

Statement

Minister for
International
Trade



Discours

Ministre du
Commerce
extérieur

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CHECK AGAINST DELIVERY

NOTES FOR AN ADDRESS

BY THE MINISTER FOR INTERNATIONAL TRADE,

JOHN C. CROSBIE

TO THE OFFSHORE TECHNOLOGY CONFERENCE

HOUSTON, TEXAS

May 1, 1989.

LADIES AND GENTLEMEN:

IT GIVES ME GREAT PLEASURE TO BE ABLE TO PARTICIPATE IN THIS CONFERENCE. THANK YOU FOR INVITING ME. IT IS AN EXCELLENT OPPORTUNITY TO PROVIDE AN UPDATE ON THE STATUS OF OUR OFFSHORE ENERGY DEVELOPMENTS AND TO EXPLAIN OUR ENERGY AND ECONOMIC STRATEGY FOR THE 1990'S -- A STRATEGY WHICH I BELIEVE WILL ENSURE THAT CANADA REMAINS A GOOD PLACE TO INVEST.

IT STRUCK ME, WHILE PREPARING THESE REMARKS, THAT MY PERSPECTIVE ON OFFSHORE ENERGY DEVELOPMENT HAS BEEN SHAPED BY MY EXPERIENCE IN 3 SEPARATE ROLES WHICH I HAVE PERFORMED DURING MY POLITICAL CAREER.

AS A REPRESENTATIVE OF THE PROVINCE OF NEWFOUNDLAND, I AM OBVIOUSLY WELL AWARE OF THE POTENTIAL ECONOMIC SPIN-OFFS ONSHORE WHICH WILL COME WITH THE EVENTUAL DEVELOPMENT OF OUR OFFSHORE OIL.

AS CANADA'S CURRENT MINISTER OF INTERNATIONAL TRADE, I UNDERSTAND THAT SECURE ACCESS TO THE AMERICAN MARKET IS VITAL TO THE ECONOMIC VIABILITY OF SUCH HUGE PROJECTS, JUST AS MARKET ACCESS ALLOWS FOR THE DEVELOPMENT OF ECONOMIES OF SCALE IN CANADA'S MANUFACTURING SECTOR.

AND AS A FORMER CANADIAN FINANCE MINISTER, I AM NOT ONLY AWARE OF THE CRITICAL ROLE OF ENERGY INVESTMENT IN CANADIAN BUSINESS SPENDING, AND THE IMPORTANCE OF ENERGY EXPORTS TO OUR NATIONAL BALANCE OF PAYMENTS, I ALSO UNDERSTAND THAT ULTIMATELY, IT IS THE COST OF CAPITAL, AS MUCH AS THE PRICE OF OIL, WHICH DETERMINES PROJECT VIABILITY. AND NOTHING IS MORE IMPORTANT TO THE LONG-TERM COST OF CAPITAL, NOR A GREATER CAUSE OF UNCERTAINTY, THAN THE SCOURGE OF INFLATION.

SINCE 1984, WHEN MY COLLEAGUES AND I FIRST TOOK OFFICE, WE HAVE SOUGHT TO CREATE A POSITIVE AND STABLE CLIMATE FOR CAPITAL INVESTMENT IN CANADA.

WE DISMANTLED THE NATIONAL ENERGY PROGRAM -- A SELF-INFLICTED WOUND WHICH CAUSED A DAMAGING CAPITAL OUTFLOW FROM OUR COUNTRY.

WE CREATED INVESTMENT CANADA, TO ENCOURAGE JOB-CREATING CAPITAL INVESTMENT.

WE COMMENCED A DEFICIT REDUCTION STRATEGY TO START CANADA ON THE WAY BACK FROM FISCAL INSANITY.

AND WE NEGOTIATED AN HISTORIC FREE TRADE AGREEMENT WITH THE UNITED STATES TO SECURE BETTER ACCESS TO A WORLD-SCALE MARKET FOR CANADIAN PRODUCTION.

AS SOME OF YOU MAY KNOW, THE CANADA-U.S. TRADE AGREEMENT DOMINATED OUR NATIONAL ELECTION LAST FALL. IT WAS AN ELECTION WHERE OUR OPPONENTS CATERED TO THE EMOTIONS AND LATENT FEARS OF THE ELECTORATE.

