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BILLIONAIRE IRVING FAMILY'S 'PLAN B' TO BYPASS KEYSTONE: ENERGY EAST

Keystone XL, a pipeline proposal to pump Canadian oil sands through the heart of America, has alarmed environmentalists and become one of the most contentious issues of the Obama presidency. But there is a "Plan B" to cut the United States out of the picture, and it is championed by one of Canada's wealthiest business dynasties. Since 2012, the billionaire Irving family has been advocating a proposal called Energy East. The 2,858-mile (4,600-kilometre) pipeline would link trillions of dollars worth of oil in land-locked fields in the western province of Alberta to an Atlantic port in the Irvings' eastern home province of New Brunswick, north of Maine, creating a gateway to new foreign markets for Canadian oil.

The $12-billion line, which would pump 1.1 million barrels per day, would include about 1,865 miles of existing natural gas pipeline converted to carry oil. The rest would be new construction, most of it along the banks of the Saint Lawrence River and into New Brunswick.

The industry is keen. Pipeline company TransCanada Corp, which is also backing Keystone, unveiled plans in August to build and operate Energy East by 2018. Customers as far away as India are lined up to take the oil, according to New Brunswick provincial officials. Canadian oil companies, frustrated by Washington's dithering on Keystone, say they have seized on it as a viable alternative to the route through the United States.

"The genesis of this is really the Keystone XL pipeline, and the continuing political obstacles to getting approval for it," said Frank McKenna, former New Brunswick premier, Irving family friend and vocal advocate of the project.

The Energy East proposal began with the Irvings, people familiar with the project say. If it is built, it will stop with them, too, at a $300-million marine terminal they are planning to build in Saint John, New Brunswick, to service the project.

The Irvings also would be among the top beneficiaries. A study commissioned by TransCanada and prepared by Deloitte calculated that the pipeline's access to cheaper crude from the west would save as much as $1.2-billion per year for a refinery owned by the Irvings, while creating 121 direct long-term jobs in sparsely populated New Brunswick.

The idea of a pipeline from west to east was not new: TransCanada had been looking at a possible route that would stop in Quebec, but that plan had not left the drawing board. The Irvings' proposal breathed new life into it.

The family's industrial empire in New Brunswick, a century in the making, can help make it possible: Here in Saint John, their flagship company, Irving Oil, runs the East Coast's only ice-free, deep-water oil port capable of receiving the largest crude tankers. It also operates Canada's largest oil refinery – the source of nearly one in three tanks of gasoline imported to the East Coast of the United States.

The Irving advantage extends beyond infrastructure. The family's companies generate two-thirds of New Brunswick's global exports and are the province's largest private sector employer. Their buildings dominate the Saint John skyline: Irving's Atlantic Wallboard, Irving Tissue, Irving Pulp and Paper, Irving Canaport, the Irving refinery; many of them chuffing white smoke into the winter air around downtown. That commerce – and a strong grip on the province's media – gives the Irvings significant political influence in a heavily indebted part of Canada where one in 10 people are without a job.

Irving Oil's CEO, Paul Browning, said at the formal announcement of Energy East that the company was "extremely pleased to be partnering with TransCanada." Representatives of both the Irving family and Irving Oil declined comment for this article.

A TransCanada spokesman said the Energy East project was the culmination of hard work by "many different parties."

MEET THE IRVINGS

The Irving empire got its start more than 130 years ago, in a fishing village huddled on New Brunswick's northern coast. A Scottish immigrant named James Dergavel Irving built a saw mill and a general store in the late 1800s near stands of spruce and fir. But it was J.D.'s son, Kenneth Colin, born in 1899, who drove the family's success.

In his early 20s, K.C., a car salesman, convinced his father to let him open a gas station in front of the general store to sell fuel for the Model Ts he retailed. That service station, and the hundreds that followed, became the center of a conglomerate. Though K.C. died in 1992, many here still refer to the man rather than to the business empire, a feature of the company-town feel of this Canadian province.

"If it moves in New Brunswick, the Irvings are involved," says Donald Savoie, a New Brunswick historian.

Today, the Irving holdings span 162 companies in the Atlantic provinces. Two of K.C.'s sons, Arthur and James, are now the family's most powerful members. They own Irving Oil and forestry giant J.D. Irving, respectively, the group's two largest companies. Forbes Magazine's 2014 billionaires list placed Arthur's net worth at around $6.1-billion and James' at $6.7-billion. Irving-owned companies build warships, sell French fries, run a railway network and operate a private security firm.

