CANADA AS THE "EMERGING ENERGY SUPERPOWER": TESTING THE CASE

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Canada as the "Emerging Energy Superpower": Testing the Case

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Calgary, 15 October 2007

Executive Summary

From the beginning of his tenure as prime minister, Stephen Harper has been promoting Canada as an energy superpower. Disconcertedly, there is no clear definition of what it means to be an energy superpower. Nor has there been a discussion of what this power would be used for, or even if Canadians would enjoy such status. This paper examines the established definition of superpowers and draws upon the historical evolution of energy provision to infer criteria by which energy superpowers can be measured. Based on these parameters and the working definition derived from them, Canada does not qualify as an energy superpower, despite the country's abundant energy resources. However, the energy sector is found to be key to Canada's future economic health. Towards this end, the author concludes that if Mr. Harper chooses to develop forward-thinking energy sector policies that are included in a national vision, Canada could emerge as a true global leader in the responsible and effective management of energy resources.

Depuis le début de son mandat comme premier ministre, Stephen Harper fait la promotion du Canada comme une superpuissance énergétique. Malheureusement, il n'existe aucune définition claire de ce que veut dire cette expression. Il n'y a pas non plus eu de discussion de ce à quoi cette énergie devrait servir, ou même si les Canadiens jouiraient d'un tel statut. Ce document examine la définition établie de superpuissance et emprunte à l'évolution historique de l'approvisionnement énergétique pour tirer des critères selon lesquels les superpuissances énergétiques peuvent être mesurées. Sur la base de ces paramètres et de la définition opérationnelle qui en est dérivée, le Canada ne se qualifie pas comme une superpuissance énergétique, malgré l'abondance des ressources énergétiques du pays. Toutefois, on y découvre que le secteur de l'énergie est une des clés de la santé économique future du Canada. À cette fin, l'auteur conclut que si M. Harper choisit d'élaborer des politiques prospectives touchant le secteur de l'énergie, politiques incluses au sein d'une vision nationale, le Canada pourrait émerger comme un véritable leader mondial dans la gestion responsable et véritable des ressources énergétiques.

In the early days of his new Conservative government and on the eve of his international debut as the Canadian leader at the St. Petersburg 2006 G8 Summit, Prime Minister Stephen Harper delivered a major speech in London to the Canada/United Kingdom Chamber of Commerce. He began disarmingly enough by acknowledging his inexperience: "Ladies and gentleman, this is actually my first speech to a business audience outside Canada since becoming Prime Minister" (2006c).[1] From there, after softly moving through the two countries' shared history and acknowledging his commitment to "preserving and strengthening ... freedom, democracy, human rights, [and] the rule of law," he firmly delivered his punch line:

> One of the primary targets for British investors has been our booming energy sector. They have recognized Canada's emergence as a global energy powerhouse – the emerging "energy superpower" our government intends to build.

Clearly, he came ready to show the world of economic heavyweights that his Canada promised to punch much above its weight, and if what it took to be an "energy superpower" was the production of substantial amounts of all kinds of energy, his bravado was legitimate. He declared:

> We are currently the fifth largest energy producer in the world.
> We rank 3rd and 7th in global gas and oil production respectively.
> We generate more hydro-electric power than any other country on earth.
> And we are the world's largest supplier of uranium ...

But he did not stop there. Harper declared that the development of the oil sands was "akin to the building of the pyramids or China's Great Wall" and noted that "even now, Canada is the only non-OPEC[2] country with growing oil deliverability." The message to those in attendance could be captured by the phrase "[Canada is] the most attractive combination of circumstances for energy investment of any place in the world." But it is possible he also had another audience in mind – Vladimir Putin, president of Russia and host of the upcoming G8 Summit – who was talking energy security in the lead up to the Summit, in contrast to his actions, which fuelled energy insecurity to his European customers.[3] Harper's reply – Canada is here to play, and I, as Canada's leader, am not open to intimidation.

Two months later, an ever-more-confident Harper addressed the Economic Club of New York. After reminding New Yorkers of Canada's immediate help in the aftermath of 9/11, he wasted no time in declaring that "Canada is an emerging energy superpower, the only stable and growing producer of this scarce commodity in an unstable world" (2006b). Once again, he went through his list of statistics, but this time, after mentioning Canada's leadership in uranium production, he added that "[Canada is the] largest exporter of energy to the United States … and presents a tremendous opportunity for American business and a crucial element of continental energy security" (ibid.).

If by chance his audience at home had not yet gotten the message, a month later he told the Insurance Brokers Association of Ontario that "for international investors, the most important sector story I have to tell is energy ... as I have said before, Canada is an emerging energy superpower" (2006 a), and on he went with the list.

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[1] All the quotes that follow come from the same speech.

[2] The Organization of Petroleum Exporting Countries was formed in 1960. The five founding members were Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela. The following nations joined later: Qatar [1961]; Indonesia [1962]; Socialist Peoples Libyan Arab Jamahiriya [1962]; United Arab Emirates [1967]; Algeria [1969]; Nigeria [1971]; Ecuador [1973–92]; Gabon (1975–94], and Angola [2007] (OPEC 2007).

