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| The Politics of Energy and the NEP: A Homeworth and Analogy |

University — Université

| CARLETON |

Degree for which this thesis was presented — Grade pour lequel cette thèse fut présentée

| PH.D |

Year this degree conferred — Année d’obtention de ce grade

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Canada
THE POLITICS OF ENERGY AND THE NEP:
A Framework and Analysis

by

© GLEN TONER

A thesis submitted to the Department of Political Science in conformity with the requirements for the degree of Doctor of Philosophy

Carleton University
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April 1984

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Abstract

This dissertation examines the nature and evolution of Canadian energy politics, with the focus on the 1973-1983 period and on the oil and gas aspects of energy. While the study focuses on the decade from 1973 to 1983 it constructs its analytical base on an even broader timeframe, namely the post-World War II period. The conceptual basis for undertaking the analysis is the development and application of an integrated framework for the study of energy politics in Canada.

The introduction of the National Energy Program (NEP) by the federal Liberal government in October, 1980, marked a significant conjuncture in the development of Canadian energy politics. Indeed, our findings suggest that as a consequence of the several federal decisions over the past decade, including the NEP, the government-industry and intergovernmental relationships of power are now more equal in terms of the overall balance of power than at any other point in the post-war period. The NEP was intended to be a signal of a revitalized central government as well as a bargaining stance in the ongoing price and revenue-sharing negotiations. Thus, the NEP must be understood as first and foremost a political act, which at its core was intended to enhance federal power by employing a range of governing instruments which together would restructure the key relationships of power in a way that would reduce provincial and industry power vis-à-vis federal power.

The industry is often portrayed by its critics as the all-powerful leviathan of Canadian energy politics manipulating governments into doing its bidding, and by the industry and its supporters as a paper tiger, tied down with regulations at every turn, misunderstood by the public and unappreciated and tightly controlled by government. The historical analysis undertaken herein shows that it is neither of these. Despite what some argue, the NEP did not strip the industry of power,
because it did not fundamentally dispossess the industry of the basis of its power, that is, its control over the productive apparatus and the major pools of investment capital. The NEP did, however, attempt to encourage shifts between elements of the private sector in pursuit of Canadian ownership and control objectives.

This research suggests that energy politics must be understood as the outcome of both conflict and consensus within at least these two major interrelated relationships of power, over the ability to influence and control energy developments. To attempt to explain energy politics as essentially the outcome of relations between government and industry with intergovernmental relations simply reflecting intra-industry competition, or conversely, to explain energy politics as merely the "toing and froing" of competing governments, is to present a fundamentally flawed portrayal of Canadian energy politics. That is, the dynamic force driving energy politics in Canada is a three-sided set of competitive relations between governments and the industry.
Acknowledgements

I have incurred many debts in the preparation of this dissertation. I am particularly indebted to my supervisor, colleague, and friend, Dr. Bruce Doern, whose encouragement, generosity, and patience these past years have hopefully been rewarded. His example, stimulation, insights, and wit have made this an immeasurably more pleasant exercise than it might otherwise have been, and have vastly enhanced the quality of the product. Professors Glen Williams and Mike Whittington have each in their own inimitable fashion contributed to the development of this project and enriched my years at Carleton. I also appreciate the efforts Professors Eric Davis and John McDougall have made on my behalf in commenting on this work.

At various stages, Carleton University, the Social Science and Humanities Research Council of Canada, the Canadian Political Science Association, through its "Essex Scholar" program, and the Northern Studies Committee at Carleton University have provided financial assistance for which I am thankful. I am deeply grateful to Allan Maslove, Vi Tansley, and the staff at the School of Public Administration at Carleton, particularly Jane Tallim, Margaret Johnston, and Monica Wright, who laboured far beyond the call of duty in turning my woeful penmanship into clean draft via the magic of word processing. Their cheerful contribution and smiling faces will not be soon forgotten.

I would like to extend a hearty thanks to two groups. First, the many oilmen, government officials, officials of international organizations, journalists and scholars who agreed to interviews and who candidly shared with me their thoughts and feelings on a subject which is very close to their hearts in one way or another. Second, the students of my graduate energy course in the School of Public Administration deserve recognition for having, over the past three years,
endured my various half-baked formulations as I grappled to develop my understanding of Canadian energy politics.

Finally, I want to proffer my appreciation to my parents, brothers, and sisters, who, though they often wondered what exactly it is that I do, can look at this study and know I do something. Especially, I want to thank my wife Amy Bartholomew. Her love, support, encouragement, and compassion make it all worthwhile.
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Appendix
Chapter 1

SETTING THE CONTEXT

A Introduction

i) Focus

The chief objective and primary contribution of this study is to critically examine the nature and evolution of Canadian energy politics, with the focus on the 1973 to 1983 period and on the oil and gas aspects of energy politics. While there are some analyses of particular aspects of energy politics and some case studies available, no overall analysis of the politics of energy exists in the Canadian politics literature today. This study is intended to help fill this major lacuna. The basis for undertaking this major analysis of a broad period of Canadian energy politics, will be the development and application of an integrated framework for the study of energy politics in Canada. Based on my reading of the existing literature, I concluded that it was essential to devise a framework which could advance our understanding of the field by bringing greater analytical clarity to the study of energy politics. To date, the energy politics literature has been focused more on investigating substantive energy issues than on developing frameworks to conceptualize and study energy politics. To the extent that this study introduces and then employs an explicit analytical framework to undertake a major study of a broad period of Canadian energy politics, it confronts directly this hiatus in the literature and thus should further our understanding of the subject area. Indeed, the development of this framework marks a significant innovation in the literature and represents the second substantive scholarly contribution of this study. The framework highlights the concepts of power and interests and delineates five key relationships.
An essential requirement in understanding energy politics is the time period covered and examined. There is always a temporal dimension to political phenomena and to the analysis of them. This study tackles a large block of time — and deliberately so. Understanding the politics of anything requires a temporal breadth so as to appreciate the flow of numerous events. This is why the study focuses on the period from 1973 to 1983 but constructs its analytical base on an even broader time period, namely the post-World War II era. The study is therefore unapologetically broad in scope. This often makes analysis more difficult but also intrinsically more interesting.

It is also essential to stress that the study is one of energy politics rather than of energy policy. The two are obviously connected but the focus is on politics, that is, on the fundamental relationships of power. While there is no question that there is a point after which distinctions between politics and policy pass the point of analytical and practical utility, we can consider energy politics the larger concept of the two, focused on relationships of power and encompassing policy fields beyond energy. For example, by the time the NEP occupied centre stage in the fall of 1980, the issues and struggles stimulated by energy developments had long since ceased to be matters that could be confined to pure energy policy. For example, fiscal, regional, foreign, transportation, and economic development policies had come to be intimately tied to energy decisions. Indeed, energy policy had acquired much of the political baggage inherent in Canadian politics. It was the consummate summation of the Canadian body politic embracing nationalism, regionalism, foreign ownership of the economy, partisan conflict, theories and beliefs about Canada's resource heritage, bureaucratic growth, and state intervention, and the realities of international dependence and Canada-U.S. relations.
Secondly, this study is not a policy study because it does not analyse the details of the various policy elements chosen and policy instruments employed in the attempt to achieve the program objectives. Major policy events such as the NEP are examined, but only in relation to the structure of power as revealed by the initial overall impact of the NEP in the 1981 to 1983 period. Hence, the several policy elements of the NEP and of previous energy policies and decisions are not examined in any detail. Rather, our focus is on the larger economic and political interests which interact over time in an ongoing set of relationships to determine what will or will not be done by governmental and private interests in the energy arena.

While the scope of the study is broad it has obviously been necessary to delimit it to fit the constraints of both space and the author's research resources. Although I construct a framework comprising five relationships of power it has been necessary to develop two of these as the primary focus. Namely, the intergovernmental and government-industry relationships. Similarly it has been necessary to limit the interests one can reasonably examine. For example, rather than try and analyse all of the governments in Canada, the study focuses on the governments of Canada, Alberta, and Ontario. Instead of examining all of the corporate interests involved in Canadian energy politics the following three were chosen from within the industry: the international oil majors, the Canadian majors and the smaller Canadian firms. Other interests such as Washington, the other provincial governments, and corporate elements such as the petrochemical industry, the financial community, and related non oil and gas energy interests are frequently referred to but are not fully analysed.

The remainder of this chapter is organized as follows: a brief section highlights the centrality of the energy issue for Canadian politics in the recent
past; this is followed by a review of the key works in the energy politics literature; following the literature review I advance the general framework for the study of Canadian energy politics and discuss some of the issues involved in applying the framework.

ii) Why Study Energy Politics?

Few issues, including constitutional reform and Quebec nationalism, have stimulated and maintained as high a level of political controversy in Canada throughout the 1970s as energy. Indeed, energy related events have been among the most important issues on the global stage since 1973. In part, this is because energy, unlike other internationally traded commodities, "is an essential element of economic development and social progress in all countries. Without adequate, secure supplies of energy objectives of economic and social development are unlikely to be met, thus straining the political cohesiveness of our societies." Clearly, Canada has not escaped the impact of dramatically higher oil prices and uncertain supplies. Canadians live in an intertropical climate, are separated by vast distances and consequently require and use a lot of energy - more per capita, in fact, than any other nation in the world. It is not surprising then, that the politics of energy, perhaps more than any other aspect of Canadian politics, expose the potentially conflicting constitutional, regional, partisan, and state-industry (public-private) relationships of power that underlie Canadian political and economic life.

Since the 1973 OPEC-induced energy crisis and the high-profile confrontation which followed in its wake, energy politics in Canada has been marked by conflict and controversy. In fact, Canada is unique in that its governments and regions epitomize within one country the interests that on the
October 1980 signalled a major escalation in this conflict, with the introduction of what has been referred to as a 'radical' federal initiative, the National Energy Program (NEP). It must be stressed, however, that the conflict surrounding the Liberal's 1980 budget and energy program was not new. Rather, it was a legacy of seven years of confrontation over energy issues. Conflicts over specific energy policies which each level of government has pursued since 1973, and generally conflicting objectives with respect to energy pricing, revenue sharing and the resource management have at times provoked acrimonious confrontation, and indeed threatened the very foundations of Confederation. Moreover, it is not inconceivable that energy issues could become even more important in the decade of the 1980s, as energy developments move even closer to the heart of economic and political development in Canada.

While the softening of world oil price and demand in 1982-83 - in concert with other factors such as the world-wide economic recession and high interest rates - have dampened enthusiasm for them somewhat, the 1980s are still being dubbed by some as the decade of the resource megaprojects in Canada, though it is clear they will never assume the profile that was being lauded for them by some of their most ardent proponents in the early 1980s. Oil and gas are, after all, finite resources, and the recent softening of demand and price may very well prove to be a short-term phenomenon. Petroleum is the consummate 'political' commodity, and while the world's major consuming nations have adopted various policies in the post-1973 period to both decrease the magnitude of and increase the efficiency of their petroleum consumption, and while increased non-OPEC supplies have been brought on stream since 1973, the potential remains for further politically induced price and supply shocks. This is particularly the case given the political instability of the world's major oil exporting region.
In 1981, a major labour-business task force projected that $200 - $400 billion could be spent on energy projects in Canada in this decade alone. The realization of even a significant fraction of this activity would make the energy sector among the most dynamic sectors of the Canadian economy; energy development would become a major vehicle for economic development. This would culminate a process which has been underway since the end of World War II. In this period, energy (oil, natural gas, coal, hydro, and nuclear) has taken its place as the latest of a long line of dominant resource staples which have, for better or worse, throughout Canada's history underpinned the Canadian economy. A thorough understanding of the problems confronting the Canadian political system and economy today must recognize that continental, national, regional, and provincial objectives and strategies in the energy field have often clashed and in so doing have aggravated not only intergovernmental conflict, but state-industry, interregional, Canadian-American, and partisan conflict as well. One can assume that such problems may very well intensify throughout the 1980s as the controversial energy issues which create them unfold.

