That wasn't my intention either.

Ms. Katrina Marsh: We know the impact of changing in midstream; we know that makes people nervous. We don't know whether it's going to achieve the result we want in terms of getting a greater buy-in from communities, and we are a little bit skeptical that that's going to result. We're worried that the delay is going to make it a more politically difficult situation; it comes closer to an election, and whatnot.

Overall, it's a little bit of a wait-and-see in our membership. We've heard that the intent is to improve the acceptance of the system, but we're not sure that's going to be the result.

Does that answer your question?

Mr. T.J. Harvey: I think so.

Within that context, what else can industry do to further that process?

Ms. Katrina Marsh: That's the million-dollar question.

I know there is a big project at the University of Ottawa run by Monica Gattinger. They're looking at that very question, at how these processes work and what actually works to convince people.

It's a question that's not just for oil and gas. If you look at what happens around wind farm approvals in Ontario, and even around getting a light rail system for Ottawa and the community impacts there, the question of the age is about how you build public trust.

We're not sure what the full answer is.

The Chair: I'm going to have to cut you off.

● (1635)

Ms. Katrina Marsh: But I would say that making the case publicly by our politicians would be part of it.

Mr. T.J. Harvey: Thank you.

The Chair: Thank you both very much.

I appreciate, Ms. Marsh, your coming in, and, sir, for making yourself available in that balmy climate in Victoria.

We have to move on to our next segment. We're going to suspend the meeting for five minutes, because I understand we have to do some technical transitioning to the next segment.

Thank you very much, both of you.

● (1635)

(Pause)

● (1640)

The Chair: Okay, we're going to resume.

Just as a preliminary matter, we've been provided with some notes on behalf of the Canadian Energy Pipeline Association, but they're in English only. Pursuant to our procedure, we can't distribute them unless they've been translated. Does anybody want to distribute them and suspend our rules with respect to translation for the purpose of this witness? Or should we adhere to the rules and not distribute it?

An hon. member: Denis is okay with it.

The Chair: Okay. We'll have the French translation later.

Thank you.

With an eye on the clock, this segment will take one hour, we have a few housekeeping matters we're going to have to deal with after that, which means we won't get out of here until a quarter to six. Does anybody have any...?

What time do you have to be out of here?

Hon. Candice Bergen: At 5:30. You could just shorten the whole round.

The Chair: Okay, we'll have to shorten, so let's get moving then.

We're going to finish at 5:25 because we do have some procedural issues that we have to deal with.

I'll dispense with long introductions, gentlemen, my apologies. I just want to say thank you very much for coming.

Hon. Candice Bergen: On a point of order.

Chair, I don't think you can just arbitrarily extend the meeting, because there are members who can't be here past the set time. Maybe the clerk could tell us that, but I don't think you can just make the meeting go longer.

The Chair: I wasn't, that's why I asked.

● (1645)

Hon. Candice Bergen: Okay, thank you.

The Chair: With less time, Mr. Bloomer is the president and chief executive officer of the Canadian Energy Pipeline Association, and Benjamin Dachis is a senior policy analyst from the C.D. Howe Institute.

I will turn it over to Mr. Bloomer, who will speak first.

Mr. Chris Bloomer (President and Chief Executive Officer, Canadian Energy Pipeline Association): Thank you so much.

My name is Chris Bloomer, and I am president and CEO of the Canadian Energy Pipeline Association. As you may know, the association represents 12 of the major transmission pipelines in Canada, We transport 97% of Canada's crude oil and natural gas production, and we operate about 119,000 kilometres of pipeline across Canada.

Reductions in greenhouse gas emissions and the related shift in energy systems have become a critical priority, however the need to sustainably develop Canada's rich natural resources and get those resources to the highest value market is also critical. This is evident in the growing demand for energy across the globe. The International Energy Agency projects that by 2040 the world will need 37% more energy than is produced today. All sources of energy, including renewables, natural gas, and crude oil are needed to meet these growing energy requirements. This statistic, combined with the vast oil and natural gas reserves found within our borders, means that we have an opportunity to not only ensure Canada's energy needs are met with Canadian oil and gas, but also tap into high-value markets that could benefit the entire country through employment opportunities, increased government revenues, and overall economic growth.

Transportation infrastructure is required to meet these growing energy needs, and pipelines remain the safest and most efficient and the lowest greenhouse gas-intensive way of moving energy over long distances.

Canada contributes less than 2% of the world's greenhouse gas emissions, and CEPA members who operate Canada's transmission pipelines are responsible for a negligible part of those emissions. Despite the limited impact our members have on global emissions, our industry is still committed to being even better, through improving on existing technology and advancing new ones.

