



“A new energy conversation”

A speech

by

**Dave McKay
President & Chief Executive Officer**

to the

Edmonton Chamber of Commerce

**Edmonton
September 26, 2016**

EMBARGOED until delivered. Check against delivery

Reflections on Alberta

I too would like to recognize that the land on which we are meeting is Treaty 6 Territory, a traditional meeting ground for many Indigenous peoples.

It is a pleasure to be in Edmonton, and to spend time in Alberta – a province that continues to help define all that is good about Canada.

While we're currently in a downturn in the province, we continue to be impressed by our Alberta clients, big and small, as they show incredible resilience and an entrepreneurial spirit throughout these challenging times.

Just a few months ago, the whole country watched in horror at the Fort McMurray fires, and then in admiration at how the community and province came together, and Canadians rallied behind them.

At RBC we were proud to support Fort McMurray with a \$2 million donation, in addition to the \$5.3 million in sponsorships and donations we've made this year in Alberta.

And personally, I was especially proud of our employees in the region, who, like all Albertans, have a deep-rooted community spirit, and went above and beyond to support their neighbours and colleagues.

Your province is truly a model for collaboration.

I'm impressed with how Albertans are currently helping shape the Canadian conversation about a new energy paradigm.

This new paradigm is what I'd like to discuss today –

- About the importance of oil and gas to Canada;
- About how innovation in products, processes and transportation can help solve our biggest environmental challenges;
- And how we can make production and delivery of cleaner, more efficient energy... Canada's next big project.

Energy and innovation: RBC's view

So, why am I speaking out now on energy and innovation?

Since we're in Edmonton, let's remind ourselves of the Wisdom of Wayne, and focus on where the puck is going...

Canada is at a turning point in energy, driven by lower world oil prices and a renewed global commitment to addressing climate change.

We can use our strengths – human know-how, economic resources, a strong corporate sector – to develop the energy sector of the future, or we can cede that opportunity to others.

The choice is ours. The time is now.

As Canada's largest bank, RBC has a big stake in Canada getting this right. That's why we're a leading member of both Smart Prosperity, a coalition of corporations and non-governmental organizations working on market-minded environmental policies, and the Carbon Pricing Leadership Initiative, an international group of companies focused on carbon emissions.

And we've invested over many decades in Alberta's colleges and universities, because much of the brainpower to help us shape a better future is here in Alberta.

We are also proud of how we have managed our own carbon footprint at RBC – by reducing greenhouse gas emissions from our North American properties by almost 50% since 2009.

As Canada's leading energy bank, for conventional, non-conventional and renewable resources, we have an additional stake in the success of this long-term evolution.

In fact, we can't get to the economy of the future if we don't use all our resources, smartly and sustainably.

Right across the country, we need to be an economy that is known for "clean performance".

And we can't do that without Western Canada, and especially, Alberta.

We're speaking out because Canada will not succeed if Alberta does not succeed, and Alberta will not succeed if its energy sector does not succeed.

The latest GDP numbers show the importance of this sector, and this province. Consider for example, how the disruption caused by price declines and the Fort Mac fire pulled the entire Canadian economy into the red.

Unfortunately, Canadians are polarized more than ever about oil and gas – when we should be focused on how **CLEANLY** we can produce it, how **SAFELY** we can transport it, and how **WISELY** we can consume it.

If we work together, we have a chance to develop a **NEW** approach to carbon efficiency that will benefit every part of the country, and perhaps even provide a model for the world: The Canadian Model.

No other country has the same combination of natural resources, brainpower, democratic integrity and love of land, air and water as Canada. No other country can take the lead quite like we can – and must.

We need a rational and a national conversation, and we need to be mindful of time. While the world may need more Canada, it's not going to wait for more Canada.

What do we see?

So, what do we see at RBC?

First, we see change – whether that is climate change, shifting consumer attitudes or a new regulatory environment.

Canada was at the table last December in Paris for the first-ever global, legally-binding climate agreement.

We know the Paris Agreement will require change. And I believe that we can create change that creates smart prosperity for all Canadians.

Let's remind ourselves, smart prosperity is about smart economics. It would not be smart to simply shut down what we have. And it would be downright foolhardy not to develop the next wave of energy innovation and get it to global markets as fast as we can. This will benefit Canada broadly.

Let's also remind ourselves, the world will continue to use oil and gas for many decades. So will Canada.

