

How Recent Government Changes in Canada Impact Oil and Gas Export to Asia?

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1. Introduction

Canada is a resource rich country dependent on energy export and the ability to access import markets. The vast majority of oil and gas resources are located in Western Canada. Most energy exports are to the United States, but as American energy production grows, Canada must diversify its export markets, particularly to Asia. Asia is the world's fastest growing economic region, making it a priority market for Canada's energy products. Although there has been a substantial influx of major projects pursuing Asian market in the past decade, there are still considerable challenges in building the necessary export infrastructure.

This paper will highlight the latest regulatory changes made by federal, Alberta and British Columbia governments to address barriers to implementation, and examine whether these changes will have positive impacts on oil and gas export projects to Asia. Firstly, local communities are becoming more relevant in the governance of energy development in Canada, playing a key role in policy decision making. Discussion on energy projects in Canada is now inseparable from that of Aboriginal rights as well as climate change. Likewise, industry players are becoming increasingly aware of the favorable role that the 'social license' plays in obtaining regulatory and public approval for projects. For these projects to continue, the recently elected federal and provincial governments have developed regulatory frameworks to address these public concerns.

Secondly, although there are several proposed oil and gas projects, industry leaders have been struggling to obtain final investment decisions (FIDs). This was largely due to a lack of fiscal certainty in today's low price environment. Canada must also compete with other exporting countries, many of which have their own respective advantages that make them attractive to Asian markets. To mitigate this financial burden and to keep Canada competitive in the global markets, the government has rolled out new royalty structures and financial incentives.

2. Canadian Energy Policies

Canadian energy jurisdiction is divided between federal and provincial/territorial government. This separation is due to two main reasons: each area has vastly different natural resources and provinces have rights to their ground resources with the exception of some aboriginal and federal lands. At the federal level, the government is responsible for the management of international and interprovincial movement of energy goods. Provinces and territories are responsible for the exploration, development and management of resources within their borders. They have the authority to regulate tariffs and impose royalties or taxes.¹ The ownership of energy resources, land-use allocation and exploration also fall under provincial responsibility. As a result, industry players must acquire development rights from the government through a bidding process.

In reality, many energy issues are shared between the governments. For example, under the Constitution of Canada, responsibility for environmental management is shared between federal and provincial governments. However, the separation of federal and provincial energy regulations can lead to overlapping or conflicting policies. To mitigate this, the federal, provincial and territorial energy ministries banded together in 2011 to create the Canadian Energy Strategy (CES). The CES is based on collaboration and transparency, environmental responsibility and energy security.² Working groups were established for these 3 initiatives and is comprised of provincial and territorial Ministers of Energy. Alberta leads the group focused on energy delivery. In the latest meeting of the group, the strategy highlighted the need to build more pipelines, speed up regulatory decisions and promote market diversification to overseas markets.³ There are significant similarities between the CES and Alberta's energy policy.⁴

2.1. Federal

At the federal level, the Major Projects Management Office (MPMO) provides overarching project management and accountability for all major resource projects. Of all major projects in Canada, 80% are energy related.⁵ As the sole point of entry into the regulatory system, it focuses on the coordination of communication and assessments with regulatory bodies and agencies. This is intended to increase transparency, predictability and timeliness for the review of project applications.

The main federal energy regulatory body is the National Energy Board (NEB) which oversees the oil, gas and electric utility industry. The NEB plays a pivotal role in the construction and operation of oil and natural gas pipelines. Not only does it provide final

approval on these projects, it also oversees pipeline traffic, tolls and tariffs in accordance to the National Energy Board Act.⁶ NEB applications may undergo a public hearing with stakeholder groups if the board deems it necessary. The federal government has the power to overrule the NEB if it does not agree with its findings.

Many projects may also trigger a federal environmental assessment under the Canadian Environmental Assessment Act (CEAA). The assessment may take different forms including a public hearing or the appointment of an environmental review panel. Depending on the type of project, additional federal laws may apply. For example, the Fisheries Act may apply if a project affects bodies of water and have adverse effects on fish habitats, Aboriginal or recreational fishing.

The Aboriginal Affairs and Northern Development Canada (AANDC) is responsible for meeting the legal duty to consult and accommodate Aboriginal, Inuit and Metis groups. The Indian Oil and Gas Canada (IOGC) was created oversee the consultative processes specifically for energy projects. The IOGC represents over 45 Aboriginal groups with oil and gas agreements across British Columbia, Alberta, Saskatchewan and Manitoba⁷.

2.2. Provincial

2.2.1. Alberta

The Alberta Energy Regulator (AER) promotes the efficient, safe and environmentally responsible development of energy projects. The AER is the only regulatory body for all upstream oil and gas, oil sands and coal development activities. It oversees all project approvals, compliance inspections and resource exploration.⁸ An environmental assessment review under the Environmental Protection and Enhancement Act (EPEA) may be required for large projects.

In response to Alberta's political sensitivity to climate changes issues, the government released the Climate Change Strategy in 2008 with the aim of 200 million tonnes emissions reduction by 2050^{1,9}. Carbon capture and storage (CCS) is a key part of this initiative. Alberta is credited with implementing the first emissions related climate change policy in North America upon the creation of the Specified Gas Emitters Regulation (SGER). Despite this scheme, however, Alberta remains the highest CO₂ emitting province in Canada. A number of regulations on upstream activities have been in place to minimize the impacts on the environment and neighboring communities. In particular, hydraulic fracturing operations are

¹ Alberta's emissions in 2014 totalled 273.8 million tonnes.

closely monitored over water conservation, groundwater protection and waste storage. The Upstream Petroleum Industry Flaring, Incinerating and Venting directive ensures air pollution remains at a minimum.

Each well in Alberta pays a different royalty rate based on the production of well, price, age and depth. Royalties vary based on what production phase the project is in and are generally lower during construction and development.¹⁰ Firms pay a flat royalty rate of 5% on early production until payout, which is achieved when cumulative revenue generated by the wells is equal to the drilling and completion cost.¹¹ This allows companies to recover upfront investments. In comparison, firms in North Dakota and Texas pay 24% and 25.3% respectively regardless of price, development phase or production level.¹² After achieving payout, royalties rates will increase and is calculated on a sliding scale based on commodity prices and the Canadian-US dollar exchange rate.¹³ Subsequent rates can range between 5% during low prices up to 40% with WTI prices over C\$120/bbl.¹⁴ When a well nears the end of its life cycle, the royalty curve will decrease accordingly.

Alberta is home to the third largest Aboriginal population in Canada, with 48 First Nation bands and 140 reserves.¹⁵ Most of Alberta is covered by land treaties which act as the main mechanism to resolve land ownership and rights. The Aboriginal Consultation Office (ACO) works closely with the AER to provide Aboriginal consultation and advisory services. Oil and gas developers are responsible for initiating and conducting First Nations consultations through which the ACO will act as an adjudicator.

2.2.2. British Columbia

The Oil and Gas Commission (OGC) is an independent regulatory agency that oversees all oil and gas operations within the province. It operates through the Oil and Gas Activities Act (OGAA) which outlines the regulatory framework governing all oil and gas activity within British Columbia.¹⁶ This single window operator is responsible for reviewing and approving applications for industry activity, consulting with the public and Aboriginal groups. Similar to the AER, it monitors all projects within the province throughout the exploration, development and operational phases. Projects in British Columbia must obtain a British Columbia Environmental Assessment (BCEA) decision statement in order to proceed.

