

ENERGY RELATIONS

The Canada-USA energy relationship is the most intensive in the world. Even at the low prices of 1986, the value of trade in energy that year exceeded C\$14 billion. It is exceptionally diverse -- including all the main energy commodities -- crude oil, petroleum products, gas, coal, uranium and electricity. It is also reciprocal, with both countries engaged as exporters and importers. Overall, Canada is a net supplier to the USA: we are in fact the largest foreign supplier of energy to the USA. We provide virtually 100 per cent of all imports of gas and electricity, and approximately 15 per cent of US imports of crude oil and oil products. In 1986, while oil exports continued to earn the most revenue, both natural gas (\$2.5 billion) and electricity sales (\$1.1 billion) were important components of the Canada-USA energy trade.

Exports of energy in both directions (Canada is an important market for US petroleum products and coal) promote economic efficiencies and security of supply, and represent a vital part of the economic partnership.

Over the past few years, Canada-USA energy trade has been, on balance, one of the success stories in the bilateral trade relations. Although major issues have arisen and doubtless will continue to do so given the magnitude of the trade, a number of important and constructive steps have been taken. Both sides have acted to remove or reduce trade barriers to our energy trade, thereby laying the groundwork to make it more efficient and market sensitive. That is precisely what Prime Minister Mulroney and President Reagan pledged to do at the Quebec Summit in March 1985 when they committed themselves to "strengthening our market approach to Canada-United States energy trade."

Mechanisms have been developed to manage this important relationship. The Energy Consultative Mechanism chaired by the Department of External Affairs and the US State Department meets at regular intervals. It enables officials on both sides to review the full range of bilateral energy issues. The Annual Review of Hydrocarbon Developments in the Beaufort Sea is another useful mechanism which has, for a decade now, focussed on one region of special importance to both countries.

We can expect both countries to derive substantial benefit from the energy provisions of the Free Trade Agreement. The US will gain greater access to secure Canadian energy supplies to meet its long term energy needs, even in times of short supply; and US energy consumers will be treated on an equitable basis with Canadian consumers. Given the steady growth