CANADA – CHINA

Toward A Strategic Energy Relationship

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Government of Alberta
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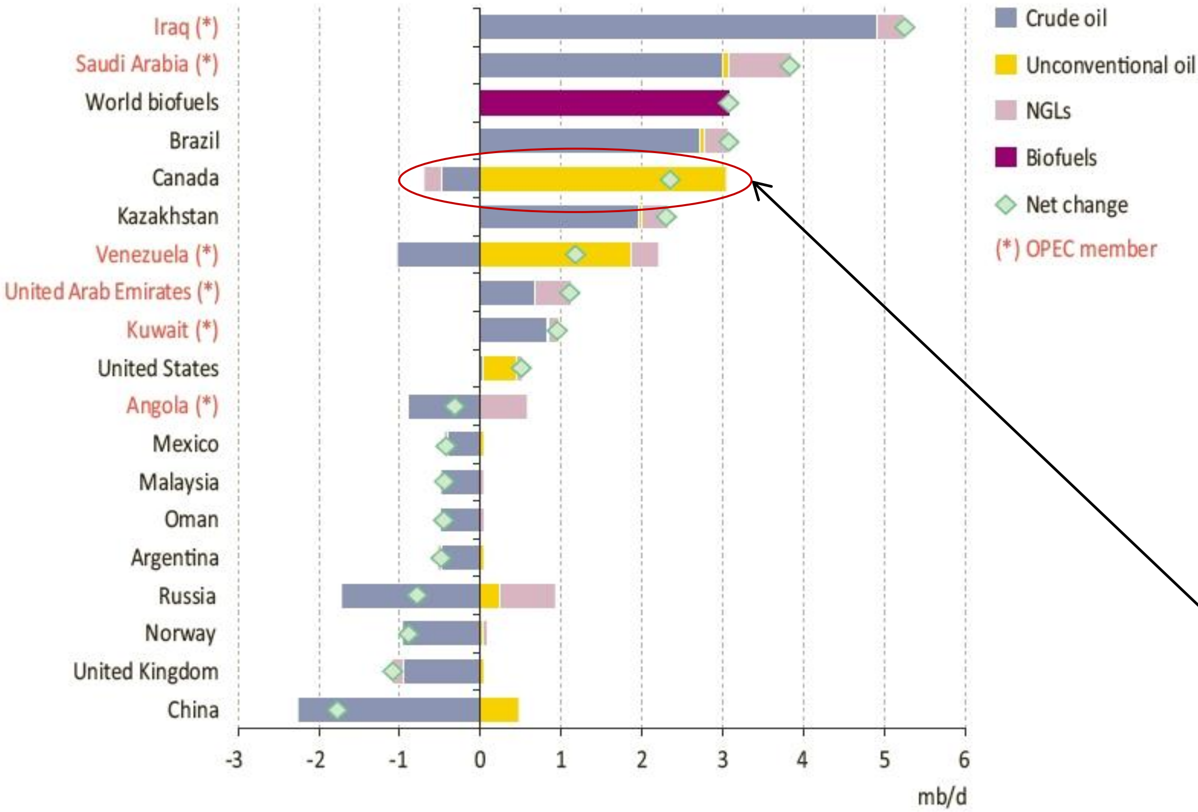
Freedom To Create. Spirit To Achieve.

World Sources of Supply - IEA

Figure 3.17 ● Major changes in liquids supply in the New Policies Scenario, 2010-2035



12. NGLs are added to crude oil when reporting production in volume terms. However, the balance between demand and supply is made on an energy equivalent basis, taking into account the lower energy per unit volume of NGLs compared with crude oil. Additional investment in polymerisation units in refineries is included in the investment projections to enable NGLs to replace crude oil, particularly in producing transport fuels.

- Alberta will be critical to world supply

- Chinese capital will be important to developing our resources

Alberta's oil sands (Canada) is 4th of only 10 major suppliers of new requirements. Incremental production is expected to reach 3 mb/day by 2035.