In October 1980, the Canadian government unveiled the National Energy Program. This program was far and away the most ambitious set of energy policies ever introduced by any government in Canada. The NEP was first and foremost a political act which at its core was intended to substantially restructure the relationships of power and the sectoral and regional distribution of wealth in Canadian energy politics. Specifically, the NEP sought to change simultaneously the structure of power between the federal government and the producing provinces, and between Ottawa and the petroleum industry. It aimed to do so by fundamentally changing a) the structure of the Canadian oil and gas industry, b) the existing oil and gas revenue sharing regime, and c) Canadian
energy consumption patterns. Regardless of whether the NEP is successful in achieving all or even any of its objectives, the decision and its implementation have had a major initial effect on Canadian energy politics. All of the major national and international interests in the energy field have been affected: (1) the NEP revenue sharing and pricing regime and the taxation and incentive schemes have had a dramatic impact on relations between Ottawa and the producing provinces; (2) the Canadian ownership and control objectives, the changes in the nature of the incentives program, and the new oil and gas pricing and revenue sharing regime have affected all segments of the oil and gas industry - foreign and Canadian, big and small, private and public; (3) the Canadianization proposals, PIP, the Crown interest, and the proposed procurement policy outlined in the NEP have impacted significantly on Canada's relations internationally with the U.S. and other OECD and IEA members; (4) the above factors, as well as the substitution and conservation elements of the NEP, have had a major impact on the average Canadian consumer. Moreover, the massive controversy surrounding the NEP and the public opinion campaigns engaged in by various interests have had the effect of pushing the energy issue to the forefront of the consciousness of Canadian public opinion.

Without question, then, energy developments and issues have been central to Canadian politics in recent years. While the genesis and the impacts of the NEP can only be understood in the broader context of the post-1973 period, this decade, in turn, can only be fully comprehended in the context of the post-war era. There is a growing body of literature on Canadian energy politics which can aid us in understanding the many facets of post-war energy politics. Before proposing a general framework for the study of Canadian energy politics, it is necessary to review the key works in the literature as the framework is itself a
product of a close study of this literature. A comprehension of the key characteristics of the energy literature will provide the background necessary to understand the proposed framework. While we will return to some of the works introduced in the literature review in later chapters of this study, the specific objective of the review is to assess the present state of the literature in the field and the present condition of our knowledge about energy politics.
B. Canadian Energy Politics Literature: Key Characteristics

The modern Canadian oil industry was born in 1947 with the Leduc, Alberta discovery and oil and natural gas rapidly became Canada's main energy sources. Oil and gas have certainly been the most contentious energy sources throughout the post-war period and the literature reflects this. While some literature exists on post-war developments in the hydro, coal, and nuclear industries as well, the literature reflects the pre-eminence of oil and gas. Oil and gas politics are the subject of this study and thus energy as used herein will be synonymous with oil and gas.

The scholarly literature on energy politics, while containing some excellent individual works, remains a diverse and in many respects underdeveloped body of literature. Most of the best work has emerged only in the last decade and as a body of literature it remains disparate and uneven. It remains in need of so basic an exercise as a published scholarly literature review. Yet it is also a burgeoning literature with a steady stream of work now emerging from the pens of a growing number of academics interested in energy questions. While political scientists have been among the leading analysts, economists, lawyers, historians, and journalists have also brought their varying disciplinary perspectives to the task. With a focus on the broad forces and relationships of power in the energy world in Canada this study will concentrate on the work of political scientists, but will identify and review the work of other scholars where it contributes to our understanding of the dynamics of Canadian energy politics.

There are a number of ways this literature could be divided, but perhaps the most useful heuristic method is to divide the literature along the lines of focus and timeframes. The most obvious division is between those works which undertake case studies of particular issues over a shorter period of time as
opposed to those studies that have broad historical sweep. The focus of various works differ by geographical location, fuel types, and institutional structures. For example, some studies have a nationwide focus while others concentrate on energy developments in the North, off the east coast, or on the prairies. Some studies focus on conventional oil, others on natural gas, synthetic oil, or a combination of fuel types, and still others focus on the pipelines constructed for delivering oil or gas to market. Some studies focus on specific major policies like the National Oil Policy, the TransCanada Pipeline decision or the NEP, and some on key institutions such as the National Energy Board or Petro-Canada.

The following section will identify some of the key works in the Canadian energy politics literature. The literature will be reviewed under the following categories: (i) books with long historical timeframes, ii) books that provide case studies of large decisions, iii) articles on specific developments in energy politics iv) academic books not specifically on energy politics but which have important energy politics content.

i) Books That Provide Broad Treatments of Energy Issues Over Long Periods of Time

The two best works in this mode of inquiry are also, in our opinion, two of the best overall studies of Canadian energy politics. Prairie Capitalism: Power and Influence in the New West by John Richards and Larry Pratt, and Fuels and the National Policy by John McDougall, both employ broad historical timeframes ranging from the post-Confederation era to the end of the 1970s.
Broadly, and with inevitable retreats and fluctuations, we describe a movement away from passive rentier policies in the 1940s and 1950s to entrepreneurial development strategies in the 1970s, reflecting the dynamics of bargaining outlined above. Our studies suggest that under certain conditions the power of international capital can be substantially reduced and the original dependency relationship reversed. Alberta and Saskatchewan have taken the first steps towards the ultimate "provincialization" of their respective resource sectors and, while the process is certainly reversible, the indications are that it will continue.7

Prairie Capitalism is "primarily an historical study of the role of the provincial state in regional economic development."8 The provincial states focused on are the prairie oil and gas producing provinces of Alberta and Saskatchewan. One cannot get far in analyzing the development of post-war Saskatchewan and Alberta without focusing on the new mineral staple industries of oil, natural gas, and potash - "all of which have been characterized by a traditional dominance of American capital, and the attempts by successive provincial governments (Social Credit and Conservative in Alberta; CCF, Liberal and NDP in Saskatchewan) to stimulate staple-linked regional development and thus to diversify the prairie economy out of its historical dependence on agriculture."9 Thus, the politics of oil and natural gas is assessed within the larger analysis of the "gradual, if uneven, emergence of the provincial state as an entrepreneurial actor in staple-led economic development." In effect, an analysis of post-war economic development and the changing role of the provincial governments in this process is simultaneously an analysis of the politics of energy in both provinces, as oil and gas were the vastly predominant mineral resources with potash only coming to play a central role in the 1970s and then only in one province, Saskatchewan. This is an analysis of energy politics'
because the primary focus is on the broad relationships of power. That is, on the relationship between the provincial governments on the one hand, and on the other, the institutionalized representatives of the two major structures governing provincial development; capitalism, represented by the powerful international firms of the international oil industry and federalism, represented by the power and constitutional authority of the federal government. The overwhelming importance of these two structures - capitalism and federalism - in providing both opportunities and constraints for the provincial government's economic development initiatives is summarized by Richards and Pratt in the following quotation:

By providing it (regionalism) with a legal basis, the federal nature of the Canadian constitution has undoubtedly enhanced a regional identification by members of all social groups. Since the nature of the local endowment of land and other natural resources largely determines the distribution of industries within the economies of all regions except the heavily industrialized Quebec-Windsor corridor, it is not surprising that much regionalism has been directed towards provincial control of resources - the power to regulate production and, to the extent markets structure permits, control price; to retain economic returns and secure the maximum linked industrial development; and a unitary state bargaining over these issues involves essentially two sets of actors - the state and the owners of capital invested in the resource industry. In Canada the claimants include not only capitalists of the federal government, but the provincial government in whose territory the resource industry resides and, on occasion, the governments of provinces importing the staple commodity produced.10

Richards and Pratt also identify the triad of interests (industry, federal government, provincial governments) which dominate Canadian energy politics, when discussing jurisdictional issues which ostensibly would seem to suggest a bilateral relationship:
Most jurisdictional conflicts have not been bilateral cases pitting one level of government directly against the other, but have involved trilateral conflicts in which typically a private corporation, adversely affected by some government levy or regulation, emanating from one or the other level of government, mounts a constitutional challenge. The level of government whose jurisdiction stands to be enhanced by the success of the challenge has a coincidence of interest with the corporate plaintiff and, either independently or in alliance with the plaintiff, may intervene in the case.\textsuperscript{11}

Prairie Capitalism does not have a separate theoretical chapter outlining an explicit analytical framework. It does, however, have a final chapter which provides a useful discussion of two of the key concepts employed in the book—staple-led economic development and economic rent. The authors spell out in the preface and part of the first chapter the conceptual approach which they want to refute in their analysis. While the authors are on the political left in Canada, they set out to challenge the dominant left-nationalist dependency theory approach which viewed "Canada as having suffered an uninterrupted series of exploitative relations with metropolitan powers: France, Britain, and now the United States."\textsuperscript{12} The left-nationalist version of dependency theory was, Richards and Pratt argued:

...centralist in its sympathies, it was largely indifferent to the persistent problems of regionalism and the growth of interregional rivalries in Canada in the 1970s; impatient with the legalistic and institutional traditions of federalism and with regionalism (at least outside Quebec), it ignored the complex historical relationship between national economic development and the federal political system, and underestimated the entrepreneurial role, past and present, of the provincial state in English Canada; obsessed (here was the leading dogma) with demonstrating the dependent and moribund nature of Canadian capitalism within North America, it could not account for the emergence in the 1970s of an ambitious arriviste bourgeoisie in a province such as Alberta.\textsuperscript{13}
The authors charged the centralist left-nationalist approach with "generally underestimating the autonomy of the state in Canada, notably in its relationship to foreign capital. In Marxist terms it committed the fallacy of reductionism, analysing all events as the intended outcome of some dominant class, in this case American capitalists."\textsuperscript{14} In their attempt to "evolve a more satisfactory analysis," Richards and Pratt posit both classes and provincial governments as key interests. Indeed, provincial governments and classes and class fractions are among the key units of analysis employed in this study. This book has been called a quasi-class analysis in that it employs a wide range of analytical variables in which class is among the most important but not the primary determinant. "We begin from an acceptance of two undeniable facts of Canadian life: that Canada is a country of regions, and that under the political and constitutional system as it has evolved, what can be accomplished through the exercise of power in the provinces is by no means insignificant."\textsuperscript{15}

One of the major strengths of this book in my opinion, is the wide range of explanatory variables it enlists - from the micro (personalities of key individuals), to the macro (large class based movements) - to provide a rich multicausal explanation of the broad issue of provincial economic development over three quarters of a century. In addition to the explanatory variables already introduced, ideas such as province-building, regionalism, dependency, populism, conservatism, and socialism and institutions such as political parties, farmers' cooperatives, crown corporations, and government planning and regulatory agencies, contribute to the range of analytical variables employed to help explain the process of provincial economic development.
In their assessment of the power relationship between the provincial governments and the other two key interests - industry and the central government - the authors conclude:

We cannot agree that the provincial state lacks either competence or the capacity for entrepreneurial initiative. Nor can we accept the image of the provinces as the captive dependencies or instruments of international capital. There is no evidence for the argument that big business in Canada has typically resisted centralization and supported provincial autonomy. The only things that capital consistently supports are its own interests, and when these have been threatened by aggressive provincial governments, business has consistently pushed for a stronger central government ... About all that can be concluded is that big business understands that a federal political system provides interest groups with a number of potential sources of leverage and veto points, and that capital, like perfidious Albion, has no permanent allies or enemies, only permanent interests.16

The study employs an historical methodology comprising an exhaustive review of the historical record via archival research and interviews with key historical figures. This book is a collaboration between a political scientist and an economist who is also an ex-politician. In the final analysis, after having assessed the historical development of the two provinces by employing a plethora of analytical concepts the authors conclude that, "we must leave economics for politics if we are to say anything about the outcome of bargaining:"

If the hard choices of prairie development necessarily occur within the limits of a staple-dependent regions, then the strength of regional entrepreneurship and the distribution of political power have been the decisive factors in determining how - and for whose benefit - the staples are developed. The source of such entrepreneurship and power thus cannot be a matter for indifference. Since the Second World War the central problem of development in Saskatchewan and Alberta has been whether or not the governments of these provinces could, with the passage of years and the appearance of a
favourable political climate, mobilize the requisite will, expertise, and power to break with their inglorious rentier traditions. In turn, their ability to do this has depended crucially upon the outcome of political debates and conflicts. If the economics of the prairie region determined the boundaries of such debates, politics nonetheless mattered. The primary source of the entrepreneurial initiative and of the changes which have overtaken prairie capitalism since the opening of the new postwar mineral staples has been public, not private. In the final analysis it has been the ideas of politicians and the actions of governments that mattered most of all.17

The authors have gotten to the heart of the matter. The will, ideas, entrepreneurship and power of provincial governments can be decisive in a political system which distributes a good deal of authority to the sub-national level, and in an economic system which allows a broad range of economic activity to be undertaken by the state.

