

Commentary



JUNE 2023

Energy in the Age of Pragmatism

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This commentary is based on a speech given at the Council for Clean and Reliable Energy in Banff, Alberta, May 15th, 2023.

The public conversation around energy has shifted tremendously since Russia invaded Ukraine last February. In practical terms it has raised – or rather returned – deliberations on energy systems from a subordinate of climate policy to a focus on its own merits. This begs the question: how did energy security ever become a secondary issue in Canadian public policy?

The holy trinity of energy is reliability, affordability, and sustainability. The United Nations Sustainable Development [Goal #7](#) adds “modern” to the list, an acknowledgement that for about 40% of the world’s population, wood and dung are still the primary sources of household energy. But for the western world it’s the trifecta that matters.

Sometimes these are referred to as three legs of the energy stool, which are all required for balance. But in reality, they are better seen as a hierarchy. Energy systems must be both affordable and reliable before concerted effort will be put into making them sustainable. In a choice between dirty or no energy, people will choose dirty energy every time.

That said, everyone would prefer clean energy: sources that don't produce greenhouse gas emissions, cause air pollution, and for some, pose the risk of nuclear meltdown. Many of the efforts to prioritize sustainability in the past decade have come at the expense of reliability and affordability. Now that the latter are at risk, we are seeing a return to pragmatism.



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What is a pragmatic energy strategy? One that not only prioritizes reliability and affordability, but acknowledges that modern civilization has arisen from, and continues to depend on, abundant oil, gas and coal. A pragmatic strategy understands that reducing supply of those energy sources without first providing affordable and reliable alternatives will inevitably result in shortages and crises. And it appreciates that for the majority of the global population, a lack of access to fossil fuels is a more urgent threat to well-being than climate changes.

It also recognizes that political action on sustainability will be constrained by higher energy prices. It was the widespread availability of cheap energy and commodities in the past eight years that enabled ambitious climate policy since the Paris Agreement was adopted in 2015. Energy spending as a percentage of global GDP ebbs and flows, but during the period from 2015-2022 it was on the lower end of the [scale](#), thanks in large part to the shale revolution: the combination of advances in horizontal drilling and hydraulic fracturing that opened up enormous hydrocarbon basins in the United States and turned that nation from the world's biggest oil importer to its biggest producer. While the [price of the benchmark](#) West Texas Intermediate (WTI) crude peaked in July 2008 at \$134, and averaged over \$100/barrel from 2009-2014, the flood of US shale production eventually dropped prices dramatically. The barrel hovered mostly around \$60 for several years after, until Russia invaded Ukraine in 2022. Natural gas prices also collapsed, with the commodity becoming so cheap to produce that it became profitable to liquefy it and export it globally, heralding an LNG boom.

For a while it was easy to believe that energy would always be available and inexpensive. Energy [costs](#) as a portion of global GDP fell from 10% in 2011

to about 5% from 2015-2019, collapsing to 4% during the COVID epidemic of 2020. Oil, gas and coal were not the only goods to experience low prices. A downswing phase of the commodities cycle saw inexpensive metals, agricultural products, and lumber.. Not surprisingly, low interest rates and cheap capital costs followed. All of this made the price of sustainability bearable.

But the energy shock that followed the Russian invasion of Ukraine tested commitments to climate policies. The limited extent which westerners were willing to pay to mitigate climate change was exposed brutally.

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In the United States, the line at which climate idealism reverted to political realism was shown to be \$5 a gallon: the point at which gasoline prices started [threatening](#) Democrat’s chances at the polls. The Biden Administration responded to the energy shock by [releasing](#) unprecedented volumes from the Strategic Petroleum Reserve leading up to the 2022 midterm elections: 180 million barrels, or about one millions barrels a day, with the primary goal of making gas cheaper for Americans, all this when the average price of WTI in 2022 was \$95 – not even high by historical standards.

Across the Atlantic Ocean, the European Union [spent](#) about €800 billion – well over a trillion Canadian dollars – on energy subsidies between September 2021 and March 2023 to shield consumers and firms from the impacts of the energy crisis, primarily by subsidising heating and electricity bills. Japan [also](#) heavily subsidised gasoline and electricity bills.

Even in Canada, despite being one of the most energy secure countries in the world, high energy prices were felt politically. Federal NDP leader Jagmeet Singh, while fully supporting the carbon tax, called on the Liberals to [cut the GST](#) from heating bills, saying, “Every year, Canadians experience cold winters—it doesn’t make sense to make them pay GST on an essential service such as heating to keep their families warm while the cost of living is so high.” Provinces that could afford it cut gas taxes or provided energy rebates.

Governments chose to subsidise fossil fuel use not because they didn't understand the impacts of climate change, but because they knew affordable access to energy was imperative to health, well-being, prosperity, and political stability, and fossil fuels happen to represent an overwhelming majority of the energy we consume globally: 81%, [according](#) to the International Energy Agency.