[3] Several European countries were cut off from some of their gas supplies for 4 days in January 2006 as a result of a dispute between Russia and Ukraine over gas prices and contracts (Russia is responsible for 25% of European gas supplies which transit through either Ukraine and/or Belarus via pipeline). For a complete discussion of this episode, see Jonathan Stern, "The Russian-Ukrainian Gas Crisis of January 2006," *Oxford Energy Comment*, January 2006.

More recently, at the APEC Summit in Sydney, Australia, the prime minister promised that Canada would become a "clean energy superpower" (2007). But there is no evidence of a grand vision that would reassure Canadians and the world that Canada is actively working towards becoming an energy superpower, much less a "clean" one. If Harper means using the energy lever for political power, at home or abroad, it is disconcerting that the government appears to have no understanding of how to achieve such a goal. It seems that, despite Canada's impressive energy statistics and a lot of posturing, neither Mr. Harper, nor his government, nor the Canadian public are clear on what it means to be an energy superpower, or even whether Canadians would really want their country to enjoy such status. Unfortunately, there is no precise definition of the term, leaving one to speculate on its meaning and, more importantly, on what this power would be used for.

On Superpowers

Although there is consensus on the meaning of "superpower", the same is not true of "energy superpower". As Mr. Harper's rhetoric demonstrates, this void in conceptual rigour renders the term little more than a catchy sound bite, one without real meaning. So, in the absence of a definition from Mr. Harper, it is useful to try to establish an understanding of what it means to be a superpower in terms of energy.

The concept of superpowers was first discussed near the end of the Second World War, when William Fox, a political science professor at Columbia University in New York, published *The Superpowers: The United States, Britain and the Soviet Union – Their Responsibility for Peace.* In it, he spoke of a super-empowered nation that was a step above the traditional "great power" – a super-state that could match its contemporaries with equal force on a global scale (1944). More recently, Rosita Dellios, an expert on China from Bond University in Queensland, Australia, suggested that "a 21st century superpower needs to be (a) a great power in the traditional sense and (b) a militarily outstanding one, but also (c) a transnational performer" (2005, 5). That is, aside from nuclear capability and the traditional diplomatic, economic, and military resources for preserving the international order, there is an added layer of interaction with "non-state actors, regional forums and the instruments and institutions of global governance" (ibid., 5).

Based on this definition – in spite of the Iraq debacle – it is likely that only the United States qualifies for the status of superpower. However, as Dellios posits, "China has the qualifications to become a 21st century superpower as it is already acknowledged as a great power in the traditional sense, it is modernizing its huge military, giving it the qualification of hard power, and it also can be a transnational performer if the politics of control give way to the soft power approach" (ibid., 6).

It is worth noting that the United States and China are also the world's two largest oil importers and consumers.[4] Fortunately for them, their economic power allows them to throw their weight around in the global energy markets. The United States' involvement in the Middle East is a case in point. On the other hand, thus far, China seems to be taking a 'soft' power approach to securing energy supplies. Yet its substantial tied-aid loan to, and investments in, Angola[5] (between US$2 billion and 9 billion) – which include everything from infrastructure to oil and gas services, to telecom, to health care (Corkin 2006), and even to military equipment (Shinn 2007, 6) – demonstrate that Beijing is not averse to flexing its emerging muscle.

In contrast, Russia, which for decades counterbalanced the United States, lost its superpower status with the demise of the Soviet empire. Now, however, some experts predict Russia will enjoy a resurgence as

[4] According to U.S. Energy Information Agency (EIA) data, in 2006, the U.S. consumed 20.5 million b/d, while China's consumption was 7.2 million b/d.
[5] In the last two years, Angola has become China's leading supplier of crude oil.

an energy superpower. To establish what that might be, history provides a context from which specific criteria can be identified.

Origins of Energy Superpowers

Affordable and abundant energy supplies are key to our way of life. Since the 1909 founding of the Anglo-Persian Oil Company and its partial nationalization by the British government in 1913, and the 1911 anti-trust case against John Rockefeller's Standard Oil Company,[6] there has been an uneasy relationship between energy producers and consumers and between sovereign states and private energy enterprises.

For the next several decades, a group of private international oil companies controlled most of the world's markets to the detriment of the majority of producing countries, particularly those in the Middle East. Although OPEC was formed in 1960, producers were not able to influence prices until the 1973 oil embargo. As a matter of fact, although there was a steady increase in demand throughout the post-war period, the purchasing power of a barrel of oil during that period declined 40 per cent (WTRG 2007). However, everything changed in October 1972, when Syria and Egypt invaded Israel and started the Yom Kippur War.

In response to the Western world's support for Israel, Arab members of OPEC cut production by five million barrels per day (mmb/d), equivalent to more than 8 per cent of the world's consumption at that time. Production from elsewhere was only able to replace one mmb/d, prompting prices to quadruple in just six months (ibid., 3). That was the first time the world got a taste of energy powers using their clout in a political fashion.

Prices eventually stabilized. However, only a few years later, the Iranian revolution, followed by Iraq's invasion of Iran caused another dramatic jump in oil prices: from US$14 in 1978 to US$35 per barrel in 1981 (BP 2007). It is in this context that the term "oil superpower" was first used by *Forbes* magazine in reference to Saddam Hussein's Iraq. The Platts Oilgram News Agency was ready to bestow the same title on whomever won the Iran/Iraq war (*SmartMoney* 2006).