TAKE, FOR EXAMPLE, THE EXAGGERATION ABOUT THE ENERGY TRADE TERMS - THE ARRANGEMENTS WHICH OUR OPPONENTS LABELLED A "SELL OUT OF CANADIAN RESOURCES." THOSE ARRANGEMENTS, IN FACT, WERE TOTALLY CONSISTENT WITH OUR 40 YEAR OLD GATT OBLIGATION TO SHARE RESOURCES IN PERIODS OF SHORT SUPPLY, PLUS OUR DECADE-OLD OBLIGATION THROUGH THE INTERNATIONAL ENERGY AGENCY. NOT ONLY THAT, BUT THE RESOURCE PRICING COMMITMENTS ACTUALLY REFLECT THE GATT NEGOTIATING POSITION OF OUR PREDECESSORS DURING THE 1970'S -- THE SAME POLITICAL PARTY WHICH LED THE ANTI-FREE TRADE CHARGE. THERE WAS, TO PUT IT MILDLY, A REMARKABLE GAP BETWEEN PERCEPTION AND REALITY.

TO THEIR CREDIT, THE CANADIAN PEOPLE KEPT THEIR HEADS WHEN ALL ABOUT THEM, OUR OPPONENTS WERE LOSING THEIRS. THE ELECTION RESULT WAS NOT JUST A VICTORY FOR PRIME MINISTER MULRONEY AND MY PARTY. IT WAS A VICTORY FOR COMMON SENSE.

BUT NOW, IN 1989, WE FACE A NEW SET OF ECONOMIC AND SOCIAL CHALLENGES AS WE COMMENCE OUR SECOND TERM. PART OF THAT CHALLENGE IS THE LONG OVERDUE REFORM OF OUR FEDERAL SALES TAX -- AN ANTIQUATED TAX WHICH RAISES THE COST OF INVESTMENT AND HINDERS EXPORTS. BUT NO CHALLENGE IS GREATER THAN TO SECURE OUR LONG-TERM FINANCIAL STABILITY BY CONTINUING OUR BATTLE TO CORRECT CANADA'S FISCAL IMBALANCE.

AS CANADA-WATCHERS KNOW, THE CANADIAN ECONOMY GREW FASTER THAN ANYONE HAD ANTICIPATED IN 1988, CREATING UPWARD PRESSURE ON INFLATION, WHICH CAUSED INTEREST RATES TO RISE.

RIISING INTEREST RATES IN TURN CAUSED RISING DEBT SERVICE CHARGES ON THE PUBLIC DEBT -- DEBT SERVICE CHARGES WHICH THREATENED TO UNDO MUCH OF THE PROGRESS WE HAVE MADE SINCE 1984 IF LEFT UNCHECKED.

MY COLLEAGUES AND I DETERMINED THAT SUCH A FUTURE WAS SIMPLY UNACCEPTABLE. DECISIVE ACTION TO REDUCE OUR ANNUAL DEFICIT WAS CLEARLY ESSENTIAL TO SECURE LONG-TERM FINANCIAL STABILITY AND ECONOMIC GROWTH. AND WE HAVE ACTED.

AS A RESULT OF THE COMING EXPENDITURE CUTS AND TAX INCREASES ANNOUNCED LAST WEEK, CANADIAN FINANCIAL REQUIREMENTS -- WHAT THE U.S. CALLS THE TOTAL UNIFIED BUDGET DEFICIT -- SHOULD BE IN BALANCE BY 1993-94 -- THE LOWEST LEVEL SINCE 1969. THIS COMPARES TO FINANCIAL REQUIREMENTS WHICH EQUALLED 6.7% OF OUR GROSS DOMESTIC PRODUCT WHEN WE TOOK OFFICE IN 1984. AND WHAT WE CALL THE BUDGETARY DEFICIT WILL BE CUT IN HALF BY THE SAME DATE.

