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ENERGY IS EVERYBODY'S BUSINESS

AN ADDRESS

BY

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ENERGY IS EVERYBODY'S BUSINESS

Ladies and gentlemen:

I've been talking to a lot of people since taking over this job and I'd like to confide my disconcerting---and unclassified---conclusion: the country's most urgent issue is also the least understood.

We blame what we call the energy crisis on Arab greed, oil company conspiracies, environmental stonewalling and bureaucratic bungling. We're confused by dissenting experts, conflicting regional viewpoints, contradictory forecasts and premature technical claims. Few issues are so divisive yet so meaningful to our unity, our international relations, our security, our economy, and the wellbeing of each of us individually. Because energy is everybody's business.

The most vital---and controversial---energy source, as you know, is oil. Oil put us on wheels, restructured our cities, shrunk the planet ... transformed our food, drugs and life styles. Any shortage or price hike in the oil that we import---now about 420,000 barrels a day---will immediately push up our deficit, already alarmingly high, drain capital from investment, slow economic growth, heighten unemployment, and add to the cost of the things we buy.

Well, if our imports of oil can create so many problems, the obvious thing to do is to lower them. And that's exactly what we intend to do. Our goal is self-sufficiency in oil by 1990. And the only way to make it---barring an unforeseen major oil find---is to speed the development of new and alternate energy supplies and cut back on energy demand by trimming waste.

haven't had to line up at the gas pumps as in the U.S. We haven't had to pay $3.00 a gallon or more as in Europe. Our governments have been paying the difference between the world price and ours. Subsidies have been insulating us from reality.

Doubt about a shortage is reinforced by faith in science. Faith in science and technology is the real creed of this century. Hasn't it given us the easiest and most affluent lives in history? ... miracle after miracle, topped by putting a man on the moon. If our scientists can do that, we believe, they can do anything. All they need is a little funding from the government.

Let's look at these assumptions. By the middle 1950s, five American oil companies were producing some two-thirds of all the oil sold on the world market. Then the American government persuaded these major companies to let a few independents buy into the oil fields in Iran. By 1969 competition had dropped the price from about $2.70 to between a dollar and $1.20 a barrel.

The Arab producing countries weren't consulted on these price cuts. The loss of revenue had hit them hard; they were outraged. In 1960 they formed the Organization of Petroleum Exporting Countries. But they couldn't really control the price until 1973, when they cut off supplies to those nations supporting Israel in the war. By 1974, OPEC oil was $10 a barrel.

Behind this control is the fact that between 1960 and the mid-70s the world demand for oil almost tripled, while production in the U.S., the world's biggest producer, began to decline in 1970. And a large body of opinion believes that in 1975 the world reserves began to turn down. The world is now burning some 20 billion barrels of oil a year and the drills are only adding 11 billion to reserves.

our optimists realize it won't be cheap. The price of OPEC oil in Montreal is now $25.70 a barrel, a rise of 61 per cent in the past nine months. The higher prices have slowed demand. World recession could bring a brief glut. But the Iranian cut-off revealed how narrow the margin of surplus is. Any serious shortage could bring a surge in price.

What are the chances of this happening?

Prophecy, of course, is even riskier than politics, especially when it concerns the future. Which of our economic projections considered the Ayatollah Khomeini, or the Arab oil boycott, or the accidental break in the Trans-Arabian Pipeline? When you're looking at mid-East supply and demand---and that's where the crunch will come, because that's where 80 per cent of the oil for export is being pumped---the incredible often looks only too much like the probable.

The main key to supply is Saudi Arabia. The Saudis have had until recently enough spare production capacity to hold down the world price if other producers tried pushing it too high. Between 1974 and last winter they dropped the real price of oil by 20 to 25 per cent. And against their own self-interest they've pegged their present selling price at $18, well below the price asked by other producers.

The Saudis are concerned about the economies of the western nations, their chief customers and chief investment outlets; they're afraid that a deep recession would strengthen the Communist parties of Europe.

Nor can we shut our eyes to the tensions in this area. In the last three decades the Middle East has had half a dozen wars, a dozen revolutions and innumerable assassinations. It's the heartland of terrorism, the politics of desperation, and an endless chain of tankers passes through the Straits of Hormuz carrying half of all the OPEC oil that powers western civilization. A supertanker sunk in the mouth of the Straits could cut this lifeline. Significantly, Lloyd's of London, the world's leading underwriters, has just designated the Persian Gulf a war risk area.

Uncertainty is the order of the day; no one can predict what the price of oil will be next year. After the oil embargo in 1974, 20 OECD nations formed the International Energy Agency to coordinate a common approach to consumption, and much depends on its members meeting their year's end target: a cutback in consumption of two million barrels a day, about five per cent of the western world's oil demand. The less oil we use, collectively, the less chance of further disruptions and the slower the world price will rise.

Canada has a big stake in IEA. Any significant rise in price will intensify conflict between western allies, between the West and the Communists and between factions within nations. Every 10 per cent rise in the world price adds one-half a percentage point to OECD inflation. A sharp rise would strain the world monetary system, shrink world purchasing power. What price Canadian self-sufficiency if we can't sell our goods on the world market? We have to help bring supply and demand into balance.