It is surprising that although Saudi Arabia was, and is, the world's largest oil producer (and perhaps the only one with significant spare capacity),[7] there are almost no references in the media or in the academic or public realm to this country being an energy superpower. Perhaps this is intentional on Saudi Arabia's part, as no other nation is as aware of, or dependent on, the fickle nature of oil markets. That country's leaders have learned the hard way that leveraging control over a single commodity for political purposes is a very difficult proposition, almost certainly impossible to sustain over long periods of time. In 1974, Saudi Arabia's oil minister Ahmed Yamani warned his OPEC counterparts that excessively high oil prices were bound to curtail demand, hasten the development of alternative fuels, and provide incentives for exploration and production outside OPEC (WTRG 2007). He was correct. From the mid-1980s until approximately 2003, OPEC found it very difficult to time production quotas to match the economic cycles of consuming countries; more often than not, OPEC members produced beyond their quotas, leading to a softening of prices. During this period, prices stabilized between US$22 and US$30 (in 2006 dollars) (BP 2007).

Then slowly, prices started to creep up, from an average (per barrel and in 2006 dollars) of US$28 in 2002, to US$32 in 2003, to US$40 in 2004, to US$56 in 2005, to US$65 in 2006 (ibid.), and to a record US$82 in September this year (Platts 2007). There were many reasons for the increase, among them: a

[6] Thirty-eight companies were created as a result of the Supreme Court decision; of these, three went on to become world majors – Exxon, Mobil (which have since merged to form ExxonMobil) and Socal (which merged with Gulf Oil to form Chevron) (Sampson 1991, 71).

[7] Saudi Arabia's production for the period from 1990–2006 averaged 9.4 million b/d; while the U.S. averaged 7.9 million b/d, and Russia averaged 7.7 million b/d for the same period.

sustained period of worldwide economic growth leading to increased demand for all forms of energy, particularly in China and India; [8] considerable production disruptions, first in Venezuela (the oil strike of 2003), and lately in Nigeria; Hurricane Katrina hitting the Gulf of Mexico and shutting down a significant percentage of American oil and gas production [9] (Bamberger and Kumins 2005), in addition to causing a loss of 5 per cent of the country's refining capacity for an extended period of time (EIA 2007); the increasing restriction on access to resources, a consequence of the concentration of reserves in the hands of national oil companies; and the Iraq war. It seems that the fundamentals for sustained high prices – strong and diversified demand combined with production constraints – are all in place.

As the current global scenario shows, high oil prices have many consequences. For example, oil deposits which are expensive to extract, such as the bitumen in the oil sands of Alberta, become economical. There is more incentive to develop alternative fuels – something that is even more pressing as the public's concerns regarding the environment grows. For instance, worldwide natural gas consumption – a more environmentally friendly hydrocarbon – has increased substantially, as has the acceptance and use of nuclear, wind, and solar power, and of biofuels. On the political level, consuming countries feel heightened insecurity over access to supplies – creating an opportunity for politicians to enact protectionist and distorting policies under the guise of promoting energy security, such as the United State's support for corn-based ethanol. Meanwhile, producing countries are flush with revenues, a situation that allows their leadership to disregard long-term investments and coherent business practices and tempts politicians to secure as much of this revenue as possible for political objectives. President Hugo Chavez's seizing control of Venezuelan oil assets serves as a good example.

This brief historical review shows that, for the most part, producers have used their power primarily to influence prices – either by controlling supplies or access to reserves. In political terms, however, the instances where energy (and in this case oil) was used to further a political objective, the reach was regional, as opposed to global. Though these two elements are powerful, they fall short of building a robust case for an energy superpower definition.

The Resurgence of Russia

Since coming to power in 1999, Vladimir Putin has pursued a strategy revealed in his choice of subject for his 1997 Ph.D. thesis – "Mineral Raw Materials in the Strategy for Development of the Russian Economy." [10]

Much like Canada, Russia also has an impressive list of energy resources; "the world's largest natural gas reserves, the second largest coal reserves, and the eight largest oil reserves. It is the globe's largest exporter of natural gas, the second largest oil producer and exporter, and the third largest energy consumer" (EIA 2007).

Russia's geography and its leader's autocratic streak allow it much more scope than Canada to leverage its position in the exercise of power – particularly to broaden its customer base. [11] Yet it took Mr. Putin years to accept the "energy superpower" label bestowed on Russia by Fiona Hill, a senior fellow at the Brookings Institution in Washington, D.C., on the eve of Putin's first visit to the United States in the fall of 2001 (Hill 2002). [12]

[8] China went from being a modest oil exporter in 1995, to importing 30% of its needs in 2000, to importing over 50% of its oil consumption in 2006 (BP 2007).
[9] According to a Congressional Research Services' Report to Congress in October 2005 (Katrina made landfall on 29 August 2005), 94% of oil production and 75% of gas production of the Gulf of Mexico.
[10] Note that in March 2006, stories appeared in the media accusing Mr. Putin of plagiarizing this dissertation (Allen-Mills 2006).
[11] While the U.S. remains the only market for most of Canada's energy exports (uranium is the only exception), Russia currently relies on the Commonwealth of Independent States (the former fourteen nations of the Soviet State) and Central and Eastern Europe. It is possible that its reach will spread to Japan, China, and even to the United States.
[12] Ms Hill's comments were made at a Brookings Institution's seminar and later published in a paper entitled "Russia: The 21st Century's Energy Superpower?" (Washington, DC: Brookings Institution, 10 May 2002).

