

A New National Policy?
Energy Policy Under the Harper Government
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Introduction

Over the decade they were in office (2006-2015) the Conservative government of Stephen Harper put forward a type of energy strategy unlike any in Canada's history. Prime Minister Harper and the various Ministers of Natural Resources crafted an economic/ industrial strategy based on Canada's energy sector. The federal and provincial governments as well as industry promoted projects which would increase access to the American market while, at the same time, find overseas alternatives. This dual approach involved initiatives that would ship bitumen to Asian customers and increase pipeline capacity to United States refineries. This new national policy included building the Northern Gateway XL pipeline from Edmonton to Kitimat on British Columbia's north coast to ship bitumen (the unrefined tar from Alberta's oilsands) and the Keystone XL pipeline from Hardisty, Alberta to refineries in the Houston-Galveston industrial complex, the Energy East pipeline through central Canada to St. John, New Brunswick, and the expansion of the Kinder-Morgan pipeline from Edmonton to the suburbs of Vancouver. Other energy projects which have been put forward including a \$13 billion proposal to construct a heavy oil refinery in Kitimat, the British Columbia's government's plans for a liquified natural gas processing plant and shipping terminal Kitimat, as well as plans to construct an east-west electrical transmission grid which would reverse the existing north-south connections that have a large percentage of Canada's electrical generation sent to the United States. But there were problems with the Conservative approach. Their ideological commitment to free market principles and an unwillingness to intervene in areas of provincial jurisdiction was the context within which the Harper Conservatives dealt with the multitude of issues facing the industry.

On a political level this energy strategy is very different from its predecessors. It is led by the provinces and private sector, not the federal government. While the federal government plays an important regulatory role, it has played a secondary part in the organization and implementation of the policies which form a new industrial strategy for Canada. This is not the energy policy of the 1970s and 1980s in which the federal state intervened directly in the energy sector. The new energy strategy is led by the provinces and the private sector with the federal state in a regulatory role. While several provinces have interventionist policies such as subsidies provided to manufacturers and electricity providers through Ontario's Green Energy Act and Newfoundland and Labrador's equity share of offshore oil and gas development, the major energy developments in the western Canadian oil and gas producing provinces are private initiatives in which the state performs an economic and environmental regulatory function. Although the new program is different than its predecessors, the emerging energy policy led by the provinces and the private sector fits the pattern of state development in Canada from the 1870s to the present.

An enduring theme of Canadian economic development since Confederation has been the continentalist embrace of the United States and the resistance to it by nation-building programs such as the National Policy of John A. Macdonald and Wilfred Laurier. The current set of proposals to build pipelines, diversify markets and establish Canada as a centre for green energy development resembles

earlier efforts to create an industrial strategy. What distinguishes this current set of diverse and uncoordinated policies from earlier national development strategies, is that it is led by the provinces and the private sector. The prospect of American self sufficiency in oil and gas, the regulatory hurdles for entry into the United States, and price differential for Canadian bitumen and heavy oil has created incentives for market diversification. With a national government unwilling to engage in direct intervention in the energy sector, the policy vacuum has been filled by the provinces and private sector who are eager to increase their market potential and exploit the substantial reserves of Canadian oil, natural gas, coal, and electricity.

The Canadian Energy Supply

Canada's energy supply consists of both primary and secondary resources. Primary energy resources refers to energy forms found in nature that have not been subject to conversion or transformation processes. These primary energy forms consist of oil, natural gas, coal, wood, uranium, wind, solar, and other fuels. Secondary forms of energy are hydroelectricity, nuclear energy, fossil-fuel generated electricity and other forms of energy generated through a transformation process such as wood and animal parts.

Using provincial and National Energy Board (NEB) figures, the Canadian Association of Petroleum Producers (CAPP) estimated conventional established oil reserves at 680,770 thousand cubic metres (10^3m^3) at the end of 2013.¹ CAPP put Canada's established non-conventional reserves of mining bitumen at 5,226,000,000 cubic metres (m^3) and in-situ bitumen reserves at 21,339,000,000 cubic metres (m^3). Established gas reserves in 2014 were calculated at 1,987,123 million cubic metres (m^3).² Coal reserves were 6.6 billion tonnes in 2010 – estimated to be one hundred years of production – with annual coal production at 67.1 million tonnes.³ Natural Resources Canada estimates Canada's uranium reserves at 490,000 tonnes or 9 per cent of the world's total.⁴

In 2015 Canadian crude oil production was estimated at 3.694 million barrels per day (b/d). This total includes heavy, light, synthetic and bitumen or conventional and non-conventional crude.⁵ Seven out of the ten provinces produced oil along with the Northwest Territories. In 2011 gross natural gas production in Canada was 7.078136011 thousand cubic metres (m^3).⁶ Reserves of natural gas are

¹ Canadian Association of Petroleum Producers, *Statistical Handbook for Canada's Upstream Petroleum Industry* (Calgary: Canadian Association of Petroleum Producers, 2016).

² *Ibid.*, 2.7b.

³ Coal Association of Canada – core facts and figures. Economic impact and analysis. http://www.coal.ca/wp-content/uploads/2012/11/FINAL-National-Coal-fact-sheet_Oct-2012.pdf

⁴ Natural Resources Canada, Uranium, <http://www.nrcan.gc.ca/energy/uranium-nuclear/7695#resources>

⁵ Canadian Association of Petroleum Producers, *Statistical Handbook*.

