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JUGGLING THE NEW TRIAD
ENERGY, ENVIRONMENT AND SECURITY: A CASE STUDY OF THE CANADIAN OIL SANDS

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Juggling the New Triad—Energy, Environment and Security: A Case Study of the Canadian Oil Sands

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The desire to acquire reliable and cheap sources of energy has long been linked to security objectives. When the British fleet transferred from coal to oil, First Lord of the Admiralty Winston Churchill saw to it that the British government acquired a controlling interest in the Anglo-Persian oil company (the forerunner of today's BP). In more recent years President Nixon argued for energy independence in the face of the Arab oil embargo and skyrocketing oil prices that increased twenty fold in less than a decade. And if the U.S. Department of Defense today were considered as an independent energy consumer similar to sovereign states it would outrank more than 100 countries, including such states as Sweden.[1] Among the great powers, China in particular has linked geostrategic calculations with acquiring secure and affordable energy sources. Acquiring such sources is thus for most states a desirable objective which enhances a state's autonomy and security. Similarly, further development of such supplies is expected to correlate with enhanced security. Both objectives, however, stand in uneasy tension with new environmental concerns. Pending dramatic advances in renewable energy production, fossil fuels, such as oil and natural gas, remain key sources of energy. Indeed, in the United States 95% of the energy used in the transportation sector derives from oil. Consequently, the desire to become more energy independent or acquire reliable supplies of such energy will for the foreseeable future lead to the continued use and even further exploitation of fossil fuels. Yet, the consumption and production of fossil fuels has been one of the key sources of greenhouse gases. And if, environmental degradation in turn leads to conflict, as, for example, the work of Homer Dixon has suggested, then environmental concerns must also enter into the agenda that is usually reserved for traditional security calculations (Homer Dixon 1999).

[1] Peter Singer, "Fueling our security: The need for a defense energy strategy." *The Washington Examiner*, August 25, 2009.

This is not to say that the triad of objectives in security, energy, and environment is logically incompatible. This is not the equivalent of Triffin's dilemma. A comprehensive national policy aimed at moving the country away from unreliable sources of energy (or away from suppliers that come with high political costs) could enhance national security and environmental goals if a major shift towards renewable energy sources occurred at the same time.

This paper contends that domestic institutional arrangements will play a key role in determining whether states can develop such coherent national policies that seek to reconcile security, energy, and environmental objectives. More specifically fragmented policy networks that divide governing authority across these three domains will be poorly positioned to come up with such coherent policies.

I examine this thesis by an analysis of the U.S.-Canadian energy relationship and the impact Canada's federal structure has had on Canadian energy and environmental policy. Neither the United States nor Canada has developed comprehensive strategies that integrate international environmental concerns with *national* energy policy and security concerns. Within each country, policy has largely been driven by bottom up societal demands and actions. Business interests, environmental groups, and the public at large have all influenced political outcomes but they have done so in a haphazard manner. Governments have reacted rather than steered.

The passive role of government largely derives from their traditional anti-statist position and, most acutely, from their fragmented systems of government. Both systems of government provide multiple veto opportunities to private and public actors who at times oppose federal goals. While this paper will focus particularly on Canada, I conjecture that the argument holds equally true for the United States. In the latter, for example, state preferences on environmental standards, local policy on offshore oil drilling, and so on, can stand diametrically opposed to federal objectives.

The multiplicity of veto points creates internal contradictions in security, energy and environmental policy. One of the consequences has been Canada's inability to live up to its international obligations. The inability of the federal government to override provincial interests is not restricted to energy policy alone. For example, in disputes following the ratification of the Free Trade Agreement (FTA) provincial prerogatives clashed with Ottawa's objectives on a variety of issues. However, this fragmentation of decision making power has particularly come to the fore in Canada's failure to meet environmental targets that it agreed to in the Kyoto protocol. More broadly, this analysis of Canada's inability to credibly commit to some international agreements raises questions about prevailing views of how institutions and credible commitment are inter-related.

II. Ruling Coalitions and Policy Networks as Explanations of the Policy Process

In a seminal work, some 30 years ago, Peter Katzenstein sought to address the question why national economic policies differed so widely across the globe in the wake of the global economic downturn (Katzenstein 1978). Even among the advanced capitalist countries there was considerable variation in the degree of state intervention in the economy and the level of cooperation among private actors.

