

The Impact of Federalism on the Evolution of the North American Energy Sector

by **Earl H. Fry**

Professor of Political Science and
Endowed Professor of Canadian Studies
Brigham Young University

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The author

Earl H. Fry

Professor of Political Science and
Endowed Professor of Canadian Studies
Brigham Young University 774 SWKT
Provo, Utah 84602
earl_fry@byu.edu

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North American Forum on Integration

4519 Saint - Denis
Montreal (Quebec)
Canada H2J 2L4
Phone : 1 (514) 844-8030
Fax. : 1 (514) 844-2030
info@fina-nafi.org
www.fina-nafi.org



Escuela de Graduados en Administración Pública y Política Pública

Eugenio Garza Sada 2501
CP 64849
Monterrey NL. México
Phone: 01 (81) 8158-2218
Fax: 01 (81) 8358-2000
egap.mty@servicios.itesm.mx
www.itesm.mx/egap



Consejo Mexicano de Asuntos Internacionales, A.C.

Campos Eliseos No. 345, Piso 6, Polanco, México, D.F., 11560 ·
Tel (52-55) 5279-60-87/88
Fax (52-55) 5279-60-91
correo@consejomexicano.org
www.consejomexicano.org

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THE IMPACT OF FEDERALISM ON THE EVOLUTION OF THE NORTH AMERICAN ENERGY SECTOR

Earl H. Fry

Professor of Political Science and
Endowed Professor of Canadian Studies
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The North American Free Trade Agreement (NAFTA), which went into effect in 1994 and will be fully implemented by 2008, exemplifies the growing interdependence between Canada, Mexico, and the United States. Figure I (page 10) illustrates various dimensions of North American interdependence. For example, Canada and Mexico rank as the two leading trading partners of the United States. U.S. exports to Canada actually surpass its exports to the entire European Union (EU), even though Canada has fewer than 32 million people and the EU has 380 million inhabitants. U.S. exports to Mexico are almost twice as large as its combined exports to Central America, the Caribbean, and South America. Since the implementation of NAFTA, U.S. trade with Canada and Mexico has grown much more rapidly than with the rest of the world, climbing from 31.5 percent of all U.S. exports in 1993 to more than 37 percent in 2002. U.S. direct investment north and south of its border has also climbed rapidly, with U.S.-owned companies in Canada producing the equivalent of 10.3 percent of Canada's gross domestic product (GDP) and providing 1.15 million jobs within Canada. Since NAFTA's inception, U.S. direct investment in Mexico has been growing at an even more rapid rate than with Canada, with U.S.-controlled enterprises holding 115 billion dollars in assets in Mexico and employing 1.05 million Mexican workers.ⁱ As for Canada, its direct investment in the United States stood at 92 billion dollars at the end of 2002 and its companies have recently made sizeable investments in the U.S. energy sector.ⁱⁱ

NAFTA is a partnership of the world's largest, eighth largest, and ninth largest economies, according to the World Bank's gross national income (GNI) rankings in 2002. However, the North American economic relationship is asymmetrical, with Canada and Mexico being much more dependent on access to the huge U.S. marketplace than vice-versa. The U.S. population base is almost three times larger than Mexico's and almost ten times larger than Canada's. The GNI differential is even greater, with U.S. GNI 14

times larger than Canada's and 17 times larger than Mexico's. Over 80 percent of all Canadian and Mexican exports are destined for only one foreign market, the United States, and these exports account for over one-third and one-fifth respectively of each country's annual production of goods and services.

This paper will concentrate on a rather unusual dimension of the very extensive and elaborate North American economic relationship, the impact of federalism on continental energy cooperation and security. Joseph Dukert asserts that "trilateral cooperation among the three sovereign nations of North America is arguably more advanced in the field of energy than in any other aspect of everyday life."ⁱⁱⁱ There are only 25 nations out of almost 200 in the world today which maintain federal systems of government, and three of them are members of NAFTA. The three sovereign nations referred to by Dukert are governed by three national governments, 92 major subnational governments in the form of states and provinces, and over 100,000 additional county, municipal, township, village, and special-district forms of local government. The paper will explore how modern-day federalism is currently affecting North America's energy relations and what effect it might have on this relationship over the next two decades.

