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# Let's Talk Energy

## A CONTINUING DIALOGUE

This article is the last in the Canada West Foundation's *Let's Talk Energy* (LTE) series. LTE was born of a conversation in the fall of 2010 in which then-CEO Roger Gibbins coined the notion of an "ideas agenda" as part of the ongoing discussions about a Canadian energy strategy. This notion led to the development of the LTE website. We began with some initial posts to get the conversation started and this evolved into a rich series of stimulating articles by a guest contributors.

The feedback we have gathered indicates that our modest, but loyal, cadre of readers and contributors has found the LTE website useful and constructive. However, as the Canadian energy strategy discussion has now reached something of a hiatus, this is an appropriate time to wrap-up this particular discussion. As such, this will be the final post on the LTE website. The website will be inactive as of December 31, 2012, but the full archive of LTE articles will still be accessible on the Canada West Foundation's website ([www.cwf.ca](http://www.cwf.ca))

This article offers some last—from an LTE perspective at least—thoughts on the national energy strategy.

To begin, what do we mean by "hiatus" in this context? Hiatus can be a polite word for "stalled" or "in the ditch" or, to be more charitable, at an inflection point where momentum is rebuilding and new directions are emerging. In Charlottetown this past September, the Council of Energy Ministers said nothing about an energy strategy despite the fact that a year before in Kananaskis they had seemingly endorsed the idea in principle. The Kananaskis meeting set out a work program, but one year later, nothing has emerged. Stakeholder groups involved in the file have lost energy, interest and organization. And of course, the tentative air of cross-Canada cooperation that prevailed in 2011 has now been replaced by interprovincial rancour over the Northern Gateway pipeline. Critics of the whole idea have been vocal—and sometimes cogent—in their criticisms. On the other hand, the Council of the Federation may yet revive the idea, albeit in a form less sweeping and comprehensive. We shall see.

As one thinks about where we go next—if anywhere—on an energy strategy it is worthwhile thinking about some of the energy, economic and public policy realities that have defined the course of the past three or four years. The one overarching reality is the extraordinary pace of change in the real world as compared to the rather more desultory pace of the energy strategy debate.

Readers will be aware that not all participants in the discussion are convinced of the possibility of a Canadian energy strategy or of its usefulness even if it were possible. Bob Skinner caught this well in an article he and I jointly authored early this past year:

Too often strategy rests on the fallacy of "planning"—that the future is broadly predictable and all that is needed is a set of tactics to achieve a set of goals—the outcome of strategy. This deterministic approach generally fails in the private sector; it virtually always fails in the public sector.



## ADDITIONAL TOPICS IN THIS SERIES:

### ARTICLE 1

Getting to a Canadian energy strategy—why do we need one?

### ARTICLE 2

A Canadian energy strategy should be robust and sustainable under many possible futures

### ARTICLE 3

If we get energy right the carbon will follow

### ARTICLE 4

Getting energy right means focusing on productivity

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Strategy should rest principally on competitive markets, private investment and prices

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Innovation is primarily about people and organizations, not widgets

### ARTICLE 7

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

### ARTICLE 8

Strategy is mainly about dialogue, not a document or an end point

## Events Dear Boy...

Asked at one point what Prime Ministers feared most, British Prime Minister Harold MacMillan reportedly answered “events, dear boy, events.” Just for the sake of argument, let us say that the Canadian energy strategy discussion started some time in 2008 when the Energy Framework Initiative—driven by oil and gas interests—started its work aimed explicitly at an energy “framework,” not a strategy. This was followed soon after by the Senate Energy, Environment and Natural Resources Committee and later by groups such as EPIC, the Winnipeg Consensus Group and many others. In point of fact, the earliest glimmers came in 2003 from the Energy Dialogue Group, a broad industry coalition (20 associations representing the whole energy system) who engaged the Council of Energy Ministers and gained some short lived traction around what was then called an “energy issues agenda.” This agenda was not a strategy; it was not even a framework. It was a step beyond just winging it and, just maybe, a hint of where we might go next. But let’s just say that the full-on debate on what one Natural Resources Canada Deputy Minister called the “energy thingy” started to emerge in late 2008.

That year and the year following, the whole world’s assumptions about the trajectory of future economic growth were overturned. Energy demand growth stalled, looming capacity shortages stopped looming, prices for oil and gas collapsed followed by a recovery for oil (but not for natural gas in North America) and the appetite for government activism on the energy and environment front started coming up against fiscal realities.

