



## COMMENTARY/COMMENTAIRE

# National Resources, National Confusion

by Brian Lee Crowley

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### Introduction

If our memories in Canada were not so short, we would know that we have been here before. In 1904, Sir Wilfrid Laurier famously predicted a “Canadian Century.” This was no mere political rhetoric. He laid the foundations for that century in the boom he unleashed during the 16 years of his premiership, a still unbroken record of four back-to-back majority governments.

During those years Canada was home to the largest voluntary peacetime movement of people relative to local population ever seen in the history of the world, as people poured in from every corner of the globe. At its height, immigration was higher in absolute numbers than in Canada today. When Laurier came to power, we were growing 18 million bushels of wheat on the prairies; when he left it was 118 million. Cities like Vancouver and Winnipeg quintupled in size; Calgary, Edmonton, Regina, and Saskatoon became major regional centres.

The movement of people was so great that Laurier had to carve two new provinces out of the western territories and one of them, Saskatchewan, rapidly became the third largest province in terms of population and remained so for 30 years. Other provinces, like Manitoba, Ontario, and Quebec, wanting to cash in on the natural resource boom, had Ottawa push their boundaries north.

One transcontinental railway wasn’t enough to handle all this activity, and by the time Laurier left office we had three. The number of companies chartered grew by a factor of twelve. The value of exports doubled, but the value of construction quadrupled. In brief, while

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manufacturing certainly grew handsomely, the real driver of growth was a natural resource boom, including agriculture, and the concomitant opening up of the west and the north.

The handwringers about Canadians being hewers of wood and drawers of water therefore understand nothing about the true sources of Canada's prosperity in the past or in recent years, nor about what lies ahead. Canada stands astride the world because of the wealth that we have the potential to create here for ourselves and the world at large by developing in an energetic but responsible way our natural resource bounty.

And yet at the very moment when our resources could again fuel a boom like the one over which Sir Wilfrid presided, shadows hover over the road ahead. We have important choices to make about how we will handle the growth that could be ours. The wrong choices will create for us a future of increasingly ill-tempered contention with environmentalists, with Aborigines, with international trade partners, and between regions of the country. The right choices will allow us to put everyone who wants a job to work no matter where they live, to integrate the Aboriginal population into the mainstream of economic life in a way that could erase a terrible stain on the national conscience and spirit, and to make room for even more people wanting to share with us the blessings of freedom, stability, peace, and the rule of law.

Far from being a drag on Canada's progress, natural resources have always underpinned our economy and this has been especially true in recent years. Moreover, it has been and will continue to be the west's vocation within the country to be the principal storehouse of natural resource wealth. Hand in hand with that economic vocation has been the west's gathering strength in terms of population. I don't need to tell you that the recent census tells us that the populations of BC and Alberta together have now overtaken that of Quebec, and that for the first time since the election that pitted English Canada against Quebec over conscription in 1917, we now have a federal government whose majority is not dependent on the province of Quebec.

All of these facts are shaping a new attitude on the part of Ottawa, one that has never been more propitious for the west, a west whose influence has never been greater and can only increase in the coming years. In addition to this gathering of strength of the west, we face huge demographic change, the most potent part of which will be the drying up of the growth of the workforce over the coming decades, a drying up whose unprecedented scale will shake to their very foundations every assumption we have had about the economy and jobs for the last half century.

On the international front we face an America to whom we are linked by free trade and whose best days still lie ahead of it, but who has undeniably fallen temporarily on hard times while losing its ability to think calmly and rationally about its own interests in terms of energy security, as evidenced by the Keystone XL decision. Against this must be put the great drivers of the worldwide commodity boom: the rising nations of Asia.

Finally, we face the breakdown of a national consensus that careful and prudent natural resource development is in the national interest. Simultaneously, awareness is dawning on all of us of the new power of Aboriginal people to exercise something just short of a right of veto over natural resource development.

## **The Role of the Federal Government**

Let me now review what I think each of these trends means from the point of view of the national government because, like it or not, Ottawa has a major role to play as either the midwife of the natural resource boom or as an obstacle and, after all, I do run a national think tank.

