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# A New Canadian (National Energy) Strategy

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**May, 2013**

**A New Canadian (National Energy) Strategy**

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### **A New Canadian (National Energy) Strategy**

In a province where the memories of the economic wounds of the National Energy Program (NEP) of the 1980's remain vivid, raising the idea of a national energy strategy is perhaps not for the faint of heart. Yet it is becoming clearer every day that such a strategy is necessary if Canada is not to be left behind in the global energy marketplace.

The NEP was intended to promote and expand Canadian sovereignty in the oil and gas industry. It failed. In consequence, there were production losses, massive layoffs, reduced value of company stocks and a recession from which the industry took years to recover. Why?

The NEP instituted increased production taxes on oil and natural gas together with a domestic price for oil that was below that of imported oil or oil sold in the United States. Thus it increased the cost of production while limiting the revenue that could be realised by producers. At the same time, Canada faced the complications of high interest rates, price fluctuation, the activities of the Organization of Petroleum Exporting Countries (OPEC) and a general worldwide economic slowdown. The statutory changes of the NEP also brought about joint ownership and regulatory management among the two levels of government beginning with Newfoundland-Labrador and Nova Scotia. While a positive aspect of this was the discovery of offshore fields such as Hibernia, Wildrose and others, the increased exploration also created an excess of supply over demand, resulting in a general downturn for the industry.

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From this troubled period came a policy, or lack of policy, for energy development that effectively left the industry at the mercy of market forces. This lack of vision and leadership has brought us to a point where we face major obstacles to success without a business plan to overcome them. If Canada is to play a “superpower role” on the global energy market, it and its energy producing provinces and territories must execute a multifaceted, accountable and sustainable strategy that will provide the economic growth vital to Canada’s economic future as an energy superpower through stable revenues from royalties and land sales and the highest possible price for international commodity sales. The strategy must at the same time ensure long-term sustainability of the industry, conservation of the environment and respect for constitutional treaty rights of aboriginal peoples.

The economics of global energy demand determines the selling price of all forms of energy. Whether it is the West Texas Intermediate price per barrel of crude oil or the price of a cubic meter of natural gas, we are at the mercy of geopolitical unrest, natural disasters and market forces that place us on a rollercoaster of skyrocketing and plunging prices. In the absence of a national energy strategy, national revenues and our trade balance with the rest of the world will constantly be at risk. A strategy that ensures price stability for both crude and value added products will lead to greater economic growth and increased exploration, production and development which will in turn provide the financial resources for governments to save for the future through such vehicles as the Heritage Trust Fund and to support education, health care and programs for a growing population of seniors.

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We need a national strategy to ensure not only that prices are stable, but that we are getting the best price possible for both our raw and upgraded energy commodities for sale in Canada and internationally. Recently, Canadians were introduced to the term “bitumen bubble” which refers to the “price differential”, the difference between what Alberta producers get for the heavy oil that comes from the oilsands and the benchmark price for West Texas Intermediate. At this time, the difference can be as much as \$30 per barrel. At that rate, the Alberta government estimates that it could lose approximately six billion dollars this year. The Canadian Imperial Bank of Commerce projects that the national loss will be \$18 billion for 2013 or approximately \$50 million per day. As the world looks to Canada in search of energy, Canada must have a fiscal plan that ensures a fair economic financial return for producers and provides governments at all levels the economic capital to fund government services, infrastructure development and savings.

A national strategy is needed to ensure that the industry has the resources necessary to sustain itself. These include a skilled workforce, research and development to improve the way energy is produced and transported, the infrastructure to get the products to market and sufficient markets to which to sell its products. We need to invest in the areas of education required by the energy industry. Of course, energy development involves a wide range of activities but I suggest that we need to place particular emphasis on the areas of engineering and technical development that will help prevent and improve response to emergencies that threaten the environment. Where it is necessary to import skilled workers we should have a system to ensure they receive the training they need to be effective in the Canadian environment.

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Just as the industry cannot function without a skilled workforce, Canada cannot reap the benefits of its success in exploration and production if it does not have the means to get the product to market. At this time, the focus is on increasing pipeline capacity to the refinery markets in the southern United States and to Canadian west and east coast ports for transport by large ocean tankers. Our only “secure” market, the United States, does not have the need for Canadian energy that it once did. Although we must continue to market to the United States, it is essential that we expand our trade opportunities to other markets, in particular the prosperous Asian market of three billion people.

