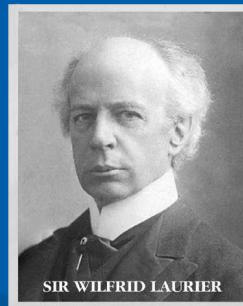
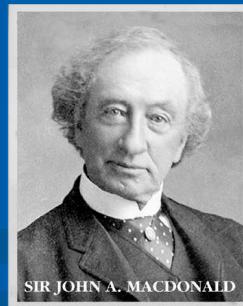
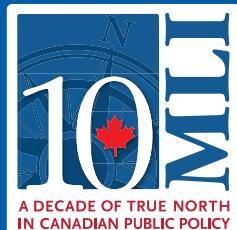


# CANADA'S STRATEGIC ENERGY RESOURCES

Why prioritizing the Indo-Pacific  
will benefit Canada and our allies



April 2020



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*The author of this document has worked independently and is solely responsible for the views presented here. The opinions are not necessarily those of the Macdonald-Laurier Institute, its Directors or Supporters.*

# Executive Summary

The world is currently in the throes of the COVID-19 pandemic while at the same time Russia and Saudi Arabia are in the midst of an oil price war. Demand destruction caused by the coronavirus has tipped the world into recession, further exacerbating the outlook for oil and gas resources. These events have driven the price of oil down below US\$30/barrel and are having a disastrous effect on oil company revenues, energy sector employment and stock prices.

As unsettling and damaging as these events are, they must be viewed within the context of a longer-term time horizon. The global economy will eventually recover and along with it, energy demand and prices. While a period of prolonged low oil prices will cause serious damage to the oil and gas sector, the Canadian energy sector may well emerge from this experience leaner and stronger.

By the time Canadian oil and gas resource export capacity comes online in the next three-to-five years, the events we are currently experiencing will likely have run their course and be part of history. In the meantime, it will be that much more important that Canada develop a strategy

to ensure that its energy resources reach export markets and contribute toward expanding Canada's role and influence in the world's fastest growing region – the Indo-Pacific.

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*A strong and healthy  
energy sector is going  
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A strong and healthy energy sector is going to be vitally important to lifting Canada out of recession and sustaining a recovery in the Canadian economy. We need to take a long-term view and recognize the important role Canada's energy sector can play in meeting the world's growing demand for energy. It is within this longer-term perspective that the recommendations in this report should be viewed.

This paper examines the role that Canada's energy resources could play in strategic thinking about Canada's foreign policy in a rapidly changing and challenging global environment. Specifically, it explores the ways that Canada could potentially use what may be called its

"strategic energy resources" to advance this country's interests in the Indo-Pacific as well as address important foreign policy challenges, especially those related to supporting free and open trade, the multilateral rules-based order, and energy security. Treating energy resources as strategic will contribute to economic prosperity at home while enhancing energy security in the Indo-Pacific and reducing the global impact of climate change.

The global order is now being challenged by a range of competing political, economic, and technological forces. Great-power rivalry between the US and China is heating up as the US and other countries move to check China's economic and military ascendancy. Canada has a deep stake in and benefits greatly from maintaining the international rules-based order that governs both trade and security relationships in the Indo-Pacific. As Canada's diplomatic and

trade relations with the region deepen, we will likely be expected to make greater contributions and commitment to security initiatives.

The Indo-Pacific will lead global demand for energy for at least the next several decades, driven by continued economic and population growth. With a population of about 4.3 billion people, the region includes the world's most populous countries, China and India. According to the International Energy Agency (IEA), the Indo-Pacific region will account for approximately 60 percent of the global growth in energy demand by 2040, requiring more than US\$1 trillion in annual energy infrastructure investment.

Energy security is a major policy concern in the Indo-Pacific, especially among those countries most dependent on imports. China, Japan, India, and South Korea are the world's largest importers of crude oil; all but China rely on imports for 80 percent or more of their needs, mostly from the Middle East. Tensions in the South China Sea, resource competition, coercive tactics, and the militarization of disputed territories all pose potential threats to security in the region.

Canada's energy export capabilities are gradually being built as the TMX pipeline construction gets underway and new liquefied natural gas (LNG) export facilities are planned or under construction on Canada's west and east coasts. Within about five years, Canadian oil and gas resource exports will not be inconsequential in global markets. While still relatively small compared to other major exporters, Canada could have a significant impact on Indo-Pacific energy markets and on improving energy security in those countries by reducing their reliance on imports of energy from the Middle East.

Canada's economic future depends, in large part, on how we position ourselves to deal with both the opportunities and the challenges in the Indo-Pacific region. Canada's first priority is to resolve the domestic friction around the lack of clarity concerning energy and environmental regulation and to promote a predictable, investor-friendly business environment for energy development. Treating Canadian energy resources as strategic will be critical to capturing the broader benefits from energy exports to the Indo-Pacific. Canada should adopt an "energy leverage pathway" to leverage its energy resources to help advance its economic and geopolitical interests while at the same time contributing to energy security, addressing energy poverty, and reducing climate change impacts in a region of the world where Canada has a vitally important stake. However, we will have to be much more strategic than we now are, and enlist a whole-of-government approach if we are to have any reasonable chance of success.

I hope that this paper can offer solid background material for the discussion this country needs to have about developing an integrated strategy for Canada's energy resources in the Indo-Pacific. The paper proposes five broad policy recommendations, each aimed at preparing Canada to help ensure it obtains full value for its strategic energy resources in the coming years as export capacity comes online and as demand in the world's largest energy market, the Indo-Pacific, continues to grow.

### **Recommendation 1: Develop an integrated approach to energy, trade, climate, and foreign policy**

Canada should begin by developing an Indo-Pacific strategy and a Strategic Energy Resources Strategy (SERS) that is aligned within it. For these strategies to be successful, political leadership and effective implementation will be essential. Within the public service, a cross-government, federal-provincial deputy ministers team should drive the SERS and ensure coordination between the SERS and Canada's clean energy, climate change, and international assistance initiatives.

## **Recommendation 2: Leverage Canada’s advantages in strategic energy resources**

Canada should adopt an “energy leverage pathway” as a guiding principle for advancing our country’s energy interests and for optimizing the strategic value of Canada’s energy resources internationally. Canada also needs to secure its transportation infrastructure against illegal disruptions, helping to prevent protests and disruptions like those that have surrounded the TMX and Coastal Gas Link projects.

## **Recommendation 3: Set a target for crude oil export for offshore markets**

Canada should set a target of at least 600,000 barrels per day of capacity in the TMX pipeline expansion for offshore export markets in order to ensure that our energy market is as diversified as possible. Canada should also engage with Indo-Pacific countries and work with provinces to enhance international energy security and market diversification.

## **Recommendation 4: Partner with Japan, the US, ASEAN, and other jurisdictions on energy and security initiatives in the Indo-Pacific**

Canada should take a multilateral approach to advancing its interests in the Indo-Pacific by working with our allies and partners in the region. This should include exploring ways to align with the principles in Japan’s version of the “Free and Open Indo-Pacific” vision.

Canada should also consider partnering with the US on Asia EDGE (Enhancing Development and Growth through Energy) and other energy related energy trade and infrastructure initiatives in the region. Further, it should employ innovative funding mechanisms to alleviate energy poverty and address climate change in the developing Indo-Pacific region.

## **Recommendation 5: Forge meaningful and effective strategic partnership agreements in the region starting with Japan**

Canada should strike formal strategic energy partnership (SEP) agreements with countries in the region, starting with Japan. This should include a work plan with clear goals, timelines, and accountabilities. Forging SEPs with South Korea, Taiwan, India, and other countries in the region should follow. Canada could make energy exports a starting point for re-engaging with China when the time is right.

# Sommaire

**L**a planète est actuellement en pleine pandémie de COVID-19 alors qu'au même moment la Russie et l'Arabie Saoudite se livrent une guerre ouverte des prix du pétrole. La destruction de la demande causée par le coronavirus a plongé le monde dans la récession, aggravant davantage les perspectives dans le secteur des ressources pétrolières et gazières. Ces événements, qui ont fait chuter le prix du pétrole à moins de 30 \$ US le baril, ont un effet dévastateur sur les revenus des sociétés pétrolières, l'emploi dans le secteur de l'énergie et le cours des actions.

Aussi troublants et nocifs que soient ces événements, ils doivent être considérés dans le contexte d'un horizon temporel à long terme. L'économie mondiale finira par se redresser et, avec elle, la demande d'énergie et les prix. Même si la faiblesse prolongée des prix du pétrole causera de graves dommages à l'industrie du pétrole et du gaz, le secteur canadien de l'énergie pourrait bien ressortir de cette expérience plus efficace et plus solide.

Lorsque les nouvelles capacités d'exportation des ressources pétrolières et gazières canadiennes seront mises en service au cours des trois à cinq prochaines années, les événements que nous vivons actuellement auront probablement été menés à leur terme et feront partie de l'histoire. Dans l'intervalle, il est crucial que le Canada élabore une stratégie permettant à ses ressources énergétiques de pénétrer les marchés d'exportation et de contribuer à élargir le rôle et l'influence du Canada dans la région du monde qui croît le plus rapidement : l'Indo Pacifique.

Un secteur de l'énergie fort et sain sera vital pour extirper le Canada de la récession et soutenir la reprise économique au pays. Nous devons adopter une vision à long terme et reconnaître le rôle important que peut jouer le secteur canadien pour répondre à la croissance de la demande mondiale d'énergie. C'est dans cette perspective à plus long terme que les recommandations de ce rapport doivent être examinées.

La concurrence entre diverses forces politiques, économiques et technologiques pose maintenant des défis pour l'ordre mondial. Ainsi, la rivalité entre grandes puissances – les États Unis et la Chine – s'aggrave, les États-Unis et d'autres pays tentant de faire obstacle à la montée économique et militaire de la Chine. Il est dans l'intérêt du Canada, lequel en bénéficie d'ailleurs déjà grandement, de maintenir l'ordre international fondé sur des règles qui régit les relations en matière de commerce et de sécurité dans la région indo pacifique. Au fur et à mesure que nos relations diplomatiques et commerciales avec cette région s'approfondiront, nous serons sûrement appelés à contribuer davantage aux initiatives mises en place dans le domaine de la sécurité.

La région indo pacifique sera la première consommatrice d'énergie dans le monde pendant des décennies à venir en raison de sa croissance économique et démographique durable. Comptant environ 4,3 milliards d'habitants, la région comprend les pays les plus peuplés du monde, soit

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*Un secteur de l'énergie  
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la Chine et l'Inde. Selon l'Agence internationale de l'énergie (AIE), la région indo-pacifique à elle seule fera progresser la demande énergétique mondiale d'environ 60 pour cent d'ici 2040, nécessitant annuellement au-delà de 1 billion de dollars américains en investissements dans les infrastructures énergétiques.

La sécurité énergétique est une préoccupation politique majeure dans la région indo pacifique, en particulier dans les pays les plus dépendants des importations. La Chine, le Japon, l'Inde et la Corée du Sud sont les plus grands importateurs mondiaux de pétrole brut; au moins 80 pour cent des besoins de la région (la Chine faisant bande à part) sont comblés par les importations, principalement en provenance du Moyen-Orient. Les tensions en mer de Chine méridionale, la concurrence entre pays pour les ressources, les tactiques coercitives et la militarisation des territoires contestés posent toutes un risque potentiel pour la sécurité de la région.

Le Canada se prépare petit à petit à accroître ses capacités tandis que le pipeline TMX voit ses travaux de construction débuter et que de nouvelles installations d'exportation de gaz naturel liquéfié (GNL) sont planifiées ou en construction sur les côtes ouest et est du Canada. D'ici environ cinq ans, les exportations canadiennes de ressources pétrolières et gazières ne seront pas négligeables sur les marchés mondiaux. Joueur encore relativement marginal par rapport à d'autres grands exportateurs, le Canada pourrait avoir un effet notable sur les marchés indo-pacifiques de l'énergie et sur l'amélioration de la sécurité énergétique dans cette région en réduisant sa dépendance à l'égard des importations provenant du Moyen-Orient.

L'avenir économique du Canada dépend en grande partie de notre positionnement face aux possibilités et aux défis de la région indo-pacifique. Le Canada doit prioritairement résoudre les frictions intérieures causées par l'absence de clarté entourant la réglementation énergétique et environnementale et promouvoir un environnement commercial prévisible et intéressant pour les investisseurs. Il est également essentiel de considérer les ressources énergétiques canadiennes comme stratégiques pour tirer le plus grand parti (plus que des avantages directs) de nos exportations d'énergie vers la région indo pacifique. Le Canada devrait donc recourir à un « instrument de levier énergétique » pour mettre ses ressources à profit afin de faire valoir ses intérêts économiques et géopolitiques tout en contribuant à la sécurité énergétique, à la lutte contre la pauvreté énergétique et à la réduction des répercussions des changements climatiques dans une région du monde d'une importance vitale pour lui. Cependant, pour ne manquer aucune possibilité de succès, nous devrons être beaucoup plus stratégiques que nous ne le sommes actuellement et adopter une approche pangouvernementale.