Provinces own the resources, but Ottawa controls ports and railways, pipelines and international affairs, the NEB, most Aboriginal and immigration policy, much of the decision-making around environmental assessment, a great deal of the fiscal and regulatory framework, the institutions governing the northern territories, and much else besides. The opportunity that Canada faces is one that cannot be contained within the borders of a single province. Without Ottawa's energetic and enthusiastic stewardship, the opportunities before us will be reduced to a shadow of their potential.

I can affirm that Ottawa knows that, but I do not believe that they have yet grasped the enormity of the task ahead.

### *Natural Resources*

Let's start with what we know about the west and the beating heart of the Canadian economy. It is, of course, exceedingly difficult to project the long term behaviour of the oil and gas sector or any natural resource sector, driven as they are by commodity prices. But if we look solely at the short term, we see that the oil sands are projecting \$20 billion in capital investment annually over the next five years alone. An even greater amount is projected for conventional oil and gas. Uranium, potash, copper, coal, and more – all are facing increased demand and the likelihood of rising prices in the medium term, regardless of short term fluctuations.

According to the *National Post*, there are 36 million affordable homes to be built in China by 2015 under the government's current plan, and even that may not be enough. That is the equivalent of building one house for every single Canadian over the next three years.

All of these houses will require an awful lot of timber, concrete, copper wire, and other commodities. That is only a tiny slice of the opportunity for resource-exporting Canadian companies and anyone savvy enough to invest in them. China's oil consumption alone will rise from about 7 million barrels a day today to over 12 million, according to my friend Gordon Houlden of the China Institute at the University of Alberta.

But China won't be the only one bidding for our oil and other resources. China, like many other major consumers, is acutely aware that 80 percent of the world's oil supply is controlled by state corporations and comes from countries with various forms of political and other stability. Canada is the only major industrialized country that projects a significant increase in its oil exports over the coming decades, and we are an oasis of stability. Countries around the world will be willing to pay a premium for what Canada has to offer. And it won't just be oil: Rio Tinto<sup>1</sup> expects global copper consumption over the next 20-30 years, for instance, to exceed the total historical consumption to date.

Remember that at the beginning of the 21st century, two billion people had no access to commercial energy, while another two billion had access to unreliable and often unaffordable supplies.<sup>2</sup> Rising living standards throughout the developing world are forcing the pace of change, explaining in part why the International Energy Agency expects coal demand to grow by 53 percent up to 2030, potentially reaching over 5 billion ton coal equivalent (TCE).

Canada has what the world wants, not just in our resources, but in the society and institutions that make their stable, safe, and reliable production possible.

### *Demographic Change*

Ottawa is exquisitely aware that, of the three factors that have driven Canada's prosperity in recent decades, the improvement in our terms of trade – that is to say the rising value of what we export versus what we import – has been perhaps the star performer, and natural resources have been the greatest story in our exports. The other two factors have been productivity improvement, where our performance has been lamentable, and our incredible jobs record.

Let me dwell on this last point for a moment: As a result of the baby boom generation, we have over the last 30 years or so enjoyed a not-to-be-repeated demographic dividend whereby the share of the population in work has been very large relative to the population as a whole. Today roughly 70 percent of our working age population is in work, a record unequalled anywhere else in the G7. As a result of population aging, that dividend is about to be withdrawn and we will see a marked rise in the share of dependents in the population, most notably old people.

That means that a Canada determined to up its economic game in the coming decades must both improve its productivity and wring even greater value out of its natural resource and other exports, because henceforth demographic change is going to be pulling down our standard of living rather than increasing it. Other than important marginal adjustments such as delaying retirement, there is little we can do about that demographic change.

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<sup>1</sup> Data available at:

[http://www.investmenttools.com/futures/metals/welcome\\_to\\_the\\_page\\_about\\_copper\\_futures.htm](http://www.investmenttools.com/futures/metals/welcome_to_the_page_about_copper_futures.htm).

<sup>2</sup> See [http://www.worldenergy.org/documents/coal\\_summ.pdf](http://www.worldenergy.org/documents/coal_summ.pdf).