The family is also a huge landowner. Its 1.2 million acres of timberland in Maine made it the No. 5 U.S. landholder in 2012, according to the Land Report. In Canada, the Irvings own more than 2 million acres, and operate timber licences on another nearly 2.5 million acres of public land, according to a 2013 audit by KPMG.

Canadian Business Magazine's 2014 edition ranked the Irving family third on its Top 25 most wealthy Canadians list, placing its riches at some $7.85-billion – nearly the size of the province's total projected revenues for the year.

PLAN 'B'

The Keystone XL pipeline was proposed in 2008 as a way of getting 830,000 barrels per day of crude from Alberta to the U.S. market. It would start near the Canadian town of Hardisty, Alberta, and terminate in Steele City, Nebraska. There, it would link up to an existing pipeline network terminating in Nederland, Texas, near the coast of the Gulf of Mexico.

TransCanada says the project would be "the safest and most advanced pipeline operation in North America." U.S. environmental groups say it will threaten American groundwater resources and hasten climate change by fuelling expansion of Alberta's oil sands. The Obama administration has delayed making a final decision that could anger environmentalists, a key constituency of the Democratic president.

In October 2012, representatives from Irving Oil and New Brunswick's government travelled to the western Canadian oil hub of Calgary to present their alternative: a west-east oil pipeline that would go all the way to the Atlantic. Irving Oil had asked for the meeting, according to a person who attended. Waiting for them in a conference room were Canadian provincial energy officials, executives from TransCanada, and representatives from industry heavyweights Canadian Natural Resources, Imperial Oil, Suncor, and Shell Canada.

Representatives of all the companies involved declined to comment on the record about the meeting.

Alberta's oil minister, Ken Hughes, whispered into the ear of his counterpart from New Brunswick, Craig Leonard. Never before, Leonard remembers Hughes saying, had he seen so many of the major oil sands players together in a single room. And they were listening keenly.

"It was like a light bulb turned on," said Leonard. "It was very clear from the reaction that this was an idea that had tremendous potential."

According to Leonard and others at the meeting, Mike Ashar, at the time the CEO of Irving Oil, outlined how a pipeline east across Canada to Saint John could help get Alberta's oil efficiently to the world market, paving the way for higher prices and the potential for expanded production.

Ashar said the pipeline could provide a reason to build Canada's first oil sands upgrader – a facility that processes tar sands into a product that can be more easily refined into gasoline, diesel and other fuels – on the Atlantic coast. There, lower labour costs and easy access to imports could reduce the facility's multibillion-dollar price tag by 40 per cent, according to an attendee who asked not to be named.

The need for a new route for Canada's oil was acute, say industry experts. While the United States delayed Keystone, Canadian supply mounted and prices dropped. The Canadian

Imperial Bank of Commerce estimated the glut and lack of pipeline capacity had cost Canada $25-billion in oil revenues in 2012.

"The value destruction as a result of not getting our crude to market is a staggering cost to Canada. It needed a solution," said former New Brunswick premier McKenna, who is now on the board of oil sands producer Canadian Natural Resources.

As Irving Oil prepared to make its sales pitch to TransCanada and the oil sands producers, it stepped up its lobbying efforts in Ottawa. Irving Oil executives held more meetings with Canadian regulators and office-holders in 2012 than in the two previous years combined, according to federal lobbying disclosure documents reviewed by Reuters. These included repeated meetings with Joe Oliver, then Canada's natural resources minister, the ministry's director of oil sands, advisers to Prime Minister Stephen Harper, and environment ministry officials.

Now Energy East has the public support of Canada's conservative government and the government of New Brunswick, where much of the new pipeline construction would take place. The project has also moved much more quickly, from conception to requesting regulatory approval, than its all-Canadian rival, Northern Gateway, which would transport oil over the Rocky Mountains to the Pacific Coast.

The Northern Gateway project, announced in 2006, took four years to file its request and still does not have approval due to questions about how it would install and operate the line in an environmentally sensitive region.

By comparison, TransCanada filed a preliminary request for Energy East with the National Energy Board in February and plans to submit the full request this summer, just over a year after the project was announced.

'BRING IT ON'

New Brunswick has also moved fast. Just two months after the initial Calgary meeting, the provincial legislature was ready to act. The assembly voted unanimously to endorse "construction of a west-east crude oil pipeline to bring western crude oil to Saint John" eight months before the project was officially unveiled.

If the Energy East pipeline is built, it would be a blow to those who oppose oil sands development on environmental grounds: Energy East would pose no less a threat than Keystone. It could even be a bigger problem, Canadian environmental groups say, because the line would be longer and carry more oil. Their opposition hasn't gained much traction.