⁶ Statistics Canada, *Energy Statistics Handbook*, 97.

estimated at 2,027,703 million cubic metres (m³). In 2010 there were three coal producing provinces – British Columbia, Alberta and Saskatchewan.⁷ Total Canadian coal production reached 68,973.7 kilotonnes (kt) in 2010⁸ with British Columbia at 26,820.5 kt or 38.8 percent of the total, Alberta at 31,889 kt or 46.23 percent and Saskatchewan with 10,264.2 kt or 14.88 percent of all coal mined in Canada. Almost half of Canada’s coal production -- 32,172.2 kt or 46.64 percent – was for export to Asia. A small percentage of coal -- 3.4 per cent or 2,346.5 kilotonnes – is used for domestic production of electricity.⁹

In 2013 Canada produced 611.31 terawatt (Twh) hours of electricity from various sources. Almost two-thirds of Canada’s electricity – 63.39% or 387.64 (Twh) – was hydroelectricity; conventional steam production — burning coal, natural gas, and oil to produce steam — stood at 96.97 terawatt hours (Twh), or 15.9.9% of total production; nuclear power generated 90.03 terawatt hours, or 15.2% of the total. Combustion turbine was 4.2% of electricity production or 24.88 Twh, while internal combustion generation 1.18 Twh or 0.2% of the total. Tidal, wind and solar generation was Twh or 5.52% of total electricity generation in Canada.¹⁰

Uranium production is another significant part of the Canadian energy supply. In 2015 Canadian production of uranium came from three mines in Saskatchewan – McArthur River, Cigar Lake, and Rabbit Lake. Total uranium production in Canada in 2015 was 15,709 tonnes (U₃O₈). Canada has 19 nuclear reactors, all of which were operating in 2015. These reactors produce approximately 15 per cent of Canada’s electricity. Two nuclear power reactors are in the planning stage.¹¹

The Canadian electricity generation and transmission industry has undergone a fundamental change over the past several decades. Beginning in the mid-1990s, electricity markets throughout North America began a process of restructuring and deregulation. Because electricity generation, transmission and distribution mainly fall under provincial jurisdiction, there has been a diversity of policies across Canada. The NEB, which has authority over interprovincial and international transmission, believed that deregulation would enhance competition, improve market efficiency and offer greater choice of services and suppliers. The goal of deregulation, therefore, was to unbundle the functions of provincially owned or controlled electric utilities—generation, transmission and distribution—to lower price and increase supply. Alberta and Ontario have gone the furthest in

⁷ These are the latest figures available for coal reserves and production in Canada.

⁸ *Ibid.*, 110.

⁹ *Ibid.*, 111.

¹⁰ Canadian Electricity Association, Key Canadian Electricity Statistics (June 2014) by Fuel Type, 2011, available at <http://www.electricity.ca/media/Industry%20Data%20and%20Electricity%20101%20May%202012/ElectricitygenerationinCanadabyFuelType2011.pdf>

¹¹ World Nuclear Association, Canada. <http://www.world-nuclear.org/information-library/country-profiles/countries-a-f/canada-nuclear-power.aspx>.

deregulation while British Columbia, Saskatchewan, New Brunswick, Nova Scotia, and Québec have established wholesale markets and limited retail access.¹²

The incentive for the restructuring came from the United States. Under the authority of the Energy Policy Act 1992, the US Federal Energy Regulatory Commission established a series of regional competitive wholesale electricity markets. These new regulations also mandated that any utility selling into the US market had to provide open access transmission services as a condition of gaining access to public utilities in the United States.¹³ With large publicly owned electric utilities with excess capacity, British Columbia and Québec immediately opened their transmission lines.¹⁴ Alberta, with no spare capacity and private ownership of electrical utilities, engaged in a deregulation process in the hopes of increasing electric generation and the eventual sale of excess supply to the United States. The result in Alberta has been dramatically increased consumer prices and marginal increases in supply. Overall, electricity deregulation has not met expectations.¹⁵ In those provinces where it has occurred consumer prices have risen while supply has not noticeably increased.

An Inventory of Issues

Within the first three months of assuming office in January 2006, the new Conservative Prime Minister, Stephen Harper, in a speech to the London Chamber of Commerce, stated that Canada was an emerging energy superpower. While Canada's liquid hydrocarbon, coal, and uranium reserves as well as its electricity production – current and potential – have long been recognized as a significant source of energy in various national and international publications and studies ranging from the BP annual World Energy Survey to the Organization for Economic Cooperation and Development, many individuals in the Canadian energy industry as well as those in other countries, thought the description of Canada as an energy superpower problematic. International relations theorists define a superpower as a nation state willing to use economic, political or military power to further its interests. Canada, on the other hand, has little influence in its energy markets. Although Canada exports some of its coal production to Asian markets and uranium from Saskatchewan is sold to several European states and Japan, electricity, oil, and natural gas – the largest, most economically important segments of the Canadian energy sector -- are restricted to markets in Canada and the United States. Other than uranium exports, Canada faces a situation where export markets are limited and the price of energy is determined by regional rather than international markets. In this context, the idea of Canada as an energy superpower is more rhetoric than reality.

¹² National Energy Board, *Annual Report to Parliament 2004* (Calgary: National Energy Board, 2005), 23-27.

¹³ Doern, G. B., and Gattinger, M. *Power Switch: Energy Regulatory Governance in the Twenty-First Century* (Toronto, ON, University of Toronto Press, 2003) pp. 71–91.

¹⁴ Darcy Henton, "Electricity Deregulation. Companies won; citizens lost." *Alberta Views.*, vol.18, no.8 (October 2015): 28-32.

¹⁵ *Ibid.*

Rather than becoming an energy superpower, able to set prices and open new markets, the Canadian energy sector faces a set of problems which have the potential to threaten the viability of the industry. The issues facing the energy sector can be put into six categories: i) transmission bottlenecks which have resulted in declining and differential prices for natural gas, bitumen, and conventional oil; ii) the prospect of United States energy self-sufficiency; iii) foreign takeovers of several Canadian energy producers – specifically the purchase of Nexen and Progress Energy by Chinese state owned energy corporations; iv) continuing environmental controversies, especially the designation of oil sands production as dirty oil and opposition to pipeline expansion; v) the decline through 2014-16 of prices for oil and natural gas and finally; vi) the lack of any sort of coherent national energy strategy. The six categories are not mutually exclusive; in fact, they overlap. But they do provide a survey of the issues facing Canada's energy sector.

