

NATURAL GAS

CANADIAN — AMERICAN RELATIONS

"Living next to you (the U.S.) is, in some ways like sleeping with an elephant. No matter how friendly or even-tempered is the beast, if I can call it that, one is affected by every twitch and grunt." (P.E. Trudeau, 1969).

Sleeping with an elephant is a dangerous business, as the Rt. Hon. P.E. Trudeau has graphically pointed out. One tends to devote a disproportionate amount of time trying to determine which way the elephant will roll next. One misjudgement could be lethal. Canadians have developed considerable skill as elephant watchers over the past 200 or so years. In fact, it would not be unfair to say that the better part of our history has been in some way related to events south of the "undefended border". From the time of the American Revolution, Canadians have been forced, with survival at stake, to keep their eyes and ears attuned to rumblings in the United States.

During the past three years new rumblings have emerged with which Canadians are now being forced to deal, with the stakes this time immensely high. This time the crisis centers on energy, particularly on that energy to be derived from fossil fuels. With increasing frequency we read of "brown-outs" caused by a shortage of electrical power or of unheated school rooms resulting from shortages of natural gas. Energy, in short, has become a vital factor in Canada's relations with the U.S.

Natural gas is perhaps the most sought after source of energy in industrialized nations. In many ways it is the perfect energy source. It can be transported either by pipeline or by tanker, and it is a relatively non-polluting fuel, avoiding the air pollution problems resulting from the use of sulphur-rich bunker oil to generate energy. It is coming under heavier and heavier demand both in the U.S. and Canada, and the pressure on natural gas reserves will do nothing but increase for at least the next 20 years. If any large-scale conversion of automobiles to natural gas as a fuel were to take place, as is now suggested by some environmentalists, the pressure on reserves would become extreme.

No other energy source appears to be practicable within the next decade. Answers are being sought using nuclear and solar power - but these schemes have engineering and economic difficulties that do not appear to be capable of solution within the near future. It is revealing that the use of coal as an energy source has jumped significantly in the past several years, raising the

problems of air pollution and strip mining, in response to the shortage of natural gas in the U.S.

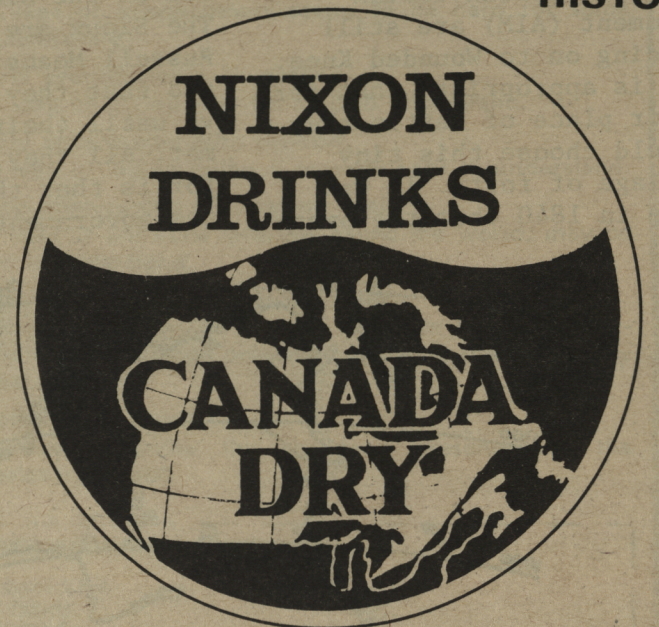
How does all of this affect Canada? Americans have been quicker to grasp all of the implications than Canadians. Linking the question of oil and natural gas, a report to the U.S. Cabinet in 1970 by John Shultz, now the man in the Nixon Cabinet leading negotiations with Canada on the energy question, saw Canada's position as vital to U.S. security. In his report entitled, The Oil Import Question --- A Report on the Relationship of Oil Imports to the National Security, Shultz argued that Canada was the most politically secure of all U.S. sources of oil and natural gas. As Middle-Eastern and Latin American sources became subject to the pressures of local nationalist influences, and the U.S. reserves dwindled, Canada loomed as vital to U.S. planning. The major problem with Canada as an oil and gas source was that Eastern Canada was dependent on Venezuelan sources for its supply. Should the Venezuelan situation become insecure, Canada would be forced to fall back on its own reserves, thus conceivably interrupting the flow to the U.S. Shultz's answer to this was contained in the conclusion to his report:

"Some provision for limiting or offsetting Canadian vulnerability to an interruption of its own oil imports should therefore be made a precondition to unrestricted entry of Canadian oil into our market. Full realization of the security benefits implicit in such a preferential arrangement is also dependent on the development of common or harmonized United States-Canadian policies with respect to pipeline and other modes of transportation, access to natural gas, and other related energy matters."

What was needed to meet U.S. energy demands, Shultz argued, was a full agreement on energy questions between Canada and the U.S. What the left nationalists in Canada called a continental energy deal was clearly on the agenda. Canada's oil and gas reserves were to be used with a view to maintaining the industrial strength of the U.S.

Much rhetoric and a good deal of private and public negotiation has ensued since the release of the Shultz report. J.J. Greene, the ex-Energy Minister loudly protested in 1970 that Canada would guard her own decision making powers on energy questions - but negotiations continued between Canadian and U.S. officials.

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HISTORY



Donald Macdonald, the present Minister responsible for energy questions, has indicated that Canada is moving toward meeting some of the preconditions of the Shultz report with respect to oil supplies to Eastern Canada. His urging of the MacKenzie Valley pipeline as a secure route for oil and gas transmission to the U.S. has been part of this movement.

As the negotiations and speech-making have proceeded, the energy crisis has become more severe. Recent statistics released by the U.S. National Petroleum Council indicate that by 1985 the U.S. will have to import about 60% of its energy supply. It now imports close to 30%. The pressure on natural gas will be maintained the Council predicts, and imports will jump from 3% to 30% of the total needed. Most, if not all, of this increase in fossil fuel imports will likely come from Canadian reserves.

This raises a number of problems for Canadians. First, there is the question of known reserves. The National Energy Board, a body set up in 1959 to oversee Canadian energy problems, estimates that at present consumption levels we have sufficient reserves for approximately 28 years in gas and 18 in oil. The Board, however, has not taken into account probable increases in demand, nor is its estimate of reserves particularly reliable. For example it includes gas reserves in national parks, and in areas now too remote or ecologically delicate to permit extraction. In short, Canadians could well find themselves with insufficient reserves to service Canada, let alone the U.S., for the rest of this century.

Second, as environmental groups like Pollution Probe have argued before the Energy Board, there are clear dangers at hand in wishing to exploit all possible energy sources as quickly as possible. To this point at least the arguments of the environ-