The idea that the government of Canada should take measures whereby the entire Canadian fuel market would be served exclusively from Canadian fuel sources has been with us since Confederation; and calls for a "national fuel policy" along these lines have been heard, with varying intensity, from different regions of the country throughout our history. This study is an attempt to explain why these calls for a national fuel policy to promote energy self-sufficiency for Canada have persisted over the years; why their intensity has grown or diminished at different times in different regions; and why successive federal governments have been willing or unwilling to adopt policies encouraging the Canadian consumption of Canadian fuels.18

The focus of Fuels and the National Policy is clearly on the debates that have taken place within institutions of the federal government. It is of interest to note that both Prairie Capitalism and Fuels and the National Policy have been criticized for being unduly focused on one level of government at the expense of the other. For example, while Prairie Capitalism is acknowledged in one review
as being a 'seminal work' both in regional policy and resource and energy policy and for having 'historical breadth' it is criticized for "not dealing fully with the evolving national agenda that sets the context for resource and regional issues." Fuels, on the other hand, is charged in another review with having "an overemphasis on those matters (tariffs, export permits, and pipeline approvals) decided within the federal-political market, and an underemphasis on what transpires within political markets at the provincial level." The authors of both books would probably acknowledge the general thrust of these critiques and cite the usual, and legitimate, argument about the need to focus and delimit one's work, especially when one is dealing with such broad time frames. There is, however, an important lesson in this for students of Canadian energy politics: that is, to study energy politics in Canada in a fully satisfactory way demands an analytical framework which explicitly acknowledges the central interests and role of both the federal and provincial governments in energy issues.

McDougall's focus is on the federal government's policies towards the trade in - domestic and international - transportation of and pricing of coal, oil, and natural gas. His thesis is that there is a strong similarity in the nature of the debates and conflicts over trade, transportation, and pricing decisions for coal in the last century and oil and gas in recent years. The similarity of the debates and the accompanying conflict is the result of geographical factors and certain enduring economic and political ideas. In both cases, the supplies of Canadian fuels were located in the peripheries of the country far from the Canadian markets located in central Canada, thus assuring transportation issues a central place in energy policies and debates. The idea of economic efficiency - producers should be allowed to sell to the highest bidders and consumers to buy
from the cheapest sources regardless of the national boundary - has continually clashed with the ideas of security (self-sufficiency) and national sovereignty which have promoted the use of Canadian fuels in Canadian markets even where this meant government intervention and somewhat higher prices. McDougall has characterized this as a debate which "pitted nationalists who felt that Canadian markets should be served entirely with Canadian fuels and delivered by means of pipelines built exclusively within Canada, against "free marketers," who felt that Canadian markets should be served by Canadian sources only if necessary and then only by means of pipelines built along the cheapest possible routes."21

Two of McDougall's conclusions about the substance of decisions taken to promote the use of Canadian fuels in Canadian markets and the debates that have accompanied these decisions stand out:

The decisions actually taken and the transmission systems actually built resembled neither the nationalist nor the free-market continentalist extreme. Viewed as a network of oil and gas transportation systems, the Canadian pipeline projects approved between 1949 and 1961 form what could be called either a quasi-nationalist or a semi-continental pattern of fuel transportation and distribution, a pattern bearing a distinct resemblance to that established in the earlier era of coal ... The most obvious generalization that one can make about the history of Canadian energy policy is that federal governments have consistently gone part of the way, but never all of the way, toward the creation of a national fuel market. That is, they have repeatedly adopted measures to expand the Canadian consumption of Canadian fuels beyond what it would otherwise have been, but never to the point of the complete substitution of Canadian fuels for foreign fuels. Both the extremes of unrestricted imports of fuels and the complete exclusion of imported fuels have been avoided by federal governments throughout history, which suggests constant tensions and compromises between political forces and national considerations that would tend to push national policies in either direction.22
The study employs an historical methodology focusing on the review of parliamentary debates, submissions to and reports of royal commissions and other components of the historical record along with the published secondary materials. Fuels does not employ a specific analytical framework. An attempt is made in the final chapter, however, to think about "The Politics of Energy in Canada" explicitly in terms of key analytical variables. While the study traces one aspect of energy policy in Canada - national policies toward the trade and transportation of fuels over 114 years - the title of the final chapter correctly concludes about the politics of energy. That is, this study is not concerned so much with decisions or the process of decision-making as with determining "why governments do what they do." McDougall identifies the degree of government intervention to expand the Canadian consumption of Canadian fuels as his "dependent variable." In other words, he is searching for "patterns of decisions and with the relationship between policies and the 'circumstances under which they are initially developed,' the 'political forces arguing for and against them' and 'the justification by their proponents.'" This search for the broad and pervasive forces which shape Canadian energy policies exemplifies the task of studies of energy politics.

McDougall seeks to explain "why governments do some things and not others" by employing a broad timeframe for analysis and by searching for causal forces in the broad structural concepts in political analysis: the environment, power, ideas, institutional frameworks and the decision making process. The author provides a thoughtful retrospective on the importance of key features under the rubric of each of these concepts; for example, environment (Canadian and North American geography and the continental location of fuel sources and markets, and the power and authority of the U.S. government regarding fuel
imports and exports), ideas (nationalism, continentalism, regionalism, independence, efficiency, self-sufficiency), power (federal versus provincial governments, industrialized consumer regions versus resource producing regions, Canadian versus foreign ownership of oil, gas, and coal companies, public versus private enterprise); institutions and processes (federalism - the division of powers and the relationship between governments and how that is constrained by geographical and regional factors, Parliament, Royal Commissions, regulatory agencies, and political parties).

McDougall ultimately concludes that four major determinants in the following way "condition demands that set the agenda for government and severely constrain the policy alternatives that are likely to appear feasible and desirable:"

First, the geographic distribution of North American fuel deposits and major centres of fuel consumption: second, the import and export policies of the American government; third, the concentration of political power in central Canada, especially Ontario; fourth, the extent to which the political goals of national unity (particularly as this goal may be served through the promotion of regional development) and national independence (particularly as this goal may be served through the reduction of the country's reliance on foreign supplies of fuel) have been perceived to justify the economic costs inherent in interprovincial as compared with international trade in fuels.24

ii) Major Case Studies of Large Decisions

There are four major works that stand out in this category of the energy politics literature. Three are authored by political scientists; and one by a historian. William Kilbourn's Pipeline: TransCanada and the Great Debate, A History of Business and Politics25 chronicles the 1956 TransCanada Pipeline
debate. Edgar Dosman's *The National Interest: The Politics of Northern Development* 1968-7526 traces the national and international developments which drove federal policy toward energy projects in Canada's North during this pivotal period. Larry Pratt's *The Tar Sands: Syncrude and the Politics of Oil*27 and François Breglia's *Bob Blair's Pipeline: The Business and Politics of Northern Energy Development Projects*28 provide comprehensive analyses of the political dynamics and power struggles surrounding two major energy megaprojects.

The TransCanada pipeline was lauded by its supporters as a classic example of nation building in action. Indeed, C.D. Howe was fond of comparing it to that other great transportation project so central to John A. Macdonald's National Policy. Howe argued that the building of the natural gas pipeline was as crucial for the building of an east-west continental nation in the twentieth century as the building of the Canadian Pacific Railway had been in the nineteenth. It would carry Canadian resources from the West to Canadian consumers and manufacturers in central Canada, and do so entirely on Canadian soil. Moreover, the intitial proposal included no reference to exports. In fact, the pipeline was extolled as a means to reduce Canada's dependence on American supplies of coal and oil. Yet, before it was finished this project would tie Canada even more tightly into a continental energy market, bring down a national government and raise most of the classic issues in Canada's survival as a nation:

American economic influence and the nature of Canadian-American relations; the debate between north-south continentalism and east-west nationalism; the questions of transporation and national unity, of energy and national growth, of control over natural resources and their exploitation; the latent conflict between western producer and eastern consumer; dominion-provincial relations; the problem of public versus private enterprise and the compromise of the crown corporation; the connections between business and politics, and the role of
regulatory bodies between them; the rights of Parliament; and the place of popular feelings, pressure groups and the press in the difficult matter of making decisions on complex issues of great national importance. 29

In Pipeline, one of Canada's leading historians "attempts to evoke and illuminate the chief issues and characters in TransCanada's history and the interplay among them ... the central aim is to present a narrative - a clear reconstruction of a complex event - with as much objectivity as a decade's distance in time and access to most of the relevant sources can give it." 30 Indeed, Kilbourn does recreate a fascinating story of political and corporate power and intrigue. Truly, the TransCanada project, and thus this history of it, "raised the classic issues" and highlighted the full range of causal variables in Canadian energy politics. From powerful corporate and political figures such as Clint Murchison, Frank McMahon, Ernest Manning, and C.D. Howe, to continental money markets, powerful American oil companies, dramatic parliamentary debates and angry election campaigns. Though the individuals change, most of the issues, as cited in the quotation above, continue to be as relevant for energy politics in the 1980s, as they were in the early part of the post-war period in the 1950s.

The discovery of major oil and gas reserves at Prudhoe Bay on the Alaskan North Slope in 1968 unleashed an immense new series of pressures for development in Canada's North. The National Interest, while not informed by an explicit analytical framework, is tough-minded, hard-hitting, and very critical of Ottawa's management of events over the 1968-75 period. Because jurisdiction over resource management in the northern offshore and in the Yukon and the NWT resides with Ottawa rather than with provincial governments, the analytical focus is on the federal government-industry and Canadian-American
relationships, which Dosman argued, "determined the framework of northern development after 1968." While the chief focus is on the interests of Ottawa, Washington and the major multinational oil companies which dominated the industry in 1968, an additional important unit of analysis is the "inner circle" of the senior political and bureaucratic elite in the federal government which, in their secretive internal deliberations with the business community, attempted to orchestrate Ottawa's development plans for the North. While non-renewable resource projects in general provide the substantive focus of the book, the planned Mackenzie Valley Pipeline was the single most important project of this period.

Dosman is very critical of the federal government's performance during this period, describing an ill-coordinated and self-circumscribing pattern of behaviour relative to the demands of the American government and the industry. The Trudeau government's meek and piecemeal response to the national sovereignty crisis precipitated by Exxon's attempt to test the Northwest Passage with its reinforced supertanker S.S. Manhattan in the summer of 1969, and Ottawa's approval-in-principal of the Mackenzie Valley Pipeline in the early 1970s prior to the completion of the required regulatory stages are cited by Dosman as examples of the secrecy, drift, and weakness which characterized the government's performance.

Via his access to confidential government documents, Dosman analyses in detail the inner workings of those sectors of the bureaucracy involved in planning for northern development for the period and argues that environmental and native concerns were consistently overridden in favour of the interests of the resource industries; "at no time did Ottawa's inner circle consider the interests of the native people as a central component of northern development."
Incrementalism was the dominant approach to policy making, and was characterized by drift and pragmatism or muddling through. Because the Liberal cabinet ministers and senior bureaucrats who formed the 'inner circle' were unsure what they wanted from northern development and appeared incapable of defining the 'national interest' to act as a beacon for their actions in this area, the planning approach proved piecemeal and tentative, reacting to the demands and actions of the industry and Washington. The upshot of this lack of comprehensive planning, in Dosman's view, was ultimately to inject a sense of contradiction and instability into Ottawa's relationship with both Washington and the industry. While on the one hand, "the great corporate entities in the pipeline and resource field and the enormous public bureaucracies dealing with the North developed a symbiotic relationship; sharing goals, information and planning," on the other hand, Ottawa's piecemeal approach and overly generous concessions led to expectations on behalf of Washington and the industry. Thus, when Ottawa later realized its mistakes and tried to alter policies - in some case retroactively, caused resentment in Washington and the industry and led to charges by each of inconsistency and unfairness on Ottawa's behalf.

The Tar Sands traces the politics surrounding the establishment of the Syncrude oil extraction plant, focusing on the bargaining over Syncrude's terms from the original pre-announcement stage in 1972 to its rescue from near-collapse by the equity investment of three Canadian governments in February 1975. Pratt provides an historical context for this period by delineating attempts to develop the tar sands as early as the 1940s. He also locates the 1972-75 period within the broader context of the global dislocations in the energy economy experienced in 1973, the history of Canadian-American energy relations, and, more specifically, the U.S. and Canadian responses to the 1973
OPEC crisis. While the book does not have an explicit theoretical framework, the approach is one of critically analysing (a) the performance of both the Alberta and federal governments in their negotiations with one another and the Syncrude consortium over the determination of the terms under which Syncrude would exploit the tarsands, and (b) the role and power of the foreign-dominated oil industry in the Canadian political and economic systems.