Public opinion polls in 2007 showed that the environment replaced the economy and health care as the most important issue in British Columbia.¹⁷ This drastic shift in community values has made climate change a key factor in how the province approaches the oil and gas

industry. This led to the development of the Climate Action Plan the following year. This initiative includes an economy-wide, revenue neutral carbon tax.¹⁸ Every 2 years, a new Climate Leadership Team is appointed. The team is responsible for re-evaluating and updating policies by holding public consultations with community members, Aboriginal groups and scientists.

In contrast to Alberta, British Columbian relations with Aboriginal groups are more complex because of a lack of historical land treaties.¹⁹ As a result, energy projects within or going through British Columbia may be slowed down as firms have a greater number of communities to consult with. This leads to several conflicting land ownership claims among Aboriginal groups and the government. The tense relations with Aboriginal groups in British Columbia led to the creation of the Aboriginal Business and Investment Council (ABIC). The council works with communities and the private sector to encourage proactive cooperation on energy projects.

2.3. The Social Debate on Energy Development

The debate surrounding energy projects in Canada is both polarizing and emotional. This led to the creation of the term ‘social license’, defined as the government or a company’s pursuit of public acceptance and approval for projects.²⁰ The social license can be obtained by implementing ethical and environmentally friendly practices while proactively engaging in community discussions. The complex nature of the social license is impeding virtually all of the oil and gas projects in Canada, compromising the perceived reliability of the industry. The economy suffers as a result because firms are unable to proceed with development. The two largest and most vocal opponents of Canadian energy projects are environmental and Aboriginal groups.

The level of public interest in oil and gas projects has grown immensely in the last several years, becoming a staple in media, news and politics. Today, public activism has significantly delayed oil and gas production growth as activists lobby the government and stage protests. This widespread awareness of oil and gas projects began with the Keystone XL Pipeline proposal², which would have transported Alberta crude to the United States. Although the pipeline would have had a small impact on climate change, climate activism gained

² The Keystone XL Pipeline is a proposed 1,897km oil pipeline running between existing stations from Alberta to Nebraska, carrying up to 830,000 barrels per day. This would increase the capacity of an existing pipeline while having a shorter route and larger-diameter pipe. It is part of the Keystone Pipeline system commissioned in 2010 which currently runs from Alberta to distribution centres in Illinois, Texas and Oklahoma

momentum due to the project.²¹ Communities perceive regulations as not strict enough for the industry, believing authorities are deliberately favoring them, much to the social detriment. These issues have resulted in a lack of trust in the government and regulatory bodies.

Another vocal critic to energy projects are Aboriginal groups whose concerns are from an environmental, legal and cultural basis. The majority of Aboriginals ceded their territories through treaties to British colonialists in the late 19th century for the right to hunt and fish on their traditional lands. The government and industry are legally obligated to consult with Aboriginal groups if any project development may affect these rights. Several oil and gas projects are in close proximity or directly on traditional lands where many communities continue to live in.

3. Recent Developments in the Canadian Political Environment:

3.1. Federal Government

Under the previous Prime Minister, Stephen Harper, there was a heavy focus on building Canada's image as an emerging energy superpower. Harper acted as the champion for the Canadian energy industry and made it the center of international relations. For instance, the former Prime Minister stated that he "would not take no for an answer" on the Keystone XL Pipeline.²² The government focused on expediting the project approval process rather than addressing growing climate change concerns. During the approval review for this pipeline, Canada formally withdrew from the Kyoto Accord in 2011. Harper was also quoted calling industry climate regulations "crazy" during a time of low oil prices.²³ These moves antagonized activist groups who began to lose trust in the objectivity of government and regulatory project assessments. For example, the NEB does not consider upstream carbon emissions in its pipeline reviews, which gives the community a perception that regulators are prioritizing industry at the expense of environmental sustainability.²⁴ This distrust had a domino effect on other oil and gas projects, which also became subject to criticism. This shift in focus resulted in the Keystone XL Pipeline becoming more than just a link between Canadian energy and world markets. Instead, it became international symbol for climate change and environmental activism.

Although Harper's environmental policy proved unpopular domestically and internationally, Harper's hard stance on economic diplomacy and free trade enhanced Canada's global economic engagement. He also initiated conversations for greater partnership and free trade agreements with Japan, Philippines, India and Thailand.²⁵ Negotiations with these countries are still ongoing. Harper successfully negotiated a free trade agreement with South Korea which was brought into force in 2015.²⁶ Harper served as the Conservative Prime

Minister for 9 years before the October 2015 election where Liberal Party leader, Justin Trudeau, won a majority government.

Like his predecessor, Justin Trudeau recognizes the importance of getting energy resources to market. However, he has adopted a different approach to the issue. In addition to a focus on strengthening economic ties, he puts greater focus on climate change and humanitarian policies in foreign affairs. Trudeau is also helped by the fact that many leaders remember multilateral approach his father, former Liberal Prime Minister Pierre Trudeau, took on the global stage. In particular, China's Xi Jinping and South Korea's Park Geun-Hye publically praised the former Prime Minister and expressed hopes for greater cooperation with his son.²⁷ He signed the Trans Pacific Partnership (TPP) in February 2016, which covers several areas of public policy including tariffs, environment and humanitarian issues. With a more ambitious focus on climate action and foreign affairs, while also building on Harper's achievements on free trade, Trudeau's policies could have significant impacts energy development.

To obtain his goal of rebuilding the nation's faith in oil and gas projects, Trudeau has elected to reform approval processes and committees such as the National Energy Board (NEB). He announced an audit on the NEB soon after his election. This move was positively received by the public. The audit put emphasis on assessing stakeholder hearing processes, environmental assessments and compliance evaluations. Before the audit, out of the thousands of hearing applications, most are rejected without a clear explanation as to why.²⁸ The NEB also does not include some upstream greenhouse gas emissions in its environmental assessment, which greatly affects the accuracy of the review.²⁹ Criticisms over these gaps have been in place for several years during the Harper era but never addressed, frustrating stakeholder groups who felt overlooked. Trudeau's completed audit recommended several changes to the environmental and hearing review processes. The NEB is required to implement these changes before the end of 2016.

To further demonstrate the government's commitment to addressing climate change and Aboriginal rights, Trudeau appointed an independent panel to assess the Trans Mountain project.³ Though the project already has NEB approval, it was granted in May 2016 before any changes from the NEB audit were implemented, raising concerns that the approval remains flawed. An approval from a newly appointed, independent panel could give the pipeline greater validity. The panel's review will conclude in November 2016³⁰ and the federal

³ The proposed Trans Mountain Pipeline Expansion would create a twinned oil pipeline increasing the capacity of the existing 300,000 barrels/day pipe to 890,000 barrels/day. The pipeline runs from Strathcona County, Alberta, to Burnaby, British Columbia.

government's final approval decision will follow in December 2016. Construction is expected in 2017 and the expansion will go into service in 2019.³¹

Trudeau's decision to change the NEB has significant impacts on the Canadian energy industry. As the sole energy regulator, it is vital for the public to trust that the board is able to provide an unbiased and well-rounded decision reflecting society's values. A lack of trust in industry regulators can weaken or even invalidate any project approvals. Having a trusted and thorough regulatory process is also important for industry players. With a more widely accepted regulatory body, approvals will carry greater social validity in addition to the legal right to proceed with projects. The NEB audit also sets a precedent for provincial energy regulators by demonstrating the appropriate level of testing, analysis and consultations.