The oil crisis of the 1970s in effect provided the perfect "control" research design. Given that all advanced capitalist countries were severely affected by the rise in oil prices (which jumped from two to three US dollars to about $40 in less than a decade), each country was faced by a similar exogenous shock. Although the countries varied in their degree of dependence on external resources, all suffered serious economic setbacks. Consequently, Katzenstein attributed the variation in responses to domestic level variables. Countries differed in the nature of state-society relations and the unity of the policy network. These in turn affected their national economic styles.[2]

Extrapolating from his views one can develop a causal schema to explain why some countries will evince state intervention, and determine whether a policy network is unified or fragmented. Whether or not a country will be predisposed to (neo) mercantilism or non-interventionist liberalism will turn on several other factors. First, historical legacies will loom large. As Katzenstein points out with regards to Germany, the Prussian dominance of the political arena and its authoritarian regime had profound consequences for the nature of subsequent state society relations (Katzenstein 1987, 45-46).

Second, the timing of industrialization will determine whether or not governments will attempt to foster economic development. Late industrializers will need a government to protect infant industries, develop a national education system, and most importantly generate the financial means for development. The latter might be done by direct government intervention or by allowing close ties to develop between industry and the financial sector (Gerschenkron 1962).[3]

Third, a country's security position might require strong government. Nations that face considerable external security threats are prone to government mobilization of the economy for wartime purposes. The security environment will not only affect the degree of government intervention, but the nature of the threat will affect regime type in the state as well. Large standing armies tend to have different political effects than naval forces given their ability to repress internal dissent (Hintze, 1975).

Finally, cultural legacies will influence societal expectations of state behavior. Some countries will have a history of resistance to the state and laud the championing of individual rights. Others will be more inclined to see virtues in strong government.

[2] His insight went on to spawn a large literature on the issue about the continued divergence in these "varieties of capitalism."
[3] For analyses using the Gerschenkronian model, see Hall's comparison of France and Britain, and Amsden's explanation of South Korean success (Hall 1986; Amsden 1989).

On all these dimensions Britain and the United States cluster on one side of the spectrum. They faced few security threats; both had removed royal absolutism at an early date; both were early industrializers (particularly Britain); and neither had a particular affinity with statist ideologies. Conversely, Germany, Japan and France tended to cluster on the other end of the spectrum. They lagged in the industrial revolution (particularly Japan); they had mobilized society to sustain large military establishments; and all three had influential proponents of mercantilist perspectives or statist authority. Historically also they had grappled with long periods of royal absolutism and authoritarian government.

Countries differ on a critical, second dimension: the nature of their institutions. Both the institutions of governments and societal institutions can create unified or fragmented networks. The American system of checks and balances provides the archetypical example of fragmentation. Its division of authority between executive and legislative; the presence of two strong legislative chambers; the emergence of activist courts with the powers of judicial review; and the considerable powers of the individual states, make one wonder how any policy emerges from Washington. Conversely, Westminster parliamentary systems present the opposite picture on virtually every dimension. Executive and legislature are of the same color; one chamber dominates; there is no judicial review; and county level government wields only weak powers when compared to the American states.

At the societal level institutions are fragmented as well. The Anglo-Saxon model, exemplified by the United States, lacks the peak associations that typify German or Japanese industry (Lynn and McKeown 1988). Moreover, shareholding prevails in contrast to the long term stakeholder relations between industry and finance in the European corporatist (Rhenish) model and the East Asian developmental model. The American industry-finance nexus is weak and indeed actively discouraged (Zysman 1983). Additionally anti-trust law militates against excessive market capture. Finally, states vary in the degree to which decision making is inclusive, coordinating among employers, government and labor. In the United States this coordination, if present, is at arms length at best. In Germany such coordination is enshrined by law. Although these variations were most pronounced in the decades following WW II they continue to considerable extent to differentiate the advanced economies today.[4]

Similar arguments are made by scholars who have focused on the number of veto players in the policy process. As Ellen Immergut notes, any actor whose consent is required to pass a given policy, possesses a veto opportunity (Immergut 1992). The more veto players that are present, the less likely it is that a new policy can emerge. Fragmented systems are thus prone to maintaining the status quo, rather than initiating new policies.[5]

Keeping this typology in mind, one can readily deduce the various countries' responses to the energy crisis in the 1970s. Lacking any tradition of significant government steering of the economy (except in periods of war), the U.S. government never articulated a comprehensive energy plan. Although President Richard Nixon argued for greater energy independence, few measures were put in place to actually do something about the problem. President Jimmy Carter's administration was slightly more ambitious. His administration created tax incentives, as for using solar energy, and freed up funds for the nascent shale oil projects in the Rockies. Those efforts were nevertheless relatively modest and were quickly eliminated when Ronald Reagan came to office.

