POLICY BRIEF:
Defunding Putin's Military

Colin Craig | November 2022

Executive Summary

After Russia invaded Ukraine in February 2022, many observers noted that the tanks and rockets inflicting death, pain and suffering on the Ukrainian people were funded through the Kremlin's natural gas and oil exports. According to the Paris-based International Energy Agency (IEA), oil and gas revenues comprised approximately 45% of Russia's federal budget in 2021.[1]

Many pundits and experts have also noted that Canada is rich in energy resources and could offset at least some Russian energy sales if our nation developed more resources – and built the necessary infrastructure to transport the resources to global markets. This would, of course, also reduce the funds available to pay for Russia's military.

SecondStreet.org sought to determine just how much of Russia's energy sales Canada could offset if such a goal was established as a national priority. In order to assess Canada's potential, SecondStreet.org surveyed energy sector experts to obtain estimates on how much Russian natural gas and oil could be displaced by our nation in the short, medium and long-term.

Highlights from our research included:

- Over the next 7-10 years, Canada could offset upwards of 59% of Russia's annual natural gas exports and 46% of their crude oil exports.
- In the short-term (one year), very little Russian energy sales could be offset by Canada. This is largely due to limitations on pipeline capacity and the reality that new energy projects tend to take longer than a year to get off the ground. Experts' estimates suggest Canada could offset 4% of Russian natural gas exports and 6% crude oil exports.

Photo by Manhhai

- In the medium-term, a more significant reduction to Russian energy sales could be achieved – 18% of natural gas, 19% of crude oil.
- Policymakers should note that our world is not facing a short-term problem. It would be unwise to simply hope that Vladimir Putin does not attack other nations in the future or that he will be replaced within the decade.

Calculating Canada's potential to offset Russian energy sales is a challenging task. There are many variables that impact this equation, including: the demand for oil and natural gas resources world-wide, the demand for Russian energy, Canadian government regulatory policy and investor confidence in Canada to name a few. However, estimates provided by energy sector experts suggest that Canada could play a significant role in reducing Russian energy sales over the medium and long-term. Ultimately, this would help reduce the funds available for the Russian government to use for military aggression in the future. It would also help the world transition away from other oil and gas-producing nations with questionable human rights track records.

Methodology

From August to October 2022, SecondStreet.org approached academics, energy sector analysts, industry associations and industry executives to participate in a short survey that sought to assess the volume of Russian crude oil and natural gas exports that could be offset through Canada developing and exporting more of our resources. Respondents were asked to provide estimates for what was possible for natural gas and crude oil in the short-term (one year), medium-term (three to five years) and long-term (seven to ten years).

A key assumption for respondents when they filled out the survey was that our nation made it a national priority to develop our resources and increase our exports. Respondents were asked to assume that governments made it a priority to approve the development of more resources, new pipelines, LNG export facilities and to expedite these projects. If need be, governments would remove legislative barriers, shorten up review processes and build on past abandoned applications rather than starting from scratch. Respondents' estimates could also take into account indirect offsets – i.e. increasing Canadian exports to the United States, allowing the latter to export more resources, displacing Russian sales at the same time.

Respondents were asked to assume that governments would uphold the law if environment activists attempted to physically block an oil and gas project (i.e., remove them from the location). Finally, respondents were told to assume that new energy projects would be private sector-led.

The eight respondents to the survey included: four industry analysts, one association president, one producer, a CFO and a retired founding CEO of a large oil and gas company. One respondent only felt qualified to provide an estimate for natural gas. While respondents were told this would be an anonymous survey, SecondStreet.org can disclose that almost all of the respondents have been interviewed by mainstream media for their expertise about oil and gas matters in Canada.

SecondStreet.org averaged the figures provided by experts to determine estimates for the amount of Russian crude oil and natural gas that could be offset in the short-, medium- and long-term. These figures were then compared with IEA forecasts for Russian energy exports to assess how much Canada could offset.

Findings

Respondents estimated that within a year, Canada could offset between 200,000 to 500,000 barrels per day (BPD) of Russian crude. Over the medium term, offset estimates ranged from 300,000 to 2,000,000 BPD. Long-term estimates ranged from 800,000 to 5,000,000 BPD.