OBVIOUSLY, SUCH A MULTI-YEAR PLAN IS SUBJECT TO CONSIDERABLE UNCERTAINTY -- WITNESS THE UNEXPECTED PRICE SWINGS IN GRAIN AND OIL SINCE 1986. BUT I BELIEVE WE HAVE A TRACK RECORD OF STAYING THE COURSE, DESPITE SUCH UNEXPECTED DEVELOPMENTS. WE HAVE CUT FINANCIAL REQUIREMENTS IN HALF SINCE 1984 -- FROM OVER 6 TO 3 PER CENT -- AND WE INTEND TO DUPLICATE THAT PERFORMANCE, COME HELL OR HIGH WATER. IT SIMPLY MUST BE DONE TO ENSURE A FUTURE OF LOW INFLATION, LOW INTEREST RATES AND SUSTAINED GROWTH.

HOWEVER, IT IS AN UNAVOIDABLE FACT OF LIFE IN THIS INTERDEPENDENT WORLD THAT CANADIAN FISCAL ACTIONS CAN ONLY LOWER CANADIAN INTEREST RATES SO FAR. AS YOU KNOW, INTEREST RATE LEVELS -- IN CANADA, THE U.K., GERMANY, JAPAN AND ELSEWHERE -- ALL DEPEND TO SOME EXTENT ON ACTIONS IN WASHINGTON -- AND VICE VERSA. OUR FUTURES ARE INTERTWINED. ALL THE MAJOR INDUSTRIALIZED COUNTRIES MUST ENSURE AN APPROPRIATE BALANCE OF MONETARY AND FISCAL POLICIES TO SECURE SUSTAINED, NON-INFLATIONARY GROWTH.

AND IF WE ALL PLAY OUR PART, I TRULY BELIEVE THAT THE STAGE WILL BE SET FOR A FURTHER PERIOD OF EXPANSION IN BOTH OUR COUNTRIES, WITH LOWER INTEREST RATES, EXCHANGE RATES THAT WILL ASSIST OUR BALANCE OF PAYMENTS, A HEALTHY INCREASE IN OUR SAVINGS RATES, AN EXPANSION OF OUR PRODUCTIVE CAPACITY AND A MORE STABLE PLANNING ENVIRONMENT FOR LARGE CAPITAL PROJECTS, SUCH AS OFFSHORE DEVELOPMENTS.

IN SUCH A FUTURE, OUR CANADIAN OIL AND GAS INDUSTRY HOLDS GREAT PROMISE.

TODAY, MANY OF OUR COMPANIES ARE NOW MORE EFFICIENT IN THEIR OPERATIONS. THE COMPETITIVENESS OF OUR INDUSTRY HAS BEEN RESTORED. AND, AS YOU KNOW, SOME PROMISING OPPORTUNITIES LIE IN OUR VAST FRONTIER REGIONS, BOTH IN THE BEAUFORT SEA AND ON THE GRAND BANKS.

IT WILL COME AS NO SURPRISE THAT I AM PARTICULARLY INTERESTED IN HIBERNIA.

IN JULY 1988, THE GOVERNMENTS OF CANADA AND NEWFOUNDLAND SIGNED A 'STATEMENT OF PRINCIPLES' WITH THE HIBERNIA CONSORTIUM (LED BY MOBIL) TO PROCEED WITH THE DEVELOPMENT OF THE OILFIELD. THE TENDERING PROCESS TO SECURE CONTRACTORS FOR THE PROJECT IS WELL UNDERWAY. ONGOING NEGOTIATIONS ARE NOW PROCEEDING TO COMPLETE THE LEGALLY BINDING AGREEMENT BY THIS FALL.

THE VAST HIBERNIA OIL FIELD WILL ADD AN AVERAGE OF 110,000 BARRELS A DAY TO CANADA'S LIGHT OIL OUTPUT. IN ORDER TO BRING THIS PROJECT INTO PRODUCT, \$5.2 BILLION WILL BE INVESTED OVER A PERIOD OF SIX YEARS. A GRAVITY-BASED STRUCTURE, REQUIRING CLOSE TO 500,000 TONNES OF HIGH QUALITY CONCRETE, WILL BE BUILT TO REST ON THE SEAFLOOR. THE PLATFORM WILL EXTEND ABOVE SEA LEVEL, PROVIDING A STABLE BASE FOR DRILLING. FOR PRODUCTION OPERATIONS AND FOR STORAGE OF UP TO 1.5 MILLION BARRELS OF OIL. IN ADDITION, THE STRUCTURE WILL BE DESIGNED TO WITHSTAND ALL ENVIRONMENTAL FACTORS, INCLUDING STRAY ICEBERGS.