With this in mind I'll be focusing my opening remarks on your study's focus on economic opportunities in innovation, as well as our industry's commitment to continuous improvement.

I'll begin with economic opportunities. Canada's pipelines deliver the energy that heats our homes, powers our industries, and fuels our vehicles. What is less visible is the impact the pipeline operations have on our economy every day. Existing pipeline operations in 2015 added $11.5 billion to Canada's gross domestic product, sustained an estimated 34,000 full-time-equivalent jobs, and generated about $2.9 billion in labour income. A conservative estimate of the total GDP contribution over the next 30 years from existing operations is $175 billion.

These numbers do not include additional economic benefits that could be achieved through more diverse and better market access.

CEPA members propose to invest $50 billion or thereabouts in pipeline projects in Canada over the next five years. If approved, these projects will provide access to global markets, as well as enhanced access to refining capacity in the U.S. and eastern Canada, resulting in billions of dollars of additional government revenues and employment income. Recent estimates have concluded that if all the proposed pipeline projects proceed, the gross netback improvement for the energy sector is estimated at $663 billion over 20 years of operation. That's $33 billion per year. The benefit of hard netback prices flows directly to crude oil producers, and indirectly to the overall Canadian economy in high royalties and taxes.

I'll focus my next comments on innovation and steps that our industry has taken to earn trust by demonstrating commitment to safety and environmental performance.

CEPA member companies invested more than $23 million in 2014 alone on innovative technology, and over $2.9 billion in monitoring and maintenance to ensure the safety of their pipelines.

Canada has a proud history of pipeline construction and operations dating back to 1853. Since that time pipeline networks have expanded to deliver energy across the continent. Ongoing advancements in technology and innovation have vastly improved the safety and performance of this infrastructure. This in turn helps to build public trust and continued right to operate.

Pipeline companies are undertaking a broad variety of initiatives to reduce their impact on the environment. This includes applying best practice, best design, and risk-based maintenance projects, directed inspection and maintenance programs to manage fugitive emissions and regular pipeline integrity analysis.

● (1650)

Pipeline companies also maintain call-in centres and run public awareness programs to avoid third-party damages, which is a very serious issues, and to promote demand-side management. You might recall that April was “Dig Safe Month”, and there was a big promotion on that. We take that kind of contact very seriously.

Technology and innovation continue to develop. Smart pigs, first developed in the 1960s, improved in the 1970s to include electromagnetic and ultrasonic detection technologies, enabling pipeline operators to more accurately detect wall thinning along a pipeline. Further advancements have led to the ability to detect anomalies such as fatigue cracks and dents, or other damage to the pipeline. The use of GPS positioning can now help pinpoint the location of a pipeline wall anomaly.

Pipeline monitoring technologies also continue to advance. Electronic supervisory control and data acquisition, which everybody knows as SCADA, systems have become prevalent and have now evolved to systems using Internet, cellphone, and satellite technologies able to provide two-way communications and implement complex control algorithms. This technology allows operators to know, with precision, what is happening throughout the pipeline, and enables a quick and efficient response to any issues that may arise, seven days a week, 24 hours a day.

CEPA is also actively addressing stress corrosion cracking, locating cracks that develop on the outside of a buried pipeline. Faced with this new phenomenon in the 1990s, CEPA brought together experts from member companies, industry experts, and researchers, and through this, recommendations around best practices were developed.

More recently, since 2013, CEPA members have conducted ground-breaking research in leak detection by using a state-of-the-art pipeline simulator known as external leak detection experimental research, or ELDER. This facility is located in Edmonton, and it allows researchers to evaluate external leak detection technologies. This technology was developed with the assistance of federal government funding. Pipeline operators also collaborated with the Alberta Ministry of Innovation and Advanced Education to fund research to test new leak-detection technologies such as vapour-sensing tubes, fibre optic distributed temperature-sensing systems, hydrocarbon-sensing cables, and fibre optic distributed acoustic-sensing systems. These are just a few of the examples of industry-wide advancements in technology and innovation that have led to safer operations and better environmental outcomes.

The importance of research and development cannot be overstated. It has been and will continue to be a significant contributor towards making transmission pipelines safer, and lessening the environmental impact of pipeline construction, operations, and eventual retirement. The government's focus on innovation agenda supports this important work and is welcomed.

My third comment will focus on our industry's commitment to collaboration and continuous improvement. Public expectations are higher than ever. Canadians need reassurance that we are doing everything necessary to remain an environmentally friendly and safe means of energy transportation. This is accomplished, in part, through sharing best practices and adopting industry standards. The alignment is evident through CEPA and its members' paths towards strengthening safety culture, through both individual and collective initiatives, some of which are already well rooted, and others that are works in progress but are progressing rapidly towards a goal of zero incidents.

