

Climate Change and Energy Security for Canadians

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Energy Security and Climate Change

A Canadian Primer

edited by Cy Gonick

Peak oil and climate change were mere hypotheses only a few years ago. This book brings together some of Canada's and the world's leading authorities to explore the origins of twin crises of our times and to evaluate the various solutions being advanced. What emerges is an engrossing discussion that is critical, sophisticated and plain spoken, challenging and controversial. Energy Security and Climate Change will be of interest to those seeking an introduction to the issues, as well as those looking for a greater depth of analysis.

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In Washington and London, Prime Minister Stephen Harper bragged that Canada is a new 'emerging energy superpower', and a secure source of almost limitless energy resources (Taber, 2006). Is Canada really an energy superpower? A true superpower is one that can influence events by projecting economic, military, political and cultural power on a world scale.

Critics argue that, on the contrary, Canada is a U.S.-resource satellite, or neo-colony (Vickerman, 2006). Satellites are formally independent countries, dominated through deep ideological allegiance, and economic dependence on a more powerful country.

Which view is closer to the mark? On the superpower side, Canada has one of the world's greatest supplies of oil, more than in Saudi Arabia. Ninety-eight per cent of it is in Alberta's tarsands. Canada has large supplies of coal, uranium and hydropower too, but not yet many alternative power sources. On the other hand natural gas and conventional oil are running out, with fewer than 10 years 'proven' supplies of each (StatsCan, 2004: 8). On balance then, Canada has the potential to be an energy superpower. But, Canada's tarsands face several, almost insurmountable obstacles which will likely limit production levels.

To make the goo run, the tar must be heated and hydrogen added. Natural gas is currently the main source of both. If Canada gets tough on carbon emissions, it will no longer permit unlimited tarsand expansion. Greenhouse-gas intensity in the tar sands is almost triple that of conventional oil. Alberta now emits more greenhouse gases than Ontario, despite having only 26 per cent of Ontario's population (Globe & Mail, 28Nov 2005). Nuclear energy is being touted as a carbon-neutral replacement for natural gas to heat the tarsands, but is fraught with environmental dangers. While nuclear-power generation is carbon-neutral, refining uranium can emit a lot of CO₂. There are no long-term, safe methods to dispose of spent uranium, and nuclear accidents can happen, with devastating results.

Heating the tarsands is only one of the environmental obstacles which limit Canada's oil output. The tarry sands require 2-5 barrels of water to produce one barrel of oil. Alberta's northern river flows are dwindling under the burden (Woynillowicz, 2005). Finally, construction and extraction costs are currently very high. On the other hand, Canada is running out of cheaper, and less environmentally damaging, **conventional**-oil, with fewer than 10 years of 'proven' supplies remaining.

But environmental obstacles are not the only thing blocking Canada from becoming an energy superpower. The U.S. empire's obsession with gaining control over the world's energy supplies by any means, and the sway of oil transnationals in Washington and Ottawa, make assertions of Canadian energy superpowerdom ludicrous. A day after the Harper Conservatives won the 2006 election, officials from Natural Resources Canada met in Houston with their US counterpartsⁱ. The latter urged Canada to increase tarsands production five-fold and export most of it to the United States.

Superpowers are supposed to influence world events. What kind of superpower lets foreign corporations dominateⁱⁱ their resources, and practically gives away tarsand oil, its biggest resource, at as low as 25 cents per barrel – to giant transnationals like Exxon? What kind of superpower gives up the right to set its own domestic oil and gas prices, block foreign ownership of the energy industry, or limit exports, so it can cut greenhouse gases?

Paradigm Shift

The ground has shifted dramatically since the 1990s. Gone is talk about a borderless world, cheap oil, cavalier denials of climate change, and transnational oil corporations ruling the roost. Instead, we are witnessing 'security trumping trade', disastrous wars for oil, and rising energy prices. We also see energy transnationals losing their grip, and government energy-security strategies partly supplanting open markets.

In some ways, it's a return to the past. The power to control the world's oil has recently shifted sharply from the U.S., and the transnationals, to oil producing countries. State-owned companies dominate again, and now hold 77% of the world's oil supplies. Long-term, state-to-state contracts are replacing spot markets. This means that Arab countries could, for the first time in 25 years, effectively boycott the U.S., as they did with considerable psychological effectⁱⁱⁱ in 1973-4 (Stroupe, 2006, part 1). What is new is that

this power shift coincides with political elites suddenly taking climate change seriously, and security issues superseding open trade and investment.