Unlike Harper, Trudeau distances himself from energy project approvals, stating "what [the industry needs] is a regulatory process.... [that will] restore people's trust in the government's ability to protect our long term interests and grow the economy".³² Trudeau's approach pursues a social agenda to improve the public image of Canadian energy while creating a predictable and transparent review process. Rather than expediting the review process, he focuses on reforms to instill confidence in government oversight on oil and gas projects. He argues the Harper government was unable to build pipelines as "people didn't trust that they were going to do it right for the long term" due to the lack of environmental review and Aboriginal consultation guidelines.³³ Trudeau is determined to address the concerns raised by the public in an effort to obtain the elusive social license.

In addition to changes to energy project approval processes, Trudeau is also pushing for greater national climate change initiatives. In his statement at COP21, Trudeau promised a pan-Canadian climate change framework to assist in implementing the Paris agreement which was signed in April 2016.³⁴ Through the agreement, he pledged to cut emissions by 30% of 2005 levels by 2030. They announced a C\$2.65 billion investment over the next 5 years to assist developing countries to fight climate change, more than double the amount given in the past.³⁵ In addition, Prime Minister Trudeau has also joined a number of international climate and research alliances, such as the Mission Innovation and the Global Alliance for Buildings and Construction. The federal government will also review the CEAA, create new processes to promote science-based decisions and increased public participation. By being a member of international initiatives for climate change, Canada can prove its commitment to obtaining and maintaining clean economic growth. These initiatives have helped address Canadian's concerns over the impact of oil and gas projects on the community.

3.2. Provincial Government

3.2.1. Alberta

Alberta is known for its pro-business economic policy with some of the lowest corporate and personal incomes tax rate in Canada. The Alberta New Democratic Party (NDP) ousted the Progressive Conservative (PC) party in the landmark provincial elections on May 5, 2015. The PC government was led by Alison Redford in 2011, who resigned and was replaced by Dave Hancock and Jim Prentice in 2014. This shift in power culminated into a number of significant policy changes that had and continues to have a huge impact to the oil and gas sector.

The PC government platform was primarily concerned with the revenue aspect of oil and its effect on Alberta's budget. Alberta has historically subsidized the oil industry by having low royalty rates, designed to stimulate production and investment. While production levels did grow significantly, the low royalty levels left the government vulnerable during revenue shortfalls. As oil prices fell, an intense push by the PC government leaders ensued to obtain regulatory approval for energy exports. PC leaders took a very similar approach to Prime Minister Stephen Harper, often putting a heavy focus on expediting pipeline approvals rather than environmental reviews. The lack of climate change initiatives, coupled with the complex oil sands extraction process put Alberta under international scrutiny.

The new NDP government that took office on in May 2015 shares the same focus on climate leadership the new federal government has. Premier Rachel Notley is poised to have huge impacts on energy and environmental policy in Alberta. The provincial government announced the new Climate Leadership Plan, which will begin in January 2017.³⁶ This creation of a stable policy for greenhouse gas emissions could provide the clarity and predictability for investment planning industry is desperate for in today's volatile price environment. More importantly, it may help to gain the social acceptance from environmentalists and Aboriginal groups to develop pipelines. Notley and several provincial ministers have embarked on trade missions across North America to promote trade relations and investments.

The biggest impact of Notley's election is the royalty review that began shortly after coming into office. Alberta royalty rates paid by oil and gas companies have been under contention for a number of years. They have remained low compared to other jurisdictions and some argue it has exasperated problems for the provincial budget.³⁷ For example, The NDP government commissioned a royalty review, which resulted in uncertainty and concerns from industry players that were already struggling in the low price environment. The last royalty

review was conducted almost a decade earlier in 2007. By re-evaluating the royalty system, the government can successfully demonstrate to stakeholders that government policies are up-to-date and provide greater clarity.

After the 5-month review concluded in June 2016, Alberta rates were found to be comparable to other jurisdictions and would remain the same. Notley reasoned increasing rates in a time with so much economic uncertainty would worsen the state of the industry.³⁸ Rather than adding a greater economic burden, the new system, now called the Modernized Royalty Framework, will instead call for greater financial transparency from industry members, allowing the public to better understand and trust the new system. The royalty system was also adjusted to make the low rate period based on the amount earned rather than physical production over time. In the previous system, lower royalty rates were applied based on a specific time period or on the number of barrels produced. In times of low oil prices, the industry is unable to fully benefit from this system. In July 2016, additional programs were announced to mitigate the high costs associated with enhanced recovery methods and developing emerging resources.³⁹

The new Climate Leadership Plan aims to legislate an overall oil sands emissions limit of 100 megatons per year to reduce carbon output.⁴⁰ Current emission levels are at 70 megatons per year and this 30-megaton gap allows room for continued development.⁴¹ The introduction of an economy-wide, revenue neutral carbon tax will help address concerns over the province's carbon emission levels. Pricing carbon emissions is increasingly the preferred policy tool across the globe to address climate change concerns. The Canadian Association of Petroleum Producers (CAPP) supported the tax and stated, "As Premier Notley said, [the plan] will further enhance the reputation of our sector and improve our province's environmental credibility as we seek to expand market access nationally and internationally".⁴² Several large oil companies echoed the CAPP's support of the tax, including Suncor Energy.⁴³

The oil and gas industry will be exempt from the new carbon tax, but will instead continue paying the SGER. Although the SGER was originally scheduled to expire in 2015, it has been extended until the end of 2017. Targets reduction rates will increase and firms are now required to reduce emissions by 15% below their established baseline emissions in 2016 and 20% by 2017.⁴⁴ Baseline emissions for firms are individually calculated based on the intensity of carbon emissions per unit of production.⁴⁵ The NDP government has also committed to doubling the carbon levy from C\$15/tonne of CO₂e to C\$20/ton of CO₂e in 2016, and then C\$30/ton of CO₂e in 2017.⁴⁶ Industry tax will raise C\$3 billion annually, all of which will be reinvested into the renewables, research and green infrastructure.

3.2.2. British Columbia

Christy Clark has been the premier of British Columbia since March 14, 2011 as the leader of the Liberal Party. Throughout her time in office, she has been pushing for LNG facility approvals from government agencies and the public. At the center of the government's vision is the prospects of LNG exports to Asian markets. By exporting LNG to Asian markets, Clark claims it would help to reduce global dependence on coal or diesel.⁴⁷ Since taking power in 2011, Clark has embarked on seven trade missions to Asia to develop new trade and investment opportunities.⁴⁸ The most recent trip in May 2016 includes a delegation of representatives from 78 businesses to South Korea, the Philippines and Japan.⁴⁹ The government aims to build a domestic LNG industry by 2020, creating C\$4.3-C\$8.7 billion in government revenues each year.⁵⁰ Revenues from royalties and a new LNG tax would make a C\$100 billion prosperity fund used for erasing the provincial debt.⁵¹ The government aims for the completion of three large and two small LNG plants by 2020, although this target already seems unrealistic.⁵²

British Columbia has a much larger environmental community compared to Alberta in terms of both size and financial strength. This allows them to be more active in the political debate over proposed oil and gas pipelines. In addition, Aboriginal relationships are significantly more complex due to the lack of historical treaties, resulting in the majority of the province being unceded territory. In order to address the public's concerns, the Climate Leadership Plan undergoes a review and public hearing every 2 years to foster stronger stakeholder involvement.⁵³ This gives British Columbia's environmental and Aboriginal consultation policies greater credibility in the public's eyes by not only demonstrating emission targets are up to date, but that they are actively engaging people in public policy. It also helps strengthen the province's environmental credibility in domestic and international markets.