An example of how we are addressing this commitment is CEPA's integrity first program, an industry-driven approach that enables CEPA members to strengthen performance, communication, and engagement by jointly developing and individually applying common practices. These collaborations are of significant benefit to Canada; however, we believe further collaboration among government, industry, and the research community would have an even greater impact. Pipeline companies are already supporting and investing in research projects at Canadian universities to uncover new approaches to pipeline safety and integrity. These include programs and councils at the universities of Waterloo, Calgary, and British Columbia.

Due to the diverse and vast landscape across Canada, our transmission pipeline industry is uniquely positioned to be a world leader in pipeline technology. In order to realize the full potential of this unique position, the most effective and efficient path forward is through strengthening an innovation agenda. To this end, we believe that a well-coordinated, collaborative approach to research and development in Canada is the best and most efficient way to advance the safety and reliability of pipelines.

To conclude, we acknowledge that energy mixes will change over time. However, currently, oil and gas are required by Canadians, and therefore pipelines are essential. As an industry, we have collaborated and will collaborate to develop, apply, and adapt new innovative technologies that protect and respect the environment, and at the same time deliver socio-economic benefits to the country as a whole.

● (1655)

We are committed to improving our record, and to a goal of zero incidents. Pipeline operators and various industry partners, including government and the research community, have shared the responsibility and the space. This will ultimately lead to more efficient and effective advancements in technology, science, and innovation in the pipeline industry. Ultimately, this is key to building public confidence.

With that fast run-through, I welcome your questions.

The Chair: Thank you very much, sir.

Mr. Dachis, over to you. Then we'll go to questions.

Mr. Benjamin Dachis (Senior Policy Analyst, C.D. Howe Institute): Thank you so much for having me speak to you today, even if I couldn't make it in person.

I'm an associate director of research at the C.D. Howe Institute. For those who are not aware, the C.D. Howe Institute is an independent, not-for-profit, research institute whose mission is to raise Canadian living standards by fostering economically sound public policies.

If I knew better than anyone else what the future of the oil and gas sector looked like, I'd currently be scuba diving off my own private yacht somewhere in the Caribbean. But here I am.

What I can point to is what the policy priorities for government should be to help foster an innovative and sustainable oil and gas sector in the future. I will be discussing a C.D. Howe Institute publication on the future of Canadian energy policy. It was published earlier this year. This paper, which you should receive from the clerk sometime soon, outlines the key priorities for Canadian governments of all levels for 2016 and beyond. It's blissfully short, and it's great bedtime reading, so I encourage you to take a look at it when you can.

There are four main themes that policy-makers should have in mind. First, the government should do more to improve the global competitiveness of Canada's energy sector. Second, governments need to earn social acceptance for Canadian energy to access global markets. Third, Canadian governments need to create collaborative governance institutions both at home and globally. And fourth, governments need to foster the innovation that Canada needs to realize the energy system of the future.

As I'm speaking to a federal committee, I'll focus my remarks mostly on matters within the power of the federal government. With the recent and sustained drop in oil and natural gas prices, energy producers are looking at how they can reduce their costs. Taxes are very high at the top of that list. In particular, municipal property taxes are becoming increasingly important costs for business.

At the federal level, the emerging competitiveness issue for the energy sector in 2016 and beyond is the potential fallout from the new government's campaign commitment to phase out what they term as “subsidies for the fossil fuel sector”. Its specific commitment was limited to making some exploration expenses deductible only in the case of unsuccessful exploration. This proposal has major implications for the competitiveness of the Canadian energy sector. Before making any changes, the federal government should take stock of the much bigger picture of what a good tax system should look like. I'd be happy to discuss this further during the question and answer period.

On the second theme, getting Canadian energy to world markets will remain a key priority for 2016 and well beyond. Having a robust regulatory approval system is critical for governments and the energy sector to ensure that Canada's energy products get to the world market safely and in an environmentally friendly, socially accepted way. But social acceptance entails more than the regulatory process. It requires that governments take the lead in areas outside the remit of regulators.

It's important that regulatory bodies are asked to adjudicate only on issues they have the power to address themselves. In the case of pipelines, such matters as greenhouse gas emissions should not be part of the regulatory approval process. A greenhouse gas policy led by governments would mean that a regulatory decision on building a pipeline would have no net effect on Canada's emissions.

But that's not what the federal government is doing. Instead, Canada's new federal government has pledged to revise the process the National Energy Board uses to approve pipelines to include upstream greenhouse gas emissions from energy production facilities that might serve a pipeline.