Nous espérons que le présent document pourra fournir des informations de base utiles au débat que ce pays doit tenir en vue d'élaborer une stratégie intégrée en fait de ressources énergétiques canadiennes dans la région indo pacifique. Cinq grandes recommandations de politique sont proposées, chacune visant à préparer le Canada à pleinement tirer parti de ses ressources énergétiques stratégiques au cours des prochaines années à mesure que sa capacité d'exportation s'accroîtra et que la demande sur le plus grand marché mondial de l'énergie, la région indo pacifique, continuera de progresser.

## **Recommandation 1 : Mettre au point une approche intégrée englobant l'énergie, le commerce, le climat et la politique étrangère**

Le Canada devrait commencer par élaborer, de manière harmonisée, deux stratégies – la première portant sur la région indo pacifique et la deuxième, sur les ressources énergétiques stratégiques (SERS ou *Strategic Energy Resources Strategy*). Pour être utiles, ces stratégies nécessiteront un

leadership politique et une mise en œuvre efficace. Au sein de la fonction publique, une équipe intergouvernementale composée de sous-ministres fédéraux-provinciaux devrait impulser l'initiative SERS et assurer la coordination entre cette initiative et les initiatives canadiennes en matière d'énergie propre, de changements climatiques et d'aide internationale.

### **Recommandation 2 : Tirer parti des avantages du Canada en matière de ressources énergétiques stratégiques**

Le Canada devrait adopter un principe directeur basé sur un « instrument de levier énergétique » pour faire avancer les intérêts énergétiques du pays et permettre d'optimiser la valeur stratégique de ses ressources énergétiques à l'échelle internationale. Le Canada doit aussi protéger ses infrastructures de transport des perturbations illégales, ce qui aidera à prévenir les manifestations comme celles qui ont entouré les projets TMX et Coastal Gas Link.

### **Recommandation 3 : Fixer un objectif d'exportation de pétrole brut pour les marchés extracôtiers**

En ce qui concerne l'expansion du pipeline TMX, le Canada devrait lui fixer un objectif de capacité d'au moins 600 000 barils par jour vers les marchés d'exportation extracôtiers afin de diversifier le plus possible notre marché de l'énergie. Le Canada devrait également collaborer avec les pays indo pacifiques et travailler avec les provinces pour améliorer la sécurité énergétique internationale et la diversification des marchés.

### **Recommandation 4 : Établir des partenariats avec le Japon, les États-Unis, l'ANASE et d'autres organisations sur les initiatives en matière d'énergie et de sécurité dans la région indo pacifique**

Le Canada devrait souscrire à une approche multilatérale pour faire avancer ses intérêts dans la région indo pacifique en travaillant avec ses amis et partenaires de la région. Cela devrait comprendre l'examen des moyens de s'aligner sur les principes orientant la version japonaise de la vision d'un « axe indo pacifique libre et ouvert ».

Le Canada devrait également envisager de s'associer aux États-Unis dans le cadre du programme Asia EDGE (*Enhancing Development and Growth through Energy*) et d'autres initiatives liées au commerce et aux infrastructures énergétiques dans la région. En outre, il devrait utiliser des mécanismes de financement innovants pour réduire la pauvreté énergétique et lutter contre les changements climatiques dans les pays en développement de la région indo pacifique.

### **Recommandation 5 : Forger des accords de partenariat stratégique importants et efficaces dans la région, à commencer par le Japon**

Le Canada devrait conclure des accords officiels de partenariat stratégique en matière d'énergie (SEP – *Strategic energy partnership*) avec les pays de la région, à commencer par le Japon. Cela devrait comprendre un plan de travail composé d'objectifs, de calendriers d'exécutions et d'engagements vérifiables clairs. L'élaboration d'un SEP avec la Corée du Sud, Taïwan, l'Inde et d'autres pays de la région devrait suivre. Le Canada pourrait faire des exportations d'énergie un point de départ pour renouer avec la Chine lorsque le moment sera venu.

# Introduction

Energy resources have historically played an important and strategic role in the relations among countries, due to the essential role that energy, and oil in particular, has played in sustaining economic development. In the post-war period and as the sole global superpower, the United States led the world by providing global security, promoting free trade, and supporting a rules-based multilateral order. Over the same period, the world's energy resources traded within relatively open markets, stable political relationships, and a multilateral trading environment.

However, the global order is now being challenged by a range of competing political, economic, and technological forces. The current administration in the United States has adopted an "America First" policy by withdrawing from international trade and climate change agreements,

undermining international economic and security institutions, and seeking to prioritize bilateral over multilateral initiatives and agreements. The US has come to view certain countries and regions as economic and geopolitical competitors or even rivals to American primacy. China is at the centre of US concerns and an era of great power rivalry appears to be emerging. In short, as the US withdraws from global leadership and uncertainty increases, the risks to the multilateral global order are rising.

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*The global order is now being challenged by a range of competing political, economic, and technological forces.*

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As economic growth in developing countries ramps up and nations such as China and India continue to modernize, the demand for energy resources is growing rapidly. Nowhere is this more evident than in the Indo-Pacific region. At the same time, energy developments in North America hold the potential to be a "game-changer" for energy security in the Indo-Pacific. With the shale

oil and gas revolution, the US has become energy self-sufficient and by the mid-2020s will likely be in a position to export substantial quantities of both crude oil and natural gas. Canada lags behind the US in its ability to export energy resources offshore, but those capabilities are gradually being built as the TMX pipeline construction gets underway and new liquefied natural gas (LNG) export facilities are planned or under construction on Canada's west and east coasts.

The main purpose of this paper is to explore the role that Canada's energy resources could play in strategic thinking about Canada's foreign policy in a rapidly changing and challenging global environment. Specifically, this paper will explore the ways that Canada could potentially use what may be called its "strategic energy resources" to advance this country's interests in the Indo-Pacific as well as address important foreign policy challenges, especially those related to supporting free and open trade, the multilateral rules-based order, and energy security.

Most of this paper focuses on the export of Canada's hydrocarbon resources. In no way is this intended to ignore the very real problem of climate change nor the continuous efforts that must be made to help the global energy system make the transition to a low-carbon future, including through the use of renewable energy and other clean energy technologies. This paper focuses primarily on oil and gas resources to address a near- to medium-term policy issue, namely, that in all the discussion about the energy transition, the fact that it will take place over many decades seems to be lost in the public discourse and even among some policy-makers. This acknowledges the reality that during the transition, oil and gas will still be required to keep global economies functioning while climate change efforts proceed in parallel. In the meantime, Canada can take a strategic approach to realizing the broader gains that would come from exporting these resources to countries that need them while boosting the Canadian economy at the same time.

Canada's economic future depends, in large part, on how we position ourselves to deal with both the opportunities and the challenges in the Indo-Pacific region. This paper argues that Canada has an opportunity and an obligation to leverage its energy resources to help advance its economic and geopolitical interests while at the same time contributing to energy security and reducing climate change impacts in a vital region of the world. However, we will have to be much more strategic than we currently are and enlist a whole-of-government approach if we are to have any reasonable chance at success. I hope that this paper can offer useful input and analysis for the discussion this country needs to have about developing an integrated strategy for Canada's energy resources in the Indo-Pacific.

## Strategic context for energy in the Indo-Pacific

The Indo-Pacific is on track for the largest economic transformation and the biggest shift in the distribution of wealth in history, presenting unprecedented opportunities for increased trade with the region. According to United Nations data, in 2020 the region's GDP<sup>1</sup> will surpass that of the rest of the world combined. By 2030, the region is forecasted to account for about 60 percent of global growth and about 90 percent of new middle class consumers entering the global economy. Growth will be concentrated in the developing markets of China, India, and throughout Southeast Asia (Romei and Reed 2019). Within the next 15 years, four of the world's five biggest economies in purchasing power parity terms are likely to be China, India, Japan, and Indonesia.

The Indo-Pacific is an expanded conceptualization of the Asia-Pacific and constitutes a vast region encompassing the nations of South and East Asia, including the Indian Ocean, the South and East China Seas, and the Western Pacific.<sup>2</sup> The region accounts for over half the world's population and 58 percent of the world's youth. It is also a region where sustained economic growth and prosperity are threatened by competition for geopolitical and geoeconomic influence as well as by territorial disputes and resource competition. Instability and uncertainty are increasing just as economic growth in this important region is set to lead the world well into the 21<sup>st</sup> century. International political relations are also undergoing a profound transformation, from unipolarity with a single global superpower to regional multipolarity (or multi-nodal) where states contend for power to shape the future of regions like the Indo-Pacific.

While the US withdraws from or questions the value of a range of multilateral institutions, it has shifted to focus more on perceived threats from China. As China seeks to enhance its economic and political influence in the Indo-Pacific, it has employed coercive tactics that threaten to undermine the rules-based order that Canada, the US, Japan, and other countries are committed to. Great-power rivalry between the US and China is heating up as the US and other countries move to check China's economic and military ascendancy. The 2017 US National Security Strategy called China a "strategic competitor" and a "revisionist power" attempting to reorder international politics to suit its interests (United States 2017). Thereafter, the European Union followed suit with its *EU-China Strategic Outlook*, which simultaneously identified China as "an economic competitor, and a systemic rival" (Huang 2019a). As Russia and China have drawn closer together into a "semi-alliance" through energy pipelines and military cooperation, NATO for the first time formally discussed the rise of China in its most recent meeting in December 2019. NATO's Secretary-General Jens Stoltenberg (2019) stated that China's expanding military capabilities had "security implications for all allies" and that NATO needed to "take into account that China is coming closer to us."

Concerns about China's ascendancy are mounting in Canada as well. A Canadian Security Intelligence Service (CSIS) academic workshop noted that "President Xi Jinping is driving a multi-dimensional strategy to lift China to global dominance. This strategy integrates aggressive diplomacy, asymmetrical economic agreements, technological innovation, as well as escalating military expenditures" (CSIS 2018). Canada itself has recently felt the sting of China's coercive tactics in the form of political hostage-taking and trade disruptions imposed on Canada after the detention in this country of a Huawei executive.

China's Belt and Road Initiative, Made in China 2025 strategy, and Xi Jinping's "China Dream" vision are clear signals of China's aspirations in international affairs. At the same time, China is at the centre of a number of tensions that have arisen in the Indo-Pacific. In the East China Sea, China has used its growing naval power and fishing fleets to challenge Japan's authority over the Senkaku Islands<sup>3</sup> and there are on-going disputes between the two countries over overlapping claims to undersea oil and gas resources. In the South China Sea (SCS), China has unilaterally claimed much of that body of water with its "nine-dash line" in defiance of the *United Nations Convention on the Law of the Sea* (UNCLOS), creating tensions with Southeast Asian nations that have rival claims in the same region. Also, China has laid claim to reefs and rock features where it has built artificial islands and then proceeded to militarize them.

Other potential sources of instability include the possibility of hostilities between Taiwan and mainland China should Taiwan takes steps toward independence. North Korea remains unpredictable and has developed nuclear weapons and long-range ballistic missiles. The risk of a serious military confrontation between India and Pakistan remains high. Meanwhile, relations between South Korea and Japan are undergoing a difficult period due to Korea's various historical grievances with Japan. US-South Korea relations are currently challenged over military "burden-sharing" arrangements, with the US demanding Korea pay more to maintain a US military presence in the country. Meanwhile, China and Russia are forging a closer relationship in the region, driven by the fact that they are both subject to US sanctions and pressures and see advantages in deeper cooperation.

In summary, the biggest geopolitical issue in the Indo-Pacific is how the US-China relationship will evolve and what this will mean for the region. There is a growing realization that China's integration into international markets and institutions has not made it more liberal or supportive of the multilateral rules-based order that helped grow and sustain the region since the end of World War Two. In fact, China presents a growing challenge to that order. As a result, a new era

of great power rivalry appears to be emerging and the contest is sure to play out first in the Indo-Pacific. Many countries in the region have taken a cautious approach, recognizing that while they depend on China's economy and direct investment, they are also concerned about potential threats to their own security posed by a rising and more assertive China.

## Energy demand and energy security in the Indo-Pacific

The Indo-Pacific will lead global demand for energy for at least the next several decades, driven by continued economic and population growth. With a population of about 4.3 billion people, the region includes the world's most populous countries, China and India. Energy poverty<sup>4</sup> is a major barrier to human and economic development in the developing Indo-Pacific region with about 1.9 billion people still cooking on traditional open stoves using solid fuels and various forms of biomass (United Nations 2019). India has 244 million people who lack electricity and there is an estimated 65 million people without access to electricity in ASEAN (Association of Southeast Asian Nations) member countries (IEA 2016; 2017).