Counterfactually, even if government had taken on a more activist role, and even if the American voter had gone along with such policies, it is difficult to see how such policies could be implemented. Fragmented American government provides opponents so many opportunities to exercise a veto that special interests can quickly override national objectives. Similarly, the lack of coordinating mechanisms within society prevents agreement on policy

[4] See, example, Börsch 2007.
[5] See also Tsebellis 1995, 1999, 2002; Katzenstein 1987.

objectives in the private sector. Consensus or co-decision making, Mittbestimmung as the Germans have it, is not part of the American repertoire.

This is not to say that the American government had no means of influence or did not try to affect behavior. However, as John Ikenberry noted in his analysis, “unable to develop new interventionist means to stimulate production and encourage conservation, government officials gradually came to embrace market pricing as the most effective method within their reach to advance their goals both in general energy policy and in foreign policy” (Ikenberry 1988, 166). Lacking an interventionist state machinery at its disposal, the government could only indirectly influence behavior.

The French response provides a telling counter example. France had a tradition of (neo) mercantilist intervention and government support for “champions of industry.” Blessed with a relatively unified political system and elite bureaucracy, the state’s response was to embark on an aggressive plan to make the country far less dependent on oil for generating electricity. After building 56 nuclear plants, all based on the same design purchased from Westinghouse, nuclear energy now accounts for more than 70 % of electricity generation. (It now possesses 59 nuclear plants and is arguably a world competitor in the current competitive development of nuclear energy).

Canada, measured along the dimensions above, must be squarely placed within the category of liberal capitalist states of the Anglo-Saxon model. Historically, following in British footsteps, it has never been subject to the absolutist governments that typified much of continental Europe. With regards to the timing of industrial development it certainly lagged behind Britain. However, as a medium late developer it could tap into the private capital of British investors and never had to utilize the top down mobilization of capital that accompanied the East Asian development model. Ideologically, British and American political thought as well as the benign divestment from the empire and its reconstitution in the commonwealth, similarly predisposed the country to a limited role for government. Finally, its relative security made the rise of a garrison state unthinkable. In short, the presence of a liberal non-interventionist state was over-determined.

With regards to its policy network, however, one might have expected a more uniform instrumental machinery to be in place. Given the legacies of Britain and its Westminster system, coherence rather than fragmentation might have become the norm. Indeed, the British system is sometimes classified as having a single veto point (Tsebelis 2002, 4). Unlike the British system, however, Canada, as I will discuss in greater detail in section four, has one critical feature that leads to a fragmented policy: the federal system grants the provinces constitutional rights on natural resources which give them considerable leverage vis-à-vis the federal government.

III. The Current International Energy Environment and the Role of Canadian Oil

Standard economic incentives to undercut quota agreements (that befall any cartel) and political dissension fractured the cohesion that had been typical of OPEC in the 1970s. In addition, the Iran-Iraqi war required the combatants to produce ever greater quantities of oil so as to pay for the costs of the war, further eroding the OPEC goal of supply control. Even the price spike brought on by the Gulf War in 1991 was of short duration and the price for a barrel of oil settled eventually almost at $10 later that decade. Indeed, by 1994 oil in real terms was priced at the level of the 1973 barrel.

Since the late 1990s, however, the price per barrel has increased steadily. By 2008-09 wild variations pushed the barrel up to the $140 range and then down again to $35, with prices more recently settling in between $60-80. At this price level more costly modes of oil exploration have become viable. Oil sands exploration is commonly thought to require a price in the $30-40 frame (Levi 2009, 8), although others estimate that the world market price needs to be even higher to make oil sands profitable. Similarly deep sea exploration is only viable with a relatively stable, high price.

Although the recent price of oil makes such new developments in oil and natural gas exploitation viable, the outlook for oil remains problematic.[6] U.S. supply has remained relatively flat with new methods for exploiting old sites only compensating for diminishing well capacity but not increasing the overall level of production.

Deep sea exploration, although becoming increasingly feasible, is no panacea either. Even regardless of the recent Transocean-BP oil spill, the prospects for deep sea oil exploration are fraught with unknowns. The Brazilian offshore find, for example, requires deep drilling through thick salt layers. Both technical hurdles and economic cost might thus pose impediments.

Moreover, the Mexican oil industry has stagnated in comparison with other Latin American states. Keeping the Mexican oil industry under tight national control, by excluding it explicitly from NAFTA provisions, the government might have lost the ability to update its technical and infrastructural base.

Other developments raise more challenges. For one, the role of the Seven Sisters has largely been assumed by the sovereign oil companies. Their economic and political objectives at times correspond with those of the United States and Canada—not in the least because petrodollars for decades have been invested in the developed markets of the world. But this cannot always be taken for granted, particularly given the ever present political instability in the Middle East. Moreover, indirectly, the instability of the Middle East imposes significant costs in political terms as well as military expenditure.