NORTH AMERICAN ENERGY COOPERATION

In very simplistic terms, Canada and Mexico are major energy exporters, and the United States would like to buy the lion's share of these exports in the form of crude and refined petroleum products, natural gas, liquefied natural gas (LNG), and hydro or nuclear-generated electricity. Canada already ranks as the number one foreign supplier of energy to the United States, ranking ahead of Venezuela and Saudi Arabia in shipping petroleum products and providing almost all of the U.S. natural gas and electricity imports. According to Alberta's energy minister, his province alone supplied enough natural gas to the United States

in 2002 to provide the energy equivalent needed to furnish lighting for one of every 7 ½ households.^{iv} In the year 2000, Mexico also furnished 9 percent of total U.S. energy imports. President George W. Bush has clearly stated that strengthened North American energy cooperation is a major priority for his administration and his national energy plan of 2001 emphasizes that a significant goal is to “make it easier for buyers and sellers of energy to do business *across national boundaries*.”^v To help achieve this goal, the three nations created the North American Energy Working Group (NAEWG) in 2001 which is comprised of the energy secretaries from Mexico and the U.S. and the natural resources minister from Canada. The group meets frequently in an effort to facilitate cross-border energy transactions and to work toward greater transparency in overall energy policy. Energy regulators from the three countries have also begun to meet on a regular basis to compare notes and to decide whether or not a convergence can occur in the field of North American energy regulation. A concrete step has been taken in this direction with the tripartite agreement to establish minimum energy efficiency standards for a variety of household appliances.

FEDERALISM AND ENERGY COOPERATION

In formal terms, Canada maintains the most decentralized system of federalism, with the ten provincial governments maintaining control over and regulating the use of natural resources located within their areas of jurisdictions. For its part, the federal government in Ottawa retains jurisdiction over the rules governing interprovincial and international trade. One of the most bitter federalist battles over the control and distribution of energy occurred in Canada in the 1970s following the rapid rise in global oil prices instigated by the OPEC countries. Alberta, which has a preponderance of Canada’s oil and natural gas reserves, wanted to sell its petroleum products across Canada at the escalating global prices, but the national government led by Pierre Trudeau insisted that this would be harmful to Canada’s national interest and that intra-Canada petroleum prices must be regulated. Alberta’s provincial government hinted that it might retaliate by cutting off the production of oil within the province, only to have Trudeau threaten to take over control of the oil fields for the maintenance of “peace, order, and good government” within Canada as a whole. Eventually an uneasy compromise would be reached between Edmonton and Ottawa, but the era under the Foreign Investment Review Agency and the National Energy Policy, which resulted in severe

restrictions on foreign investment activity in certain parts of the energy sector, prolonged the period of tense relations between the national government and the energy-rich Western provinces.

In the United States, federalism is more centralized than within Canada, but state and local governments do have significant day-to-day authority in determining the terms of access to energy for their citizens. The National Governors’ Association emphasizes that states deal with (a) electric and gas utility industry restructuring, (b) the needs and issues of industry, business, and residential energy consumers, (c) energy efficiency, (d) energy-related environmental goals, (e) cost-effective advanced energy efficiency, renewable energy, and other clean energy technologies, (f) the management of certain federal energy research, development, deployment, and demonstration programs, and (g) energy conservation.^{vi} The federal government has limited explicit powers in this arena, and does not even have direct authority to regulate the reliability of the nation’s electricity transmission lines. However, the federal government has at its disposal very powerful weapons if it ever desires to confront subnational governments in their regulation of the energy field. The U.S. constitution is very clear in providing Washington, D.C. with a “big stick” linked to the commerce and supremacy clauses and to its overall preemption powers.

Mexico has by far the most centralized federal system in North America, and the one-party PRI dominance from 1929 until 2000 resulted in a further centralization of governmental authority and the relegation of federalism to the status of “window dressing.” The victory of the PAN’s candidate, Vicente Fox, in the 2000 presidential elections, has provided an opportunity for the Mexican states to exercise a little greater policy latitude. However, within the energy sector, Articles 27 and 28 of the Mexican constitution clearly mandate that “the Nation” shall exercise control over natural resources. Modest and at times disputed influence might be exercised by some aboriginal groups and *ejido* communes, but Mexico City continues to call the shots and dominates in almost all facets of natural resource and energy policies.