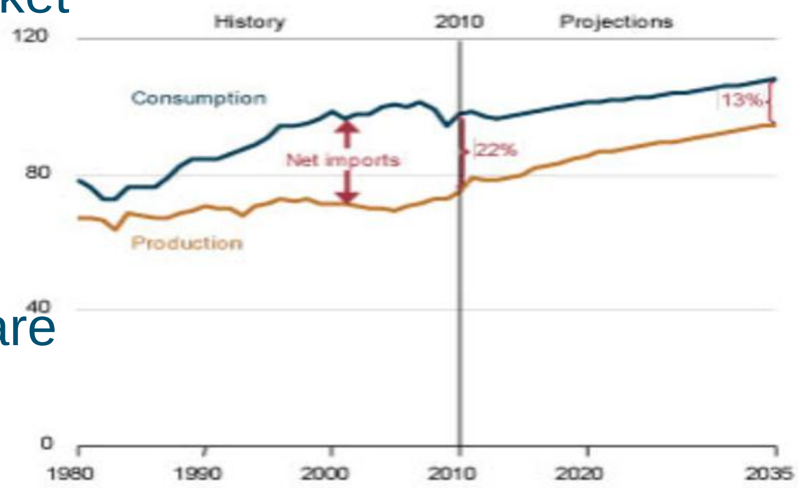
Policy Context – The need to go to Asia

- North America as an "energy island". Brent/WTI differentials reflect price realization challenges and economic incentive to export.

- Alberta/Canada dependent on a single market to the U.S: increased risks (economic, political, environmental)

- U.S. net imports of energy projected to decline both in absolute terms and as a share of total U.S. energy consumption.

- Alberta oilsands production will outstrip N. American pipeline capacity by about 1 mbpd by 2020.



U.S. Net import requirements 1980-2035
(Quadrillion btu)

Canada’s strategic “pivot”

- The U.S. is and always will be Canada’s closest friend and most important trading partner.
- But Keystone XL was a “mindset changer” for Canadians: causing a pivot to Asia in our trade relations
- Prime Minister has aggressively pursued deeper relations with China based on energy and natural resources.
- Agreements:
  - Complementarity study completed with a view to looking at an economic partnership, or even FTA
  - Renewal of the Energy Cooperation Agreement
  - Uranium exports agreement
  - Foreign Investment Protection Agreement
  - Provincial energy and mines agreements: BC on mining, Alberta talks on an energy MOU and energy agenda

Asian Demand – Led by China

Anticipated strong demand growth:

- China's current oil demand (about 8 million barrels/day in 2010) is projected to reach 15 mb/day by 2035.

- Net oil import requirements projected to increase from 5 mb/day in 2010 to about 13 mb/day by 2035.

- **China GDP currently growing at average of 7% annually**
- **Energy demand growing at 18% per annum**
- **Increasingly reliant on oil imports, rising to 70% of total consumption by 2020**
- **China will consume 70% more energy than the U.S. by 2035**
- **China will account for 21% of world energy consumption by 2025**

Examples of Chinese Energy Investments in Canada

2012	
• Petro China acquires the remaining 40% of McKay & Dover	$0.7 billion
• Petro China acquires 20% share in BC shale gas with Shell	$1.0 billion
2011	
• Sinopec buys Daylight Energy	$2.2 billion
• CNOOC acquisition of OPTI	$2.0 billion
• Sinopec joins Northern Gateway investors	$0.1 billion
• CIC invests in Penn West Energy	$1.25 billion
2010	
• CIC acquires 45% in Peace River	$0.7 billion
• Sinopec acquires 9% of Syncrude	$4.7 billion
2009	
• Petro China acquires 60% of McKay & Dover	$1.9 billion

China has invested approximately $20 billion in Canada's energy sector over the past 5 years. The Chinese three big national oil companies (Petro China, Sinopec, and CNOOC) have all made investments in Alberta.

