



## British Columbia Perspectives on a National Energy Strategy (NES)

There was a time when the words “National Energy Plan” would have caused blood pressure to spike across much of Western Canada, which would then have been followed by colorful descriptions of the federal government. This may no longer be the case - and certainly not if many of the West’s leading think tanks, energy companies and provincial leaders have their way.

This bulletin discusses the recent reincarnation and push for a “National Energy Strategy” (NES), providing the background context and summary details along with an initial assessment of the idea from a BC perspective.

### Background: Roots of a Western-led NES

Throughout the 1990s, traces of a NES were cast sporadically into the wind by sustainable development advocates, but the idea garnered no traction among decision-makers.<sup>1</sup> However, as climate change discussions superseded sustainable development as the primary global environmental issue of the day, and the economic power of the West in Confederation gathered momentum, the seeds of a new NES began to be more actively nurtured.<sup>2</sup>

<sup>1</sup> The sustainable development movement that flowed from the 1987 Brundtland Report ‘Our Common Future’ and the 1992 ‘Earth Summit,’ focused more on ecosystem policies rather than on climate change.

<sup>2</sup> While no one galvanizing moment can be cited, the build up and follow-up to the 1997 Kyoto Protocol can be pointed to as a policy inflection point that provided greater focus on climate change and fostered the beginning of stronger linkages between energy and climate change policy matters.

The policy precursors to contemporary NES discussions occurred in the early 2000s and focused on Canada’s halting attempts to reconcile rising greenhouse gas emissions, stemming largely from energy production and use, with global commitments by the federal government and some provinces to move toward a lower carbon economy.

In hindsight, the results of these early policy forays were not particularly successful, with the country failing to produce anything resembling a coherent policy framework that reconciled our development pathway as an energy “super-power” (see table 1) with the climate change commitments found in the Kyoto Protocol.<sup>3</sup>

**Table 1**  
**Canada’s Position in the World**

- 2<sup>nd</sup> in hydroelectricity production, behind China
- 2<sup>nd</sup> in uranium production & exports, behind Kazakhstan
- 3<sup>rd</sup> in natural gas exports, behind Russia & Norway
- 3<sup>rd</sup> in oil reserves, behind Saudi Arabia & Venezuela
- 6<sup>th</sup> in oil production
- Significant potential in wind, biomass, solar, tidal & geothermal

Source: *Canada as a Global Leader: Toward Greater Pan-Canadian Collaboration*, Canadian Intergovernmental Conference Secretariat.

<sup>3</sup> Successive federal governments released climate change plans that made no serious attempt to meet the Kyoto targets, ultimately culminating in Canada’s decision to officially withdraw from Kyoto in late 2011. While the Conservative government came under fire from the environmental community for exiting the Kyoto Protocol, there was also widespread recognition that previous governments did little to achieve the Kyoto targets and that trying to do so within the time period stipulated by the Protocol would have entailed significant economic dislocation.

For much of this time period, the policy disconnect between a desire among many Canadians for action on climate change and the reality of the country's status as a major energy producer/exporter sharpened. As this disconnect became more obvious, a handful of Western-based policy groups began to formulate ideas to address this policy challenge – seeking to deal more directly with the economic and environmental imperatives at stake. It is here that the story behind the current push for a NES really began to take shape.

### **A National Energy Strategy Reincarnated**

While it is difficult to precisely pin the transition from climate change-centric energy policy discussions to a more encompassing consideration of both economic and environmental aspects, some credit can be given to the Canada West Foundation (CWF).<sup>4</sup> In 2007, the CWF began a series entitled “*Getting it Right: A Canadian Energy Strategy for a Carbon-Constrained Future.*” The series included consultations across the West with experts from the private sector, academia, and NGOs.

Politically, climate change continued to be an issue of concern. In the provincial arena, the Council of the Federation published a high level policy piece entitled “A Shared Vision for Energy in Canada” in 2007. At the same time, the BC government made a major policy shift by legislating aggressive greenhouse gas reduction targets, along with the continent's first broadly-applied

<sup>4</sup> Earlier efforts by the Pembina Institute should also be noted. However those efforts were almost totally dedicated to advancing conservation and renewable energy as a core component of a strategy for addressing climate change.

carbon tax, supplemented by a clean energy strategy focused largely on the development of renewable energy resources for domestic electricity supply and potential export.<sup>5</sup>

Against the backdrop of a global financial crisis and recession, federal politics saw the 2008 election fought, in part, around a carbon tax proposal advanced by the Liberal opposition that ultimately failed to win favour with Canadian voters. It was in the aftermath of the 2008 federal election that the NES began to take on its contemporary policy direction when Canada's major energy industry associations came forward with the Energy Framework Initiative (EFI) in 2009.<sup>6</sup> The EFI process produced a comprehensive document that has since formed the foundation of a NES from the corporate perspective.