At the time, Russian oil and gas companies were internationalizing, and deals were struck in Algeria, Sudan, and Libya. Lukoil purchased a chain of gas stations on the American east coast and bought refineries in Ukraine, Romania, and Bulgaria. Russia also attracted a number of sizeable investments, including a US$4 billion commitment from ExxonMobil to develop Sakhalin 1 – a mammoth oil and gas deposit in a North Pacific island (ibid.).

But Hill imposed the label because of the nation's promise as a gas supplier: "Gazprom, Russia's giant gas company, holds 25 per cent of the world's gas reserves; ... [and] is Russia's largest earner of hard currency, accounting for around 25 per cent of the total federal government tax revenue" (2002, 30).

Consistent with his strategy, Putin moved with brute force to gain control of the strategic assets that had fallen into the hands of oligarchs during the Yeltsin regime. He consolidated oil assets under the state-owned Rosneft (including the seized assets of the dismantled oil company Yukos), and then used the company to secure a loan to buy the 10.7 per cent interest needed to increase the Gazprom holding to a controlling interest at 50.002 per cent.[13] Along with Transneft, the state-owned oil pipeline monopolist, he now had a solid base from which to move forward.

Using strong-arm tactics, he forced the renegotiation of favourable gas contracts with former Soviet republics, particularly those that disagreed with Moscow's politics or control. According to Vladimir Socor, a veteran Russian analyst who writes for the Jamestown Foundation's *Eurasia Daily Monitor,* the moves included "shutting off energy pipelines repeatedly in 2006, not only to Ukraine and Georgia early in the year, but also to EU member country Lithuania[14] (adding to the earlier oil pipeline shut-off to Latvia)" (2006).

In a step that would release Moscow from direct investors' pressures, the very day Stephen Harper was singing Canada's praises to London's business elite, Rosneft sold 1.4 billion shares in Moscow and on the London Stock Exchange, collecting US$10.4 billion.[15] This was the fifth-largest Initial Public Offering (IPO) in the world. The Kremlin retained 85 per cent of the company. Of the remaining 15 per cent, 7.5 per cent was shared among four strategic investors: BP, China's CNPC and Sinopec, and Malaysia's Petronas; The remaining 7.5 per cent was traded in the market (ibid., 28). The company then used these funds to repay the US$7.5 billion outstanding from the Gazprom purchase loan.

Since then, according to Mr. Socor, Putin implemented a series of strategic steps that allowed Russia to gain the upper hand in its dealings with Europe, successfully playing one country against the other, forestalling the emergence of a unified European gas strategy that would presumably involve alternative suppliers and routes (Gault 2007, 30).

Nevertheless, for Shamil Yenikeyeff, a Russian oil expert from the Oxford Institute for Energy Studies (OIES), dominance in Europe does not make Russia an energy superpower. "Russia is not a global player in the international energy market as it is almost 100 per cent dependent on the European market when it comes to oil and gas. Exports to Asian consumers will take a long time" (*SmartMoney* 2006). Stephen Handelman, a North American analyst with extensive experience in Eurasia, concurs. His view is that Russia is, at best, a regional energy power.[16]

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[13] The purchase was made in September 2005. The press release reads: "On September 8 in Berlin, Rosneft and Rosneftegaz (the company which owns 100% of Rosneft on behalf of the state) entered into an agreement with ABN Amro Bank, Dresdner Kleinwort Wasserstein, JP Morgan and Morgan Stanley on the granting of a syndicated loan in the amount of 7.5 billion dollars" (Rosneft 2005).

[14] Russia shut down oil exports to an oil refinery in Lithuania on 29 July 2006 amidst allegations of technical difficulties. Subsequently it announced that the suspension would last for two years. Lithuania claims the reason was that it sold the refinery to Polish interests instead of accepting a purchasing bid from Russia.

[15] The IPO was floated from 14–19 July 2006.

[16] Stephen Handelman, phone interview with author, Calgary, AB, 20 July 2007.

Nevertheless, over the long term, Russia will almost certainly have a significant impact on the future provision of fuels to China, Japan, and Europe, and on the stability of the Caspian Sea region (Huebert 2005, 43). However, unlike the past, when energy revenues were spent to support a massive military-industrial complex, Russia is now reinvesting those earnings in the energy sector.

Russia's experience illustrates how a once-great military power can re-establish world-wide influence by leveraging demand for its energy resources. (Putin's apparent desire to re-arm militarily speaks more to the scope of his ambition than any link to its energy development.)