The British Columbian government's support has allowed natural gas development to continue despite continued low market prices. In an effort to help bolster the oil and gas sector, the government announced changes to the Infrastructure Royalty Credit Program in February 2016. Royalties have been in place since 2003, introducing rates for natural gas, and credits for deep gas exploration, summer drilling and infrastructure development. Royalty structures vary widely in the province based on the type, location and age of the project. These royalties are calculated on a sliding scale based on volume and price data. Rates vary based on when a well is drilled and productivity levels. Approximately C\$840 million in credits have been issued since 2004, supporting the development of 82 roads and 133 pipeline projects.⁵⁴ The 2016 changes to the program state that companies may receive up to 50% of project costs in royalty deductions. This program is renewed annually and Clark announced the next iteration will be increased to

three years. This is advantageous to industry players by allowing greater certainty during low price environments, supporting longer term planning and attracting investments. A total of C\$360 million in royalty deductions for infrastructure investments over three years will be granted.⁵⁵

Alberta has been pushing to get pipelines built through British Columbia to the west coast, causing some tension between the provinces. This is not only the result of the vocal environmental community opposing crude pipelines, it also reflects the reality that Albertan pipelines give British Columbia a smaller economic benefit. While Alberta Premiers Rachel Notley and Alison Redford have argued a substantial number of jobs would be created in British Columbia if pipelines were built, the reality is, most of these jobs would only be during the construction phase. Clark states this temporary gain is not enough to offset the environmental risks posed by pipelines.⁵⁶ Instead, Clark has proposed selling surplus hydroelectricity to the neighboring province to phase out its coal-fired power plants.⁵⁷ This could potentially increase Alberta's renewable energy to 30% of its overall energy mix.⁵⁸ If this pipeline-for-power trade off succeeds, both provinces would mutually benefit.

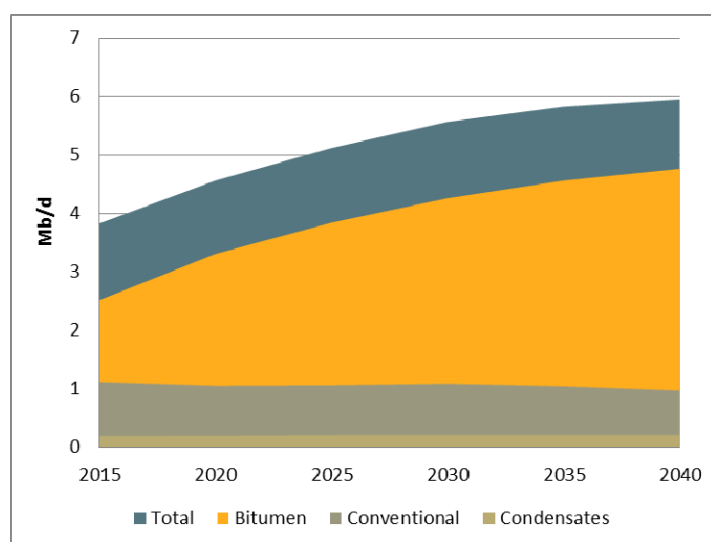
Clark's tenure as the province's leader has greatly influenced the Canadian energy industry. She recognized early on that energy trade is not exclusively an economic endeavor, but involves environmental, Aboriginal and social dimensions. By recognizing the importance of working alongside these stakeholder groups, they were able to adjust their approach to LNG projects. The government promotes natural gas as a transition fuel towards a low carbon economy, stressing emissions savings and benefits compared to other fuels. Clark successfully used this green branding during her 2013 re-election campaign and has set a strong example to other leaders on how to shape the public oil and gas conversation.

Unfortunately, the LNG supply glut in recent years has caused delays in Canadian LNG projects which was a core part of the Liberal Government's campaign. British Columbia's Finance Minister stated LNG revenues may not be expected until 2018, again this is unlikely considering no LNG projects made FID so far.⁵⁹ This could lead to dramatic changes in the 2017 election where Clark will be running again for leadership. Her approval rating fell down to 27%, her lowest since the last election.⁶⁰ This is partly due the unknown fate of the British Columbia LNG industry.

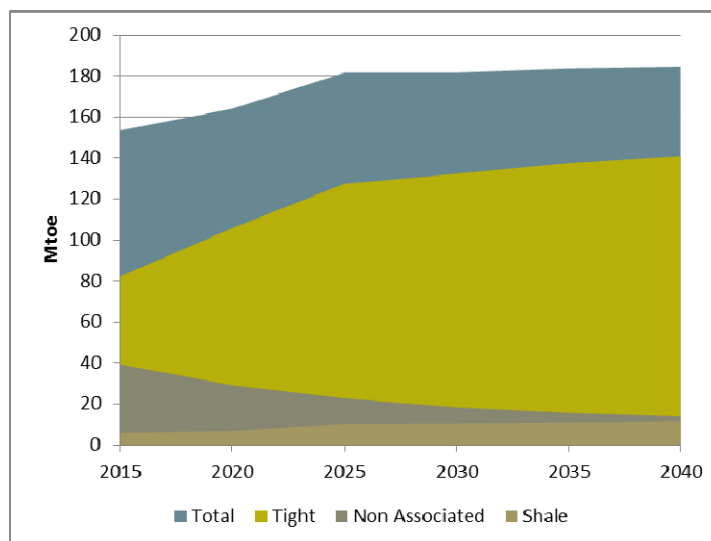
4. Current and Forecasted Canadian Oil and Gas Industry

The energy sector plays a significant role in Canada's economy, contributing to 10% of the Canadian GDP in 2014.⁶¹ Alberta has a diverse resource portfolio of natural gas, conventional and unconventional oil. It is the largest oil and gas producer in the country with proven oil reserves of 166 billion barrels.⁶² The CAPP expects the total supply of Canadian crude to increase to 5.5 million b/d in 2030 from 4 million b/d in 2015.⁶³ Alberta's economy is very reliant on oil and gas revenues, leaving the province very vulnerable in low price environments. Most of British Columbia's natural gas production is from unconventional shale and tight gas. An estimated 2,900 trillion cubic feet of gas reserves are located here.⁶⁴ Overall Western Canadian energy development has remained robust though it will be difficult to maintain this level of activity should prices remain low in the long term.

Figure 1: Western Canadian Oil Production Forecast (2015-2040)



Source: National Energy Board, "Canada's Energy Future 2016: Energy Supply and Demand Projections to 2040", 2016

Figure 2: Western Canadian Natural Gas Production Forecast (2015-2040)

Source: National Energy Board, “Canada’s Energy Future 2016: Energy Supply and Demand Projections to 2040”, 2016

4.1. Current Export Market

For an energy exporting country such as Canada, a big challenge is securing international demand for products. The US is the primary importer of Canadian oil exports, amounting for 43% of US crude oil imports in 2015.⁶⁵ This is because Canada lacks pipeline or port infrastructure for exports and refineries for processing heavy crudes locally. Canadian heavy oil is traded as a blend called Western Canadian Select (WCS), which has a large price differential below the West Texas Intermediate (WTI).⁶⁶ This discount is attributed to a transportation differential, lower quality of crude and the landlocked nature of Canadian energy.

