

**WOODROW WILSON CENTER FORUM
ON CROSS BORDER ISSUES
Closing the Gap:
Creating a Collaborative Cross-Border Business
Environment**

**The Canada Institute of the Woodrow Wilson International Center for Scholars
Enbridge
EnCana Corporation
Rozsa Centre, University of Calgary
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Essentialtalk**

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On March 2nd, 2004 the *Woodrow Wilson Center Forum on Cross-Border Issues* was held in Calgary, Alberta. Under the sponsorship of Pat Daniel, President and CEO of Enbridge Inc., and Gwyn Morgan, President and CEO of EnCana Corporation, the forum brought together a blue ribbon panel of Canadian and U.S. government and business leaders to discuss current cross-border issues, with a particular focus on energy.¹ The panel included:

Hon. Scott Brison, Parliamentary Secretary (Canada-U.S.) to the Prime Minister
Nancy Hughes-Anthony, President and CEO, Canadian Chamber of Commerce
Pierre Alvarez, President, Canadian Association of Petroleum Producers
Thomas d'Aquino, President and CEO of the Council of Chief Executives
Barry Worthington, Executive Director, U.S. Energy Association
John Felmy, Chief Economist, American Petroleum Institute
Stephen Gallogly, Director, International Policy, U.S. Department of State

The Woodrow Wilson International Center for Scholars is a non-partisan institute for advanced study and as a key element of its mandate provides a neutral forum for open, serious, and informed dialogue. Part of the Smithsonian Institution, the Center brings together leaders from government, academia, and business to try to bridge the gap between the world of ideas and the world of policy.

This forum was designed to stimulate broader, inclusive discussion and information exchange on cross-border issues and their possible solutions. It and subsequent similar events in Washington

¹ This overview presents highlights of various presentations on the current and future challenges of cross-border energy trade. The full range of issues covered at the forum and the recordings of the proceedings are available at www.essentialtalk.com/public/woodrowwilson/index.html.

are intended to set the stage for on-going collaboration between business and government aimed at closing the information gap, and launching a new commitment on both sides of the border to sharing resources, plans, and programs.

The forum was particularly timely as trade disputes, such as those over softwood lumber and beef, continue to create tensions between Canada and the United States. Since September 11, 2001, concerns over domestic security and the security of energy supplies have grown and continue to dominate policy discussions. Tim Moro presented recent public opinion data by Ipsos-Reid that reflect this trend. The importance of addressing such issues was emphasized at the outset by Scott Brison, who noted, “There is no area of foreign policy that is of greater importance for our government than Canada-U.S. relations.”

Energy security: our common issue

Pierre Alvarez observed that over the last 30 years the development of the North American continental energy market has been a success story. The result has been open access to abundant energy, regardless of source, with prices set solely by market forces. This smoothly functioning continental energy market has, in turn, provided the secure, economically priced energy that has underpinned the unparalleled economic success of both countries over the last three decades. But despite these past successes, both countries continue to share concerns with respect to their future energy security.

Domestic energy demand in the United States continues to significantly outstrip domestic supply, even though it has among the world’s highest energy production levels. Stephen Gallogly noted that America’s dependence on politically and economically insecure foreign sources of energy continues to grow, despite efforts in the United States to diversify the energy supply portfolio. The events of September 11, 2001 only served to increase the nation’s concerns. The relative security of Canadian energy supplies therefore made them particularly attractive.

For Canadians, national energy supply still greatly outstrips national demand. Nevertheless, energy resources such as oil sands and northern gas are often difficult or costly to extract. Significant, long-term capital investments will be required in order to keep future energy resources available to Canadian consumers at acceptable prices. But without secure, long-term access to the larger marketplaces in the United States, these investments are much less likely to occur, as the necessary capital seeks better returns elsewhere around the globe.

For both countries, then, maintaining the existing continental energy marketplace—and where possible, enhancing the open, free movement of energy across North America—is vital to ensuring their respective energy and by extension, economic security, and even national sovereignty. Brison noted that in spite of Canadians’ concerns over sovereignty and social independence from the United States, economic security and national sovereignty were inextricably intertwined; without economic security, he said, no country could afford the programs, such as health care, that help to define Canada as a nation.

Many of the forum participants noted that despite their disparate sizes, the close linkage of the countries’ two economies now make it almost impossible for one economy to change

substantially without having a corresponding effect on the other. The negative impacts of global competition on the economies of both countries, they argued, made it increasingly important that continental economic strategies be developed.

Risks to meeting our common goals

The forum identified a number of interrelated risks to the achieving the two countries' common goals of protecting the present continental energy market and developing a continental energy strategy.

The first was the general lack of public (and to some degree political) understanding of energy issues. Because energy issues are complex, there is a real risk that pressures from the often ill-informed public (on either side of the border) could cause politicians to make expedient but not always beneficial decisions, whose impacts could be detrimental to energy markets and energy security.

