

The European Community (EC) is set to introduce a tax to reduce carbon dioxide emissions independently of any wider international agreements. If the proposed tax is agreed, the effect on oil markets could be considerable. The analysis conducted by CERI indicates that the price and revenue implications of such a move for OPEC would be significant. OPEC could well find itself caught in the middle of rising product prices and weak or declining crude prices. To the extent that these initiatives are successful, they would restrain crude oil demand worldwide and put downward pressure on oil prices.

Tax measures are not the only response to climate change that could affect oil markets. Transport policy initiatives such as steps to improve auto efficiencies and other similar regulatory measures could also contribute to a slowing in the growth in demand for oil and oil products. Thus, the world outlook for oil supply demand could prove to be markedly different from the outlook presented in this paper.

#### 4.0 IMPLICATIONS FOR CANADIAN OIL SUPPLY/DEMAND BALANCES<sup>14</sup>

Oil is an important energy source for Canada. Despite impressive gains in off-oil energy consumption, certain regions and sectors in Canada are still critically affected by changes in crude oil prices. Similarly, although a small player in the world oil market (accounting for under 3% of world production), the jobs, revenues, and economic growth generated by this sector are important to the national economy, and critical to the producing provinces of Western Canada. The development of mega projects associated with non-conventional crude oil development is very sensitive to the forecast of oil prices. Therefore, the likely developments in the world oil market are of great importance to Canadian consumers and producers.

##### Supply Implications

How Canada's resources, through production from established reserves and reserve additions, contribute to the supply of crude oil and equivalents, in both the

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<sup>14</sup> This section draws heavily on the Energy, Mines and Resources (EMR) publication "2020 Vision" (1990), the National Energy Board's "Canadian Energy" (1991), EMR's preliminary "Canadian Energy Outlook" (1992), and DRI's Energy Review, "Canadian Market Focus", Second Quarter, 1992.