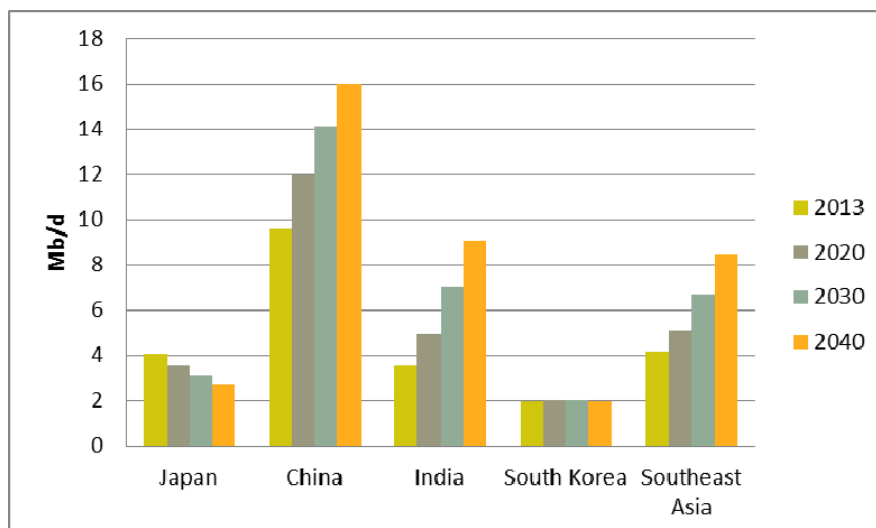
The North American energy landscape has changed drastically in the last decade. Since 2008, technological advancements in hydraulic fracturing and horizontal drilling resulted in the re-emergence of the US as a large oil and gas producer. In the early 1970s, US oil production steadily decreased because it was extremely difficult to extract. Instead, they began to import oil from Alberta and became its biggest customer. Several US refineries were designed specifically to accommodate Albertan bitumen. However, rising self-sufficiency in the United States has decreased Canadian imports by 29% between 2007 and 2014. As US production becomes increasingly independent, the amount of Canadian imports will continue to fall. Exports to the neighboring country have decreased 35% since 2007 and the NEB expects natural gas exports to fall to a negligible volume by 2040.⁶⁷

4.2. Canada-Asia Trade Potential

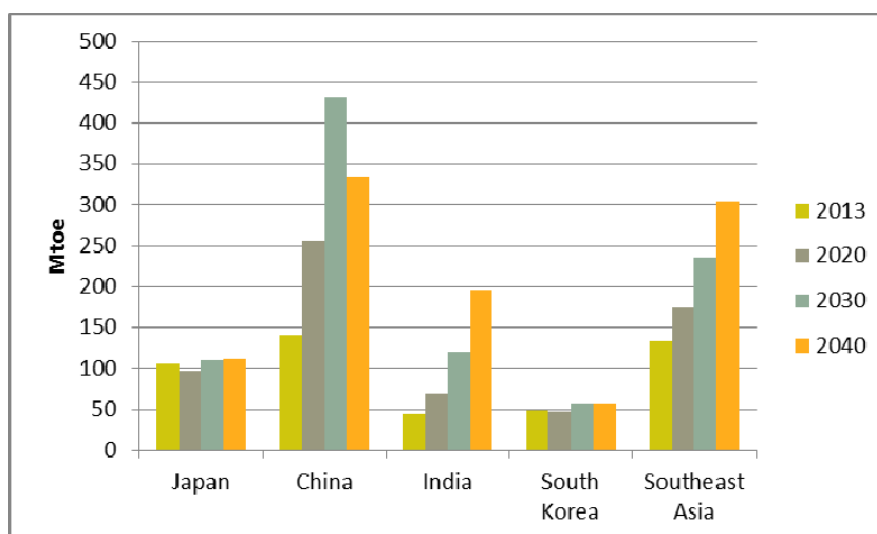
Canada already has strong diplomatic and non-energy trade relations with many countries within the region. The Asia Pacific Gateway & Corridors Initiative (APGCI) has set the stage for Vancouver, British Columbia, to become not only the preferred entry point for Asian shipments to North America, but also a hub for government, business, cultural and research linkages. In addition, several Asian companies have shown some interest in the Canadian oil and gas. Korea Gas Corporation, Mitsubishi Corporation, PetroChina and Petronas are among the many firms that have already invested in the industry.

The potential for oil and gas trade between Canada and Asia is very compelling. Robust growth of energy demand in Asia offers an attractive growth opportunity for Canadian producers. Energy security is a core issue for these countries, becoming a key driver in these countries' pursuit for oil and gas supply. As demonstrated below, oil and gas demand is dramatically increasing in China, India and Southeast Asia. Although oil demand is stagnating in South Korea and falling in Japan, it will remain the primary source of energy. In South Korea, oil comprises 29% of the energy supply in 2035⁶⁸ and in Japan, a 30% share of the 2030 energy mix.⁶⁹ Because energy security is a core issue for South Korea and Japan, they may look favourably on Canada as a reliable option to diversify their supply portfolios.

Figure 3: Forecasted Oil Demand in Asia (2013-2040)



Source: IEEJ, "Asia/World Energy Outlook 2015", 2015

Figure 4: Forecasted Natural Gas Demand in Asia (2013-2040)

Source: IEEJ, "Asia/World Energy Outlook 2015", 2015

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China overtook the United States as the largest oil importer in 2014.⁷⁰ Crude oil imports rose 7.6% in May 2016 from the previous year, driven by robust demand from teapot refineries.⁷¹ Although China's domestic natural gas output has been increasing, it is unable to meet the demand growth, resulting in their external dependence rate growing from 10% in 2010 to 30% in 2013.⁷² In addition to numerous bilateral agreements, official trade councils exist such as the Canada China Business Council (CCBC).

With an average annual growth of 12%, India is a highly attractive market. India relies on imports of crude oil and is currently the third largest crude oil importing country. The IEA forecasts India will overtake China as the largest single source of oil demand and account for over 45% of projected net increase in global consumption by 2040⁷³ Natural gas currently accounts for only 6% of India's energy mix, although the country aims to shift into a gas-based economy from coal energy.⁷⁴

Canada's longest relation in Asia is with Japan, with formal commercial relations dating

back 100 years and diplomatic ties 75 years.⁷⁵ The 2010 Closer Economic Partnership Agreement of Japan was created to further strengthen these ties. Following the 2011 Tohoku earthquake, Japan has seen rapid growth in LNG demand, importing 37% of the global LNG market share from 2012 to 2014.⁷⁶ Oil demand will decrease in the long term due to fuel economy improvements in transportation. However, Japan will continue to remain reliant on fossil fuels in the long term.⁷⁷

Several bilateral agreements with South Korea exist, including the Canada-Korea Free Trade Agreement (CKFTA), which reduces or eliminate trade tariffs.⁷⁸ South Korea relies on fuel imports for 97% of its energy consumption.⁷⁹ It is second largest importer of LNG in Asia after Japan in 2015.⁸⁰ The country will undergo further restructuring as the Ministry of Strategy and Finance announced plans in June 2016 to liberalize LNG imports in 2025.