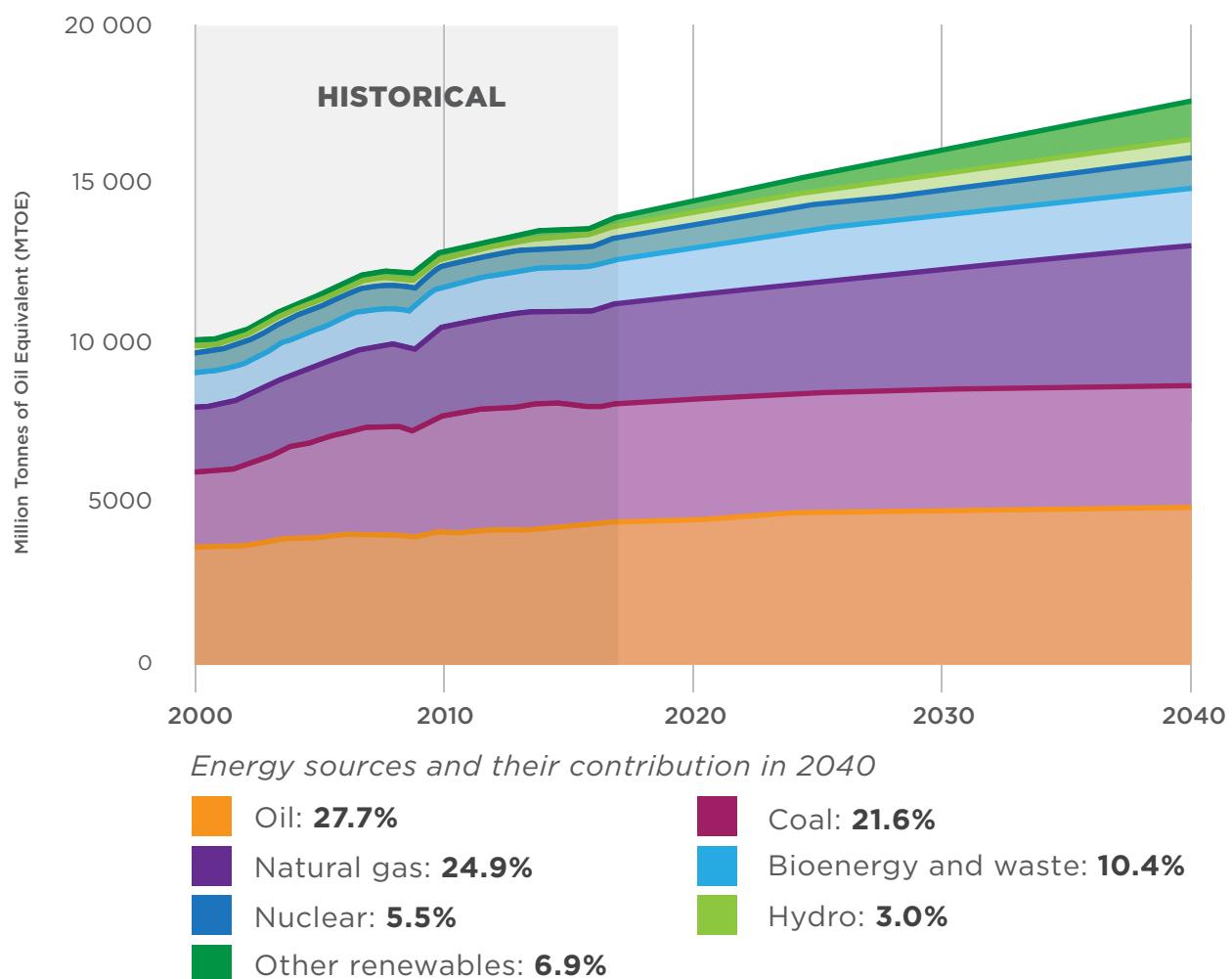
According to the IEA<sup>5</sup>, the Indo-Pacific region will account for approximately 60 percent of global growth in energy demand by 2040, requiring more than US\$1 trillion in annual energy infrastructure investment. Manufacturing supply chains are shifting toward South Asia and especially India, helping drive energy consumption growth there. Approximately 80 percent of the global increase in petroleum and liquid fuels will occur in Indo-Pacific nations, due in large part to rapid industrial growth and increased demand for transportation, especially in emerging countries (EIA 2019a). Despite the steady increase in power generation from renewables in the Indo-Pacific region, demand for fossil fuels is forecasted to grow 16 percent between 2017 and 2040.

While demand for oil, natural gas, and coal will grow, they will do so at different rates, led by natural gas at 43 percent, petroleum at 10 percent, and coal at 2 percent. Although the share of total global energy demand met by fossil fuels is forecast to gradually decline, according to the IEA, hydrocarbons are still expected to account for 74 percent of total primary energy demand in 2040 (compared to 81 percent in 2017) (see Figure 1) (IEA 2018). Even under the IEA's Sustainable Development Scenario where the world is assumed to adopt and fulfill the Paris climate agreement<sup>6</sup> targets and even some national net zero commitments, fossil fuels would still account for just under 60 percent of global energy demand in 2040.

Indo-Pacific demand for heavy oil, including heavy grades produced in Canada, is rising as refineries in the region are refitted to handle heavy and sour grades of crude oil. Asian refiners have sought new heavy oil supplies which saw US exports of Canadian heavy oil doubling in 2019 to 16 million barrels (Reuters 2019a).

Energy security is a major policy concern in the Indo-Pacific, especially among those countries most dependent on imports. China, Japan, India, and South Korea are the world's largest importers of crude oil and all but China rely on oil imports for 80 percent or more of their needs, mostly from the Middle East. China has limited domestic sources of oil and gas, but rising demand means that China's dependence on imported oil will grow from around 70 percent today to 80 percent or more in the next several years. China will replace the United States as the

**FIGURE 1: GLOBAL PRIMARY ENERGY DEMAND, 2000-2040**



Source: IEA 2018

largest oil consumer around 2030. As China hunts for oil and gas closer to home it is pushing into disputed areas of the South China Sea, causing tensions with neighbouring countries such as Vietnam and the Philippines. Oil demand in India is expected to soar by almost 30 percent and its share of global energy demand will rise to 11 percent by 2040 (IEA 2018).

In 2018, Asia imported 76 percent of the world's LNG. China, Japan, and South Korea are the world's largest importers of natural gas/LNG, although demand in Japan and South Korea is slowing. Much of the 80 percent of projected growth in gas demand by 2040 will take place in the Indo-Pacific and will be led by China and India. China will also account for 25 percent of the projected rise in global gas demand making China a hub for the global gas trade. In short, the region is the driving force behind the global demand for LNG growth. Japan is completely dependent on imports of LNG. It needs LNG to replace the substantial loss of nuclear power generation resulting from the Fukushima disaster and to replace coal-fired power generation.

Nuclear power plants in Japan are only slowly returning to service. Although power generation from renewables has been heavily subsidized and is growing, it faces the downside of intermittency and high cost, which in Japan is two or three times the global average.

As the world's largest producer of oil and gas, the US is fast becoming a key supplier of crude oil and LNG to the Indo-Pacific region. In particular, South Korea is now one of the most important markets for US crude oil. South Korean imports from the US increased by 246 percent in the first half of 2019 and accounted for 12 percent of total South Korean crude oil imports in that period (Liao and Dupuis 2019). Australia is on track to surpass Qatar as the world's largest exporter of LNG in 2020 (EIA 2019b). Australia exports almost exclusively to Indo-Pacific countries. The US is now the world's third-largest supplier of LNG, after Australia and Qatar and could become the world's largest exporter within the next five years (Reuters 2019b).

## The linkages between energy, trade, and security

Since stable and reliable supplies of energy are so important to an economy, international trade in energy products has important security, economic, and foreign policy dimensions. These issues can and do play an important part in overall relations between countries. As the Indo-Pacific region continues to grow and develop, the uninterrupted flow of energy and merchandise trade will be essential to sustaining economic growth. Therefore, trade and security concerns are top-of-mind policy issues in the international relations of Indo-Pacific countries.

Because hydrocarbons still fuel about 85 percent of global energy demand, and because they are relatively scarce, being in possession of them can contribute to a nation's power, influence, and diplomatic weight in international relations and foreign policy (Rioux 2019). Since energy is a vital commodity and essential for economic sustainability, it is also a proxy for influence (Ladislaw and Tsafos 2019). Securing energy resources was a key factor in prompting China's "Going out" policy, initiated in 1999 and today building energy infrastructure remains a major goal of China's Belt and Road Initiative (BRI). For Russia, too, hydrocarbons are a strategic commodity that enable it to gain influence with other countries, as is demonstrated by the "Power of Siberia" pipeline recently opened between Siberia and Northeast China. Through its "Free and Open Indo-Pacific" initiative, the US has constructed a whole-of-government integrated strategy with energy at the centre, in order to promote US energy exports and counter China's growing economic influence in the region.

In the Indo-Pacific, energy security is generally seen as linked closely with national security and many countries include energy related concerns in their diplomatic policies (Chuang and Ma 2013). Energy security also plays a more prominent role in these countries' overall energy policy. It is important to appreciate the high level of attention many of these countries give to energy security in the hierarchy of their policy priorities. Because of their high dependence on energy imports and the competitive dynamics that sometimes result from the attempt to secure them, many Indo-Pacific countries are much more sensitive to risks and vulnerabilities than energy-secure countries and have developed a broader range of non-market policy tools for managing risk.

## Risks to free and open maritime trade

Canada's stake in the preservation of peace and stability in the Indo-Pacific is significant because its future prosperity will increasingly depend on the smooth flow of trade with that region. The UN estimates that 60 percent of global maritime trade passes through Asia, with the South China Sea carrying an estimated one-third of global shipping (UNCTAD 2015). An analysis of the total value of maritime trade passing through the SCS was estimated at US\$3.37 trillion in 2016 (China Power Team 2019). A recent analysis of the total value of Canada's maritime trade passing through the South and East China Seas was estimated at \$173 billion in 2016 (see Figure 2) (Kucharski 2018). This is set to increase in the coming years as Canada takes advantage of recently completed free trade agreements such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and as energy export capacity is gradually being built with the TMX pipeline and new LNG export facilities that are planned or under construction on Canada's west coast.

Figure 2 shows Canada's trade with the Indo-Pacific, flowing through the South and East China Seas, and also shows some of the varied and overlapping claims that are contested by countries bordering the region.

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*Canada has an interest  
in the smooth flow of  
trade and the stability of  
the maritime common.*

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Given the high stakes, Canada has an interest in the smooth flow of trade and the stability of the maritime commons in the East and South China Seas. Yet the risk of disruption is rising. Any number of events including conflicts in the Middle East or with North Korea, a China-Taiwan military conflict, or skirmishes over territorial claims could cause interruptions to the free passage of maritime traffic in the SCS with significant consequences for economies in the region. The concern is not just that an interruption in international shipping of energy supplies could devastate Indo-Pacific economies, but such interruptions could also lead to price spikes or steady and prolonged oil price increases which would have severe economic consequences. Recent events in the Middle East, including the US-Iran conflict, drone at-

tacks on a Saudi oil refinery, seizures of oil tankers, and tensions in the Strait of Hormuz with the resulting spike in oil prices highlight the tenuous nature of global energy security. Nowhere do the implications of these risks loom larger than in the Indo-Pacific.

The vast majority of crude oil shipments and a large quantity of LNG shipments destined for East Asia pass through the contentious South China Sea. For example, in 2016, Japan received 92 percent of its crude oil imports and 50 percent of its LNG imports through the SCS (Koga 2019). The Strait of Malacca connects the SCS with the Indian Ocean and is the primary "chokepoint" in Asia through which about one third of global maritime crude oil shipments pass and which is also an important transit route for LNG (EIA 2017).<sup>7</sup> China, Taiwan, Japan, and South Korea all rely on the Strait of Malacca to remain free and open. All of these countries are therefore highly dependent on the security of long sea-lanes running from the Middle East, across the Indian Ocean, through the Strait of Malacca, and up through the South and East China Seas. Therefore,

**FIGURE 2: CANADA'S MARITIME TRADE WITH THE INDO-PACIFIC AND MARITIME CLAIMS (IN 2016 CA\$)**



Source: Map is adapted from Stratfor. Figures are adapted by the author from published statistics.

many countries see energy security as an important policy goal in the Indo-Pacific; they seek multiple supply sources for crude oil and LNG in order not to be too dependent on any single country or region.

The risk that China would intentionally disrupt trade in the sea lanes of the SCS and the East China Sea (ECS) is relatively low because any disruption would affect all countries including China, as well as invite a strong response. However, it is not inconceivable that hostilities between China and Taiwan or even a limited conflict between the US and China in the region could disrupt international trade long enough to cause serious consequences for the global economy. While China could survive a prolonged marine stoppage in oil and gas shipments because it has access to emergency reserves and to pipeline gas and oil, Japan as an island nation could not. Should China gain control over all or much of the South China Sea, it would not even have to actually disrupt the flow of trade. Its *de facto* control over the SCS would give it potential leverage over other countries that rely on the sea lanes that pass through the region (Byers 2019).

Resource competition also plays a role in China's territorial claims and the increasing tensions in the region. It is estimated that the South China Sea contains approximately 11 billion barrels of oil and 190 trillion cubic feet of natural gas in proved and probable reserves (EIA 2013). China's sweeping claims of sovereignty over the SCS, including the oil and gas reserves there, have angered competing claimants such as Vietnam, Malaysia, Brunei, Taiwan, Indonesia, and the Philippines.

The 2014 HYSY 981 standoff near the Paracel Islands, in which a Chinese oil rig began operating in waters claimed by Vietnam, was perhaps the most serious incident. In 2017-18, a Spanish drilling company hired by Vietnam to drill within its exclusive economic zone was forced to stop drilling twice due to Chinese pressure (Pearson 2018). Tensions between Malaysia and China are rising over Malaysia's challenge to China's claim over parts of the continental shelf that are thought to be rich in energy and other natural resources (Heydarian 2019). In early 2020, tensions between China and Indonesia were rising as Indonesia sent fighter jets into the Natuna Sea region, an area that is abundant in natural resources including oil, natural gas and fish stocks, to defend against Chinese coast guard ships and fishing vessels that entered Indonesia's exclusive economic zone (BenarNews 2020). And in the East China Sea, China and Japan have overlapping claims to an area north of Okinawa where the two countries have a dispute over the Chunxiao/Shirakaba gas field (Shim 2016).

