

University of Calgary Institute for United States Policy Research
School of Policy Studies
The Woodrow Wilson International Center for Scholars Canada Institute

**The Next U.S. Administration: Policy Directions & Implications
for Canada-U.S. Relations**

March 6-7, 2009

Session IV– Energy and Environment
4:00 p.m. – 5:00 p.m.

PRESENTER

Robert Page, TransAlta Professor of Environmental Management and Sustainability

COMMENTATOR

Debora L. VanNijnatten, Political Science, Wilfrid Laurier University

STUDENT OBSERVER/RAPPORTEUR

Glenn Icton, Department of History, University of Calgary

Session IV - Summary

In the session concerning North American energy and the environment, a paper was presented by Robert Page entitled “Energy Security and Environmental Integrity: The Challenge of Bilateral Cooperation.” Debora VanNijnatten provided a commentary. The paper and commentary laid out the importance as well as the challenges of collaboration between Canada and the United States to achieve energy security while minimizing the cost to the environment.

Themes emerging in Page’s presentation were the problem of “dirty oil,” the possibilities of a joint cap and trade system, collaboration between the two countries on clean coal and Carbon Capture and Storage (CCS), and looking ahead to Copenhagen with the possibility of full continental collaboration between Canada, the United States, and Mexico. Page also viewed the collaboration and cooperation on energy security and environmental issues to be an extension of the North American Free Trade Agreement (NAFTA). Meanwhile, in her commentary, VanNijnatten focused on the complex forces of U.S. politics, green power, and conservation, and the crucial role Mexico must play in future continental climate negotiations.

Page began his presentation by outlining the history of past cross-border energy projects and environmental issues. These included projects such as the Saint Lawrence Seaway, the Columbia River Treaty, and Arctic Pipeline, as well as past efforts at institutionalizing cooperation between Canada and the United States, such as the International Joint Commission (IJC). By addressing past efforts of cooperation between Canada and the United States, he addressed some of the complexities and pitfalls of these

past projects, such as the role of sub-national governments and the lack of incentive to use the IJC.

Page identified several economic issues of concern for Canada with respect to the export of energy to the United States: the declining price of oil, scarceness of capital, the U.S. campaign against dirty oil, and the *U.S. Energy Independence and Security Act*. During the ensuing discussion, a question was asked regarding the importance of the role of capital markets to finance new facilities in a collapsed market. Page responded that one needs to consider the scale of capital being looked at for the next ten years and that the current problem with financing new facilities is the low price of oil. VanNijnatten responded that this discussion would not be taking place if there was a carbon tax.

With respect to energy security and the import and export of the various sources of energy, a major theme was the north-south (Canada-U.S. border) and east-west (across Canada and the United States respectively) orientations of the trade of electricity and oil. The trade of electricity primarily follows an east-west orientation. For example, New England is a more attractive customer to Hydro Quebec than Quebec's neighbouring province of Ontario. Meanwhile, trade in oil is characterized by both east-west running pipelines, as well as north-south. Factors affecting Canadian oil exports to the United States include declining oil fields, such as Prudhoe Bay, and Obama's desire to achieve energy independence.

With respect to natural gas, however, while Canadian Liquefied Natural Gas (LNG) has been penetrating U.S. markets, Page noted that the increasing popularity of shale gasses and other non-conventional gasses produced in the United States is weakening the demand for Canadian natural gas. This trend is something he believes

could sharpen with new U.S. regulations requiring cuts in CO₂ emissions. During the discussion, Page noted two problems with nuclear power. First, concerning economics, nuclear power appeared to be the most expensive source of energy in cost comparisons. Additionally, there are problems of finding appropriate locations for nuclear facilities.

In her commentary, VanNijnatten noted the lack of attention to green power and conservation in Page's paper. She observed that Canada does not have the financial incentives that the United States does in these areas and asked why there was not a multi-pronged strategy for renewables. Additionally, she commented on the need to be more aggressive with respect to conservation, beyond clean coal and CCS. In the discussion, a conference participant voiced his discouragement over the fact that oil still dominates energy security discussions at the expense of more comprehensive dialogue regarding renewable solutions to energy and environmental concerns. He stated that he would like to see some initiative in terms of moving forward with renewables. The session chair, Michael Moore, stressed that there was a need for a transition period from fossil fuels to renewable sources of energy. This point was reinforced by VanNijnatten, who stressed the need for a multi-pronged strategy, as well as the fact that it takes time for new infrastructure to come online.

