

CANADA-UNITED STATES FREE TRADE AGREEMENT

DEBATE CONTINUED

On the Order:

Resuming the debate on the inquiry of the Honourable Senator Gigantès calling the attention of the Senate to the Canada-U.S. Free Trade Agreement.—(*Honourable Senator Gigantès*).

Hon. Dan Hays: Honourable senators, I would like to address the Senate on the inquiry calling the attention of the Senate to the Canada-U.S. Free Trade Agreement, which stands in the name of Senator Gigantès. My purpose is to call attention to a specific area covered by the Free Trade Agreement, namely, the consequences of the agreement on energy. My remarks will not be brief, I am sorry to say, but I think they are important in view of the fact that this matter is now being discussed in the other place.

Canada has reached a watershed in energy policymaking in the recent era of oil price shocks and an embargo. Canadian policy has been one of extremes, from the comprehensive regulation of the former government's National Energy Program to this government's laissez-faire approach of the Western Accord.

I am concerned with the effect that these extreme policy swings have had, and will continue to have, on Canadian energy development. I am concerned with the direction that our energy policymakers may take us in the future. Part of that concern lies in my reservations about the energy component of the Free Trade Agreement.

I wish to share with honourable senators my reasons for this apprehension. I will direct my remarks primarily to the petroleum sector, because crude oil and natural gas together satisfy two-thirds of Canadian energy demand, and I will suggest some characteristics of what I believe should constitute our future energy policy.

The context within which I make my remarks is important; so let me begin with a brief review of Canada's energy affairs in the post-war period.

At the close of World War II coal was Canada's principal energy commodity, providing more than half of our energy supply. Crude oil and natural gas together then accounted for less than 25 per cent of Canadian primary energy demand. Between 1945 and 1960 the Canadian energy system underwent a remarkable evolution. In just 15 years oil and gas expanded their joint share of the energy mix from under 25 per cent to almost 70 per cent. In 1973, at the time of the Arab oil embargo, that share was 79 per cent.

Today, despite the oil price shocks and the lingering influence of the embargo, oil and gas still handle more than two-thirds of our domestic energy demand, with coal responsible for only 15 per cent. Moreover, the net export of Canadian crude oil, natural gas and natural gas liquids to the United States earned more than \$7 billion in 1986, down from the record level of \$12 billion in 1985 due to sharply lower oil and

gas prices. Canada has had a positive trade balance in energy with the United States since 1969.

Why did crude oil in particular, and natural gas to a lesser degree, make this spectacular advance in satisfying our energy requirements?

The transport of oil is comparatively safe and cheap. It is a liquid with a high energy content. Prior to the price shocks of 1973-74 and 1979-80 it was an inexpensive energy commodity. Crude oil is more environmentally benign than coal, the fuel which it largely replaced; and with its complex hydrocarbon chemistry, oil can be refined into a broad range of highly specialized fuels and petrochemicals.

Natural gas shares a number of these attributes, and, in fact, is a premier fuel when one considers its environmental impact.

Wood, coal and crude oil have each, in turn, dominated energy use in the industrialized world, a progression which we have seen take place in Canada within the twentieth century. Today, however, society is entering an age of multi-fuel dependence. Our increasing demand for energy, coupled with the turmoil of recent years in world oil markets, has made evident the dangers of relying too heavily on a single energy commodity. Those countries with a range of energy options, such as Canada, are well placed to meet the energy requirements of the future.

Canada has not only been favoured with extensive resources of conventional crude oil, natural gas, coal, uranium, and hydro-electricity but also with the lion's share of the world's bitumen resource, contained in the oilsands of Alberta. Beyond those so-called conventional sources of energy, Canadians can call upon renewable sources of energy—biomass, the Fundy tides, wind, solar radiation, and geothermal energy—and we are far from having exploited the opportunities offered in one of our best energy options, namely, conservation.

Why, then, has Canada experienced such problems in the energy sector? Why do we face the future with uncertainty? Our difficulties have arisen principally because of the manner in which we have managed our energy resources, not because of shortages in those resources, with the one exception of conventional light crude oil.

Domestic energy development has been plagued with inconsistency, instability and regional unfairness in policymaking. A trend toward energy regulation in the 1960s and 1970s culminated in the highly interventionist National Energy Program introduced in October of 1980. That policy set the domestic price of oil and linked the price of natural gas to it. The NEP erred, particularly, first, in assuming that the international price of crude oil would continue to rise for at least a decade into the future; second, by maintaining a domestic oil price substantially below the world price on a protracted basis rather than allowing a limited period of adjustment to higher prices, and, third, in redirecting exploration activity outside the western provinces, where conventional oil and gas resources had in the past been exploited to the benefit of all Canadians.