In this chapter, I show how climate change issues connect with those around energy security for Canadians, and popular national control, demanding a paradigm shift.

While many other countries are grappling with today's new challenges, political debate in Canada continues as if the world is unchanged. International treaties and other neoliberal obstacles left over from the late 20th century, currently hold Canada in the old paradigm. In NAFTA, the North American Free Trade Agreement, Canada foolishly guaranteed the U.S. unlimited access to Canadian energy, even if Canadians were to run short during an Arctic cold front. Until Canada grasps 'energy independence', and a new 'national energy policy', as US leaders call their plans, Canada cannot seriously address climate change. To do the latter, Canada would have to regain control over energy exports, ownership and production levels. Canada needs a new energy strategy.

Proportionality is the major problem. A technical term that conceals how much Canada's hands are tied, proportionality was part of the 1989 Canada – US Free Trade Agreement, and continues in NAFTA. Proportionality forces Canada to export the same share of energy – 63% of Canadian oil production, and 56% of natural gas^{iv} - as in the past three years^v.

Mandatory proportionality currently reigns, but need not continue to. Canada can demand a Mexican exemption. Mexico is a NAFTA member, but wisely exempted itself from proportionality's compulsions (NAFTA article 605). Canada can and should demand a similar exemption. If the US refused Canada's demand, as President Clinton did in 1993 (Beltrame, 1993), Canada can exit NAFTA by giving six months notice (NAFTA article 2205).

Readers may wonder how Canada got stuck with proportionality, which is so contrary to Canadians' interests. The answer is political power. In the 1980s, proportionality was promoted by oil and gas corporations as a way to gain access to U.S. markets during an oil and gas slump in Canada. The corporations aimed to gain quick profits by exporting Canadian energy in its raw forms. Naturally, U.S. subsidiaries attempted to secure Canadian energy for use by their parent company. Domestic corporations saw greater profits in exporting to the large U.S. market, than confining themselves to Canada.

No one should be surprised when corporations act in their self-interest, but citizens expect their governments to protect the public good. This did not happen. Conservative governments in Alberta and Ottawa worked very closely with the oil corporations to overturn the far-sighted, energy independence policies of the 1970s and early 1980s. Promoted by the Conservative governments, the *proportionality* clause was inserted into the Free Trade Agreement with the United States to ensure that future Canadian governments would not reverse it, and thereby dim prospects for huge, future oil profits. Former Alberta Premier Peter Lougheed declared: "The biggest plus of this [Free Trade]

agreement is that it could preclude a federal government from bringing in a National Energy Program ever again" (Lougheed, 1988).

They called the Agreement 'free-trade' to appeal to Canadians, but the international deal was mainly about guaranteeing the U.S. unlimited access to Canadian energy (NAFTA chapter 6), and recognizing the rights of unelected corporations above those of elected governments (NAFTA chapter 11).

Continental vs Canadian Energy Strategies

Harold Innis, the great Canadian historian, wryly commented on the standard story of Canada evolving from 'colony to nation'. Instead, "Canada moved from colony to nation to colony", he asserted. The implication was that Canada enjoyed a brief period of independence as it shifted from "British imperialism to American imperialism" (1956: 405). Today, the question is whether Canada can move to independent 'nation' status again, particularly regarding energy. To understand how Canadians can retake control over their energy future and cut greenhouse gases, we need a brief look at the tug of war between national and continental energy policies.

By the 1950s, it was evident that bountiful American resources were running out, particularly in energy. Consequently, America's corporate and political elites increasingly cast covetous eyes on Canada's plentiful supply, as the most secure and receptive source for their insatiable appetites. Two roads were possible: 1) foreign ownership and 2) shaping Canadian policies. Standard Oil's^{vi} takeover of Canadian-owned Imperial oil in 1899, began a trend to foreign domination of Canadian oil and gas, that reached 90% by 1960 (Laxer, 1983: 7).