With respect to Alberta's oil sands and concerns over U.S. President Barack Obama's recent campaign against "dirty oil," Page suggests that Canada needs to counter such perspectives of Alberta's oil by promoting the life cycle assessment of emissions. As Page noted, extraction and production are only small portions of the life cycle of oil, which also comprises the fossil fuel needed to transport oil and gas for export. Canada must change the nature of the oil sands debate to recognize this. To present a more

positive environmental image of oil sands development, Canada is expected to put money into developing technology for CCS and clean coal, present a serious plan for a CO₂ cap and trade system, and set targets and schedules for CCS. In Page's concluding remarks, he stated that Canada needs to act faster than commercial conditions will allow.

Page defined energy security in a fashion that considered both physical threats as well as the secure flow of oil into the United States. In considering physical threats to energy security, Page identified both weather/climatic related threats and terrorist attacks. Discussing the Gulf Coast, he noted that Hurricane Katrina destroyed dozens of oil and gas refineries, resulting not only in the destruction of individual facilities but damage to the overall energy system. He explained that this was worse than any damage that could have been perpetuated by terrorism.

According to Page, new proposed pipelines from Canada's oil sands will provide an alternative supply of oil in the event of another Katrina. With respect to threats of terrorist attacks on energy sources, Page noted the difficulty in devising a fool-proof plan for energy security. One area of great concern identified by Page is the electrical transmission system which is in need of new investment to enhance its reliability. Additionally, most of the countries supplying the United States with energy are antagonistic towards America, or unstable. Concomitant with this antagonism and instability is the financial drain that energy imports have put on the West. The U.S. economy is financing both sides of the Afghan War as well as contributing to Venezuelan President Hugo Chavez's financing of left wing rebels in Latin America.

Concerning energy security in the Arctic, Page noted that Canada and the United States have a number of ongoing disputes such as navigation rights through the

Northwest Passage, as well as the location of the Canada-U.S. border in the Beaufort Sea. He stated that Canada and the United States need to resolve these disputes not only for the sake of companies seeking to drill for oil in the Arctic, but also to establish Canadian and American claims to Arctic regions in the face of a very proactive Russian approach to the Arctic.

In considering the cross-border cooperation on environmental sustainability, both Page and VanNijnatten noted the complexity of trying to coordinate cross-border initiatives, as well as the limitations of such endeavours. Concerning a common cap and trade system, Page noted that it was unlikely because it is difficult to get the legislation through as it is, before confronting cross-boundary issues. Nevertheless, in spite of his skepticism concerning a joint cap and trade system, Page did comment that Canada needs to get started on its own cap and trade system. In fact, he can envision two sets of cap and trade systems which would have common offset rules and involve the trading of credits between the two systems. This would involve Canada moving away from a policy based on emissions intensity to one based on absolute emissions.

With respect to cooperation between Canada and the United States on environmental sustainability measures, VanNijnatten noted that there were many complex forces at work within American politics which will determine Canada-U.S. relations on this matter. She identified within the United States the emergence of two convoluted climate policy stories: one at the sub-national level and one at the federal level. At the sub-national level, many policies have been undertaken by state governments. This even includes some multilateral cap and trade work with Canada. In this respect, the states are very active in enacting climate change legislation in

comparison to the national level. At the federal level there is no clear idea of how climate change legislation would move forward and there is not much expertise in climate change legislation in Congress. Nevertheless, the United States has a resurgent Environmental Protection Agency (EPA) with an activist administration. However, the national and sub-national approaches to climate change legislation are evolving independently of each other, and Congress is not considering what is happening at the state level.

According to VanNijnatten, Canada needs to react to these complex political forces in the United States through more serious engagement with subnational governments with climate experience. Meanwhile, within the United States, more meaningful dialogue between the federal and state governments must be developed as the implementation of climate change policies will likely be applied at both the national and subnational level.

Finally, both VanNijnatten and Page noted the importance of including Mexico in the development of climate change initiatives. VanNijnatten presented five reasons why it was critical for Mexico to be included in any future continental climate negotiations. First, the inclusion of Mexico could impact international negotiations on emissions reduction by developing a green fund for developing countries. Second, Mexico has announced a cap and trade system and is talking of cooperation with the U.S. Third, Mexican activism is encouraged by the United States, and Canada to a lesser degree. Fourth, Mexico is an active participant in trilateral negotiations. Finally, the Commission for Environmental Cooperation (CEC) will present plans and proposals for a new work plan, which are tied to Mexico.