One lesson from the Russian experience is that an energy superpower must be able to control access to supplies – reserves and transport – enough to be a price setter in a significant universe of commodities (in this case, in both oil and gas). Second, in contrast to the traditional use of power by energy producers, it is evident that Russia is attempting to leverage energy resources to extend its sphere of political influence beyond its regional markets. This is a crucial element – one that experts agree is a necessary condition for an energy superpower. Perhaps this is where the definitions of "superpower" and "energy superpower" intersect: a state that can match its contemporaries on the global stage. The one element where these two concepts seem to diverge, however, is with respect to the need to be a significant military power. Although it is implicitly assumed that an energy superpower would be able to impose its will on others – specifically on issues related to energy supplies – it is not evident that military force or threat is the only method.

Unlike Russia, Canada demonstrates no desire to arm itself militarily, but where does it stand as an energy superpower?

On Canada

While the prime minister was crisscrossing the globe preaching Canada's attractiveness as an investment destination, oil tycoons had invested more than CAD$30 billion in Alberta's oil sands. Estimates were for that investment to mushroom to CAD$125 billion in the next decade (Hester and Weintraub 2007, 71). Judging by the announcements made in the last week of July 2007 – Shell's CAD$24 billion investment in an oil upgrader, a new CAD$4.4 billion project by Suncor, and Marathon's CAD$6.6 billion purchase of Western Oil Sands, Inc. – investors are well aware of Canada's potential. And the oil sands are not the only sector attracting attention. Environmental concerns have triggered renewed interest in the nuclear industry and Canada, producer of one-third of the global uranium mine output, is set to increase production in the years to come.

However, the potential offered by other resources is limited. In regard to generating "more hydro-electric power than any other country on earth" and having the potential to generate much more, there is a mismatch between where the electricity can be generated and where the demand is. Consequently, unless there is a massive investment in transmission lines, this potential will be difficult to realize.

Moreover, Canada faces a decline in conventional natural gas and oil production. In the case of natural gas, incremental production would come from coal bed methane, tight and shale gas, and frontier exploration (Mackenzie Valley and offshore Nova Scotia). Aside from the fact that these resources will only be developed if a prolonged high price scenario exists, most bring with them a host of environmental concerns that will increase production costs, translating into a need for yet higher prices to make production profitable. Add the forecasted increase in domestic demand driven by oil sands production and electricity generation, from the current 7 billion cubic feet (Bcf) to between 9 and 12 Bcf by 2030, and our natural gas export capacity will be severely curtailed, if not altogether gone (McCarthy 2007). As a matter of fact, work is underway to approve liquid natural gas terminals to ensure imports can provide the security of both domestic and export markets.

On the oil front, the numbers tell a compelling story. Although total oil production in Canada increased from 1.99mmb/d in 1996 to 2.67mmb/d in 2006, conventional oil production decreased substantially,

while bitumen production went from 430,000b/d to 1.22mmb/d (Government of Canada 2007b). On the east coast, Newfoundland has some potential. However, negotiations between Newfoundland and Labrador Premier Danny Williams and the oil companies on the details of the province's equity partnership on exploration and production are ongoing (September 2007), rendering difficult any projection regarding future production.

As conventional production declines, incremental capacity will primarily come from the gooey black sands of Northern Alberta. Government of Alberta forecasts are for production to increase to 3 million b/d by 2020 and possibly even to 5 million b/d by 2030 (Government of Alberta 2007a). Nonetheless, turning these expectations into reality is enormously challenging.

First, only 20 per cent of the total mammoth reserves – 178.8 billion barrels, second only to Saudi Arabia's – can be extracted by surface mining. The vast majority is deep underground and needs to be extracted *in situ.* Although in-situ extraction technology has improved greatly in recent years, there is still much to be done. Most producers depend on natural gas to heat the bitumen enough to make it flow. Clearly, using an expensive and much cleaner hydrocarbon to produce a low-grade fuel that still needs to be upgraded and refined is not a promising long-term strategy.

Secondly, unconventional oil production emits three times the greenhouse gases of conventional production. Consequently, in spite of the fact that producers and refiners have reduced aggregate CO2 emissions per barrel by 53 per cent since 1990, production increases are so substantial that absolute emissions from the sector outweighed efficiency gains. Multiply these emissions by the expected surge in production, and Canada's competitiveness in a carbon-constrained world will be directly linked to sequestering, productively using, and storing carbon as fast as more oil from the sands hits the markets (Hester and Weintraub 2007, 92).

Thirdly, water is the life-blood of an oil sands operation (ibid., 91). Although much of the water used in both mining and in-situ is recycled, massive amounts of fresh water are needed. Experts such as renowned environmental scientist David Schindler, as well as local indigenous elders, assert that current water use is straining the delicate environmental balance. Although the provincial government brought stakeholders together to devise a viable strategy, most experts, including the influential Pembina Institute environmental think tank, say the new water management framework implemented in February 2007 failed to address the long-term viability of the Athabasca River,[17] the source of much of the water. Additional production will only serve to aggravate the situation. Moreover, water issues mitigate against the use of water-dependent nuclear power as a low-carbon-emitting alterative to carbon-fueled oil sands production.