Nevertheless, one should not underestimate the capacity of state, provincial, and local governments in North America to influence the course of future continental energy relations. Among the 200 nation-states in the world today, 3 U.S. states would rank in the top10 measured by GDP, 22 states within the top

25 nation-states, and all 50 with the top 72 nations.^{vii} California alone has a larger population base than Canada's and a larger production base than Canada and Mexico combined. In Canada, four provinces would rank among the top 40 nation-states and eight among the top 80. The Federal District in Mexico would rank among the top 32 nation-states and the state of Mexico would rank among the top 50. In addition, the annual budgets of several states and provinces actually surpass those of most nation-states.

Moreover, these state and provincial governments are becoming much more engaged in international and continental affairs. At the end of 2002, 37 states and Puerto Rico had 243 foreign offices or foreign representatives, up from just four in 1980. Most governors lead international trade missions annually and about 1,000 state employees work on international programs with an overall annual budget of 190 million dollars.^{viii} Twenty-one states maintain offices in Mexico and 12 in Canada, in part because Canada is the number one export partner for 39 of the 50 states, and Mexico for 3 additional states. Figure II (page 10) indicates the cross-border state and provincial government associations which currently exist in an effort to exchange perspectives and coordinate on a broad range of policy issues.

Some of the Canadian provincial governments are even more actively involved than their U.S. counterparts in the international arena. The Quebec government alone has almost as many employees working on international programs as the 50 U.S. states combined and it maintains 24 foreign offices in 14 different countries, including seven in the United States and one in Mexico. Ontario has 230 employees working on international programs and has begun to open up a few foreign offices after having closed 19 such offices in the 1990s. Alberta maintains nine foreign bureaus and has 50 people engaged in international pursuits, and British Columbia operates one foreign office but has almost 100 employees working in the international sector. All of the Canadian provinces send trade and investment missions on a periodic basis to the United States, and less frequently to Mexico. In the energy arena, Premier Ralph Klein of Alberta met directly with Vice President Richard Cheney in Washington in June 2001 and again in June 2003 to discuss future North American energy cooperation, and Premier John Hamm of Nova Scotia had a teleconference session with Cheney in December 2001 to discuss energy issues in the turbulent period after the destructive events of September 11.

Among the subnational governments in North America, Alberta has arguably been the most activist in pushing within Canada for a more effective federal-provincial dialogue on energy issues, and within North America for greater continental collaboration. Within Canada, Alberta proposed in June 2001 a fairly lengthy "Understanding" among the provinces and territories which would establish a mechanism providing "for the full participation of the provincial and territorial governments with the federal government in the implementation, management and further elaboration of the North American energy relationship in accordance with this Understanding."^{ix} The document has never been ratified but does provide a concise model for building cooperative links in the energy sector between the major levels of government in Canada's federal system. At the continental level, Premier Klein has had the two aforementioned meetings with Vice President Cheney and the Alberta government expects to host President Fox during the summer of 2004 after Fox has hosted Klein in Mexico City in September 2002. The provincial government also announced that it would open its own office in Washington, D.C. within the next few months, following in the footsteps of the office which it opened within the Canadian Embassy in Mexico City in 2002. In addition, Alberta's Ministry of International and Intergovernmental Relations dispatched a long letter to U.S. Secretary of Energy Spencer Abraham in April 2001 outlining the province's perspectives on how continental energy exchanges could be enhanced, and provincial representatives have worked very closely with state governments in the U.S. West to expand energy linkages on a cross-border basis.^x Alberta has also participated in some of the meetings of U.S. energy groups, including the U.S. Energy Council and the Interstate Oil and Gas Compact Commission.

Mexican state governments are beginning to reach out to strengthen their international ties, especially with neighboring U.S. states. In addition, the governors of Yucatan, Hidalgo, Nuevo León, and the State of Mexico are among those who have recently traveled to Washington, D.C. to meet with members of the US-Mexico Binational Council and to share their perspectives on energy and other related issues. The Mexican federal government has also established an extensive network of 44 consulates in the United States in an effort to service some of the needs of the burgeoning Mexican and Mexican-American population which surpassed 25 million in 2002.^{xi} Representatives of these consulates also interact on a

regular basis with officials from U.S. state and local governments.