The evolution of energy policies – the return to pragmatism – has been perhaps starkest in the United States. Within hours of assuming the Presidency in 2021, Biden cancelled Keystone XL, following on promises made during the 2020 campaign to move the United States away from fossil fuels. But when gas prices spiked after the Russian invasion, Biden expressed [frustration](#) that oil companies weren't ramping up production fast enough. He then [accused](#) them of “war profiteering”, and made numerous public pokes at the industry.

By CERA Week in March 2023 – a huge energy conference held annually in Houston – something of a détente had arisen. The Biden Administration and the oil industry had made friends. US Energy Secretary Jennifer Granholm [told](#) the crowd of oil executives that:

The world is moving quickly to shift away from Russian energy sources, and Europe is poised to reach the spring without major outages or shortages. That's thanks in no small part to the many in this room working with the US and allies. Indeed, the US has become an indispensable partner to our allies, and a global energy powerhouse...

We know that oil and gas will remain part of our energy mix for years to come. And we know that even the boldest projections for clean energy deployment suggest that, in the middle of this century, we'll be using abated fossil fuels.

A week later, the Biden Administration approved the huge Willow oil project on the North Slope of Alaska.

In Norway, a bastion of clean energy with its rich hydropower resources and large EV fleet, they have taken their role in providing energy security to their European colleagues very seriously. Reviving exploration plans for oil in Arctic waters, their Petroleum and Energy Minister [urged](#) oil and gas executives in May 2023 to “leave no stone unturned”, calling it their “social responsibility” to find more hydrocarbons in the Barents Sea.

Canada has been uniquely ideological in its energy policy, acting far more adversely to domestic fossil fuel development than the USA and Norway, and actively rebuffing requests from close allies, Germany and Japan, to supply them with hydrocarbons. What explains Canada's outlier status?

Canada is able to privilege sustainability over security precisely because it is so energy secure, with world class resources of oil, gas, uranium, critical minerals, and hydropower. Global energy crises hit Canada the last and the least. In fact, as a major exporter, it benefits from high energy prices on the whole.

But even in Canada, there are signs of moderation, as pressure from allies and voters mount.

Since 2015, the oil and gas sector has felt under attack by Ottawa. It has not gone unnoticed in Calgary that federal Ministers almost always used the euphemism of “energy” to describe Canada's top export rather than speak the word “oil” explicitly, unless condemning it. The cancellation of Northern Gateway, the “no more pipelines” bill C-69, the tanker ban c-48, and the threat of an emissions cap have all weighed heavily on investor sentiment, capital expenditures and stock prices. A series of emissions reduction mandates have further challenged the industry: the carbon tax, the Clean Electricity Standard, the Clean Fuel Regulations, and the 100% Zero Emissions Vehicle (ZEV) sales target for 2035.

In the wake of the Russian invasion of Ukraine, Canada remained steadfast in this approach. When German Chancellor Scholz visited Canada in August 2022 to seek an LNG deal, Prime Minister Trudeau infamously [said](#) there was “no business case” for it. The federal government not only sought to limit domestic oil and gas production but sideline nuclear power as well. In its green bonds framework of March 2022, the federal government [excluded](#) nuclear energy alongside a sin list of arms manufacturing, gambling, tobacco, alcohol and fossil fuels.

But pragmatism has been breaking out.

Natural Resources Minister Jonathan Wilkinson said in a [speech](#) in Newfoundland in July 2022 that “At the end of the day, the cause of climate change is not fossil fuels themselves. It is the carbon emissions associated with the *burning* of fossil fuels. Beyond the need for very significant increases in the use of renewables and other forms of non-emitting energy, the reality is there will continue to be a role for some level of hydrocarbon fuels after 2050.” He made similar remarks in the House of Commons on November 14, 2022.

Deputy Minister Chrystia Freeland [said](#) in a speech at the Brookings Institution in DC in October 2022 that “Canada must — and will — show similar generosity in fast-tracking, for example, the energy and mining projects our allies need to heat their homes and to manufacture electric vehicles.”

On a visit to Japan and South Korea in October 2022, Foreign Minister Mélanie Joly [said](#) that “we will become a major supplier of key energy for them, starting in 2025.” The sentiment was repeated by Wilkinson during his visit to Japan in January 2023, when he [told](#) his Tokyo audience that “We’re in the process of building what’s called the Trans Mountain pipeline that will be finished around 2024, and that will significantly expand the amount of oil that we are able to ship from the west coast of Canada to Asian markets.”

Promised *Just Transition* legislation in January 2023 quickly became a *Sustainable Jobs Plan*, following an outcry not only from the oil patch but from Labour Minister Seamus O’Regan, who [said](#) in April 2023 that he “can’t stand” the term, and that Canada needs more oil and gas workers, not less: “The oil and gas industry is going to be with us for quite some time, and I would argue proudly so.”

