Rethinking the US-Canada Energy Relationship

Rachel Bronson

The US-Canada energy relationship is evolving fast in ways that will change both countries and the global energy landscape. With this in mind, The Chicago Council on Global Affairs hosted a “US-Canada Energy Summit: Rethinking the Policy Dialogue” on October 16 and 17, 2014. The day-and-a-half event was cochaired by Jean Charest, partner of McCarthy Tétrault and former premier of Québec, and David Jacobson, vice chairman of BMO Financial Group and former US Ambassador to Canada. The event attracted policy practitioners, industry leaders, energy experts, and over 200 attendees. The final agenda can be found here.

What came through loud and clear is that North America is fast becoming the epicenter of a global energy revolution with potentially huge geostrategic and geoeconomic consequences. New sources of energy that were once considered commercially and technically out of reach are coming onto the market with greater speed and in greater quantities than ever before. This includes unconventional sources such as shale gas and oil in the United States, oil sands in Canada, and renewables such as wind and solar, which are being developed in both countries. If and how the United States and Canada will coordinate their efforts to leverage their strengthened position remains an open question.

The fight over the Keystone XL pipeline—a more than 2,000 mile infrastructure project in which the first of four phases has been stuck in a US State Department review process for more than two-and-a-half years—overshadows the broader relationship and obscures important and unanswered questions that arise alongside greater energy abundance. With political attention tied up on Keystone, we are missing opportunities to reframe a broader 21st century US-Canada energy agenda and relationship.
The integrated North American grid

Map © CEA. Lines shown are 345kV and above. There are numerous interconnections between Canada and the U.S. under 345kV that do not appear on this map.

The United States is the largest producer of petroleum and natural gas in the world

![Graph showing petroleum and natural gas production from 2008 to 2014, with the United States and Saudi Arabia highlighted.](image)

Source: U.S. Energy Information Administration. Note: Petroleum production includes crude oil, natural gas liquids, condensates, refinery processing gain, and other liquids; refinery processing gain per barrel of oil equivalent was calculated using a conversion factor of 1 barrel of oil equivalent = 5.5 million British thermal units (Btu).

The United States is the largest producer of petroleum and natural gas in the world.

The summit had four goals: (1) to improve public understanding of the energy relationship on both sides of the border, (2) to provide a timely and realistic map of bilateral issues critical to North American cooperation, (3) to chart the means of binational cooperation that could avoid future controversies and foster greater North American efforts toward regulatory compatibility and, where possible, harmonization, and (4) to foster binational cooperation on energy and environmental policies through partnerships among US and Canadian energy thought leaders, practitioners, and think tanks. Although a wide range of topics were covered (a full rapporteur report can be found here), five key takeaways stand out.

1. **The United States and Canada share a robust relationship that is at the epicenter of a global energy revolution.**

Although the Keystone XL pipeline has received considerable attention, it is one small piece of a broader interdependent energy relationship. Seventy oil pipelines crisscross the US-Canadian border. The binational electricity grid is so integrated it is almost considered one. In the northeastern United States, where electricity demand peaks in the summer, states import electricity from Canada during the warmer months, only to export it back to Canada in the winter when demand peaks to the north. This back and forth amounted to $140 billion in bilateral energy trade last year alone.

Such integration allows both countries to take advantage of energy innovation occurring on both sides of the border. As Jim Murphy, chief operating officer of Invenergy, put it, “Unconventional energy is having a disruptive effect on global markets,” and much of that can be found in North America. The increase of shale oil and gas in the United States and oil sands in Canada, in addition to renewables more generally, offers new opportunities if planned in advance. This is one reason that US secretary of energy Ernest Moniz made Ottawa his first international stop when traveling across the United States as part of the Quadrennial Energy Review.

Investors are responding to the rapid changes in the energy landscape by moving investments back to North America. Soma Somasundaram, president and CEO of Dover Energy, noted that his major US manufacturing company recently made a $21 million investment in a manufacturing facility in Houston as a result of changes in the North American energy
market. Dover’s customers and competitors are taking similar action. According to Robert Johnston, the director of Global Energy and Natural Resources at Eurasia Group, 20 of the top 25 global exploration and production (E&P) firms have increased investment in North America while decreasing investments in non-OECD countries.

2. Diversification is an imperative.

Former deputy secretary of energy Daniel Poneman argued that US economic growth would depend on deploying all sources of energy and advocated for President Obama’s “all of the above” strategy. Retired Admiral Dennis Blair, former commander-in-chief of the Pacific Command and director of national intelligence, also stressed the need to diversify across many sources of energy.

While many from the United States focused on increasing sources of supply at home, Canadian participants were seized by the need to diversify markets abroad. The growing demand for energy in emerging markets is radically altering Canada’s energy outlook. Canada’s minister of natural resources, Greg Rickford, argued that diversification was not just a priority for Canada, but an imperative. Ninety-seven percent of Canadian crude oil exports and 100 percent of its natural gas exports flow to the United States. This, according to Rickford, puts “too many eggs in one basket.” Canada plans to undertake considerable export diversification, particularly since US demand for imported energy is expected to decrease over time. If not managed carefully, this could be an increasing source of tension between the two counties, as could competition for energy markets abroad.

3. Transmission remains a major challenge in both countries.

Most participants expected Keystone to be approved eventually, but see it as a symbol for how hard it is to build new and necessary energy infrastructure.