As an overlapping follow-up to the EFI, Canada's energy sector and several leading think tanks began to expand the scope of the dialogue. With guidance and support from energy policy experts, the NES initiative was expanded corporately under the umbrella of the Energy Policy Institute of Canada (EPIC), as well more broadly through what became known as the Winnipeg Consensus.<sup>7</sup>

By 2010 and into 2011, the NES framework was well established, and the aspirational

<sup>5</sup> See the 2007 Throne Speech in British Columbia for a description of these initiatives: <http://www.leg.bc.ca/38th3rd/4-8-38-3.htm>

<sup>6</sup> Canadian Association of Petroleum Producers; Canadian Energy Pipeline Association, Canadian Petroleum Products Institute, Canadian Gas Association. For a summary of the EFI, see <http://www.energyframework.ca/>

<sup>7</sup> Winnipeg Consensus <http://www.winnipegconsensus.org/>; EPIC <http://www.canadasenergy.ca/>

component had found its way into the political arena. A flurry of provincial interest culminated in December 2011, as the three Western Premiers agreed to jointly support the concept of a NES and to take the discussion to Ottawa.<sup>8</sup>

### **NES – Component Parts**

What policies anchor this proposed NES? As developed to date, the NES represents a pragmatic, incremental attempt to improve the existing policy toolkit.<sup>9</sup> The component parts break down broadly as follows:

#### *1. Market Diversification*

- Expand Canada's energy product marketplace to better match emerging energy supply-demand dynamics.
- Expand access to markets for energy goods within Canada as well as internationally.

#### *2. Regulatory Reform*<sup>10</sup>

- Improve alignment in the decision-making framework to more clearly and transparently meet economic and environmental objectives.
- Provide greater certainty and focus on timelines/outcomes.

#### *3. Carbon Pricing*

- Price carbon broadly across the economy in a manner that does not create market distortions.

- Any new carbon pricing regime should be "revenue neutral" – sending the appropriate price signals without negative income effects or a net increase in the size of government.

#### *4. Innovation*

- Strategically build a culture of innovation with clear public policy objectives and tools.
- Enhance collaboration and develop metrics to assess progress.
- Incentivize and finance innovation.

#### *5. Energy Conservation and Literacy*

- Harmonize a consistent, pan-Canadian approach.
- Establish a national energy literacy program.

#### *6. Infrastructure (Human and Physical)*

- Build a skills program to address labour shortages.
- Coordinate cross-country infrastructure development that enables more timely energy project development.

While the summary above does not detail the substantive aspects of the policy work, it does underscore that the majority of the NES framework is incremental, with one notable exception - carbon pricing. Despite the political challenges and marketplace competitiveness issues raised by carbon pricing, much of Canada's energy sector has taken a position in support of a fairly instituted carbon pricing regime.

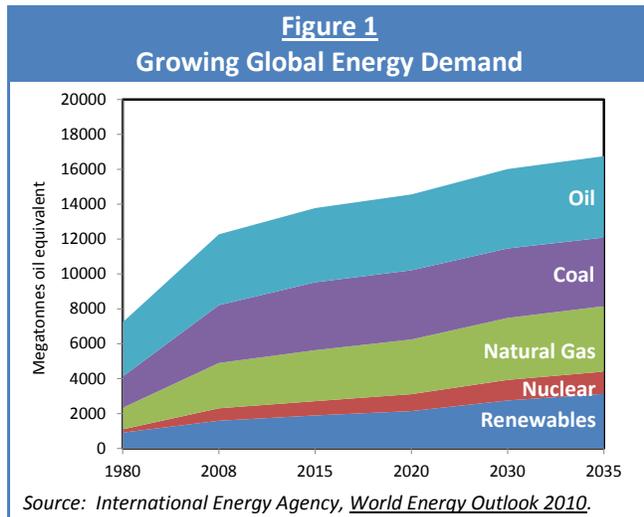
The NES clearly has a directional element through which proponents of the strategy

<sup>8</sup> Globe and Mail 13 Dec 2011 "Western premiers push plan to showcase Canada as 'energy powerhouse'"

<sup>9</sup> See EPIC, EFI, Winnipeg Consensus websites for detailed policy framework documents.

