

Image courtesy National Energy Board.

# The Geopolitics of North American Energy Independence

Jim Prentice

In less than a decade, the North American energy landscape has changed drastically, with particular implications for US competitiveness, economic health and foreign policy. These are volatile and highly consequential times for everyone with a stake in the energy industry: producers, consumers, policy makers – as well as those concerned with the environment generally, and climate change specifically. While Canada must adjust to the continent's new energy reality, what's clear above all else is that we need to respond by pursuing our own geopolitical interests as one of the world's largest energy suppliers.

Five years ago, during the first presidential debate of the 2008 campaign, Barack Obama spoke plainly to the American people: the arithmetic, he said, was incontestable – the United States could not and should not expect to drill its way to continental energy independence. He compared the quest for a reduced reliance on overseas oil imports to John F. Kennedy's goal of sending a man to the moon – nobody was sure how to do it, but America needed to try. He spoke of alternative energy sources and a new push into nuclear. On that night and throughout the campaign, the future president didn't foresee the supply surge that lay ahead. Frankly, few people did.

Five years later, the game has changed when it comes to hydrocarbons in North America. New technologies and new ways of taking energy from the ground have brought extraordinary changes to the continental supply of oil and natural gas. At the same time, various forces – including new efficiencies and fuel substitutions – are easing North American demand for energy, at the very moment that

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Let's look first at the scope of this energy supply revolution. Since Obama spoke to Americans in that presidential debate, the United States has seen a 40 per cent increase in domestic oil production. In 2012, US crude oil production rose by almost 800,000 barrels per day, the largest annual increase since the beginning of commercial production in 1859. The International Energy Agency, describing these increases as nothing short of a "supply

shock," now forecasts US production of more than 11 million barrels of oil per day by 2020, up from 5 million barrels in 2008. This remarkable growth is being welcomed by most – though not, perhaps, the publishers of all those books about Peak Oil.

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At the same time, increases in natural gas production – and the expansion of recoverable reserves – have expanded at rates that are virtually exponential. Less than a decade ago, Lique-

fied Natural Gas facilities were being constructed on the shores of North America to import natural gas. A few years later, the United States has by some estimates a century's worth of gas in the ground. Canada's reserves, on a per capita basis, are even larger. The LNG terminals being proposed for construction along the B.C. coast would ship natural gas off our continent and onward to Asia. The IEA predicts the US will by 2015 overtake Russia as the world's leading producer of natural gas.

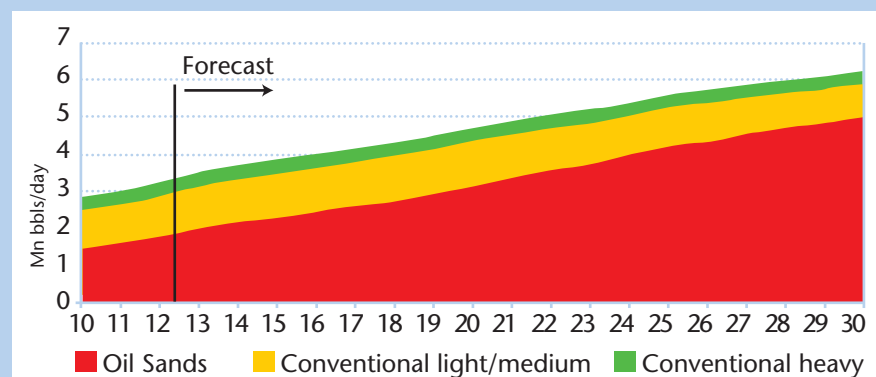
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The supply-demand balance for North American energy has been fundamentally altered. There is no longer any need to import natural gas. And petroleum imports are in stark decline.

In 2005, the United States imported 60 per cent of its crude oil. That figure had declined below 50 per cent by 2010. Today, it is in the vicinity of 40 per cent, and falling. In fact, there are forecasts now that, by 2030, the US could, if it chose, become a net exporter of oil. Certainly, it is beyond dispute that, taken together, imports from Canada and Mexico will be more than sufficient to meet remaining US demand. In a time of rising production and easing demand, the North American continent, consisting of the US, Canada, and Mexico will soon no longer require anyone else's oil.

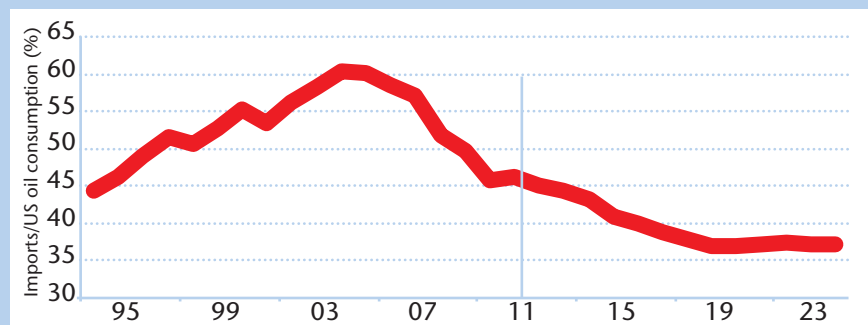
In sum, then, technology has stood conventional wisdom on its head. The sweeping effects of these extraordinary developments are now becoming apparent. Continental prices of natural gas have effectively been decoupled from the global market price and now rank among the lowest in the world. Canadian industry is pressing with renewed vigor to secure access to tidewater so it can sell its oil

**Chart 1: OIL SANDS WILL DOUBLE CANADA'S OIL PRODUCTION**



Source: Canadian Association of Petroleum Producers

**Chart 2: US DEPENDENCE ON IMPORTED OIL**



Source: US Department of Energy

overseas. At the same time, proposed investments in major hydro projects hold the potential to further abet North America's energy independence and help position Canada as a clean energy superpower.