THE FUTURE IMPACT OF FEDERALISM ON NORTH AMERICAN ENERGY RELATIONS

The North American energy sector has been in some turmoil in recent years. The August 2003 blackout affected 50 million people in Ontario and the U.S. Midwest and Northeast, causing an estimated six billion dollars in economic losses.^{xiii} This blackout was preceded by a half dozen other major blackouts between 1965 and 1998 which affected the U.S. Northeast, Midwest, and West, Ontario, and portions of the Canadian West and Baja California. Residents of California have suffered through a series of energy crises which helped bring about the unprecedented recall of Governor Gray Davis. As a recent California government publication emphasizes, “in three short years, California has weathered an electricity crisis, unparalleled natural gas spikes, and the highest gasoline prices in the nation.”^{xiii} Corporate scandals in the energy sector, personified by the infamous Enron affair, have also proliferated.^{xiv} The route and financing of the Alaskan pipeline have still not been settled, and drilling in the Arctic National Wildlife Refuge (ANWR) remains a priority item for many Republicans on Capitol Hill and in the White House. Canadian natural gas exports to the United States decreased in 2003 and some are arguing that the depleting gas reserves should be left in the ground for future generations of Canadians instead of being exported south of the border.^{xv} Some provincial governments have also disagreed with Ottawa over the implementation of the Kyoto Protocol, arguing that Canada’s energy sector and overall economic competitiveness will be harmed, especially when Canada’s nearest neighbor has refused to ratify the Kyoto provisions. Mexico struggles to provide enough energy for its own people and needs to attract much more foreign investment in order to develop a panoply of energy resources and transmission grids, but keeps in place rather onerous investment restrictions in the energy sector first imposed by President Lázaro Cárdenas in 1938, a policy still widely supported by the Mexican public. The Fox presidency has also been greatly weakened by the poor showing of the PAN in the 2003 congressional elections and by how few of the presidential proposals have been transformed into law by the two chambers of Congress. With federalism being in its nascent form under President Fox, will it revert back to its window-dressing status after the next presidential election in 2006?

The three national governments’ relations with their aboriginal populations may also impact future continental energy relations. Aboriginal rights over natural resources have been strengthened in the Canadian federal territories and some provincial governments have also been willing to concede that native groups should have more control in certain areas. The Quebec government has had an uneasy relationship with the Cree for decades as it sought to develop hydro-electric facilities near James Bay. An initial agreement did go into effect but the Cree fought an accord which years later would have greatly expanded facilities along the Great Whale River. The Cree mounted a successful international publicity campaign to kill the project, including direct appeals to Hydro-Quebec’s customers in the state of New York. A new accord which will permit construction along the Rupert River has now been reached between provincially owned Hydro-Quebec and the Cree tribal leadership, but some rank-and-file tribal members have expressed their dissatisfaction with the terms of the agreement.^{xvi} The power generated by Hydro-Quebec not only services Central and Eastern Canada but also New York and New England. Consequently, what transpires between Hydro-Quebec and Cree officials in the future will certainly have international repercussions.

In the United States, there has been an ongoing dispute between the Department of Interior and native groups concerning control over and royalty payments for oil, gas, and other natural resource deposits. Native groups claim that they have been grossly underpaid for resources which they permitted the federal government to develop, and a class-action suit involving a half million Indians has been filed in the federal court system.^{xvii} The Navajo nation, which is the largest Indian tribe in the United States and controls 18 million acres cutting across Arizona, New Mexico, and Utah, is also pushing for greater recognition of its control over natural resources on its lands, and for compensation for the underpayment of royalties by the federal government since the 1950s.^{xviii} The sovereign jurisdiction granted to indigenous movements in the United States has also resulted in tensions between tribal and state governments. For example, the Skull Valley Goshute tribe, which numbers 124 people and controls a small patch of land in Utah, has signed agreements with a number of utility companies to become a depository for their hazardous waste, a stance bitterly opposed by the state government of Utah, its congressional delegation, and most of the 2.2 million residents of the state.

The Zapatista movement in Mexico has clamored for the right of indigenous groups to control the use and distribution of natural resources on land which they claim. Many other native groups have also been pushing for similar recognition, but little has been accomplished in terms of formal agreements with Mexico City. Mexico has by far the largest indigenous population in North America and this disagreement over the rights of native groups to land, natural resources, and the development of energy sources could emerge as a more contentious issue in the decades ahead.

For a number of reasons, federalism could be a deterrent to strengthening trilateral energy relations and security arrangements between Canada, the United States, and Mexico over the next 20 years, with many of the potential obstacles concentrated in the United States.

