

Notes for an Address by

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I am particularly indebted to your executive for the kind invitation to speak at this particular time. Coming during a period of active policy formation in the energy sector, at both the national and international level, our meeting to-day affords an excellent opportunity to report on recent developments in this important area of public policy.

We are living at a time of rapid change on the energy scene. Two weeks ago Canadians watched a major national conference of First Ministers of our own country. One week from today, the world will be watching a major meeting in Washington at the international level on the part of the oil consuming nations.

What I would like to do this afternoon is to refer to a number of salient features of the very acute problem of oil pricing, and then speak in more general terms about some of the other energy options and decisions facing Canada.

Just a week ago, my colleague the Minister of Finance, with his customary clarity, discussed with you some of the major issues arising from the First Ministers' Conference, particularly their economic and fiscal implications. I will not repeat again the exposition that he made on that occasion. But because of the very significance of the issues involved, I would like to refer briefly to the important questions involved in oil pricing within Canada. I want to put in sharp focus once again the issues which are before us as a country in our planning in this vital sector.

As my colleague indicated, the First Ministers' Conference of January 22nd and 23rd was of great value in achieving a compromise on the oil pricing issues for another period of months in which longer term solutions may be worked out. But it also achieved consensus on a number of fundamental principles which will govern oil pricing in the longer run.

Firstly, the First Ministers arrived at a consensus on the proposal first made to the House of Commons by Prime Minister Trudeau last September. He proposed that we depart from the previous national oil policy of having a Canadian market divided into two parts, and move to a single oil price for all Canadians subject only to adjustments for transportation cost and quality of oil.

Secondly, the First Ministers recognized that to achieve a single Canadian price, a transfer payment or subsidy would be required for that part of the Canadian market now served by overseas oil east of the Ottawa Valley. This subsidy would be used to hold down the price of imported oil to the price level agreed on for our own domestic oil production.

Thirdly, the conference agreed with the objective set out by the Prime Minister on December 6th that Canada move toward self-reliance in oil.

To arrive at agreement on these points was an achievement, but at the same time we must recognize that there still remain a number of difficult questions concerning their implementation.

Perhaps the most painful of all is the awkward question of who should pay for this equalization of prices. Should it be the general taxpayer, who would face heavy increases in personal taxation, or should it be from the windfall profit which will result from revaluation of the price of domestic oil in Canada?

Also unresolved are three other questions:

What share of the windfall is to be passed on in a better return to industry, and particularly to producers who can use the additional cash for developing the additional resources we are going to need in Canada?

What capital funds should go into government hands, both federal and provincial, for stimulating additional exploration and development?

And what impact will this additional revenue to the oil-producing provinces for their products have on the existing equalization formula?

We have until April 1st to resolve these four questions. There has been a fairly generally expressed provincial view that before additional consultations take place at the official level, there should be a breathing space for the analysis of the results of the conference.

We are anticipating that towards the latter part of February there will be further intensive official discussions on some of these difficult questions. Following these meetings of officials, we have suggested a meeting of Energy Ministers. If it be thought desirable, or necessary, we could then have another gathering of First Ministers.

The many Canadians who watched the two-day televised open conference also came away with a number of general reactions. The first was an increased awareness of the complexity of oil pricing. It is complex not only in the narrower technical perspectives of the petroleum industry, but also in the broad issues of national and international concern about the world-wide ramifications of soaring prices.

The watching public also appreciated how the widely-varying views of the 10 Premiers represented dramatically the regional differences in this country on the tricky oil pricing issue.

Not the least of the advantages of a public conference from a federal standpoint was the demonstration of what an extreme range of views there is.

It remains the federal government's responsibility to try if possible to bring national agreement from these differences. But the conference made it clear that attaining a national consensus is not the simple and automatic matter which some editorial writers at times seem to think it is.

Many Canadians in future will be much more wary of those who glibly offer easy answers to these involved questions.

I had the advantage last week of meeting in Washington with American policy makers in the energy field for general talks and to learn of their approach to the meeting of consuming nations starting next Monday in the American capital.