Second, the peak oil thesis cannot be dismissed even if it is the subject of debate. According to the calculations that underlie the model, the peak of world oil production was

[6] Recent finds in natural gas might change the non-renewable resource sector considerably. However, the exploration of some of this natural gas is not without critics. Particularly, the shattering of rock layers to release such gas remains controversial given relatively unknown environmental effects.

reached around 2000-2005 (Deffeyes 2005). New oil discoveries and proven reserves have reached a plateau and their levels will start to decline from here on.

Even if the peak oil thesis is mistaken there can be little doubt that the demand for oil from the late developing countries, specifically the BRIC countries, is growing rapidly and that new oil is increasingly more difficult to find and exploit. China in particular has taken the challenge of adequate supply seriously and has started to invest heavily in oil in diverse parts of the world, including buying into the oil sands.

Given these concerns with price volatility, the questions regarding adequate supply, and the political costs of doing business in the Middle East and Venezuela, the prospect of increased supply from the oil sands is attractive to the United States and Canada alike.

Ever since the Nixon administration, energy independence has been an avowed goal of the United States. His argument for energy independence followed in the wake of the Arab oil boycott of the United States, the Netherlands and Portugal, given their support for Israel during the Yom Kippur War of 1973. However, given that the U.S. today consumes almost 20 million barrels per day (bpd), but only produces 8.5 million bpd, a self sufficient U.S. oil market is not feasible.

The development of the Canadian oil fields has thus been critical in providing the United States with a non-Middle East source. As of February 2010, the United States imported more than 2.4 million barrels of petroleum per day from Canada, more than twice the amounts from Mexico and Venezuela, the respective numbers two and three. Saudi Arabia, with 900,000 barrels was the fifth largest exporter to the United States.[7] Overall, Canada thus provides roughly 20 % of U.S. imports with half of that oil coming from oil sands. Moreover, the latter production is scheduled to double in volume in the next 20 years. With the Canadian oil sands constituting the second largest proven reserves in the world with

[7] U.S. Energy Information Administration. Accessed online. http://www.eia.doe.gov/pub/oil_gas/petroleum/data_publications.

almost 179 billion barrels, the importance of oil sands exploitation is obvious.

For its part the U.S.-Canadian oil nexus is welcome to Ottawa as well. Aside from the revenue generated by the oil sales, the overall robustness of the American economy is a shared objective, given that most of Canada's exports have the United States as their destination. Over the course of 2009 the United States exported $205 billion worth of goods and services to Canada, while it imported $225 billion.[8] Seventy three percent of Canadian exports in goods had the United States as their destination in that same year.[9] In short, oil exploitation in Canada as a whole and in the Albertan oil sands in particular serves common economic objectives.

The common interest in further exploitation of non-renewable resources, however, confronts a major challenge. Canada has signed on to very ambitious goals in the Kyoto protocol. Given the connection between the use of non-renewable energy sources and global warming, this logically implies that the federal government should aim to reduce the use of non-renewable energy sources as oil. And even in the United States, which has not signed on to Kyoto, the Obama administration has stated that it wishes to reduce CO2 emissions.

But while both countries have stated national objectives at the executive level, neither side has succeeded in creating a comprehensive plan that integrates security and energy policy with environmental concerns. While the United States has never had an integrated policy that combined security, energy and environmental perspectives, Canada at one point did have a federal level, statist, energy plan. However, the conditions that gave rise to the National Energy Program were unique and are unlikely to return.

IV. The National Energy Program: A Momentary Digression from Market Led Adjustment

The Canadian reaction to the oil crisis and particularly the creation of the National

[8] U.S. Census Bureau. "U.S. Trade Balance with Canada." Accessed online. http://www.census.gov/foreign-trade/balance/c1220.html#2009

[9] Statistics Canada. Accessed online. http://www40.statcan.gc.ca/l01/cst01/gblec02a-eng.htm.

Energy Program (NEP) at face value seems to contradict the earlier argument. According to that perspective, non-interventionist states that possess fragmented political institutional arrangements will resort to market let adjustment rather than neo-mercantilist strategies. As a successor state heavily influenced by British rule, and given that the Canadian economy was closely intertwined with the American market, one would have expected Canada to fit within the Anglo-Saxon model. How then did the NEP arise?

The late 1970s led to a significant victory for Pierre Trudeau's Liberal party. Capturing 147 seats out of 282, the Liberals could rule without the contrarian coalition partners that had saddled the Progressive Conservatives. The Liberal base had a virtual lock on the Quebec vote and took a solid majority in Ontario as well. In the west, the natural resource rich provinces, the Liberals faired far worse, and thus a challenge to the energy interests of those provinces would come at little political cost. Trudeau, moreover, was far more receptive to interventionist policies that some of his political rivals.