The first category of issues facing the Canadian energy sector are transmission bottlenecks. The several pipeline projects are viewed as part of the necessary infrastructure to relieve the oversupply of Canadian oil in the mid-continent of the U.S. and ease the pressure on Canadian crude prices which can be up to 30 per cent below the benchmark price of West Texas Intermediate.¹⁶ With projections that oilsands production could increase from 2 million barrels per day 2011 to 4.5 million by 2025, increased pipeline capacity and market diversification are seen as critical to the viability of Canadian oilsands producers. Attention has been centred on four oil pipelines: Transcanada's Keystone XL; Kinder-Morgan's Trans-Mountain Pipeline System; Enbridge's Northern Gateway XL Pipeline, and Transcanada's Energy East Pipeline. Calgary-based Transcanada Corp.'s Keystone XL pipeline was to ship bitumen from Hardisty, Alberta to Cushing, Oklahoma and from there to refineries on the Gulf of Mexico. The cost of the project was estimated at \$7 billion and would carry up to 800,000 barrels a day of bitumen. After years of delays this project was rejected by the Obama administration as not in the national interest of the United States. Any prospect of completing the construction of the Keystone XL pipeline awaits a new administration with a different energy and environmental agenda.¹⁷ The Kinder-Morgan pipeline proposal would see the existing TransMountain pipeline, built in the mid-1950s, triple its capacity to approximately 890,000 barrels of crude bitumen per day. The objective of the TransMountain line is to increase Canadian oil exports to East Asia. But it would also more than double the tanker traffic in the Johnstone and Juan de Fuca straits.¹⁸ Local governments, community organizations and environmental groups oppose the line and have pressured the provincial government to take a stand against it.

Enbridge's Northern Gateway XL is estimated to cost \$6.6 billion and carry 525,000 barrels of bitumen a day from Edmonton to Kitimat on the northern coast of British Columbia. The Kitimat terminal would load massive oil tankers which would transport bitumen to refineries in Asia. The Gateway is seen as an effort to diversify Canadian oil markets and add capacity to the North American pipeline

¹⁶ Shawn McCarthy, "Kinder Morgan leans on Burnaby for access to conservation area." *Globe and Mail*, 19 July 2014, S4.

¹⁷ Coral Davenport, "Citing Climate Change, Obama rejects Construction of Keystone XL Pipeline," *New York Times*, 6 November 2015, A1.

¹⁸ Shawn McCarthy, "Why Canadian crude is selling for less," *Globe and Mail*, 9 February 2012, B7.

system which is running at near capacity. Even though the National Energy Board has given its approval, opposition from communities along the pipeline corridor and at its terminus and from various First Nations and environmental groups have all but put an end to the prospects for construction of the Northern Gateway XL. The Liberal premier, Christie Clarke, has also made clear that her government's support for the project rests on the proposal meeting five key demands, one of which is a share of Alberta's royalties from the bitumen.

The final member of the pipeline quartet is TransCanada's Energy East. The Energy East line is a proposed 4,600 km pipeline that includes existing pipeline to Montreal and a new line to be constructed through Quebec to St. John, New Brunswick. It would bring 1.1 million barrels of oil per day from Alberta and Saskatchewan to refineries in Montreal and St. John. As with the other major pipeline projects, Energy East would provide access to offshore markets in Europe and Asia.¹⁹ Energy East faces opposition from environmental groups in Ontario and Quebec as well as a consortium of over 80 communities along its proposed route. Nevertheless, Energy East has the support of Alberta and Saskatchewan governments, while Ontario has given the project its tacit approval. On the other hand, the federal government has been ambiguous on the Energy East pipeline and the Quebec government and First Nations along the route have been hostile to it.

Along with the oil industry, green energy has faced several recent setbacks in its efforts to secure a place in Canada's energy inventory. The Liberal government in Ontario, for example, faced growing opposition in its efforts to create 50,000 new jobs in the green energy sector and establish Ontario as a world leader in the field. Beginning in 2006, the government led by Premier Dalton McGuinty began encouraging the development of renewable sources of energy such as solar and wind. The 2009 Green Energy Act provided for substantial subsidies for green energy. But the cost of the projects led to substantial increases in both industrial and consumer rates for electricity. As well, a number of local communities objected to the construction of wind turbines in what are considered recreational and agricultural areas. The feed-in-tariff created to provide subsidies for green energy fed into the provincial electricity grid and other subsidies to firms such as Samsung to locate manufacturing in the province, came under attack at the World Trade Organization from Japan, the European Union and the United States. As one commentator noted, this strategy placed the province's industrial strategy on "a collision course with a century-old policy of delivering electricity to consumers at the lowest possible cost."²⁰ Most importantly, the October 2011 provincial election witnessed Liberal losses in a number of rural ridings where wind turbine and other sustainable, low carbon energy projects had been proposed or constructed. The result has been a retreat from the lofty goals of the late 2000s to establish Ontario as a leader in green energy.

Having adopted a carbon tax in the mid-2000s, the Liberal Government of British Columbia introduced a Clean Energy Act in the spring 2010 session of the provincial legislature. The purpose of the new act was to exploit the "province's beetle-killed forests as a bioenergy alternative, and to open

¹⁹Sidhartha Banerjee, "TransCanada to provide Energy East impact study by June," *Globe and Mail*, 23 April 2016, S3.

²⁰Karen Howlett, "The high cost of green power," *Globe and Mail*, 8 January 2010, A4.

up new energy trading opportunities across Western Canada and into the U.S.”²¹ The Act “established a three-year, \$100-million clean energy fund to support biofuel production and other forms of low-carbon electricity generation.”²² Unable to supply sufficient generation to meet its own needs, the Act was an effort to make B.C. self-sufficient in electricity. The Premier, Gordon Campbell, appointed a deputy minister to coordinate the program with other provincial sustainable energy initiatives. The act was seen as a shift from the climate change agenda with its carbon tax and efforts to reduce greenhouse gas emissions, to a focus on the potential economic benefits from clean energy. While there was speculation that the green initiatives would succumb to political pressure, the new Liberal Premier, Christy Clarke, has committed to continue the province’s sustainable energy policies.