In addition to resource competition, the use of market power as a tool of economic leverage can also be a source of friction. In the past, China has demonstrated a willingness to use its near monopoly over processed rare earth elements (REEs) as political leverage against countries with whom it has disagreements. In 2010, China cut Japan off from key rare earths supplies in response to a territorial dispute over the Senkaku/Diaoyu Islands. And in May 2019, Chinese president Xi Jinping visited one of China's rare earths magnet plants in a thinly veiled warning to the United States over escalating trade tensions (Huang 2019b). China's coercive pressure tactics have not gone unnoticed. After being cut off by China, Japan quickly began developing alternative sources of REEs. And more recently, Natural Resources Canada signed on to the Energy Resource Governance Initiative (ERGI) – a US-led international effort to reduce global reliance on China's supply of rare earth minerals (Office of Justin Trudeau 2019; Bureau of Energy Resources 2020).

## US and Japanese responses to security issues in the Indo-Pacific

In response to the rise of China, uncertainty over the US commitment to security in the region, and the withdrawal of the US from the Trans-Pacific Partnership (TPP) agreement, the Abe administration in Japan began to take much bolder diplomatic initiatives in the region. Although China's actions in the region were of concern, Japan also wanted to re-engage with China after a several years of frosty relations following the Senkaku Islands incident. On the trade front, Japan picked up the mantle of TPP leadership and managed to keep negotiations alive, ultimately leading to a new agreement, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). It also continued to engage in the Regional Comprehensive Economic Partnership (RCEP) trade negotiations, as a way of enhancing trade links with China in particular, but also with South Korea and other nations not part of CPTPP.

The Japanese government under Abe also began to promote a broad vision for the Indo-Pacific, building on previous initiatives that were more narrowly focused on security. The “Free and Open Indo-Pacific” (FOIP) initiative was launched officially by Abe in a speech in August, 2016 (Hosoya 2019). The stated intent of the FOIP concept is to maintain the rules-based order, and the freedom and openness of the Indo-Pacific region as an “international public good.” This vision is based on three principles or “pillars”: 1) Upholding the rule of law, including freedom of navigation and free trade; 2) the pursuit of economic prosperity through enhanced connectivity, economic partnerships and FTAs; and 3) maintaining peace and stability in the region, including capacity building assistance for maritime law enforcement, humanitarian assistance, nuclear non-proliferation, and other non-traditional security initiatives (Ministry of Foreign Affairs of Japan 2019a; Szechenyi and Hosoya 2019).

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*The Japanese government under Abe also began to promote a broad vision for the Indo-Pacific.*

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FOIP differs from previous similar Japanese initiatives in several respects. FOIP is more political and diplomatic in tone and less security centred. There is also emphasis on regional economic cooperation and “connectivity.”<sup>8</sup> Japan’s current FOIP initiative is inclusive in its vision and language, foregoing the promotion of “democracy” and instead focusing on a broader range of economic and security issues under the “pillars.” As such, FOIP may be said to be more of a vision and a charter of principles rather than a security strategy as such. Nonetheless, FOIP is clearly a response to China’s actions in the region, including China’s territorial claims, BRI, etc. While not a strategy for “containing” China, FOIP does appear to be an initiative for “constraining” China by promoting values and principles that would serve to bracket China’s more aggressive and unilateralist approaches.

In November 2017, President Trump embraced the Japanese FOIP concept at an APEC summit. Subsequently, the US released details of its own version of FOIP in late 2019 (see Bureau of East Asian and Pacific Affairs 2019). The US FOIP vision<sup>9</sup> is similar to the Japanese version but unlike Japanese descriptions of FOIP, the US has been stronger in portraying China as an overt threat

to the international community. The 2017 US National Security Strategy makes oblique references to China, describing the Indo-Pacific as a region characterized by “geopolitical competition between free and repressive visions of world order” and refers to upholding FOIP principles (United States 2017). For the US, “FOIP would aim to defend against the ways a rising China ostensibly threatens the rules-based international order, universal liberal values, and free access to the maritime global commons” (Hosoya 2019).

Japan and the US have therefore adopted somewhat different tones in their approaches to using FOIP as a framework for their respective regional strategies. Japan has been more careful to use diplomatic language and avoid directly criticizing China, likely because of its close trade and investment relations with China and a desire to repair diplomatic ties and build stable economic relations. Japan has also attempted to improve relations with China by supporting regional economic cooperation, including cooperating with some projects under BRI. Yet Japan remains concerned about potential security threats arising from China’s behavior in the region. In 2019 Japan released a new defense strategy that emphasizes advanced capabilities and “places security cooperation with the United States and other countries under the FOIP framework (Szechenyi and Hosoya 2019).

Other countries in the region view FOIP somewhat ambiguously. ASEAN appears to welcome the active engagement of Japan and the United States in the region as a means of balancing China’s rising presence. However, its main concern with FOIP is that it not appear to be a China “containment strategy” (Ramesh 2019). ASEAN therefore wishes to maintain its security relationship with the US while maintaining its economic relations with China, its most important trading partner.

## FOIP and energy

Energy plays a role in both the Japanese and US versions of FOIP. Both countries view China as a competitive threat as it expands its power and influence by building energy infrastructure and transportation links across Southeast Asia, South Asia, and the Eurasian continent (Choi, Herberg, Palti-Guzman, Smith, and Tsafos 2019). For the US, the exceptionally high level of import dependence among allies such as Japan and South Korea and their exposure to supply disruption is not only a vulnerability; it is a risk to the security alliance the US has with these countries. The US views its “energy dominance” in oil and LNG exports as a springboard to help the Indo-Pacific reduce its reliance on imports from the Middle East, strengthen its energy security, and act as a counter to China’s growing influence through its Belt and Road Initiative.

Recognizing the Indo-Pacific region’s dominance in global energy demand and the impact this will have on shaping international relationships, the US has given energy the central role in the economic component of its version of the FOIP strategy. Energy resources are seen as key to the US commitment to strengthening energy security in the region by providing the means to help it reduce reliance on autocratic regimes for its energy needs (Ramesh 2019). Through FOIP, the US and Japan are also financing and constructing power plants and natural gas import facilities throughout the Indo-Pacific region (Ladislaw and Tsafos 2019).

The US State Department announced the Asia EDGE (Enhancing Development and Growth through Energy) program, which is to be a “US whole of government effort to grow sustainable and secure energy markets throughout the Indo-Pacific (US Department of State 2019a). The goals of the program include strengthening energy security, energy diversification and trade, and enhancing energy access in the region. Asia EDGE will involve government, the pri-

vate sector, and international financial institutions, while promoting US energy and technology exports, including renewable energy projects and natural gas, as a low-carbon alternative to coal in the region (Bureau of East Asian and Pacific Affairs 2019). Japan has incorporated Asia EDGE into its own FOIP plans and initiatives and will cooperate with the US on building regional LNG infrastructure.

The US International Development Finance Corporation (DFC) was created under the *BUILD Act* in 2018 to increase development finance capacity. It will be able to co-fund equity investments, fund feasibility studies, and support projects in the Indo-Pacific that might not otherwise receive financing on their own. In fact, the US has already signed a trilateral agreement with Japan and Australia that is supporting electrification projects in Southeast Asia (Bureau of East Asian and Pacific Affairs 2019).

At a regional summit in Thailand in early November 2019, the US announced the creation of another initiative meant to rival China's Belt and Road Initiative. The "Blue Dot Network" would establish shared standards for evaluating infrastructure projects and coordinate "sustainable infrastructure investments" in the Indo-Pacific region, including energy infrastructure (Bureau of East Asian and Pacific Affairs 2019). In support of this goal, Japan and the United States have committed to "coordinate on \$10 billion in Japanese investment in liquefied natural gas projects." Additionally, plans also include working with the Asian Development Bank in arranging up to \$7 billion in financing in other Asian energy projects (see Kurtenbach 2019).

## Energy cooperation in the Indo-Pacific

Cooperation on energy related issues within the Indo-Pacific can vary from highly coordinated to almost none, depending on the country or countries in question. For example, major energy consuming nations Japan, China, and Korea have very few energy connections with each other. Unlike Europe and North America, which are both highly integrated, there are no pipelines, electricity ties, or any significant energy trade among these three countries; they have almost completely independent energy systems. These countries act autonomously and often compete with each other for access to high quality energy projects in supplier countries. On the other hand, the ten member countries of ASEAN have had an energy cooperation plan for many years and the organization continues to prioritize its implementation.

One of the biggest and boldest examples of energy cooperation in the Indo-Pacific is the recent announcement of the new Power of Siberia pipeline, inaugurated on December 2, 2019, linking Russia and China. This pipeline will transport natural gas about 3,000 km from Russia's Siberian gas fields to China's northeast industrial region. The pipeline has the potential to transform northeast China's energy landscape, shifting it gradually from coal towards gas and making Russia a major gas supplier to China. Shipments through the pipeline are expected to reach 5 billion cubic metres in 2020 and increase to 38 billion cubic metres annually from 2024 onwards (Durden 2019a). The new pipeline will give China stronger liquidity in gas markets and the country's overall influence on the global gas market will heighten as it seeks to establish a regional gas hub.

President Xi Jinping hailed the inauguration of the Power of Siberia as signalling a new start in future China-Russia cooperation and partnerships and “a paradigm of deep convergence of both countries’ interests and win-win cooperation” (Durden 2019a). The pipeline enables China and Russia to expand their reach and influence using energy as leverage in the region. There are concerns that these developments may indicate that Russia and China, as they deepen their energy cooperation, may seek to engage in “energy politics” and/or exert geopolitical influence in the region by virtue of their outsized market power as a major supplier and a consumer of natural gas (see Durden 2019b).

Meanwhile, President Putin is not averse to using energy as a weapon of leverage, as he has done in the past against Ukraine. Russia is already negotiating with China over new supplies from the same fields that are now delivering gas to European markets. Should relations with Europe run into difficulties, President Putin has stated that Russia will “easily switch streams to the East” (Sassi 2019).

Russia is benefiting from both rising demand for natural gas in China and the US-China trade war. Beijing halted all Chinese imports of LNG from the United States, sharply reduced US crude oil imports, and slapped tariffs on both crude oil (5 percent) and LNG (25 percent). These tariffs remain in place despite the signing of the “Phase 1” trade deal between the US and China on January 15, 2020. The president of PetroChina, a major state-owned energy conglomerate, was quoted as saying: “Had the trade war not been there, the US would have been a very promising gas supply growth source for China” (Sassi 2019).

In November 2017, during President Trump’s visit to the region, the US launched two major energy cooperation initiatives: the Japan–United States Strategic Energy Partnership (JUSEP) and the Partnership in Energy Security between Washington and Seoul. These agreements are focused on enhancing energy security as well as cooperating on energy infrastructure investments in the region. Together they represent the first step toward an “allied energy security” strategy. Significantly, the JUSEP is structured as a trilateral energy security partnership that seeks to leverage US energy export capability to enhance Japan and South Korea’s energy security as well as enhance efforts to create a regional hub for LNG in the Indo-Pacific region (see Maxie and Masuda 2017a).

## Key energy cooperation institutions in the Indo-Pacific

The Indo-Pacific region has no single organization or institution that is actively engaged in promoting energy cooperation amongst its members or advancing initiatives to enhance regional energy security. The following institutions have varying membership, roles, and activities in the region and could be potential partners for Canada.

The Asia-Pacific Economic Cooperation (APEC) is a regional economic forum with 21 member countries including Canada. In 2001, APEC leaders established the Energy Security Initiative (ESI) aimed at strengthening regional energy security. This has mainly involved improving oil market data access for members, publishing energy research reports, and conducting oil and gas security exercises. In 2014, APEC recognized four “elements” of energy security and sustainable development. They include diversified energy supply and stable demand, safe energy transportation routes, innovation in energy technologies, and effective forums to discuss energy policy. However, APEC itself can do little in practical policy terms to address those elements since energy policies are the responsibility of the individual member states and there is little prospect of expanding the scope of APEC’s limited mandate (Kendall 2018; Cutler 2014).

The Association of Southeast Asian Nations (ASEAN) views energy cooperation as part of its broader vision for regional economic integration. As such, it has had a regional energy cooperation “action plan” in place for many years. In the current 2016-2025 plan, key initiatives include embarking on multilateral electricity trading to accelerate the realization of the ASEAN Power Grid, enhancing gas connectivity by expanding the focus of the Trans-ASEAN Gas Pipeline to include LNG, regasification terminals, and promoting clean coal technologies. The plan also includes strategies to achieve higher aspirational targets to improve energy efficiency and increase the uptake of renewable energy sources, in addition to building capabilities on nuclear energy (ASEAN 2015).

Building on ASEAN centrality, the East Asia Summit (EAS)<sup>10</sup> is a broader forum that includes members from outside of the Indo-Pacific including the US, India, Japan, China, and Russia, but not Canada. With its broad membership across the Indo-Pacific, the EAS has become an important forum not just for trade, but for regional security as well. For this reason, Canada has expressed a desire to become a member but has not yet been invited to do so. The EAS includes ministerial fora for discussing and implementing energy cooperation initiatives in Asia. This includes the ASEAN+3 Ministers on Energy Meeting (AMEM+3) and the East Asia Summit Energy Ministers Meeting (EAS EMM). The EAS has the broadest membership in the region and is therefore the one that could potentially be the most effective on energy cooperation issues.