One important source of data for this book was a set of leaked confidential Syncrude executive papers. Indeed, *The Tar Sands* "is as much about the politics of oil as it is about the tarsands." By focusing on the concept of power - the ability to realize one's will and to achieve one's objectives, - and on the negotiations to determine whose will and objectives would prevail in the Syncrude terms, Pratt provides a focus on the dominant triad of interests - the industry, the Alberta government, and the federal government - which have been the most important in determining what has and has not happened in Canadian energy politics over the last dozen years. Throughout four chapters on "the Politics of Syncrude" Pratt analyses the details and nuances of the relationship of the industry to both the Alberta government and the federal government, and the relationship between these two governments. The first half of the book provides the background for the struggle over Syncrude's terms by couching Canadian energy politics in the context of postwar economic development and the corresponding Canadian-American economic and political relationship. Pratt argues that Canada's "balkanized" political system allowed the Syncrude consortium to exploit to its advantage divisions within the government side, each level of which "was pursuing its own interests and running on a different set of tracks." He concludes that the autonomy of both levels of government was a constrained by the continental development strategy which Canada had pursued.
since the late 1940s which gave the American government an undue influence over domestic political and economic issues, and b) further compromised by the refusal of both levels of government for ideological reasons to challenge the private oil industry's monopoly veto power by developing the tarsands and other projects under public ownership is necessary. "Without such an option in reserve, without a bargaining card of last resort, the politicians simply lacked credibility when they bravely asserted that they would not be intimidated or pressured into concessions." Prat draws the following conclusion about the exercise of power in this case:

The documents discussed ... illustrate the oil industry's easy access to the highest levels of political leadership in the country, and confirm its strong influence over vital energy decisions - pricing, taxation, environmental regulation, labour legislation and other policies struck at both the federal and provincial levels of government. Indeed, anyone who attempts to reconstruct Syncrude's lobbying activities in Alberta and in Ottawa from 1972 to 1975 will be hard put to find a single issue of any substance where the owning interests in the consortium failed to win their basic objectives. This private power - and the absence of any countervailing power representing the public interest - is a phenomenon which most analysts of Canadian politics, who begin with the assumption that the state enjoys the last word in power, conveniently ignore.37

Bob Blair's Pipeline provides a detailed narrative of a fascinating and complex decade of federal government policy towards Arctic pipelines. The book does not utilize an explicit analytical framework, though it analyses a complex interplay between business interests, governments, regulatory agencies and government commissions. Specifically, it focuses on the relationship between the U.S. and Canadian governments, the federal government and the major pipeline consortiums, and the competing business interests represented by
the two consortia. The competition between the various pipeline proposals to move Alaskan gas to American markets and also, in some cases, Canadian frontier gas to southern Canadian markets, allowed Bregha to study "the pipeline builders and the political context in which they work." The author employs a wide range of variables - personality, ideas, power, institutions - and indeed the outcome of the struggle between the competing consortia reflected the influence of each of these variables. "Foothills and Arctic Gas epitomized the confrontation between David and Goliath, East and West, nationalists and continentalists." With respect to the key single protagonist Bregha argued:

What truly sets Blair apart from his peers, however, is his extraordinary political acumen. Blair's political instincts are so finely honed that they seem to be second nature. Blair exhibits a rare talent for capturing the mood of the time and tailoring his projects accordingly. His aggressive drive to diversify AGTL's operations, for example, fitted perfectly with Alberta's desire in the early seventies to strengthen its industrial base. His sponsorship of no fewer than five different frontier pipeline proposals over a period of six years demonstrated even more clearly his willingness to shift with the prevailing wind.

In the concluding chapter of the first edition of this book Bregha provided a useful retrospective on the northern pipeline saga and what it "tells us about the way in which we deal with complex issues involving the national interest." The focus of the chapter is the federal government. Bregha concluded that throughout the decade Ottawa exhibited a bias toward resource development (growth for its sake), and that "such a single-minded investment of capital, technological and human resources (towards development) effectively foreclosed the pursuit of alternative policies such as those towards conservation and renewable energy." Echoing two themes from Dosman, Bregha concludes from
his analysis first, that the federal government and the industry developed a symbiotic relationship regarding the pipeline decision-making process, and that this "led to a confusion of interests, the government's function as the protector of the public good being tempered by its association with the companies it ostensibly regulates." Second, that Ottawa proved to be a poor negotiator with the American's because "it circumscribed several of its most important options by making premature commitments." Bregha accounts for the generally poor performance on Ottawa's behalf by acknowledging the complexity of the issue over the decade, but nevertheless by charging Ottawa's approach with being reactive rather than anticipatory, by having a fragmented decision-making process which was "characterized by a continuous drift in assumptions, in events and in authority ... to react to opportunity is one thing, to be guided by it another."

The second edition of Bob Blair's Pipeline includes a chapter on the rather remarkable series of events leading to the 'Prebuild' of the southern section of the line from Alberta gas fields to U.S. markets. Condition 12 of Schedule III of the Northern Pipeline Act required the sponsor to demonstrate that it had financed the entire Canadian portion of the pipeline before it could build any of its segments -including the prebuild. But because the pipeline had been delayed in the U.S., Foothills was unable to meet this condition. To allow the prebuild to proceed, the government amended Condition 12, and to 'protect' Canada against the risk that the pipeline's northern section would never be built, sought and obtained 'assurances' from the U.S. that the pipeline would be completed by 1985. Yet, the assurances it secured, a letter from President Carter and a joint Congressional resolution in support of the pipeline, were a long way from the
'ironclad commitment' that the Liberals had demanded when they were in opposition.

Nevertheless, in July 1980, Ottawa approved the prebuild and committed new Canadian gas exports to it, as a means of improving the financial viability of the whole project. In addition, in April 1980, Ottawa succumbed to Albertan and American pressure and withdrew a scheduled increase in the export price of natural gas - just three weeks after reasserting Canada's policy of pegging its export price to the international oil price. In fact, Ottawa did not raise the export price again in 1980, even though the world price of oil continued to rise. The U.S. government (which had long opposed Ottawa's export pricing policy), Albertan producers (who were facing a growing surplus of gas), and the pipeline sponsors all argued that the price increases would hurt the prebuild's sales and thereby further endanger the whole project. Yet, ironically, given the shifts in the forecasts of North American demand for and supplies of natural gas for the foreseeable future, the prebuild may in fact postpone the building of the remainder of the line by making available to the Americans considerable quantities of gas which is cheaper than what Alaskan gas will be.

iii) Articles

While there have been numerous articles written on energy issues in recent years, few have the theoretical force or substantive profundity to make a lasting contribution to the energy politics literature. There are six, however, that are worthy of mention.

Larry Pratt has advanced our understanding of PetroCanada through two articles "PetroCanada" and "PetroCanada: Tool for Energy Security or Instrument of Economic Development." The former article is a superb
historical analysis of PetroCanada from its creation in 1975, through its privatization trauma under the Clark Conservatives in 1979, to its resurrection as a key instrument for both Canadianization and security under the NEP. Pratt assesses the forces that gave rise to PetroCanada in the early and mid-70s, outlining the nature of the early debate and elucidating the Liberal government's attempts through the PetroCanada Act to ensure the government's control over and the accountability of the state oil company. Theoretical force is provided to this article by the author's analysis of PetroCanada in reference to the larger scholarly and political debates on public enterprises that were raging in Canada in the late 1970s. Additional conceptual lucidity is provided by Pratt's analysis of the theoretical problem inherent to state oil companies in all capitalist economies. That is, there is always the possibility that corporate strategy may place the 'bottom-line' or entrepreneurial drives of the state oil company in conflict with the government's mandate to pursue policy objectives in "the national interest."

Pratt picks up this theme of commerical/policy duality in the second article analysing PetroCanada's 1982 capital budget. Pratt argues that "unlike most of Canada's large, commercially-oriented Crown corporations Petro-Canada is certainly atypical, and perhaps unique, in the extent to which its corporate strategy and investment behaviour are conceived directly within the framework of the federal government's larger energy policy and plans for economic development." However, as the title of this piece suggests there is some question as to whether the company can efficiently pursue both energy and economic development policy objectives concurrently, as it was being directed to do by Ottawa in the post-NEP period. Pratt wonders if by overloading it with policy activities Ottawa "could undermine PetroCanada's capacity to function as
an effective and viable commercial entity - which is the real source of its strength as an instrument of national policy."\textsuperscript{49} \\

John Helliwell provides a solid review of "Canadian Energy Policy" in the 1979 Annual Review of Energy.\textsuperscript{50} Helliwell is an economist who has been involved in energy politics for a number of years, most notably in the early and mid-1970s when he argued publicly before the National Energy Board that Canada's energy supply situation was not as bleak, nor were the frontier discoveries, to date, as large, as the industry claimed. There are five themes to this article which taken together illuminate Canadian energy politics. First, is that there was no adequate basis for the massive swings in government and industry opinion about Canada's oil and gas supplies that were experienced in the first half of the 1970s. Second, recent Canadian energy policy has been overly concerned with ensuring energy supplies are large enough and not sufficiently concerned with finding the least costly means of matching energy demands and supplies. Third, the many lags in decision-making and securing regulatory approval - in part because of greater attention being paid to environmental impact - have had a positive influence in reducing the economic costs and consequences of the excessive swings in official perceptions of energy shortage and surplus. Fourth, that Canadian federal and provincial governments alike are overly inclined to appear in too many conflicting roles at the same time: acting as resource owners, as project entrepreneurs, as taxing authorities, as economic and environmental regulators, and as providers of subsidies. Helliwell does not suggest which, if any, roles governments should abdicate, but does correctly note that the excessive jumble of roles often makes it difficult to establish either credibility or accountability for the resulting policies. Finally, he argues that while 'self-reliance' has been a centrepiece of post-OPEC federal energy
policies, it has no claim to being a fundamental goal of policy, but has been accepted by almost all parties as a convenient cover for their own more specialized objectives.

Two post-NEP articles by Bruce Doern have contributed to the energy politics literature. The first is "Energy, Mines and Resources, the Energy Ministry and the National Energy Program," the second is "The Mega-Project Episode and the Formulation of Canadian Economic Development Policy." EMR was only established in 1966 and for most of the 1970s, it was generally acknowledged to have been analytically 'outgunned' by the energy bureaucracies of the producing provinces and the major oil companies, and in spite of the energy conflicts which racked the country throughout the 1970s, EMR had remained primarily a regular technical line department. The political and economic events which were to force the energy issue to the top of the political agenda in 1979-1980 changed all that. As Doern argued in March 1981, "EMR had been transformed from a fairly traditional line department in the federal government to a powerful central agency rivaling those already dominant in the centre, the Finance Department, Privy Council Office, Prime Minister's Office, and Treasury Board." Both the role of EMR officials in drafting the NEP and the vastly expanded operational functions of EMR in implementing the numerous and expensive programs of the NEP thrust the department into the limelight. Three important lines of analysis are pursued in this piece: (1) it assesses the evolving relationship between the three major programs within the department - energy, minerals, and earth sciences - explaining the ascendancy of the energy program, (2) it evaluates the shift in power to the department relative to the other energy ministry agencies such as Petro-Canada, AECL, NEB, AECB, Eldorado Nuclear, and the Energy Supplies Allocation Board, (3) it analyses the
major new energy expenditures involved in the NEP and discusses these in relation to the development of the new energy envelope and the envelope system in general.