British Columbia has also promoted the development of its natural gas resources in the northeastern region of the province. Along with the exploration and development of its natural gas resources, British Columbia has signalled its support for two liquified natural gas (LNG) terminals in the Kitimat area and two in Prince Rupert. Royal Dutch Shell has proposed a 12 million tonne terminal, while a consortium led by Apache Corporation has been awarded a license for a 10 tonne project in the Kitimat area. BP Group is pursuing an 18 million tonne terminal – at the port of Prince Rupert. Petronas, a Malaysian energy company, announced its intention in June 2012 to acquire Progress Energy, a Calgary-based firm, in order to build a platform for LNG exports to Asia. On 21 October 2012, however, the Harper government blocked the sale of Progress. With plans to build a terminal and gas pipeline to Prince Rupert, the Progress/ Petronas project had been at the centre of British Columbia’s plans to exploit its conventional and shale gas resources.²³ Nevertheless, Progress intends to build a \$5 billion gas pipeline to Prince Rupert without the benefit of a senior partner -- its jilted suitor, the state-owned Petronas.

At the national level, the Harper government signed joint environmental assessment agreements with several provinces for energy projects as well as streamlined the regulatory process for approval of interprovincial and international energy projects. For example, the federal government has signed agreements with British Columbia to undertake a joint environmental assessment with the province over the Site C Clean Energy Project on the Peace River in the Northeastern region of the province. As well, the Conservatives agreed to a loan guarantee for the Muskrat River Hydro Electricity Project in Labrador. The federal guarantee will save the province approximately \$1 billion in borrowing costs.²⁴ The most significant policy change for the federal government, however, came in the March 2012 budget. As part of the omnibus budget legislation, the Conservative government was given the authority to overturn any decision by the National Energy Board (NEB) to reject a project on environmental grounds. The new legislation also reduced the ability of non-government organizations to intervene in environmental assessments to oppose development. Outside organizations will be

²¹Justine Hunter, “B.C. fuels fight with Ontario over bioenergy,” *Globe and Mail*, 10 March 2010, A4.

²² Ibid.

²³ Nathan Vanderklippe, “LNG at crossroads as LNG deal blocked,” *Globe and Mail*, 22 October 2012, B1.

²⁴ “Newfoundland gives go-ahead for Muskrat Falls,” *Globe and Mail*, 18 December 2012, B7.

allowed to participate only if their members are directly affected by a project or where a group has expertise that would aid regulators in their decision. Although the NEB was given new authority to set stringent conditions on new projects such as pipelines and the authority to enforce them with fines of up to \$400,000, many project reviews would be turned over to the provinces in a devolution of regulatory authority.²⁵

Renewable energy also became a part of Conservative energy policy. In 2007 the Harper government mandated that gasoline contain a five percent ethanol average by 2010 and two percent in diesel by 2012. At the same time the government allocated \$500 million in the next-generation biofuels initiative. The biofuels program is administered by Sustainable Development Technology Canada, a non-profit energy research foundation. Its mandate is to promote alternatives to traditional agricultural feedstocks such as wood fibre and wheat stocks. Not only are there benefits for the environment, there is a political payoff as well. The biofuels program is designed to aid the agricultural sector in the three prairie provinces of Manitoba, Saskatchewan, and Alberta – the centre of Conservative support in Canada. The federal government also took an interest in wind and solar power. Nevertheless, the Conservative government estimated that in the foreseeable future renewable energy will amount to only four percent of the energy supply. Fossil fuels will continue to be, in the view of the federal government, the most important part of the Canadian energy mix.

Another major federal energy initiative came on 7 December 2012 when the Harper Government approved the takeover of Nexen Energy, a Calgary-based, oil and gas exploration company by the China National Offshore Oil Company (CNOOC). After its offer was turned down by Ottawa in October, Petronas was given another opportunity to persuade the Harper government its acquisition of Progress was in the net benefit of the country. The Petronas offer was approved after the price was raised and guarantees made to build a natural gas pipeline to Prince Rupert as well as an LNG terminal capable of handling up to 18 tonnes of gas a day. At the same time that the two takeover bids were approved, the federal government issued new guidelines on foreign takeovers of Canadian enterprises which effectively ended the acquisitions by foreign state-owned enterprises (SOEs) of Canada's strategic resources²⁶

The issue of the Petronas and Nexen purchases divided both the oil and gas industry and the Conservative party. While the official opposition New Democratic party rejected the Nexen and Petronas bids, the Conservatives faced opposition from within their caucus and some segments of the oilpatch.²⁷ The Harper government promised more clarity on foreign takeovers of strategic resources after it rejected the purchase of Potash Corporation of Saskatchewan by BHP Billiton, an Australian multinational. But it was not until the bids for Progress and Nexen were made that the government was forced to clarify its rules on foreign state-owned enterprises acquiring Canadian companies. The

²⁵ Shawn McCarthy, "Cabinet's power play with energy board," *Globe and Mail*, 23 April 2012, A8.

²⁶ Nathan Venderclippe, Shawn McCarthy, Jacquie McNish, "Petronas to sweeten payoff if Ottawa says yes," *Globe and Mail*, 5 December 2012, B1.

²⁷ Deborah Yedlin, "Alberta's Economy: The Good, the Bad, and the Ugly," Lecture, Mount Royal University, 3 October 2012.