The Canada-ASEAN Joint Declaration on Trade and Investment was adopted in October 2011, providing a platform for regular trade and investment promotions.⁸¹ Overall energy demand in 2015 has increased 250% from 1990 levels and the IEA predicts an additional 80% growth towards 2035.⁸² Southeast Asia is a mature oil-producing region with production forecasted to fall by one-third by 2035.⁸³ As a result, the region will shift to become net oil importers with a forecasted import dependency rate of 79% by 2040.⁸⁴ Indonesia and Malaysia are LNG exporters but both countries have started importing to satisfy rising domestic needs. Domestic LNG demand will increase 80% by 2035 due to strong economic growth and urbanization.⁸⁵

Table 1: Southeast Asia Oil and Gas Net Trade

	2013	2020	2025	2030	2035	2040
Oil (Mb/d)	-3.3	-4.1	-5	-5.8	-6.4	-6.7
Import Dependency	57%	61%	70%	75%	78%	79%
Gas (Mtoe)	48.6	36.9	28.8	19.8	4.5	-9.9
Import Dependency	25%	19%	14%	9%	2%	4%

Source: IEA, "Southeast Asia Energy Outlook 2015", 2015⁴

⁴ Negative values represent imports. Percentages for net imports are calculated as a share of total demand and for net exports as a share of total production.

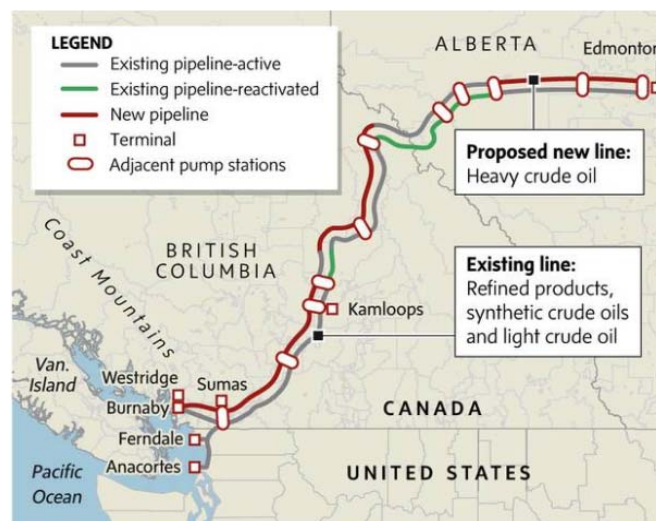
5. Barriers to oil and gas export projects in Western Canada

5.1. Major oil and gas export projects in Western Canada

In consideration of the size of proven gas and oil reserves in Canada and the country's potential role in supplying Asia's energy demand, pipeline infrastructure has become increasingly important. Despite the continued low market prices, industry has continued to push for infrastructure development along with provincial government support.

The Kinder Morgan Trans Mountain Pipeline Expansion began in December 2013. This project would increase the current capacity of the existing pipeline from Alberta through British Columbia. The NEB granted approval of the expansion in May 2016 with 157 conditions, including 49 environmental requirements.⁸⁶ The company has made agreements with 30 Aboriginal groups but there is still significant opposition from other groups. The Trans Mountain Expansion project is currently undergoing an environmental review by a 3-person panel appointed by the federal government. The panel's review will conclude in November 2016⁸⁷ and the federal government's final approval decision will follow in December 2016. Construction is expected in 2017 and the expansion will go into service in 2019.⁸⁸

Figure 5: Trans Mountain Pipeline Expansion Route



Source: The Globe and Mail, "Kinder Morgan's Proposed New Pipeline", 2013

The C\$6.5 billion Enbridge Northern Gateway Pipeline was officially announced in 2006. The project was the first to receive NEB approval and federal approval.⁸⁹ In May 2016, Enbridge requested a 3-year extension for the start of the construction to allow more time to improve relations with Aboriginal communities.⁹⁰ A court decision in July 2016 overturned the federal government's approval and the project is currently on hold. The court determined that

although the previous decision is acceptable and defensible, further consultation is required. The project has the support of the majority of affected Aboriginal groups, 26 of which have accepted equity interest and 31 that are partners.⁹¹

Figure 6: Enbridge Northern Gateway Pipeline Route



Source: Canadian Progressive World, “Enbridge’s Proposed Northern Gateway Tar Sands Pipeline Map”, 2014

Both pipelines must go through British Columbia in order to reach tidewater. In 2012, the British Columbian government laid out five conditions for pipeline approval centered on oil spill safety, environmental protection and providing fair economic benefits.⁹² Clark argues that her province receives less economic benefits from pipelines compared to Alberta despite carrying more environmental risk. She states that the Trans Mountain Pipeline Expansion would provide C\$81 billion in incremental government revenues over the next 30 years, but British Columbia would only receive 8% of this amount.⁹³ Clark proposed a revenue sharing plan and this has caused some tensions as provinces generally do not receive special considerations for interprovincial pipelines. The provinces have yet to make an agreement.

Among the 20 LNG proposals in British Columbia, 18 have received export licenses.⁹⁴ Table 2 below shows the expected in-service dates of these proposals, although it is currently unclear if they will be completed in time. The Pacific NorthWest LNG facility is the most likely to be built and is majority-owned by Petronas. Other shareholders include Sinopec, JAPEX, Indian Oil Corporation and PetroleumBRUNEI. With partners in China, Japan, India and Southeast Asia, the project will bring in an estimated C\$2.5 billion in yearly revenue for the government and contribute C\$2.9 billion annually to Canada’s GDP.⁹⁵ However, it faces intense opposition from environmental and Aboriginal groups. In particular, a sensitive juvenile

salmon habitat is located near the proposed LNG plant. The close proximity to the facility may adversely affect the local community's safety, right to hunt and damage the fishing industry.⁹⁶ A CEAA environmental approval is the last regulatory barrier before a final investment decision (FID) is announced by the end of 2016.

The LNG Canada project is a joint venture comprised of Shell Canada, PetroChina, Korea Gas and Mitsubishi. As a forerunner amongst the 20 proposed projects, LNG Canada has successfully gained the support of the Haisla Nation whose territory will be the site of all main facilities.⁹⁷ Additional negotiations with other Aboriginal groups are still in progress. All necessary approval have been obtained with only one outstanding permit from Fisheries and Oceans Canada.⁹⁸ However, in February 2016, Shell announced that it was delaying a FID to the end of the year due to financial cutbacks caused by the low oil prices. Premier Christy Clark remains hopeful they will continue with the project. She stated, "If they didn't want to go ahead, they wouldn't have postponed it. They would have cancelled the project."⁹⁹ If Shell makes a positive financial investment decision, construction will begin in 2017.

