Intelligence MEMOS

From: Benjamin Dachis

To: Canada's Energy Sector

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Re: **WHAT DOES THE US ELECTION MEAN FOR CANADA'S ENERGY SECTOR?**

For Canada's energy sector, the lesson of the US election is to focus on competitiveness.

For Canada's oil sector, there is a widespread expectation that Mr. Trump will approve TransCanada's Keystone XL pipeline. But, Canada's biggest oil customer is now our biggest competitor for producing oil with the rise of shale oil. This is why putting in place the policies that allow for effective, and efficient, reviews of other pipelines that allow Canadian energy producers to serve the rest of the world are still important.

A new pipeline to US markets would open more opportunities in the US market. Good news, right? Canadian oil producers that get their oil on a newly built Keystone XL pipeline will only be able to compete with resurgent US producers if they are cost-effective. That is why Canadian governments should focus on helping make Canada's energy producers cost competitive. That involves action ranging from reducing onerous municipal property taxes on producers, to federal and provincial corporate income tax policy and much more.

The same focus on competitiveness applies to the natural gas sector, which was looking likely to replace coal-fired electricity generation in the US because of President Obama's Clean Power Plan. If you had any doubt that Mr. Trump will reverse that, note that Peabody Energy Corporation, a huge producer of coal, saw its stock price increase by around fifty percent in the immediate aftermath of the election.

Natural gas and other Canadian electricity sources can still displace coal if they are a lower-cost means of generating electricity, even without strict U.S. greenhouse gas (GHG) reduction policies. That means that Canadian companies must produce natural gas, hydroelectricity and other energy in a cost competitive-manner.

The main question that will occupy your time on GHG-reduction polices is to determine how much Canada can do to meet its GHG reduction targets without getting too far out of step with policies in the US. Previous C.D. Howe Institute research has shown that most of the competitiveness concerns about Canada taking action to reduce emissions are vis-à-vis the US. Likewise, linking Canada's emissions reductions policies with the US will reduce the economic cost of meeting our emissions reductions targets.

Although a state-level initiative on introducing a carbon tax in Washington failed, state-led initiatives look to continue. California's role in the Western Climate Initiative cap-and-trade program didn't face any obvious electoral roadblocks on November 8th, even though looming court challenges of the program may yet scuttle it. New state-led policies are likely to emerge with federal inaction on reducing US emissions.

Provinces should still look to the states to lead on emissions reductions policies. Canada's provinces should move ahead with coordinating the various Canadian provincial level policies with an eye towards how to link up with future state-level programs.

The bottom line: Although some may think that the result of the US federal election is good news for Canada's energy sector, Canadian governments should still remove barriers to the competitiveness of Canadian companies in the global and US energy market.

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