First, U.S. state and local governments continue to exercise significant control over the extraction of natural resources, the development and transmission of energy, the regulatory standards which will govern this development and transmission, and the disposal of waste linked to the use of energy. Maryland has recently put in place energy efficiency requirements for small appliances which are much more stringent than those agreed to by the three North American governments.^{xxix} Nevada continues to fight the federal government's efforts to turn Yucca Mountain into a repository site for nuclear waste. Various states will not permit new electrical generation facilities to be built on their territory, nor will they allow pipelines, transmission lines, or LNG facilities to be constructed in areas which would seem to be optimal in terms of the overall energy needs of the nation or the continent. The NIMBY syndrome is also alive and well in many states and urban areas. The Los Angeles Department of Water and Power was established in 1902 and began to engage in electricity distribution in 1916. Much of its electricity today comes from the Intermountain Power coal-fired facilities in the deserts of Utah, facilities which it helped to build. This power is then transmitted over 700 miles to Los Angeles because local residents do not want such facilities located in their region.^{xxx} California is dependent on power supplied not just from other Western states, but also from Canada and Mexico, and its state government is pushing for pollution standards to be imposed on new facilities in northern Mexico which are more stringent than those in the United States, fearing that the pollution would cross the border and be injurious to residents of southern California.

Secondly, control over and the regulation or deregulation of the energy sector in the United States represents an administrative labyrinth. The infrastructure is already the most extensive in the world, with 5,000 power plants, 150,000 miles of electricity transmission lines, and two million miles of oil pipelines.^{xxxi} As the California Energy Commission laments, "the permitting of transmission lines in California currently suffers from jurisdictional responsibilities that are fragmented and overlapping, environmental analyses that are inconsistent, and inadequate consideration of regional and statewide benefits. As a result, existing permitting processes create duplication between local, state, and federal agencies, delay in approvals, and denial of needed projects."^{xxxi} State and local government law-enforcement officials also bear much of the brunt for ensuring physical security for energy transmission and continue to complain that inadequate funds have been transferred from Washington to bolster such security arrangements in the aftermath of 9-11.

Thirdly, state governments are increasingly engaged in establishing standards linked to renewable or alternative energy sources or vehicle emissions. California has the toughest vehicle-emission standards in the nation and because it is the most populous state with the largest gross state product, vehicle manufacturers must pay attention to its demands. California has also mandated that a certain percentage of vehicles sold in the state be powered by sources other than the conventional internal combustion engine, with 60,000 cars, transit buses, and trucks already operating on natural gas and liquefied petroleum gas and another 13,000 vehicles on electricity.^{xxiii} Several states have also mandated that renewable energy sources must comprise an increasingly larger segment of their overall energy market. For example, California has mandated that private utilities provide 20 percent of their electricity from renewable sources by 2017, and New Mexico enacted a new law in March 2004 requiring that local utility companies derive at least 10 percent of their power from renewable energy sources by 2011, although these standards could certainly be altered in the future depending on the energy outlook over the next decade.^{xxiv} Provisions put in place by some New England states actually discriminate against imported hydro power, a situation which prompted a vigorous protest from Hydro-Quebec.^{xxv}

And finally, state and local governments, in combination with environmental groups, represent a formidable combination in efforts to block or delay

energy-related projects through lawsuits filed in state and federal courts. The Bush administration attempted to lower efficiency standards for central air conditioners, but this effort was thwarted by lawsuits filed by several state governments and environmental organizations.^{xxvi} A few state governments would like to implement some of the standards called for under the Kyoto Protocol in order to combat global warming related to power-plant and other types of pollution, and may be willing to confront the federal government in the courts.^{xxvii} The United States is arguably the most litigious nation on earth, and state and local governments are not hesitant to defend their own energy and environmental policies in the judicial system.

In Canada, because its conventional oil and particularly natural gas reserves are being depleted, one or more governments in energy-producing provinces could conceivably decide at some point over the next decade to cut back on production in order to save the finite resources for future generations of Canadians. As one critic of current Canadian federal and provincial government policies sardonically notes, Canada would be better off if “gas used to heat American swimming pools had lower priority than gas used to keep the kids unfrozen in Thunder Bay or Trois-Rivières.”^{xxviii} Such a provincial policy may or may not be viewed favorably in Ottawa, but it is doubtful that the federal government would step in to force that province to pump more oil and gas solely for export purposes. Conversely, Canada is obligated to maintain a certain level of energy exports to the United States, and this is to be proportionate to the amount of energy being distributed across Canada itself.