<sup>10</sup> Regulatory reform also includes recognition of the need to ensure First Nations' rights and title interests are recognized and to provide greater certainty for both project proponents and First Nations.

have sought to validate policies that would, in their view, responsibly match Canada’s status as an energy superpower with the reality of growing global energy demand.



**Why Now? The Rationale For a NES**

Advocates of a NES argue that the time is right to bring together a suite of policy pieces under the NES banner. The case for a NES can be broken down as follows:

**1. Scale**

- Opportunities and challenges in the energy sector are “scaling up” and require stronger coordination in order to achieve results.
- Infrastructure coordination will increasingly require pan-Canadian approaches.

**2. Marketplace Dynamics**

- Opportunities globally are shifting to the Asia-Pacific marketplace.
- The rapid expansion of North American shale gas has created supply-demand challenges.

- Energy security has taken on new meanings – including a desire in some quarters for greater self-sufficiency.

**3. Complexity of Project Development**

- Bigger, more complex and/or inter-related energy projects are the future and will require greater coordination.

**4. Public Literacy and Engagement**

- Values debates are growing – information and public engagement needs to improve.
- There is a low level of public understanding of energy issues in Canada.

**5. Economic Reality/Demographics**

- Economic opportunities from energy for the country could benefit from national coordination.
- Mobility of human and physical capital will need to occur.

Taken together, supporters of a NES argue that there is a clear need to coordinate efforts and reconcile some of the divergent views on what energy development means for the country.

**Why Now? Skepticism About a NES**

While there are many who stand solidly behind a NES (or at least the majority of its component parts), there are others who believe a NES would be an unnecessary distraction.<sup>11</sup> The case against a “grand

<sup>11</sup> See Marco Navarro-Genie, Frontier Centre for Public Policy [www.fcpc.org](http://www.fcpc.org). Wildrose Alliance leader Danielle Smith, ‘Speech to the Economic Club of Canada’ March 8, 2012. [www.wildrose.ca/speech/](http://www.wildrose.ca/speech/)

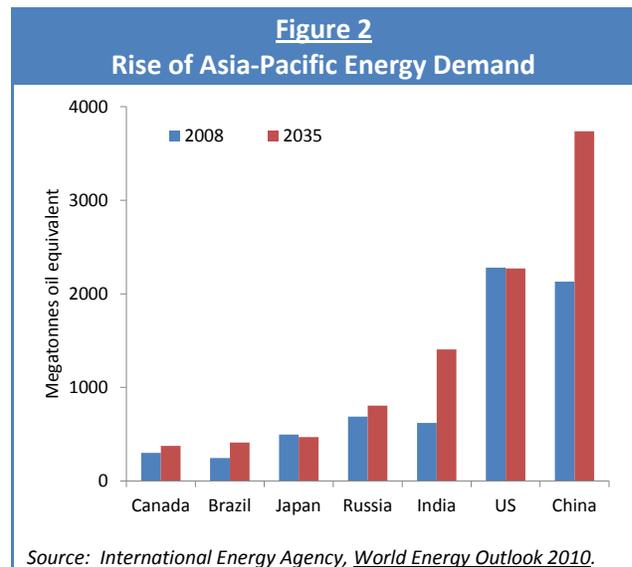
vision” NES as articulated by the skeptics can be summarized in the following points:

1. *It would be divisive within Canada, particularly across provinces.*
  - Recently the Premier of Alberta and the Premier of Ontario exchanged distinctly differing versions of the economic benefits to the country of energy development in the West.
  - The perception/fear in some quarters that a NES would enable a transfer of wealth to the West or hinder economic growth in the East.
2. *It could lead to analysis paralysis.*
  - The focus on “grand planning” exercises can lead to analysis paralysis in the civil service and potentially overlook constitutional boundaries in our Confederation.
3. *It is disconnected from the marketplace.*
  - Too much planning distracts attention from the role of and messages sent by market forces. Moreover, energy development should not be inward-focused but instead must consider US and Asia-Pacific energy perspectives.
4. *It is a waste of resources.*
  - Scarce resources should be focused on outcomes and regionally based policies that facilitate development.