While rapid subsequent changes to the NEP dated some of the analysis, this article provides an important analytical snapshot of an increasingly important institution in Canadian energy politics, at a crucial point in its development. The author presciently warns readers to be aware of the accuracy of the three year energy expenditure projections announced in the NEP, both because of the budget-like secrecy under which the NEP was designed and because a number of its key expenditure programs were demand-driven, dependent on the uptake of program clients. This article can most profitably be read in conjunction with the preceding article in the same edition by the same author. It was one of the first scholarly attempts to explain the political context and motivations of the Liberal's energy initiatives.\textsuperscript{54}

Doern's article on the megaprojects is an attempt to explain why this 'episode' captured such large and undeserved government and public attention in the early 1980s. Basically, it assesses the megaprojects episode in the context of the efforts by the Liberal government to devise an overall industrial strategy or at least an economic development statement. To the extent such a strategy was enunciated in the "Economic Development For Canada in the 1980s" statement which accompanied the November 1981 MacEachen budget, it was found to be sadly wanting. Despite their apparent setback via the postponement or cancellation of several megaprojects, Doern correctly observes that "megaprojects are and will be important features of Canadian economic and political life and thus we should understand their place in the broader Canadian scene."\textsuperscript{55} Doern "shows how the formulation of such policies are affected by
their link with the larger political agenda, by ideas inherently in conflict, by the short-term pressures to create policies for show, and by the collision between short-term macro-fiscal policy and medium term measures."56

In yet another work, "Energy: The Roots of National Policy,"57 Larry Pratt attempts to explain the origins of the Canadianization program of the NEP by "tracing the response of the Canadian federal state to certain objective requirements of capital, particularly Canadian capital."58 While Pratt notes that there was little obvious pressure from Canadian capital for a major interventionist Canadianization program, and acknowledges that the federal government had its own independent reasons for wanting to alter the ownership structure of the industry, he is quite correct in asserting that the overall objectives of Canadianization were "to lower the costs of entry by Canadian capital pools into the oil and gas industries, the fastest-growing area of accumulation, and to encourage the formation of large Canadian-owned petroleum companies; and to shift the pattern of oil industry capital spending from the Western Canadian provinces to the federally-owned Canada Lands in the North and the offshore, thereby accelerating the exploration of frontier oil and gas resources."59 Pratt argues that the petroleum industry structure (roughly 75 percent foreign-owned), profitability (exceptionally high since 1973), and investment behavior (between 1971 and 1980 Canadian-controlled firms paid out a lower percentage of net income as dividends, reinvested a greater share of cash flow in petroleum related activities and borrowed on capital markets more frequently than did foreign-controlled firms), in combination with the Liberal's response to two exogenous events (the dramatic increase in world oil prices in 1979-80 and the Hibernia oil discovery east of Newfoundland in late 1979), motivated the Liberals to develop the Canadianization program. The Liberals
feared that significant increases in the price of oil and gas and foreign domination of the large new plays in the frontiers would increase the value of the assets of the foreign firms to the point where Canadians could never achieve predominance in the industry.

Pratt points to the takeovers of foreign firms by a few large Canadian interests such as Dome, the Canada Development Corporation, the Government of Ontario, and Petro-Canada as proof that "the essential purpose of Canadianization is to mobilize the larger pools of capital and to lower their costs of entry into the oil and gas sector - the area of fastest growth and highest returns." Yet many of the largest pools of Canadian capital already in the oil industry, such as PanCanadian (owned by Canadian Pacific), Norcen (owned by Argus Corp), and Husky (owned by Nova), Home (owned by Hiram-Walker) and Canadian-Hunter (owned by Noranda) did not make major acquisitions of foreign-controlled firms. Of those making acquisitions, many can only be considered large juniors, examples being Oakwood, Sulpetro, Turbo Resources, Francana, Aberford, and United Canso. Pratt's evidence is stronger where the action of the larger Canadian companies in re-allocating exploration budgets towards the Canada Lands is concerned. In this regard many large and medium sized Canadian firms have taken advantage of the attractive PIP grants to "farm-ins" on leases controlled by the foreign majors.

Pratt also looks at the performance of state-owned oil companies in Canada and their treatment in the NEP to consider if the NEP represents a transition to some form of 'state capitalism.' He concludes that there is "little reason to believe on the basis of the current performance that this will lead to the socialization of the process of production in the Canadian petroleum industry."
iv) Scholarly Books With an Energy Politics Content

Three recent books on important related issues have helped shed light on various aspects of Canadian energy politics. While each book is focused on a larger topic, Canadian energy developments and issues are the subjects of one or two chapters in each book. Because of the larger subject focus of these works, they tend to treat certain specific dimensions of Canadian energy politics in considerable detail. For example, in *A Choice of Futures: Politics in the Canadian North*, Gurston Dacks elucidates the impact of energy and other non-renewable resource development in the context of an integrated analysis of the political, economic, and cultural factors which have brought the North to its present status in Canada, and will determine the course of future developments. Stephen Clarkson's *Canada and the Reagan Challenge: Crisis in the Canadian-American Relationship* analyses the role of the "NEP and Canadianization" and "The Alaska Highway Pipeline and Continental Resource Integration" in the transformation of the Canadian-American relationship over the past decade. Ed Shaffer's *Canada's Oil and the American Empire* assesses the history of Canadian oil and gas developments, and the response of the Canadian government to global and domestic energy events since 1973 through the perspective of a critique of "the rise of oil ... and attempts by the U.S. to establish hegemony over the rest of the world." Thus, each of these studies brings a useful conceptual and contextual perspective to the study of some feature of Canadian energy politics.

Dacks employs a hybrid analytical framework for his study. The political sociology approach interprets politics as an aspect of social structure: "in any society, politics is the set of relationships among the members of the society by which decisions binding on the members of society are made and
implemented."66 Dacks complements his political sociology approach with a focus on the policy process and a policy analysis methodology. An additional important concept utilized in the framework of this book is "colonialism." The colonial model, which highlights the weakness and dependency of the colony, accurately portrays both the economic and political experience of the several sets of societies which comprise the northern territories. Indeed, power, or the lack thereof, is a key variable in Dack's explanation of northern development which he concludes fundamentally reflects "the interplay of power and interest."

It is outside power, represented by the resource demands of southern economies, the development plans of the federal government, and the accumulation drive of southern Canadian or foreign-based petroleum companies which acts as a catalyst in stimulating conflict within the region and between the region and other parts of Canada over the three dominant and interrelated issues of native claims, political development, and the future of the northern economies.

Crisis and nationalism are two of the key concepts used by Clarkson. Crisis—an unstable period in a country's development when some decisive change is impending and a societal condition characterized by unusual stress which leads to some transformation in the system—provides an analytical measure against which to measure the stress and change which visited the Canada-U.S. relationship during 1980-81. The divergent North American nationalisms—Canadian economic nationalism and American business nationalism—help identify the catalyst which caused the increased stress and tension. The elections in 1980 of a "recentralizing, assertive, state-capitalist government in Canada" and a nationalist "remilitarizing, straight-capitalist government in the U.S." set the stage for a "potentially antagonistic stance that only needed a serious issue to bring their relationship under stress."67 The subsequent
attempts by Canadian capitalists to purchase U.S. oil companies in Canada, as the NEP encouraged, and in the U.S., which the NEP did not directly encourage, and the response of U.S. capitalists to turn to the new Reagan Administration for protection was the issue which brought the relationship under stress. The case of the American capitalists was taken up by the Reagan Administration for partisan and nationalist reasons, and it also found a number of the dirigiste features of the NEP to be antithetical to the ideological thrust of its own international economic program.68

Hence, energy issues were central to the stress experienced in the Canada-U.S. relationship in 1981-82. Clarkson argues, though, that in fact nine unresolved, contentious issues remained on the bilateral agenda as we entered the 1980s. His first chapter provides an historical perspective by assessing the changes experienced by the relationship over the decade of the 1970s. The second chapter provides a blow-by-blow chronicle of the high level diplomatic sparring that Ottawa and Washington engaged in in 1981 in the wake of the NEP and the "takeover bids. Clarkson's chapter on "the NEP and Canadianization" provides a solid analysis of the NEP element which caused the greatest impact on Canada-U.S. relations. The historical domination of the Canadian petroleum industry by American corporate interests, the explicit objective of reducing foreign ownership to 50 percent by 1990 and the political dynamics these factors engendered is explained in detail. Canadian industrial benefits from Canadian megaprojects, the unresolved problem of the Alaska Highway pipeline and the contentious issue of the prebuild, along with the larger issue of continental resource - renewable and non-renewable -integration are also assessed in the context of the larger analysis of this dominant relationship in Canadian politics.
Ed Shaffer, uses a class analysis approach to evaluate the impact of energy events of the 1970s on the "mega shifts in the distribution of world income and concomitant changes in world power relationships." Shaffer posits a causal relationship between the rise of oil, that is the replacement of coal by oil as the world's primary energy source, the birth of a new group of primarily American entrepreneurs, the international oil companies, the expansion of these companies for geographical supply reasons into other countries, the active help of the U.S. government in this process and the consequent ascendency of the U.S. to a position of world dominance. Yet "new forces now at work are undermining America's position." Shaffer cites the rise of OPEC, the reduced role of multinational oil companies in global oil production via the rise of state oil companies, and Canadianization and the NEP as examples of "a struggle (which) is going on to free (national) resources from U.S. control. In addition, the end of the oil era may further weaken the U.S. position. There is no guarantee that the U.S. will be able to control the new energy sources and the new technology necessary to make them operable."

It is within this global political economy focus that the two chapters on Canada are written. The chapter entitled "The Control of World Oil: The Role of Canada" is basically a historical interpretation of Canadian energy policies, from the post-war period to the 1973 OPEC crisis, as a response to American pressures. "The Canadian Response" chapter analyses the struggles which raged within Canada among the important energy interests since 1973 over pricing and the disposition of economic rents. Given the overall focus of the book the role of American state policies and the role of American oil companies are highlighted in explaining Canadian policies. In accounting for the diminished importance of the U.S. and American oil companies in the determination of the
Canadian energy policy throughout the 1970s, culminating with the NEP, Shaffer focuses on conflict within the capitalist class, between "the national bourgeoisie, as represented in Canada by the federal government" and "the newly emerging Alberta bourgeoisie." "The international bourgeoisie, as represented in Canada by the international oil companies," was the third of the triad of powerful interests struggling over the making and management of energy policy. Shaffer basically explains the NEP, portraying a rather instrumentalist view of the state, as "the most decisive step the national bourgeoisie has taken to assert its dominance in the field of energy."\(^7\) The pricing, revenue sharing, and Canadianization elements of the NEP are then assessed in this light.

Three recent publications on the NEP are worth noting in passing. Two are written by journalists the other by economists. *Controlling Interest: The Canadian Gas and Oil Stakes\(^7\)\(^2\) by David Crane and *The Sorcerer's Apprentices: Canada's Super-Bureaucrats and the Energy Mess\(^7\)\(^3\) by Peter Foster are both polemics on the NEP. Crane is a strong economic nationalist and *Controlling Interest* attempts a passionate defense of the NEP, particularly the Canadianization program by painting an extremely negative portrayal of the historical role of the multinational oil companies in Canada. His objective is to "show how careless policies in Canada have over-rewarded the multinationals and why it is so important that Canadians, at a minimum, manage to reach the target of 50 percent control of production revenues by 1990."\(^7\)\(^4\)

Peter Foster's *Sorcerer's Apprentices* is another good guys-bad guys polemic. This one is written from the political far-right and amounts to a hysterical diatribe against big government, state intervention, economic nationalists - who at one point are denounced as Nazi's, an "economically illiterate" public on one hand, and those PH.D economists who work in the
federal bureaucracy on the other. Foster denounces Petro-Canada, is smugly sardonic about Canadian-owned companies that got into debt trouble via corporate acquisitions after the NEP and concludes that just about the only 'good guys' in Canadian energy politics are the multinationals.

Lessons from the National Energy Program by Edward A. Carmichael and James K. Stewart is a C.D. Howe Institute pamphlet. It is exceedingly simplistic about the origins and nature of the NEP, and consequently this evaluation of the NEP was fundamentally flawed before it even began. The authors are economists and attempt an "economic analysis" of the NEP, even though they acknowledge, lamentingly, that "the policy was based as much on political as economic calculations." While the authors summarily explain away the flaws in the NEP and the subsequent agreements, both in terms of objectives and means, as being the result of the fact that the Program was largely politically determined, they nevertheless proceed with an economic analysis and not surprisingly conclude the NEP was bad 'economic policy.'

In conclusion, it is clear that we are dealing here with a young but rapidly growing body of literature. We have tended in this review to focus upon the best works this literature has to offer and in so doing to emphasize the strengths as opposed to the weaknesses of the literature. Our objective has been to set the context for this study by identifying the emerging tradition which this study will contribute to and to highlight the overall key characteristics of the literature as a body of literature. In terms of the substantive focus, the literature as a whole provides a good sense of the various dimensions of Canadian energy politics, and includes some first-class analyses of specific issues. In terms of modes of analysis the literature is extremely diverse; case studies abound, yet two broad historical analyses are the leading works. There is no generally accepted or even
widely used analytical framework in the literature. Most studies tend to be informed by the larger approaches to the study of Canadian politics only in a general and indirect way. In fact, most of the works pay only slight attention to employing explicit analytical frameworks. One must conclude that both analytically and substantively the energy politics literature as a whole remains disparate and unevenly developed.

Yet, the subject matter - the various energy projects, institutions, policies, and disputes - and the various modes of analysis and interpretation in the literature tend to revolve around a series of implicit relationships between various powerful interests in Canadian energy politics. A major gap in the present literature remains an attempt to think systematically about energy politics in terms of significant, recurring relationships and how they might be organized into a comprehensive analytical framework. A second major gap remains the lack of a broad-ranging examination of the nature and evolution of Canadian energy politics in general, and of the ways in which the NEP has impacted on energy politics, in particular. This study addresses both of these lacuna. The following section proposes a framework for the analysis of Canadian energy politics.