Starting in late 2008 in Copenhagen and then through early 2009, the climate change file went from top of mind to out of sight. Climate change was probably the single most important motivator for an energy strategy—whether from an industry perspective (never again should we do something as crazy as Kyoto) or an environmental perspective (never again should we do so little as was done to implement Kyoto). In 2012 anyone listening to the US presidential debates or what remains of the energy strategy conversation in Canada would be hard pressed to discern that the issue of climate even existed.

2008 was also the year that the impact of the so-called shale gale was getting ready to overturn all assumptions about natural gas. That spring the price of natural gas touched \$12/GJ and some dire commentators were predicting still higher prices (although more knowledgeable observers could see the effects of shale coming); today it is languishing in the mid \$3 range and North America, and prospectively the world, is awash in the stuff.

In 2008, there was little discussion of markets for Canadian energy aside from the US. Our natural gas production was declining as was production in North America overall. It was a reliable expectation that US oil imports would continue to grow. Since then, new drilling technology has overturned not only gas markets but oil markets as well, as hydraulic fracturing unlocks unconventional oil. As a result, North American demand growth for all energy languishes. Within a span of two or three years China and other Asian energy markets went from curiosities to *topic du jour*. Simultaneously, many environmental advocates, having hit the wall on carbon after Copenhagen, the recession and the failure of the Obama Administration’s climate policy, turned the full force of their frustration, anger and resources on the Northern Gateway Pipeline, resulting in a massive new political controversy and evaporation of interprovincial harmony between BC and Alberta.



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# Shifting Priorities

Most recently, CNOOC and Petronas have come along—names that are today bandied about by all in the know. Four years ago those names might well have been mistaken by most Canadians, respectively, for a Muppet and an incantation from Harry Potter and the debate about SOE's in the Canadian economy mistaken for discussions about some new retirement investment vehicle. Today they are all poster children for our missing energy strategy.

In short, much of the early thinking about a Canadian energy strategy rested on knowledge and assumptions about the future that bear no relationship whatsoever to the world we find ourselves in today. Unpredicted (although not all unpredictable) changes over very few years in the world economy, public support for environmental action, technology, resource availability, energy demand, government fiscal capacity and national politics would have rendered any energy strategy agreed to in 2008 or soon thereafter utterly obsolete by today.

Against this perhaps extraordinary series of events in the real world must be set the cycle times for the energy strategy conversation itself. Simply put, the capacity of a diverse group of stakeholders to move an agenda was and is out of joint relative to the capacity of the world around us to abruptly turn itself upside down. And the stakeholders are supposed to be the nimble part of the equation; governments—especially when dealing with 14 of them—are less nimble still when dealing with large, complex issues with long time horizons.

As one of the longstanding advocates of an energy framework—a set of objectives and principles if not exactly a strategy—I am going to conclude LTE with a *mea culpa* and a proposition.

The *mea culpa* is that I and most of my colleagues were clearly naive, starting in 2003 and ever since, in believing that we could develop even a framework that would be both useful and broadly agreed, far less a fully formed strategy. Compounding the complications of a federal system of government and the extraordinary diversity of Canada has been our very Canadian inability actually to come to grips with the issues. “Everyone” or almost everyone politely agrees that we need a strategy. So far no one has succeeded in defining what it might look like far less what would be its content or how it would resolve the deeply visceral disagreements at the heart of it all. And then, of course, there were those pesky events.

As to the proposition, I would argue that there is work still to be done, perhaps more along the lines of an energy issues agenda (e.g., the agenda that emerged from the Council of Energy Ministers in 2003). At least two of the main drivers from 2003 still exist. The problems of social license in developing energy assets have grown and they risk paralyzing policy and investment. Environmental concerns about energy (even including the politically moribund carbon file) remain and we risk the worst of all worlds in which weak commitment to environmental performance is covered up by weak and inefficient regulatory action. And new issues have emerged in the form of serious threats to Canada's ability to sustain itself as a competitive energy supplier, whether in hydrocarbons or electricity. There is a real prospect that a national economy, which is highly dependent on energy investment, production and exports, could be facing a much more challenging future as well as wrenching political choices over issues such as foreign investment.

The above are all areas where some measure of debate and discussion among various interests is going to be necessary. To achieve that, we will need an energy “thingy” of some sort. Perhaps a more issues-focused set of discussions is called for. Perhaps, as I suggested in an early LTE article, strategy is mainly about dialogue, not a document or an end point. The failure to produce a strategy notwithstanding, the last few years has produced much healthy and useful dialogue; while it needs to be continued, we also need to focus it on the pressure points.