### **Canada’s energy relations in the Indo-Pacific**

Canada does not have a well-developed, integrated strategy for promoting its energy resources in global markets. There are various reasons why this might be the case. First of all, Canada has not built sufficient infrastructure (pipelines, export terminals, liquefaction facilities, etc.) to transport energy resources to tidewater so the volumes available for offshore export have been very limited. Second, there has been a tendency to leave energy decisions to the private sector and the markets to sort out; as a result, most energy infrastructure in Canada runs north-south between Canada and the US, leaving some parts of Eastern Canada having to import oil and gas. Third, politicians have generally avoided taking a strong and consistent stand in the face of opposition to pipelines in particular. Fourth, political leaders have failed to regard Canada’s energy resources as a strategic asset or consider the geopolitical benefits they may confer on the country (Rioux 2019). Finally, fossil fuels have become unpopular amongst large constituencies of the public because of their contribution to climate change so championing an export strategy for them is not necessarily seen as a political winner.

Under the current Canadian government’s international energy engagement activities, oil- and gas-related initiatives have largely been subsumed under “clean energy” initiatives. To the extent the government has completed new or updated older international energy cooperation agreements, the initiatives they contain are now mostly related to “clean energy” and have been set within the context of “accelerating the transition to a low-carbon economy” (Generation Energy Council 2018). Initiatives to promote Canadian energy resource exports, oil and gas investment projects, or to enhance energy security internationally are either given minor mention, or are non-existent in Canada’s current agreements.

# Canada's energy cooperation agreements

The following is a review of the status of energy cooperation agreements Canada has completed with key partners in the Indo-Pacific since the Trudeau government came to power in 2015.

## Japan

On April 28, 2019, after a bilateral meeting between Prime Minister Abe of Japan and Prime Minister Trudeau, the government of Canada issued a statement on closer collaboration with Japan. The statement listed a number of areas of collaboration including peace and security, trade, and investment. The statement made much of the new Altagas propane export terminal on Ridley Island, BC, but Canada's other energy resources were unmentioned.

In June 2019, Canada and Japan signed an energy-focused memorandum of understanding (MOU) at a G20 ministerial meeting in Karuizawa, Japan. In its public communications, the Canadian government chose to emphasize the clean energy, climate change, and “energy transition” aspects of the agreement by referring to it as an MOU on “clean energy cooperation.” Interestingly, the actual title of the official document is “MOU on cooperation in the field of energy” and is much broader in scope but is publicly available only on the government of Japan’s website. The MOU ostensibly “commits Natural Resources Canada and Japan’s Ministry of Economy, Trade and Industry to advance cooperation in the areas of clean energy, energy efficiency, oil and gas and to accelerate action on climate change in multilateral fora” (Natural Resources Canada 2019).

In terms of provincial energy cooperation, the province of Alberta signed an energy cooperation agreement with Japan in 2012. British Columbia and the Japan Oil, Gas and Metals National Corporation (JOGMEC) signed an MOU on LNG cooperation in 2016.

While it is laudable that the Canadian government signed another energy cooperation agreement with Japan in 2019, previous initiatives, such as the 2013 Joint Statement, achieved few tangible outcomes over that period. Six years later, this new MOU commits Canada and Japan only to “exchanging information,” “encouraging” stronger connections and cooperation between Japanese and Canadian companies in the energy business, holding meetings, undertaking joint studies, and the like. The lead officials from each country overseeing the MOU are committed to meet only annually. Nowhere does the MOU commit the two sides to any specific goals or outcomes, provides no dates or timelines, and no measures of success. Furthermore, the MOU makes no mention of provinces or their role in energy discussions.

## China

In November 2014, the Harper government signed an MOU with China on nuclear energy collaboration, building upon an earlier agreement in 2012 and clearing the way for sales of uranium to China. During Prime Minister Harper’s visit to China, he and Premier Li Keqiang agreed to examine “new approaches to enhance energy trade, including potentially an environmentally safe maritime energy corridor,” which was understood to mean pipelines to Canada’s west coast and which the Chinese government viewed as an urgent priority in order to supply China with Canadian crude oil (see Fife 2018; Canada 2014).

On December 4, 2017, the Trudeau government signed a “Canada-China Joint Statement on Climate Change and Clean Growth.” This statement included a commitment to “seek ways to expand our energy trade (including liquefied natural gas), as well as accelerate commercial progress in our nuclear energy sector” (Office of Justin Trudeau 2017). Subsequently, in September 2018 and further to a commitment made by Prime Minister Trudeau and Premier Li Keqiang, Track II discussions at the non-governmental level were held and “further developed a set of recommendations that would support enhanced bilateral energy trade and investment” (see Asia Pacific Foundation of Canada 2018).

In November 2018, Ministers Morneau and Carr co-chaired a “Canada-China Economic and Financial Strategic Dialogue” in Beijing. Among other things, the two countries agreed to focus on priority sectors including energy, and to continue exploratory discussions towards a potential comprehensive trade agreement.

All of these efforts appear to have been put on hold after the Meng Wanzhou affair and so any further energy cooperation agreements with China will likely be postponed into the indefinite future.

## **South Korea**

Canada and South Korea completed the Korea-Canada Free Trade Agreement, which came into force on January 1, 2015. The FTA includes provides tariff-free access in Korea for Canada’s energy products.

In 2016 Canada and Korea signed an MOU on “Cooperation in Innovation and Energy Technologies.” This focus of this agreement is on clean energy technologies but does not cover trade in energy resources. In the case of Korea, there does not appear to be any ongoing official mechanism for advancing energy related issues.

## **India**

During Prime Minister Trudeau’s visit to India in February 2018, Canada and India agreed, at Canada’s request, to expand the scope of the Canada-India Ministerial Energy Dialogue, which is the primary mechanism for advancing cooperation on energy issues between the two governments. The dialogue was supposed to range beyond oil and gas to include more focus on clean energy cooperation. The two countries also pledged to establish an action plan of shared priorities in the energy field.

Despite India’s strong growth in energy demand and reliance on energy imports, there appears to be no publicly available evidence that there has been any significant progress on the action plan or other energy related initiatives – or on Canada-India relations – since the PM’s visit.

## **ASEAN**

Canada and ASEAN have both committed to the “ASEAN-Canada Plan of Action (2016-2020)” which includes a wide range of goals and actions, including an energy chapter outlining specific areas for energy cooperation. This includes enhancing energy connectivity and market integration, cooperation on energy technology research and development, and a commitment to “explore cooperation in oil and gas production... promote LNG trade and support the implementation of the Trans-ASEAN Gas Pipeline (TAGP) project,” among other things (ASEAN 2016). At the 16th ASEAN-Canada Dialogue held in Ottawa in March 2019, the two sides re-committed

to implementing the agreement. However, little information has been made publicly available on the specific actions and progress that has been made, at least on the items mentioned in the energy chapter, so it is difficult to evaluate the effectiveness of this agreement.

## Energy pathways

Policy-makers can make various choices about how they value and manage energy resources. In Canada, the federal government has jurisdiction over interprovincial and international trade and movement of energy resources. Canadian provinces are the owners of the resources (except on Aboriginal and federal lands) and have control (except for uranium) over their extraction, production, and use within the province, subject to federal environmental regulations. For both levels of government, one of the policy choices that must be made is the way in which benefits are recognized from the export of energy resources. One way of thinking about how governments position their energy resources in international markets is the concept of “energy pathways” (see Ladislaw, Leed, and Walton 2014).

Countries that are net energy exporters essentially confront three broad policy pathways when it comes to how their energy resources are valued in international markets. These three pathways have different goals and policy instruments and can be thought of in terms of three tiers, each one building on the preceding one.

### Energy Revenue Pathway

This first pathway could be called the “energy revenue” approach. This pathway views energy resources simply as commodities that have some market-based monetary value. In Canada, oil and gas producers bid for the right to extract and sell energy resources and pay a royalty to the resource owner (a provincial government in this case) based on a formula that is related to the amount of oil or gas extracted. Producers then sell these resources to customers at market prices in order to maximize revenue. This approach sees a limited role for governments once royalties have been paid. Normally, no attempt is made to address market failures, market diversification, or recognize other strategic uses for energy per se, although governments still act to improve international market access, lower trade barriers, and streamline regulatory regimes. This approach has been predominant in countries and jurisdictions where private enterprises – not state-owned ones – extract and market crude oil and natural gas, such as in Canada and the US.<sup>11</sup>

### Energy Stability Pathway

In this and the following pathway, energy resources are viewed as having strategic as well as monetary value. These pathways are predicated on the notion that energy markets should be transparent and competitive, but they also recognize a role for governments in using energy strategically to help strengthen the global commons. Governments therefore have an interest in how energy resources are allocated in international markets.

In the “energy stability” pathway, the prime first-order goal is promoting global energy security. This is a generalized goal not specific to any country and serves to strengthen and stabilize

global economies by promoting efficient global energy markets. Policy instruments to support this goal include the use of regulation, incentives, international treaties and agreements, and other related initiatives. This is the option that G7 countries including Canada endorsed in 2014 when they established an “Energy Security Initiative” intended to promote energy security at global, national, and regional levels (see G7 Information Centre 2014).

The drawback of this pathway is that global energy security is a very difficult goal to achieve, requires sustained efforts by many countries simultaneously, and is subject to unanticipated and disruptive global events and issues. Also, because it is so generalized, it is much easier for countries to free-ride on multilateral agreements in the spirit of cooperation without really putting in place policies or programs that would help achieve the intended aims. In fact, the 2014 G7 agreement saw few tangible outcomes achieved.

### **Energy Leverage Pathway**

The “energy leverage” pathway adds second-order policy goals and assumes governments are willing to use effective policy instruments to achieve them. This includes leveraging energy resources to achieve geopolitical and/or broader economic and security aims and may be directed toward one or more countries or regions. The application of policy instruments in this pathway are more focused on specific countries or a region, making goals and outcomes more easily achievable.

The policy goals associated with this pathway can be expressed either positively or negatively. In the negative sense, energy has been used as a “weapon” by energy supplier countries to pressure weaker, import-dependent countries. A case in point is Russia’s threat to cut off energy supplies to Ukraine in order to influence political outcomes in that country. Of course, generally speaking, energy resources are fungible and substitutes can often be found. However, this is not always the case and even if there are alternative products or suppliers, they can be costlier and/or riskier.

In the positive sense, countries may seek to leverage energy exports to advance the broader shared interests of both parties to energy transactions. Such shared interests may include expanding overall trade or reducing trade barriers, enhancing regional energy security, gaining access to or enhancing influence in regional cooperation mechanisms (such as ASEAN, regional security initiatives, etc.), partnering on energy infrastructure investments, enhancing cooperation on regional clean energy technology and sustainability initiatives, and so on.

## **Limited access and limited vision**

In practice, Canada has generally followed the “energy revenue” pathway. Governments have not exerted the necessary political leadership nor implemented the necessary policy instruments to get pipelines built to tidewater in a timely manner and have left it up to markets to determine where Canadian energy resources are exported, which in practice has been almost exclusively to the US. As a result, the country’s oil and gas resources are essentially “landlocked” and subject to discounts from world prices. In 2018, Canada exported 98 percent of its crude oil exports to the US, which accounted for 48 percent of total US crude oil imports and for 22

percent of US refinery crude oil intake. Canada exports 46 percent of its total natural gas production, all to the US.

In July 2006, Stephen Harper made a rhetorical attempt to align energy, security, and national interests by positioning Canada as a new “emerging energy superpower” in his first international speech as prime minister. However, a number of factors, including the oil price crash in 2014, rising costs in the oil and gas sector, an increase in the discount Canada faces selling petroleum products into the United States, and growing opposition to pipelines, all conspired to dash these hopes. Today, Canada still faces an energy export predicament. Energy prices remain low and opposition from environmental groups has intensified. Meanwhile, Canada’s rich endowment of oil and gas resources still lack adequate offshore export infrastructure and the country remains almost completely reliant on exports to a single market.

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*Canada’s rich  
endowment of oil and  
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While Canada’s oil and gas sector could never have been built to world class scale and sophistication without access to the US market, it is also true that the US has long depended on the stable and reliable supply of Canada’s energy resources for its own energy security. Over many decades, Canada had built a north-south network of pipeline infrastructure and become dependent on being a supplier of cheap oil and gas to the US. However, the shale revolution changed the calculus by driving down prices, making Canada less competitive and changing the political landscape. Gradually, the US became less dependent on Canadian oil and gas. Plentiful US domestic supplies enabled the Obama administration to view the Keystone pipeline as a means for advancing US domestic political goals, and refused to approve it.

With the Trump administration’s “America First” approach to trade, Canada’s assurance of ready market access to the US has been thrown into further doubt. Even under the new United States-Mexico-Canada Agreement (USMCA), the US will retain the ability to introduce new border restrictions for national security reasons under Section 232 of the *Trade Expansion Act* of 1962 (as Trump did on Canadian steel and aluminum). Despite the many merits of the recently signed USMCA agreement, this fact creates ongoing political risk in Canada’s trade with the US, including for energy resources.