C Canadian Energy Politics: A Framework for Analysis

i) The Framework

The framework is comprised of the five key relationships of power in Canadian energy politics. These relationships have been revealed by events over the post-war era and brought into even greater focus by developments since 1973. The relationships of power are: intergovernmental, government-industry, interregional, Canadian-American, and partisan. As the preceding review shows
these relationships are implicit in the energy politics literature. Individual energy politics studies tend to focus on one or two of the relationships, in part because specific energy issues or developments highlight certain of the relationships and, in part because of the difficulty of simultaneously analyzing all five relationships. The proposed framework explicitly identifies these relationships and integrates them for purposes of analysis.

The various power relationships have their structural roots in four of the preeminent facts of political life in Canada: Canada has a federal system of government with a constitutional division of power; Canada is a country of regions and has a regionally unevenly developed capitalist economy; Canada shares a continent with the world's most powerful capitalist nation; and Canada has a liberal democratic parliamentary political system with a single member plurality electoral system and an unevenly dispersed electorate. In other words, a unique series of historical, ideological, geographic, economic and political factors have coalesced to make these the five major relationships of power in Canadian energy politics.

The fact that Canada has a federal system means that there are potentially disputable areas of jurisdiction which may be translated into constitutional conflict. The fact that Canada has a capitalist economy means that the division of responsibility between the primary role of the state as manager of the economy and the predominant role of private capital as producer may be translated into government-industry conflict. That Canada has a regionally unevenly developed economy means that there exist competing regional visions of economic development which may be translated into interregional and interprovincial conflict. The fact that Canada shares a continental land mass with the United States means that the policy decisions of one government may
impose on the other country, thereby creating Canadian-American conflict. Finally, the fact that Canada has a liberal democratic parliamentary system and an unevenly dispersed electorate means that policy issues may become translated into partisan conflicts with regional overtones.

Clearly, the key dimensions of energy politics are among the most important relationships of power in Canadian politics generally. The major exception is, of course, the lack of primacy of the historic French-English relationship. This relationship does, however, play into the politics of oil and gas in a significant way via its importance for determining the nature of partisan politics at the federal level in Canada. The following are only some of the most salient features of each of these five major relationships:

- Canada has a constitutional division of powers with respect to oil and gas which provides for both strong federal and provincial powers, while at the same time containing controversial areas of both overlapping and unclear jurisdiction.

- Unlike the nuclear and hydro-power industries the petroleum industry had, until the mid-1970s, with one exception been solely privately-owned. This is still predominantly the case. Since the early seventies, the regulatory authority and apparatus of both levels of government with respect to oil and gas matters has increased dramatically.

- Virtually all of Canada's oil and gas is produced in the western region while central Canada is the major consuming region. The dramatic increases in the international commodity price of oil and gas since 1973 have tipped the consumer/producer balance in favour of the producing region.

- Approximately 40 percent of the oil and gas Canadians consume crosses the United States. The Canadian petroleum industry has experienced among the highest levels of foreign and American ownership of any sector of the Canadian economy. Schemes to commit Canadian oil and gas reserves to U.S. markets via long-term continental energy deals have been promoted on both sides of the border.
the Liberal government, which has been in power federally for most of the post-war period, has in the pivotal post-1973 period secured the vast majority of its parliamentary support from the oil and gas consuming central Canadian region. Both opposition parties, on the other hand, are rooted in the oil and gas producing western region.

If any of these five factors were substantially different - for example, if Canada were a unitary state, had a socialist economy or even a predominantly state-owned petroleum industry, or if oil and gas were produced primarily in central Canada - the nature of Canadian energy politics would be significantly altered.

The key concepts utilized by this framework are power, defined as the ability to realize one's will and to achieve one's objectives, and interests, defined as those political and economic actors with the capacity to exercise power. As shown above each of the state, private sector, and partisan interests in Canadian energy politics has its own structural basis of power from which to act. Each relationship is comprised of interests which have the capacity to exercise some power to affect the outcome of an energy issue or development. This does not mean, however, that, for example, Ottawa and Edmonton, government and industry, or Alberta and Ontario are constantly in conflict over energy issues. There is a continuum of relations in each relationship, with consensus marking one end of the continuum and open conflict the other. Over the history of postwar energy politics we have seen each of the relationships ranging along the full range of the continuum. There have been times when both interests in a relationship have calculated that an energy project or a pricing, taxation, or export arrangement, as examples, were acceptable to them and as a result there was consensus. Conversely, there have been times when the interests have been so far apart on issues that one or the other interest has employed its power to
take some sort of unilateral action which has resulted in the relationship moving to a position of open conflict. At other times there are disputes between interests that fall short of open conflict and at other times grumpy agreements exist which fall short of total consensus.

Some relationships have more than one dimension. For example, the government-industry relationship in Canadian energy politics includes two centrally important dimensions, the federal government-industry relationship and the producing province government-industry relationship. In some instances, the industry-U.S. government relationship has had relevance for Canadian energy politics. Moreover, the same interest is often a key actor in more than one relationship. For example, because of its constitutionally defined ownership rights and regulatory authority over 85 percent of Canadian oil and gas production, the government of Alberta is potentially a key interest in four of the relationships of power: with the federal government or the government of Ontario, for example, in the intergovernmental relationship; with the industry in the government-industry relationship; with central Canadian corporate or political interests, for example, in the interregional relationship; and in its partisan guise as a political party, with other partisan interests within the province.

It is not necessary in any absolute way to rank the various relationships because their importance relative to one another changes with the energy issue being analyzed. For example, on the issue of oil and gas pricing the governments of Canada and Alberta are the key interests and negotiate price arrangements between themselves. In certain instances, such as project-related pricing where price of the product is being negotiated as one feature of an overall package, the industry proponents via their power to cancel the project if they do not get an
acceptable deal, become a direct interest. In the case where oil and gas prices become an election issue, such as in 1980, the federal parties become key interests. On the issue of oil and gas exports, the federal government, the producing province government, the industry and because of its control over oil and gas imports, the U.S. government are all key interests. On northern energy issues, provincial jurisdiction does not appertain so arrangements are hammered out between Ottawa and the industry exploration firms. If production from federally controlled lands were to be exported to the U.S., then the American government would once again be a powerful interest. One could go on, but the point to be made is simply that the relative importance of the relationships varies with the energy issue being analyzed.

One can confidently argue that the world of energy politics in Canada is complex. Regardless of the issue — determining a price for oil and gas in Canada, carving up the shares of oil and gas revenues, determining the incentive programs necessary to promote exploration in the hostile Canadian frontiers, or arriving at a taxation and pricing package necessary to bring on production of synthetic oil from exotic sources like the tar sands — a number of powerful interests are sure to be involved and pressing hard for a solution which satisfies their needs. The framework reflects this complexity even though it simplifies the key relationships of power to five and the key interests to a few depending on the energy issue. Given the nature and power of the interests we are dealing with here - national and provincial governments, some of the largest companies in Canada, some of which are subsidiaries of a number of the world's largest private corporations — it is not surprising that it is often difficult to determine who caused what to happen, and for whose benefit and at whose expense. There are no shrinking violets among any of the interests, though, there are clearly.
times when one or the other interest in a relationship appears, perhaps for a combination of temporal reasons, to dominate or overpower the other. But each of these interests are relevant and part of the framework because they have exhibited at various points throughout the postwar period that they have power and that under certain conditions they will attempt to exercise it. By highlighting powerful private and state interests the framework suggests that causality may flow from economic interests to government interests and vice versa, as well as between state interests depending on the issue being analyzed.

The most comprehensive analysis of the evolution of Canadian energy politics would examine in-depth the nature and development of each of the five relationships of power. This would be a massive undertaking and likely provide the definitive work on the subject. It has been necessary in this study given constraints of space, time, and the author's research resources, to limit the in-depth analysis to two of the five relationships. There is no question that the two relationships focused on, the intergovernmental and government-industry relationships, are central to the evolution of post-war energy politics.

Indeed, historically governmental and industrial interests have been among the pivotal interests in Canadian energy politics. Such factors as: provincial ownership of natural resources within their boundaries and their right to collect a royalty on the sale of these resources; federal ownership of resources outside of provincial jurisdiction coupled with Ottawa's extensive taxation powers and authority over all aspects of interprovincial and international trade, including pricing; and, the fact that the industry has been almost entirely developed under private ownership including very large percentages of foreign ownership, have all contributed to making provincial governments, the federal government, and the industry among the key interests in Canadian energy politics.
Ideally, the international, partisan, and interregional relationships would be given the same in-depth treatment, and while they are not, they are by no means ignored. Because they are important to an understanding of energy politics and in order to allow them to contribute to the overall analysis, we have, where necessary, subsumed them under the two relationships selected for focus. Within these two relationships we will focus on the following interests: the provincial governments of Alberta and Ontario, and the government of Canada, and within the industry the multinational majors, the emerging Canadian majors and the smaller Canadian firms.

My reading of the energy politics literature convinced me of the need for a framework for the study of energy politics which recognizes and integrates the power and determining influence of interests in both the state and society. The two relationships chosen for in-depth analysis in this study provide a focus on a triad of powerful interests represented by the federal government, key provincial governments, and key privately owned oil companies. This study's examination of the various events or policies will show that while one or two of the three major interests may have been ascendent at particular times, none of the three interests has proven, over the entire period, capable of completely dominating the others. Moreover, unless there is a fundamental transformation of the Canadian economic or political systems - for example, if the entire oil and gas industry is nationalized, or if the provinces loose their ownership rights over natural resources, or if the federal government abdicates its taxation, trade, and other regulatory authorities over oil and gas - this is likely to continue to be the case.

As will be shown, all of these interests have utilized at various times the power that flows to them through the structures of the Canadian political and
economic systems to cause, via their bargaining with one another (including unilateral, bare-knuckled bargaining like the NEP) what transpires in Canadian energy politics. Energy politics is complex, even when the focus is narrowed to two relationships and three sets of interests.

ii) Factors in Implementation

When implementing the framework to systematically analyse various aspects of Canadian energy politics one must determine two operational questions, first, what sort of time frame is needed to say anything meaningful about the possession and exercise of power in energy politics, and second, what sort of evidence does one have to provide in order to demonstrate shifts in power. Before addressing these questions, however, it will be useful to take a closer look at the Canadian politics literature and the issue of causality.

But what shapes what? Does Society decisively determine Government – or is it the other way around? In a formal sense is Society the independent variable, and Government the dependent variable? or to put it another way, do the "causal arrows" run from Government to Society or in the other direction?

The Canadian political science literature is a heterogenous mix of varying conceptual approaches, with no generally accepted theoretical orientation or an agreed upon flow of causality. While this state of affairs might prove disturbing to those coveting an orderly, systematized discipline, it undoubtedly reflects the reality of the phenomena the literature was devised to study. That is, the world of politics is itself not orderly and systematic and the "models" established by analysts to impose order on the political world in order to study, interpret, and even direct it, do so at their peril. This is not to say, of course, that patterns of
behavior and structured, ordered relationships do not exist in the political world, for clearly they do. Indeed, it is their observations about patterns of behavior that lead analysts to devise analytical frameworks which "simplify reality" in order to facilitate analysis.

Sometimes authors "simplify reality" by operationalizing the key conceptual tools and units of analysis of one of the established approaches. Just as often, however, Canadian political scientists work outside of or on the fringes of the then dominant approaches, and often the analytical framework of a study is implicit in the analysis as opposed to being explicitly discussed in the introduction of a work. Canadian political scientists cover the broadest range of the Canadian ideological spectrum and the conceptual approaches they have adopted to analyze Canadian politics reflects this. Consequently, Canadian political scientists have interpreted the same events and structures in very different ways and have not agreed upon how to interpret or explain the structures that exist, the functions they perform, or what causes or determines what to happen. C.B. Macpherson argued, in 1973, that one of the key distinguishing features of economics and political science, was that unlike economics, political science has never possessed a well-developed and widely-accepted general theory. In other words, there are a number of 'approaches' to the study of politics in existence and furthermore this has always been the case.