Finally, a huge issue of concern is the impact rapid oil sands development is having on Albertans' quality of life. As owners of the resource, they expect that the unprecedented wealth will deliver a better quality of life, but the reality is mixed. The woes start with the labour shortages in and around the oil sands development area, where companies are so desperate that some have resorted to flying workers in daily from Edmonton. The shortage reverberates throughout the province, translating into increased costs, deteriorating service, and housing shortages. Many voters feel the government has mismanaged the growth so badly, that despite fourteen years of balanced provincial budgets, no provincial debt, and a CAD$8.5 billion surplus last year alone (Government of Alberta 2007b), support for the provincial Conservative Party and the government of Ed Stelmach hit a forty-year low of 39 per cent in July 2007 (Beauchamps 2007).

It seems that while the Alberta government may be ready to accept the label of energy superpower, as Neil McCrank, former Alberta Energy and Utilities Board Chairman did when asked whether Canada was an energy superpower,[18] such braggadocio rankles the general populace. The current debate in the province is centered on revising the royalty regime, which the vast majority feels unreasonably favours oil

[17] Dan Woynillowicz, Senior Advisor – Pembina Institute, phone interview with author, 9 August 2007.
[18] Neil McCrank, phone interview with author, Calgary, AB, July 2007.

companies. Albertans feel they have been taken advantage of – hardly a perception held by citizens of an "energy superpower". And if that is the case, it doesn't bode well for the provincial-federal relationship.

A National View

Notwithstanding the benefits Alberta's surge in demand for people, goods, and services brings to the rest of Canada and to the federal government's coffers,[19] the resulting appreciation of the Canadian dollar has put pressure on Ontario's battered manufacturing sector. Further, the rift that is developing on environmental issues – with Alberta on one side and Quebec and Ontario on the other – is creating new pressures that may reignite a national unity debate. As Roger Gibbins of the Canada West Foundation, a leading think-tank based in Calgary, put it, "The paradox is that instead of Canada as an energy superpower being a unifying vision, it may turn out to be a rather divisive issue."[20]

Historian Robert Bothwell noted that clashes between Alberta and Ontario and Quebec go back to the nineteenth century, to the energy levy taxes on coal enacted to protect domestic producers [read Alberta] from coal imports from Pennsylvania. Then, he continues, in the early 1900s a dispute between Ontario and the federal government over American investments in Niagara Falls' hydropower generation led to the decision by then Prime Minister Wilfrid Laurier to abdicate federal powers on electricity generation in the provinces' favour.[21]

However, it was not until World War One, when Canada found itself short of coal and electricity, that energy became a serious issue. Help came from Washington, which in spite of its own rationed supplies, decided that Canada's wellbeing was important to its own war efforts. Peacetime brought a lull in disputes until the start of World War Two, when once again, Canada was on the wrong end of the energy pipeline. The effort to secure energy sources from the United States and Venezuela to fuel Canada's war machinery was initiated by Minister of Munitions and Supply C. D. Howe. This was one of the few times when the federal government took control of the energy file without provincial protest.

By the end of the war, Howe was convinced Canada needed an infrastructure that would guarantee it access to domestic energy supplies. A decade later, as Minister of Trade and Commerce in 1956, Howe led the charge for the construction of a pipeline built entirely on Canadian territory to transport gas from Alberta to Ontario. The debate surrounding the financing of the Trans-Canada pipeline, particularly the issue of government funding going to American investors (who were part of the syndicate of financiers) and the fact that the government invoked closure before the debate even started in order to meet the construction deadline for that year, was one of the most contentious in Canadian parliamentary history and a decisive factor in the 1957 defeat of Louis St. Laurent's Liberal government (Bothwell 2007).

The energy file was front and centre during Diefenbaker's tenure. He started his minority government by creating a Royal Commission on Energy and appointing Henry Borden, the president of the Brazilian Traction, Light, and Power Co., to head it. Controversy over a pipeline linking Alberta to Eastern Canada persisted and was the most important subject before the Borden Commission. This time the issue was a demand by Alberta independent oil producers (led by Home Oil) that a pipeline be built from Edmonton to Montreal. Their opponents, the large international oil companies led by Imperial Oil, found it more profitable to use imported oil, particularly from Venezuela, to feed their Montreal refineries.

[19] In an interview on the CBC program *The House*, Premier Stelmach cited a CERI study estimating that by 2030, the Alberta economy would generate CAD$40 billion for the rest of Canada – given an oil price of US$32 barrel (CBC 2007). Federal corporate taxes originating from Alberta jumped from CAD$1.4 billion in 1999 to CAD$3.1 billion in 2005 (Government of Canada 2007a).
[20] Roger Gibbins, interview with author, Calgary, AB, July 2007.
[21] Robert Bothwell, phone interview with author, Calgary, AB, July 2007.

However, as Tammy Nemeth explains (2007), by the time the Borden Commission published its findings on oil in mid-1959,[22] Diefenbaker had sealed the fate of the Edmonton/Montreal pipeline behind closed doors by reaching an agreement with United States president Dwight D. Eisenhower.