Table 2: Status of LNG Projects in British Columbia

Project Name	Investors	Capacity (MPTA)	Approval Status			Expected In-Service Date
			NEB Approval	BCEA Approval	CEAA Approval	
Aurora LNG	Nexen Energy (CNOOC Ltd.), INPEX Corp, JGC Corp	24	Approved	Pending	Under review	2023
Cedar LNG	Cedar LNG Export Development Ltd.	6.4	Approved	Not yet applied	-	2017-2020
Discovery LNG	Quicksilver Resources	20	Approved	Not yet applied	Not yet applied	2030 ¹⁰⁰
Grassy Point LNG	Woodside Energy	20	Approved	Pending	BCEA Substitution	2021
Kitimat LNG	Woodside Energy, Chevron Canada	10	Approved	Approved	-	TBD
Kitsault Energy Project	Kitsault Energy Ltd.	20	Approved	Not yet applied	-	2018
LNG Canada	Shell Canada, PetroChina Company, Korea Gas Corp, Mitsubishi Corp	24	Approved	Approved	Approved	TBD
NewTimes Energy Ltd.	NewTimes Energy Ltd.	12	Approved	Not yet applied	-	2019 (Phase 1) 2021 (Full Completion) ¹⁰¹
Orca LNG	Orca LNG Ltd.	24	Approved	Not yet applied	-	2019
Pacific Northwest LNG	PETRONAS, JAPEX, Indian Oil, Sinopec/Huadian, PetroleumBRUNEI	18	Approved	Approved	Under review	2021 ¹⁰²
Prince Rupert LNG	BG Group	21	Approved	Pending	Under review	2020
Steelhead LNG	Steelhead LNG Corp., Huu-ay-aht Nations, Malahat Nation	24	Received	Not yet applied		2022
Stewart Energy Project	Stewart Energy	30	Approved	Not yet applied	-	2019 (Phase 1) 2020-2025 (Full Completion) ¹⁰³
Triton LNG	AltaGas Ltd., Idemitsu Canada Corp	2.3	Received	Not yet applied	-	2019
WCC LNG Ltd.	Imperial Oil Resources Ltd, ExxonMobil Canada Ltd	30	Approved	Not yet applied	BCEA Substitution	2024
WesPac Midstream Vancouver	WesPac Midstream	3	Approved	Under review	BCEA Substitution	2018
Woodfibre LNG Project	Woodfibre LNG Ltd.	2.1	Approved	Approved	Approved	2020

Source: CEAA, “Canadian Environmental Assessment Registry”, 2016, Government of British Columbia, “LNG Projects in B.C.”, 2016, Northwest Institute for Bioregional Research, “Table of LNG Projects in Northwest BC”, 2016, British Columbia Oil & Gas Commission, “Major Projects Listing”, 2016

5.2. Barriers to oil and gas export projects in Western Canada

5.2.1. International Competition

Asian countries have been looking to expand imports and diversify import sources, which is creating a big opportunity for Canada. However, Canada will have to compete with other oil and gas exporting countries, many of which are already exporting to Asia.

(1) Australia

Australia has an abundance of natural gas reserves with approximately 80% of its exports sent to Japan and the remainder going to China and Korea in 2012.¹⁰⁴ India, Chinese Taipei and Malaysia have also signed contracts to purchase Australian LNG. Not only does it already have established LNG facilities, contracts and relations, several Asian companies have already begun investing in LNG projects in addition to purchasing volumes. These include Tokyo Gas and TEPCO. Exports of LNG are expected to dramatically increase over the next few years as projects complete construction and begin production.

(2) The United States

Technological advancements in the United States will result in natural gas production exceeding domestic consumption by 2017.¹⁰⁵ This development could mean that the United States could become one of the largest natural gas exporters. Prices are determined based on Henry Hub, allowing for greater cost competitiveness compared to competing suppliers.¹⁰⁶ As of October 2014, 54% of production from the 6 projects granted an export license is already under long-term export agreements for Asian Markets as of October 2014.¹⁰⁷

(3) Russia

Russia has recently shifted its focus towards markets in Asia, especially China and India. Russia signed a 30-year, US\$400 billion deal to supply China with natural gas and Russia plans to at least double its oil exports to Asia by 2035.¹⁰⁸ They are also pursuing crude supply deals and refinery constructions with India. These long-term supply deals offer greater security of demand. This is extremely beneficial in low price environments for obtaining investments. In June 2016, there was an announcement to sell a 19.5% stake in Russia's biggest oil producer, Rosneft.¹⁰⁹ This has garnered great interest from Chinese and Indian firms.

(4) The Middle East

The export strength of the Middle East region has sparked a 48%-54% increase in exports to Asia between 2005 and 2012.¹¹⁰ In 2014, 66% of Asian oil imports were from the Middle East.¹¹¹ In terms of crude oil production, Saudi Arabia was the largest producer in 2015,

and has the capacity to export almost 7 million b/d.¹¹² Qatar is the largest LNG exporter and contributed to approximately one-third of global supply in 2014.¹¹³ Many buyers have been concerned with the instability of the region, prompting them to pursue oil and natural gas contracts from other countries.

5.2.2. High Financial Costs and Investments

Delays and social opposition for pipeline projects have led to an increase in rail transportation in Canada. For example, annual exports by rail to the United States increased from 7.4 million barrels in 2012 to 51.3 million barrels in 2014 due in part to the delays in the Keystone XL Pipeline project.¹¹⁴ Between 2011 and 2012, alternative rail shipments from Canadian National (CN) and Canadian Pacific (CP) have increased six fold and four fold.¹¹⁵ Moving oil by rail can cost C\$12-C\$20 per barrel depending on the distance travelled, while pipeline is only C\$5-C\$13 per barrel.¹¹⁶ Not only rail is a more expensive shipping mode than pipelines, it is also limited in existing rail infrastructure. The NEB forecasts that if no major export pipelines to coastal waters or to the US, approximately 1.17 million b/d additional rail capacity must be added by 2040.¹¹⁷ The litigation, consultation and accommodation costs for Aboriginal engagement further increase the burden that oil and gas firms encounter. Concessions offered to Aboriginal groups can take the form of funding for community facilities, employment opportunities and equity or revenue sharing. The exact amount provided for each project varies based on negotiated agreements with each community.

Pricing mechanisms for Canadian gas has not yet been determined but overall, price and contract terms are one of the main challenges facing Canadian exports to Asia.¹¹⁸ LNG initiatives in Canada are greenfield projects which require heavy start-up investments. The current low price environment has made it very difficult for Canadian firms to prove the viability of these projects, with many firms postponing FIDs. Both gas and oil producing facilities are far away from export sites, posing an additional cost barrier.

Asian LNG is a buyers' market and this has strong implications for Canadian export prospects. Most LNG is sold in Asia based on long-term contracts where the prices are based on that of oil. However, there has been a shift from 20-25 year contracts towards 5-10 year contracts as buyers are looking for more flexibility in volatile environments. Products available in spot markets are currently the most attractive option for buyers in the low oil price environment. This can be problematic for Canadian firms seeking long term contracts to secure demand in order to obtain financing and to ensure they can recover costs in the long term.

In response to today's low price environment, both Alberta and British Columbia have adjusted royalty programs in order to encourage industry investment. New emissions, approvals and royalty policies – which many in the oil and gas industry themselves have asked for – will provide the clarity necessary for investment and growth.¹¹⁹ For example, the 2016 adjustment to British Columbia's Infrastructure Royalty Credit Program provides a total of C\$360 million in royalty deductions for infrastructure investments over three years.¹²⁰ Clark's decision to extend this program over the next 3 years offers greater financial stability for investors. The Gas Cost Allowance (GCA) also helps to offset capital and direct operating costs for processing and transporting natural gas.¹²¹

The Alberta Modernized Royalty Framework grants greater financial clarity for all projects and will not increase the industry's financial burden in the short term. The change to make the low rate period based on the amount earned rather than physical production over time is also beneficial to producers in today's low price environment. In general, the industry responded positively to the review announcement. Shell Canada, Husky Energy and Encana advocated for incentive programs for technologically intensive processes.¹²² The CAPP applauded the new framework, stating “we, as an industry, are pleased”¹²³ that the changes will help provide “a foundation to build the predictability industry needs for future investment”.¹²⁴ Other leaders, including the *Oilsands Review* editor and the Calgary Mayor echoed the same sentiment.¹²⁵ At this point in time, the effectiveness of the new system remains unclear until it comes into effect in 2017. Additional details of the program have yet to be announced, but CAPP states the industry is largely reassured by the new framework.¹²⁶

5.2.3. The Social License

Canadian oil and gas development transcends economic domains and involves environmental, social and political realms, affecting a large number of stakeholders. This calls for a multidisciplinary approach to overcome the complex barriers associated with energy development. Making environmental policies are no longer enough to generate a favorable reputation for the energy industry. Instead, government and industry must work together to proactively engage in public dialogue.

