

THE NATIONAL INTEREST

Canada has become a net exporter of all major energy commodities: crude oil and petroleum products, natural gas, liquefied petroleum gases, coal, electricity and uranium. In 1984 Canada earned almost \$15.6 billion through the export sale of energy, predominantly to the United States, while spending about \$6.2 billion on energy imports, resulting in a trade surplus of \$9.4 billion.

Canada continues nonetheless to incur the costs of inefficient energy use and to import significant quantities of light crude oil. The National Energy Board forecasts an ongoing shortfall of up to 33,000 cubic metres per day (208,000 barrels per day) in the domestic supply of light crude through the year 2005, a shortfall which would grow if frontier production does not materialize. Canadian reserves of conventional oil peaked in 1969 and have been declining since.

Canada's large resources of heavy hydrocarbons — bitumen from the tar sands and heavy oils — are more costly and technologically difficult to extract and convert into commercial products. Demand for heavy crude is limited in Canada and is expected to grow only slowly; excess production must either be marketed in the United States or upgraded in Canada into lighter commercial products. Heavy oil upgrading capacity is expensive to install but will become more essential.

We are concerned that policy-makers are unduly influenced by the current international oil surplus. This excess supply condition will change, but not necessarily in a predictable manner given the diverse factors which influence the world petroleum market. An increasing percentage of world petroleum production is centred in regions such as the North Sea which do not have the reserves to sustain present rates of output far into the future. Middle East reserves are becoming more dominant in the global picture, not less, as OPEC's production shrinks. Consequently there will be an eventual reappearance of uncertain supply conditions with Middle East producers being able to exert heavy pressure on world markets.