Chinese Investment Impact

- PM's visit on March 2012 marked a turning point in bilateral relations
- Provided needed capital to proceed with major development
- Calgary offices set up by Chinese SOEs and private firms
- Joint efforts on training (CNPC-Alberta Petroleum Centre)
- Public perceptions
- All Chinese firms play by Canadian and Alberta rules and regulations
- More and larger investment deals anticipated
- Alberta Premier Redford to Beijing in June
- The real challenges and opportunities lie ahead
  as the China relationship evolves

Federal Government- Foreign Investment Review

- Currently, Any foreign takeover of $330 million evaluated for “net benefit” to Canada.
- Federal government can require non-Canadian buyers to guarantee investment and job levels in Canada as part of the approval process.
- Canada’s Industry Minister announced that the government is gradually raising the threshold for reviewing foreign corporate takeovers to $1 billion over four years
- The investment review threshold is expected to rise later this from $330 million in asset value to $600 million in enterprise value.
- After two years, it will increase to $800 million for two years, and then to $1 billion.

Motivation for Chinese investment…

- Chinese internal demand strong, increasingly reliant on energy imports, national security/self sufficiency
- Diversifying abroad provides a hedge on risk (Middle East, diversified portfolio, etc)
- North America is a politically stable region, relatively low political risk
- Opportunity to invest in a region where assets are available for sale
- Regulatory systems are relatively clear and transparent
- North American energy companies have advanced technologies
- Chinese NOC's have lower financing costs, NPV of investments in Canada are attractive
- For petrochemical producers opportunity to integrate upstream and lock in stable reliable feedstock supplies (esp. gas)
- Canada/North America as a platform for their global business

Challenges to an enhanced relationship

- Infrastructure: pipelines, port facilities and rail
- Social license (stakeholder, community, aboriginal issues)
- Reputational issues (dealing with ENGO advocacy campaigns)
- Environmental improvements/ Climate change policy
- Benefits and risks of development and who bears them
- Capturing value-added opportunities (eg. petrochemical/agro-chemical)
- Canadian public support
- Information and awareness
- Canadian Energy Strategy

Challenges to an enhanced relationship

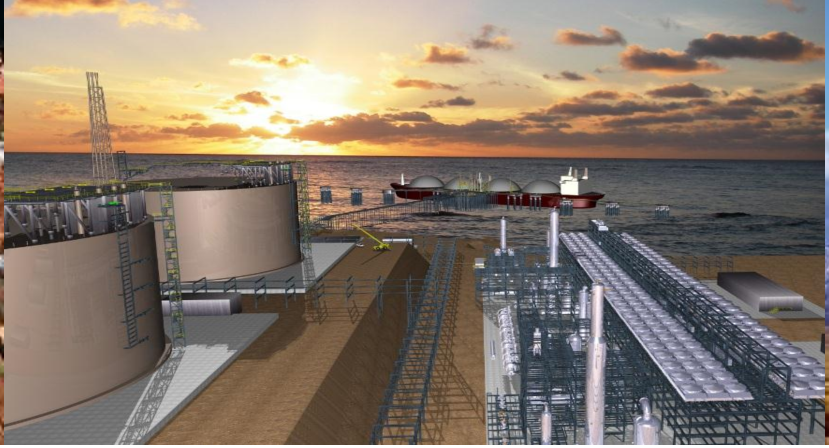
- On the China side:
  - Reciprocity - Canadian participation and non-discrimination in China’s energy and resources sector
  - Tariff and non-tariff barriers for manufactured products
  - Transparency and regulatory hurdles

Strategic considerations

- What are our long-term interests in an enhanced energy relationship with China?
- What specific outcomes and goals do we want to set?
- Are there any “red-line” issues?
- What implementing mechanisms should we employ?
- Federal-Provincial cooperation and roles
- How will a stronger energy relationship with China affect our relationship with the U.S.? With Japan, S. Korea and other countries?
- How to leverage a stronger relationship with China to achieve broader goals? (ie: agriculture, tourism, technology, environmental health, forest products, etc)
- Partnerships in third countries on energy and environment

Strategic Engagement with Asia – an energy agenda

- Expanded energy trade and investment (bilateral)
- Regulatory issues and concerns
- Energy technology development, R&D cooperation
- Environmental management and technology development
- Energy efficiency, renewable energy development
- Investment in upgrading, refining or infrastructure
- Cooperation on meeting GHG mitigation goals
- Building First Nations, community and public support
- Promoting corporate social responsibility (CSR)
- Labor market issues and agreements


Thank You

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