

Reprint **Island Tides**

Visit www.islandtides.com for more interesting articles on other BC, national & international topics

Reprint from Volume 18 Number 8

May 4, 2006

Black Gold, Oil in 2006

Sharing, NAFTA Style - Patrick Brown

Under NAFTA, the US has the right to share equally with Canadian users in any increase in Canadian oil production. The figure often quoted is that some 62% of Canadian oil production is exported to the US.

But what many Canadians do not realize is that the actual clause in NAFTA, Article 605, prohibits Canada from taking any action which could reduce the US share of the total Canadian oil supply.

This is relevant because while Canada produces more oil than it uses, a significant proportion of the oil we actually consume comes from imports, mainly from OPEC countries Algeria, Saudi Arabia, and Venezuela, and non-OPEC sources in the UK and Norway.

The Canadian domestic oil market is divided, east and west, about half and half. Eastern Canada's petroleum supply is mainly refined from imports. Western Canada's comes from Canadian production.

Thus the term 'total supply' in Article 605 includes Canada's oil imports, and the relevant figure is that we export about 48% of this total to the US.

The actual wording of Article 605 includes the following (*Editor's Note:—if your eyes glaze over in the following two sections, skip to 'Commentary' on page 9*):

Article 605: Other Export Measures

A Party (*that's Canada*) may maintain or introduce a restriction otherwise justified under the provisions of Articles XI:2(a) and XX(g), (i) and (j) of the GATT (General Agreement on Tariffs and Trade)—these Articles of the GATT refer to 'temporary critical shortages,' the need to 'conserve resources (providing that domestic consumption is proportionately restricted, as described here),' the need to 'ensure essential supplies to a domestic processing industry,' or a situation of 'general or local short supply' with respect to the export of an energy or basic petrochemical good to the territory of another Party, only if:

(a) the restriction does not reduce the proportion of the total export shipments of a specific energy or basic petrochemical good made available to such other Party (*that's the US*) relative to the total supply of that good of the Party maintaining the restriction (*Canada*) as compared to the proportion prevailing in the most recent 36-month period for which data are

available prior to the imposition of the measure, or in such other representative period on which the Parties involved may agree;

(b) the Party (*Canada*) does not impose a higher price for exports of an energy or basic petrochemical good to such other Party (*the US*) than the price charged for such energy good when consumed domestically, by means of any measure such as licenses, fees, taxation and minimum price requirements. The foregoing provision does not apply to a higher price which may result from a measure taken pursuant to subparagraph (a) that only restricts the volume of exports; and

(c) the restriction does not require the disruption of normal channels of supply to such other Party (*the US*) or normal proportions among specific energy or basic petrochemical goods supplied to the other Party such as, for example, between crude oil and refined products and among different categories of crude oil and of refined products.

Interpretation

Briefly, Canada cannot reduce or restrict its supply of oil to the US, nor can it raise the price. This is what NAFTA is all about. If the US is willing to pay market price, which is set in the US, then there's nothing Canada can do about how much is exported. It's interesting that this clause would also appear to apply to natural gas, electricity, and other forms of energy crossing the border. (Also note that Article 605 doesn't apply to Mexico; despite their substantial oil resources—they wouldn't agree to it.)

But note especially the 'total supply' in 605(a). This is defined as domestic production, plus domestic inventory, plus other imports. How does this work?

Canada's 'total supply' in December 2005 was about 573,000 cubic metres/day (a cubic metre is about 6.3 barrels). Of this, about 438,000 m³/d was produced in Canada, and about 135,000 m³/d imported to supply eastern Canada. Of the total, some 300,000 m³/d were consumed in Canada, and the remaining 273,000 exported (48% of the total), virtually all to the US.

Now, suppose that Canadian consumption rose by 50,000 m³/d (this would be about 16%). Whether the additional oil came from imports, or whether it represented an increase in Canadian production (or some combination), the US would be entitled to an additional 46,000 m³/d. So if we consume more

© Island Tides Publishing Ltd. This article may be reproduced with the following attribution, in its entirety, and notification to Island Tides Publishing Ltd.

'This article was published (May 4, 2006) in 'Island Tides', an independent, regional newspaper distributing across the Southern Strait of Georgia from Tsawwassen to Victoria to Nanaimo.'

Island Tides, Box 55, Pender Island, BC, Canada.
Email: islandtides@islandtides.com.

Phone: 250-629-3660. Fax: 250-629-3838.
Website: <http://www.islandtides.com>

Reprint from ISLAND TIDES, May 4, 2006, Page 2

oil, the US is entitled to increased exports from us, whether we produce it or import it.

But how about a more likely scenario: that a Chinese company invested in an oil sands plant, and Canada ended up exporting an additional 50,000 m³/d, produced by the plant, to China. Once again, the US is entitled to an additional 46,000 m³/d from Canada. If Canada attempts to export to anyone other than the US, the US, under NAFTA, is entitled to an increase in its guaranteed supply.

Clearly, this would make it very difficult for Canada to effectively substitute exports overseas for exports to the US. The only thing that's for sure, however, is that the US will take all the oil we can supply.

Commentary

What does all this demonstrate?

1. It shows why the US wanted NAFTA—to lock up Canadian oil. Also shows what poor negotiators Canadians were—now we have no choices.

2. It shows that the Mexicans had more sense than Canadians.

3. As the oil Canada produces gradually changes from conventional to tar sands (3x the GHGs) with its attendant additional energy use and environmental destruction, Canada produces more GHGs, has less ability to meet its Kyoto targets, and is generally up a creek.

4. This basic agreement, which most people don't understand, means that Canada sustains the damage, and the US gets the oil. ☞

Ed's note: What's the matter with us? I doubt that any other major producer of oil is charging its own citizens world oil prices! How fair can you get? However Canadian citizens are more aware of the real cost of oil.

Since 2001, 'Island Tides' has run a series of articles about oil. You can read the complete series on-line, click to 'Black Gold' in the 'Back Issues and Reprints' section of www.islandtides.com). ☞

© Island Tides Publishing Ltd. This article may be reproduced with this attribution, in its entirety, with notification to Island Tides Publishing Ltd.

'This article was published (May 4, 2006) in 'Gulf Islands, Island Tides'. 'Island Tides' is an independent, regional newspaper distributing 15,000-20,000 copies in the Southern Strait of Georgia from Tsawwassen to Victoria, BC.'

Island Tides, Box 55, Pender Island, BC, Canada. Phone: 250-629-3660. Fax: 250-629-3838.
Email: islandtides@gulfislands.com. Website: <http://www.islandtides.com>