“The energy shock that followed the Russian invasion of Ukraine tested commitments to climate policies.”

While Trudeau and Environment Minister Steven Guilbeault have yet to moderate their stance on fossil fuels, one should underline that their support for nuclear energy has evolved in the past year in lockstep with Canadian public [opinion](#): in a departure from the green bonds framework, in April 2023, Trudeau [said](#) that Canada is “very serious” about reviving nuclear power, with Guilbeault [adding](#) a few days later that it was needed to meet carbon neutrality targets. One can anticipate that when prices reach somewhere between \$100-\$150 barrel, their views on Canadian oil and gas production will moderate as well.

What are the consequences of an approach to fossil fuels that isn’t pragmatic? It is not about the right to drive SUVs. It is not about a carbon tax. It is about avoiding a chaotic energy transition – one marked by volatility, inadequate

supply, dependence on illiberal regimes, and high prices that would plunge hundreds of million, even billions of people, into energy poverty. And while the consequences of climate change are being felt today, the consequences of this brewing energy chaos are being felt more so.

Between World War II and 2019, the number of people living in extreme poverty increased only in four episodes: an agricultural failure in India and Pakistan in the mid-1960s, the two 1970s oil crises, and the Asian financial crisis in 1997-98. Post-COVID and Ukraine we are experiencing the fifth, and it's the biggest shock ever. According to the [World Bank](#), 71 million people fell into extreme poverty in 2022, or 0.8% of the world's population.

“ *The 2022 energy price crisis pushed an additional 78-141 million people into extreme poverty, due to cost-of-living pressures.* ”

This is not just a short-lived consequence of the COVID pandemic or the Russia-Ukraine War, although certainly those have exacerbated the trend. [According](#) to Bloomberg, the number of people facing life-threatening hunger has been rising for four straight years, even as food production has increased. In fact, it has more than doubled since 2018 and is now at a staggering quarter billion people. As Churchill famously said, one death is a tragedy; a million is a statistic. But a quarter billion people with nothing left to lose is not only a humanitarian crisis; it is inevitably a security crisis as well, leading to wars, coups, revolutions and terrorism.

What is the role of high energy prices in this? According to an [article](#) published in *Nature Energy* in February, the 2022 energy price crisis pushed an additional 78-141 million people into extreme poverty, due to cost-of-living pressures. And lest anyone believe this is something that just affects the Global South, [according](#) to the Economist, more people died last winter in Europe from the energy crisis than from COVID.

There is good reason to believe that a chaotic energy transition is now baked in. The world has been [underinvesting](#) in oil for several years, and as current reserves decline there is not enough new supply coming online to meet projected

demand. American shale oil is starting to [plateau](#) and will soon decline, and OPEC+ global market share will [begin](#) growing again in the late 2020s. It is emphatically not in Canada's or the West's interests to depend on OPEC+ for its energy security, and it's not ideal for unaligned nations to depend on them either. As we diversify with renewable sources of energy that are dependent on critical minerals, solar panels and steel, our reliance on China grows as well.

Renewable power is growing as a share of energy consumption, and that is a very good thing. But it is not displacing global fossil fuel use. Rather it is covering new energy demand from a growing global population. Oil, natural gas, coal and even wood and dung consumption is as [high](#) as it's ever been. The only major energy source the world has rid itself of is whale oil.

And there is every reason to believe that the speed of the energy transition will be constrained by the higher capital and fossil fuel costs that we have engendered with our policies, coupled with a lack of mining investment in the past decade to supply the raw materials needed to displace fossil fuels: casualties of Environmental, Social, Governance (ESG) financing and burdensome regulatory frameworks.

So what is to be done to advance sustainability in our energy systems, while also ensuring affordability and reliability? Canada is actually in a position to do something about it: the world's second largest country with just 40 million people, we have a resource endowment that can satisfy not only our needs but go a long way to meeting our allies' as well. Canada enjoys world class deposits of oil, natural gas, hydroelectricity, uranium, nickel and potash, and produces every mineral we deem critical. We have been dealt a Royal Flush; we just need to play our cards. To my mind, the goal should be to become an energy and resource superpower.

To become one, Canadians must first think of themselves as one, and believe this is a good thing. But for many, Canada's resource-based economy has been seen through the lens of concern, even embarrassment, by those who have come to believe it is an unsophisticated economic sector filled with unskilled hewers and haulers that drive gas-chugging trucks and convene menacingly in man camps.

In fact, unleashing our potential in resource development would not only result in strong economic growth domestically, but enhance security of supply in North America and allow our energy transition to occur more smoothly and rapidly. By adding to global supply, it would also help ensure affordable and

reliable access to the commodities that are so essential to the material well-being of the world's eight billion people.