The Canadian energy sector has long been hampered by a limited international vision. According to the CEO of the Canadian Association of Petroleum Producers (CAPP), producers are agnostic about where they sell their products. “You have access to global markets, and whether it’s bought by an American refinery, a Chinese refinery, a Japanese or a Korean refiner doesn’t matter as much as you’re getting world price... where it ultimately goes is where the market places the highest value on it” (Orland and Obiko 2018). This is a good example of the “energy is fungible” argument. If all of Canada’s oil is exported to the US, it is because US buyers bid the highest price and it shouldn’t matter to us where the oil goes after that.

The problem is that Canada really doesn't have access to global market prices when Canadian resources must be sold to US buyers at a substantial discount because Canada lacks the ability to export offshore.<sup>12</sup> US buyers who re-export Canadian resources, not Canadians, get the global prices. Between May and September 2019, 16 million barrels of Canadian crude was exported from the US Gulf Coast to buyers in China, India, South Korea, and Europe (Eaton and Williams 2019). Generally, US refineries import and process Canadian heavy oil, and US traders export their lighter shale oil to world markets. With the shale revolution, the US has now become a net exporter of crude oil. For example, the US is now the fourth largest supplier of crude oil to South Korea (Chung 2019). What this means is that Canada is helping keep US refineries supplied while the US becomes a major exporter to the Indo-Pacific. Not only does Canada not get global prices for its crude, it is foregoing the strategic benefits of resource exports that would otherwise accrue to Canada.

The “where it goes doesn't matter” argument ignores the strategic value of energy resources and important geopolitical factors associated with where energy supplies originate. Countries like Japan, South Korea, and China set informal energy import “targets” in order to help ensure their energy imports (especially oil and gas) are not overly reliant on too few suppliers, or on suppliers from unstable parts of the world. For these countries, energy security is literally too important to leave to the markets. They actively employ various energy security strategies to lower their risk exposure and improve their energy security. This is why these countries often promote overseas investments in resource-rich countries and prefer to strike energy cooperation agreements with supplier countries in order to help reduce risk. Natural gas is less fungible than oil because it is more difficult to transport and store, requires expensive investments in infrastructure, and gas trade is still dominated by long-term contracts that tie customers and suppliers together. As yet, there is no global natural gas price and prices in Asia vary by country and market. As a result, natural gas/LNG has significant geopolitical considerations that need to be recognized.

Canada's dependence on the US market and the failure of a succession of Canadian governments to assert Canada's strategic interests and diversify energy markets has had consequences for Canada. Those consequences are, primarily, exposure to US political risk and foregone tax revenue from the discounted prices Canada faces. But Canada's oil and gas producers are also partly to blame. The sector has had such a long and deep relationship with the US (which regards Canadian production as an extension of its own) that it has become complacent about developing international markets and prioritizing export infrastructure.

Canadian producers have always viewed the US as the easiest and most satisfactory option for marketing Canada's resources. CAPP's position on Canadian crude exports has been consistent over many years. It is a perfectly understandable perspective from an organization that represents the interests of private enterprise. Canadian and multinational energy companies see their interests primarily through the lens of their fiduciary obligations to shareholders; they are not concerned with the national interest per se. But from a national interest perspective, it sometimes does matter where energy products go. And the market should not be the only arbiter of their value.

The idea that Canada has access to global markets even if our energy resources flow to the US and that non-renewable energy resources should be sold to the highest bidder only makes sense if revenue maximization is the only goal for Canadian energy exports. Energy resources ultimately belong to Canadians and provincial governments are the stewards of those resources within their provinces — it's in the Constitution. Energy companies develop those resources on behalf of provinces and pay a royalty to provincial governments for the right to extract and

market those resources. The federal government also becomes involved once those resources cross provincial and international boundaries. The role of Canadian governments is to take into account public interest issues, so goals other than profit maximization need to be considered when it comes to these finite resources. The point is, private sector interests are not always aligned, and may at times even conflict, with national interests.

The raison d'etre of the TMX pipeline was ostensibly to help Canada gain access to Asia-Pacific markets so as to diversify our energy exports and reduce reliance on the US market. TMX itself has stated that: "This project came about in response to requests from oil shippers to help them reach new markets in the Pacific Rim. The limited capacity of the system today prohibits shippers from establishing reliable access to trade consistently with these markets" (Orland and Obiko 2018). The company has indicated that once the TMX pipeline capacity has expanded, it will allow for sufficient supplies such that it can make long-term commitments to Indo-Pacific customers.

Presumably, the reason the Trudeau government purchased the TMX pipeline was to help ensure it is built so that Canada can diversify Canadian crude exports to supply Indo-Pacific countries. Currently, Trans Mountain crude oil is mostly being shipped to US west coast refiners who are increasingly reliant on imports from Canada because production in Alaska and California has declined. The legitimacy of the TMX pipeline and any future pipelines to tidewater would be seriously undermined should the bulk of the oil and petroleum products from the expansion end up being exported to US west coast or gulf coast markets.

## Canada's strategic energy resources and expected benefits

The notion that non-renewable energy resources are strategic commodities dates back at least to the coal era of the 19<sup>th</sup> century when coal became essential to heating and manufacturing during the industrial revolution and in steam-powered shipping. Oil later replaced coal and itself became a strategic commodity; nations fought wars over access to it. Even today in the early stages of a transition to a low-carbon economy, oil and gas remain strategic and some of Canada's other energy resources can be added to the list of strategic energy resources.

Energy resources are strategic because they possess three critical attributes:

- they are relatively scarce;
- they are unevenly distributed across different countries and regions; and
- they are required for the production of essential goods and/or for sustaining economic activity.

Energy resources have *strategic* value. Strategic value has both quantitative and qualitative value components. The quantitative component is monetary value: the price a Chinese company pays for crude oil, for example. The qualitative component is something important or useful in helping achieve a policy goal: contribution to energy security, as a source of diplomatic leverage, or gaining a geopolitical advantage, for example. Strategic value is therefore always greater than monetary value because certain qualitative value components are not or cannot be monetized.

## **Canada's strategic energy resources<sup>13</sup>**

For the purposes of this paper, strategic energy resources are understood to include crude oil, natural gas/LNG, uranium, energy minerals including rare earth elements. Canada is currently a net exporter of all of these resources except for rare earths.

*Crude oil* – Canada is the world's fifth-largest oil producer and has the world's third-largest proven oil reserves. Although Canada is a major world exporter of crude oil, the US accounted for 96 percent of Canadian oil exports in 2018.

*Natural gas/LNG* – Canada is the world's fifth-largest producer and fourth-largest exporter of natural gas. Currently, almost 100 percent of Canada's natural gas exports are to the US.

*Uranium* – Canada has the world's largest deposits of high-grade uranium and is the world's second largest producer of uranium, with 15 percent of global production in 2012. Exports are mainly to the United States, Europe and Asia.

*Energy minerals* – Energy minerals (or metals), including rare earth elements (REEs), are resources that are critical to future clean energy generation, and to the storage and use of electricity. Canada is a leading global producer of energy minerals, including cobalt (sixth), graphite (third) and nickel (sixth).

## **Putting Canadian strategic resource exports into perspective**

The following analysis focuses on crude oil and LNG exports which will be, by far, the most economically consequential exports for Canada in the next several years.

By 2025, the TMX oil pipeline and two LNG liquefaction facilities, LNG Canada and Woodfibre LNG, should be in operation.<sup>14</sup> These projects would provide the following export capacities:

- The expanded TMX pipeline will have a capacity of 890,000 barrels per day (b/d).
- The LNG Canada project (first two trains) will have a capacity of 14 million tonnes per annum (mpta).
- The Woodfibre LNG project will have a capacity of 2.1 mpta.

Therefore, by roughly 2025, Canada should have in place a total export capacity of 890,000 b/d of crude oil and 16.1 mpta of LNG.

For the purposes of putting these export volumes into perspective, Table 1 estimates the potential market share that Canadian resources could capture in several key export markets: China, Japan, and South Korea. These are the Indo-Pacific countries that can refine heavy crude, will likely pay the highest price for that crude, and are also the region's major LNG importers. These estimates are based on 600,000 b/d of crude oil capacity and all LNG capacity being directed to offshore markets. Only those projects that are already approved and under construction are considered here. The LNG export estimates in particular are conservative since LNG Canada has already announced it plans to double capacity to 28 mpta and no provision has been made for other LNG projects that may reach final investment decisions between now and 2025.

Table 1 compares Canada with Saudi Arabia and Qatar. Saudi Arabia is the largest exporter of crude oil to Japan, China, and many other Indo-Pacific countries. It is also an authoritarian regime engaged in hostilities with neighbouring countries and remains at risk from war and

**TABLE 1: POTENTIAL CANADIAN SHARE OF CRUDE OIL AND LNG IMPORTS IN SELECTED IMPORTING COUNTRIES (2018) (for illustrative purposes only)**

	Crude oil imports (mbpd)	Potential crude oil share by Canada (%)	LNG imports (mtpa)	Potential LNG share by Canada (%)
<b>Japan</b>	3.9	15.4	82.9	19.4
- Saudi Arabia	1.0	60.0	n/a	n/a
- Qatar	n/a	n/a	9.9	163
<b>China</b>	11.0	5.5	53.8	30.0
- Saudi Arabia	1.12	53.6	n/a	n/a
- Qatar	n/a	n/a	12.6	128
<b>South Korea</b>	2.7 <sup>15</sup>	22.2	44.0	36.6
- Saudi Arabia	0.88	68.2	n/a	n/a
- Qatar	n/a	n/a	14.3	113

mbpd = millions of barrels per day

mtpa = millions of tonnes per annum

Source: BP, *export.gov, country trade statistics*<sup>16</sup>

terrorist attacks; the drone attack on a refinery in September 2019 reduced Saudi oil production by 50 percent and caused a global spike in oil prices. Qatar is the largest LNG exporter in the world and a major supplier to Japan, China, and South Korea. By virtue of its location in the Middle East, Qatar is also at risk from regional conflict and potential disruptions. Consequently, imports from Saudi Arabia and Qatar represent a much higher geopolitical risk to import-reliant countries in the Indo-Pacific region than do those of a country like Canada.

Overall, Canadian crude oil exports would have the largest energy security impact on Japan and South Korea, especially in reducing reliance on Saudi Arabia, the largest source of imports for these countries. LNG exports would potentially have the greatest impact on China and South Korea. Canadian LNG exports could potentially eliminate Qatar's share in any one of these countries or significantly reduce it in all three.

The purpose of this table is meant only to illustrate the potential impact and significance of Canada's future crude oil and LNG exports on major import markets in the Indo-Pacific. Of course, it is almost certain that Canadian exports of crude oil and LNG would be exported to multiple countries in varying volumes and not to a single country. Also, the price and demand for Canadian LNG and heavy crude by refiners in Indo-Pacific will bear on market share. Certainly, Indo-Pacific countries continue to modify their refineries to accept heavier grades of oil, creating a growing opportunity for Canadian heavy crude into the future.

The point is that Canadian oil and gas resource exports will not be inconsequential in global markets. To be sure, Canada will face strong competition from the US, Australia, Russia, and the Middle East to supply Indo-Pacific markets. While still relatively small compared to these exporters, Canada has the advantage of large natural gas and oil reserves, competitive supply costs, proximity to Indo-Pacific markets, strong environmental standards, and the ability to produce the cleanest LNG in the world. These advantages give Canada a solid foundation for becoming a major world supplier in the coming years — if the right strategy is in place.

## Policy Recommendations

One of Canada's greatest challenges is to balance resource development with economic sustainability and a desire to help combat climate change. In the recent past, Canada's energy resources have not been accorded the importance and value they deserve, nor have the strategic benefits they can generate been recognized. As this paper has shown, energy resources are strategic and that they can be leveraged in Canada's trade and foreign policy approaches to make broader gains. Treating energy resources as strategic will contribute to economic prosperity at home while enhancing energy security in the Indo-Pacific and reducing the global impact of climate change.

This section makes five broad policy recommendations aimed at preparing Canada to help ensure it obtains full value for its strategic energy resources in the coming years as export capacity comes online and as demand in the Indo-Pacific continues to grow.

### 1. Develop an integrated approach to energy, trade, climate and foreign policy

A wide range of analysts, former diplomats, and experts have been calling for Canada to take a more principled, consistent, and comprehensive approach to the Indo-Pacific. Even Canada's friends and allies in the region want Canada to have a stronger role and voice in diplomatic, security, and trade discussions. However, establishing a stronger role and presence for Canada in the Indo-Pacific will require our federal government, in particular, to be much more intentional about Canada's interests and far more effective and coordinated in advancing policy initiatives.

A new strategic framework is required that will chart the course of Canada's trade, security, and foreign policy in the Indo-Pacific. Canada's strategic energy resources can play a pivotal role within this framework for advancing Canada's interests in the region. The first step should be to **develop an Indo-Pacific strategy**, as called for by Margaret McCuaig-Johnston (2019) and others. David Mulroney, former Canadian ambassador to China and former associate deputy minister of foreign affairs, has said that Canada's policy for the entire region to date has been centred around a poorly thought out China policy. Canada now has the motivation and urgent need to rebalance our foreign policy in the Indo-Pacific. A new Canadian Indo-Pacific strategy would develop a multi-faceted, all-of-government approach to advancing Canada's interests in the region. It should also provide a framework for working with allies and partners, describe how to engage with China, lay out Canada's military and security role in the region, and call for the development of sectoral trade strategies, including a strategic energy resources strategy.