Nexen/ Progress decision was a reversal for a government committed to markets as “the most efficient means of determining supply, demand, prices and trade while ensuring an efficient, competitive and innovative energy system.”²⁸ On the other hand, several advisers to the Harper Conservatives stated that there was an irony that Canada had spent years privatizing Crown corporations such as Petro-Canada, only to have offshore state-owned enterprises take control of the nation’s resources. The result of this contradiction was that Ottawa adopted a model for foreign takeovers based on the Australian practice of reviewing each situation as it arises, but has made it clear it will not allow a foreign state to acquire the nation’s strategic resources.²⁹

The need for Canada to diversify its energy markets was emphasized on 12 October 2012. The International Energy Agency (IEA) released its annual *World Energy Outlook* which stated the United States could be energy self-sufficient by 2020 in both natural gas and oil. The goal of energy self-sufficiency has been on the American policy agenda since the early 1970s when the first OPEC oil shock of October 1973 sent the United States economy reeling under the twin pressures of high unemployment and inflation. The achievement of energy self-sufficiency is the result of a two separate but important policy initiatives. First, the Obama Administration implemented new energy efficiency standards for such diverse goods as electrical appliances and automobiles. While following the lead of states such as California, the Obama administration has made the new standards nationwide. Second, new sources of both oil and natural gas – both conventional and unconventional – has increased U.S. production for the first time since the 1970s. Third, several states as well as the national government have encouraged sustainable energy production ranging from biofuels to windpower to solar. These three policy threads have combined to lessen American dependence on foreign energy sources, especially oil. But the IEA *World Energy Outlook* had an impact on Canadian energy policy. It was the latest, but possibly the most emphatic, message that Canadian energy producers would no longer enjoy ever increasing American demand for their products.

All of the various proposals to diversify Canadian energy markets and build energy infrastructure have been thwarted by the dramatic decline in the price of oil. On 1 June 2014 the average price of a barrel of oil was \$105 (US). On 1 February 2016 the price had fallen to \$32 (US) a decline of 70.87 per cent. The price for natural gas has, moreover, declined over the same period – 1 June 2014 to 1 February 2016 – by 57.95 per cent from \$4.59 US to \$1.93 US.³⁰ The decrease in the price of oil and natural gas has led to tens of thousands of workers being laid-off and the bankruptcy of hundreds of oil and gas companies in the Canadian oilpatch.

The National Energy Strategy

²⁸ Natural Resources Canada, Overview of Canada’s Energy Policy,” Press Release, 5 January 2009.

²⁹ Nathan Vanderclippe, “Harper’s line in the oilsands,” *Globe and Mail*, 10 December 2012, A1.

³⁰ GLJ Petroleum Consultants, Price Charts, www.gljpc.com/price-charts. Accessed 10 May 2016.

The touchstone of Harper Conservatives's energy policy was a "respect for jurisdictional authority and the role of the provinces," targeted intervention in the market to achieve specific policy objectives through regulation," and a determination to let market forces control supply.³¹ The federal government left project development to the provinces, intervening only when required with National Energy Board hearings on the Gateway XL Pipeline or loan guarantees for projects such as Newfoundland and Labrador's Muskrat Falls hydro electricity dam. Even the process for assessing the net benefit of the Progress and Nexen takeovers saw a series of delays that created a great deal of uncertainty for both corporations and governments.³²

While the prime minister and his five ministers of Natural resources – Gary Lunn, Lisa Raitt, Christian Paradis, Joe Oliver, and Gary Rickford – have promoted Canadian energy in the United States as safe and secure, the federal government's energy policy has focussed on supporting market mechanisms to ensure a reliable supply. Even the September 2008 global financial collapse and the consequent economic decline in Europe and North America and the falling price of oil and natural gas from mid-2014 to the end of their term in October 2015 failed to change the Harper government's direction on energy policy. In a speech to the Economic Club of Toronto in January 2009, Minister Lisa Raitt emphasized the economic importance of resource industries such as oil and natural gas and outlined the Conservative's plans to simplify the regulatory approval process for current and future resource projects.

Although the Conservatives had constructed their energy policy on the three pillars of free-markets, provincial jurisdiction of natural resources, and a simplified regulatory process, they soon faced a series of issues which forced it to act outside these parameters. In the late 2000s media reports described the negative environmental impact of bitumen mining in Alberta and Saskatchewan.³³ Not only were there stories of the negative impact of oil sands development on the Athabasca River watershed, the death of hundreds of migratory birds in tailing-ponds focussed public attention on the hazards faced by wildlife. Moreover, the higher greenhouse gas and particulant emissions from non-conventional oil produced in Alberta and Saskatchewan has been described as "dirty oil" by several American states. California, among other jurisdictions, have set low-carbon fuel standards which effectively prohibit the use of Canadian bitumen. In response to the US efforts at both the national and state level to reduce the use of high carbon fuels, Ottawa set a target in 2007 to cut GHG emissions to 20 per cent below 2006 levels by 2020. It was hoped that these measures would bring Canadian standards into line with those proposed in the United States. The Canadian government also proposed a North American climate agreement which would include an integrated cap-and-trade scheme. The Obama administration, however, agreed only to co-operate on developing clean energy technology.

³¹ Natural Resources Canada, Overview of Canada's Energy Policy.

³² Yedlin, "The Alberta's Economy."

³³ See, for example, Robert Kunzig and Peter Essick, "The Canadian Oil Boom. Scraping Bottom," *National Geographic*, March 2009.

The Conservative government took the position that it had to wait for the US to act before it could proceed on an integrated environmental and energy policy.³⁴

With reports from the International Energy Agency that the United States is expected to be energy self-sufficient by 2020, British Columbia, Alberta, and Saskatchewan are anxious to find new markets for oil and natural gas. Yet the Liberal premier of British Columbia, Christie Clark, has demanded a share of Alberta's bitumen royalties before agreeing to a new oil pipeline from Edmonton to Kitimat. While opposition to the Northern Gateway XL was expected from environmental groups and First Peoples, the demands made by the B.C. premier were an unexpected obstacle. While a number of political commentators have stated that the Clarke government's opposition to the Gateway pipeline is for political gain – the project is very unpopular in almost all regions and segments of the province -- the federal Conservative government's response was to accuse environmental groups from the United States of funding local opponents. At the political level, British Columbia premier, Clark spent two days in Alberta in October 2012, meeting with Alberta Premier Alison Redford and representatives of the oil and gas industry. Both premiers described their encounter as tense. Ms. Clark said she was in Alberta to inform Albertans of B.C.'s concerns and demands. But given her low standing in the polls, it was assumed she was really speaking to her home audience.

