

ENERGY SECTOR

ENERGY SECTOR : QUESTION #1

In which areas will there be gains Canadian companies in the liberalization of energy on a continental basis?

Background:

The main issues for Canada in terms of energy exports on a continental basis were secured under the FTA. Canadian exporters of oil and gas have little worry of competition from Mexico, due the Mexican policy of encouraging domestic consumption, the absence of infrastructure for transportation of oil and gas to a continental export market, and the relatively low rate of new capital investment.

There exists very little trade in energy between Canada and Mexico. Until 1985, there existed a state to state agreement with Mexico under which Petro-Canada imported 30 000 to 50 000 barrels per day of Mexican crude oil. Despite expiry of this agreement, Quebec refineries still import small volumes of oil from Mexico. In 1990, this volume amounted to 9000 barrels per day or 2% of Canadian crude imports, representing less than 1% of Mexican total oil exports.

Specific geographic export divisions exist for Canada and Mexico in the United States. This is primarily due to the infrastructure for transport of petroleum and petroleum products. Canada focuses on export to the Northeast, the Mid-west and Californian markets, while Mexico services the southern United States.

The integration on a continental basis will provide a more structured opportunity for Canadian exporters to service U.S. demand. The U.S. supply demand imbalances are expected to be large in the 1990's, sourcing of which may come from Canada.

RESPONSE:

- TRADE LIBERALIZATION UNDER A NAFTA WILL OFFER GAINS TO THE CANADIAN ENERGY INDUSTRY. INTEGRATION ON A CONTINENTAL BASIS WILL PROVIDE A MORE STRUCTURED OPPORTUNITY FOR CANADIAN EXPORTERS TO SERVICE THE U.S. DEMAND. IN THE LONG TERM, SIGNIFICANT IMPLICATIONS WILL DEVELOP FOR CANADA DEPENDING UPON THE NATURE OF INVESTMENT AND SUBSEQUENT PRODUCTIVITY IMPROVEMENTS.