On the other hand, energy companies and national governments are not without recourse in fighting back against state or provincial government policies or tactics. NAFTA’s controversial Chapter 11 does mandate national treatment be accorded to all North American companies, and the Metalclad case linked to waste disposal in San Luis Potosi which was settled in favor of the U.S.-based company, and the unresolved case in which Vancouver-based Methanex Corporation has targeted environmental practices in California, illustrate that companies may be entitled to compensation for “wrongful” actions on the part of subnational governments, compensation which is to be paid, ironically, by the national government which loses the case. Nonetheless, even Chapter 11 cannot guarantee that the project will be able to proceed as originally planned. Furthermore, national

governments are very hesitant to pay the political price of taking on their constituent governments, even if they have the constitutional authority to do so. Washington never did challenge the right of California and about a dozen other states to impose unitary taxation, a system which taxed multinational corporations on the basis of their global earnings and not just on their earnings within a state. Arguably, unitary taxation was a form of double taxation which violated U.S. tax treaties with several nations around the globe. However, California had 53 of the 435 seats in the U.S. House of Representatives in the 2000 election and accounts for one-fifth of the votes needed to select the president in the Electoral College. This political clout prompted silence on unitary taxation in Washington, in spite of pressure from Great Britain and other close allies to put an end to the practice. When Barclays Bank of Great Britain finally took the state of California to court over the issue, the U.S. Supreme Court eventually ruled that California had the right to enact unitary taxation so long as the U.S. Congress remained silent on the issue. In the energy field, both Congress and the White House can be expected to remain silent on a variety of state government actions because they are not prepared to pay the political price for taking on California and other powerful subnational government actors.

FUTURE POLICY OPTIONS

The need for greater energy output and security in all three North American nations is abundantly clear, as is the need to modernize an aging energy infrastructure and to be more efficient in the use of energy.^{xxix} Each national government should be expected to work with its subnational counterparts to enact conservation measures and the practical development of alternative and renewable energy sources so that the depletion of oil and natural gas reserves can be slowed. New technology and higher energy prices in general are also making it economically feasible to develop the oil sands in Alberta, coal bed methane along the Powder River Basin in Wyoming, and off-shore locations in all three nations. In addition, the United States has a 250-year supply of coal, a resource which already accounts for 52 percent of the nation’s electrical generation.^{xxx} New technologies to develop this resource, transport it, and burn it cleanly and efficiently could also dramatically change the energy outlook for the continent. Routes for the construction of pipelines and transmission lines which cross national boundaries should be decided by the national governments, but in close consultation with the impacted subnational

governments. Canada is the best prepared to carry on national-subnational government exchanges through its First Ministers' Conferences and the newly created Council of the Federation which represents the provincial and territorial premiers. The White House should agree to hold regular consultations on energy issues with the National Governors' Association, and the Mexican government can give greater credibility to its federal system by putting in place regularly scheduled meetings with the state governors. Up until the present, the overall input of subnational government leaders on future directions to be pursued by their national governments has been greatest in Canada, very sporadic in the United States, and virtually non-existent in Mexico.

The cross-border organizations listed in Figure II (page 10) can also help coordinate subnational government energy policies on a regional basis. As an illustration, the Council of Atlantic Premiers has been working on increasing security and sustainability of energy on a regional basis.^{xxxix} These four Atlantic provinces, along with Quebec, also work closely with the organization of New England Governors and Eastern Canadian Premiers to harmonize some of their energy and environmental policies on a cross-border basis, as have the states, provinces, and territories associated with the Pacific North West Economic Region (PNWER). The Western Governors' Association, which represents 21 Western states and U.S. territories in the Pacific, has pursued an aggressive energy agenda and sponsored a North American Energy Summit in April 2004 which brought together political leaders and experts from all three NAFTA member countries. This regional and cross-border cooperation should also lend support to the harmonization of certain energy policies and security measures on the part of the three national governments.