It was in this context of a sometimes disengaged and contradictory energy policy framework, several provinces with diverse and contradictory interests, as well as energy industry organizations called on the Harper Conservatives to articulate a national energy strategy. Meeting in Kananaskis, Alberta in July 2011, Canada's energy ministers called for a national energy strategy. Although there had been some discussion of a national policy framework for energy, this was the first time that such an argument had been made by government ministers. The catalyst for a national energy strategy was the failure in the mid-2000s of the private sector to construct the Mackenzie Valley Pipeline in a timely and economic fashion. Almost a decade after the Mackenzie Valley project was proposed, the social and environmental assessment had left hundreds of permits pending and a number of local communities and First Peoples' councils opposed. Moreover, the economic case for the pipeline had diminished as prices declined due to the 2007-2008 economic and financial collapse and supply continued to increase because of shale gas fracking. Combined these factors rendered the Mackenzie Valley Pipeline economically unviable.

Beginning in Kananaskis, Alberta the provinces and industry groups began to assemble a national approach to energy. Although the provinces had widely varying interests based on the energy resources available to them, the ministers did find common ground in several areas. All participants committed to develop energy "in an environmentally and socially sustainable fashion, to use it efficiently, and to be leaders in the global shift to a low-carbon energy future."³⁵ Business groups were more specific in their proposals. The oil and gas sector requested help expanding markets, while electricity producers wanted to end regulatory hurdles which prevented the sale of electricity to other provinces. The Canadian Pipeline Association, for example, made clear it wanted time limits placed on

³⁴ Sheldon Alberts, Obama's climate bill threatens Alberta oilsands. Low-carbon fuel standard 'disincentive' to high emission tarsands oil," *Edmonton Journal*, 1 April 2009, 1.

³⁵ Shawn McCarthy, "Why a national energy strategy makes sense," *Globe and Mail*, 12 July 2011, B5.

regulatory reviews of projects such as the Gateway XL in order to prevent excessive delays for environmental and other approvals. The Energy Policy Institute of Canada (EPIC) asked the ministers for certainty and coherence in the policy and regulatory framework.³⁶ There was a need for clarity, a spokesperson for the group stated, in all aspects of energy production. In order to meet the need for massive investments in energy infrastructure, a “national energy strategy should include an effort to break down provincial barriers, and deal with longstanding irritants such” as the dispute “between Quebec and Newfoundland and Labrador over access to electricity transmission line.”³⁷

Almost immediately, the effort to produce a national energy strategy ran into opposition. Quebec opposed any national plan, while Ontario and Alberta debated whether the oil sands was a sustainable source of fuel. On the other hand, supporters stated that a national approach was needed to streamline regulations, open Asian markets for oil and natural gas, and support research. Ontario Energy Minister Brad Duguid stated that his province would not support the wording of the statement released at the end of the energy ministers meeting in Kananaskis which described the oil sands as a responsible and sustainable source of energy. The Quebec representative did not see a need for a federal energy strategy “because, first of all, energy is a provincial competence.” The Alberta Minister of Energy, Ron Liepert, criticized Ontario for not supporting the oil sands. Liepert argued that issues such as greenhouse gas emissions made it critical for Canada to establish a single energy framework.³⁸

The federal response to a national energy strategy was muted. The Conservative government was only willing to react to events as they occurred. In January 2012, for example, the Prime Minister’s Office and Natural Resources Minister, Joe Oliver, issued a warning against “foreign intervention” aimed at halting the \$6.6 billion Northern Gateway XL pipeline. With the combined National Energy Board -- Canadian Environmental Assessment Agency (CEAA) hearings about to begin in Kitimat on the proposal, Oliver accused an environmental lobby group, Tides Canada, of distributing U.S. funds in Canada to opponents of the pipeline. The Prime Minister’s Office accused the Natural Resources Defence Council, a Washington-based environmental lobby, of interfering in Canadian affairs. Harper warned of “foreign money” being used “to overload the review process.” Harper claimed that the approximately, 4,000 people who indicated they wanted to appear before the joint NEB-CEAA panel³⁹ were part of an effort by American environmental groups to prevent the construction of the Gateway XL pipeline. The pipeline was, the Prime Minister stated, in the national interest as part of an effort to diversify oil exports to Asian markets and away from the United States. The situation was urgent, he stated, since the Obama administration had delayed a decision on the Keystone XL.⁴⁰

³⁶Shawn McCarthy, “Industry promotes national energy framework,” *Globe and Mail*, 13 July 2011, B3.

³⁷ Ibid.

³⁸ Nathan Vanderklippe, “Quebec drives a wedge into national energy plan,” *Globe and Mail*, 22 July 2011, B3.

³⁹ Shawn McCarthy and Steven Chase, “For the Harper government, a Gateway that must be open,” *Globe and Mail*, 10 January 2012, A8.

⁴⁰ Ibid.