This new federal policy is a mistake for two reasons. First, requiring the National Energy Board to consider upstream emissions of greenhouse gases in its pipeline approval process could exceed the constitutional grounds for federal government reviews and intrude into provincial jurisdiction. Second, counting upstream greenhouse gases against an interprovincial pipeline would be economically costly without actually resulting in a reduction of emissions.

● (1700)

The federal government should put all means of getting oil to market on a level playing field. That means it should not rule against the pipeline because of its potential effects on upstream emissions.

Also, we can't forget the importance of rail, which has become increasingly important for crude oil exports because of the recent delays to pipeline approvals. Although the recent drop in oil prices has meant a drop in crude by rail shipments, we have to remember that shipping oil by rail has many inherent benefits of, say, flexibility and a lower set of costs beyond just reducing reliance on pipelines.

The question is how can Canada earn social acceptance for energy infrastructure to get built in this country. Governments themselves should demonstrate to the public that they will not interfere in regulatory decisions, and they should allow sound but timely regulatory reviews of projects without directives to decide one way or the other. Industry bodies and companies themselves should make better use of international benchmarks, certifications, and reporting requirements to demonstrate best-in-class regulatory adherence.

The key element isn't just that Canada have a best-in-class and independent regulatory system. We likely already have that. We must be seen to have a best-in-class and independent regulatory system. So what should governments do outside the regulatory process? Some form of carbon pricing, either by the federal or provincial governments, would be a more effective means of reducing emissions than blocking pipelines.

This brings me to my third point about collaborative governance. Carbon pricing likely will be the key collaborative governance issue in 2016 and beyond, and the new federal government will need to tackle a provincial policy patchwork on greenhouse gas policy. The four largest provinces have carbon prices in place or are planning to introduce them, and this decentralized approach has many merits. The best kind of carbon pricing policy in Alberta is likely very different from that in Ontario or B.C. or Quebec. With the provinces clearly demonstrating leadership in this area, the federal government should play a role limited to facilitating interprovincial linkages between carbon pricing regimes.

This brings me to my last point that Canada is going to need new technologies in order for us to reach our emissions reductions target. How are we going to foster the innovation that creates this new technology? We cannot just throw money at research and development subsidies in the hope that people will start using that technology. The research from around the world shows that a price on carbon alone without any research subsidies is about 95% as effective as a combined policy of carbon prices and research subsidies.

Carbon pricing is critical because it creates a demand for clean technologies in the broader economy and doesn't just push the supply of new technologies with subsidies. Rather than focus innovation and diversification policies on what is physically produced in Canada, governments should also think about fostering Canadian companies to become global leaders in the specific technologies they are best at applying.

In sum, Canadian governments need to think about how to improve their policies in four key areas: first, improve the global competitiveness of Canada's energy sector; second, help earn the social acceptance for access of Canadian energy to get to world markets; third, create collaborative governance institutions; and fourth, foster energy innovation.

With that, I'll be happy to take any questions

● (1705)

The Chair: Thank you both for those presentations.

I'm going to move on and I'm going to be very strict with the timelines here.

Mr. McLeod, over to you.

Mr. Michael McLeod (Northwest Territories, Lib.): Thank you, and thank you to both organizations for your presentations.

I wanted to, first of all, ask a question to the Canadian Energy Pipeline Association.

I'm completely aware of the benefits of economic and resource development projects, the benefits they can bring into areas, including where I live in the Northwest Territories. I got my start working with a pipeline company many years ago, when they were building the Norman Wells pipeline. It created a lot of opportunity for me and it allowed for a lot of employment, a lot of business development, and a lot of people to make a good living for several years.

There's also the benefit that we see in the north with companies, such as mining companies, that are exploring alternate energy and successfully developing projects like windmills and solar. Some of these practices are being transferred into the communities, which is really good to see. We all know that infrastructure is something that communities can benefit from, and this is a real challenge for us in the north. There's actually a barrier because of the lack of infrastructure. We're in a remote area, we're in a high-cost area, we have undeveloped infrastructure, and we have a small population.

I'm just curious to see what kind of advocacy your organization does in terms of promoting roads, airports, that would help industry move forward. We just went through a six-year hearing process on the Mackenzie Valley pipeline. I think if we had a road to support it, it would have lowered the costs and made it viable. This is prior to the oil prices dropping, of course.

Can you maybe give us some comment on that?

Mr. Chris Bloomer: With respect to what our organization does in terms of promoting infrastructure development, it's really related to the various operations that we have right now. We don't specifically go out and advocate for a road and so on. That's really for the project proponent to do that. Recognizing that, I think the infrastructure component of these pipelines does open up those opportunities, but we don't advocate for and promote specific infrastructure around pipelines.

