

is, world price, to drive markets in a way to ensure that we do not have to worry about security of supply or levels of self-sufficiency—goes without saying. It is unstable; does the IEA, which is a creature of the OECD, cover this problem? I think not, even though it makes a lot of sense and is an important element in the world energy picture.

To give you the flavour of why I am concerned, rather than speaking on my own behalf, I would like to quote from the December 24, 1990 issue of *Petroleum Intelligence Weekly* and an article entitled “Energy Implications of the Mideast Crisis”. It is by Mr. Silvan Robinson, who is chairman of the Energy Environmental Programme at the Royal Institute of International Affairs in London. Prior to that, he was president of Shell International Trading. I am not going to quote at length from this article, but on a selective basis. This paper is also a distillation of a paper that was presented to the Royal Institute on November 25 of last year. I would urge any honourable senators who are interested to read this paper. To make my point, the article asks this question:

Is the International Energy Agency any longer the appropriate forum for managing crises? Is its remit in any case too narrow?

When talking about crisis management, I quote:

An oil supply disruption affects the world in two ways—through the physical disruption of supply and a dislocation of prices. However, the remit of the IEA—certainly as it is presently interpreted—is that its primary concern is to help manage the supply-demand balance in a strictly volumetric sense, despite the major impact that price volatility has on world economic activity.

The attitude of the IEA board is accompanied by what appears to be a misunderstanding by many governments and inter-governmental officials about how the price mechanisms of the international oil market nowadays actually work.

The business is now extremely fragmented and market-oriented. Futures and forward markets have developed. The oil price is not based on short-term or even long-term marginal costs but on a balance of expectations about supplies and desired stock levels.

It is difficult to avoid the conclusion that there is something amiss about the conceptual and practical framework of the IEA. Oil price movements in times of emergency are a matter of world importance. And the world's so-called strategic stocks are owned in such a way that except in times of extreme emergency, paralysis of action is inevitable. This may not have mattered much so far, but does nothing to allay future concerns.

The issue of stock ownership—

And here he is referring to strategic petroleum reserves or excess capacity.

—is the key. At present, for all practical purposes, strategic stocks exist in only three countries: the USA, Japan and Germany.

[Senator Hays]

During this crisis, the oil industry has so far demonstrated its usual remarkable flexibility. Given the reexpansion of Saudi Arabian supply, disruptions up to the size of one or two other Middle East producers can be “managed”. And what would happen if Saudi Arabia itself were disrupted? This is not an abstract possibility. Surely a more powerful insurance against this catastrophe, enabling a measured, not panic, response should be at the heart of the stock strategy.

One approach would be to revive the concept of oil leasing to the consumer world by producers with surplus capacity.

The concept would be that the oil be stored throughout the consumer world, not just in the U.S. and Japan. It would be leased at production cost plus a fee and only fully paid for if used.

The implication is that not only should the role of the IEA be changed, but possibly also its format. As presently constituted, the IEA has considerable merits. It has a good staff. Its market reports are basic reading for energy analysts. It is not an overblown body like so many U.N. agencies.

But it does have a narrow focus, not only in terms of its ability to act on price levels, but also because it has no direct responsibilities for the non-OECD world, which will before long represent half the world's consumption. Its role in a real crisis is even more questionable. The so-called oil-sharing mechanisms are not likely to be remotely workable.

I rely on this person as being an expert and more knowledgeable than I. I have quoted his words selectively from the article, and I urge those interested to read the whole piece. I only quoted portions of it in the interests of trying to focus on what I believe is at issue; but let me add that I have had the opportunity in our Energy committee to meet with the Canadian bureaucrats who are responsible for our IEA involvement.

My conclusion is that the IEA will not work. Immediately after the 1979 Iranian revolution and oil embargo, the IEA should have come into operation. Its membership decided that it would not be a wise idea to bring it into operation. When pressed, the answer I determined from the bureaucrats who appeared before our committee was that because the IEA has no control over price, only volumes—a point made by Mr. Robinson, whom I have just quoted—then it really will not work very well in a time of crisis. In any event, they decided not to test it. So I question our reliance on world price or the IEA as a means of ensuring our security of supply.

● (1400)

Another thing that the government tells us we should take comfort in is the Free Trade Agreement with the United States, which secures our access and which we think, for some reason, is something that puts us in a better position. Here I should like to quote from our report, *Energy and Canadians into the 21st Century: (Energy Options)*. It contains a discus-