The most vocal proponent of a national energy strategy was Alberta Premier Alison Redford. During the 2012 Alberta election campaign and after, the premier called for a broad, market-focussed national energy strategy to capitalize on Canada's energy resources. The strategy would include regulatory reform, improved energy efficiency, and the development of new export markets. Her plan also called for greater cooperation in environmental standards and the construction of new transmission infrastructure. Several critics attacked Redford's concept of a national plan. Liberal Member of Parliament and energy critic David McGuinty stated it was not possible to have a national strategy that did not address greenhouse gas reduction.⁴¹ Saskatchewan Conservative MP David Anderson, the parliamentary secretary to Natural Resources Minister Joe Oliver, compared Redford's proposal to the discredited 1980 - 85 Liberal National Energy Policy – a very unpopular program in the oil producing provinces. Anderson warned that “an aggressive national policy could devastate the industry.”⁴² The provinces were, moreover, divided over a national program. While Saskatchewan was supportive, British Columbia walked away from a meeting of the premiers after Christie Clark made clear her government wanted no part of any plan unless Alberta agreed to share its bitumen royalties in exchange for supporting the Gateway XL pipeline. Quebec was supportive of Redford's initiative as long as provincial jurisdiction was respected.⁴³ Ontario Premier Dalton McGuinty, after initially stating that Alberta's energy sector was keeping the Canadian dollar inflated in relation to other currencies and, therefore, hurting Ontario's manufacturing sector, joined the call for a national strategy at a private meeting with Redford. In an effort to win Ontario's support for the Northern Gateway XL pipeline Redford agreed to acknowledge publically Ontario's important role in oil sands development.

There were other voices calling for a national energy strategy. Three different organizations released reports in the summer of 2012. In July the Senate Standing Committee on Energy, the Environment and Natural Resources released a report, *Now Or Never. Canada Must Urgently Seize its Place in the New Energy World Order*. The report called for responsible resource development; regulatory reform (what it termed, one project, one review) to advance nation-building through a national electrical energy grid to bolster energy security and increased pipeline capacity to the west coast through both the Northern Gateway line and Kinder Morgan's proposed expansion of its trans-mountain pipeline to Burnaby. The committee also recommended shipping western crude oil to central and eastern Canada “to boost Eastern Canadian energy security and advance nation building.”⁴⁴ The last of the Committee's 13 proposals called for strong federal leadership in establishing Canada's image in the global community. While the provinces have a key role to play in Canada's energy development, the national government needed to play its part in speaking for the nation.⁴⁵

⁴¹ Jason Fekete, Battle heats up over national energy plan,” *Calgary Herald*, 1 February 2012, 4.

⁴² *Ibid.*

⁴³ M. White, “Quebec backs Alberta energy initiative; Redford, Charest stress co-operation among provinces,” *Calgary Herald*, 12 January 2012, 4.

⁴⁴ Senate Standing Committee on Energy, the Environment and Natural Resources, *Now Or Never. Canada Must Urgently Seize its Place in the New Energy World Order* (Ottawa: Senate Committees Directorate, 2012), 28-31.

⁴⁵ *Ibid.*, 64.

In August 2012, the Council of the Federation and the Energy Policy Institute of Canada both issued calls for a national energy strategy. In *A Shared Vision for Energy in Canada* the Council of the Federation put forward a seven point energy plan to ensure “a secure, sustainable, reliable competitively priced supply of energy” and “a high standard of environmental and social responsibility,” which would contribute to “economic growth and prosperity.” The proposals included recommendations to develop “a modern, reliable, environmentally safe, and efficient series of transportation networks for domestic and export/ import sources of energy” and improvements to “the timeliness of certainty of regulatory approval decision-making.”⁴⁶ The final recommendation was for provincial participation with the federal government in international discussions and negotiations on energy.⁴⁷

The same month as the Council of the Federation released its report the Energy Policy Institute of Canada (EPIC) published *A Canadian Energy Strategy Framework*. Complementing the Senate Committee and the Council of the Federation, the EPIC report contained six areas for study including suggestions for reform of the regulatory process, aboriginal peoples consultation, market diversification, and addressing the issue of carbon emissions. Although an industry organization, EPIC called for a strong state presence in the energy sector for regulatory reform, regional planning for land use and transmission corridors, a clear statement of government policy intent to promote Canadian energy development, resolution of First Nations issues, and trade agreements and other forms of market development.⁴⁸ The three reports provide a broad framework for a Canadian energy strategy.

Although much effort went into the formulation of a national energy strategy, circumstances conspired against any such policy. The November 2008 election of Barack Obama in the U.S. presidential election shifted momentum away from a continental energy policy framework. The Obama Administration has not been interested in any North America-wide energy framework. Obama campaigned on a green energy theme, insisting that limits should be set on carbon dioxide and other greenhouse gas emissions. He also pledged to make the United States energy independent and energy secure. In his first budget, Obama proposed requiring GHG emitters to buy 100 per cent of their carbon allowances – in the form of tradeable credits. The American Economic Recovery and Adjustment Act (the stimulus bill) included \$80 billion for clean energy investments. It included funding for upgrades to the electricity transmission infrastructure, housing insulation subsidies, local renewable and energy efficiency projects and a program to develop new energy storage solutions. As well, new energy standards were set for automobiles and household appliances. Alternative energy sources such as wind and ocean currents were also proposed. These measure were all part of a program designed to provide the United States with secure supplies of energy and lessen the dependence on middle eastern and other offshore oil and natural gas suppliers.

⁴⁶ Council of the Federation, *A Shared Vision For Energy In Canada* (Ottawa: The Council of the Federation, 2012), 3.

⁴⁷ *Ibid.*, 14-15.

⁴⁸ Energy Policy Institute of Canada, *A Canadian Energy Strategy Framework* (Energy Policy Institute of Canada, 2012), 133-135.

Alternatives to the Conservative approach to energy policy have been proposed by the industry itself. The decline of energy prices through 2008-2009, and again in 2014-2016, have provided consumer relief from rising production and consumer costs and offered an opportunity to reassess energy policy in Canada. Several industry organizations have, for example, promoted a North Pacific Energy Security Framework as a means to achieve a strong and predictable market for Canada's energy resources in a situation of increasing US regulation and declining demand. The North Pacific Energy Security Framework group includes Canada, China, Russia, Japan and South Korea. While only a loosely organized group, it is a response to a rapidly changing North American energy market.⁴⁹