Despite the imperative of diversifying Canada's energy markets, Canada currently has no overarching international strategy that clearly lays out Canada's energy export goals and interests and outlines a detailed plan of action for pursuing them. Such a strategy should be focused on ways to meet customer needs on the demand side in export markets, and leverage Canada's energy advantage to capture broader diplomatic, trade and security benefits particularly in the Indo-Pacific.

This paper recommends that Canada's energy resources be treated as strategic and therefore the government develop a **Strategic Energy Resources Strategy (SERS)** for them. Sectoral export strategies will be important for engaging with many countries in the Indo-Pacific, particularly those with whom Canada has no free trade agreement, like China and India. The SERS should **adopt the energy leverage pathway as a guiding principle** and take a cross-government approach that includes natural resource, trade, security and foreign policies. The federal government should lead the SERS, but it should involve both the provinces (as they own the resources)

and the relevant federal government departments, including Natural Resources Canada and Global Affairs Canada.

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*Canada can build  
on the SERS to  
make broader gains  
on multiple fronts.*

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With regard to the Indo-Pacific, **strategic energy partnership agreements should be pursued** with one or more countries in the region. Those partnerships should be guided by a broader Indo-Pacific strategy. Of course, such a strategy should apply globally, but the Indo-Pacific region is the priority given the level of expected growth in overall trade and energy demand in the region over the next several decades.

Canada's strategic energy resources can serve as the cornerstone upon which to build stronger and deeper trade, security, and diplomatic relations in the Indo-Pacific. A SERS strategy could lead a broader Indo-Pacific strategy since energy is a resource that addresses strategic and economically vital needs on both sides. It should also serve to facilitate investment in energy projects in Canada and encourage Canadian firms to invest in energy projects in the Indo-Pacific. Canada can build on the SERS to make broader gains on multiple fronts. Energy resources can act as "table stakes" in gaining access to Indo-Pacific strategic discussions, cooperative mechanisms and institutions where economic, security and political/diplomatic issues are addressed.

The only environmentally sustainable path to energy security is through the continued transition toward a low-carbon economy over the longer term. However, in the 30 or so years spanning the short to medium term, traditional energy resources such as oil, gas, and other non-renewable fuels will be required to ensure energy security, help alleviate energy poverty, and meet the basic needs of developing countries in the Indo-Pacific, including improving education, health, and economic outcomes. Surely it is better that Canada provide the required resources and other supports than regimes with a more self-interested political agenda or those with little respect for transparency, environmental sustainability, or for universal human values. Canada should therefore **ensure coordination between the SERS and Canada's clean energy, climate change, and international assistance initiatives** in order to optimize the overall impact of Canada's economic, diplomatic, and sustainable development goals.

## 2. Leverage Canada's advantages in strategic energy resources

Just as Canada has effectively started treating rare earth elements as strategic energy resources by signing up to the US-led Energy Resource Governance Initiative, the expected completion of the TMX pipeline expansion and several LNG export terminals offers Canada the opportunity to treat crude oil and LNG as strategic as well. This paper argues that Canada should **adopt the energy leverage pathway as a guiding principle for advancing Canada's energy interests internationally**. Not to do so risks foregoing the strategic value of these resources and therefore losing out on the benefits that could potentially help advance Canada's trade, security, and diplomatic interests abroad.

Of course, protests and disruptions in opposition to energy pipelines like the Coastal Gaslink have paralyzed Canada's railways, shut down roads and bridges and caused shortages of vital consumer goods. Regulatory uncertainty over environmental issues even resulted in the cancellation the Teck Frontier project. These issues and events have caused untold damage to Canada's reputation both as a place to invest and as a reliable supplier of energy, agricultural and other export products. Canada needs to **secure its transportation infrastructure against illegal disruptions** and do so soon, lest future protests end up disrupting either the TMX expansion or LNG developments.

From a geopolitical standpoint, Canada will be positioned to be a supplier of choice to Northeast Asia for crude oil and for LNG. Canada has several advantages and sources of leverage in this regard. First of all, the sea lanes between Canada's west coast and East Asia are uncontested, safe, and secure. Canadian ports are also in closer proximity to customers in Northeast Asia than are US ports, except for Alaska. Sailing time for tanker vessels is only about 10 days to these countries, whereas shipments from the US gulf coast take between 25 and 30 days when they go through the Panama Canal. This gives Canadian exporters significant cost advantages. As oil well productivity in US shale deposits has reportedly started to drop, Canada may gradually gain a relative advantage in crude oil exports from North America if US production declines. Finally, Canada has some diplomatic leverage in the region since it has trade deficits with China, Japan, and South Korea which could be alleviated by increased exports of energy resources.

Canadian crude oil and LNG exports could potentially serve as a strategic hedge against production disruptions in upstream supplies from the Middle East and against disruptions in critical sea lanes between the Middle East and East Asia. Canadian LNG exports to the Indo-Pacific can serve several strategic goals including helping forge closer relationships with LNG importing countries and encouraging countries such as China to switch from coal to gas in power generation, thereby helping meet climate change goals. Like crude oil exports from North America, LNG contributes to enhanced energy security, diversity of supply, and a more efficient global gas market. In addition, and like US LNG exports, Canadian LNG can play a

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*The sea lanes between Canada's west coast and East Asia are uncontested, safe, and secure.*

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role (albeit a smaller one) in increasing the liquidity of Asian LNG markets, and helping Japan in particular transition to a more flexible LNG market model and achieve its goal of establishing an LNG trading hub (see Maxie and Masuda (2017b) for a discussion of the US perspective on these issues). Beyond enhancing regional energy security in the Indo-Pacific, stable and reliable supplies of Canadian energy resources may also serve to help reduce or eliminate the perceived need for some countries such as China to pursue claims on environmentally sensitive Arctic oil and gas resources.

One of the key aims of Canada's foreign policy should be to help advance Canada's interests by **optimizing the strategic value of our energy resources internationally**. It is possible that Canada's "resource diplomacy" in the Indo-Pacific could result in a more stable international security situation, buttressed by energy export flows that enhance regional energy security in the Indo-Pacific. When Canada exports crude oil, LNG, propane, uranium, or other energy products to countries that are heavily reliant on energy imports to power their economies, it is also exporting security. Canada's strategic energy resources would reduce reliance on supplies from authoritarian regimes, improve regional energy security, contribute to more liquid and efficient markets in the Indo-Pacific, and would help reduce GHG emissions by enabling these countries to switch from coal to gas, thus advancing climate change goals.

These benefits can be advantageous for Canada as it negotiates for broader gains in other areas of trade and security. Canadian crude oil, LNG, and other energy resource exports can potentially have a positive impact on enhancing trade, investment, and even foreign policy goals in the region. Trade in these strategic commodities is largely driven by commercial interests but governments can also make a difference through energy clauses in free trade agreements and through bilateral energy cooperation agreements. Government support for direct investment, including in energy infrastructure, can also make a difference, at least on the margins.

### 3. Set a target for crude oil export to offshore markets

Canada must ensure that a substantial portion of the pipeline capacity in the TMX expansion is committed to offshore exports. As already pointed out, the private sector does not normally recognize the strategic value of energy resources. But governments must take a long-term perspective. As the owners of the resources, Canadians are entitled to see that those resources are used to serve the broader public interest. As stewards of energy resources on behalf of Canadians, only the federal and provincial governments can perform this role.

Canadian heavy crude does not currently receive world market prices and is discounted against the West Texas Intermediate (WTI) benchmark price. Once the TMX expansion is completed and access to Indo-Pacific markets is open, the discount that Canadian oil suffers should disappear and Canada may finally receive world prices for its oil. Indo-Pacific buyers may then be able to outbid US refiners for Canada's crude oil. However, this is not by any means assured since US imports of heavy oil from Venezuela have been curtailed, demand by US west coast refineries is rising, and Alaskan and California production is declining. Currently more than half of the crude oil in the existing TMX pipeline ends up going to refineries in Washington State. Recent shipping data also suggest that demand for heavy oil is increasing in California and some observers have said that California could end up taking up to half of the export capacity from the TMX expansion (Canadian Press 2019). A TMX executive has stated that the oil in the expansion will likely go to several destinations including Washington State, California, Asia, and even to the US gulf coast through the Panama Canal (Trans Mountain 2015).

Canada must therefore do more than hope that offshore customers are able to compete with US refineries for TMX crude oil. Should all or most of that crude oil end up being exported to the US it seems highly likely that this would be regarded as a massive political and policy failure. While an important rationale for constructing any new export pipeline in Canada would be to obtain greater access to world markets and therefore higher prices for Canadian crude, this cannot be the only principle involved.

Canada therefore has an economic need and a national security imperative to **ensure that strategic resources such as oil and gas be used to diversify our exports offshore**. Canadian provincial and federal governments should therefore put in place the required measures to ensure that pipeline capacity is available and utilized to serve Indo-Pacific markets. In the case of the TMX pipeline, a target should be **set at a volume of at least 600,000 b/d**. As the owners of the energy resources are provinces and the owner of the pipeline is the federal government, they collectively have the ability to dedicate this capacity to Indo-Pacific customers. The preferred method would be through providing incentives to shippers and producers (e.g., royalty or tax incentives) rather than through quotas. An alternative could be a negotiated toll agreement reached between TMX, its shippers, and other stakeholders and approved by the Canadian Energy Regulator that incorporates incentives or requirements for offshore export capacity.

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Canada should also **work with governments in the Indo-Pacific to discuss ways of facilitating their long-term access to Canadian strategic energy resources**. Many countries in the region have import diversification policies and provide “administrative guidance” to domestic energy importers designed to help diversify import source countries in order to reduce the risk of disruptions and enhance their energy security. For example, the Japanese government is legally required to develop and update its “strategic energy plan,” which includes policies and targets for energy import diversification. The country also provides certain financial and investment incentives for the purpose of diversifying energy supply sources, including LNG and crude oil.

The benefits of a dedicated export capacity policy outweigh the downsides. Canada would be diversifying its export markets while lowering its political risk exposure to the US. Far from scaring away foreign investment in the energy sector, Japanese, Chinese, and other Indo-Pacific investors would likely regard such a policy as positive since it would provide enhanced stability and predictability to the energy supply relationship. Chinese and Japanese investors have held onto their investments in the oil sands despite economic downturns and diplomatic tensions and even though the financial returns from these investments have been mediocre at best.<sup>17</sup> In any case, the government has already intervened by purchasing the TMX pipeline, presumably to ensure Canada can diversify its crude oil exports. Ensuring that pipeline capacity is dedicated to offshore exports is a relatively small but necessary next step.

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**Provinces can play a key role in market diversification as well.** Alberta has in the past taken oil as a “royalty-in-kind” to backstop upgrader projects to ensure that economic benefits accrue to the province. It has also used its royalty system to promote the development of a domestic petrochemical sector. Similarly, other provinces could also use royalties-in-kind to support initiatives designed to strengthen international energy partnerships with countries in the Indo-Pacific. Provinces working with the federal government could strike deals with Indo-Pacific governments and importers to help guarantee adequate supplies of oil (or gas) as part of an energy cooperation agreement or strategic energy partnership. In this way, provinces may gain certain investment and/or trade benefits in exchange for guaranteeing long-term energy resource supplies.

#### **4. Advance Canada's energy and security interests in the Indo-Pacific**

**Canada should take a multilateral approach to advancing its energy, trade, and security interests in the region** by cooperating with Japan, the US, and other partners in the region. Playing an active role in supporting Indo-Pacific security more broadly would be in Canada's long-term interest and help gain leverage and credibility for Canada in the region.

As Canada's trade with the region expands and it begins to export significant quantities of energy resources it will necessarily be drawn deeper in to the region's security dynamic. Canada, as a middle power along with Japan, can play a positive role in the region by supporting the rules-based order, promoting multilateral approaches, and by helping to keep the US engaged and committed. The Free and Open Indo-Pacific (FOIP) vision as espoused by Japan appears to be a good starting point for achieving this as its approach is inclusive, multi-faceted (and not security-centred), non-confrontational, and is broadly consistent with Canada's own values, principles, and interests in the Indo-Pacific.

**Canada should explore alignment with the principles in Japan's version of the FOIP vision.** This could involve an analysis of how Canada's foreign, security, energy, and other priorities align with those of Japan and the US in the region. Energy plays a prominent role within the FOIP vision as espoused by both Japan and the US. The advantage for Canada in aligning with FOIP is that it already includes Canada's two most important allies and partners in the Indo-Pacific – the US and Japan – with whom we already have close trade and security relations. Canada could develop a framework for cooperation that is complementary with the principles and goals of our allies and partners in the region.

Canada could work with Japan to use energy to promote regional energy security as well as connectivity, capacity building, and infrastructure investment. Since energy plays a central role in both the Japanese and the US versions of FOIP, Canada's strategic energy resource exports would contribute toward meeting the region's energy security needs and the UN's Sustainable Development Goal 7 regarding energy poverty (SDG 7) in the coming decades.

