



Statements and Speeches

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ENERGY AND INTERNATIONAL RELATIONS

A Speech by the Under-Secretary of State for External Affairs, Mr. Allan Gotlieb, to the Fifth Canadian National Energy Forum, Calgary, November 20, 1979

Relations among states, or among peoples before the days of the nation state, have been driven by all the various forces that move man to action. Religions and ideologies and dynastic ambitions have brought peoples together or set them at war with each other. Great bursts of creative energy, as in Elizabethan England, have rebuilt societies and redrawn the map of large parts of the world. Nationalism itself has altered the stage in dramatic ways.

Among the forces driving international relations has been, of course, the economic. Colonial empires were built not only for the greater glory of the metropolitan centres and their rulers. They were built in the search for economic strength and security. They were, to a considerable extent, about obtaining command over economic resources. And the forces at work in international affairs have included those set up by the depletion of economic resources and the need to find alternatives.

In a sense, then, energy in today's world provides just another instance of processes that have been with us for centuries. There is, however, much more to it. The situation in which we find ourselves is in fact without precedent. While there are many sources of energy, the entire world is dependent on oil to an extent to which it has never been dependent on any other commodity. No country, no corner of the world can be free of the impact of petroleum shortage and the need to adjust to that fact. The impact will be felt within every country and will continue to affect profoundly relations among countries. It is hardly surprising that energy questions are now at the very heart of international politics.

When we look at international politics, we will, I believe, have to accept that the next two or three decades may be more unstable than the years since the end of World War II. The past few decades have seen the peace kept, uneasily, but nevertheless kept, by the nuclear balance between the two superpowers, by the fear of nuclear war, and by the role of the metropolitan powers. Among the potentially destabilizing forces of the future are:

- the increasing diffusion, throughout the world, of real economic power and thus political and military power;
 - the increasingly polycentric character of international communism and the profound rift within the communist world between Moscow and Peking;
 - the emergence of a world-system of over 150 states, many too weak to be economically viable and with the legitimacy of their boundaries often in dispute;
 - the increasing tendency to resort to force in disputes among states;
 - the knowledge, or more accurately, belief that such local disputes will not give
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rise to nuclear conflict;
revolution and the social impact of economic and technological change;
increasing exports of armaments;
nuclear proliferation and the increasing number of members of the nuclear club;
and to the list, we must add oil and in particular, the economic effects of the petroleum shortage.

From an energy standpoint only a few nations, Canada among them, are favoured in a relative sense, but none escapes entirely. The energy problem afflicts the rich developed nations almost as much as the poor and developing. The surpluses of the big oil-producing countries are deficits for everybody else. We are witnessing a transfer of resources of a scale and suddenness unprecedented in world history. Since the great price increase following the embargo earlier this decade, in the period 1974-78, OPEC nations have received in oil revenues over \$500 billion and their cumulative current account surpluses exceed \$170 billion. Well-being, development prospects, standards of living, and hopes for the future have all been put at risk. Even the wealth that comes to some countries from oil can have wrenching effects on their societies, as events in Iran show only too clearly.

We are going to find that the global environment as we enter the Eighties is vastly different from the growth-oriented, optimistic, even comfortable setting we enjoyed as we embarked on the Seventies. And no single factor at play over the past decade has been more disruptive in international relations than the deepening crisis in energy. Oil – or more properly the shortage thereof – was and remains the consummate wild card in world politics, and ten years ago almost none of us foresaw how it would be played.

In a recent speech at the United Nations in which he advocated a world energy plan, the President of Mexico speculated that ultimately the energy crisis may turn out to be the unifying element which will bind all nations in a more co-operative world order. There is, of course, evidence of the will to co-operate, but we must admit that so far the tensions and difficulties have been at least as prominent as the global search for solutions. In the Eighties we may have to live with, and to cope with, an uncomfortable level of volatility and uncertainty in international relations, and much of it will be energy-induced.

If the supply and consumption of energy – and, in particular, of oil – were more evenly distributed around the world, our problem would, of course, be very different and much easier. There might, indeed, be little need for remarks at this Conference on Energy and International Relations. It is the imbalances that create the international tensions. The 13 OPEC countries produce about 90 per cent of the oil moving in world markets. Three-quarters of this comes from the Middle Eastern members. On the consumer side of the equation, the United States imports approximately 50 per cent of its requirements, or one-quarter of its total energy needs. Western Europe, with the notable exceptions now of the U.K. and Norway, must import close to 100 per cent of its requirements, or one-half of its energy needs. By comparison, we in Canada are in a very favoured position with net imports accounting for only about

12 per cent of our petroleum requirements and being a net exporter of energy.