But the demographic change will be transforming many assumptions about the Canadian economy. For example, we have assumed for most of the last 50 years that unemployment is our greatest social and economic challenge. In the next 50 years labour shortages will enjoy that distinction. After having grown 200 percent in the last 50 years, in the next 50 the labour force will only grow by 11 percent.

That will have some long term implications that will be obvious and others less so. For example, the populations of BC and Alberta will continue to grow handsomely, while the population growth in Canada east of the Ottawa River will slow to a trickle. But there is also a limit to how much population can be pulled into these two provinces, and we will see an acceleration of the trend of moving work elsewhere in Canada where the workers already live and where the work does not need to be carried out physically in the westernmost provinces.

Even more than is already the case, natural resource based development will drive prosperity all over the country, including in the making of steel for pipelines and drilling rigs but also in the finance and administration of the industry and the education of its future workers. In spite of the ignorant comments of the current premier for Ontario, Dalton McGuinty, Ontarians will more and more see that their prosperity depends on the good health of the natural resource sector. And this doesn't even begin to take account of the vast natural resource development about to burgeon in BC, in Saskatchewan, in northern Ontario and, most importantly, in the north. Nor does it take account of the vast revolution in Canadian agriculture that is about to be unleashed by rising global populations and incomes, the tailing off of the productivity gains we owed to the Green Revolution, and the tremendous human and natural endowment that make Canada perhaps the country best placed on the face of the earth to respond to the looming era of food shortages; but that is a story for another time.

Quebec, far from driving the national agenda, will see its economic, demographic and political weight continue to fall if current trends continue. Ontario will increasingly uncouple from the old industrial coalition that linked it to Quebec and placed it in opposition to the west (the old power triangle of Montreal-Ottawa-Toronto) and instead see that its new natural axis is the one being built around the Vancouver-Calgary-Toronto axis. That can only be accelerated by the shifting population and political weight whose most potent symbol is the new distribution of parliamentary seats that will redress the imbalance that favoured the old regional coalition.

But this bucolic vision of a future prosperity anchored in Canada's magnificent endowment of natural resource bounty is a future that has yet to be built, although its foundations are already to be discerned.

### *Energy*

I don't need to tell Canadians that the extent to which petty electoral calculations have intruded into America's energy decision making have shaken to the core this country's belief in America's good sense and prudence. Even if we do succeed in getting the Keystone XL pipeline

built (and I still think we will), no reasonable person can look at the stakes for Canada and not conclude that we would be fools to put all our eggs in the eagle's basket.

Add to this the glut of oil now emerging in the United States as the unconventional oil and gas revolution upends our every energy supply assumption. It may take a lot longer than any of us hoped to build the capacity to end the stranded oil price problem in the United States and as long as we remain wholly dependent on America for our oil market, we will be US price takers. That is exactly where a country whose future prosperity depends on increasing the value of its exports cannot afford to be.

And so we look west to Asia as well as south to our traditional US markets. This isn't the place for me to sound the warning that I have sounded elsewhere about the dangers over-reliance on the Chinese, whose good intentions can in no way be taken for granted. What I can tell you is that Ottawa is very aware that no market to whom we might be able to sell a major share of our natural resources is without dangers for the unwary, the PM's recent attempts to ingratiate himself with the Chinese notwithstanding.<sup>3</sup> In these circumstances the strategic imperative is to diversify risk, and I can tell you that no truth has more firmly imprinted itself on Ottawa's consciousness.

But now we come face to face with the nightmares that haunt those of us thinking about Canada's strategic interests and the likely sources of our future prosperity. Every one of the options I have described requires us to increase our capacity to develop our resources and to move them to market. As we are seeing with the debates over Keystone and Northern Gateway, over the Species at Risk Act and the Canadian Environmental Assessment Act, we must now all come to terms with a new reality: The old consensus that well-managed natural resource development projects are in the national interest is breaking down. How we respond will perhaps be the single largest influence on our future prosperity and national power.