Nevertheless, the development of a comprehensive North American energy policy, including energy security, is easy to talk about but very difficult to implement. The three national governments have their own energy agendas which at times differ substantially because they must cater to very distinct domestic constituencies. The energy and environmental priorities of states and provinces within the same nation-state may also be quite distinct. For example, Texas has dispatched its own observer to OPEC meetings for many years and it generally favors high oil and natural gas prices, meaning that it has more in common on this issue with Alberta, which in 2002 produced about 60 percent of Canada's oil and 80 percent of its natural

gas, than it has with California or Massachusetts.^{xxxix}

Significant differences on a variety of energy issues also exist between Alberta and Ontario, Connecticut and Alaska, and Tabasco and Nuevo León. However, in spite of a notable divergence of some policies among the three nations and within each country, some degree of harmonization in energy policy and agreement on compatible regulatory frameworks should be feasible. For example, North American Electric Reliability Council (NERC) standards related to electricity generation and distribution should be agreed to by national and subnational governments alike, especially after the August 2003 blackout which could be traced to the lax implementation of standards in Ohio. Some harmonization should also be possible related to development, distribution, safety, emissions, and security standards linked to the use of oil, gas, coal, hydro, nuclear, LNG, as well as wind, solar, biomass, fuel cell, geothermal, and other renewable sources. Ottawa, Washington, and Mexico City should also establish a mechanism within the North American Energy Working Group for state and provincial governments to provide comments and suggestions on a regular basis. More specifically, one meeting per year of this group could include participation by one delegate selected by the Canadian premiers, and one each selected by the U.S. and Mexican governors. This process would lead to much more effective interaction on an intergovernmental basis and facilitate the harmonization of energy policies and energy security on a continental basis.

In terms of federalism, periodic and meaningful two-way communication on pertinent issues between national and subnational government leaders, and at times aboriginal representatives, can definitely help alleviate some of the roadblocks which stand in the way of more efficient North American energy cooperation and security.

FIGURE I
INTERNATIONAL EVENTS ARE TRANSFORMING LIFE IN NORTH AMERICA

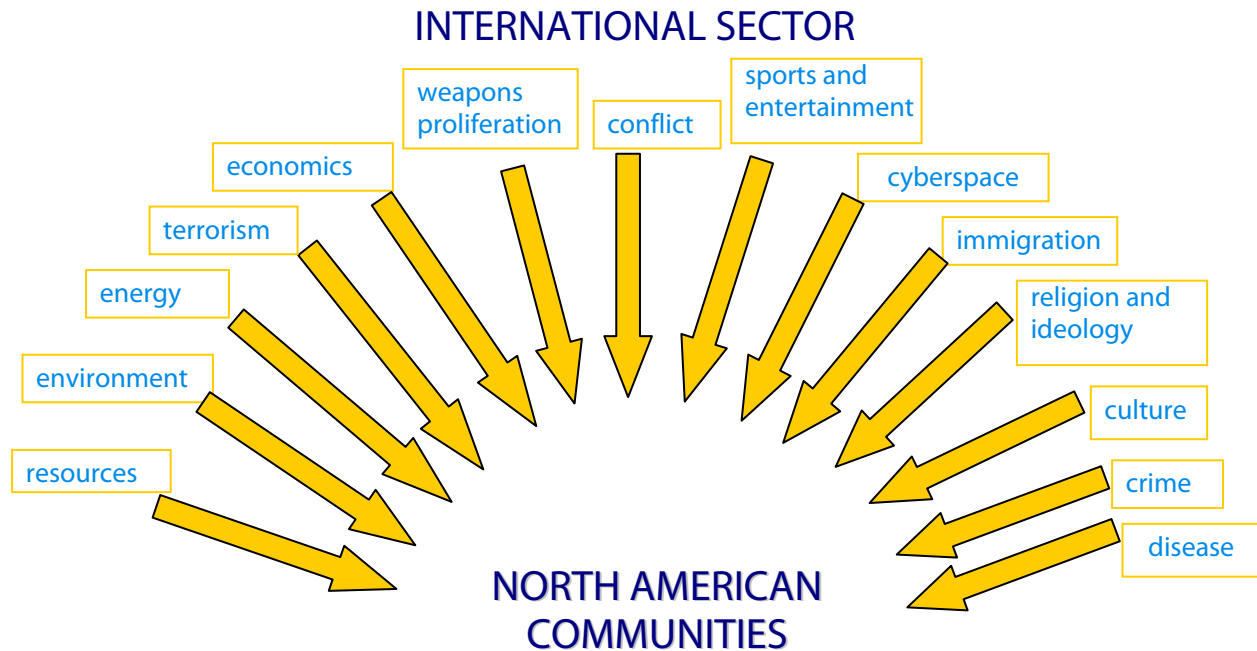


FIGURE II
BORDER COMMISSIONS AND GROUPS

Border Governors' Conference

(Arizona, California, New Mexico, Texas; Baja California, Chihuahua, Coahuila, Nuevo León, Sonora, Tamaulipas)

