

A Boon to Alberta's Natural Gas Sector: Canada & South Korea Reach Historic Free Trade Agreement

On March 11, 2014, in Seoul, South Korea, Prime Minister Stephen Harper and President Park Geun-hye of South Korea announced that the two countries had concluded negotiations on the Canada-South Korea Free Trade Agreement (CKFTA).

Background & Significance

The CKFTA is Canada's first free trade agreement in Asia and will serve as a gateway into the Asia-Pacific region for Canadian businesses and workers.¹ South Korea has an expanding network of free trade agreements and many South Korean companies have strong business relationships in the region.² The CKFTA will give Canadian companies a strategic base in South Korea from which they can pursue investment and trade opportunities in neighboring countries. For example, deeper commercial interaction between the two countries will put Canadian companies in a better position to team-up with South Korean *chaebols* (South Korean conglomerates) and other companies in South Korea to pursue opportunities in the region. Furthermore, Canadian companies will

¹ *Canada-Korea Free Trade Agreement: Creating Jobs and Opportunities for Canadians Final Agreement Summary*, (2014) online: Foreign Affairs, Trade and Development Canada <<http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/korea-coree/index.aspx>> [CKFTA Summary].

² Lee Richardson, *Study of the Canada-Korea Free Trade Negotiations: Report of the Standing Committee on International Trade* (March 2008, 39th Parliament, 2nd Session) [*Canada-Korea Free Trade Negotiations*].

be able to more effectively participate in global supply chains, which is an international policy priority for Canada.³

South Korea is currently Canada's seventh largest trade partner and a key market for Canadian natural resource commodities. It is estimated that the CKFTA will result in a 32% increase in Canadian exports to South Korea and boosting Canada's economy by \$1.7 billion.⁴ This will be achieved through a broad array of measures covering practically all aspects of Canada-South Korea trade. A comprehensive overview on the specifics of these measures is addressed in a previous McMillan bulletin titled: "**The Long and Winding Road – Canada-Korea Free Trade Agreement Signed**".

This bulletin focuses on the prospects that the CKFTA may hold for Alberta's natural gas industry.

Commentary

The Canadian natural resource sectors can benefit from the CKFTA. South Korea relies on imported liquefied natural gas (LNG) for most of its natural gas and is the world's second largest LNG importer,⁵ accounting for roughly 17% of South Korea's total primary energy consumption by fuel type.⁶ Canada currently does not export LNG to South Korea because it does not have any operational LNG export facilities.⁷ However, there are six such facilities proposed, five of which are located in British Columbia.⁸ Under the CKFTA, the current 3% duty on LNG will be removed,

³ *Ibid.*

⁴ *CKFTA Summary*, *supra* note 1.

⁵ *South Korea-Alberta Relations*, (2012). [*Korea/Alberta Relations*].

⁶ *South Korea is a major energy importer*, (January 17, 2013) online: U.S. Energy Information Administration <<http://www.eia.gov/countries/cab.cfm?fips=ks>> [*South Korea Major Importer*].

⁷ *Canadian LNG Projects*, (November 15, 2013) online: Natural Resources Canada <<https://www.nrcan.gc.ca/energy/natural-gas/5683>> [*Canadian LNG*].

⁸ *Ibid.*

which will give Canadian exporters duty-free access on their products to South Korea.⁹

Alberta's natural gas sector can benefit from the tariff-free access to the South Korean market. In 2012, Alberta exported approximately \$95 billion in goods worldwide. Alberta's energy sector accounted for 73% of that total. The United States accounted for 99% of Alberta's crude oil and natural gas exports. The Alberta government is concerned that the growth in the United States' domestic energy supply may result in diminishing demand for Alberta's oil and gas.¹⁰ This is a legitimate concern given that in 2012 the prices for Alberta energy products to the United States were comparatively less than those same products exported to other parts of the world.¹¹ It is projected that this trend will continue as the United States intensifies its domestic energy production, which includes unconventional shale gas extraction.¹²

The CKFTA provides an opportunity for Alberta to curtail diminishing demand and revenues for Alberta's natural gas by strengthening Alberta's economic relationships in the Asia-Pacific region. The following supports this submission:

1. South Korea is already Alberta's fifth largest export market and an important source of trade and investment.¹³ South Korea has a strong demand for LNG and the elimination on duties will increase the competitiveness of Alberta's natural gas producers.

