

"ENERGY: CAN A SUDDEN CRISIS HAPPEN HERE?"  
(A Report On Canada's National Energy Capability)

AN ADDRESS

BY

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TO THE

CANADIAN CLUB.

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I would like to thank the Canadian Club of Toronto for organizing this special Friday luncheon to replace the meeting that was snowed-out on Monday the 10th of January.

My disappointment in not being able to get into Toronto was alleviated somewhat when I heard that a lot of Torontonians had the same problem. All the same, I had a message which I wanted to deliver and I was prevented from doing so.

I must tell you that I am in very distinguished company over this incident. The Canadian Club tells me that in the past decade the only other luncheon that was cancelled was for the Right Honourable John Diefenbaker.

I am told that he blamed the whole thing on the Liberals--that's what he called the weather forecasters--always talking about the future--never doing anything about today... That was before he started to talk about Joe Clark.

I would have liked to start, "well, as I was going to say before we were all so rudely interrupted...", but I can't. There is no way that I could deliver the speech that I had written for the January luncheon today. Even in the time span of seven weeks much has happened to change one's approach to talking about the issues of the day.

Premier René Levesque has been to New York to talk to Financiers and to the Economic Club of New York. Provincial Premiers and Federal and Provincial Ministers have put their views on record about the state of the nation. The Prime Minister went to Quebec City and Washington and put forward the Federal viewpoint about our Confederation. And the U.S. has suffered an energy crisis of very considerable significance.

The Canadian unity issue has many dimensions. Some would describe the problem in terms of "how well can our ten provinces, called Canada, sort things out with the Federal Government? Others would put it differently, "how will 22 million people, called Canadians, respond to the greatest challenge in their life times, the challenge to Canada itself?"

Some say it's an issue to be settled only by Quebecers. If a marriage, they say, isn't working, and one partner decides that it wants out--then let it go. That's René Levesque's approach. But it's not mine.

Levesque will try to foster any latent resentment that may exist between Canadians - the resentment of those outside Quebec towards Quebec and French-speaking Canadians; and the latent resentment harboured by some French-speaking Canadians towards Anglophones.

The more he is successful in provoking Anglophones into uttering statements, such as "ah hell, let 'em go", the easier his task will be to engineer an acceptance of separation within Quebec. The easier it will be for him to make the argument--"it's inevitable, why not accept it now and try to work it out?"

What would happen with separation is that the people of Quebec would become poorer, but a few nationalist politicians and intellectuals would become richer and more powerful--and the distinctive culture of Quebec would quickly be overwhelmed by the Anglophone tides on all sides.

Ladies and Gentlemen, English-speaking Canadians have a greater responsibility than merely repudiating such sentiments. They have a responsibility to work with French-speaking Canadians as full and equal partners in building our country. English-speaking Canadians across the country, and nowhere more importantly than here in Toronto, can help or hurt the parochial cause of René Levesque. Business decisions, for example, should be based on the continuation of Quebec within Confederation, not on its separation. To do the latter is to invite that separation.

Mr. Chairman, most of my remarks today will be on energy. I believe, however, that these remarks will be more relevant against the background I have just set out.

Over 100 years ago it was new modes of transportation that offered the opportunity for nation building. Railways and wheat and freight rates out west became synonymous with Confederation itself. Ever since transportation modes and transportation policies have been fundamental to the health of our Confederation.

More recently another policy area, energy, has become crucial. National energy policies today are as important in building and preserving our nation, as transportation policies were 100 years ago in getting the nation started.

The recent energy crisis in the U.S. should be a stark reminder to us. No more than a few weeks ago hundreds of thousands of school children had to say home because there was no energy to heat their schools. And hundreds of thousands more - adults - were temporarily laid off for the

same reason all because of a crucial shortage of energy, mostly natural gas. And some Canadians working in the auto industry, felt the result too. They were laid off because the imported parts essential to their work were not being turned out in the United States supplier plants.

Could such a sudden crisis happen here in Canada? It could, unless governments at all levels, business, academics, public interest groups and individuals [redacted] take up the challenges I will outline briefly today.

Let's look at some basic facts. Our overwhelming dependence on oil and gas will continue for at least the next ten years. During the same ten-year period our own reserves of conventional oil will be running down to dangerously low levels. In each of the past five years we have used more than we have found and the outlook for future oil discoveries coming to market within the next ten years is, to coin a phrase, bleak.

Accordingly Canada, particularly the markets east of the Ottawa valley line, will become increasingly dependent on foreign oil for the next ten years at least.

One of the worst features of that increasing dependence on foreign imported oil is that an increasing proportion of it will have to come from the Middle East, an area which has been politically very unstable in the post-war years. By 1990 the estimates I have seen indicate that the western world may be depending on Saudi Arabia for 23 million barrels a day, or nearly one barrel out of every two of their oil imports. In strategic terms, this has to be a matter of great concern.

The balance of trade implications, therefore, of growing foreign imports at increasing prices can only be described as a matter of very great concern--from a deficit estimated at almost 1.5 billion dollars last year to a deficit forecast of 4.5 billion dollars in 1985.