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For the United States – or, as some analysts have taken to calling it, “Saudi America” – there are advantages that go beyond energy security:

**Industrial competitiveness.** Low natural gas prices will benefit the US in industries that are heavy users of energy and petroleum feed stocks, such as: petrochemicals, steel manufacturing, fertilizers, cement and certain heavy manufacturing. At a time when Asia's labour cost advantage over North America is deteriorating, the United States will also continue to open up a significant energy cost advantage.

**Economic and financial benefits.** Today, the United States' oil import bill alone is expressed as 1.7 percent of GDP. Energy self sufficiency, coupled with low natural gas prices and the positive consequences of re-industrialization, will have a significant and positive effect on the US current account deficit – and ultimately on the strength of the US dollar and the American economy. Importantly, this will take place not at some distant point in the future but over the course of the next five years.

**Foreign policy.** For decades, America's essential geopolitical vulnerabil-

ity has been its energy dependency. The OPEC oil embargo of the 1970s, in ways subtle and obvious, has influenced the direction and expression of US foreign policy. It stands as logical, then, that bilateral ties between the US and key oil exporting countries in the Middle East will, by definition, become less important. This is not to advocate for American isolationism. But a United States with a secure supply of energy will certainly be free to pursue foreign policy objectives that are not narrowly defined or dictated by the need to access hydrocarbons.

**Environmental benefits.** At Copenhagen, the US and Canada harmonized their greenhouse gas standards, pledging by 2020 to reduce their emissions to levels 17 percent below 2005 levels. As a result of our new energy reality, the United States is well on its way to achieving its targets. One major reason is aggressive fuel substitution – in particular the replacement of coal with natural gas in the generation of electricity, which reduces both emissions and pollutants. Another reason: aggressive new motor vehicle efficiency standards adopted by Canada and the United States in 2010 – all this at a time when energy consumption has been in decline on a per capita basis since 2007. The situation in Canada is somewhat different and more challenging. Still, taken as whole, North America stands poised to achieve something that would have been all but unimaginable just three years ago in Copenhagen: the dual advantage of abundant, reasonably priced energy and a natural environment that is improving, rather than deteriorating, in quality.

This trend will only be enhanced by the development of more Canadian hydro, especially the Lower Churchill in Newfoundland and Labrador, which on its own holds the ultimate potential to produce in excess of 3000 megawatts of clean power for domestic use – and for export to the United States. (It is worth noting that New England still generates half its power by burning fossil fuels.)

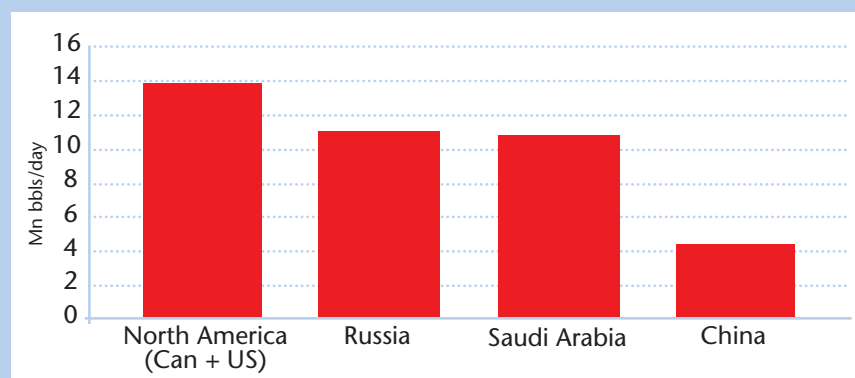
Taken together, these benefits suggest the ability of the North American marketplace to achieve energy independence will have a lasting and positive influence. It will advantage our industrial competitiveness relative to virtually everyone else in the world.

It represents a greener future. It will drive investment flows, reorient balance of payments and strengthen the US dollar.

For those who believed in the theory of Peak Oil, or doubted the technological capabilities of North American industry and its capacity for innovation and risk taking, there is certainly an element of embarrassment associated with this turn of events. But for those with a passionate belief in the power of the free markets – specifically, the free market forces that lie at the heart of the North American energy marketplace – there is a sense of vindication.

Our North American standard of living has been driven in no small part by the largest free-market energy system in the world. This continental marketplace is richly endowed with resources. It is mercilessly efficient as an arbitrator of labour and capital. It

**Chart 3: NORTH AMERICA RECLAIMS TOP OIL PRODUCTION SPOT**



Source: IEA. Figures are for Dec '12 and include all petroleum liquids.



Even with the unprecedented change we're witnessing, the Canada-US energy relationship will remain pivotal to both countries – and despite the many benefits of rising energy production, improved energy security and falling prices, it will not be without strain. Fundamental differences of interest will persist.

Second, we must remember that Can-

**Canada must continue to fight for a continental energy market that is free from the well-intentioned, but damaging, interventions of government, specifically in the form of national and sub-national impediments.**

Third, our position on the environment will be similar to that of the Americans but, once again, not identical. Our two countries have very different industrial bases, geographies

What's clear above all else is that Canada needs to respond to the continent's new energy reality by pursuing its own geopolitical interests as one of the world's largest energy suppliers. We must contribute efficiently to North American energy independence and press for a continued, open continental market – but we must also be ambitious, moving with purpose to benefit from Asia's growing energy demands. The game has changed. The implications are profound – and so too, if we play our cards right, can be the opportunities. **P**

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