Post-Election 2019: Impacts on Canada's Energy Industry

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The results of the Canadian federal election were as predicted: a parliamentary minority led by Justin Trudeau's Liberals. The Liberals have a strong working minority and rather than a formal coalition, they plan to govern on an ad hoc basis. This means passing legislation by finding the magic number of votes by combining with one of the other four parties: the Official Opposition Conservatives; the left-leaning New Democratic Party (or NDP); the Québec-focused Bloc Québécois (or the Bloc); and the Green Party (or the Greens). While this is not an entirely stable situation, Canada has had numerous minority governments, including most recently one led by Stephen Harper's Conservatives. Therefore, Canada watchers should feel relatively confident that the policies under a Liberal minority will not be radical or outlandish, as the government could easily be toppled with a vote of non-confidence which would mean a new election. This is not to say that there aren't hard feelings and anger roiling around on social media, but the Canadian experience is that a minority government can lead to incremental policy changes rather than seismic shifts.

Below we have described how we believe the election results may affect key parts of Canada's energy industry, especially with respect to how investors from outside Canada should view the next number of months.

The Trans Mountain Pipeline Expansion: Same As It Ever Was

Canada's ownership of the Trans Mountain Pipeline that transports crude from Alberta to tidewater on the West Coast, including its proposed multi-billion dollar expansion, is sure to remain a political football to be kicked around Ottawa. With a minority government, however, it's hard to be certain which direction that ball will roll. Despite taking it on the chin from all sides of the pipeline debate in the election campaign, the Liberals remained steadfast in its position that Trans Mountain will be built, with any profits reinvested in the environment.

The NDP and Greens are strongly opposed to the project, and the Bloc, like Québec, has stated its opposition to pipelines generally in Québec, though not in the rest of Canada. The Liberals will, of course, find support for Trans Mountain from the

Conservative Party, but that might be support of last resort given the bitter rivalry that exists between these two main political parties.

The energy industry is concerned that Liberal support for Trans Mountain will wane as it tries to appease the NDP or the Bloc to remain in power. However, the decision by the federal government to buy Trans Mountain from Kinder Morgan for $4.5 billion is in the rear-view mirror. In addition, much of the pipe for the expansion project has been purchased, and some construction has started and can continue without the need for any new pipeline-specific legislation. Indigenous community support, conditioned on at least partial ownership in the pipeline, has also been growing. Killing the expansion would also further alienate Alberta and Saskatchewan, raising national unity issues we can all do without, and chilling further international investors that have invested tens of billions of dollars in Alberta's oil sands and are now having trouble getting product to market.

For all those reasons, our crystal ball says that a minority Liberal government will not kill Trans Mountain. Instead, look for a deal to be done quickly with Indigenous groups to bring them into the Trans Mountain ownership tent. Also, the Liberal Party has always maintained that it was a buyer of last resort for Trans Mountain, and that, once de-risked, Trans Mountain would be sold back to the private sector, potentially at a profit. The energy industry completely agrees, so look for that sale to occur before the next election – an election that is likely to occur a little sooner than might have been the case if we had a Liberal majority government.

Natural Gas: 100 Miles of Bad Road

The natural gas business continues to be the victim of low North American commodity prices, and with LNG export of scale still a few years away, natural gas producers continue to struggle. Some had managed to offset low gas prices with higher natural gas liquids prices (such as butane), but these prices have also plummeted in the last few months. We also expect there to be more insolvencies of natural gas-weighted producers if low gas prices continue.

However, the federal government seems to have left the natural gas business alone, and during the election campaign there did not seem to be the trenchant opposition from the left-leaning parties to natural gas that there was to oil or bitumen. Therefore, in the short term, we expect that there will be opportunities to acquire prospective natural gas assets at very attractive prices for buyers that can hold the assets, and take advantage of LNG export when the proposed liquefaction comes on stream.

Carbon Taxes: Here to Stay?

Prior to the October 21, 2019 federal election, Justin Trudeau's Liberal majority government implemented a federal carbon-pricing program in provinces that don't have equivalent pricing or cap-and-trade regimes, and compensates individual Canadians with rebates. During the campaign, each of the major parties differed widely on greenhouse gas (or GHG) reduction targets, and the means of achieving them. The Liberals promoted the continuation of their federal carbon-pricing program and pledged to keep raising the per-tonne federal carbon price from $20 to $50 by 2022 (although the 2030 targets in the Paris Accord are still not expected to be achieved by this program).

In contrast, the Conservatives opposed carbon pricing and proposed tax incentives, levies on large polluters and spending on carbon capture technology. At the other end of the spectrum, the Greens proposed to double GHG reduction targets, and raise the carbon tax by $10 each year to $130/tonne in 2030.

The new Liberal minority government should expect to see general support for its existing federal carbon pricing program from the NDP, although the NDP is more likely to favour cuts to rebates to wealthy individuals and more tax burden on the oil and gas industry. We anticipate, therefore, that the minority Liberals and the NDP (perhaps with others) will cooperate on the federal carbon pricing program, and that carbon pricing will remain a key government policy (subject to any legal challenges regarding jurisdiction) in the minority Liberal government.

Consequently, we expect that Canada's oil and gas players will continue to design their own solutions, such as investing in technologies, as a means of addressing the increasing costs associated with GHG emissions, rather than rely on tax incentives, government spending, or a consensus solution. We have seen evidence of this in recent months, and expect the trend to continue. For example, Suncor Energy recently announced a $1.4 billion investment to replace coke-fired boilers with natural gas fired cogeneration units at its oil sands project in Fort McMurray which will reduce the GHG emissions associated with steam production at the oil sands project by 25% and generate 800 MW of power. Similarly, the Shell Canada operated Quest carbon capture and storage facility announced it had safely stored 4 million tonnes of CO_2 in its first four years of operation. While a minority Liberal government may incentivize GHG reduction with a carbon tax, we anticipate oil and gas industry players will continue to invest in and create bespoke solutions to achieve GHG reductions and avoid carbon costs. It is very encouraging that they continue to make these investments without being forced to do so.

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