International relationships, particularly among the major powers, would be infinitely more complicated were it not for the fact that the Soviet Union has been able to meet its own energy and petroleum requirements, and, indeed, to meet the needs of most of its Eastern European partners. Nor has China, currently a small exporter of petroleum, been a significant player on the international market. Whether the Soviet Union will be able to maintain sufficient production to meet its own and other Eastern European requirements in the decade ahead remains to be seen, but one cannot ignore the possibility that they may have to come on world markets and the effect that this could have geopolitically, particularly in the Middle East. One prediction has it that by 1982 the communist countries as a group will have to import about 700,000 barrels of oil per day, compared to net exports in 1978 of about one million barrels per day.

The changing role of multinational enterprises is another important factor to be taken into account by those who must integrate energy into foreign policy considerations.

Most of the research, exploration, and development of petroleum resources and related trading arrangements have traditionally been undertaken by multinational corporations. For example, allocations to consumers were by and large organized and effected by the multinationals during the embargoes and shortages in 1973. Now, there is a trend on the part of the producing countries to assume control, not only of the physical assets but of trading relationships. This has led many governments in consuming countries to enter into formal bilateral arrangements to enhance their security of supply, and it is reasonable to expect that these trends will continue. Japan, for example, had about 20 per cent of its oil import requirements covered by state-to-state arrangements in 1979; in 1980 this percentage will reach over 35 per cent.

In establishing the Task Force on Petro-Canada the Federal Government set out the condition that there should continue to be a public sector entity with the capacity to act for the Government in the importation of crude oil. We are now engaged in negotiations with Mexico and Venezuela. The nature and form of state-to-state agreements may vary, but all will have as a basic aim the establishment of arrangements to ensure a stable supply from a given producing country to a given consuming country. For some time into the future — perhaps for a long time — these arrangements may be only supplementary to traditional trade channels which have by and large served us well.

I would like in my remaining time to touch on three aspects of energy and international relations. I do not pretend that these remarks will come close to exhausting the topic. I present them simply as illustrative of the general proposition that energy questions are and will be central to world economic and world political processes. The first is energy, the developing world, and our relations as industrial countries with the developing world. Secondly, I will touch on energy in the relations among industrial countries. Then, I would like to say a word about one way in which the development of new energy sources — in particular nuclear power — creates new requirements for

the management of relations among countries.

The energy problem cuts through the middle of the developing world. As against the oil-rich developing countries there are 100 or more whose energy resources are limited and whose economic progress is crucially dependent on obtaining rapidly increasing energy supplies one way or another.

The developing world currently consumes about one-third as much petroleum as the Western industrialized countries. This figure hides as much as it reveals, however, because a mere handful of the more advanced developing countries account for most of the consumption. In fact there are over 90 developing countries whose aggregate consumption is less than Canada's alone. Looking into the future, the OECD has predicted that by the end of this century the energy demands of the Third World countries will increase more than five-fold (as compared with a doubling in industrialized countries) and their import demands will increase three-fold. This rate of growth in demand is the result partly of the rapid industrialization which is taking place and the international attention being given to the satisfaction of basic human needs (which consume energy). Failure to meet this demand will not only constrain growth in the Third World but also add to international tensions.

Energy problems are thus not surprisingly an important component of the North-South dialogue. OPEC countries have consistently refused to discuss problems of energy price and supply with industrialized countries unless the matter was incorporated into broader discussions of the so-called New Economic Order. In other words, they have argued that they are prepared to place oil on the negotiating table only if the industrialized countries are prepared to negotiate changes in the international trade, monetary, commodity and development systems. OPEC and other developing countries have thus far maintained a solid front but signs of strain were evident at UNCTAD V and at the recent Havana Non-Aligned Conference.

Various attempts have been made to promote an international energy dialogue. A United Nations Conference on New and Renewable Sources of Energy is scheduled for 1981. As I mentioned earlier, President Portillo of Mexico has outlined the rough framework of a World Energy Plan. The developing countries have before the United Nations a proposal for global negotiations on international economic co-operation, including energy as one of the subjects for "simultaneous" negotiation. The intent of these global negotiations would be to examine the major North-South issues and the relationships between them, and search for solutions. Included would be "issues in the field of raw materials, energy, trade, development, money and finance". The resolution has the support of the Group of 77 with its 119 members. While, if adopted, such negotiations could get underway next year, it is clear that they could stake out ground in areas covered by other institutions and that both their size and scope would make them very unwieldy.

You may recall that the Conference on International Economic Co-operation (CIEC) a few years ago had similar broad aims, and did not succeed in coming to grips with energy. The problems of non-oil-producing developing countries will remain a crucial

problem in the North-South dialogue in the 1980s but at the present time there is no way foreseen in which to carry out a productive negotiation. It will be one of the great challenges of the 1980s to find ways out of this impasse.