HIBERNIA WILL MAKE A MAJOR CONTRIBUTION TOWARDS A REGIONAL SOURCE OF SUPPLY OF OIL IN ATLANTIC CANADA WHERE DEMAND IN THE 1990s IS EXPECTED TO REACH 200,000 BARRELS A DAY. THE PROJECT WILL ALSO GENERATE SIGNIFICANT BUSINESS OPPORTUNITIES FOR HUNDREDS OF COMPANIES IN NEWFOUNDLAND AND OTHER PARTS OF CANADA. FINALLY, AND PERHAPS MOST IMPORTANT, HIBERNIA WILL PAVE THE WAY FOR THE DEVELOPMENT OF A NUMBER OF OTHER OIL AND GAS PROSPECTS OFF THE EAST COAST, INCLUDING TERRA NOVA, WITH POTENTIAL RESERVES OF AS MUCH AS 400 MILLION BARRELS OF OIL.

AS I HAVE ALREADY STATED, ONE OF THE KEY CRITERION WHICH INFLUENCES THE DEVELOPMENT OF SUCH MAJOR PETROLEUM RESOURCES IS THEIR

ATTRACTIVENESS AS AN INVESTMENT OPPORTUNITY. IN THIS REGARD, WE WILL ENSURE THAT OUR OFFSHORE FISCAL REGIME IS COMPETITIVE. AND OUR DEPARTMENT OF ENERGY, MINES AND RESOURCES HAS BEEN CLOSELY MONITORING THE COMPETITIVENESS OF OUR OFFSHORE FISCAL REGIME IN COMPARISON TO OTHER COUNTRIES SUCH AS THE UNITED KINGDOM, NORWAY, AUSTRALIA, INDONESIA AND THE UNITED STATES.

SINCE EACH COUNTRY TENDS TO DESIGN ITS FISCAL REGIME TO FIT THE CHARACTERISTICS OF ITS RESOURCE BASE, INTERNATIONAL COMPARISONS MUST BE INTERPRETED CAUTIOUSLY. HOWEVER, OUR STUDIES INDICATE THAT WHEN THE DIFFERENT FISCAL SYSTEMS ARE APPLIED TO TYPICAL CANADIAN OFFSHORE PROSPECTS, CANADA'S FISCAL REGIME IS COMPETITIVE ON AN INTERNATIONAL BASIS. IT WILL REMAIN SO, BOTH IN ATLANTIC CANADA AND THE NORTH.

TODAY, I'VE FOCUSED ON THE LINK BETWEEN FISCAL POLICY, MONETARY POLICY AND CAPITAL INVESTMENT, PARTICULARLY ENERGY INVESTMENT. I BELIEVE THE ECONOMIC CASE FOR DEFICIT REDUCTION IS OVERWHELMING, BOTH IN CANADA AND THE UNITED STATES. AND I WOULD SUGGEST THAT THE POLITICAL CASE IS EQUALLY STRONG.

BECAUSE IF CANADIAN AND AMERICAN VOTERS DON'T LIKE AN OUNCE OF PREVENTION IN 1989, THEY SURE WON'T LIKE A POUND OF CURE IN 1992.

SO THAT IS THE CURRENT SITUATION IN CANADA; AND THE STATUS OF OUR OFFSHORE OIL DEVELOPMENTS. WHEN YOU HEAR THE SQUEALS UP NORTH, UNDERSTAND IT IS THE SOUND OF THE RUBBER HITTING THE ROAD. AND WE ARE DETERMINED TO STEER A COURSE TOWARDS LOWER INFLATION AND LOWER INTEREST RATES, SO THAT POTENTIAL INVESTORS, WHETHER IN ENERGY PROJECTS OR ELSEWHERE, WHETHER CANADIAN OR FOREIGN, CAN PLAN WITH CONFIDENCE, KNOWING THAT THE GOVERNMENT OF CANADA IS CONSCIOUS OF ITS RESPONSIBILITIES TO FUTURE GENERATIONS AND WILL ACT, WHENEVER NECESSARY, TO SECURE THE LONG-TERM INTERESTS OF THE COUNTRY.

IN 1989, CANADA IS A GOOD PLACE TO INVEST. I CAN ASSURE YOU, WE INTEND TO KEEP IT THAT WAY.