Intelligence MEMOS

From: Charles DeLand

To: Canadians Concerned about Prosperity

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Re: **What is the Actual Plan? Long-lived Investments Need Consistent Signals**

Russia's Ukraine invasion has grabbed the world's attention and understandably drawn focus to energy security. Despite overwhelming and vocal political support for Ukraine, governments are still only offering mixed signals and shifting goalposts about Canadian investment in energy export projects.

Canada has a "political responsibility" to help European allies become less dependent on Russian energy, according to Finance Minister Chrystia Freeland earlier this month. This follows Natural Resources Minister Jonathan Wilkinson's observation that the fastest way to help Europe reduce its reliance on Russian natural gas is to convert Canada's only existing liquefied natural gas (LNG) import terminal into an export facility. He has also expressed support for a revival of Pieridae Energy Ltd.'s Nova Scotia LNG project.

In contrast, Canada's environment minister does not think Canadian increasing oil and gas exports is the answer given our climate commitments. He has also mused that current high oil and gas profits should be invested in climate action, a decision not for government, but for companies and their boards to make within the regulatory environment.

Canada's lack of LNG export projects today arises from decisions made years ago. A few months of hopeful political noises won't bring them back to life. Large LNG projects take years and, more often decades, to build. Proponents need to scope, evaluate, plan, arrange partners and financing, find buyers and pipelines, gain regulatory approval, and, finally, construct. They spend billions before ever seeing a dollar in revenue. If it becomes impossible to adequately assess the risk of even one of these steps, investment can also become impossible.

The energy system is complex – future demand, supply, and specific emissions outcomes are virtually impossible to predict. Investors generally understand that.

But words matter. Mixed governmental messages that contribute to perceptions of higher political risk through sudden and unexpected policy change. As any first-year finance student knows, greater revenue uncertainty requires more compensation for those taking the investment risk, which inevitably reduces the number of projects that move forward.

It's not only revenue uncertainty that adds cost: LNG projects, with multi-year permitting and construction schedules, and multi-decade operating lives are especially sensitive to the length of time between when spending starts and when revenues begin to flow in. Reducing the time it takes to complete a project drops the financing cost and increases the likelihood of a green light on investment.

As an earlier Intelligence Memo pointed out, energy security and climate action need not be framed as incompatible. Investment generates jobs and wealth upon which Canada relies, that which meets Canadians' expectations to protect the environment, reduce Canada's emissions, and aims to minimize other negative outcomes can generate benefits to Canadians for a long time.

So how can we optimize our chance to attract long-term investment and jobs? First, prioritize stability: long-term investments span many government terms. Project investors are put off when governments switch positions frequently – a consistently articulated position would help.

Secondly, with all project proposals facing the same regulatory and environmental requirements, the final decision should be made by project backers. Ms. Freeland's comments are welcome here: ". . . now is not the time to pick specific projects." While war in Europe explains the focus on East Coast LNG proposals, the West Coast – where Canada's first export terminal is under construction in Kitimat – may make more long-term economic sense. Political voices can be powerful; far better for Ms. Freeland and her federal and provincial colleagues to explain and highlight Canada's advantages to attract investment and let entrepreneurs find and fund the best projects.

Third, strengthening Canadian regulatory institutions' ability to respond to complex regulatory applications with independence and speed would also help. Focus on bureaucratic capacity and consistency. Some may think this boring, but capability is crucial.

Politicians may not want to hear it, but from a long term investor's perspective, governments of all stripes come and go. Sadly, international crises crop up too. Ultimately, private investors must balance expected reward with risk and should expect no guarantees. But to have the best chance possible of attracting investment, Canada must be seen as a stable and reliable partner throughout the ups and downs of business and political cycles. Canadian living standards depend on it.

Charles DeLand is associate director, research at the C.D. Howe Institute.

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