Here my report on Ottawa's strategic insights will be somewhat less rosy. It is not that Ottawa does not grasp the problem, but I believe its thinking is timid and too incremental for the challenges ahead.

At exactly the moment when resource investment and development, particularly in the west and the north, seem poised to take Canada to unheard of levels of prosperity, we are discovering the weakness of the institutions we have created to manage such growth in the public interest. Many of these institutions are federal.

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<sup>3</sup> Brian Lee Crowley (2012). "Sell to China, but never change who we are to do so." Hill Times, February 20, 2012. Available at <http://www.macdonaldlaurier.ca/the-hill-times-sell-to-china-but-never-change-who-we-are-to-do-so/>

## *The National Energy Board*

Take the National Energy Board (NEB). An administrative tribunal, it is premised on the idea that Canadians favour the development of their resources, but want that development to proceed in accordance with high standards of safety, environmental protection, and social responsibility. Technical experts, paid for by the state, subject things like pipeline proposals to searching analysis and criticism, ensuring that they meet our standards before proceeding. They are aided in their analysis by a hearing process that allows the gathering of additional and more complete information about proposed projects.

But increasingly a vocal minority sees these regulatory tribunals not as a place to ensure that the rules are followed when we develop our resources, but as a place to argue that such development ought not to be allowed at all.

That is a political and a moral argument that such agencies are not equipped to deal with. There is a world of difference between the assumption that projects that meet Canada's established standards should be allowed to proceed, and the assumption that development *per se* is undesirable and ought not to be allowed to occur.

In the first case, disagreements about whether projects meet our standards can usually be resolved by science and reason. In the second case, we have disagreements over values and beliefs, such as whether a pristine environment ought to trump economic growth and job creation.

It is not that such disagreements cannot be grappled with in a democratic society such as ours. Rather it is that regulatory tribunals are not the place to do so. Conflicts about beliefs and values are properly resolved – indeed can only be resolved – in the political arena. We have to separate the question of whether we want natural resource development from the one about whether specific projects play by the established rules.

The stakes are enormous. Under the current dispensation, thousands of people can sign up to participate in the NEB's hearings, causing enormous delay while manifestly not contributing to the tribunal's goal of ensuring a reasoned consideration of the project's merits.

With western Canadian oil and gas production on track to exceed pipeline capacity to markets within a few short years, the successful blocking of new pipelines would have the effect of stranding new production and forgoing billions of dollars of investment and thousands of new jobs across Canada. Such hijacking of the regulatory process allows a vocal minority to achieve indirectly what they could likely not win through legitimate democratic debate: The power to block natural resource development.

At the moment, the government's thinking on the issue is largely incremental. They are thinking of small administrative fixes, such as going back to old public hearing procedures that forced people bringing similar points of view to group together and make shortened consolidated

presentations. I have to tell you that the environmental movement, now financed by large international foundations able to marshal a large international following and able to use emotion and fear as weapons with no accountability, is unlikely to be fobbed off so easily.

I believe that a large effort is needed to recreate a new national consensus, an effort that engages Canadians and assures them that they can have confidence that such development in Canada will be carried on in an open and accountable manner, according to the highest environmental and ethical standards.

The old days of simply being able to force these things through because they were too big to fail and too important to obstruct are over. The time is upon us when we must decide whether we want to continue to fight rearguard actions against politicized minorities with major resources and the ear of the Canadian public, or if we are going to get the Canadian public on board and rob the minority, for whom development is always to be opposed on principle, of the audience that gives them political power in Canada.

We cannot leave the job to administrative tribunals like the NEB and others, because it is not and cannot be their role to mediate between those who favour development and those who oppose it. Indeed their work is premised on the existence of an assumption that development in accordance with the rules *is* in the national interest. The argument about development, pro and con, has to be taken to the public as part of the political process and we must win the argument on its merits.

I have suggested elsewhere a new national royal commission as one vehicle.<sup>4</sup> There are others. But Ottawa is not there yet. They are still hoping that incremental adjustments will allow us to muddle through. I hope they are right, but my doubts are deep and abiding.

