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Bilateral Exploitation of North American Energy Resources--An Introduction

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I. THE FUTURE OF CANADIAN ENERGY RESOURCE DEVELOPMENT

Bilateral Exploitation of North American Energy Resources — An Introduction

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"In discussing the trading of energy between the United States and Canada, it is recognized that our governments, from time to time, will reach understanding on ground rules of policy between our respective nations. It may well be that they may reach agreement whereby given quantities of oil and gas may be made available within a certain time.

"The general policy of the United States Government would appear to be that comprehensive bilateral understanding should be reached in order to foster the development of trade in energy materials within the context of national security requirements.[1] However, I would respectfully suggest that your own experience with gas wellhead prices and the activity of the Federal Power Commission has demonstrated that government decisions are not always based on wise economics or the hard bargaining of the market place.

"We, in Canada, feel that you are going to need our surplus energy and that we are going to have surplus oil and gas to sell. However, the oil and gas industry in Canada is cool to the idea of a government-negotiated Continental Energy Agreement and would much rather not have our respective governments make all our deals for us.

"Production of oil in the U.S. in 1971 was between two and two-and-a-half million barrels a day short of requirements. The shortage was made up by imports, including an average of 800,000 barrels a day from Canada.[2]

"The use of natural gas in the U.S. in 1971 totalled just over 22

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1 President's Commission on Internal Trade and Investment Policy. The Honorable Philip H. Trezise, Assistant Secretary, Economic Affairs, U. S. Department of State.

2 American Petroleum Institute.

trillion cubic feet of which almost one trillion cubic feet was supplied from Canada.[3]

"Forecasts indicate that the U.S. will require imports of crude oil ranging up to 7 million barrels a day by 1976 and up to 11 million barrels a day by 1980.[4] Shortages of natural gas are hard to determine — I think you will agree there is a shortage — and imports to make up the difference between availability and requirements are not easy to arrange. However, the implication is that a recognized shortage will continue into the future.

"All in all, your deficits in oil and gas requirements represent a fantastic market for a friendly neighbor with surplus production to sell. I emphasize the word "surplus." It is the policy of the Canadian Government, and its instrument the National Energy Board, to permit exports of oil and gas only after provision has been made for reasonable foreseeable Canadian requirements. Our industry is in full agreement. Despite the fact that our industry has a considerable number of U.S.-related firms, we are developing Canadian reserves of oil and gas, under Canadian laws and our motto is, firmly, that the overall interests of Canada come first.

"In Canada, at the present rate of consumption, we have about 20 years proven reserves of oil and something less than 30 years of gas. If we are to increase exports to the U.S. we will have to find more oil and gas. While the Western Plains and Foothills have by no means yet given up all their potential, the focus in recent years has shifted to the Arctic and offshore.

"If oil and gas is found in quantity off the East Coast, much of the production would probably be absorbed by the Eastern Canadian market, which presently imports over 650,000 barrels a day from the Middle East and Venezuela. Little, at first, would be available for export to the U.S.

"If — or I should be optimistic and say — when oil and gas is discovered in commercial quantities in the Canadian Arctic, there will undoubtedly be fairly large volumes available to the Central U.S. However, it should be recognized that this would be fairly expensive energy. The distance from Cleveland to these Arctic finds is greater than the distance from New York to Seattle.

"Arctic oil and gas is going to cost more because it has to travel further before reaching your market. It is also going to cost more because exploration and development costs are higher in the frontier

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[3] American Gas Association.

[4] American Petroleum Institute.

regions than in the established oil and gas regions. Even in the settled regions, drilling costs have risen by over 30% in the past decade and I would suggest that this must be reflected in higher prices for energy from these sources also.

"The Canadian Petroleum Association — using the best available judgment of the most recent geological and geophysical information — estimates the potential of the Canadian Arctic to be some 43 billion barrels of oil and 260 trillion cubic feet of gas recoverable by conventional methods. Given a lot of luck and large doses of exploration risk capital, we may in time find much of this.

"I am under no illusions that even major discoveries in the Canadian Arctic will solve your supply problem. On the other hand, it will only be because of the likelihood of selling large quantities of new discoveries there to the U.S. markets that development will be possible at all. Pipelines to the promising finds cannot be supported by the Canadian markets alone. It will need the large volume of the U.S. market if any of this remote energy is to reach the Canadian market en route.

"In our future development, we look for increasing Canadian investment. However, this does not mean that we will not welcome and, in fact, need further investment from the U.S. It can be realized, in talking of the need for five or six major pipelines, totaling many thousands of miles, to deliver oil and gas from the far north, that we will have trouble doing our own financing.

"However, these will be Canadian pipelines, operating under Canadian laws and responsive to Canadian problems even when transporting U.S. energy from one State to another, for example from Prudhoe Bay in Alaska to some southern states. In saying such pipelines would be subject to Canadian law, I do not imply the possibility whatever of Canadian interference with the delivery of your gas and oil to your own markets, any more than Canadians would expect the possibility of interference by U.S. authorities with deliveries of Canadian oil and gas to Canadian markets via pipelines traversing U.S. territory in accordance with U.S. laws.

"It would appear, from listening to others at this symposium, that there is good agreement in general principles and we confidently look forward to continuing to do business with you. In closing, I would like to use a quotation from a speech made in Canada by the late President John F. Kennedy. He said, "Geography has made us neighbors, history has made us friends, economics has made us partners and necessity has made us allies." I hope we never forget it."