

Read the Series



SERIES ARTICLES

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Strategy should reflect Canada's greatest genius: openness to the world

Canada's reputation and sense of self are built on the idea of openness to the world—whether through immigration or engagement in international forums or our belief in rules-based approaches to trade and investment. All of these things can continue to underpin our success because they drive innovation, sustain investor confidence, and allow us to be smart and efficient in the way we manage energy. With this in mind, a few basic propositions might usefully underpin our energy strategy.

Open energy markets produce economic benefit for Canadian investors and consumers

Energy markets work best and most efficiently at their natural geographic scale which can be global (oil and refined products), continental (natural gas) or regional (electric power). Energy markets almost never conform to jurisdictional boundaries. When Canada signed on to the Canada–US Free Trade Agreement our embrace of its necessary corollary of limiting government actions to control markets was massively controversial. Today it is taken largely for granted, albeit with electric power still something of a holdout. But in a global context it is under threat—variously driven by: geo-political muscle flexing, the growing role of state energy companies, security fears, energy-based industrial strategies or environmental protectionism. Canada needs to reaffirm its confidence in open markets and be a global champion for them.

Our best assurance of energy security is open world markets and cooperation with trading partners

In 1974, Canada became one of the founding members of the International Energy Agency which was built on the basic premise that energy security was a collective enterprise and that the most basic guarantor of that security was open, efficient markets. Much discussion of energy security in the US and sometimes in Canada becomes conflated with the idea of self-sufficiency. But self-sufficiency is actually a bad thing to aim for. We are dependent on North American and world markets not only for exports but also for imports of energy. We are tied to the economic health of our global partners almost all of whom (including the United States) have no scope at all to take self-sufficiency seriously as a goal. The logic of collective security seemed clear enough in the 1970s and 1980s but it seems to be getting lost. It needs champions and Canada should be a leading champion.



Food For Thought

Canada is not only a major net exporter of energy sources, but also a major importer. It is also a source and a destination of foreign direct investment in energy.

A TABLE OF SORTS:
ENERGY EXPORTS & IMPORTS

2009		Exports	Imports
Crude Oil	(bbl)	510 M	294 M
Natural Gas	(m3)	95.2 B	20.6 B
Electricity	(GWh)	51737.6	18161.1
Petroleum Products	(bbl)	152 M	98 M

Exports of crude oil, natural gas and petroleum products tend to originate in western Canada, while imports of those products into the country are generally sent to eastern Canada. Electricity exports are usually from Manitoba, Ontario or Quebec.

According to Statistics Canada, foreign direct investment in the energy sector was just under \$125 billion in 2009. Conversely, Canada invested \$82.5 billion in energy abroad.

Learn More: *Statistics Canada*
(www.statcan.gc.ca)

Large pools of investment capital are needed and investors should face a level playing field if they play by the rules

The Canada–US Free Trade Agreement, NAFTA and the WTO all reflect a belief in rules-based approaches to managing investment flows but even in Canada of late the principles underlying all of this machinery have come into question. Every country needs to protect its self-interest. If investors won't play by the rules or if their motivations are substantially matters of policy or geo-politics rather than investor value, then it is reasonable to draw some lines. But it is a certainty that the global energy revolution will need massive amounts of capital and Canada, with a relatively small domestic pool of capital, will be competing with attractive investment opportunities elsewhere in the world. Governments will be unable to supply that capital because they are themselves debt-burdened and facing unprecedented and rapidly growing demands on the social front. Measures to facilitate the mobilization of capital from as many sources as possible should underpin a Canadian energy strategy.

A carbon molecule is a carbon molecule and carbon management strategies need to reflect this

The fundamental flaw underlying the United Nations climate process and its emphasis on legally binding targets is that it can encourage jurisdictions to try to meet their reduction commitments even at the cost of lower environmental effectiveness. If energy doesn't fit neatly within jurisdictional boundaries, carbon fits even less. Canada realized this belatedly after the Kyoto negotiation when it sought credit for clean energy exports where our natural gas could reduce global emissions but at the cost of increasing our own emissions. A jurisdiction with abundant hydro resources should sell its power where the greatest carbon displacement effect is achieved, but without formal credit transfer mechanisms (which are proving excruciatingly difficult to negotiate) the incentive is to keep the power at home even if that achieves less in terms of carbon abatement. Our objective should be to make most effective use of our energy resources and abilities to produce efficient energy solutions and reduce global emissions—and we should be wary of approaches to international rules that inhibit smart behaviour.

This is where Canada can be an energy superpower

An open global energy trading system underpinned by open global investment flows is a highly desirable state of affairs because it is economically efficient, because it enhances security and because it can drive stronger environmental performance provided that environmental rules don't create perverse incentives. Canadians get this and we have the scars of the free trade debates to prove it. This is a message we should project wherever we can.