Mr. Michael McLeod: My next question is for C.D. Howe. I wanted to ask if you could expand a little more on the comment you made about subsidies to oil and gas companies, mineral companies. The Canadian Chamber of Commerce talked about supporting the mineral exploration tax credit. Could you talk about what you were referring to when you talked about subsidies for industry?

Mr. Benjamin Dachis: The federal government's campaign commitment was specifically limited to restricting the use by companies, oil and gas companies, for what are called Canadian exploration expenses. It was specifically limiting them to only be able to deduct them when they have an unsuccessful exploration.

But that's just one side of the coin of what you just raised. The other element is something similar to a flow-through share. When companies claim this Canadian exploration expense, it often gets flowed through to individual investors. This is part of a major theme of Canadian tax policy, which is what we have to think about when it comes to what to do when companies take on a risky endeavour. A company that takes on a risky endeavour should in many ways have that risk reflected in their taxes due.

Just touching one part of the equation, the Canadian exploration expenses, has a major flow-through effect, so to speak, on many other parts of the tax system, including what you just raised on the mineral exploration tax credit.

Mr. Michael McLeod: My second question to you is regarding the comment you made that “social acceptance entails more than the regulatory process”. Could you explain to us how social licence gives energy projects more credibility?

Mr. Benjamin Dachis: We live in a democratic society. If you have a pipeline that is not approved by the vast majority of people who might be near it or be affected by it in some sort of way, it's probably not going to get built. There has to be some way of dealing with these sorts of issues that makes sense. Regulators themselves can't deal with every single issue that might come up with an affected party. They can deal with things very well when it comes to what the NEB has traditionally dealt with, when it comes to making sure that nearby environmental concerns are dealt with, such as the risk of a spill. What they can't deal with are things that affect all of us, like greenhouse gases.

The things that affect all of us as a society need to be dealt with by the people that we, as a society, elect to deal with the problem, and that's our parliamentarians at either the provincial or the federal level.

● (1710)

Mr. Michael McLeod: I have one last question and it's regarding aboriginal involvement. A lot of these projects are close to aboriginal communities throughout Canada. We know there are a lot of credible aboriginal companies. We know there are a lot of skilled aboriginal workers in the workforce, and there is involvement in almost all aspects when it comes to development of pipelines in oil and gas projects. However, I don't see participation to the same level in the regulatory processes.

Do you think that including aboriginal people in the regulatory process, through such things as the National Energy Board, is something we should be looking at?

The Chair: You have 20 seconds to answer the question.

Mr. Chris Bloomer: Okay.

Yes.

The Chair: Ms. Bergen.

Hon. Candice Bergen: I'm going to split my time with my colleague, Ms. Stubbs.

Thank you, both, for being here. I wish we had more time with you.

Mr. Bloomer, I'm going to just ask you this directly. There is a myth that has been talked about a lot over the last six months that no projects were approved; that the NEB is completely broken; that communities haven't been able to be consulted; and that over the last 10 years no pipelines were built.

I find that interesting. I'm from southern Manitoba, Portage—Lisgar. In 2007 we actually applied for a pipeline and then it was built. Many landowners and other people were consulted, and it went through the National Energy Board process. It was approved.

Can you just tell us factually if there were projects that were applied for, that went through the NEB process and were approved, and whether pipelines were built over the last number of years?

Mr. Chris Bloomer: I'd say that over the past 10 years, under NEB auspices, several pipelines have been built. Certainly the Line 9 pipeline was approved under the NEB process. The Access pipeline and the initial Keystone pipeline were built. There is a list of pipelines that went through the regulatory process under the NEB, that went through consultation, that went through environmental review, and that were built.

Hon. Candice Bergen: Those would have been approved by the Conservative government of the day?

Mr. Chris Bloomer: They would have been in that time frame.

Hon. Candice Bergen: The NEB would have approved them?

Mr. Chris Bloomer: Yes.

Hon. Candice Bergen: What does it say to industry and what does it say to workers when the narrative is out there that the regulatory process didn't work, and it's almost as though the work they did has just vanished?

Mr. Chris Bloomer: I think everybody wants to have a regulatory process that works. Everybody wants to have a regulatory process that has outcomes.

I think that's the biggest issue, that right now it's not clear how they're going to get to the outcomes with the current process. I think it's a bit up in the air.

Hon. Candice Bergen: Obviously given the outcomes, the previous system did work over the last 10 years but there is some uncertainty now.

Mr. Chris Bloomer: There is a degree of uncertainty, and I think over the course of time in the near term here we'll see what that leads to, what the process is.