Infrastructure has always taken a long time to build. As the summit’s cochair David Jacobson described, Keystone has taken a long time, but less time (so far) than building gas pipelines from Alaska down the Mackenzie River. It has taken a very long time to get approvals to move hydropower around Canada and into the United States. It took so many years to try to get a permit to import liquefied natural gas (LNG) at an East Coast US port that the company changed plans and, given the abundance of natural gas nearby, is now seeking a permit to export gas.

In addition, the public has been reluctant to support new extractive procedures. Québec, for example, has enacted a moratorium on hydraulic fracturing, or fracking. New Brunswick has imposed strict rules on fracking, and Nova Scotia, like Québec, will not permit it until the completion of an upcoming review. In the United States, New York, Vermont, and cities including Los Angeles and five Colorado cities have bans or moratoria on fracking.
The problem of building infrastructure isn’t unique to North America. Christoph Löwer, director of government relations and corporate social responsibility for Alstom Germany, made clear that European companies have an equally difficult time pushing through new energy infrastructure programs. Still, both the Canadian ambassador to the United States, Gary Doer, and Adam Sieminski, head of the Energy Information Administration (the US Energy Department’s data collection and analysis center), pointed out that many local restrictions have the unintended consequence of putting more oil onto rail cars, a comparatively riskier way to move oil. The number of oil rail cars traveling across the United States has more than doubled in the last five years to over 750,000 cars per year.

4. Public confidence is lacking.

The good news is that there are examples of US-Canada cooperation that can serve as a basis for future energy collaboration. Lana Pollack, chair of the US Section of the International Joint Commission (IJC), reminded the audience that the over 100-year-old commission is devoted to helping the two countries avoid disputes over water and has helped resolve more than 100 issues. Outside of the IJC, the United States and Canada have worked together to help solve the problem of acid rain and better protect migratory birds.

Still, when it comes to working together on energy, the two countries have a long way to go toward winning the public’s support. Dylan Jones, head of the Canada West Foundation, pointed to his center’s June 2014 report *Restoring the Public Trust*, which showed the energy sector was less trusted than other sectors. Many Canadians feel that energy companies are driven disproportionately by profit and are unconcerned with the environmental impact of their activities.

Pierre Arcand, Québec’s minister of natural resources, made a strong case that more needs to be done at the local and regional level to engage the public because it is harder to pass new legislation at the federal level. The global climate change dialogue, for example, hit a wall because it involved too many actors on too wide a range of topics, among other reasons. Arcand described how much more gets done at the local level when US governors meet with their provincial Canadian counterparts.

Business leaders have also had greater success in moving plans forward when they’ve engaged local communities directly rather than hoping political leaders at the federal level will sort out their problems. Manitoba Hydro has more than 50 years of experience building transmission projects. They’ve learned that engaging local communities in projects in early design and planning stages helps anticipate and respond to opposition before plans get too far in development.

5. Mexico’s energy reform is a game changer.

Panelists referred regularly to the huge constitutional changes under way in Mexico and President Peña Nieto’s energy reform program. Until recently, Mexico’s oil production was decreasing. With new legislation passed in 2014 that allows for greater international

---

**US rail carloads of crude oil and petroleum products exceed 1.5 million b/d in 2014**

- **Source:** U.S. Energy Information Administration, based on Association of American Railroads

---
investment, Mexico is on track to restore its role as a major global energy producer.

As with developments in United States and Canada, domestic politics could slow down energy developments in Mexico. But Duncan Wood, director of the Mexico Institute at the Woodrow Wilson Center, remains bullish on Mexico’s prospects. Increased Mexican production will accelerate a reshoring of North American business, particularly in the manufacturing sector. It will also provide the opportunity to rethink how the three countries can work together across Central and South America.

The 2014 November ministerial meetings between the three countries and December’s Leaders’ Summit present enormous opportunities for considering the issues discussed above in a trilateral forum. Jean Charest, partner of McCarthy Tétrault and former premier of Quebec, concluded the proceedings by suggesting that reframing the trilateral conversation around energy could provide the “on ramp” for more equitable and productive discussions among the three countries.

**Conclusion**

“North America,” said Chicago Council President Ivo Daalder, “is at the heart of the global revolution in energy, and it is crucial that we focus on the innovation opportunities and challenges confronting two of the key players.” Building on several years of work on the US-Canada energy relationship, The Chicago Council’s US-Canada Energy Summit was an important next step in this process.

**Acknowledgments**

The summit would not have been possible without the generous contributions of many supporters. The Chicago Council is grateful to the following for their generous support of this event and its broader energy work: Lead sponsors BMO Financial Group, Dover Corporation; supporting sponsors the Konrad Adenauer Stiftung, the Government of Alberta, Dentons, Exelon, Ivanhoe Energy, Suncor, and TransCanada; patron sponsors Anonymous, Joel Friedman and the Alvin H. Baum Family Fund, Elaine and Marvin Gottlieb, Invenergy LLC, Joanne and Doug Pertz, Joan and Avi Porat, and Arch W. Shaw. The Council also appreciates the outreach support provided by partners such as the Government of Canada, CEO Roundtable of Chicago, Illinois Chamber of Commerce, and The Wilson Center. Individuals are always the key to a successful event, and the summit would not have been possible without the considerable efforts of Tyler Strom, Brandon Richardson, and January Zell, among other talented colleagues at The Chicago Council on Global Affairs.