Also Canadians have been wasting energy as if there were no tomorrow because we have taken it for granted and because until recently it has been cheap.

As well, the cost of finding and bringing to market new supplies of oil and natural gas, and developing other forms of energy for heating, and moving, sustaining and lighting our lives, is immense. One hundred and eighty billion dollars or more in the next 15 years. This is why conservation is our best energy policy. Developing new energy costs four times as much as saving an equal amount of existing energy.

In the final analysis, the provinces own the resources - they hold all the aces. How much simpler the life of a federal energy minister would be if the resources belonged to the Federal Government - if the Federal Government could determine what would be produced, at what royalty, at what time and in what quantity. But the Federal Government doesn't own the resources, the provinces do, and that causes real tensions in our Confederation - both among provinces, and between the provinces and the Federal Government.

These are some of the basic problems that confront us. I believe Canada, more than most countries, has addressed itself to these policy questions. We have stated them in a document; "An Energy Strategy for Canada, Policies for Self-Reliance". Only now is the United States moving to get in step with Canada and other countries - President Carter told his television audience the other night that he had ordered a White Paper on energy for April 20.

I'll describe parts of our strategy and in almost every case you will see that unless provincial governments follow with the appropriate initiative or take the appropriate decision it will be difficult to give effect to a national need.

#### Is 'Conservation' Just A New Buzz Word?

Let's start with what has to be the foundation of all modern energy policy - a rejection of our wasteful practices of the past. This is the reason for our greatly increased emphasis on energy conservation. Some self-styled experts like to describe energy conservation as one of our energy options. I suppose it is if you are the kind of person who would describe eating or not eating as an option for mankind.

In the ten years prior to 1975, Canadians along with a lot of other people, were nearly doubling their energy consumption every ten years.

The target which we set last year is to cut the annual rate of increase in national consumption of energy to 3.5% - to cut it in half, by 1985. We expect to do better than that, possibly approaching a zero rate on a per capita basis by 1990 if we receive the cooperation of provincial leaders and other Canadians.

A few conservation measures we have taken include a 10% cut-back of all federal departments and we are actively working with industrial groups which are devoted to similar objectives.

Our new mileage standards will cut back gasoline consumption dramatically. The new car in 1985 will go twice as far on the same gallon of gas as does a 1975 model.

Home heating remains one of the biggest potential areas of energy saving. On this topic I would like to see conservation incentives offered by the electric utilities, the oil companies and the gas companies, just as they once offered incentives to their customers to increase their use of power and fuel. It would be good business for them and good business for the country.

I would also like to see the banks, insurance and loan companies get into the act offering savings and loan plans that would help people to do things to save energy--and a lot of money as well.

There are significant savings to be made in eliminating bulk metering of electrical energy. What incentive is there to the millions of Canadians who live in apartments to save energy if they are charged a flat rate regardless of the energy they consume? And what about time-of-day billing or other techniques to even out energy consumption? Other countries are charging higher rates for hours of peak energy consumption. And some have adopted systems which allocate the time of day for hot water heating. In Canada, we must look to the provincial government utilities to introduce these useful measures.

#### What Should the Price Be?

Perhaps one of the most controversial energy policies we have adopted is that relating to price. Should Canadians have to pay the OPEC price for their oil? There are many variations on this particular question such as, "If Canadians in Ontario can obtain the world price for gold why shouldn't Canadians in Alberta obtain the world price for oil?" Another formulation might go like this-- "Canadian manufacturing industry has always suffered in relation to the manufacturing industries of other countries because of the size of the domestic market, the size of the manufacturing unit,

the higher costs associated with longer distances and colder winters--all the more reason, therefore, to offset these disadvantages whenever possible, and energy prices represent such an opportunity. Canadian prices, therefore should be kept below U.S. prices (which are significantly below world prices.)"

Still another formulation would be--"there is nothing which will so convince a man to action than the effect on his pocket-book--if you're serious about conservation, raise the price." This is the view of the International Energy Agency. We are criticized for keeping our prices down. Yet another formulation would go like this--"new energy sources--oil and natural gas, because they are remote or because they involve relatively new technologies, will be very expensive. If you want these brought into being for the benefit of Canadians then you must raise the price."

I think it fair to say that informed opinion supports our policy of moving towards world price--indeed the International Energy Agency believes that we have been moving too slowly.

Price to the consumer and return to the producer must be consistent with our conservation objectives and our objectives to substitute Canadian energy sources for foreign oil. Very soon we will go into pricing discussions with the provinces. Since the last round the OPEC nations have increased the price by an average of better than a dollar--as a result the oil price in Toronto is still close to \$4.00 a barrel lower than the international price--and natural gas is being sold at an even lower figure in relationship to international energy costs. If we are to narrow the gap between Canadian prices and the international price, then we must be prepared to contemplate a price increase come July 1st of more than \$1.25 a barrel--at least .04¢ a gallon.

#### What Will Displace Foreign Oil?

There are five energy sources which we must tap if we are to reduce our growing dependence on foreign oil.