"Unlike in other provinces, we just said, 'bring it on,'" said David Coon, leader of New Brunswick's Green Party, which has no seats in the assembly. "There was no serious debate. No serious discussion. No inquiry," he said.

Keystone, by contrast, has seen virtually every detail scrutinized by U.S. media and environmental groups, who have fervently questioned the project's promises for job creation, spill-prevention and climate change impacts.

Supporters of Energy East say the economic environment in New Brunswick explains local eagerness: The province's 10-per-cent unemployment rate is 3 points above the Canadian national average.

Saint John could also use a boost. Municipal records show a population decline of 25 per cent since the early 1970s. It has the sixth highest concentration of low-income residents among cities in Canada, according to Statistics Canada.

It isn't clear that the Energy East project would do much to help, though. The Deloitte study estimated that the pipeline would create 1,427 direct jobs in the development and construction phases in New Brunswick, but only 121 jobs long-term.

Mark Tunney, former editor-in-chief of Irving's flagship Saint John Telegraph-Journal, attributes local support for the pipeline in part to the Irving family's control of media in the province. The Irvings' Brunswick News owns all the province's English-language daily newspapers and three-quarters of its weeklies – 20 newspapers in all. They also own Acadia Broadcasting, which operates 10 radio stations in three provinces.

A March 4 editorial in the Telegraph-Journal called on provincial politicians to stand united in support of Energy East and against the "small minority" who oppose it. The editorial was written in reaction to a small public protest against the pipeline days earlier.

Patricia Graham, the ombudswoman for Brunswick News, which publishes the Telegraph-Journal, said the company was committed to providing balanced coverage, including of Irving ventures.

"I am unaware of any facts that demonstrate that the number of papers owned equates to poor journalism," she said. "But management at Brunswick News is sensitive to these types of concerns and won't shy away from considering or addressing them."

The Irvings are a major employer. They decline to say how many people they employ today, but a 2006 Canadian Senate study estimated their work force at one in 12 of New Brunswick's 750,000 people, and concluded that the family's combination of a large industrial presence and high media ownership concentration in New Brunswick was "unique in the developed world."

In a Reuters interview in December, Saint John Mayor Mel Norton said the Irvings had earned a "social licence" – or popular support – to industrialize the city and win public incentives to do so, mainly because of their importance to the economy.

As an example: The New Brunswick legislature passed a law in 2006 allowing Saint John to freeze taxes on an Irving/Repsol LNG terminal for 25 years, in hopes of attracting more jobs to the depressed city. According to registry documents the terminal pays $500,000 in taxes a year, on a property-value assessment of $300-million – the province's most valuable private real estate. It employs 40 people, according to its website.

By contrast, the Moncton, New Brunswick hospital is valued at half the price of the LNG terminal but pays five times more in taxes and employs 2,899 people.

ASSEMBLING THE PIECES

By early 2013, at Irving Oil's headquarters in Saint John on the fog-shrouded Bay of Fundy, the plan to ship crude across the Canadian continent was proceeding apace.

Under a corporation named 658273 N.B. Ltd., the family consolidated land holdings on Mispec Point in East Saint John, taking small plots of land they had already purchased from local residents and bundling them into larger lots, according to registry documents.

Blanketed in forest, Mispec is home to Irving Canaport, a large industrial facility already receiving crude supertankers. It is also the site of a shelved refinery project with energy giant BP, for which Irving still holds a valid Environmental Impact Assessment.

Irving Oil has declined to comment publicly about the possibility of building an upgrader on Mispec Point. But a former Irving official who spoke on condition of anonymity confirmed the idea was being studied.

Former premier McKenna said Irving Oil was assembling the pieces for what could become a petrochemicals hub.

"If we can get a million barrels a day coming to the East coast, it takes some of the stranglehold away that the U.S. market has on us," he said. "Let's face it, for Canada, developing our raw materials in our own country is probably in our best interests."

MOST CANADIAN CEOS BELIEVE THE ECONOMY MUST DIVERSIFY

Almost two-thirds of Canadian executives say the country is too dependent on resource industries and needs to become more diversified to inject better balance into the economy.

But the latest C-Suite Survey of business executives also shows a deep divide between those in the resource sector and those in other sectors, over the long-standing concentration of Canada's economic might in mining, oil and gas, and other resources.

Sixty-two per cent of respondents said the downturn in commodities is a reminder that there is too much emphasis on extractive industries, and that there is a need for diversification. About 30 per cent said it makes sense to count on the country's natural resources – and those executives think the sector will recover as the commodity cycle rebounds.

The results reflect very different views depending on which sector the executives work in. Almost 80 per cent of those in the service industry say Canada is too dependent on resources, while only 44 per cent of executives at the top of mining companies feel that way.