How Canada aligns with FOIP will be an important consideration as Canada continues to pursue full membership in existing Indo-Pacific economic and security institutions. Canada should continue to **make strong efforts to be invited to join the ASEAN+ grouping and the East Asia Summit (EAS)**. In addition to being a key platform to advance Canada's broader interests in the region, energy plays a major role in the EAS discussions. The meetings held around the EAS also offer Canada the opportunity to have senior ministers from the natural resources and climate change departments interact with their Indo-Pacific peers. While the US has downgraded its representation at the last two meetings, Canada should commit that the prime minister and key senior ministers will attend all annual meetings.

## *Advancing Canada's energy interests in the Indo-Pacific*

Energy plays a key role in the economic dimension of the US version of the FOIP strategy. For the US, the energy programs in FOIP are meant to compete with China's Belt and Road Initiative energy infrastructure outreach in the Indo-Pacific region (Nakano 2018). **Canada should look into partnering with the Asia EDGE initiative**, which is part of the US FOIP initiative. Asia EDGE proposes "strengthening the energy security of allies and partners; creating open, efficient, rule-based, and transparent energy markets; improving free, fair, and reciprocal energy trading relationships; expanding access to affordable, reliable energy" (Choi, Herberg, Palti-Guzman, Smith, and Tsafos 2019). These principles appear to be closely aligned with Canada's own approach to energy and markets.

The Indo-Pacific region is expected to require more than US\$1 trillion in annual energy infrastructure investment to 2040, including for power plants, LNG terminals, and other energy infrastructure. According to the International Energy Agency, Southeast Asia alone will require an estimated US\$2.1 trillion to meet its energy investment needs by 2040 which includes natural gas supply infrastructure, natural gas power plants, and renewables power generation. **Canada should consult with the private sector and develop a strategy to ensure Canadian companies can compete on an equal footing with their peers on infrastructure investment opportunities in the region.**

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Japan recently announced that its government and private sector will invest another US\$10 billion on liquefied natural gas (LNG) projects worldwide in a strategy to boost the global LNG market and enhance security of energy supply, particularly in the Indo-Pacific region. Japan and the US have also announced they will work together on the latest program and also on Japan's plan to work with the Asian Development Bank in arranging up to \$7 billion in financing in other Asian energy projects (see Kurtenbach 2019).

These moves build on a US\$10 billion commitment that Japan made two years ago to reinforce energy supply chains as it aims to reduce its reliance on energy from the Middle East as growing tensions in the region threaten the stability of global oil supply (Reuters 2019c). Japan, through the Japan Bank for International Construction (JBIC) is working with the China Development Bank to help China improve its loan practices in Asian countries and encourage it to adhere to international standards. Canadian institutions, too, can play an important role as an intermediate neutral third-party party in the region. For example, Canada could encourage Export Development Canada (EDC) and JBIC to cooperate on energy projects in the region.

The emerging countries of the Indo-Pacific often need help to build infrastructure, draft rules, and lower GHG emissions in their energy mix. **Canada should contribute to the efforts to improve the quality of energy infrastructure in the Indo-Pacific.** One way to do this would be to evaluate the "Blue Dot Network" initiative, which is meant to establish a high level of

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shared standards for evaluating infrastructure projects and coordinating energy infrastructure investments in the Indo-Pacific region. The stated principles and values of this program appear to be well aligned with Canada's. A partnership with the US and Japan could help improve the quality and transparency of infrastructure projects while at the same time realizing significant benefits for the Canadian energy sector.

The Indo-Pacific offers the opportunity to expand existing markets, help Canada diversify its energy exports, and address energy security concerns in partner countries. **Canada can combine its strategic energy resources with its clean-technology capabilities and advantages to further leverage its position.** Canada should work with our allies and partners, such as the US and Japan, to focus on enhancing regional energy security through supply diversification, while at the same time working to reduce emissions and overall import dependence on fossil fuels through collaborative efforts to implement clean energy technologies. Such technologies could include energy efficiency, battery storage, hydrogen fuel cells, coal gasification, carbon capture and storage, small modular reactors (SMRs), and other technologies.

**Canada should consider how its development finance institutions could play a stronger role in financing energy projects in the Indo-Pacific.** Unfortunately, Canada is hampered by the fact that it does not have an equivalent to the new United States International Development Finance Corporation (USIDFC) or the Japan Bank for International Cooperation (JBIC) that could leverage private and public funds for loans or loan guarantees to companies that invest or operate in developing nations.

In May 2019, the US, Canada, and the EU signed an agreement to create an alliance of development finance institutions to counter China's Belt and Road Initiative (Chase and Fife 2019). While this agreement includes FinDev Canada, a subsidiary of EDC, and could potentially be a vehicle for financing energy projects in the Indo-Pacific, FinDev's geographic focus appears to be only on Africa and Latin America. Canada does contribute to the Asian Development Bank (ADB) and some ADB projects co-funded with Canada have been energy infrastructure projects. However, Canada appears to have no financial development institution of its own with a mandate to serve developing nations in the Indo-Pacific.

## 5. Forge meaningful and effective strategic partnership agreements

A broader, more strategic perspective on the value of Canadian energy resources is required of policy-makers in order to realize the full range of benefits of enhanced energy exports to the Indo-Pacific. Since energy resources are strategic and not simply export "commodities," Canada needs to recognize and leverage their strategic value. It can do this most effectively by **striking formal strategic energy partnerships with allies and partners in the region.** With a few exceptions, Canada's record on energy cooperation with Indo-Pacific countries has been relatively ineffective mainly because there have been no significant supplies of energy resources available to export. As significant supplies come on stream in the next few years, the opportunity to forge meaningful, effective, and mutually beneficial strategic partnership agreements with countries in the region is realizable.

One could argue that Canada's international energy cooperation and clean energy agreements can only include areas over which the federal government has some authority since oil and gas export projects are private-sector led and market-driven. However, this would be an abdication of responsibility for strategic thinking and a one dimensional view of the role Canada's energy resources can play in helping advance Canada's interests abroad. It is a continuing wonder to

Canada's trading partners in the Indo-Pacific that the country shows so little interest in taking serious, tangible steps toward meeting the growing demand for energy in the Indo-Pacific. Unlike in Canada where non-renewable energy resources have been caught up in ideological debates, the stable and reliable supply of energy resources (especially oil and gas) represent a fundamental policy imperative for many Indo-Pacific economies.

Typically, a strategic partnership implies an agreement that encompasses both economic and security components. But Canada still seems to view its relationship with countries of the Indo-Pacific primarily in economic terms. However, with Japan, this may be changing.

On April 28, 2019, the prime minister announced “closer collaboration with Japan” and a commitment to “strengthen strategic dialogues” between the two countries. Subsequently, at a bilateral meeting during the G7 Summit in Biarritz, France, in August 2019, Prime Ministers Abe and Trudeau “reaffirmed that they would further strengthen their strategic partnership under the vision of a ‘free and open Indo-Pacific’” (Ministry of Foreign Affairs of Japan 2019b). This is potentially very significant as it affirms the strategic partnership with Japan and also links the partnership to the FOIP initiative, implying that Canada may make a formal commitment to FOIP.

But the details of this strategic partnership remain somewhat vague. As yet, however, there appears to be no formal written strategic partnership agreement (SPA) that spells out in detail the full scope of elements covered under the agreement, what shared goals have been established, and what timelines and specific actions will be accomplished. As such, the Canada-Japan agreement remains nebulous and difficult to evaluate. Global Affairs Canada is currently considering the development of an Indo-Pacific strategy, so it is logical that an SPA would constitute an important element of such a strategy.

In whatever manner these overarching frameworks are developed, **Canada should first forge a strategic energy partnership (SEP) agreement with Japan**,<sup>18</sup> which should detail how the two countries will cooperate on a strategic approach to Indo-Pacific energy markets. This would include using Canada’s energy resources to help reduce Japan and the region’s reliance on the Middle East, enhance regional energy security, support energy infrastructure projects, reduce energy poverty in developing countries, cooperate on promoting clean energy technologies, and help achieve climate change goals. Building on this experience, **Canada should move to forge SEPs with South Korea, Taiwan, India, and other countries** with whom Canada has good relations and that share Canada’s fundamental principles and aims in the Indo-Pacific.<sup>19</sup>

Canada’s future trade relations with China, however, will depend on the satisfactory resolution of current tensions and a pending rethink of Canada’s engagement with China. Based on the statement from Canada’s current foreign affairs minister, Canada appears on the cusp of developing a new “strategic framework” for its approach to China. Notwithstanding this, one area that is in the near-term interests of both countries is energy cooperation. If the current tensions and issues in the Canada-China relationship can be resolved and Canada develops a new framework for engaging with China, then Canada could **make energy exports a starting point for that reengagement**. Canadian energy exports would help China diversify its energy supplies, enhance its energy security, and help address its environmental challenges, all of which are in both Canada’s and China’s long-term interests.

## About the Author



Jeff Kucharski is a strategic thinker, policy entrepreneur and academic. He is currently an Adjunct Professor at Royal Roads University in Victoria, B.C. Before retiring from the public service in 2012, he was an Assistant Deputy Minister in the Alberta Department of Energy responsible for international energy policy, strategic planning and intergovernmental relations. Dr. Kucharski spent almost half his working career in Japan in various roles including as Managing Director of the Government of Alberta's trade office in Tokyo and as Consul and Senior Trade Commissioner in Nagoya, Japan on secondment to the Federal Department of Foreign Affairs and International Trade.

Prof. Kucharski is a regular speaker and presenter on energy and trade related issues. His academic research interests include international trade, energy policy, energy trade, and the geopolitics of the international energy business. He holds a Doctor of Energy Science degree from the Graduate School of Energy Science, Department of Socio-environmental Energy Science, Kyoto University in Japan and MBA and B.Com degrees from the University of Alberta.

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# Endnotes

- 1 On a Purchasing Power Parity (PPP) basis.
- 2 The concept has security implications as well, reflecting the strategic importance of sea lines of communication linking the Indian and Pacific oceans, and India's demonstrable importance as a regional security actor (see Seymour and Wilson 2019).
- 3 Also claimed by China and referred to there as the Diaoyu Islands.
- 4 Energy poverty is the lack of access to modern energy services.
- 5 Based on the IEA's 2018 "New Policies Scenario."
- 6 The Paris Agreement commits countries to "holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels."
- 7 It is possible to reroute tanker ships around Australia or through the Torres Strait on order to bypass the South China Sea to reach Northeast Asian markets. However, this would add additional costs and time to voyages.
- 8 In FOIP, connectivity includes physical (infrastructure), "people-to-people" (human resource development) and institutional (rules and regulations, etc.).
- 9 The US version of FOIP states that the United States is implementing a whole-of-government strategy to champion the values that have served the Indo-Pacific so well: 1) respect for sovereignty and independence of all nations; 2) peaceful resolution of disputes; 3) free, fair, and reciprocal trade based on open investment, transparent agreements, and connectivity; and 4) adherence to international law, including freedom of navigation and overflight.
- 10 The EAS is made up of the 10 ASEAN members plus eight other countries including the US, China, Russia, and Australia.
- 11 In most oil producing countries, state-owned enterprises control production and exports. The 14 members of the OPEC cartel control over 44 percent of global oil production and 81 percent of the world's proven oil reserves.
- 12 A glut of oil supply within Alberta from insufficient export pipeline capacity prompted the price differential on Western Canada Select heavy crude to widen to more than US\$40 a barrel less than US benchmark oil in 2018.
- 13 Coal is not considered a strategic energy resource for the purposes of this paper for three main reasons. First, some 97 percent of Canada's coal exports are metallurgical coal and not the thermal coal that is used as an energy fuel. Second, coal is not a scarce resource and is readily available in many countries and from multiple suppliers, providing Canada no real strategic advantage. Third, Canada's climate change plans call for eliminating coal in the electricity sector and the world is moving more aggressively to transition away from coal as a fuel source.
- 14 This is estimated from the projects' schedules announced by these firms.
- 15 2017

- 16 The data used in Table 1 are the author's calculations using multiple sources. Please contact the author for a more detailed breakdown of data sources.
- 17 This includes China's Big Three oil giants, CNOOC, PetroChina, and Sinopec, as well as Japan's Japan Canada Oilsands Ltd.
- 18 Canada and Japan could use the Japan-United States Strategic Energy Partnership (JUSEP) established in 2017 as a model. JUSEP is a formal agreement that aims to promote "universal access to affordable and reliable energy in the Indo-Pacific region" and commits Japan and the US to strengthening energy security as well as promoting energy access in the region (see US Department of State 2019b). The written agreement includes a set of core principles and a work plan.
- 19 In the case of India, the Harper government successfully concluded a nuclear cooperation agreement with India and had launched talks toward concluding a comprehensive economic partnership agreement (CEPA) in 2010. However, the CEPA has been stalled for a decade and Prime Minister Trudeau's most recent visit to India did little to advance it. Part of the problem is that Ottawa views India more in terms of domestic diaspora politics and not as a potential strategic partner with whom Canada shares fundamental interests in the Indo-Pacific.

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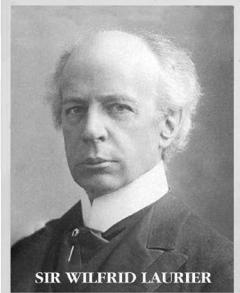
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**CONTACT US:** Macdonald-Laurier Institute  
323 Chapel Street, Suite #300  
Ottawa, Ontario, Canada  
K1N 7Z2

**TELEPHONE:** (613) 482-8327

**WEBSITE:** [www.MacdonaldLaurier.ca](http://www.MacdonaldLaurier.ca)

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