Much like Canadian independent oil producers, in 1955, American independent producers were concerned that "imports from the Middle East were flooding the American market, depressing prices, and reducing exploration and development; all of which, they argued, jeopardized American national security" (Nemeth 2007, 45). In response to their concerns, a Mandatory Import (Restriction) Program was eventually enacted in the United States. As a compromise, western Canadian producers traded their claims to the Montreal market for an exemption from the American program and access to the Eastern market west of the Ottawa Valley.[23] This arrangement determined the direction of Canadian oil markets. To this day, eastern markets are served by imports (short of one mmb/d) mostly from Algeria, the North Sea, and Venezuela.

The 1960s were a period of relative calm on the domestic and continental energy file. However, between 1973 and 1984, discord was such that, to this day, one has only to utter the words National Energy Program (NEP) to make middle-aged western Canadians see red. The NEP (enacted in 1980) came in the wake of years of conflict between the Alberta and the federal governments. Peter Lougheed, the provincial premier, wanted to capitalize on the surge in oil prices to expand markets and develop Alberta's resources to their fullest potential, while Prime Minister Pierre Trudeau had a vision of Canada as an oil self-sufficient nation, owner of its oil industry, and of the federal government and consumers benefiting directly from the increased revenues (Bregha 2007). It is during this period that Petro-Canada was created as a national oil company, and a pipeline linking Sarnia to Montreal was built.

Trudeau's actions had a profound impact on Canada's relations with the United States, both politically and economically. The government established differentiated prices for domestic and export markets, restricting exports and enacting an export tax. And the increase in Canadian ownership and participation in the oil and gas industry came at a price: the ire of the mostly American-owned multinationals (Nementh 2005, 686).

When Trudeau's Liberals were defeated by the Conservatives in 1984, Prime Minister Brian Mulroney made it a priority to dismantle what was left of the NEP[24] and develop a rapprochement with the United States. At home, energy relations were stabilized through the Atlantic Accord, the Western Accord, and a statement on frontier policy (Nemeth 2001, 61). Normalization of energy trade with the United States was solidified by the Free Trade Agreement (FTA) of 1989. Energy was dealt with in a number of clauses, including prohibitions against imposition of price controls on oil and natural gas, the enactment of a differentiated pricing system, and the reduction of exports by less than 20 per cent of supplies (calculated as an average of the previous 36 months). Moreover, exceptions based on national security issues are restricted to armed military conflict. Since the signing of the FTA and its subsequent expansion to include Mexico (the North American Free Trade Agreement [NAFTA] in 1994), continental energy space has become increasingly integrated.

Back to 2007

This is the reality that confronts Stephen Harper: an oil and gas industry that is owned exclusively by the private sector, entrenched provincial jurisdiction leaving no space for federal interference, and trade with the United States tightly regulated. There is not much room for him to move. Meanwhile, the government

[22] The Borden Commission published two reports. The first, on natural gas, was released in October 1958, and the second, on oil, was released in July 1959.

[23] Aside from the issue of the Montreal pipeline, the most lasting recommendation made by the Borden Commission was the creation of a National Energy Board with a mandate to regulate all aspects of international and interprovincial pipelines, oil and gas activities in frontier lands, and international and designated interprovincial power lines, as well as being responsible for authorizing exports of oil, natural gas, and electricity, and for imports of natural gas.

[24] In 1982 the Trudeau government revised the NEP and adapted some of its policies. However, the central tenets remained.

is silent on its objectives vis-à-vis Canada's status as an energy superpower. Shawn McCarthy of the *Globe and Mail* called Canada an "energy superstore," author Linda McQuaig thinks Canada is an "energy pussycat," and Sebastian Gault, in a feature article in *Alberta Oil,* wrote that the term propagates "delusions of grandeur."

Indeed, the prime minister's strategy is hard to understand. With a red-hot Alberta economy and appreciation of the currency caused by the inflow of investments, why would he go out of his way to invite more investments? Besides, as Stephen Handelman noted, without a foreign policy objective that can be served by using energy as leverage, all this talk about Canada as an energy superpower serves no purpose.[25]

Stephen Blank, a leading expert on continental issues, agrees; "There is no clear objective to obtain a long term goal, and consequently, no strategy to get there." From his perspective, this is a wasted opportunity because, "Canada could help determine the shape of the North American system, particularly in the energy/environmental file."[26]

Perhaps Harper's motives are linked to securing the necessary investments to improve the environmental sustainability of oil sands production. If that is the case, there are some who believe it would be better if he approached the United States quietly. They argue that if there is deliberate self-publicity depicting Canada as an energy superpower, this could lead to the conclusion that Canada should then be able to finance its own technology; if Canada cannot fund the costs of new technology, its position as an energy superpower would seem to be overstatement.

In this case, however, history indicates that the United States will only take care of its own interests – whether Canada asks quietly or loudly is not likely to make much difference. In fact, if Canada does not take immediate action, the reverse will occur. We will be the ones financing the American environmental improvements. According to Aldyen Donnelly of the Greenhouse Emissions Management Consortium, the United States is set to use the same policies regarding carbon-intensive products as it did in the phase-out of leaded gasoline, CFCs, and HCFC22. Basically, for the phase-out period, anyone exporting such a good into the United States will have to buy a government issued permit that can only be obtained from a domestic producer. Thus, by the time the product has been completely phased out, foreign exporters will have financed American manufacturers' conversion to the new standards.[27] Perhaps Canada could improve upon that program and not only require importers of carbon-intensive commodities and goods to buy a licence issued to Canadian domestic producers, but also require that the proceeds go to financing the development and implementation of carbon sequestration, usage, and storage technologies.