While expanding our reach to markets around the globe, we must also pay attention to energy security at home. To achieve this, Canada must have a long-term strategy to develop and build a vast network of pipelines and oil refineries in strategic locations across the country. This will ensure that Canadians have reliable, affordable sources of energy.

Even as we consider the economic reasons for having a national strategy, we must remember that conservation of the environment is critical. By taking only what we need of our land, water and soil, applying the best technology we have today, and investing in research and development to make production procedures and processes as safe as possible, we can ensure that the environment is sustained for future generations. The energy industry is committed to protecting the environment. A national strategy that includes regulations that are simple and transparent will support continual improvement in this area.

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A national strategy is also needed to ensure that aboriginal peoples are included as equal partners in decisions regarding energy production. Exploration is occurring on and next to aboriginal treaty lands, yet consultation with the aboriginal peoples has often been lacking. It is essential that the rights of aboriginal peoples be respected and their concerns addressed. Failure to do so results in adversarial situations that benefit no one.

For the reasons just discussed, I believe that the question is not whether we need a national energy strategy – we do – but how do we pull the pieces together, so that they all align properly like the colours on a Rubik’s cube to ensure that all of the critical elements – the viability and sustainability of the industry, conservation of the environment, and the rights of aboriginal peoples are properly addressed? The starting point should be a task force, with a six month mandate to formulate the strategy. The work of this task force would not be to undertake lengthy study or research, rather, it would be to review and update the wealth of information that is already available. At a minimum, the membership on this task force should include representatives of the federal government, the Council of Premiers, the aboriginal community, the environmental community, the renewable and non-renewable energy industries, the financial community, the National Energy Board, the energy service industry, the transportation industry, academics in the variety of disciplines key to the energy industry and members of the general public.

In building the strategy, the task force should consider the history of energy development in Canada, what has worked and where we need to improve. It should undertake an inventory of all of the forms of energy available in Canada, assessing the

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economic viability of each. Environmental concerns should be reviewed and strategies considered for the conservation and protection of air, soil and water. There should be an analysis of the status of the resources available to the industry including skilled workers, research and development and the infrastructure to transport energy products to market. Current and potential markets for our products, both domestic and international should be inventoried and prioritized. The task force should also consider how aboriginal consultation, regulatory integrity and Arctic sovereignty can be embedded in a national energy strategy. Once the strategy is in place, it should be treated as a living document, continuously reviewed and kept operational in light of changing factors

I have already discussed the cost to the Canadian economy of the discount prices that Alberta producers get for their energy products. A national energy strategy should address this issue in several ways.

- First, it must increase the infrastructure to transport the energy products to market, through new refineries and a network of new and larger volume pipelines to the east and west coasts of Canada.
- Second, it must determine an expanded hierarchy of priority markets, for example, Europe, the United States and Asian countries.
- Third, it must set out a comprehensive strategic business plan to allow Canadian enterprises to plan, develop, process and market the oilsands of northern Alberta.
- Fourth, the strategy should establish guidelines for taxation of the energy industry and determine a fair royalty structure to bring increased revenue

sources to governments and future generations of Canadians. Finally, it must create business plans and research programs to develop and market energy sources other than oil, such as natural gas, electricity, nuclear power, wind, solar, tidal power and biomass.

A key goal of a national energy strategy should be to conserve and protect the environment with a zero tolerance for man-made pollution. To reach this goal, we require a fair and balanced regulatory system for introduction, review, study and approval of proposed projects in a reasonable time. The system must be transparent, simple and consultative, with the objective of reaching consensus. It must include the principle that there must be fair compensation to those affected when there is damage to the environment. There must be a clear policy in relation to the provisions of the Law of the Sea Convention<sup>1</sup> along with a transportation and safety program for oil and liquid natural gas tanker traffic off the coasts of Canada.