In the past, a lack of strong policies to improve environmental performances made it difficult for the energy industry to earn a social license. Canada West Foundation advocates a systematic approach to resolving climate change concerns with a focus on public engagement at a local level.¹²⁷ Both the government and industry have been hosting local hearings with the public to promote greater dialogue. This helps to bolster energy education and demonstrate a

willingness to review existing processes. By allowing greater involvement from stakeholder groups in the approval process, it may build greater credibility for industry, government and regulatory bodies while empowering the public. “Canadians need to see that their voice will be heard, and they can have an impact on the decisions being made”, says Jason Switzer of the Pembina Institute.¹²⁸ This renewed and multidisciplinary approach is a positive step in obtaining greater social acceptance, but it is too early to determine if it will ultimately be successful.

(1) Environmental Groups

The main lesson from the Keystone XL Pipeline controversy is pipeline construction requires significant collaboration with stakeholder groups. Resource extraction can devastate local ecosystems and this has become a local, national, and global concern. Air pollution from industrial processes and extraction may not only damage nearby ecosystems, but also public health. The level of public interest in oil and gas projects has grown immensely in the last few years, becoming a staple in media, news and politics. Before, the industry enjoyed relatively low media attention as long as they operated within legal boundaries.

Research has shown that there is indeed harmful ecological impacts, but findings are often dramatized and exaggerated to vilify energy projects, particularly crude production. The mere presence of a potential health, safety or environmental hazard creates a stigma of harm regardless of how improbable an incident would actually occur. This often obscures the benefits that project development could bring, such as employment and economic growth. Currently, it is uncertain to what extent the recent environmental policy changes will impact the relationship between government, industry and climate change activists. Trudeau, Notley and Clark are all vocal supporters of sustainable development but still face strong opposition. For example, industry and environmental activists, including former U.S. vice-president Al Gore, praised Alberta’s new carbon plan, although others argue more needs to be done.¹²⁹

(2) Aboriginal Groups

The 2011 Canadian Census shows that approximately 4.3% of Canada’s population is comprised of Aboriginal peoples. The effects of European colonial settlement had disastrous effects on the Aboriginal population, resulting in many living on reserve lands with poor housing, infrastructure and education. The marginalization of these communities has led to a continued mistrust in industry and government even today. There is a duty to consult Aboriginal groups under the Canadian Constitution when their community or treaty rights may be affected. The federal government has a framework for the duty to consult, but because the management of natural resources fall under provincial legislation, separate provincial policies also exist. A

2013 study found every energy project in Canada could potentially affect at least one Aboriginal group. Many communities continue to live off the land and are very vulnerable to health issues from pollution. As a result, the duty to consult can take place over 100,000 times each year.¹³⁰

First Nations are increasingly resorting to legal actions to assert their rights be protected from the negative impacts of oil and gas development, primarily on the premise of the government's duty to consult.¹³¹ This growing trend of litigation makes it extremely important to have strong consultation policies in place to ensure that projects can proceed. In response to the growing presence of Aboriginal lawsuits, many oil and gas firms are now consulting with them at the early stages of project planning to avoid litigation. Equity ownership, community benefits, educational and employment opportunities for local communities are common concessions granted during negotiations.

As the debate over the social license and duty to consult continues, industry and government have been continuing to make progress in reaching agreements with Aboriginal groups. As of May 2016, 62 pipeline benefit agreements have been signed with 29 out of the 32 Aboriginal communities located along four proposed LNG pipelines in British Columbia.¹³² Across all industries, 498 agreements have been signed with 179 communities throughout British Columbia.¹³³ These agreements include communication, resource management, revenues sharing and other topics. There have been 402 agreements signed since 2010, suggesting that although it may take time, the government has been making positive progress in reconciling with Aboriginal groups.¹³⁴

6. Implications for Oil and Gas Export Projects in Western Canada

Canada is currently at an inflection point in its path to being an influential oil and gas supplier in the global market. Although most project proposals are still active, they also have yet to obtain an FID. Low prices, over-supply and strong competition in Asian markets are significant challenges for Canada's export potential. Despite this, the Canadian Energy Research Institute (CERI) predicts that some oil and gas projects will begin to come online over the next five years subject to prices.¹³⁵ The short-term outlook for future projects and additional growth are uncertain, but the need for market diversification remains a priority for producers and government. As Canada continues to seek demand diversification, Asian countries will keep pursuing supply diversification. This compelling alignment of interests for Canada-Asia trade suggests that although significant barriers remain in the short term, it could eventually become a player in the Asian energy mix in the future.

Today, there is a greater convergence of climate change policy and goals between the federal and provincial government. Trudeau, Clark and Notley all firmly believe in the pursuit of a social agenda to promote the public image of Canadian energy while creating a responsible and transparent review process. In a February 2016 joint statement, Trudeau and Notley highlighted their commitment for energy resources to get “to market in responsible, sustainable ways that Canadians trust, based on robust environmental assessments and that contribute to greater investment and long-term economic growth and job creation”.¹³⁶ These changes demonstrate to the public that the government is listening and addressing policy shortcomings.

While recent policy changes provide greater stability and support, there are still considerable barriers for industry. Increased public hearings and additional reviews may grant projects greater credibility, but can add several months to the approval process. There has been an increase in successful agreements with Aboriginal groups, but opposition remains. For example, the Northern Gateway project has the support of the majority of affected Aboriginal groups, but a vocal minority still exists.¹³⁷ It is very difficult to alter the opinions of Aboriginal and environmental activists after years of marginalization and opposition. Continuing to fight the public opinion battle, whether by ad campaigns or covering losses resulting from delays, adds financial pressures for firms waiting to make an FID. Full acceptance of oil and gas projects is impossible to obtain, but this renewed focus on sustainable economic growth could help gradually lower animosity from interest groups.

Falling oil and natural gas prices have continued to threaten the economic viability of energy projects. Even with the introduction of favourable royalties in Canada, today’s low price environment continues to make it very difficult for firms to recover capital costs. Industry players have been postponing FIDs and putting high-risk or low-margin projects on hold. There is also growing competition in the oil and gas export market as countries vie for market share in Asia. These global factors make it difficult for positive FIDs in the short term unless prices can recover and stabilize. Until then, the fate of these proposals remains uncertain. While the Canadian government cannot control these factors, what they can do is continue supporting the industry domestically with financial incentives and guiding the public energy debate. If they continue working towards improving fiscal competitiveness and social credibility, project proponents may be able to better position themselves in the longer-term outlook.

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