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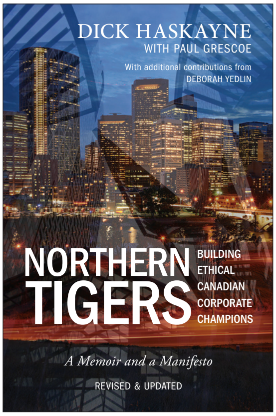

NORTHERN TIGERS: Building Ethical Canadian Corporate Champions

Dick Haskayne with Paul Grescoe

With additional contributions from Deborah Yedlin

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FOREWORD

IT HAS BEEN 10 YEARS SINCE THIS BOOK was first published, a period in which there have been a number of what could be defined as tectonic events that have had significant impacts on the global economy. Canadian companies have not been immune to the aftershocks of these events.

A number of those companies were prominent in the first edition and continue to be important parts of the Canadian corporate landscape as they have taken advantage of growth opportunities that have arisen in the last decade. Others, such as Encana, have changed direction and strategy.

This revised edition highlights the emergence of new Canadian Northern Tigers, while also acknowledging those companies that were important global players but have lost that stature or disappeared entirely.

Dick Haskayne, sitting in his Calgary living room on a hot July afternoon, sums it up in this way:

"I think it's important for Canadians—whether students or veterans of the business community—to understand what elements have played a role in creating and growing these companies. And I say that from both a positive and negative perspective: the things that have worked and others that have not."

As someone who has been in the thick of the development of Canada's natural resource sector and the evolution of corporate

Canada—whether in senior management or as a corporate director—for the better part of 50 years, Haskayne believes there is an under-appreciation of the importance and impact of the energy sector across the country and on the Canadian economy.

Canada's energy sector is responsible for about 20 per cent of the country's gross domestic product, 660,000 jobs across the country, with the industry paying an average $15 billion per year through taxes and royalties to local, provincial and federal governments between 2013 and 2016. And that doesn't account for the sector's substantial contribution to the local communities in which it operates.

That's why, when the oil price collapsed in 2014, it wasn't just Alberta that suffered the consequences. Oilpatch jobs, estimated at 110,000 from coast to coast, evaporated alongside the massive drop in capital expenditures, and the impact was felt across the country. The $81 billion invested by the energy sector in 2014 fell to $31 billion in 2016, accompanied by a drop in business confidence across the country. Investors in Canada and around the globe were affected, too, as the value of Canada's publicly-traded energy companies fell by more than $230 billion.

IN 2014, THE CANADIAN ASSOCIATION OF PETROLEUM PRODUCERS forecast oil production would reach 6.4 million barrels a day by 2030, with 4.8 mmbbls/d coming from the oil sands. In June 2017, CAPP estimated production in 2030 would reach 5.1 mmbbls/d, with 3.7 mmbbls/d coming from the oil sands. That's a big downward shift.

The slow recovery in prices—they hit a record high of $147.27/barrel (U.S.) in July 2008—and were as low as $26.55/bbl in January 2016—has caused a number of foreign energy companies to withdraw from Canada. At the time of writing, these include Norway's Statoil, Marathon Oil, ConocoPhillips and Royal Dutch Shell, and there is speculation that it's only a matter of time before France's Total S.A. follows suit.

If there is one phrase that has been uttered in Canada about the downturn in the energy sector it is that 'this time is different.'

It sure is.

In addition to the decision by the Organization of Petroleum Exporting Countries, led by Saudi Arabia, to no longer manage supply, the energy sector in North America has moved from a state of energy scarcity, which was still a concern when the first edition of this book was published, to one of energy abundance.

The biggest reason for this has been the use of technology that has unlocked vast reserves from tight oil and natural gas reservoirs in the U.S., with the result that not only is the U.S. set to reach oil production of 10 million barrels a day by 2018, it has also become Canada's biggest competitor, in addition to being its largest consumer.

This has increased the urgency for Canada to build infrastructure that opens new markets for both oil and gas development—but the last decade has been characterized by a lack of progress and increased opposition to any type of energy-related infrastructure development by non-governmental organizations, Indigenous Peoples and even certain municipalities and provinces.

This is not just about oil and oil sands development.

It includes natural gas, and more specifically the lack of progress in the development of liquefied natural gas projects that would facilitate the export of natural gas to developing countries in Asia that are continuing to both industrialize and urbanize, as well as decrease their dependence on coal fired electricity. Canada's LNG prospects were dealt another setback on July 25, 2017, when Malaysia's Petronas—along with its four partners—announced it was abandoning plans for the $11.4 billion Pacific Northwest LNG project.

As a way to address this opposition and win approval for pipeline projects, in late 2015 the Alberta government instituted a broadly-based carbon tax, as well as a cap on greenhouse gas emissions associated with oil sands development.

The federal government has taken it one step further—also introducing its plans for carbon pricing as well as a comprehensive, marine spill management program in order to allay concerns over increased shipping of oil and liquefied natural gas from the coast of British Columbia.

It seems Canada can't 'get out of its own way' to build the infrastructure needed to capture the full value of its natural resource bounty. The importance of both political and industry leadership is more important than ever.

In addition to the transition from energy scarcity to energy abundance in the last decade, another event had an impact on the global economy, and Canada was not immune.

The financial crisis in 2008 that plunged the world into a global recession was triggered by several factors, including the subprime lending practices of U.S. banks and complex financial engineering by investment banking firms that ultimately led to the collapse of the storied investment firm, Lehman Brothers. That event caused a liquidity crisis, which pushed central banks around the world to pursue policies of massive monetary and fiscal stimulus in order to stave off a 1920s style Depression.

The Canadian economy, thanks in large part to the fiscal prudence and strength of the banking system, was not as affected—the recession officially lasted eight months, September 2008 to May 2009 with none of the banks requiring a government bailout—compared with other parts of the world that were only starting to see stronger economic growth in 2017.

If the first edition of the book highlighted events in Canadian corporate history, illustrating the disappearance of companies that were once beacons of Canada's business community, this update seeks to highlight a number of companies that have made the leap to become Canadian global champions.

It also looks at two companies that had the potential to be—and were for a time—global players in the technology world; when the first edition went to print, Nortel Networks was still in operation and Research in Motion had recently become the most valuable company measured by market value on the Toronto Stock Exchange.

But as Canada has weathered both the financial crisis and is emerging from a recession caused by the collapse in oil and natural gas prices, opportunities have presented themselves for companies that have adhered to principles of sound corporate governance and capital discipline. The result is that Canada has a new crop of global corporate champions, or Northern Tigers, to be proud of. And they don’t show any signs of slowing down.