Keystone XL pipeline rejection exemplifies Canadian elite's deepening crisis

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By the time US President Barack Obama formally rejected TransCanada's application to construct the Keystone XL pipeline last Friday, the decision had become a foregone conclusion. Nevertheless, Obama's rejection of the project—which upon completion would have transported up to 800,000 barrels of Alberta oil-sands bitumen to the US Gulf Coast per day—has caused much disappointment and handwringing within the Canadian elite.

A key Canadian government-backed initiative to broaden access for Alberta's land-locked tar sands oil to the US and world market, Keystone was deemed by Obama not in the US "national interest."

In justifying his decision, Obama refuted the claims of the project's Republican and corporate supporters that it would have provided a significant boost to the US economy. He also said that the import of "dirtier crude oil" wouldn't have led to lower US gasoline prices and would have contradicted his administration's efforts to both lower oil imports by boosting domestic shale-oil production and transition America to a "clean energy" economy.

It is undeniable that the exploitation of the Alberta oil sands has been associated with vast environmental destruction, much of it at the expense of Alberta's impoverished aboriginal population, and that the pipeline route chosen by TransCanada went through environmentally sensitive areas.

That said, there was a huge amount of posturing in Obama's announcement, which was made just weeks before the world's leaders will meet in Paris for the UN Climate Change Conference. Like the other major powers, Canada included, the US under Obama is formulating "climate change" policies and "green energy solutions" that push the burden of "transition" onto its rivals.

Justin Trudeau, Canada's newly-elected Liberal Prime Minister, said he was "disappointed" by Obama's decision, but went on to stress that his Liberal government will not permit this single issue to cloud Canada-US relations. This was a scarcely-veiled repudiation of the stance of the former Stephen Harper-led Conservative government, which, by its last year in office, was being widely condemned within Canadian ruling circles for having needlessly alienated the Obama administration. Harper aggressively pushed for Keystone. He famously declared before a US audience that its approval was a "no brainer," ordered Canadian government officials to snub the most recent US ambassador to Canada, and openly aligned his government with the Republicans in their efforts to use the pipeline project to attack Obama.

Trudeau's Foreign Minister, Stephane Dion, has said that the US scuttling of the pipeline project underscores the need for Canada to bring in tougher environmental standards. And indeed, in the coming weeks it can be expected that the Liberals will mount a major push to distance Canada from the stance of the previous Conservative government, which was notorious for its close connections to Big Oil and opposition to concerted action on climate change. (In 2011, Canada became the first country to withdraw from the Kyoto Protocol.)

However, the scuttling of Keystone exemplifies much more fundamental problems facing the Canadian bourgeoisie.

First, its strategy of making Canada an energy "superpower" is in tatters. Second, and even more importantly, major economic and geo-political shifts have seriously eroded its influence and leverage in Washington, its pivotal military-strategic partner.

The Canadian bourgeoisie's pretenses to lead an "energy superpower"

Beginning under Liberal Prime Minister Paul Martin and especially under his successor Stephen Harper, Canada sought to project itself as an "energy superpower." Canada's abundant energy resources, above all the Alberta tar sands, were touted not only as drivers of economic growth but as a source of power on the world stage.

Underlying this strategy was the rapid expansion of oil production, especially tar sands, in Alberta and Saskatchewan in the first decade of the century. This was itself fueled by the rise in world oil and commodity prices driven by economic growth in Asia, principally China.

The collapse in world oil prices—a product of a protracted world economic slowdown—and the rapid growth of shale-oil production in the US over the past five years have pulled the rug out from under the Canadian tar sands oil boom. With production costs that are among the world's highest, Canadian and foreign-owned oil producers have shelved or outright cancelled tens of billions of dollars' worth of projects over the past 18 months.

A no less damaging development for Canada's energy producers (and the banks that have helped finance their multi-billion dollar expansion projects) is their lack of market access. Wholly dependent on the US market, Canadian tar sands oil currently sells at substantially below the world price.

A key objective of the Harper government was to get oil producers access to alternative markets. Keystone XL would have delivered Alberta bitumen to refineries on the US Gulf Coast from whence it could then have shipped elsewhere in the US or exported overseas.

In 2011, the Harper government gutted Canada's environmental

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regulatory process in the hopes of pushing through pipeline projects. But by the time it fell from office, none of the all-Canadian pipeline projects—whether the Northern Gateway, which would connect the tar sands to British Columbia's north coast; the Energy East pipeline, which would traverse the country and culminate at the New Brunswick port of Saint John; or Kinder-Morgan, which would end in the Vancouver suburb of Burnaby—had been approved in the face of widespread public opposition.

