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Let's reroute our energy strategy

By RICHARD GILBERT

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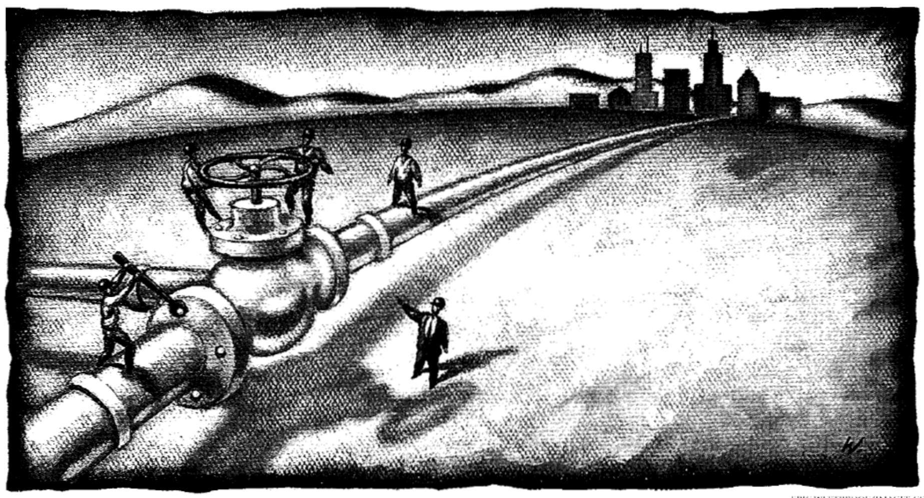
Under NAFTA, we pipe out oil and gas we need, then bring in more from unstable countries overseas. There's a better way, says energy analyst RICHARD GILBERT



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Consider this: Canada has rising oil production and is a net oil exporter -- yet most of the oil Canadians consume is imported. About 40 per cent of the oil used in Ontario is imported, as is about 90 per cent of the oil used in Quebec and the Atlantic provinces.

This situation would bother some countries. For 30 years, the United States has seen its high and growing dependence on oil imports as a major threat to national security. Canada is almost as dependent on oil imports; we should also see our high dependence as a security threat. And we should be ready to reconsider everything, including the energy provisions in the North American free-trade agreement, in order to find the best arrangement for the needs of Canadians.

In 2004, the U.S. imported 62 per cent of the oil and oil products it consumed. Canada imported almost as much -- 58 per cent of its consumption. Of U.S. imports, 23 per cent were from the Middle East or North Africa. An even higher share of Canadian imports (25 per cent) came from these politically unstable regions. This should change.

There are two ways for Canada to reduce imports. Reduce overall consumption -- or divert Canadian production to Canadian use.

Almost all Canada's exports of oil and oil products go to the United States. In 2004, these exports totalled 70 per cent of Canada's production, up from 60 per cent in 1998 and 50 per cent in 1990.

NAFTA limits the extent to which the Canadian government can act to reduce exports to the United States. Article 605(a) of NAFTA prohibits measures that would reduce these exports as a share of Canada's production to below "the proportion prevailing in the most recent 36-month period for which data are available.” In effect, NAFTA prevents a reduction in the amount of oil or oil products going to the U.S. -- unless both Canadian production and consumption fall.

This clause of NAFTA could also prevent issuance of a licence to export oil to a third party such as China. Because the U.S. share of 70 per cent of production must be maintained, oil could be sent to China only if (a) Canada’s consumption were reduced; (b) Canada’s imports were increased or (c) Canada’s production were increased by several times the amount to be sent to China (to maintain the 70-per-cent share going to the U.S.).

Canada is equally bound to export natural gas to the United States. In 2004, Canada exported 56 per cent of its production, and imported 10 per cent of its consumption, all to and from the U.S.

A difference from oil is that infrastructure exists to move from Western Canada much more natural gas than is currently used in Ontario and Quebec. However, Canada’s natural-gas production reached a peak in 2002, and is now declining. Unless imports increase -- perhaps as liquefied natural gas from Algeria -- Canada’s consumption of natural gas will have to fall in a corresponding manner to maintain the share of exports to the U.S.

As oil and natural gas prices rise in response to local and worldwide production challenges, Canada is becoming rich from sales of oil and natural gas to the U.S. Meanwhile, dependence on imports could increase, in large part to meet NAFTA requirements.

The growth in imports compromises Canada’s national security by making Canadians vulnerable to decisions and circumstances in unstable parts of the world.

Present arrangements, whereby most of what Canada produces is exported and much of what is consumed is imported, also affect national security by detracting from Canada as a nation and as an economy.

It’s time to review Canada’s NAFTA obligations with respect to energy resources from the perspective of Canada’s national security.

Such a review could well point to the need for a new energy strategy, one that helped Canadians share their energy resources -- not only oil and natural gas but also electricity generation, with emphasis on generation from renewable resources.

Within a decade or two, there could be insufficient oil and natural gas worldwide to support the kind of society Canadians are used to. Maintaining comfort and convenience could require massive expansion of electricity generation from wind, sun, tide, and other non-fossil sources, chiefly to power transport. Providing the necessary new infrastructure will require huge investments of money and fuel. Oil- and natural-gas-producing provinces could lead in securing the necessary changes in direction.

But NAFTA may not be the best framework for ensuring that this happens.

Both Prime Minister Paul Martin and Opposition Leader Stephen Harper have raised questions about NAFTA’s future, noting challenges posed by American unwillingness to abide by arbitration rulings on softwood lumber duties. Concerns about Canada’s energy security should also feature prominently in further debate about NAFTA.

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