Bringing it All Together

Canada is not an energy superpower, if criteria identified in other jurisdictions can be taken as indicative. Although energy resources are abundant, from the oil markets' vantage point, Canada's relatively small production – less than three millions barrels a day – defines the country as a price-taker, not a price-setter. Moreover, the federal government does not control the resources enough to be able to effectively leverage them for a political purpose, and indeed appears not to aspire to achieve such control. Finally, its reach is strictly regional. Curiously, in spite of the prime minister's eagerness in declaring Canada such a superpower, Canadians are loathe to impose their will on others.

What Canadians seemed to be clamoring for is a visionary leader, and judging by the number of books recently published that urge the government to think about Canada with renewed assertiveness – from Andrew

[25] Stephen Handelman, phone interview with author, Calgary, AB, 20 July 2007.
[26] Stephen Blank, phone interview with author, Calgary, AB, July 2007.
[27] Aldeyn Donnelly, phone interview with author, Calgary, AB, August 2007.

Cohen's *The Unfinished Canadian: The People We Are* to Michael Byers' *What is Canada For? Intent for a Nation, a Relentlessly Optimistic Manifesto for Canada's Role in the World* – much can be done.

The relevant question is not whether Canada is an energy superpower, but how Canadian energy resources can be used to turn the country into a powerful modern nation, an example of capitalism done right.

It could be a case of linking the government's new focus on Canada as "The True North Strong and Free," which Lawrence Martin, author and columnist, believes would boost Harper's popularity (2007), to a vision that includes a forward-thinking energy sector.

In part, that is precisely what the *Report of the National Advisory Panel on Sustainable Energy, Science, and Technology* and the Canadian Academy of Engineering's *Energy Pathway Report* suggest. Both groups stress that the only way to capitalize on Canada's energy resources is to "focus on developing technologies that exploit synergies among them" (Government of Canada 2007c, 9). Once the specific sectors have been identified, they insist that success will only come if a commitment to significant long-term funding is made by all levels of government and the private sector. The funds are to be used for technological development and to "develop and retain the human capital that underpins energy innovation." They also identify priorities, including CO2 capture, usage, and storage; gasification of fossil fuels and biomass; and electricity transmission, distribution, and storage (Bowman and Griesbach 2007, 3).

Other sectors, for example, nuclear fuels, fuel cells, and bio-energy are mentioned, as well as investments in applied social sciences aimed at gaining an understanding of how individuals make energy-related decisions.

Still, a grand vision for energy and Canada should also include incentives to expedite what the private sector is already working on – an infrastructure network that can deliver oil from Alberta to every refinery in this country. There is no reason why Canada's eastern markets should be dependent on product from declining North Sea reserves or from countries where oil export is tied to challenging politics, as is the case in Venezuela and Algeria. Moreover, if Canada's supplies were to increase while our exports remained constant, the potential straitjacket of the FTA/NAFTA proportionality rule would be eased, and we would gain room to manoeuvre without upsetting our biggest trading partner.

It should include the capacity to deliver clean electricity to major markets, from Manitoba and Newfoundland to Ontario, and with that, the possibility that emission-heavy oil upgrading facilities be built where they can be offset by green energy developments.

It should include ports and transportation networks that link the North – from the Yukon to Nunavik – to the southern markets.

It should include all these elements because at this stage of Canada's development, its citizens are ready to go forward, but not by accumulating indiscriminate wealth and certainly not by imposing their will on others. What Canadians value as a product of growth is an improved quality of life.

Derek Burney, the insightful former bureaucrat, ambassador to the United States, and business leader, summed it up best: "The concept of Canada as an energy superpower only has merit if it is anchored by a policy on energy extraction and transmission that is coherent and by an environmental policy that is complementary."[28]

Conclusion

Aside from the characteristics discussed in this paper, there are a couple of others that can be used to define superpowers. Superpowers have "attitude"– an attitude of superiority, that is. If consensus cannot be reached, they are ready to go it alone. It stands to reason that energy superpowers would be willing to do the

[28] Derek Burney, phone interview with author, Calgary, AB, July 2007.

same. On this basis, if Russia manages to expand its markets, secure a global reach, and even rebuild its military arsenal, it will become both the first true energy superpower and a military superpower as well.

This is as far from Canadian reality as one could imagine. Canada takes pride in working towards consensus. It is a law-abiding nation, and as mentioned, it doesn't use coercion and bullying to impose its will on others. For these reasons, labeling Canada as an energy superpower is counterproductive.

If Harper were to pursue the options available to Canada, discussed above, such a constructive energy agenda would yield much more power for this country, at home and abroad. Success will depend on whether he is able to set aside idle and unconvincing rhetoric and seize this opportunity to unite the country behind economic and political goals. If he does, instead of hyping Canada as an energy superpower, clean or otherwise, he will be able to showcase this country as a true global leader in the management of energy resources.

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