Hydrocarbons drive, literally, every part of our lives. The plastics that we use to package medicines and make smart phones. The air conditioning that cools our hospitals. The trucks that carry food to market.

Many of us want to see more renewable energy sources. And it's true, renewables now account for about 10% of global energy production, when we include hydro – impressive, for sure, but it shows how much we still rely on conventional sources to power our world.

We're seeing remarkable technologies being developed, including here in Alberta, which are changing the way we use energy. Canada has the chance to lead through this transition.

But it will take time. Technologies can take decades to develop, and to commercialize. Human behaviour does not change overnight.

Take one example: the electric car. Electric vehicles accounted for less than 1% of the 80-million new cars and light trucks sold last year.

That doesn't mean we should give up. It just means we need to see our energy future in perspective. Oil and gas will remain a major fuel source for transportation for decades to come.

Canada has a clean energy advantage. Renewable sources of electricity currently provide more than 65% of our electricity needs — the highest proportion among G8 countries.

Canada ranks fourth in the world in installed hydro capacity and seventh in wind.

And investment in solar is seeing double digit growth each year.

For all our strength in renewables, we also need to appreciate the strength of our oil and gas sector and how essential it is to our economy – and the 700,000 Canadians who rely on the sector, directly or indirectly, for their jobs.

Oil and gas accounts for 20% of our exports, which as you know are struggling, and supports our dollar at a level most Canadians are comfortable with. And the sector provides an average of \$20 billion a year in public revenue– enough to cover everything our governments spend on universities.

Where's industry at?

What else do we see?

While Canada is debating our oil and gas future, the rest of the world is not sitting idly by.

U.S. domestic oil production has nearly doubled over the last decade, from below five million barrels per day in 2006 to more than nine million today. America has gone from being our biggest customer to our biggest competitor.

Canada, by contrast, is at risk of shutting the door on the resources we will need to manage our evolution as an energy power.

Our oil and gas production is critical to our economy and to government revenue; it **WILL** also be critical to helping finance the sort of innovation we need for a cleaner economy.

To build that production, and continue to make it cleaner, we will need more capital and better access to global markets than we're seeing now.

On the capital side, many firms have little positive cash flow. Therefore, new capital will be needed and that will have to come from both inside and outside Canada.

For that to happen, we must appreciate how the world is changing. Yes, it wants us to have a clear carbon plan, which the country is working on. It also wants our energy sector to be globally competitive, in terms of financial, social and regulatory costs.

It won't be easy for our energy sector. RBC forecasts the price of oil (measured by West Texas Intermediate) to average \$45 (US) in 2016, and rise to \$59 next year, provided the U.S. economy continues to exhibit good rates of growth.

That means our industry is having to learn how to make money at \$50, and so is driving innovation to get there.

Where's government at?

Even with that discipline, capital needs certainty in order to plan. And that means clarity from government.

Alberta is now the only major oil producer in the world with a meaningful carbon price and a cap on emissions. That's big. It sends a strong signal to the world that it wants to be a leader in clean innovation.

We appreciate the provincial government's consultations with industry and decision to cap emissions in a way that rewards innovators over polluters. And the industry's efforts have been world class.

We applaud the efforts of industry to work with government on Alberta's climate plan. We're seeing real leadership for clean growth.

Meanwhile, at the federal level, we're all eagerly awaiting the review of carbon pricing and industry regulation more broadly.

We're hoping Ottawa will continue to voice support for the industry and clean energy exports, while also providing clarity on the decades-long transition that we've embarked on.

The federal government's efforts to keep Canada at the forefront of the global climate change debate is important. It has helped cast Canada and the Canadian industry in a positive light.

And it's important we remind ourselves that our global reputation is as valuable as the assets we have in the ground. Our reputation is critical to both attracting foreign investment and accessing world markets.

The clean electricity agreement that Canada signed with the United States and Mexico in Ottawa this summer might not have been possible without our collective commitment to reducing carbon emissions.

Equally, it needs to be appreciated by Canadians that the commitments we've made as a country to limit carbon emissions must be matched by commitments to the infrastructure our industry needs to get resources to market, sustainably.

As for our industry, we appreciate its desire to pursue clean energy innovations with more determination than ever.

Our energy leaders know that if we're going to thrive in the coming decades, as we have in previous decades, we need to secure the confidence of the public, at home and abroad, and of capital markets, at home and abroad.