It would enhance Canadian soft power globally and provide us leverage by which to advance our values and interests abroad. While countries like Russia, Venezuela, Iran, and Iraq have long utilized their oil and gas assets to advance their respective foreign policies, Canada has created a dependence on one customer. We export 99% of our natural gas and 96% of our oil [south](#) to the United States, because we have simply not built any export capacity to tidewater. Efforts to reduce dependence on a single, shale-flooded customer and build pipelines west to access energy hungry Asian markets have been stymied internally for years in an astonishing economic and foreign policy own-goal. The controversial and belated completion of the Trans Mountain Expansion (TMX) and Coastal Gas Link pipelines will finally break us of this dependence.



What changes need to occur?

If the Canadian public and its political class can come to embrace the economic, security and human development benefits of becoming an energy and resource superpower, what changes need to occur?

First, we need to dramatically improve our regulatory and permitting framework. In its current form it is overly political, ambiguous, ideological and burdensome. There is unnecessary duplication and even contradiction between federal and provincial/territorial processes. The political risk and uncertainty inherent in our system deters investment and undermines productivity. Even the Liberals have acknowledged this and after approving a single project under the 2019 Impact Assessment Act (Cedar LNG in February 2023), committed to reform the process in [Budget 2023](#).

Second, we need to ensure Indigenous nations benefit from the development of resources in their territories and are full partners in projects. Many strategies around training, employment, procurement, environmental protection, heritage preservation and revenue sharing in the form of royalties and payments have evolved over the past two decades. Increasingly, equity ownership is

becoming the standard for Indigenous participation. This is not the solution for every project, but for a good many of them it can be the key to moving projects forward in a way that advances economic reconciliation, demonstrates consent, attracts investment, and simplifies the regulatory process. A national loan guarantee program to support Indigenous equity is one of the best tools we could develop to ensure Indigenous nations are partners and beneficiaries of Canada becoming an energy and resource superpower.

Third, we need to address infrastructure gaps in the Canadian north in order to enable critical mineral development in the vast but largely untapped region. Currently, costs are very high and the region is uncompetitive in attracting mining investment. Most production is limited to gold and diamonds, which are not critical minerals, because they have a very high value to weight ratio and can be flown out where roads and railroads do not exist. In order to stimulate development of energy metals such as copper, nickel, zinc, cobalt, lithium, platinum group metals, and rare earths, and do so in an environmentally responsible manner that achieves social license from northerners, better transportation, energy and communications infrastructure is needed. Advances in small modular reactors, airships and fibre connectivity offer potential in this regard.

And finally, Canada should do its part to address climate change through leadership in clean technologies. We can decarbonize oil sands production and produce net-zero chemicals and hydrogen through world class carbon capture and storage infrastructure in Alberta. We can support the development of small modular reactors to decarbonize our grids and heavy industry, while creating a globally-significant SMR and nuclear supply chain, from engineering and manufacturing to uranium fuel processing, refining and enrichment. And we can ensure affordable and reliable supplies of critical minerals and low-emission fuels to our allies, to support their own emissions reduction goals.

What we should not do is adopt energy and climate policies that dismiss the importance of reliability and affordability. It has been to our detriment that so much climate and energy policy in the past decade has been articulated by activists, academics, politicians and bureaucrats rather than construction, power and oil & gas companies. An energy transition requires the involvement and expertise of those that know how to build, finance and operate energy infrastructure, not their sidelining, as many have argued for. But that too is evolving, and the USA's *Inflation Reduction Act*, if not perfect, at least shepherds in a private sector driven approach to the low carbon energy transition.

Let us not make the perfect the enemy of the good. Energy policies that privilege climate goals over all else will not succeed, and indeed can create significant harm. A call to embrace pragmatism in energy is not about dismissing the urgency of climate action, but about recognizing that affordable and reliable energy is so fundamental to our well-being that the politics of it will override all else. Better to work with this understanding than to fight it. [MLI](#)

About the author



Heather Exner-Pirot has over fifteen years of experience in Indigenous and Arctic economic development and governance. She is currently Senior Fellow and Director of the Natural Resources, Energy and Environment Program at MLI. She has published on Indigenous economic and resource development, energy security, Indigenous workforce development, First Nations taxation and own source revenues, regional Arctic governance, and Arctic innovation. Exner-Pirot obtained a PhD in Political Science from the University of Calgary in 2011.

In addition to her role at MLI, she is currently a Global Fellow at the Wilson Center in Washington DC, a Special Adviser to the Business Council of Canada, and a Research Advisor for the Indigenous Resource Network. She has published over 45 peer-reviewed journal articles, book chapters, and edited volumes, and presented at over 75 conferences and events nationally and internationally. She has chaired or moderated dozens of provincial, national and international panels, workshops and conferences. [MLI](#)

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