When Shell announced the abandonment of a major tar sands project last month at a cost of $2 billion, it gave lack of progress on new pipelines as one of the major reasons for its decision.

The stalled progress on pipelines and the fraying of Canada-US relations were important factors in the shift by significant sections of the ruling elite behind the Liberals in the recently-concluded federal election. The expectation is that the Liberals will be better able to push through pipeline projects, because of their more environmentally-friendly image and their claims that they will make the native peoples "partners" in resource exploitation.

Support for the incoming government from the energy sector is by no means universal. Faced with increased competition and the prospect of low oil prices for an extended period, sections of the corporate elite remain critical of the Liberals' plans to introduce additional environmental regulations to dampen opposition to the various pipeline projects and help market the product globally as a cleaner form of energy. Prospective Conservative Party leadership candidate Jason Kenney was speaking on behalf of these sections of capital when he attacked Trudeau last Friday for "raising the white flag" on Keystone, adding that its approval would have meant billions in profits for Canadian companies.

The fraying of the Canada-US strategic partnership

The crisis facing the oil sector is being exacerbated by a broadly acknowledged deterioration in Canada-US relations.

Trudeau spoke for important sections of big business when he attacked Harper during the election campaign for mismanaging Canada-US relations, resulting in a significant downgrading of the Canadian bourgeoisie's "special relationship" with Washington.

The rejection of Keystone came less than a month after the expiration of the Canada-US softwood lumber pact. In place since 2006, the deal guaranteed Canadian lumber access to US markets, but there is no immediate prospect of it being renewed.

More worrying still for the ruling elite were the closing stages of the Trans-Pacific Partnership (TPP) negotiations. Although big business is overwhelmingly behind Canada's participation in the deal because it gives them greater access to Japanese and other Asian markets, sections of the ruling class were furious when Washington struck a deal with Japan on auto trade without even consulting Canada.

These are but the most recent manifestations of longer-term processes rooted in major economic shifts. Canada, which has long been the US' most important trading partner, has lost much of its share of the US market, particularly in manufacturing, to China and other emerging economies. Last week the *Globe and Mail* reported that for the first time ever China surpassed Canada as Washington's largest trading partner in the first nine months of this year. Total China-US trade amounted to $441.6 billion, while the two North American neighbours exchanged $438 billion in goods. These figures also showed that Canada is fast being caught by Mexico in the race for the US' second largest trading partner.

Canada's ruling elite is far from willing to sit idly by as it is displaced as a US economic partner and sees its influence in Washington wither. Trudeau has taken office committed to strengthening Canada-US ties, principally by means of a renewed diplomatic offensive to promote closer trilateral cooperation among Canada, the US and Mexico, including on issues such as energy security and environmental protection.

By coordinating energy and environmental policy at the continental level, the Liberal government hopes to advance Canadian capitalist interests around the globe as part of a more integrated North American bloc. Important US strategists have advanced similar proposals, including in an October 2014 Council on Foreign Relations report co-authored by ex-CIA director General Petraeus and ex-World Bank President Robert Zoellick, titled "North America: Time for a New Focus."

The Canadian bourgeoisie's and Liberal government's strategy for retaining influence in Washington is by no means restricted, however, to calls for economic and political cooperation. Canada has responded to its weakening economic position by closely collaborating with Washington and the Pentagon in their ever more aggressive drive around the world to secure US hegemony. Ottawa currently has troops and aircraft deployed in Eastern Europe with US and NATO forces targeting Russia, and in the Middle East, where Canadian warplanes are bombing Islamic State targets in Iraq and Syria, and Canadian Special Forces are training proxy fighters in Iraq.

During the election campaign, a CBC report revealed that General Tom Lawson, the former head of the Canadian military, met on numerous occasions with his US counterpart General Martin Dempsey to discuss the creation of a joint operations unit capable of deployment in offensive operations around the world, and even the possibility of fully integrating both countries' armed forces. This followed revelations that in November 2013, the Canadian military struck a secret agreement to cooperate with US forces in the Asia-Pacific region as part of the Obama administration's anti-China pivot to Asia.

All of these developments illustrate the readiness of Canada's ruling elite to link its fate to the ever more reckless military-geostrategic offensives of US imperialism and their determination not to yield ground to their economic competitors without a fight.

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