Influencing Canadian policies was the other road to controlling Canada's energy resources. U.S. petroleum corporations have pushed Washington to pressure Canada into exporting energy on a 'U.S.-first' basis. American corporations have also influenced Canada from the inside. As English-speaking managers of foreign subsidiaries, they could 'pass' as part of Canada's corporate community. In 1965, George Grant portrayed foreign corporate sway inside Canada this way: "foreign capital is able to determine possible governments by incarnating itself as an indigenous ruling class" (43).

By the 1960s, Canada was copying American energy policies. Because U.S. oil supplies cost more than Middle Eastern and Venezuelan, the U.S. imposed quotas to protect most of the U.S. market from cheap imports. Western Canadian oil, high-cost like U.S. oil, was treated as if it were American oil, and exempted from U.S. import quotas. Ontario and the West were reserved for expensive Western Canadian oil. From 1961 to 1973, Canada's 'National-Oil-Policy' (NOP), paralleled U.S. policies. Ontarians subsidized Western oil, while cheaper imports supplied Atlantic Canada and Quebec. This pattern made sense for U.S. transnationals, but left Canada with a continental energy policy which served the interests of the U.S. more than Canada (Laxer, 1983: 8).

The 1970s was dominated by international oil crises and dramatic policy shifts. OPEC, the Organization of Petroleum Exporting Countries, a grouping of mainly Middle-

Eastern, oil exporting countries began asserting national and government control of their oil resources. As owners of their resources, they demanded, and got, higher royalties and helped drive up the international oil price by more than 10 times over a very short period. The energy world was turned upside down, and Canada responded by abandoning the continental, pro-corporate policies long advocated by big, foreign oil. Canada boldly began to forge a Canada-first strategy, and challenged control by the transnationals.

Canada briefly gained energy independence, demonstrating that energy sovereignty was an option. A new Canadian nationalism strengthened at the time of Canada's 1967 centennial, and Expo 67, Montreal's wildly successful world exposition. It was a time when many Canadians, and those in other countries, saw the United States in increasingly negative terms – the war against Vietnam, race riots, and gun culture. Canadians embraced economic nationalism and, like many people abroad, desired to control their own resources.

Pushed by the political left and citizens' movements through the 1970s, the Trudeau government adopted Canada-first energy policies. They culminated in the National Energy Program [NEP] in 1980. The Canadianization goals of the NEP were wildly popular, hitting an 84% approval rating (Nickle's, 1981). The goal was to end foreign transnationals' domination over Canadian oil and natural gas by rapidly expanding PetroCanada, the government's oil company, and through promoting private Canadian ownership.

The Canada-first policies of the 1970s and the NEP, reduced oil exports to the US, and sent Western supplies east to partly displace oil imports. Canada continued to export oil though, and charged U.S. buyers the world price, which was higher than Canada's domestic price. The differential between the Canadian and the world price was captured by the federal government. It used the funds to lower oil prices for those Eastern Canadians still consuming foreign oil. In this way, although Canada did not supply domestic oil to all Canadians, they all paid the same, low price, wherever they lived. As one can imagine, this was a very popular policy in Eastern and Central Canada.

Keeping Quebec in Canada was a major goal of the government's bold, energy-independence agenda. At a time when the Parti Quebecois had been elected to its first term, and held its first sovereignty referendum, the Canada-first energy policies were presented to Quebecers, as a reason to stay in Canada. Quebec has no oil or natural gas of its own. Low Canadian oil-prices, and a share of energy revenues, were attractive to Quebecers.

While popular in Eastern Canada, the NEP was greatly resented by big oil, and the U.S. government. After a first burst of support for its Canadianizing policies, the NEP caused an explosive reaction in Alberta, home to Canada's oil and gas industry. Provinces, not the federal government, own crown resources. The NEP was seen widely as a federal attack on Albertans' rightful share of their energy wealth. They were partly right. Alberta's counter attack was based in the foreign-controlled oil corporations, but was also genuinely populist. Hence the popularity of a bumper sticker which read 'let the Eastern

bastards freeze in the dark'. Alberta's government substantially cut oil supplies to Eastern Canada and economic civil war ensued (Doern & Toner, 1985: 266-75).

Timing was unfortunate for the NEP. World oil prices crashed in 1982, which led to a widespread debt crisis in the global South. Although all oil producing regions in the world suffered a devastating crash after enjoying boom times, most Albertans blamed the NEP for Alberta's long economic crash of the 1980s. They were helped along in this view of the cause of their misfortune by an hysterical corporate media and Alberta government. The stage was set for overturning the National Energy Program and inserting the proportionality clause to ensure it would never rise again. The old NEP was gone, to be replaced by a new NEP – No Energy Policy, which still reigns today.