The political institutions at his disposal were also less fragmented than those south of the border. A parliamentarian system gave the executive considerable leeway, and the Liberals saw the decisive victory as a mandate to forge ahead. The party rank and file was thus inclined to give Trudeau their support. The federal system was the one element that created a fissure in this political machinery. The Liberals National Energy Policy thus set out to curtail such state privileges.

The NEP largely had three objectives (Jenkins 1986). First, it aimed to diminish Canadian reliance on external energy sources. Second, it sought to regulate prices and share revenues, with more funds going to the federal government. The prices would also be lower than the world market price. Third, it aimed to increase the Canadian participation in the oil industry which till then was dominated by foreign firms.

Two targets thus emerged in the Liberals' plan: the foreign multinationals and the provinces, specifically Alberta. The federal government received a mere 12 % of oil revenues while companies and the provinces roughly split the remainder (Jenkins 1986, 146). Ottawa aimed to redress this significant imbalance.

The NEP, however, was short lived. The drop in oil prices changed the international landscape and diminished the need for price controls. Moreover, the election of Ronal Reagan in the United States meant that the Liberals were confronted by a president who was ideologically opposed to interventionist strategies and who put pressure on Ottawa to reverse its policy.

Most significantly, and completely in line with our theoretical expectations, the multiple veto points in the policy process allowed private actors to bring down the NEP. Alliances between local businesses and the multinational companies (MNCs) combined with public opinion in the western provinces to stifle federalist attempts. Additionally, American and Canadian MNCs colluded to limit Ottawa's influence.

The NEP in other words was a deviation from common practice rather than a precursor of things to come. It emerged against a particularly serious international energy crisis and coincided with unique domestic conditions. With Trudeau receding from the scene and the Mulroney government coming to power, combined with increased strength of the provinces, the NEP faded into history.

V. Multilevel Governance or a Labyrinth of Veto Points?

The question before us is whether Canada has been able to devise a coherent policy that realizes its energy and environmental objectives while meeting its international commitments. Unfortunately, the answer must be negative. This is due to two key factors. First, as noted above, Canada lacks a neo-mercantilist historical tradition. State intervention has traditionally been limited. Second, its policy network, although relatively unified given its parliamentary structure, presents the provinces extraordinary powers.

As noted, the statist intervention of the National Energy Program was only possible against the backdrop of extra-ordinary events. Canada, true to its roots in the Anglo-Saxon model of economic policy making, has had little taste for the Rhenish, let alone East Asian developmental strategies in which state and private sector conjoin. Trudeau's gambit succeeded due to the dramatic rise in oil prices of the 1980s and the severe economic problems of the time.

Despite the severity of the financial crisis and despite the volatility of oil prices, the Canadian position today is quite different. It has arguably fared better than most of its G-7 counterparts. With oil production at higher levels than in the 1970s, Canada instead stands to benefit from higher oil prices rather than suffer deleterious consequences. In 2008 it produced 3.35 million bpd compared to the 2.11 million bpd in 1980.[10]

But even if the federal government were predisposed to strategic planning the institutional machinery at its disposal would present considerable hurdles. While a Westminster type parliamentary system unites executive and legislature, the executive in Canada stands on a precarious basis. Although plurality systems tend to lead to two-party systems, Canada is nevertheless endowed with several parties in the House of Commons. Moreover, recently no party has won an outright majority. Consequently, Canada is now in its third minority government. Following the 2008 election, the Conservative Party holds only 143 seats out of the 308 Commons seats. The main opposition parties split the rest, with the Liberals having 77, the Bloc Québécois 49, and the New Democrats 37. The minority government thus holds on but must rely on case by case support.

With the parties differing considerably in their level of support in each province, parties will thus tend to be more susceptible to regional interests than might otherwise be the

[10] Energy Information Agency. "World Crude Oil Production 1960-2009." Accessed online. http://www.eia.doe.gov/aer/txt/ptb1105.html.

case. The Bloc Québécois of course stands as the starkest example, but considering the Conservatives strong base of support in the resource rich western provinces, it is difficult to see that party go against the interests of provinces such as Alberta.

The considerable powers flowing to provincial authorities, however, constitute the most important feature of the Canadian system. This has bedeviled U.S.-Canadian international agreements on environment and energy issues, but also on a broad range of trade issues.

The FTA or Canada-US Free Trade Agreement (CUFTA) of 1987 created commitments on both sides to lower barriers to trade. Parallel with developments in the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO), the FTA constituted a major step forward in reducing overt barriers. But like the other organizations, the FTA still confronted less obvious barriers to trade. Devolution of authority to local and regional levels provided ample opportunity for these authorities to utilize non tariff barriers to forestall implementation of federal level policies.

