part, this results from our cold climate and long distances. It also reflects, however, the impact of an ample energy resource endowment. The abundance of relatively low cost natural gas, coal and electricity and the extension of distribution systems for some of these resources encouraged consumers, in the 1970s and early 1980s, to switch from oil to alternative fuels as well as to invest in energy-saving equipment.

Canada has been a net exporter of all energy commodities since 1983. In 1986, total energy export revenues were $12.1 billion, compared with total energy import costs of $5.3 billion. The United States is Canada's largest energy trading partner, accounting for about 80 per cent of our energy exports and 36 per cent of our energy imports. Canada's major energy exports to the United States are, at present, crude oil and natural gas. Canadian energy imports from the United States consist mainly of petroleum products and coal.

The Canada-U.S. Free Trade Agreement is an extension of the changes that have taken place in Canadian energy policy since the Government came to office in September 1984. In March 1985, Prime Minister Mulroney and President Reagan agreed at the Quebec City Summit to work towards opening access to their respective countries' energy markets by reducing barriers to trade.

In June 1985, Canada removed most export controls on petroleum. The National Energy Board has progressively liberalized its procedures for review of natural gas export applications. In September 1987, the NEB adopted a new market-based procedure that would allow market forces to determine export levels and terms as long as they serve Canadian needs adequately and fairly. With respect to uranium, the export review process has been simplified. In the area of electricity, trade has long taken place with relatively few restrictions. The NEB recently released a report discussing how procedures and regulations could be further simplified and streamlined. This report is now being reviewed by federal and provincial energy ministers.

Thus, prior to the Canada-U.S. Free Trade Agreement the oil and gas sectors had been essentially deregulated and some liberalization of the regulatory regime for electricity, at least with respect to international trade, was under active consideration. The immediate impact of the Canada-U.S. Free Trade Agreement on the energy sector will therefore be modest, mainly affecting uranium, oil and, to a lesser extent, electricity. In the longer run, however, the Agreement will have important intangible and indirect impacts on the energy sector. In particular, market access for energy exporters will be made more secure and the energy investment climate will be enhanced.

This paper assesses both the short-run and long-run impacts of the Agreement on the energy sector. It also examines the effects that the Agreement will have on each of the major energy commodities.