A Canadian energy and conservation strategy

That was the context in which Canada gave up control over domestic energy resources and many of the necessary means to substantially limit greenhouse gases. But Canada did not give up control forever. Canada can, indeed it must, develop a new strategy and paradigm to deal with the issues of the 21st century – the threat of climate change and energy insecurity. What would such a programme entail (Parkland, 2005)?

- Impose an immediate moratorium on new tarsands projects. Tarsands are the single largest contributor to Greenhouse gases in Canada.
- Get a Mexican exemption on compulsory energy exports [proportionality], or give six months notice and exit NAFTA. It will be difficult to convince Canadians to drastically cut energy use, if most of the energy they save, is exported to the USA under proportionality.
- End oil imports to Eastern Canada. Don't let the 'Eastern bastards' freeze in the dark. Reduce, not end, oil exports to the US to do this.
- Reinstitute the 25 years of 'proven' supply of oil and gas for Canadians before export licences can be issued.
- Build enough oil pipeline capacity to Montreal to ship Western oil to Eastern Canada. Redirect Nova Scotia's natural gas and Newfoundland's oil from exports to the New England states, to meet Atlantic Canadians' needs. Build a national electricity grid for power sharing across Canada.
- Then, instead of building more tar sands plants at \$10-12 billion per project, provincial and federal governments should adopt policies to reduce energy usage and carbon consumption for a fraction of the cost.
- 100% of the economic rents [excess profits] on existing oil and gas should go to the resource owners – citizens of energy-producing provinces and First Nations. Norway gets 3-6 times as much economic rent per barrel of oil as Alberta. The latter is giving away billions in 'unearned' or 'excess' profits to Exxon-Mobil, Shell, and other oil transnationals.
- Use the extra resource revenues collected to fund *just transitions* to a post carbon society. Just transitions include guaranteeing alternative jobs for workers in fossil fuel industries, and making sure that higher prices on fossil fuels, do not block low-income people from gaining adequate access to home heating, and transportation in a post-carbon society. It also means that all sectors, especially

- industry, and rich people, cut their disproportionate carbon emissions. They will not be permitted shirk their responsibilities by paying someone else to cut emissions in their place. No one, and no corporation, should have more right to foul the atmosphere, than anyone else. Thus the rich must reduce their emissions to levels of the poor.
- Follow Canadian public opinion, and nationalize, or provincialize, part or all of the oil and gas industry. This would ensure continued Canadian control. Private Canadian owners are often targeted for takeover by foreign owners. Profit-driven corporations are limited to pursuing the bottom line, but crown ownership allows corporations to fulfil public policy goals of energy conservation, and upgrading resources in Canada before exports. A Leger poll in 2005, showed that 51% of Canadians with an opinion, supported nationalizing the oil corporations, including 60% of the young (Leger, 2005).

Conclusion

With the mounting evidence of a looming climate-change catastrophe, most Canadians support urgent action. To meet its international Kyoto targets and then go far beyond them, Canada needs to reduce oil and gas exports, and drastically cut energy consumption. Canada should forget about fantasies of energy superpowerdom, and instead become a world leader in making a just transition to a post-carbon society.

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ⁱ U.S. urges 'fivefold expansion' in Alberta oilsands production" January 18, 2007 CBC News. www.cbc.ca/canada/story/2007/01/17/oil-sands.html#skip300x250

ⁱⁱ 49% of the assets of Canada's oil and gas industry are foreign-controlled.(Statistics Canada, 2006: 315).

ⁱⁱⁱ There is controversy about the boycott's economic effectiveness. Contemporary newspapers reported oil tankers parked off North American shores, waiting for prices to rise before landing.

^{iv} These ratios are the level of exports over total Canadian production. NAFTA calculates proportionality by relating exports to total supply - Canadian production plus imports plus inventory drawdowns. John Dillon, 'How NAFTA Limits our Energy Options', unpublished paper. Sept 2006.

^v NAFTA article 2102 allows Canada to override proportionality, but only temporarily during war or other international emergencies.

^{vi} John D. Rockefeller's Standard Oil was the major forerunner of today's Exxon-Mobil.