### *First Nations*

Aboriginal people represent a related but quite distinct problem on which I can do no more than touch lightly. A combination of unextinguished Aboriginal title, an activist judiciary breathing new life into treaties, and the elevation of such rights to constitutional status has created an ill-defined Aboriginal right to be consulted and, to some degree, to be involved in and compensated for natural resource development. The very tentativeness with which I have stated the issue helps us to understand the problem created. No one knows how extensive these rights are, who is entitled to exercise them, or how we are to distinguish claims with a good chance of success from the spurious and the exaggerated. At the same time, the First

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<sup>4</sup> Brian Lee Crowley (2012). "Canada's monumental economic challenge: Our increasingly schizophrenic attitude to natural resource development." Hill Times, January 23, 2012. Available at <http://www.macdonaldlaurier.ca/the-hill-times-canada%E2%80%99s-monumental-economic-challenge-our-increasingly-schizophrenic-attitude-to-natural-resource-development/>

Nations and Inuit have enjoyed an impressive, indeed, an almost unbroken string of court victories in seeking to vindicate their rights.

Again the old system of governments and industry bulldozing opponents is coming to an end, and probably rightly so. The simple fact of the national interest favoring such projects does not and cannot mean that we can simply wish away the newfound power of the First Nations and Inuit. New accommodations must be found. I must tell you frankly that agreements that have been struck, with, for example, the Gwich'in, the Inuvialuit, the Cree in northern Quebec, and elsewhere; they show that agreements are there to be made.

If we want to reduce the terrible costs in negotiation, uncertainty, and delay that we are increasingly encountering, we must find ways to engage First Nations positively, to help them to overcome their distrust and their fear of being taken advantage of. I have been invited into the offices of Aboriginal organizations at their instigation to help them think through what the outlines might be of a standardized approach to natural resource development that would relieve much of the uncertainty for developers while assuring the Aboriginal people of Canada that development can and will redound to their benefit.

Consider the problems of a future of labour and skill shortages. Aboriginal people are the youngest population in the country. Natural resources are usually found in remote rural areas, which is precisely where many Aboriginal reserves are to be found. Put all that together with a new generation of Aboriginal leadership like Shawn Atleo, Manny Jules, Clarence Louie, and Calvin Helin, people who want to break the cycle of dependency in which so many Aboriginal Canadians have been trapped, and we have the ingredients permitting us to use the natural resource boom also to help us break out of pathologies that have trapped us all in relations between Aboriginals and non-Aboriginals. The old incrementalism will not do.

## **Conclusion**

Does Ottawa get this? It is starting to. This year I chaired all of Finance Minister Jim Flaherty's pre-budget consultation round tables across the country, including in Vancouver and Calgary. After those two events, the minister went away deeply impressed by what he had learnt about how the uncertainty occasioned by unclear Aboriginal rights of various sorts was an obstacle to development and was hurting Canada's reputation abroad as a safe haven for investment. But recognizing that there is a problem is not the same as having a solution. For some time now Ottawa's attitude has largely been to put its head in the sand and let Aboriginal people and developers battle it out in the courts and hope for the best. Just as with the environmental movement, this is no longer good enough when the stakes for Canada are so high.

The west's moment is now and this region has seized the economic, political, and intellectual leadership of the country. Not since Laurier's day has Canada been as open and attuned to the west's potential. Demographic and other changes make the old Central Canadian mechanisms of political control of declining importance. But new dangers lurk. The west will not have it all

its own way, and there will be a price to pay to get politically powerful new interests, like  
Aboriginals and the reasoned part of the environmental movement, to embrace the future you  
and I can see shimmering in the distance. The longer we wait to take them seriously, to engage  
with them, and to disarm their reasonable fears, the greater will be the price that will be  
exacted in lost jobs, lost investment, and a declining standard of living.

Ottawa sees the prize. I am not convinced they have understood all that remains to be done to  
seize it, and I hope that, if you share the vision I have laid out here for Canada's future, that you  
will add your energy to the efforts to change the current state of affairs. Sir Wilfrid would  
expect nothing less from all of us.



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