Border Legislative Conference

(Arizona, California, New Mexico, Texas; Baja California, Chihuahua, Coahuila, Nuevo León, Sonora, Tamaulipas)

Chihuahua - New Mexico Border Commission

Commission of the Californias

(California, Baja California Norte, Baja California Sur)

Council of Great Lakes Governors

(Illinois, Indiana, Michigan, Minnesota, New York, Ohio, Pennsylvania, Wisconsin; Ontario and Quebec [associate members])

Idaho-Alberta Task Force

Montana-Alberta Bilateral Advisory Council

New England Governors and Eastern Canadian Premiers

(Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont; New Brunswick, Newfoundland and Labrador, Nova Scotia, Prince Edward Island, Quebec)

Pacific Northwest Economic Region (PNWER)

(Alaska, Idaho, Montana, Oregon, Washington; Alberta, British Columbia, Yukon Territory)

Sonora-Arizona Commission

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- vii. This is based on World Bank rankings of nations for 2002 and U.S. Department of Commerce estimates of gross state products for 2001.
- viii. Adrienne T. Edisis, "Global Activities by U.S. States: Findings of a Survey of State Government International Activities," paper prepared for the Elliott School of International Affairs, George Washington University, July 2003.
- ix. A copy of the Understanding was provided to the author by Alberta's Ministry of International and Intergovernmental Relations.
- x. This information was provided in an e-mail message to the author from Alberta's Ministry of International and Intergovernmental Relations dated 23 February 2004, a message which included several attachments.
- xi. Roberto R. Ramirez and G. Patricia de la Cruz, *This Hispanic Population in the United States, March 2002* (Washington, D.C.: U.S. Bureau of the Census, 2003), p. 2.
- xii. The estimate of economic damage was made by Standard & Poor's. See U.S. Department of Energy, Office of Electric Transmission and Distribution, "Where We Are," 2003.
- xiii. California Energy Commission, *2003 Integrated Energy Policy Report*, December 2003, p. 45.
- xiv. William L. Massey, a commissioner of the Federal Energy Regulatory Commission (FERC), stated in a speech in Santa Fe, New Mexico on March 17, 2003, that the "tsunami of the Western energy crisis, coupled with the collapse of Enron, have left a devastating wake within the industry," and precipitated a flight of capital from the energy sector.
- xv. See, for example, Eric Reguly, "NAFTA Lets the Gas Out of Canada," *Globe and Mail*, 12 June 2003.
- xvi. *Toronto Star*, 1 February 2004.
- xvii. *Deseret News*, 8 February 2004.
- xviii. *Ibid.*
- xix. Matthew L. Wald, "Environmentalists Head for the States," *New York Times*, 1 February 2004, IV, p. 7.
- xx. The Los Angeles Department of Water and Power is now considering participating in the building of a third power plant in Utah. It currently buys 44 percent of the power produced by the two existing Intermountain Power plants in Utah, and California utilities are purchasing nearly three-quarters of the output of these two facilities. This power is also ten times less expensive than what they are paying for locally produced solar power. See the *Los Angeles Times*, 29 January 2004.
- xxi. National Energy Policy Development Group, *Reliable, Affordable, and Environmentally Sound Energy for America's Future* (Washington, D.C.: Government Printing Office, 2003), chapter 7.
- xxii. California Energy Commission, p. 19.
- xxiii. *Ibid.*, p. 35.
- xxiv. *Los Angeles Times*, 29 January 2004, and *Albuquerque Tribune*, 5 March 2004.
- xxv. Kergin.
- xxvi. Wald.
- xxvii. *Ibid.*
- xxviii. Reguly.
- xxix. National Energy Policy Development Group, p. 7.1.
- xxx. *Ibid.*, p. 7.16.
- xxxi. Press release by the Council of Atlantic Premiers, 16 February 2004.
- xxxii. Alberta's statistics were graciously provided to the author by Jane K. Currie and Mike Boyd of Alberta's Department of Energy in a letter dated 20 February 2004.