As the veto points literature reminds us the presence of multiple institutional veto opportunities in itself does not automatically translate to policy stasis. It is the combination of veto points <u>and</u> divergence in preferences that matters. If preferences overlap then actors will not avail themselves of blocking opportunities.

When local interest diverge from federal objectives the national commitment to adhere to international agreements becomes less credible. The American-Canadian dispute on the cross border trade of beer in the early 1990s provides a colorful yet telling example. In the dispute major producers on both sides were eager to gain entry into new markets. U.S. producers such as Strohs were keen to gain a foothold in Canada. Conversely, the producers of Moosehead, Molson and other Canadian beers hoped to capture some of the sizeable American market. Both sides, however, were stymied by the wide diversity of regulations inhibiting liberal trade. Simon Reisman, appointed by Prime Minister Mulroney to head the Canadian negotiating team, commented that "The Americans are bastards. They're behaving like real thugs these days in protecting their interests."[11] In the United States, individual states differed on distribution standards, mandated locations where beer could be purchased, as well as on the regulations regarding the days and times when liquor could be sold. Even within states, counties and municipalities had the right to set their own standards. Similarly, in Canada, there was considerable devolution of standard setting and requirements to the local level. Moreover, local authorities in both the U.S. and Canada had direct financial incentives to be involved with the regulation of liquor trade, even aside from moral and health concerns.

In short, institutional fragmentation coincided with clashing interests between the federal governments, who were both ostensibly committed to honoring free trade, and local authorities who had a stake in maintaining local diversity and local governance. Implementation of federal agreements proved difficult because of resistance at the provincial and local level.

The FTA similarly opens up free trade in energy resources and indeed put strict conditions on any reduction in supply, as had occurred during the NEP, by article 605 (later absorbed in NAFTA).

> The restriction does not reduce the proportion of the total export shipments of the specific energy or basic petrochemical good made available to that other Party relative to the total supply of that good of the Party maintaining the restriction as compared to the proportion prevailing in the most recent 36-month period…

In addition, the Canadian government would refrain from giving preference to Canadians over American consumers (Courchene 2006, 663-664). At the same time Article 608 permits Canadian subsidies to enhance energy production without such subsidies constituting a

[11] As quoted in Clyde Farnsworth, "U.S.-Canada Rifts Grow Over Trade." *New York Times*, February 18, 1992. See also " Beer Brawls: GATT "Settles" the Market Access Dispute Between U.S. and Canadian Brewers." by Michael Ryan and Teresita Ramos-Soler. Georgetown Institute for the Study of Diplomacy, case 721.

violation of free trade (Clarkson 2007, 9). In other words, restrictions on energy production and subsidies were rolled back with Canada committing itself to refraining from supply interruptions to the United States. The objective was thus to create incentives for higher energy exploitation in Canada and assure unrestricted trade in oil.

Parenthetically, Mexico, by contrast, explicitly resisted internationalization of its oil industry. Invoking Article 27 of the Mexican constitution, the government resisted attempts to open up its energy sector. Chapter six of NAFTA excludes Mexico from those provisions in which Canada had committed itself to maintain the supply to the United States (Cameron and Tomlin 2000, 36-37).

Canada's international commitment at the federal level, however, stands in potential tension with its Constitution Act. That act, particularly sections 92, 109, and 125 give the provinces proprietary rights (Cairns 1992, 57). Section 92 gives provinces the right to "make laws in relation to *(a)* exploration for non-renewable natural resources in the province…and make laws in relation to the export from the province to another part of Canada." Although parliamentary laws are deemed supreme, article 109 nevertheless states that:

> "All Lands, Mines, Minerals, and Royalties belonging to the several Provinces of Canada, Nova Scotia, and New Brunswick at the Union, and all Sums then due or payable for such Lands, Mines, Minerals, or Royalties, shall belong to the several Provinces of Ontario, Quebec, Nova Scotia, and New Brunswick…" [later extended to all provinces].

In other words the latter section assigns property rights to the provinces. In this latter interpretation Parliament would not be supreme but beholden to a possible veto from the provinces who opposed such legislation. In this particular case, the FTA did not raise objections in the western energy generating provinces since they, as the United States, had been opponents of the NEP. The FTA assured access to the American market, while the

United States would gain greater access to Canadian production and forestall the attempts to reduce the role of foreign multinationals in Canada. In short, in this instance institutional fragmentation did not lead to a veto on federal objectives, as the goals of Prime Minister Mulroney fell in line with those of the energy generating provinces and energy business interests (Verleger 1988, ch.5).