The second risk was a concern that other trade issues, if not resolved, could begin to spill over and have a significant negative effect on energy trade. Lingering and often acrimonious trade disputes, such as softwood lumber, were seen to pose a real risk to the continental energy market and to the economy in general, either directly, if energy were to become a bargaining chip in these disputes, or indirectly, by acting as a barrier to progress on a range of trade issues, including energy. The absence of an effective dispute resolution mechanism was seen to be a key element of this concern.

The third risk was best characterized at the forum by Nancy Hughes-Anthony as "benign neglect." The continental energy market was seen to be in some ways a victim of its own success. Because the market is working well, there is little impetus to address often politically "loaded" issues, such as the need for increased energy infrastructure. Unfortunately, given the long lead times needed to develop this new infrastructure, the lack of proactive planning was seen to be particularly problematic. Adding to this concern was the growing impact of local public resistance to the large new energy developments (the "not-in-my-backyard" or NIMBY syndrome). Unnecessarily complex, misaligned, and overlapping regulatory requirements were another barrier to improving on the continental energy marketplace.

The need for leadership

There was a common view at the forum that, more than anything else, strong political leadership, supported by equally committed business leadership, was critical to ensuring that the continental energy market would continue to prosper and grow.

Within North America, the next new significant sources of energy, such as oil sands, offshore oil, and northern gas, as well as the transportation networks and refining capacity needed to deliver them to the marketplace, will all require huge investments of capital. In order for the market to be willing to make these investments, a framework for economic, political, and regulatory predictability and stability will be essential. The creation of this framework, in turn, depends on strong political leadership sustained by industry support.

Political leadership is essential to set the required policies and guidelines for regulators to ensure that regulatory streamlining within jurisdictions and harmonization between jurisdictions are addressed. Political leadership is needed to ensure longer term planning for new energy transportation corridors and refining capacity. Political leadership is necessary to ensure that other trade issues are not allowed to boil over and thus potentially put energy trade at risk. And it is essential if the ultimate goal of a continental energy strategy is ever to be achieved.

Raising the profile

From an industry perspective, there is a recognition that progress has been made in recent years in addressing some of the current energy issues. However, the rate of change has often been slow and sporadic and the changes, while helpful, have not always been particularly substantive. The issues that the industry now faces, such as the development of northern natural gas and oil sands, the drilling of new wells in environmentally sensitive federal lands and offshore deepwater marine environments, unconventional gas exploration, and the expansion of pipelines and power lines in the face of local resistance, are large and complex. If these issues are to be addressed within anything approaching a timely fashion, significant effort is required. The past rate of progress is no longer acceptable and a more aggressive approach to these issues, initiated by strong political leadership, is now required.

However, such leadership will only occur if the politicians themselves recognize the need. Unfortunately, the profile of energy issues appears to remain relatively low on the political horizon, despite their fundamental importance to economic and national security. Another energy crisis would undoubtedly stimulate the needed political interest, but decisions made during crises are often not optimal. Given the long planning horizons of new projects, reacting only after such a crisis occurs will almost certainly be much too late. Therefore, a mechanism needs to be found to engage political leaders on both sides of the border now.

There is also recognition that the level of importance assigned to trade issues differs between Canada and the United States. From the Canadian perspective, the disparate size in the trading relationship helps to ensure that intercontinental trade issues, including energy, remain a priority. However, while both national and energy security are clearly U.S. priorities, the concept of a continental approach to addressing these issues is not as well established in U.S. thinking. As Barry Worthington noted, despite the critical importance of energy to the United States' well being, the hugely diverse range of local and national issues that U.S. political leaders must address makes it difficult for them to keep a focus on energy issues, particularly during an election year.

As a result, in addition to the need to move forward in a timely fashion, a range of approaches, sensitive to the differences in the political forces and institutions on both sides of the border, is required to ensure that the respective political leadership of both countries come to understand the urgency of energy issues and so become more heavily engaged in finding solutions.

And while there was agreement among the forum participants that political leadership was required, there was a word of caution with respect to how the required changes, once achieved,

should be implemented. There was a general concern that the legislative process was at best cumbersome and always at some risk of being hijacked by other issues. There appeared to be a general agreement that change, wherever possible, should be made at the operational level, through process improvements (e.g., regulations) and mutual agreements, rather than through treaties and legislation.

Conclusion and next steps

The current geopolitical environment has placed an increased emphasis on nations to protect their economic and physical security and creates a unique opportunity for the energy industry to set the stage for further energy development in North America. For the energy industry to be successful in meeting its goals, however, it will be critical that it be able to effectively engage political leaders on both sides of the border.

To accomplish all this will, in turn, require significant leadership on the part of industry. Forum participants recognized this and outlined actions their respective associations and organizations were taking to inform, assist, and motivate political leaders. However, there was recognition that they could all accomplish more if they worked together. The panel recommended further gatherings like this one—only suggesting that they be progressively more action-oriented and focused on specific areas of possible improvement.