I have been struck by the similarity at the international level with the range of opinions and problems that we have in Canada.

The Washington meeting will be important not only from the standpoint of the governments and peoples of consuming countries who will be meeting, but for the entire world.

Today's international oil prices present horrendous problems for less-developed countries without any supplies of their own. Some face threats to their entire economies.

Canada goes to the conference in a rather more comfortable position than some of the other participants. But we cannot go to it with any feeling of complacency. A failure to arrive at some satisfactory means of managing the oil price question could raise serious challenges for international industrial policy, international trade, the stability of the world monetary system, and could even upset the basic political stability of the world.

The international conference will have to realize we are dealing

with a non-renewable resource of the producing countries. It will have to seek what is, to borrow a term from Premier Loughheed, fair value for the oil that is now being sold on the international market.

Applying our Canadian experience to that difficult question, we may well be suggesting to the conference the same principles for determining international oil prices that we have suggested for the price in Canada. At the First Ministers' meeting we suggested that the oil price should be high enough to provide an incentive to bring on additional reserves of oil, and to assure a cash flow to producing countries. But it should not be so high as to bring about economic distortions, and particularly inflationary distortions, for the consuming countries.

In specific terms, we used a \$6 figure as a possible starting point for price discussions at the Federal-Provincial conference. And the same figure may be equally à propos at the Washington meeting. In rounded terms, such a figure would represent a reduction from the high prices established by producing states in December and January, while still assuring to them a substantial increase in their returns from their non-renewable resource. A reduction of that kind would enable Canada in turn to reduce the price at which Canadian oil is now being sold to the United States, with of course the prospect of a corresponding reduction in the export tax.

This international conference has been called in haste, and hence participants will not be as well prepared as one would like for such an important meeting. To say that is not to be critical for the haste was required because of the suddenness with which the problem presented itself. As a minimum, the meeting should achieve a recommendation on the best forum in which to have a full scale discussion.

Should it be within the framework of the United Nations, the United Nations Conference on Trade and Development, or a special international gathering called for the purpose?

Whatever the forum, it must take account not only of the developed consuming countries, but also the less developed countries and the producing nations themselves.

The oil issue has had top headlines at home and abroad, and has inclined to overshadow some important other issues in the Canadian energy scene.

At the First Ministers Conference I set forth a number of federal proposals in the nuclear and electricity fields which we feel could lead to a substantial advance in our energy situation.

For a decade and more Canadians have been fascinated by the concept of a national electric power grid. A number of premiers spoke in favour of such a project as having extensive advantages for Canada both in national and in economic development terms.

The advantages of a closer connection between provincial utilities are many-fold. By providing access between provinces, additional electric facilities, whether hydro or nuclear, may be planned on a larger scale to attain economies of operating cost, and in a way to avoid competing provincial demands on a tight capital market.

Security of supply is enhanced by providing a reserve in the case of an emergency resulting from a break-down in the generating capacity in any province. In a country our size, with the peak demands in each region occurring at different times because of the time-zones, an economy in peaking power also can be achieved.

The obvious advantages of closer interconnection led to a careful analysis of a national power grid in the sixties. The 1966 conclusion was that because of loss of efficiency with existing techniques for long-distance transmission of electricity, a national grid was not justifiable. Electricity has important advantages over oil and natural

gas as an energy source. Its principal disadvantage is that it is extremely costly to transmit over very long distances. In general terms, oil is the least costly energy commodity to transmit, gas is almost twice as costly, and electricity more costly again.

Since the 1966 study there have been some important achievements in long-distance transmission in Canada. Both Hydro-Quebec and Ontario Hydro have made significant progress in this area. The federal government has funded research into long-distance transmission by provincial entities. The federal financing of Manitoba Hydro's Nelson River direct current transmission line has established a body of expertise in Winnipeg which can make a major contribution to the development of a national grid.