Nevertheless, in effect both the NAFTA regulations and constitutional provisions both constrain the federal government. On the one hand Ottawa might be stymied by provincial authority. In this instance their preferences aligned but this need not always be the case. On the other hand the NAFTA clauses constrain the government at the international level. It is bound to fulfill the specified supply requirements to its American partner. At the same time it can only credibly commit to fulfilling such obligations as long as it has provincial support to do so.

At the present time, the energy producing provinces' interests have not clashed with those provisions in NAFTA. Indeed, with 99 % of Canadian oil exports destined for the United States there is little reason to expect this to change any time soon. However, with non-American businesses moving into the oil sands area, the American orientation might not last forever. For example, the Chinese sovereign wealth company, Sinopec recently purchased a large percentage of the Conoco-Phillips stake in Syncrude (for more than $4 billion). Earlier it had taken a 10 percent stake in Total's planned Northern Lights project. And in 2009 PetroChina acquired a majority share in leases owned by Athabasca Oil Sands Corp for close to $2 billion.[12]

More likely, however, provincial interests will clash with those of the federal government on the issues of royalties, taxation, and revenue sharing. There are various tensions at work. First, Edmonton will wish to retain as much of the revenue as it can rather

[12] "Newsline." Accessed online. http://abcnews.go.com/Business/wireStory?id=10354165.

than see them go to Ottawa. The royalty regime has increased Alberta's share from 37 % to over 47 %, while the federal government's share has fallen more than 10 % to slightly above 12 % (Urquhart 2008, 23). Then there is the question of how provincial revenues should be shared by energy "haves" and "have nots." One could imagine a checkerboard of arrangements between Ottawa and various provinces, leading to what one observer has called bilateral federalism (Courchene 2006, 692). In either of these scenarios the federal government's ability to craft a comprehensive energy strategy will have to be balanced with provincial interests which might run counter to those of Ottawa.

This appears particularly salient when one interjects the connection with global warming into the debate. As a party to the Kyoto protocol the Canadian government committed itself to very ambitious targets. Under the United Nations Framework Convention on Climate Change (UNFCCC), which was superseded by the Kyoto protocol, Canada committed itself to a six percent reduction of green house gases from the 1990 baseline by 2008-2012. The Conservatives followed up in 2007 by setting a target of 20 percent reduction by 2020 (Rivers and Jaccard 2009, 286). Logically this would seem to require a roll back in the use of carbon emitting, non-renewable energy sources such as oil and gas.

But the provinces are clearly endowed with diverse resource portfolios. Some provinces might have an abundance of hydro electric energy or other "green" sources for energy production and would be advantaged by government policies focusing on such clean energy sources. By contrast, provinces that are richly endowed with non-renewable energy sources, such as Alberta, will face higher opportunity costs for moving away from the use of fossil fuels. Moreover, given the revenue stream generated by oil and gas royalties, provinces such as Alberta will be less inclined to support policies that severely curtail oil and gas exploitation.

The consequences have been clear. With multiple veto points and conflicting interests at the provincial and local levels, Canada has failed to meet its Kyoto targets. Indeed, rather than achieve a significant reduction of green house gas emissions by 2008-2012, Canadian emissions between 1990 and 2003 actually increased by more than 24 percent--more than 10 percent higher than the United States, which did not ratify Kyoto (Rivers and Jaccard 2009, 302).

Federal fragmentation is not the only cause. Population growth and economic expansion have contributed as well. But the federal support for oil sands exploitation, which now produces approximately 44 percent of Canadian oil, no doubt has played a role in this. Not only has oil exploitation increased but the process of converting heavy sands into conventional oil itself consumes 5 percent of Canada's natural gas (Levi 2009, 11).

Despite federal support for oil sands exploitation, Alberta has opposed federal commitments to Kyoto. While it did not succeed in preventing Ottawa from ratifying the Kyoto protocol, provincial policies de facto have crossed with federal goals. Although the federal government is endowed with the formal authority to regulate environmental affairs, its powers are limited by delegation to provincial authorities in areas, such as non-renewable energy sources, that have a direct bearing on environmental policy.

VI. Multiple stakeholders and credible commitments

I have argued then that the presence of multiple stakeholders, each with their own authority in inter-related policy areas, complicates the ability of the federal government to devise and implement a comprehensive policy which integrates security, energy and environmental objectives. Indeed, the contest between regional and federal authority raises questions about Canada's ability to live up to some of the international commitments it has taken on.