We can do that with three commitments:

- A coherent approach to **pricing carbon**
- A world-leading approach to **energy innovation**
- A transparent, respected and effective approach to **infrastructure** that allows businesses, investor and communities right across the country to plan their futures around clean energy, including cleaner oil and gas.

How should carbon pricing look?

So, what should this coherent approach to carbon pricing look like?

First, it's important to understand that much of the world is moving toward pricing carbon. So is Canada, and we need to do it together as a country.

Even though we have a typically Canadian mosaic of carbon taxes and cap-and-trade regimes, we have a chance to bring them together under a national plan that adds clarity, meets our carbon targets and helps Canadian industry become a world leader in technology and innovation, as consumers adjust their habits.

RBC has expressed support for carbon pricing for the past decade, as it's the most cost effective way to reduce emissions and stimulate clean innovation.

Today, as we talk to clients, experts and communities, and as the country moves forward, we'd hope for a carbon pricing regime that:

- **1) has a national floor**, so provinces don't try to undercut each other when it comes to pollution;
- **2) is internationally competitive**, and doesn't undermine Canadian exports of commodities, refined products or manufactured goods;
- **3) has some long-term predictability.**
- **4) is determined by market insights, not politics.** An independent body, for instance, appointed by government, could advise governments on price levels;
- **5) aims to be revenue neutral, and transparent.** The economy can't afford more revenue being transferred from consumers and producers to government. Nor can we afford for a 21st century era of carbon pricing to be layered on top of our 20th century era of social and regional redistribution.

It's important that a carbon price not punish the poorest or most remote parts of the country, just as it's important it not be a tax on productivity. Which is why any new carbon price should be positioned as part of broader tax review, to ensure it doesn't undermine our economic competitiveness – or dampen the public confidence in such a policy.

If we get it right, a carbon price should instill confidence with consumers and investors, and be used to finance our energy evolution.

How can we drive innovation?

I believe that we can be the nation that's economically clever and environmentally conscious.

Our abundance of resources affords us the opportunity of moving to cleaner energy sources that produce less carbon such as natural gas. And we can continue to drive innovation and re-engineer industrial processes to develop even cleaner energy, production and delivery methods.

Fortunately, our resource companies are among the best innovators in Canada, in their own labs and in the partnerships they've developed with Canadian scientists and entrepreneurs.

Take the example of the oil sands. It's a Canadian innovation success story. It took years of research and billions of investment, in a public-private partnership that has benefited people across the country.

We need to apply that same Canadian imagination to the next big challenge – finding technologies to bring down emissions and costs.

Firms like Enbridge, Suncor and TransCanada are all developing leadership positions in renewable energy. So, too, is a new generation of start-ups and fast-growing clean energy enterprises, here in Alberta and across Canada.

Canada's Oil Sands Innovation Alliance, or COSIA, is now a model for the world in how the sector can share environmental innovations for all to share. It's another example of how Alberta is investing in a lower-carbon future – an investment the world needs to recognize more.

Some of our new carbon revenue needs to go to more of such efforts and to pure science labs, many associated with our great universities, who need secure funding and very long time horizons to test promising avenues and ideas.

New revenue from carbon pricing should also be used to support commercialization by the hundreds of Canadian clean tech firms trying to go global.

Already, our clean tech sector boasts nearly 800 companies that employ 55,000 Canadians, on a par with aerospace manufacturing.

The \$11 billion Canadian clean tech industry could be worth double that in the early 2020s.

Yet, we're slipping in our share of the \$1 trillion global market for clean technology.

We need to realize we have fallen to 19th in the world as a clean tech exporter, down from 14, and we're now well behind Mexico, Taiwan and the Netherlands. And we're tiny next to giants like China, Germany and South Korea.

Worldwide, there was \$330 billion of investment last year in clean technology – a third of it in China. We need to become a global destination for clean tech investing, and we need to push our firms to go global with their technologies.

We can do that by playing to our strengths, including what we have right here in Alberta. In any industry, anywhere in the world, innovation tends to happen in or around established sectors. As Natural Resources Canada has noted: "You innovate around the things you're already good at and you already try hard at."

To compete, we need clear, market-oriented support for the sector.

If new funds are to be made available for the clean tech sector, they should be allocated by arms-length expert groups, the way we've done for decades in other fields of science.