"The reality is that we've become overly reliant on the resource industry," said David MacDonald, chief executive officer of Softchoice Corp., a Toronto-based technology services firm. "I think we've gone backward in the last 20 years in diversifying the economy.

"We have become more hewers of wood and drawers of water than we were." As a result, he said, "there is no doubt in my mind that we have created more risk in our economic environment."

This overemphasis on resources is supported by the policies of the federal government, which is "obsessed with building a pipeline across North America, which only helps one industry," Mr. MacDonald said.

He and others who feel the same way don't want the resource industry to be diminished, but they are looking for more effort to create jobs in other sectors, particularly those that are technology-related.

Sue Paish, chief executive officer of medical testing company LifeLabs Medical Laboratory Services, said it is important that "we balance our reliance on natural resources with our ability to innovate."

It is not a question of ignoring natural resources, Ms. Paish said, but Canada should avoid being "singularly focused or singularly reliant on any particular sector of the economy."

Not surprisingly, many executive in the resource sector disagree.

"I've always felt you should play to your strengths," said Jim McFarland, CEO of Valeura Energy Inc., a gas and oil exploration firm based in Calgary. "We are one of the superpowers in the world in terms of energy supply so I think we should take advantage of that."

It isn't an "either/or" situation, Mr. McFarland said, and there is no reason Canada can't have a large, strong resource sector along with healthy manufacturing and services. "It would be great if there were some things we can do as a nation to boost innovation in the manufacturing sector, [while] at the same time making hay while the sun shines in the energy industry," he said.

Frank Smeenk, chief executive of KWG Resources Inc., an exploration company active in Ontario's mineral-rich Ring of Fire region, said worry about a concentration in resources is "very misguided."

It results from "a lack of appreciation of what this country is really all about," Mr. Smeenk said. Resources "are the blessing we have and it is silly to ignore it. It is nihilistic to not understand what the wealth of the country really is."

The C-Suite Survey shows that resource company executives are far more optimistic about a turnaround in commodity prices in the next couple of years, compared with those in other sectors. While 54 per cent of resource executives strongly agree that a recovery is coming, only 16 per cent of executives in other kinds of businesses are that positive. And two-thirds of resource executives expect resource stocks to gain "somewhat" or "significantly" in 2014, while one-third of executives in other businesses expect those kinds of gains.

When it comes to support for the resource business, executives in that sector said the best thing governments can do is to streamline the permitting process and cut red tape on projects. Tax reductions also get widespread support, and executives would like to see greater clarity on regulations and more consistent rules.

A majority of executives across all sectors agree that companies must innovate and adopt new technologies to be more productive, in light of a relatively weak economy and low commodity prices.

But it is difficult for resource companies to invest in innovation – or acquisitions – at the moment, said Willy Kruh, global chair of consumer markets at KPMG. That is because weak commodity prices are forcing them to cut capital and operating costs to improve their balance sheet. "When you are cutting costs … there is less money to spend on innovation and a hope for the future," he said. "You can't grow by cutting costs."

ENCANA TO SELL NAT GAS ASSETS TO TPG CAPITAL FOR $1.8B

Encana Corp said it would sell some natural gas assets in Wyoming's Jonah field to a TPG Capital affiliate for about $1.8 billion, as it focuses on regions rich in oil and natural gas liquids.

Encana, which is in the middle of a restructuring launched by new Chief Executive Doug Suttles, is looking to cut production of low-value natural gas and boost liquids output by 30 percent in 2014.

"With the divestment of Jonah, we are unlocking value from a mature, high-quality asset and allowing our teams to focus on our five core growth areas and continue with execution of our new strategy," Suttles said in a statement on Monday.

Encana, Canada's largest natural gas producer, is focusing on five shale fields - Montney in British Columbia, Duvernay in Alberta, the DJ Basin in Colorado, the San Juan Basin in U.S. Southwest, and the Tuscaloosa Marine Shale in U.S. South.

The company has more than 1,500 active wells spanning over 24,000 acres in the Jonah field.

The assets had estimated proved reserves of 1,493 billion cubic feet equivalent at the end of 2013.

The sale, expected to close in the second quarter, includes over 100,000 undeveloped acres adjacent to the field.

Private equity firm TPG formed Maverick American Natural Gas in late 2011 to buy and run conventional natural gas-producing assets in North America.

Evercore and Davis Graham & Stubbs LLP advised Encana on the deal, while Vinson & Elkins LLP was TPG's adviser.

Encana's shares closed at C$23.70 on the Toronto Stock Exchange on Friday. The stock has risen nearly 24 percent this year.