Hon. Candice Bergen: Okay. Thank you.

To the gentleman from C.D. Howe, I really appreciated your presentation. I think you were able to say some things that maybe industry would be a little leery of.

I don't know if you heard my question to the Chamber. I'm concerned that, because the end decision is political and it's getting more and more political all the time, there might be some uncertainty or hesitation from industry to even criticize the process or to say anything critical, because the government might take it as criticism of the government itself. We don't see that in any other sector. We see agriculture speaking out against any government at any time. We see other sectors, but it seems that this sector, because the decisions are so closely tied to the government—

● (1715)

The Chair: That's three and a half minutes.

Hon. Candice Bergen: All right, Shannon, take it from there.

Mrs. Shannon Stubbs (Lakeland, CPC): Thank you both for being here and spending your time with us today.

I'd like to sort of leap off what my colleague has been talking about. I'd like to thank you, Chris, and actually an earlier presenter, for affirming Canada's long-standing track record of world-leading environmental standards and enforcement, which extends to exploration and production, of course, and our world-leading innovation that has allowed us in Canada to produce the most socially and environmentally responsible oil and gas in the world.

To review the principles that were announced, of course a couple of them that I'm mindful of are this application of views of the public and community consultation, which has already been done through rigorous regulatory processes for decades; more meaningful consultation with first nations, which has also been done for decades because of the crown's duty to consult; and through the regulatory process. I'm mindful of, as our representative from the C.D. Howe Institute mentioned, this application of direct and upstream greenhouse gas emissions being linked to the approval of projects under review, which has already been done provincially for years to those existing projects.

What I'm concerned about is that it seems we have a case that the government is not being specific about what gaps they're trying to address. They've announced principles that are either unclear, or duplicate what is already done and has been done for a long time in several different ways.

I wonder if your members have received clarification or specificity from the government about what will be required in these new measures, that we know have increased the timeline, which increases costs and deters investments and can cause job losses. But I'd like to get at whether or not there's actually something concrete for proponents around certainty and what is trying to be accomplished.

Also, maybe from either of you, do you have any comment on this notion that application of upstream greenhouse gas emissions to the approval of energy transportation infrastructure is actually a measure that's not applied to the approval of any other major transportation infrastructure projects in Canada or, indeed, to the import of foreign oil?

If you have any comment on those two items, I would be interested.

The Chair: In 50 seconds or less.

Mr. Chris Bloomer: Ben, I'll take a crack at it and try to leave you some time.

In short, I think the pipeline industry, certainly the CEPA representatives, don't believe that the inclusion of greenhouse gas into the pipeline process, as part of the interim process.... It's not part of regulatory law now, but we would strongly suggest that that not be the case, because pipelines do not contribute to greenhouse gas emissions in any material way at all. The jurisdictions that approve projects for the production of hydrocarbons, it's their jurisdiction to approve them.

Pipelines serve the market, so we would not support that going forward.

There has been no kind of clear-cut way of saying this is exactly what we're going to do with the information we're going to get on the incremental consultation or with respect to inclusion of greenhouse gas emissions. Generally, this is more information going into the process and they're going to use it as part of that process. There's no clarity around that.

The Chair: I'm going to have to cut you off, sir, I'm sorry.

Mr. Cannings is overdue.

Mr. Richard Cannings: Thank you both for being here.

I'll start with Mr. Dachis from the C.D. Howe Institute.

According to a recent report by your institute, and I think you referenced it, there are a number of structural issues facing the Canadian energy sector, including issues regarding the realization of innovation and diversification of policy objects. What role do renewable and green energy sources play in accomplishing that goal?

● (1720)

Mr. Benjamin Dachis: No doubt renewable energy is going to make up a much larger share of our energy sources. I don't know when, but it will probably be a lot more in the long term than many people think, but also probably a lot less in the short term than many people think. It will be there, but we need to remember that the fossil fuels that we currently have will play a role in the energy sector in the future in some capacity.

Mr. Richard Cannings: That same report also points to other barriers, including the global competitiveness of the oil and gas sector. Oil sands and heavy oil projects face some significant disadvantages in the global marketplace, like a significantly higher cost of production.

We've heard in other testimony that innovation and new technologies can help lower those costs, but in your view are there limits to how much technological innovation can help to close that gap and put oil sands and heavy oil on a level competitive footing with other global oil sources?

Mr. Benjamin Dachis: Innovation is absolutely going to be the way that Canadian energy producers compete globally. Again, in your shoes, you have to ask yourself, what can Canadian governments, and in particular the federal government, do in order to foster that innovation?