Commercial support would be best managed by the excellent organizations we already have in place, such as EDC and BDC, to help get marketable ideas to scale.

And it's important that any public investment in the sector needs to be temporary and targeted. It's then up to markets to decide which technologies are most effective.

In short, government should set the rules, and stay off the ice.

We need to develop a better ecosystem for clean tech companies, and banks have a role to play there.

New financing will be important as firms move into commercialization and global markets. We need to determine how to securitize intangible assets and properly back-stop risk, and we need regulatory clarity for that.

But ultimately, we won't have the resources for those innovations if we don't monetize the natural resources we have now – and that means getting those resources to market, as sustainably as possible.

How can we transport and sell the world's most efficiently-produced oil and gas?

We can't move to a cleaner carbon economy if we're not in the game.

No country is talking about stopping oil production in the near term. That would only leave the world in the hands of oil from Nigeria and Venezuela and Russia.

Canada has huge gas reserves and the world's third largest accumulation of oil assets. We can't squander or shut that down.

Oil comes from the ground. The safest way to transport it is on the ground – through pipelines.

We know how to do it. For generations, we've built pipelines that meet social, environmental and regional concerns.

Thanks to that spirit of cooperation, our pipeline sector contributes \$11.5 billion to our economy, and accounts for 33,800 jobs.

Of course, the Canadian context has changed. Real, meaningful and lasting consultations with First Nations are imperative. Inclusive development is now the Canadian way. Public interest in safety has grown too.

The international context has also changed.

Since 2010, Canada has built no major pipeline.

In that same period, the United States has expanded its total transmission network for oil and gas by 17 per cent.

You are well aware of the cost. Because of market access challenges, Western Canadian oil producers have faced a serious price discrimination that has cost Alberta dearly.

Oil and gas capital expenditure, while at a significant \$30.7 billion in Alberta last year, was half the previous year.

Yet, in the time we've been mulling our options, investors — including Canadian investors — have poured tens of billions of dollars into American oil and gas fields.

Companies like TransCanada and Enbridge have had a difficult time completing large domestic projects, but have been successful in looking south for growth opportunities, making major U.S acquisitions.

Let's remind ourselves that no one — not Americans, not Canadians, not Mexicans, not Chinese — is using less oil and gas as a result of our decisions over pipelines.

And yet, if we can't develop at least some additional pipelines to get our oil and gas to market, Canadians will lose jobs, face a lower dollar and have to find other sectors to tax if we want to cover the costs of health and education, and so much more.

Our ability in the decades ahead to finance innovation, to create the technologies that will power the 21st century and help transform the world to a cleaner economy, depends on our decisions today to get our natural resources to market.

Which pipelines are approved is up to neutral regulatory bodies, and ultimately the federal cabinet. It's important those bodies take in all views, including those voiced by indigenous communities, and for the government to listen.

But it's also important for Canadians to act. If we don't take on the energy infrastructure that we so clearly need, the world will move on, and we would lose our opportunity to help lead the global energy transition.

The choice is ours: We can be a leader in the clean energy revolution, or we can be a spectator.

How can we do this together?

Fortunately, we are a country of builders, with pioneering courage. Alberta would not be all that it is today without its frontier fortitude and the risk-taking spirit we see in so many innovators here.

We're also a country that does things together. Canadians make great neighbours, because we don't need fences to respect each other's backyards. We don't need crises to come to each other's aid. We don't need catastrophe today to do what's right for the world tomorrow.

And while we welcome other voices, we don't need the world to tell us to respect our land or our water or our air. We do that naturally.

That's why only a fraction of Canadians oppose our oil and gas industry, and why the majority of Canadians see the need to get our energy to market.

And to do it right, by doing what's right.

We have a historic opportunity to tap the abundant natural resources we have, and to apply our abundant ingenuity to the energy we will need.

We have the opportunity to make this Canada's project for the 2020s – to lead the world to a lower carbon economy. And to be among those who lead the world in innovation.

It can be innovation based on the resources we've used for decades, and will continue to use for decades more, as we transition to the energy of the future – energy that's good for both the environment and the economy.

I'm convinced Alberta will be at the forefront of this new wave of Canadian innovation. And let me assure you that RBC will be there with you. Supporting our clients, big and small, as you take on the most important industry evolution of our careers.

One that will determine the future for all Canadians, and ensure a healthy and prosperous world for our children and grandchildren.

Let's get on with it!