Estimates of Canada's Potential to Offset Russian Crude Oil (BPD)

Respondent	Short-term (1 year)	Medium-term (3-5 years)	Long-term (7-10 years)
1	300,000	600,000	1,000,000
2	200,000	900,000	1,200,000
3	200,000	550,000	1,000,000
4	200,000	600,000	800,000
5	300,000	1,000,000	2,000,000
6	300,000	300,000	2,000,000
7	500,000	2,000,000	5,000,000
Average	**285,714**	**850,000**	**1,857,143**
Russian Exports	**4,800,000**	**4,440,000**	**4,080,000**
Offset Estimate	**6.0%**	**19.1%**	**45.5%**

Note: Russian crude oil exports were 4.8 million barrels per day in October 2022.[2] The IEA expects a decrease in total Russian oil exports of 26 per cent between 2021 and 2022, but did not break the figure out between crude oil and other oil products.[3] To be cautious, SecondStreet.org assumed a 15% reduction to Russian crude between 2021 and 2030.

One reason for the large variation in estimates could be related to investor confidence in Canada. Simply put, the past decade has seen investor confidence plummet as government regulatory decisions have contributed to the demise of many large-scale projects: the Teck Frontier Oil Sands Mine, the Energy East Pipeline, Northern Gateway Pipeline, Keystone XL Pipeline, the Energie Saguenay liquefied natural gas (LNG) export project and the multiple natural gas development projects in the Utica Shale region in Quebec to name a few.

While SecondStreet.org's survey asked respondents to assume governments would help expedite approvals for energy projects, respondents were also asked to assume new energy sector projects would be private sector-driven. Some respondents may have been more optimistic than others that investors would be willing to return to Canada in the short-term after facing numerous barriers and regulatory uncertainty over the past decade.

Estimates of Canada's Potential to Offset Russian Natural Gas (BCF/D)

Respondent	Short-term (1 year)	Medium-term (3-5 years)	Long-term (7-10 years)
1	1.00	3.00	10.00
2	0.58	2.00	2.30
3	2.74	8.22	16.44
4	0.00	0.50	10.00
5	0.55	1.50	2.00
6	0.00	2.00	6.00
7	2.00	3.00	5.00
8	0.50	1.50	10.00
Average	**0.92**	**2.71**	**7.72**
Russian Exports[4]	**22.25**	**14.99**	**13.06**
Offset Estimate	**4.1%**	**18.1%**	**59.1%**

When it comes to natural gas, we find a similar pattern. In the short-term, Canada's ability to offset Russian energy sales is quite limited – just 4.1%. However, Canada could play a much more significant role in the medium- and long-term (18.1% and 59.1% respectively).

Assessment

Some observers might argue that the Russian government needs to face financial pressure now, not five to ten years in the future. Ideally, Canada and other nations would be able to exert such pressure in the short-term. Unfortunately, large scale oil and natural gas projects often take several years to plan, finance, obtain regulatory approvals and build.

Policymakers should keep in mind that Russia's invasion of Ukraine is not a short-term problem, but rather a long-term concern for the world to address.

Even if Russia pulled all its forces out of Ukraine today, it would be irresponsible to simply return to purchasing Russian energy as usual. It is also unwise for the world to simply hope that Vladimir Putin's military aggression concludes with Ukraine or that he'll be replaced as President of Russia within the next decade.

It is positive to see that the IEA projects Russia's role as a dominant energy player to diminish even without Canada increasing oil and natural gas exports to address the situation. The IEA's *World Energy Outlook 2022* report projects the petrostate's share of internationally traded gas to fall from 30% to between 10-15% by 2030.[5] As noted earlier, Russia's oil exports are projected to fall 26% over the same period. However, these are long-term projections and depend on many variables which may not materialize. Even at a reduced capacity, Russia's trade volumes would still be significant.

As long as the world requires oil and natural gas – and IEA estimates show this will be the case for decades to come – it's better for consumers to rely on peaceful nations such as Canada to supply the resources rather than regimes such as Russia and other dictatorships.

Conclusion

Estimates provided by energy sector experts suggest that Canada could play a significant role in reducing Russian energy sales over the medium and particularly in the long-term. Ultimately, this would help reduce the funds available for the Russian government to use for military aggression in the future.

About the Author

Colin Craig is President of SecondStreet.org. He earned an MBA and a BA (Economics) from the University of Manitoba and is the author of *The Government Wears Prada*, a book that examines how governments could be more cost-effective and prepare for our nation's aging population. Most recently, Colin authored several chapters for the eBook, *Life After COVID: What's next for Canada?* Over the past two decades, he has contributed to public policy changes at the federal, provincial and municipal levels in Canada.

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