When it comes to thinking about the kind of innovation that the new society wants more of, target that specifically. If the issue is innovating to reduce greenhouse gases, then let's find ways for companies to focus on reducing their greenhouse gas emissions. The way to do that, without a doubt, is a price on greenhouse gas emissions. All their policies, all their subsidy policies, innovation funds, these sorts of things are not nearly as effective on their own as carbon pricing.

Mr. Richard Cannings: I'll turn to Mr. Bloomer now with a similar question in terms of Canada's disadvantages in the oil market. We've all heard that one of the big pressures to build pipelines in Canada, especially getting them to tidewater, is to overcome this price disadvantage that we face because we can only sell within the North American market.

As I was mentioning in an earlier question to other witnesses, that price differential seems to be shrinking somewhat. There is also some indication that even if we did have a pipeline or pipelines to tidewater, selling that oil to other markets, particularly the Asian market, there would still be a considerable price differential.

I was looking at the Mexican Maya sour crude benchmark, which apparently over the past 15 months was priced on average $8.73 less in the Far East than it was in the United States. What economic advantages will pipelines give Canadian oil producers and will that be enough to make them competitive?

Mr. Chris Bloomer: Absolutely. It's essential to have pipelines built to access global markets where they can process our crude, rather than keep putting our crude into markets that don't have all the refining capacity to handle efficiently that crude oil. We're also competing against other crudes.

The markets are dynamic. They will change. Differentials increase, they decrease, light versus heavy. Over the long run, we have to strategically look at it.

These pipelines are not going to be built tomorrow. They're going to be built in seven to nine years. We have to make a national strategic decision that we're going to supply those markets going forward. Those markets need that oil and it will increase the value.

Looking at it on a daily basis doesn't help the discussion. It's really a strategic thing that we have to engage in to access those markets.

Mr. Benjamin Dachis: Pipelines are a necessary but not a sufficient condition.

● (1725)

Mr. Richard Cannings: I think it was again Mr. Dachis who talked about the price on carbon. I want you to expand on the comment you made about using a price on carbon and using those funds to drive innovation, to incentivize innovation.

Again, some people have been calling for the removal of those incentives on oil exploration and moving them to that sort of innovation.

Mr. Benjamin Dachis: When it comes to the incentives for oil and gas exploration, we have to think of them as part of a broader package, about what an efficient, broader economy tax system would look like, where we want to encourage, across the entire economy, the kind of behaviour that isn't a slam dunk economically. We want to ensure that people invest in things that might be good for society as a whole and in many regards impossible for the government to say that it should be biotech or renewables, or the oil and gas sector.

We want to have these kinds of policies that are very similar to what you see in the oil and gas sector applied across the entire economy. That's called the cash flow tax, rather than the current flow-through share system with the Canadian exploration expense.

I'd encourage the committee to look into this model of a cash flow tax and think about how you could apply this across the entire economy.

Mr. Richard Cannings: I just have a quick question on a national strategic oil reserve. Other countries have an oil reserve. Should Canada have one?

Mr. Benjamin Dachis: I don't have a clue about that one.

The Chair: That's a perfect length of answer.

Mr. Chris Bloomer: I'd say Alberta has a strategic oil reserve.

Mr. Harvey. I'm going to give you two minutes, and then we're going to shut it down.

Mr. T.J. Harvey: Okay.

An hon. member: You can't go into another round.

Hon. Candice Bergen: No, you can't.

The Chair: It's still the same round.

An hon. member: Is it? Okay.

Mr. T.J. Harvey: I only have two minutes left in my slot.

We talked about the five principles of the new interim assessment process. When we talk about energy development in this country, I think it's really important that we look at projects, whether they're traditional development projects or new and emerging technologies, whether it's solar, wind, tidal energy, and we should really classify those—this is just my opinion of course—in the short term, medium term, and long term within the two individual pillars. With that in mind, recognizing that over a period of time it's definitely going to be necessary to get our resources to market and recognizing that the oil and gas sector has been very innovative and forward-thinking over the past years—and I think that everybody on all sides of government recognizes that—do you believe that those five interim principles are not in fact barriers to project and resource development, but just a continuation of the type of growth within that sector that we've seen over the past number of years—5, 10, 15 years—and a continuation of where we need to see that trend go, whether it's first nations' consultation, looking at the total scope of greenhouse gas emissions, or usage of science and technology? How we can use those principles to move this sector forward? Do you not believe that those five principles are going to be of benefit to the sector over the short, medium, and long term?

Mr. Benjamin Dachis: I'll throw that to you, Chris.

Mr. Chris Bloomer: Okay. Did you want...?

Mr. T.J. Harvey: I wanted Mr. Dachis to answer.