A national energy strategy should specifically include a means for Canadians to have input into a debate on CO<sub>2</sub> emissions, a carbon tax, and plans for protecting our air, soil and water. While acknowledging that the extraction of many energy sources affects the environment, the strategy should lay out how industry, together with government, will provide the best fail-safe systems possible. If disaster occurs, there must be state of the art technology and equipment available to mitigate the harm and restore the damaged area.

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<sup>1</sup> The United Nations Convention on the Law of the Sea (UNCLOS) is a comprehensive collection of laws which define the rights and responsibilities of nations in their use of the world's oceans, and provides guidelines with regard to the environment and the management of marine natural resources.



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A critical environmental consideration in a national energy strategy must be the protection of the Arctic. In 2009 the Canadian government announced a “Northern Strategy” to protect our sovereignty in this environmentally sensitive area with its vast resources of energy and minerals. In the coming days, Canada will make public its subsea claim in the Arctic to the United Nations for review and decision.

As advances in technology increase opportunities for exploration and climate change opens the possibility of navigation of the northwest passage to world shipping traffic, it is essential that our national energy strategy include the continuous renewal of our northern strategy and that Canada be proactive in protecting its sovereign territory including the surface and sub-surface areas in the Arctic archipelago. It must enforce the Law of the Sea Convention and be the guardian of the northwest passage. An important element in this should be the completion of a state of the art Canadian ice breaker to patrol, protect, and enforce the laws that protect those parts of the Arctic that are within Canadian jurisdiction.

Finally, countless future projects in Canada will depend on the participation of our First Nations, Inuit and Métis peoples. A national strategy must include a process for including them in meaningful consultation when seeking approval for new projects. The process must respect the spiritual connection of the aboriginal peoples to the land and be prepared to address their concerns in order to gain approval to proceed. The goal should be to work with them in equal partnership to ensure that they share in the benefits of

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energy production through employment, improved quality of life and conservation of the environment.

The scars left by the NEP of 1980 are real, but they do not negate the need for a national energy strategy in 2013. Due to the policy vacuum that grew out of the era of the NEP, we are faced with a limited market for our energy products, a low price for our energy commodities and a regulatory regime that is neither effective in its consultation process nor timely in its decisions. Where the world looks to Canada as an energy super power, in fact we fall far short of that status.

The time has come for a national energy strategy that takes into account the viability of the industry, conservation and protection of the environment including the Arctic, and the protection of the rights of our aboriginal peoples. It is time to build a regulatory process that has integrity and transparency, employs full consultation with all major stakeholders, including aboriginal peoples, and that encourages decisions that balance economic and environmental interests. It is time to build the infrastructure to get our crude and other energy commodities to new and existing markets at the highest prices that the market will allow. The world is looking to Canada as a leader in energy development and a source of energy products for their own countries. Canada urgently needs the leadership, political will and vision to come together to build a strategy to manage all of the forms of energy that touch our lives in so many ways and to ensure our future economic gain. To fail to do so will position us not as a leader in the global energy marketplace, but a follower.



Canada is one of the most democratic countries of the world. Its diversity and cultural richness are the basis for our prosperity. However in recent past there have been too many instances of government mismanagement, which if left unchallenged can and will endanger our democratic system.

In the 21<sup>st</sup> century we can no longer manage our public institutions with 20<sup>th</sup> century models. It is time to re-examine the role of government in our society and seek new ways for the delivery of public services. We need more transparency and accountability in the public sector. There is a need for a new vehicle to allow citizens to express their opinions and provide new ideas to maintain our prosperity.

**The Institute for Public Sector Accountability (IPSA)** is a non-profit organization founded to promote transparency and accountability in the public sector. **IPSA** is dedicated to the enhancement of democracy.

**Vision:**

**Through research, analysis, evaluation and the publication of papers and articles, IPSA will inform and provide new ideas and add a new voice to the democratic process.**

**Mission:**

- **To inform the public on issues related to the public sector**
- **To be a voice to make government more transparent and accountable**
- **To educate the public on matters concerning public policy**
- **To promote dialogue between the public, politicians, and public sector administrators**

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The Institute for Public Sector Accountability is a not-for-profit organization, and we cannot enhance democracy and promote your ideas without your help. We invite you to support us and make a donation. Please contact our President and CEO at (403) 238-3865 for more information.

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