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Executive Summary

The Canada-U.S. Free Trade Agreement will be of significant economic benefit to Canada. It establishes a new trading relationship based on more secure and more open access to each other's markets. This will bring benefits to many sectors of the Canadian economy.

For the energy sector, free trade is almost a reality today. The Canada-U.S. Free Trade Agreement largely formalizes a situation which has been created since 1984 by a series of policy and regulatory changes.

The most immediate impacts on the energy sector will be positive but modest and will mainly occur in the oil and uranium sectors and, to a lesser extent, the electricity sector.

In the longer term, the intangible and indirect impacts on the energy sector are likely to be considerably more important. In particular:

- the more secure access to the U.S. market for Canadian energy exporters will make it more likely that the energy sector will realize its full potential to generate revenues and create jobs throughout Canada;
- enhanced investor confidence, resulting from the creation of a more stable trading environment, will assist the development of Canadian energy resources;
- by improving the prospects for obtaining the economies of scale that can be obtained through access to U.S. markets, the Agreement could facilitate the development of certain megaprojects, for example, major pipeline projects, thereby reducing the costs and risks that have to be borne by Canadian energy consumers;
- Canada's energy security will not be compromised; and
- there will not be a significant impact on domestic energy prices.

For much of the 1970s and early 1980s, the Government of Canada set prices for interprovincially traded crude oil and natural gas that were lower than the prices at which these commodities could have been sold for export. While the Agreement does not preclude a Canadian regulated price which is less than the world price, it does make such a policy less attractive since Canada could not, for example, set Canadian prices for oil below world levels (as in the 1973–1985 period) and partially finance the program through export charges on oil.

During the 1960s, the Government of Canada established a policy requiring Canadian purchasers of crude oil west of the Ottawa Valley to obtain their supplies