Virtually all of the published reviews which address the early 1930-1955 period of Canadian political science stress the plural and interdisciplinary nature of the early literature. Alexander Brady's comparative sociological approach, the political economy work of R.A. MacKay, Henry Angus, and Harold Innis, Corry's comparative democratic theory, C.B. Macpherson's marxist class analysis, James Mallory's political economy approach to federal-provincial
relations, Norman Ward's historical work on the House of Commons and R.M. Dawson's 'nuts and bolts' institutional approach were some of the interpretive frameworks which flourished during this period. In the late 1950s the so-called behavioral revolution overtook the social sciences introducing new techniques and methods while emphasizing the importance of different units of analysis. Specifically, statistical and quantitative methodology were employed in surveying the opinions of large groups of individuals. Input-oriented subfields such as election and voting behavior studies, and political socialization/political culture studies were the main beneficiaries of behavioralism.

Systems theory was another approach to the study of politics that was thriving in the U.S. in the 1960s and filtered into Canada. The heyday of both systems theory and behavioralism coincided with the rapid expansion of the Canadian university system in the 1960s. In 1971 a new textbook in Canadian political science utilized a systems analysis approach as its organizing framework. By the time the Second Edition of The Canadian Political System was published in 1976 the authors had revised the framework to retain "some elements and the very basic concepts of systems analysis," but for the most part they found the systems approach simply provided a useful discriminating pegboard for organizing the vast amount of information which must go into a text. The authors were much more concerned with relating their material to the "making of public policy in Canada."  

In the late 1960s and throughout the 1970s critiques of behavioralism and systems theory began to emerge and grow in Canadian political science, fueled by David Easton's 1969 pronouncement that political science had entered the "era of post-behavioralism." Easton also argued that the post-behavioral period would not be "the possession of any group or ideology." Concurrently in the 1970s, two
'new' approaches to the study of Canadian politics, neo-institutionalism and political economy, both of which had strong ties with traditional approaches in Canadian political science, began to flourish. By the end of 1970s, Reg Whitaker was able to confirm Easton's pronouncement as prescient— at least for Canada—by arguing that the new era did in fact reflect a new pluralism. Some of the undoubted advances made by the behavioral revolution have been absorbed, some traditional lines of inquiry have once more been resumed and some new directions have emerged. The main tendency of this post-behavioral era is, in Whitaker's words, "to let a thousand flowers bloom." Consequently, in terms of approaches, there is still no to use Macpherson's phrase, widely-accepted general theory in Canadian political science.

Because we are dealing with a broad period of time in this study of Canadian energy politics, it is the shifts in power that we are seeking to understand. We want to understand why Canadian governments take the positions they do on energy issues. For example, do governments take the positions and actions they do solely or even chiefly in response to initiatives and demands emanating from the private sector, or do governments have their own primary objectives which they seek to maximize, thereby providing other governments and private sector interests a set of directions to respond to and a set of parameters within which to operate? What causes energy issues to experience the dynamics they do and have the outcomes they have?

In response to such questions, the dominant approaches in Canadian politics can provide hints as to the reasons why a focus on the triad of relationships of power is necessary to understand politics. As shown above, there is a plurality of approaches to the study of Canadian politics and different approaches tend to emphasize different primary bases of power and focus for inquiry.
The neo-institutional approach, for example, focuses on the institutions of government—the complex of courts, legislatures, cabinets, public services, armed forces, and police forces—and consequently tends to emphasize the autonomy of governments to direct developments in society—which tends to be generally defined as those elements of human association other than government, including the economy. Although not all neo-institutionalists would state the case as strongly as Alan Cairns, most would likely agree in a general way with Cairns that modern Canadian governments are highly autonomous creatures which accord high priority to their own long-term institutional self-interest. As Cairns states:

Federal and provincial governments are not neutral containers, or reflecting mirrors, but aggressive actors steadily extending their tentacles of control, regulation, and manipulation into society...thus fostering sets of integrated relationships between themselves and the various socioeconomic forces and interests in their jurisdictions. Governing elites view their task as the injection of provincial or federal meaning into society, giving it a degree of coherence and a pattern of interdependence more suited for government purposes than what would emerge from the unhindered working of social and market forces. Each government's policies pull the affected interests into relations of dependence and attachment to the power centre which manipulates their existence.

Political economy approaches, on the other hand, tend to search for the explanation of political phenomena among economic factors. Neo-marxist political economy emerged in the 1970s as an important analytical framework for the study of Canadian politics. A key distinguishing feature of neo-marxist political economy is its insistence on the primacy of economic variables in the explanation of political and institutional phenomena. The various political economy approaches focus on relationships and interests in the economy. By
employing a focus on economic relations between labour and capital, and on the contradictions in society which emanate from this relationship, as well as by insisting on a hierarchy of social phenomena between the base and superstructure, neo-marxist political economy emphasizes an overall relevant direction of power emanating from economy or society to government. Neo-marxist political economy, nevertheless, recognizes that the state in capitalist society has a necessary degree of independence, a relative autonomy from the capitalist class; "for the state to act only at the behest of particular segments of the bourgeoisie would be dysfunctional to it managing the common affairs of that class." While acknowledging that the Canadian state has a relative autonomy from various economic forces, neo-marxist political economy emphasizes that stronger bases of power emanate from society or more specifically the economy, to government:

...economic conflicts within the Canadian ruling class are usually pronounced as a result of regional specialization, tension between metropolis and hinterland and the predominance of foreign direct investment. Thus they cannot be easily accommodated at the federal level and the fact both creates a fundamental necessity for federalism from the point of view of bourgeois interests and ensures that conflict will be a normal condition of federal-provincial relations.

The framework developed here to analyse Canadian energy politics has been influenced by these two major approaches both in establishing the significant relationships of power and in choosing the key units of analysis, and in thinking about the bases of political power. Specifically, the framework focuses both on interests within the state, namely federal and provincial governments, and economic interests, namely various fractions of capital within the oil and gas industry, as the key units of analysis. The outcome of the analysis indicates that
both economic and state interests play an important role in determining the outcome of energy issues and developments.

In order to say anything meaningful about causality in energy politics it would appear necessary to assess many different types of evidence over a broad period of time. That is, only by tracing events over a broad timeframe can one assess the relative strengths of various interests vis-à-vis other interests. This does not mean, of course, that one cannot investigate certain specific cases in energy politics and draw conclusions about who exercised power, whose interests prevailed and who caused what to happen in that case. One would have to acknowledge, however, that other cases or issues would have to be investigated before one could commence drawing conclusions about the exercise of power in energy politics as a whole.

Judgements about who exercised power in specific cases and thus about who was primarily responsible for an issue unfolding in a certain way, contribute "evidence" for the larger analysis. Furthermore, there are several kinds of evidence that would have to be considered in a satisfactory analysis of energy politics. General policy decisions are one such kind of evidence as they reflect an enunciated set of concerns and show whose interests prevailed at a particular time. Major energy projects provide another sort of evidence. The politics of projects tends to differ from that of policies in that a whole range of policies converge in a decision to invest millions of dollars to build an energy project. Unlike one-time policy decisions, episodic phenomena such as the determination of pricing policy provide evidence of the outcome of bargaining over time. Moreover, both verbal and concrete actions by key interests must be analysed, particularly when evaluating shorter periods of time in greater depth.
The high-powered politics surrounding a key policy like the NEP or a major project like Syncrude or the Alaska Highway Pipeline will provide the analyst with evidence for determining the relative power of various key interests at specific points in time, as well as provide evidence for tracing shifts in power over time. Because we cannot rely solely on one-shot policies or projects for all the evidence, it is also necessary to follow an issue such as the negotiations to determine the price of Canadian oil and gas between 1973-1983 over a number of years to determine whose interests were best served and why. It is also important to consider the evidence of why some proposed project, such as the Mackenzie Valley Pipeline, was not built, or why Canadian prices have not reached world level since 1973 despite great pressure by the industry and the producing provinces. Explanations of why certain things did not happen contribute further evidence to an analysis of which interests have and have not exercised power.

It is important to acknowledge that evidence about shifts in power is not always clear cut, and judgements about the evidence and about who won and to what extent may change over time. For example, take the case of the 1961 National Oil Policy. It is often argued that the foreign-owned majors enjoyed the greatest power among the various energy interests during this period, and that the ultimate decision resulting in the creation of the NOP reflected that power. Yet when other dimensions of the NOP are assessed, in retrospect, it seems that the federal and a number of provincial governments also achieved their objectives. Thus judgements about power in that case may not be as clear cut as they once appeared.

It is also important to look for evidence of shifts in power in Canadian energy politics caused by important extraneous developments. Crises in the
international energy system can have the effect of increasing or decreasing the relative strength of various interests in Canadian energy politics, and in motivating the various interests to exert pressure to effect the outcome of issues. For example, the 1973 and 1979 world price shocks galvanized the governments of Alberta and the other producing provinces to press for substantially higher prices for and a higher percentage of the revenues from their depleting, non-renewable supplies of oil and natural gas. At the same time, the supply 'scarcities' which accompanied the 1973 and 1979 crises motivated the various federal governments to pursue policies of self-sufficiency to remove Canada from the international oil market as soon as possible. Both of these developments had important ramifications for the balance of power among domestic energy interests in Canada. The focus of the analysis in this study, however, is on the domestic politics revealed by the intergovernmental and government-industry relationships of power.

In conclusion, then, it is clear that in order to undertake meaningful analysis in Canadian energy politics one must assess a number of different types of evidence over a broad period of time, and search for examples of the exercise of power among both important economic and political interests. The framework introduced in this study facilitates such analysis.

iii) Organization and Methodology

The two relationships focused upon form the basis for the overall organization of this study. Chapter Two provides an initial historical portrait of key developments in energy politics over the entire post-war period. This is necessary to both help the reader keep the chronology of events clear and to locate the events of recent years in their proper historical perspective.
Chapters Three and Four then undertake an in-depth analysis of the pre-NEP government-industry and intergovernmental relationships. There is some necessary and desirable repetition of issues in these chapters, in that the events traced in Chapter 2 are viewed in much more detail through the two sets of relationships contained in the framework. Chapters Five and Six do the same for the post-NEP relationships. Chapter Seven provides the conclusions of the study.

It is essential to stress two important analytical features about the division of the analysis into pre- and post-NEP periods. The latter period deals with only three years of history, from late 1980 to about the end of 1983. The former period involves more than three decades. While the study implies, by devoting two chapters to each period, an evenness of treatments, this must be put in a practical analytical context. The overall conclusions reached are drawn from the cumulative evidence of the entire period. The NEP is obviously a central event in the exercise of power and hence deserves the emphasis given to it. But the study is sensitive to the fact that some major aspects of the impact of the NEP on relationships of power must await the passage of a longer period of time. It also would require more of a policy focus than this study can practically achieve since all the key elements of the NEP would have to be dissected, including goals which were expected to be achieved only by 1990. The other reason that the pre- and post-NEP periods receive equal space in the study is that, in the latter period, the study extends the analysis into a greater level of detail among the industry interests in particular.

While the pre- and post-NEP eras delineate the broad division of the study, there are more discrete timeframes employed in this work to differentiate periods of historical distinctiveness. Briefly these periods are: from the Leduc discovery in 1947 to the establishment of the National Oil Policy in 1961; from
the NOP to the OPEC crisis of 1973; from the 1973 crisis to the defeat of the Clark government in a parliamentary vote of non-confidence in December 1979; and from the February 1980 election campaign to mid-1983. For shorthand these periods can be designated the 1950s, the 1960s, the 1970s, and the 1980s.

This study employs a number of primary and secondary sources. The major sources of primary data are documents and interviews. The documents include speeches of industry and government representatives; parliamentary and legislative debates, submissions to and reports of royal commissions and other government inquiries, survey research opinion data, industry and government publications including documents of various regulatory agencies and several confidential documents secured by the author from various sources.

The other primary source is an extensive series of over two hundred and fifty personal interviews undertaken by the author on a not-for-attribution basis throughout North America and Western Europe. The interviewees included: senior officials of the Government of Canada, several provincial governments, both territorial governments and numerous Western European governments; senior representatives of several international organizations including the Organization for Economic Cooperation and Development, the International Energy Agency, the European Economic Community, the Organization of Petroleum Exporting Countries, and the International Institute for Applied Systems Analysis; numerous senior officials of Canadian petroleum companies, several private and public Western European petroleum companies, and various important petroleum industry organizations; and a number of energy journalists, university based analysts, and members of the energy securities and financial industries.
Secondary sources included the full range of scholarly and journalistic energy literature, a number of key Canadian daily and weekly newspapers and newsmagazines.
Footnotes


3. Canada, The Major Projects Task Force on Major Capital Projects in Canada to the Year 2000, Major Canadian Projects: Major Canadian Opportunities (Ottawa: June, 1981). This task force was also known as the Blair-Carr Task Force after its co-chairpersons, Robert Blair, President and Chief Executive Officer, Nova, an Alberta Corporation, and Shirley Carr, Executive Vice President, Canadian Labour Congress.