**A BC Perspective**

As Canada’s gateway province to the Asia Pacific, BC has a unique set of policy issues relative to the rest of Canada. In the past, the province’s specific interests have not been viewed as particularly relevant to national policy debates. But things are

changing as market opportunities drive demand and businesses/governments react accordingly. While what some call the “Asia-Pacific century” will undoubtedly change the orientation of Canada, this reality has only begun to manifest itself in significant, national level policy debates and initiatives.<sup>12</sup>



As the chart above indicates, global energy demand trends are one reason why the Canadian energy policy shift is occurring.

While the provincial government and many companies active in BC have been generally supportive of parts of the NES initiative, BC does have some distinct interests that will need to be reconciled if the NES, in whole or in part, is to move forward. To review these interests, each of the component policies of a NES is evaluated through a BC lens below:

<sup>12</sup> The Asia-Pacific gateway infrastructure initiatives, free trade agreements with Asia-Pacific countries, and the proposed Northern Gateway pipeline are examples of policy and project initiatives that have/are stimulating national policy attention.

*Market Diversification*

- General support for the concept; very strong support for development of LNG.
- Conflict on oil pipeline development; the cost/risk-benefit equation is unsettled - how development can be done to protect environment and create benefits for BC.

*Innovation*

- Strong conceptual support.
- Lack of downstream industry in BC is an ongoing concern.
- Commercialization of R&D remains a challenge.

*Regulatory Reform*

- Strong alignment from government and industry on the need for reform to create certainty.
- Well organized/funded opponents to energy development in BC compared to other Canadian jurisdictions.

*Conservation/Energy Literacy*

- Strong alignment and leadership within the country on conservation.
- Values alignment is strong in BC.
- Some unique energy literacy challenges, specifically around electricity.

*Carbon Policy*

- Solid directional support – BC ahead of curve with its carbon tax.
- If trade distortions are addressed, a fair national carbon pricing regime likely would be supported in BC.

- Resistance to carbon pricing exists in some regional areas.

*Infrastructure Capital*

- Strong desire to tackle skills shortages and to move toward an integrated plan.
- Ongoing concern about a focus on extraction and lack of attention to processing/value added products.
- Need for national recognition and investment as Canada's Pacific Gateway.

**Conclusion**

While many Western Canadians no longer have a visceral reaction to the idea of a NES, it is a testimony to the changing place of the West in Confederation that the call for a NES actually originated in Alberta.

Given the challenging policy and political realities confronting many provincial governments, the road ahead for a NES is likely to be bumpy, with an uncertain destination. However, there is closer alignment between the political and policy agendas both federally and provincially around certain core elements of a NES.

Disaggregated, there is a realistic expectation that several of the component NES parts will move forward in the coming months/years. In particular, the general thrust for greater market diversification and the need for regulatory reform and conservation enjoy solid policy momentum, albeit with vocal pockets of resistance.<sup>13</sup>

<sup>13</sup> The 2012 federal budget sent a clear and strong signal of support for market diversification and regulatory reform.

More challenging, at least in terms of driving a coordinated approach to energy issues, are the carbon pricing, innovation and infrastructure components of a NES. In these areas the divergences of political support, budget challenges and more complex cross-province policy approaches suggest that the prospects for moving forward is more problematic. And with an election now underway in Alberta one expected in BC in May 2013, possible changes in the composition of some provincial governments in Western Canada may complicate efforts to work toward any kind of “national” approach to energy policy issues.

However, the biggest longer term challenge for a NES ultimately lies in the vexing and far from resolved values debate on how the country can reconcile a hydrocarbon heavy energy development pathway at the local project level with climate change concerns. To date, attempts to bridge these gaps have led to political quagmires and reluctance (outside of BC and Quebec) to enact more aggressive climate change measures.

While the heavy policy lifting lies ahead, the proponents of a NES deserve credit for providing thoughtful and timely contributions to important policy work for the country’s energy future. Rather than getting bogged down in grand vision debates, the main benefit of the NES conversation is likely to lie in the directional commitments to a more coordinated approach to Canadian energy development.

Finally, from BC’s perspective, significant efforts will need to be placed on reconciling nationally defined marketplace imperatives to diversify toward the Asia-Pacific with BC’s perceived “cost/risk-to-benefit” equation if the NES concept is to progress. As it currently stands, BC is likely to remain a focal point of tension on this front in the coming years.

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