I believe an early opportunity exists for closer interconnection between the four Western provinces. We will follow through on my comments at the First Ministers' Conference to see what initiatives may be taken at the federal level to further this goal. The principal problem in geographical terms remains the substantial mileage between the Lake-head and other consuming centres in Ontario. We know that Ontario Hydro have been wrestling with that problem.

Extensive discussions have taken place over the last several months with the governments of the Atlantic provinces to establish closer regional cooperation between electric utilities in that area. Tighter interconnections between the power utilities of the provinces can mean greater security in the electric supply systems, economies in operation, and a lower power cost for consumers.

For these reasons the federal government proposed to the First Ministers' Meeting a programme of financial assistance to enhance interconnection between provincial utilities on a regional basis. Specifically with regard to the Maritimes, we joined that offer with another to provide financial assistance for the construction in New

Brunswick of a new two-unit CANDU nuclear station to serve the three Maritime provinces and the province of Quebec.

If the additional electricity needs of those provinces can be met from nuclear power rather than from fossil fuel, and particularly from oil-fired generating stations, we can provide not only a sure source of supply of fuel for electric generation purposes but we can also provide assurance of low cost over a longer period.

The year 1973 saw further successes in the Canadian nuclear reactor programme and also some great opportunities. Ontario Hydro in cooperation with Atomic Energy of Canada Limited now has in full operation the world's largest nuclear generating station at Pickering. In terms of efficiency, the Pickering station has had a notable success and it was because of this success that Atomic Energy of Canada Limited has been able to sell its nuclear reactor system to two foreign countries during the past year.

A contract was completed in 1973 to install a CANDU unit in Argentina, and several days ago we learned of the Argentine wish to double that capacity. AECL has also received a letter of intent from the Republic of Korea for the construction of a CANDU unit in that country with an option of a second unit.

A significant opportunity now exists in the decision of the British government to seek a new nuclear system for its Central Electric Generating Board.

Strongly supported by Ontario Hydro, and with the personal support of Ontario Energy Minister, Darcy McKeough, AECL has been active in presenting to the British authorities the opportunities which the CANDU system offers for safe, efficient and, in the long-run, low-cost power. But it also offers partnership with Canada in developing further stages of nuclear generation, and partnership in exploiting

the industrial possibilities of nuclear sales in the Common Market and elsewhere.

Tomorrow night I am flying to London to make additional representation on the merits of CANDU along with AECL representatives. We will also be supported by Mr. McKeough and Ontario Hydro representatives.

I intend to meet with Lord Carrington, the British Secretary of State for Energy, and it is slightly unique that we were both defence ministers of our respective countries at the same time. I also will see The Right Honourable Peter Walker, the Industry Minister, Treasury Ministers Maurice Macmillan and Thomas Boardman. In addition, I and the other Canadians also will meet with an all-party group of British MPs as well as a number of officials representing government departments and power utilities.

After our visit the Honourable Alistair Gillespie, Minister of Industry, Trade and Commerce will follow up later this month with further initiatives with the British officials, and British industry, on the possibilities of joint co-operation in nuclear plant construction.

At a time when headlines on energy seem to bring more bad news than good, we can draw some Canadian satisfaction from the good news of the success of CANDU at home, and growing international interest abroad.

In these days when communications between individuals, and between governments, are supposed to have been improved through the science of electronics, personal contact still remains one of the best means of conveying a message. That certainly was my experience last week in the Washington visit which was undertaken both to prepare for next Monday's international meeting and to deal with a number of bilateral Canada-U.S. problems.

I certainly encountered a willingness to hear about Canadian problems at the time of the energy crisis, and to understand the reasons for our policy decisions. Federal Energy Administrator Bill Simon and the other American officials with whom I met, are now I believe in a better position to know the ways in which Canada and the U.S. may co-operate in the energy field.

The removal of misunderstandings is a basic move in attempting to improve relations either bilaterally or multilaterally.

The Canadian delegation will go to Washington next week wholeheartedly in support of this meeting which will be of such importance to the world.

We will be prepared to do our utmost and co-operate to the fullest extent in attempting to reach solutions to problems which, indeed, hold out a threat not only to national economies but to the entire world in which we live.