⁹ *CKFTA Summary*, *supra* note 1.

¹⁰ *Alberta's International Strategy 2013: Building Markets*, (2013) online: Alberta Government <<http://international.alberta.ca/documents/ABIInternationalStrategy2013.pdf>> [*Alberta 2013*].

¹¹ *Ibid.*

¹² *Ibid.*

¹³ *Korea/Alberta Relations*, *supra* note 5.

However, such gains are partially contingent on the completion of the eight to 11 projects planned for export of LNG to Asia.¹⁴

2. The CKFTA will give Alberta a gateway into Asian markets. Dave Collyer, President of the Canadian Association of Petroleum Producers (CAPP) stated that "demand for Canadian products like crude oil and natural gas is strong in Asia and growing...[d]iversifying markets for Canadian oil and natural gas products is vital to ensuring Canada continues to grow its oil and gas production and receives full value for its natural resources."¹⁵ The CKFTA will help incentivize the Canadian government to pursue similar agreements throughout Asia, including China, which over the next 25 years is projected to account for more than 30% of the projected growth in global energy demand.¹⁶
3. The CKFTA will create foreign direct investment opportunities for Alberta's energy sector. South Korean companies are already pursuing investment opportunities in Canada's energy sector. For example, in December 2010, Korea Gas Corporation's (KOGAS) subsidiary KOGAS Canada Ltd. acquired a 20% interest in an energy project spearheaded by MGM Energy Corp. for \$30 million. Moreover, in August 2010, Korea-based STX Energy Co. bought natural gas fields in British Columbia for \$152 million.¹⁷ These investments highlight South Korea's appetite for investing in Canada's energy resources.

¹⁴ *Toh Han Shih, "Canadian Exports of LNG to Asia seen as Enormous Opportunity"*, (January 23, 2014) online: <<http://www.scmp.com/business/commodities/article/1411567/canadian-exports-lng-asia-seen-enormous-opportunity>> [*Canadian Exports of LNG*].

¹⁵ *Travis Davies, Oil and Gas Industry Encourages Canada-Asia Free Trade Talks*, (March 25, 2012) online: Canadian Association of Petroleum Procedures <<http://www.capp.ca/aboutUs/mediaCentre/NewsReleases/Pages/canada-asia-free-trade-talks.aspx>> [*Oil and Gas Industry*].

¹⁶ *Ibid.*

¹⁷ *Korea/Alberta Relations*, *supra* note 5.

The CKFTA's investment chapter will facilitate this upward trend in South Korean investment by establishing transparent and predictable rules for bilateral investment, which will create a more stable and secure investment environment. The CKFTA also includes investment rules requiring South Korean businesses to be treated no less favourably in Canada than Canadian ones.¹⁸ Moreover, the CKFTA provides the following safeguards: (1) protection from expropriation without prompt and adequate compensation; (2) protection against discriminatory treatment; and (3) access to independent international investor-state dispute settlement, all of which together will strengthen Alberta's already established reputation for being a safe and secure region to invest.¹⁹

Concluding Remarks

It is without question that the CKFTA has the potential to redefine Canada's relationship with South Korea and by extension the Asia-Pacific region. Properly carried out, the CKFTA will bring about new economic opportunities for Alberta's energy sector. As with all agreements of this scale, the changing landscape will prompt new legal challenges, which will need to be addressed to avoid unintended consequences while upholding the objectives of the CKFTA.

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¹⁸ *CKFTA Summary*, *supra* note 1.

¹⁹ *Ibid.*

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[a cautionary note](#)

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