This explanation is more plausible than possible rival explanations. Realists, for example, might point to the importance of relative power distributions rather than institutional arrangements. Thus, one might argue that Canada's repeal of the NEP and the signing of the favorable energy clauses in NAFTA were dictated by the hegemonic position of the United States. Such an explanation, however, could not account for Mexico's ability to withstand American pressure to open up the Mexican market. If the power differential argument held, Mexico would be even less able to resist U.S. hegemony than Canada. Instead, the interests of the energy producing provinces and their ability to influence Ottawa drove Canada's position.

One might also suggest that the contradiction between the federal government's signing on to ambitious Kyoto targets and its energy policy on the oil sands is more apparent than real. That is, one might contend that the federal government never intended to honor its Kyoto commitments, and in fact favored an aggressive energy export policy with little regard to the environment. While this might be debated for earlier Canadian governments there can be no doubt that the Harper government actively opposed its Kyoto obligations.

Nevertheless, this argument does not refute the institutionalist claim that I have advanced. Counterfactually, if Ottawa did intend to adhere to Kyoto it would not be able to implement comprehensive energy policies that would limit the use of non-renewal energy sources given the provinces near autonomy on energy issues. While preferences on the exploitation of oil sands and non-renewable resource use have made the veto points moot during the Harper administration, the presence of multiple veto points cannot be denied.

Moreover, it remains difficult to see why Ottawa would sign the protocol, knowing that it was committing to a target it would overshoot dramatically. While one might cynically expect that the federal government merely signed as window dressing to placate public pressure, subsequent abject failure to meet those targets does impose costs on the government's domestic and international reputation given that the majority of the Canadian public recognizes global warming as a major political issue.[13]

This discussion of Canadian energy and environmental policy also raises questions regarding the general proposition regarding the implications of fragmented institutions and credible commitment. The standard literature suggests that fragmented policies are weak in creating new policy initiatives. However, once a policy position has been accepted reversal becomes difficult. Fragmented policies are thus able to credibly commit themselves to a greater extent than unified polities (Cowhey 1993; Martin 2000). Hierarchical governments, or even more so authoritarian polities, are weak at credible commitment because such leaders can easily reverse agreements given the lack of meaningful opposition.

The veto points perspective makes similar claims. The larger the number of relevant actors who can exercise a veto on any policy initiative, the smaller the winset of solutions to which all can agree since it will be more likely that they have a wide diversity of preferences (Tsebellis 1995). However, once adopted that new policy position becomes the status quo. Consequently, moving away from that established status quo will be difficult since all actors will now have to agree on a new policy which has to be Pareto superior to the old position. We can thus infer that getting decentralized political systems to agree on a new international commitment is difficult, but once they do agree to a particular commitment, such states do not back out.

Our analysis of Canadian energy and environmental politics suggests otherwise. Federal policies not only face obstacles at the point of initiation but also in the subsequent implementation phase. The standard literature on credible commitment assumes that a) fragmented states that sign on to international commitments have secured the support of potential veto players, and b) if veto players' preferences change they are constrained from reneging on the international commitment because establishing a new equilibrium position

[13] As Harrison (2007, 94) notes, a majority of the public in the U.S. and Canada countries favored ratification.

will be difficult (given the need to mobilize support from the other veto players).

Neither is necessarily the case. Alberta from the beginning resisted signing on to Kyoto, with Alberta's Prime Minister Klein warning in 2002 about dire economic consequences.[14] Moreover, while it might be difficult to arrive at a new policy position that has broad support, the autonomy that local authorities already possess will allow them to de facto resist implementation without establishing a new winset. Indeed, the very nature of the agreement creates incentives to defect. Canada's Kyoto commitment imposes general benefits but targeted costs. Energy rich provinces will thus attempt to free ride and roll the costs of compliance over on others.

In conclusion, the Canadian political system creates two contradictions. At one level the federal government's objectives to limit green house emissions are extremely ambitious. However, this ambition stands in contrast to its aim to more fully exploit the oil sands. While this exploitation no doubt generates considerable revenue and greater energy independence, it raises serious challenges given the environmental effects of both the use of fossil fuels and the production process itself.

At another level, federal objectives conflict with the goals of energy rich provinces such as Alberta. Even if the federal government manages to solve the tensions between its aims of fulfilling Kyoto commitment and oil sands development, it will confront the institutionally created veto rights that flow to the provinces given the Constitution Act. For the foreseeable future, market led adjustment will thus be the norm rather than comprehensive government planning-- Plus ça change.

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[14] CTV. "Klein: Kyoto will hurt Canada, not just Alberta." Accessed online. http://www.ctv.ca/servlet/ArticleNews/print/CTVNews/20021023/klein_kyoto_0201023/20021023/?hub=Canada&subhub=PrintStory.

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