Mr. Benjamin Dachis: I'll admit I'm not—

Mr. T.J. Harvey: Just based on your earlier comments is all.

Mr. Benjamin Dachis: By these five principles, are you talking about the specific federal commitments on this? Maybe not.

Mr. T.J. Harvey: Absolutely.

Mr. Benjamin Dachis: I'd focus my remarks on one in particular that does stick out like a sore thumb, which is on the assessing of [*Technical difficulty—Editor*] greenhouse gas emissions, which is that this is both dubious legally—this might result in some uncomfortable legal positions for the federal government—but also it's not economically the best way of reducing greenhouse gas emissions. If we want to focus on reducing greenhouse gas emissions, by far the best way to do this is through a price on greenhouse gas.

Mr. T.J. Harvey: Right, and I don't disagree with the ideals behind a price on carbon, that's for sure. But one thing I will say is that I grew up in agriculture, and my father always said that a lot of time hardship fosters innovation and technological growth within any sector, agriculture specifically then. Do you not believe that the sector will benefit from looking at greenhouse gas emissions and how it affects the entire sector?

● (1730)

Mr. Benjamin Dachis: Carbon pricing is designed to create a hardship when it comes to carbon emissions, so that's exactly to your point.

Mr. T.J. Harvey: Okay. I'm out of time.

The Chair: Thank you. I think we're out of time.

Gentlemen, thank you. Unfortunately we've run out of time. There's never enough time in these committee meetings. We appreciate both of you taking the time to be with us today. We're going to move on to the next item on the agenda, so thanks very much.

We have two items. The first one is arising out of our subcommittee meeting at the last meeting, where we decided to amend how we're going to proceed. I think we need to vote on that motion very quickly.

I'll read this into the record?

The Clerk of the Committee (Mr. Michel Marcotte): Yes. It's going to be the report.

The Chair: Yes.

> That the Committee hear witnesses on the Oil and Gas portion of the study on May 2, 4, 9, 11, 16 and 18 so that a report can be produced before the end of June 2016; and that the Committee delays the study of the mining and nuclear energy portion of the study to the Fall of 2016.

(Motion agreed to)

The Chair: Now the second item we have to deal with quickly, I'm going to turn it over to Mr. Harvey.

Mr. T.J. Harvey: I'd like to bring forward the following motion:

> That, in relation to Orders of Reference from the House respecting Bills,
>
> (a) the Clerk of the Committee shall, upon the Committee receiving such an Order of Reference, write to each Member who is not a member of a caucus represented on the Committee to invite those Members to file with the Clerk of the Committee, in both official languages, any amendments to the Bill, which is the subject of the said Order, which they would suggest that the Committee consider;
>
> (b) suggested amendments filed, pursuant to paragraph (a), at least 48 hours prior to the start of clause-by-clause consideration of the Bill to which the amendments relate shall be deemed to be proposed during the said consideration, provided that the Committee may, by motion, vary this deadline in respect of a given Bill; and
>
> (c) during the clause-by-clause consideration of a Bill, the Chair shall allow a Member who filed suggested amendments, pursuant to paragraph (a), an opportunity to make brief representations in support of them.

The Chair: Okay.

Just so the committee is aware, I received a letter from Elizabeth May, member of Parliament for Saanich—Gulf Islands, dated April 29, relating to this motion. Her letter reads as follows:

> Dear Mr. Maloney,
>
> Pursuant to my letter of April 15th, I wish to update you on the status of the motion to restrict the rights of MPs in parties with fewer than 12 members. I understand that it will be introduced in committees as early as this week. I simply ask that you take serious consideration of the implications of this motion and provide me with an opportunity to present my concerns.
>
> In the 41st Parliament, the then Conservative government passed this motion simultaneously in all committees swiftly and often in camera. The motion was designed to extinguish members of small parties and independent's ability to fully participate in debate at report stage by forcing those members to submit their report stage amendments at committee. It was then, and remains today, an attempt to silence my voice in the House. Moreover, the committee process, as designed, was wholly unsatisfactory.

> This motion—and more generally the topic of the role of members of small parties in the legislative process—is both of great personal importance to me and weighs heavily on the procedural fairness of this committee and the House. I would ask that if you consider adopting this motion as an order of this committee, that you at least provide me with an opportunity to present my case and allow committee members to hear my concerns. I would also request that you keep these matters in the open, and not move the consideration of this motion in camera.
>
> Sincerely,
>
> Elizabeth May

Is there any discussion before we vote on the motion?

Seeing none, all in favour of the motion?

(Motion agreed to)

The Chair: Thank you. That is all the business for today.

We will see you on Wednesday at the same time.

The meeting is adjourned.