Whatever may emerge by way of global discussion and co-operation about energy matters, the industrialized countries are certainly deeply involved in common discussion of the energy problems. Within the European Community the first signs of common energy policies are emerging. The International Energy Agency, which embraces a wider group of industrialized countries, provides a forum and a framework for co-operative actions. In the OECD the impact of energy is front and centre in all discussions of the economic policies of member countries. The Economic Summits, in which Canada participates with the six other largest industrial countries, have focused increasingly on energy questions. Indeed, at Tokyo last summer the Heads of Government spent almost all their time grappling with energy questions.

The clear message from that meeting, attended by Prime Minister Clark, Miss MacDonald and Mr. Crosbie, was the need to reduce oil imports and consumption, and to develop alternative sources of energy.

The seven Summit countries are committed to set out oil import targets to 1985 so as to reduce their demands on the world market. They have put machinery in place to monitor their progress towards meeting these targets. They have been joined by other European countries in commitments of the same character. Of course, targets themselves achieve nothing. They do provide, however, benchmarks against which the effectiveness of policy actions can be assessed. So far as Canada is concerned, our international undertakings are in line with the Government's commitment to self-sufficiency, and buttress it by the support of the other major countries.

At Tokyo the leaders also recognized the urgent need to bring on stream alternatives to conventional oil. In the belief that the individual efforts of each country might be strengthened by international collaboration, they set up an International Energy Technology Group. The IETG is looking into problems associated with the commercialization of technically proven but commercially untried technologies. It is to identify candidate technologies which show significant promise, examine the impediments which may stand in their way, and consider how their commercialization might be brought about by concerted international action, which includes the possibility of international financing. The results are to be available by the end of March next year, well in advance of the next Summit scheduled for Venice in June.

Conservation and the development of oil substitutes will, of course, take time. Meanwhile, the industrial countries — and others as well — are exposed to the risk of interruptions of oil supply. That point hardly needs emphasis these days.

For the industrialized countries the oil shock of 1973 was the trigger for much closer co-operation among themselves in energy matters than had ever been thought necessary before. If it were to occur often, the deliberate withholding of supplies of any commodity, to achieve either price increases or political objectives, would pose a very

serious challenge to the conduct of international relations. But embargoes as a conscious act have not occurred often in peacetime. The industrialized countries probably have more reason to be concerned about the possibility of supply shortages from disturbances in the producing countries, or from their quite legitimate desire to adjust their production rates to their economic and social objectives.

While industrialized economies appear to have a capacity for adapting over the long run they obviously do not respond as well to short-term limitations or interruptions. Countries are therefore faced with the choice of what may be unacceptable hardships, scrambles among themselves for supply, or international co-operative efforts to mitigate the effects. By and large Canada and its industrialized partners have chosen to place the policy emphasis on the co-operative method. Summitry, and the International Energy Agency in Paris, have become focal points for this co-operation.

The Canadian commitment to our membership in the IEA and to its work is a serious one. Although Canada is less vulnerable to supply and price upheavals than most of our IEA partners, we have a very high stake as a trading nation in their economic health and prosperity. Our membership in the IEA, as in the other institutions for economic co-operation with our industrialized partners, is one important means of furthering this Canadian interest.

Within the group of industrialized countries, the degree of energy vulnerability of its various members can influence the political positions they take on broad international issues. A country at one of the extreme ends of the vulnerability scale, such as Japan, must obviously place its energy and resource diplomacy very high on its scale of priorities. The positions taken by Western European countries and Japan on a variety of regional and international issues reflect this. Occasional tension between close friends and allies is not to be ruled out: the criticism that European countries have from time to time directed at energy profligacy in the United States and Canada is a case in point.

I cannot, of course, fail to mention the prime importance of the energy component in our own relations with the United States. This relationship is in itself a good illustration of how everybody's situation has changed in the past decade, as Donald MacDonald was recalling yesterday. It is now only dimly remembered that the main Canadian thrust in our bilateral energy relations ten years ago was to sell oil, and to complain that the United States was enforcing restrictions against our oil exports!

The Seventies were a period of major readjustment in energy relations and there were periods of some tension five or six years ago. The image of Canada as a vast storehouse of readily available hydrocarbons died slowly in the United States. Who can blame them, because it was an image we held of ourselves for a very long time.

I think that our two countries have accomplished the adjustment remarkably well. It would be accurate to say that among United States policymakers there is a general appreciation of the limitations which necessarily apply, and to tackle problems as they come, on a case-by-case basis. I think our experience has shown that the image

held by some Canadians of a United States that is wholly predatory in its energy policies towards us is quite out of focus. We remain, of course, a significant supplier of energy to the United States, especially of natural gas, and we have been developing in very recent years new forms of co-operation on such matters as pipelines and oil and electricity exchanges. I have every confidence that we can embark on the Eighties having attained a level of mutual confidence and realism in our energy relations which is substantially higher than just a few years ago.