Conclusion

By 2009 -2011 a Canadian energy policy had taken shape. Promoting Canada as an energy superpower, the Conservative government of Stephen Harper committed to a policy of further North American energy integration. The Conservative government never tired of reminding their audiences – especially those in the United States – that Canada is the largest foreign supplier of energy to the United States. With oil production at 4m. b/d in 2015, two-thirds of which is from the oilsands, Canada was described as “a stable, reliable, producer in a volatile, unpredictable world.” Canada's energy policy, Harper stated, is based on the idea of the free exchange of “products based on competitive market principles, not self-serving monopolistic political strategies.”⁵⁰ The Conservatives treated energy – electricity, oil and natural gas, and coal – as any other commodity to be bought and sold in an open market. Although the Conservatives did not officially withdraw from the Kyoto process, the government stated the Kyoto goals were unattainable. Instead, the Harper Government introduced what it called a “made-in-Canada” clean-air strategy. The Conservative government's initial reluctance to deal with China – especially in oil and natural gas – reflected the broader ideological orientation of the party. The Harper Conservatives were committed to closer North American economic integration and a decentralized federalism. While previous Chretien/ Martin Liberal Governments made an effort to lessen Canadian energy dependence on the US market and industry groups have called for a new North Pacific Energy Strategy, the Conservatives under Harper clung tenaciously to a belief that the Obama administration would eventually negotiate some type of North American cap-and-trade system for carbon emissions and accept the oil sands as a secure source of oil. While this vision of a North American energy market may have been possible under the George W. Bush administration it made no progress with the Obama Administration and is unlikely to change with the next Administration.

A new type of national policy has emerged in Canada. The new policy is distinguished by the reticent and second-level role played by the Harper government. The Conservative government promoted Canada as an energy superpower and sought to reform the national regulatory to hasten the exploitation of energy resources. The Harper energy policy was framed by an ideological commitment to free markets, a respect for jurisdictional authority and the role of the provinces. Unlike previous national policy initiatives, the new energy strategy as articulated by the several provinces, individually

⁴⁹ Pierre R. Alvarez, Michael Cleland, Roger Gibbins, “National Energy Security from an Exporter's Perspective: The Canadian Experience.” A paper presented at the North Pacific Energy Security Conference, East-West Centre, Honolulu, Hawaii, 15-16 December 2008.

⁵⁰ Stephen Harper, “We intend to build ‘energy superpower,’” *Financial Post*, 29 July 2006, FP15.

or through the Council of the Federation, the July 2012 Senate report, the Energy Policy Institute of Canada and other industry associations. It is not an effort by the federal government to enlarge its responsibility in the area of resource development. Instead, it is an effort by industry and the provinces to encourage national reform of the regulatory process and promote trade opportunities for the private sector development of Canada's energy resources. Specific proposals have come from industry and the provinces for the construction of energy infrastructure, regulatory reform, and the creation of a green energy sector to replace a declining manufacturing base. The ideological disposition of the Harper government has excluded it from introducing a framework or specific projects in which energy resources would be developed. While the Conservatives recognized a national issue, they did not responded to it on a national scale.

The emergent national energy policy was not "directed toward deliberate action by the federal government to structure the national economy."⁵¹ Canada's energy policy, Stephen Harper stated, is based on the idea of the free exchange of products based on competitive market principles, not self-serving monopolistic political strategies'.⁵² The Conservative government has decided not to implement any sort of energy strategy to reconcile the various regional interests represented by different energy resources. While previous governments tried to establish an integrated national economy through the agency of a powerful state, the Harper Conservatives have left the provinces to pursue their own interests. The result has been confusion, uncertainty, and delay in the energy sector. While question of dependence on a single market, environmental opposition to energy expansion, and unsettled First People's land claims remain, the federal government has abandoned the field to the provinces and the private sector.

There were three parts to Canadian energy policy under the Conservative Government. The first consisted of abandoning Canada's commitments under the Kyoto Protocol. The second part of Conservative energy policy was a move towards North American energy integration and an attempt to diversify Canada's energy customers. Under pressure from oil and natural gas industry the federal Government permitted Chinese and other foreign energy companies to buy Canadian assets, and support the Kinder Morgan pipeline expansion to Coquitlam in British Columbia's lower mainland and the Northern Gateway line to Prince Rupert. The third aspect of Conservative energy policy was regulatory reform and a reliance on market forces. Together these three policy initiatives constituted the harper government's energy party.

Although the Conservative government made some effort to access offshore markets, their first priority was North American energy integration. In order to achieve this goal the Harper Conservatives lobbied U.S. lawmakers and the Obama administration to approval the Keystone XL pipeline and supported the North American Energy Working Group, a forum for co-operation on energy issues ranging from electricity regulation to the oil sands. The Working Group was responsible for implementing the commitments made under the Security and Prosperity Partnership of North America. Moreover, the various Conservative Ministers of Natural Resources, made a number of cahnges which

⁵¹ Donald V. Smiley, "Canada and the Quest for a National Policy," *Canadian Journal of Political Science* vol. 8, no.1 (March 1975): 55.

⁵² Stephen "Harper, "We intend to build 'energy superpower,'" *Financial Post*, 29 July 2006, FP15.

streamlined the regulatory process in the hope that these reforms would accelerate the process of bringing Canadian energy resources to market. All this was attempted against the backdrop of U.S. efforts to change the balance of energy away from fossil fuels toward renewable and green energy sources.

Aware of the changing North American energy paradigm, the Conservative government of Stephen Harper took a wait-and-see approach to energy policy. Rather than diversifying markets and adapting to the changing requirements of its largest customer, the Harper government did little to adjust its policies. Stephen Harper's declarations that Canada was an "energy superpower" may have been an exaggeration, but with the country's vast energy resources—from uranium to hydroelectricity to the oilsands — Canada has the potential to play an increasingly important role in world energy markets. The question, however, was whether an ideologically right-wing government could undertake an energy policy that would be able to adapt to a complex and changing political and policy context. Because of an ideological commitment to free markets, an unwillingness to transgress provincial jurisdiction, a denial of the role of fossil fuels in climate change, the Harper Conservatives left a policy vacuum which has been filled by other actors. Simply put, the Harper government allowed the provinces and private sector to drive policy.