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Black Gold: A Series About Oil

Oil and Gas—a Mess of It in Canada ~ *Peter D. Carter*

Adapted from 'America's Gas Tank: The High Cost Of Canada's Oil and Export Strategy,' by the Natural Resources Defense Council (US) and the Sierra Club of Canada (2002).

At first sight, Canadian policy on our oil and gas reserves is resulting in an increase in oil and gas exploration; in exports to the United States; in depletion of Canadian oil and gas reserves; in deregulation of the oil and gas industry; in takeover of the Canadian oil and gas industry by the US; in greenhouse gas emissions and toxic air pollution in Canada.

This would hardly appear to be in Canada's best interests. And this is not unlikely to be the case, for in the present continental, market-driven oil and gas economy, Canada is losing all control of its own oil and gas energy resources. The resource is controlled by the market, which is in the US. That market takes no account of Canadian future energy needs, Canadian employment, the Canadian natural environment, Canadian health, or Canadian emission of greenhouse gases. Canadian policy counts for little in the current economic situation.

The Market

The United States consumes more oil and gas than any other nation on the planet. Although it accounts for less than 5% of the world's population, it consumes about one-quarter of the world's energy.

More and more, the US is turning to other countries to meet its seemingly insatiable energy demands. Canada, and not Saudi Arabia, is the US's single largest foreign supplier of oil and gas. Indeed, the past decade has seen a boom in oil and gas drilling in Canada. At the same time, Canada has deregulated its energy sector, with the result that American corporations have taken over many Canadian oil and gas companies.

In 2001, Canada produced 803 million barrels of oil and 6.5 trillion cubic feet of gas, making it the world's 14th largest oil producer and 3rd largest gas producer. Since 1990, Canadian oil production has increased by fully 47%, while gas production increased by 69%. Most of what is drilled from Canadian soil is exported—59 % of oil and 57% of gas—and nearly all of it goes to the United States. Canada now supplies the fuel for 15% of overall US gas use and 9% of overall US oil use. Canadian oil is burned in the US transportation sector, while the majority of Canadian gas sent to the United States is used to make industrial chemicals, with an increasing percentage being burned by gas-fired power plants.

Driving Money: Deregulation & NAFTA

Since the mid-1980s, Canada has deregulated its energy sector to facilitate the free flow of Canadian oil and gas into the United States, culminating in the energy provisions of the North American Free Trade Agreement. The NAFTA created a North American market for oil and gas. In return for unrestricted access to Canada's oil and gas resources, the US gave Canada unrestricted access to its energy markets.

Under NAFTA, Canada can neither give preferential treatment to Canadian resource production, nor intervene to raise prices on energy exports to encourage conservation or protect energy supplies. NAFTA also requires that, in the event Canada wishes to reduce exports, it must nevertheless provide the United States with the same proportionate share of oil and gas it supplied over the previous 36 months. Unlike Canada, Mexico did not sign NAFTA's 'proportionality' clause. It is this clause in particular that led many commentators to call the terms of NAFTA a sell-out of Canada to the US.

The provision is particularly relevant to Canada's gas industry. Since 1982 new drilling in Alberta has failed to replace gas produced. New wells typically yield smaller daily volumes of gas and are exhausted more quickly. So, for example, gas production in Alberta, home to most of Canada's gas supplies, is expected to drop by 2% per year over the next five years.

According to the Canadian Gas Potential Committee, a group of senior geoscientists, Canada simply does not have enough gas to meet US demand. While American energy forecasters expect Canada to supply the US with an additional 2 trillion cubic feet of gas every year of the next decade, that gas may not exist, even when currently untapped northern and offshore supplies are included.

Subsidies

Conversely, free trade and NAFTA have done nothing about the huge government subsidies to the oil and gas industry. This ensures that renewable energy development cannot compete

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fairly with oil and gas. The Canadian government uses the public's tax dollars to promote fossil fuel production and associated health and environmental damage through subsidies, tax breaks, and low royalties. From 1977 to 1999, the Canadian federal government alone gave the oil and gas industry $40 billion (all figures in Canadian dollars) in subsidies. Provincial governments have provided even more.

Moreover, incentives often favour the worst kinds of projects. That is the case with the tar sands production, where royalties are reduced from 25% to 1% (about $1 per barrel) until the company recovers its capital costs. In addition, companies pay no federal income tax until the tar sands project has written off its capital costs.

Newfoundland's Hibernia offshore oil project will earn $1.5 billion for taxpayers during its life span--less than the amount the governments of Canada and Newfoundland invested to support the project.

The American Take-over

Another important factor is at work as well. The removal of barriers to the passage of Canadian fossil fuels to the United States, as well as to US ownership of Canadian resources, has touched off an aggressive takeover of the Canadian oil patch by American companies. American-based energy giants, including Duke and Devon, have bought more than $28 billion worth of natural gas companies over the past few years. Conoco bought Gulf Canada for $7 billion, and Burlington bought Canadian Hunter for $3.3 billion. Afterward, a review by Ernst and Young concluded that, 'There simply isn't much left to buy!'

One significant result of the Americanization of the Canadian oil patch is that decision-making on the future of Canadian oil and gas reserves has moved from Canada to corporate offices in Denver, Oklahoma City, and Houston. 'Once you lose head offices, you become a branch office town,' noted Dick Haskayne, chairman of Trans-Canada PipeLines Ltd.

With deregulation of health and environmental protection, investment in the coal industry has reappeared. This was once regarded as barely conceivable because of coal's incomparably worse record of damage to human and environmental health. Canadian exports of energy from fossil fuel may also be taking the form of coal-fired electricity plants in Canada, with the power flowing to the United States.

EPCOR and TransAlta have proposed new Alberta-based coal-fired plants that would create a power surplus in the province--thus permitting sale of excess energy to the United States. Meanwhile, Ontario's Hydro One is proposing to build a new transmission line under Lake Erie that could provide Pennsylvania and Ohio with power from the company's coal-fired Nanticoke plant, Canada's largest source of air pollutants.

Instead of moving forward to a renewable energy age, the deregulated market is pushing us backwards towards the coal age. While FTA/NAFTA trade rules ensure an ever increasing delivery of oil and gas from Canada to the US, there is no corresponding bilateral agreement or rules on health, employment and environmental protection. The US Congress fought hard for these provisions but failed.

As the oil and gas economic takeover continues, under NAFTA terms and deregulation Canada progressively loses control of its own energy resource for its own best benefit. At the same time, it becomes impossible for Canada to control the damaging effects of oil and gas consumption and exploration, no matter what Canadians or Canadian governments may say.

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