This is far from solving the energy problems of either country but it is very much a positive mark on the ledger.

A brief word, now, on the international dimensions of nuclear power development. Even if the world was awash forever in cheap oil there would of course have been an urgent need to face the nuclear proliferation issue. The energy problem greatly complicates the issue because it draws more and more countries into nuclear programs. Legitimate as these peaceful programs are, they unfortunately involve technologies that can be turned to terrifying use. Co-operation among nations, often under agreed ground rules, is no doubt essential to virtually all aspects of a resolution of the world's energy problems — whether it be for the building of a pipeline or for international trade in coal or for the protection of the environment. In the nuclear area co-operation and ground rules take on a quite special kind of importance. "Energy in International Affairs" has, in this context, a dimension that goes well beyond energy itself. Indeed, it goes to the heart of international peace and security.

We in Canada cannot escape a central role in this nuclear issue. We like others want to promote the peaceful uses of the atom. Indeed because of our uranium resources and advanced nuclear power technology, we have a particular interest in doing so. At the same time we like others cannot set aside the risks to a fragile world inherent in the proliferation of a nuclear weapons capacity. We have therefore been in the forefront of international efforts to ensure, to safeguard, the peaceful uses of nuclear power and to develop internationally agreed rules. This will continue whether in the INFCE discussions or at the Non-Proliferation Treaty Review Conference next year, or in our bilateral discussions.

The Parliament of Canada is shortly going to undertake a review of Canadian foreign policy, examining in particular the changes in the world that have occurred since the last foreign policy review in Canada, nearly a decade ago. In assessing these changes and their impact on international order and stability, a leading place will certainly have to be given to the effect of energy on Canadian foreign relations.

Resource development has always occupied a central place in our diplomacy and in our foreign affairs. I could cite many examples:

- negotiations for protecting our fisheries
 - defining and claiming our massive continental shelf
 - developing the 200-mile economic zone
 - working for orderly rules for exploiting the manganese nodules on the ocean floor
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— protecting our Arctic resources through establishing anti-pollution zones.

Thus, an enormous amount of recent diplomatic effort has been directed to our resources. To take another field, in the past few years we have had difficult but successful negotiations with the Western Europeans and Japan on uranium. They have been concerned about security of supply and we about the conditions of transfer, such as the question of reprocessing of spent fuel — perhaps this was the most sensitive issue in Canada's recent relations with these states.

When we look at energy in the years to come, we will, I believe, see it occupying an even more important place in our international relations.

Our role as a member of the Summit and of the western group of industrialized nations, our role as a supplier of raw materials on the world market, our needs as a continuing importer of oil, our needs for foreign markets as a net exporter of energy, our involvement in scientific and technological efforts to exploit new energy sources — all these factors make this inevitable. And there will be many areas that will reflect the basic interconnection between our domestic energy policies and our export ones. In the fields of hydroelectrical development and polar gas, to take two examples, the determination of our own needs, the financing and development of facilities, the export policies of Canada, and the existence of foreign markets may all have points of inter-connection. Whether we are dealing with the terms and conditions of gas exports, co-operation in the transportation of energy supplies, technological co-operation in non-conventional sources of energy or the conditions for nuclear exports, whatever the general or specific issues, the agenda of international relations will become crowded with energy problems.

It would not be too much to say that in the next decades, Canadian diplomacy will need to show the same qualities and skills in relation to resources as it showed in earlier years in achieving our nationhood and the Canadian role in international peace and security.

I would sum up as follows:

The energy problem is without precedent. It is driven by unavoidable economic facts and would be with us regardless of the whims of particular leaders or groups of countries. It is a global problem, the first of its kind to draw in all parts of the world. It calls for adjustments that all must go through.

It cuts deeply into the management of individual economies. It creates new tensions and new uncertainties within countries and among them. It affects relations between one country and another. It affects also the fabric of multilateral relations. It breaks old molds and requires new kinds of international collaboration.

It will be as big a factor as any in the international scene in the years ahead and as large a factor as any in creating uncertainty and potential instability.

Canada is favoured in its endowment with a wide variety of present and prospective energy sources. As a country that is likely to be, for that reason, a net exporter of energy over the long term and possibly a significant one, Canada is also likely to be a relatively strong power in international relations. We can face the situation as confidently as any country. Our job is to ensure our future requirements, to use then our surplus resources to best advantage in the international market and to contribute as best we can to the broader international collaboration which is essential.