Canadian targets were set by Prime Minister Clark at the Tokyo economic summit meeting. He agreed to reduce our net imports of oil by 100,000 barrels a day in the last quarter of this year and throughout 1980, and to hold 1985 imports to 600,000 barrels.

Coal is another resource that we have in abundance, perhaps enough to last us hundreds of years. B.C., Alberta, Saskatchewan and Ontario are all planning to increase electric power output with coal. Production, now 33 million short tons, could more than double by 1990.

But that growth is up against serious constraints: soil erosion and water pollution from surface mining; a possible shortage of labour in a hazardous occupation; a costly haul by rail from western mines to eastern plants; thermal heat pollution; the acid rain that's killing our lakes; and carbon dioxide emissions, the so-called greenhouse effect, which some scientists say could melt the icecaps, flooding all coastal cities. As one wit puts it: "Coal is the answer---as long as you don't mine it or burn it."

Doubling atomic energy is feasible, both technically and economically. We have what we think is the safest and most efficient of reactors and ten per cent of the world's known uranium, enough to satisfy our need for electricity for a century. But nuclear power provides only 3.3 per cent of our energy, and a lot of people see it as a kind of Pandora's box, releasing thousand-year problems: low-level radioactive water and highly radioactive fission products. We have to find the wisest way of handling nuclear waste, so we're setting up a Parliamentary nuclear enquiry to lay down the guidelines for safe and acceptable development.

And Nature has left us another legacy: a trillion barrels of heavy oil mixed with sand and clay in the Athabasca, Cold Lake and Lloydminister areas. But it has to be mined, or coaxed out with heat, and that's neither cheap nor easy. It took Great Canadian Oil Sands ten years of losses to get out of the red. The Syncrude plant was costed six years ago at $500 million, and by the time it was built last year it had cost five times as much---and still it hasn't met its output targets.

write off from 90 to 104 cents for every dollar spent drilling. It's produced oil shows off the Arctic Islands, Nova Scotia and Labrador, a half-a-billion-barrel field in southern Alberta, and what may be an important find in the Beaufort Sea. But the cost of frontier drilling can run three times the cost in Alberta. Production problems are staggering, environmental problems unsolved, and it could take a decade to get oil out.

We face many, and difficult, choices. The energy field is in flux. And the irony of it is that as energy costs escalate so does the cost of most alternate sources. But sooner or later---probably sooner, given such long lead times---we'll have to place our bets, both long and short term, and ante up. In the meantime we face a very real risk of oil shortages, and a gap between the oil we produce and the oil we use.

Fortunately, we have an immediate source, the biggest reserve in the country, and largely untapped. It requires no unproven technology. It doesn't pollute. It involves no risk. It could save as much as 50 per cent of our annual energy bill, and up to 50 billion dollars in capital costs over 15 years---though I must admit my hopes don't run that high. It's the quickest and cheapest way to reduce our dependence on foreign oil. It's the cornerstone of our policy.

I'm speaking, of course, of conservation.

There's no sense to an energy policy that doesn't start with conservation. Premature commitment to obsolete systems could be costly; conservation keeps our options open longer. It buys us time to develop new sources at a rate within our means, makes our goods more competitive, improves our balance of trade, eases the damage we do the environment, stretches our dwindling oil, and allows us to meet our commitment to help restrain prices by cutting imports, the only leverage the importing countries have.

For example, in my own EMR office complex in Ottawa, half the lighting was taken out, heat was lowered at night and on weekends, heating systems were upgraded, some steam pipes insulated, and switches changed so that one person working at night doesn't have to light up a whole floor. No one was inconvenienced; few even noticed. The cost was $9,700, the savings $38,000 a year---38 per cent. Throughout the federal government last year, energy savings were $30 million, and with additional investment we think we can more than triple that.

Industry takes 40 per cent of the total energy used and 10 per cent of that could be saved by such simple housekeeping measures, more by such things as heat pumps, equipment for using waste heat and automated controls, switches that turn off heaters when loading doors are open, timers that shut down boilers at night and restart them in the morning. The forest industry has enough waste wood piling up around its mills to generate all its own energy---10 per cent of all industry needs. In 14 industry sectors, task forces have set conservation targets, and some sectors have already surpassed them. One steelmaker insulated a line carrying preheated combustion air; it cost $330,000 and saves $900,000 a year.

Conservation can work. It has to. We can't meet our goals and commitments unless we can tap that huge pool of energy waste. But it calls for a change of methods. Most of all, a change of mind. Since frontier days we've squandered resources because they were cheap and plentiful. Unless we can break old habits we may need new legislation to back up our present incentives and sanctions. And as long as we keep our fuel prices $10 or more below the world price, experience shows that we'll go on wasting energy.

Until now, we've had no choice but to hold down prices. The U.S. has been restraining its price, and Canada, to be competetive, had to follow suit. But in the light of what President Carter recently announced---that he's going to raise the price of oil over two years to world levels---we're re-examining the whole pricing problem.