- 1) Our own oil resources--particularly our tar sands and heavy oils. We have estimated that by 1990 oil from conventional sources might be down to 736,000 barrels a day, and that we might obtain 444,000 barrels a day from the tar sands and 500,000 barrels a day from the frontier. That analysis was based on the relative rating of the probabilities and economics of the frontier areas and the technology and economics of the tar sands.

Frontier prospects for oil since then have declined. It was for that reason that I proposed a set of fiscal principles to Alberta in order to reactivate an interest in a new tar sands plant and in the heavy oils of the Cold Lake area and the Lloydminster area. I believe that access to secure oil even if the Government has to subsidize the production of that oil is more important than a tax and royalty system which would notionally allocate significant revenues to governments but would provide no oil to the Canadian people.

It should be possible (with the cooperation of the Alberta Government and the Saskatchewan Government) to obtain for Canadians a million barrels a day by 1990 of Athabasca type oil and heavy oils from Cold Lake and Lloydminster. But let there be no mistake, it will require the cooperation of the provincial governments. And decisions must be taken soon.

2) Secondly, our natural gas resources can replace imported oil. Quebec is particularly vulnerable to foreign oil imports. Seventy per cent of the total energy of Quebec depends on oil. And before we extended the pipeline from Toronto to Montreal, all of it was imported. I believe that oil pipeline was an investment in Confederation--in the security of Canada.

Our natural gas situation today is somewhat better than the prospects for conventional oil. It has come about partly as a result of our pricing policy--raising oil prices and tying natural gas prices to them. There has been very much more activity in Alberta in the past year and a half with encouraging results. Very considerable deposits of natural gas previously known to be uneconomic have now been established as additions to our reserves base. This extra gas can be useful in helping to build a market for frontier gas.

This is the year that will determine whether or not a pipeline will be built from Northern Canada to serve Canadians and/or Americans. Clearly it would be inappropriate for me to speculate on the outcome. We have not yet heard from Mr. Justice Berger as to what social initiatives and environmental measures should be taken in the event that the Government were to decide on a Mackenzie Valley Pipeline.

There are people who, even if a Mackenzie Valley Pipeline is judged to be economically viable, environmentally satisfactory, and socially acceptable say that nothing should happen until there is a settlement of the Indian Land claims. Clearly that would be desirable. But the difficulty, in theory at least, is that such an accommodation might not occur in our life times.

I believe that Mr. Justice Berger may be planning to submit his report before May 1st which is the date that the Federal Power Commission must make its recommendation to the President. From then on it will be open season for various groups to make their representations to the President as he considers the matter.

Our own National Energy Board is not expected to provide its report until this summer - perhaps an uncomfortably short period before September 1st, the date when the President must make his recommendation to Congress unless he avails himself of the extra discretionary time provided to him by the legislation.

It won't be an easy decision, that's very clear. There will be those who will argue that Canada could afford to put off such a decision for several years, that the discoveries in Alberta have bought us time. But what kind of time has been bought for Canadians? Has it changed in any way our priority to reduce our dependence on foreign oil? Indeed, have these new Alberta sources not assisted us in reducing our dependence on foreign oil? I would urge Canadians to keep in mind that unless we develop our own alternatives to foreign oil we will become increasingly dependent on that foreign oil. The one thing that doesn't change is our vulnerability, our dependence, on foreign oil.

Which leads me to some of the other options, or some of the other complementary energy sources. Let's take nuclear. It can compete with hydro because it can be sited much closer to markets, thereby cutting transmission costs. And Pickering, for example, is producing power at a lot less cost to the consumer than if it were produced from coal. But there is a certain fear about nuclear and part of that fear derives from a lack of information. We need to meet that information gap to remove those fears. I believe we can do it in an open and intelligent way. This will require the combined efforts of scientists, engineers, public interest groups, politicians, and international agencies. I believe the Porter Commission can play a very useful role in this regard.

I mentioned coal. We are in the process of trying to put together a national coal policy. Ninety per cent or more of the coal resources of the country exist in the three western provinces. Again the priorities of the provinces will determine to a very large extent the role that coal will play in our energy future. So will the economics of transportation to the major markets in Canada.

Renewable energy clearly is one of man's great hopes for the future--solar, wind, animal and vegetable wastes, hydro, tidal and wave power. Indeed, the largest part of our increased funds for energy research are now going for these sources. We have set up a renewable energy resource branch within the department and I am now recruiting members for a National Advisory Committee on Conservation and Renewable Energy.

I would like to conclude by saying that nothing better illustrates the challenge to our Confederation than energy. The need to reconcile very different regional and provincial interests, differences often between producers and consumers is in the interests of the security of all Canadians. Because the jurisdictions are split between the Federal Government and the provinces the task will be a difficult one. But Canada was not built by faint-hearted people. It was built by hard-working people who were inspired by the opportunities; not defeated or deflected by the difficulties in their way.

If we allow ourselves to become preoccupied by regional grievances or obsessed by the problems of accommodating the language and distinctive culture of French-speaking Canadians, within the larger freedom of expression we call Canada, then we will fail ourselves and fail future generations of Canadians.

If we lose sight of what we are, what we have and what we can become we stand to lose everything. I have every confidence that Canadians will show themselves once again equal to the challenge.

Thank you.