Out in the Cold

How we really lost control of oil and gas prices
by Maude Barlow
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Considering the debate that raged over energy sovereignty a decade ago, it is astonishing that in all the recent talk about rising fuel prices no mention has been made that Canada ceded total control of its oil and gas reserves in both the Canada-U.S Free Trade Agreement and its successor, NAFTA - leaving Canadians at the mercy of global prices and without the power to conserve these precious resources.

The first free trade agreement was negotiated in the mid-1980s against a backdrop of media reports that the United States was running out of energy. The American Gas Association reported in 1986 that supplies in the lower 48 states were virtually gone and numerous U.S. government studies warned of looming oil and electricity short-ages. U.S. trade negotiators and politicians made no bones about the importance of securing access to Canada's energy supplies in the trade deal.

A 1985 U.S. Congressional report called Canada's regulatory control over its natural gas a "direct restriction of American rights to Canadian gas" and called for the American government to make guaranteed access to Canadian supplies a point of national security. Ann Hughes, the ranking U.S. Commerce Department negotiator, was forthright about her country's wasteful energy habits, and admitted that Canada's energy, secured by the free trade deal, would forestall conservation practices in the U.S. Edward Ney, then U.S. Ambassador to Canada, said later that Canada's energy reserves were the prime motivation for the U.S. in the negotiations.

Newly minted Prime Minister Brian Mulroney didn't waste time delivering. Weeks after his 1984 election, he told a blue-chip corporate audience in New York that Canada was "open for business." He called the practice of maintaining emergency reserves "odious" and, declaring that Canada had not been built by expropriating "other people's property," promised American business full access to Canada's energy supplies.

Right away, the Mulroney government deregulated oil and gas exports and dismantled most restrictions on American foreign investment in the energy industry. The National Energy Board was stripped of its powers and the "vital-supply safeguard" that had required Canada to maintain a 25-year surplus of natural gas was discarded. No government agency or law now exists to ensure that Canadians have adequate supplies of our own energy in the future.

Export applicants, Canadian or American, were no longer required to file an export impact assessment and the all-Canadian gas distribution system was abandoned, setting off a frantic round of North-South pipeline construction. Export taxes on our energy supplies were banned, losing a source of tax revenue for governments and giving U.S. customers, who don't have to pay the GST, a price advantage over Canadian consumers.

Most important, the trade agreements imposed a system of "proportional sharing" whereby Canadian energy supplies to the U.S. are guaranteed in perpetuity. In an astonishing surrender of sovereignty, Canada agreed that it no longer has the right to "refuse to issue a license or revoke or change a license for the exportation to the United States of energy goods," even for environmental or conservation practices. This led to a spectacular increase in the sale of natural gas to U.S. markets, where U.S. distribution companies, supplying a much larger population, were able to sign long-term contracts at rock-bottom prices. Canadian consumers were left to compete for their own energy resources against an economy ten times bigger with rapidly dwindling reserves and accelerating demand.

The free trade agreements committed Canada to an energy policy driven by massive, guaranteed exports to the U.S., corporate control of supplies and an economic policy more dependent than ever on the exploitation of primary resources. When prices inevitably rose, the U.S., which never gave up its right to store vast supplies of energy for emergencies, was able to dip into its reserves and bring down the price of gas for Americans. When asked in mid-September why he would use up reserves supposedly earmarked for emergencies such as war or disaster, President Clinton said the reserves would be re-stocked immediately. This is because the U.S. has a security blanket. Under the proportional sharing provision of NAFTA, Canada must replenish even the U.S. reserve supply - by law and in perpetuity. The short-term gain for American consumers in lower energy prices will come at great expense to Canadians this winter.

The Canadian government, on the other hand, is left with the limited choices of lowering fuel taxes, thereby forfeiting important tax revenues, or giving direct financial assistance to low-income families, using public funds to do so. In either case, the transnational energy companies get to deflect attention from their outrageous profits, and the demand for their environmentally harmful products continues to grow.