8. Ibid., p. 304.

9. Ibid., p. 11.

10. Ibid., p. 280.

11. Ibid., p. 287.

12. Ibid., p. viii.

13. Ibid.

14. Ibid., p. 3.

15. Ibid., p. 7.


17. Ibid., p. 327-328.


22. Ibid., pp. 6 and 57.


24. Ibid.


30. Ibid.


32. Ibid., p. 213.

33. Ibid., p. 214.

34. Pratt, op.cit., p. 9.

35. Ibid., p. 169.

36. Ibid., p. 170.

37. Ibid., p. 9-10.


39. Ibid., p. 16.

40. Ibid., p. 13.

41. Ibid., p. 188.

42. Ibid., p. 196.
43. Ibid., p. 195

44. Ibid., p. 192

45. Ibid., p. 190


48. Ibid., p. 87.

49. Ibid.


58. Ibid., p. 27.

59. Ibid., p. 28.

60. Ibid., p. 49.

61. Ibid., p. 55.

63. Stephen Clarkson, Canada and the Reagan Challenge (Toronto: Lorimer 1982).

64. Ed Shaffer, Canada's Oil and the American Empire (Edmonton: Hurtig, 1983).

65. Ibid., p. 2.

66. Dacks, op.cit., p. 204.

67. Clarkson, op.cit., p. 22.

68. See U.S. Information Office, "U.S. Opposes Actions That Impede Investment Flows," September 12, 1983, for an example of how the Americans would later articulate their position. This 'Presidential Statement,' which lists a number of multilateral and bilateral steps the U.S. wanted to take "to help free investment flows," if implemented, would make a program like the NEP virtually impossible in any signatory country.


70. Ibid., p. 3.

71. Ibid., pp. 227, 233-234.

72. David Crane, Controlling Interest: The Canadian Oil and Gas Stake (Toronto: McClelland and Stewart, 1982).


74. Crane, op.cit., p. 8.

75. Edward A. Carmichael and James K. Stewart, Lessons From the National Energy Program (Toronto: C.D. Howe Institute, 1983).

76. Ibid., p. 2.


79. See Ibid; Alan Cairns, "Political Science in Canada and the Americanization Issue," Canadian Journal of Political Science, VIII:2 (June,


84. Smiley, Canada in Question, op.cit., pp. 2-3.


Chapter 2

THE HISTORICAL EVOLUTION OF CANADIAN ENERGY DEVELOPMENT

This chapter provides an overview of key issues and events in Canada’s energy history. The intention is to highlight historical events in a fairly straightforward way on a decade-by-decade basis with the focus on the post-World War II era in general and on the post-1973 period in particular. An historical perspective is necessary to appreciate the more detailed analysis to follow. Appendix A provides a chronology of key events. The chapter is organized into five sections. The first provides a brief profile of the pre-1945 energy politics legacy. The next four sections examine the 1945-1961, 1961-1973, 1973-1980 and 1980-1983 periods, respectively.

A PROFILE OF THE PRE-1945 LEGACY

Canadian energy politics must first be located in the context of the broad pre-1945 legacy of the Canadian political economy. Several of the main features of that legacy are summarily noted in this section without further comment. The necessary brevity of this discussion should not lull the reader into a false sense that what is past is past. The pre-1945 legacy has had a remarkable and persistent staying power and underpins the modern era.¹

The first legacy is Prime Minister John A. Macdonald’s National Policy. It was an act of intervention that combined tariff policy, immigration policy, and transportation policy to support the central Canadian industrial heartland and to build a nation.² It led to Canada’s creation as an east-west continental state. It was an act of political defiance against the economic efficiency of the north/south axis.
It is also the ultimate precursor to the continued importance of state intervention in Canada. Such intervention took on more precise energy-related forms in later pre-1945 decades, though hydro electric power in Ontario was nationalized in 1906, the result of pressure brought to bear by the business community. Later an atomic energy industry was fostered under state auspices through Atomic Energy of Canada and Eldorado Nuclear, albeit through the additional impetus supplied by World War II.

The National Policy, though it forged a nation state could not, and did not, override all the underlying realities of Canada's internal regional centrifugal forces nor the external dependencies created by continental trade and economics. Thus the National Policy also generated a significant counter reaction from those regions and economic classes who were not its primary beneficiaries. Successive bursts of prairie populism and western Canadian alienation against central Canada and central Canadian financial and industrial interests occurred. The cumulative impact of these historical grievances were revealed again in the post World War II decades.

One particular manifestation of the strength of regional views was the initial constitutional arrangements regarding jurisdiction over natural resources. Only after strong provincial pressure were the western provinces given primary control of resources in 1930. Sections 109, 92(2), 92(5), and 92(13) of the British North America Act provide the basis of provincial authority. The ownership of off-shore resources is the object of a major dispute particularly between Ottawa and Newfoundland. Resource management is also affected by the fact that much of the land under which oil and gas exploration is conducted is Crown-owned land, especially in Alberta and British Columbia but also in the North in what are now labelled the Canada Lands. Since the 1930s, producer
provinces have fought hard to secure greater constitutional protection of resource rights because the federal government, through its many indirect ways of controlling resources (e.g., its taxation, interprovincial trade, and foreign policy powers) has increasingly exercised such powers for fiscal and other political reasons. These provincial concerns led to the entrenchment of additional protections in the Constitution Act of 1982. Section 50 of the Act which adds section 92A to the 1867 Act provides these protections. Thus, although property rights over resources became a deservedly important issue to the western provinces in particular, it is nonetheless a fact that overall energy policy involves shared constitutional powers between the two levels of government.

As to the continental pull of energy realities, the pre-1945 legacy contains useful reminders of the existence of larger energy markets. From the outset there have been continental energy supply issues that are a direct result of nature's physical assignment of resources and their geographic proximity to population centres. Thus coal has been imported into Ontario, electricity has been exported to the northern United States, and for much of the early oil era prior to 1950, Canada was heavily dependent upon oil imports from the U.S. Indeed during much of the pre-1973 period Canadian oil prices were benignly "managed" by the Texas Railway Commission, an arrangement thought at the time to be quite politically secure.6

Finally, it is essential to mention the legacy left by the forging of the post-war reconstruction policies which emerged out of the 1944 White Paper on Employment and Income. They ushered in the Keynesian era and the welfare state.7 They can also be said to have helped shift political attention to the issues of "macro-economic" policy. Energy issues much like other "industrial" policy matters seemed thereafter to fall into the residual crevices of the new
distinctions being made between macro and micro economics. Energy became viewed as an industry much like any other. Indeed, it is useful to remember that one did not even refer to "energy" policy or the "energy" industry as such. If anything, one spoke only of "oil" policy or the "coal" industry. The more universal world of energy policy had not yet been conceived.

B. ENERGY EVENTS AND POLICIES 1947-1973

The 1947 Leduc and 1948 Redwater oil discoveries marked the birth of the modern Canadian oil industry. Although there had been significant discoveries made earlier in the century at Turner Valley, Alberta (1914) and Norman Wells, N.W.T. (1921), for example, neither of these had been followed up by a series of other major strikes; Leduc and Redwater were. By 1960 75 percent of the 30.8 billion barrels of oil and 56 percent of the natural gas discovered in Alberta between 1946 and 1979 had been found. Field names such as Steelman, Judy Creek, Pembina, Swan Hills, and Weyburn had become part of the lexicon of life on the Canadian prairies.

The 1950s form the earliest of the four periods of Canadian energy politics into which this overview is divided. The '1950s'-really includes the period from the 1947 Leduc strike to the promulgation of the National Oil Policy (NOP) in 1961. As shown below, the NOP was really a product of the major energy debates and conflicts of the 1950s and thus must be seen as more representative of the spirit of the '50s than the spirit of the '60s (1962-1972). Before reviewing the major developments of the 1947-1973 period, it is useful to briefly characterize the two component parts of this period as well as the larger period itself.
The larger 1947-1973 period was marked by a reasonable consensus of values between the federal and provincial governments over the management of Canada's growing oil and gas reserves. The overriding objective of energy policy was to encourage oil and gas production and to stimulate the growth of the domestic petroleum industry. This objective was achieved through the construction of major oil and natural gas pipelines from the producing prairie provinces to consuming regions in both Canada and the U.S., the creation of a favourable tax climate to spur investment and an aggressive export policy. Within this policy framework, the oil and gas industry was given a wide latitude in the development of Canada's oil and gas reserves. The 1947-1973 period was characterized by much less government interference in the interplay of market forces than exists now; the assumption of abundance; price stability; the objective of promoting growth; and, a consensus of values and objectives among the major private and governmental interests. As such, this period stands in relative contrast to the post-1973 period, in which increased state intervention, the assumption of scarcity, dramatic price increases and rapid inflation, the objective of promoting conservation, and government-industry and intergovernmental conflict became much more prevalent. Within the 1947-1973 period, the '50s can be characterized as a time of dramatic "start-up" growth and the '60s as a time of even more impressive production growth, but also quiet consensus-based regulatory consolidation.

The 1950s: The Transformation to Oil

The 1950s marked the transformation of Canada from a coal to an oil based economy. Oil production increased from about 30 million barrels in 1950 to
about 190 million in 1960. Natural gas production went from about 70 million cubic feet to over 500 million cubic feet in this same period. By 1955 Canada was exporting about 50,000 barrels per day, a significant figure but still well below Canada's level of oil imports. While the oil and gas industry, as a whole, was experiencing prolific growth, the large, primarily foreign-owned firms were strengthening their control of the industry via the takeover of many smaller Canadian-owned firms in both the upstream and downstream sides of the industry. The other major structural phenomenon of the 1950s was the veritable explosion in pipeline construction as the oil and gas lines, which served most of Canada's needs, were built. Accordingly energy issues in this period revolved around questions of jurisdictional authority, pipeline routes, transmission costs, exports, and foreign ownership.

**Jurisdictional Growth**

The realization in the late 1940s of the size of the Alberta oil fields, precipitated another of the intermittent rounds of constitutional jockeying for authority over the control and management of natural resources which have historically characterized federal-provincial relations. John Richards and Larry Pratt have characterized the political sentiment in Alberta which helped motivate the Social Credit government's expansion of its authority over oil and gas during this period as follows:

Social Credit, like the CCF in Saskatchewan, was eager to diversify Alberta's economic base out of its heavy dependence on agricultural commodities. Memories of the recent depression were still intense, and before Imperial's discovery of oil at Leduc in February 1947, the province's economic prospects were not particularly bright... Alberta's future, it seemed in 1946, would largely revolve around the wheat farm, the ranching and
livestock industry, and mixed farming: ... many anticipated a gradual long-run decline in both the rural and the total provincial population. Oil promised growth and the prospect of diversification; it also held out hope that Alberta's public debt burdens could be eliminated without increasing personal taxation.10

Alberta's fear of outside corporate control under federal jurisdiction and the desire to ensure the primary access of Albertans to provincial gas supplies led the Alberta government to enact the **Gas Resources Preservation Act** in 1949. It acted in the same year to strengthen its constitutional jurisdiction over the regulation of the removal of gas from the province by establishing the Petroleum and Natural Gas Conservation Board (later changed to the Energy Resources Conservation Board).

In 1949 the federal government passed the **Pipe Line Act**. This legislation provided for federal control of interprovincial and international oil and gas pipelines. It required the incorporation by an act of Parliament of companies proposing to transmit Canadian oil and gas to markets outside the producing province. Following incorporation the companies had to submit for approval by the Board of Transport Commissioners the details of the project, such as the route to be followed.

In 1954 Alberta created Alberta Gas Trunk Line (AGTL) to act as a single gas gathering system. AGTL would act as a common carrier inside Alberta and distribute pooled gas to export companies at the provincial border. Richards and Pratt sum up the logic behind its creation:

On constitutional grounds the Manning government had long worried that federally incorporated pipelines could, by extending their gathering lines across Alberta's borders into its major gas fields, thereby also extend Ottawa's jurisdiction into the province and give the federal authorities well head control over Alberta's gas; this in
turn could be used by the Dominion to undermine Alberta's emphasis on local priority in regard to supply and price and to provide consumers in eastern Canada or the United States with cheap western Canadian gas.\textsuperscript{11}

The government chose a mixed private and public ownership structure for AGTL. In so doing they rejected the alternatives of a crown corporation, on ideological grounds, and a wholly privately owned firm, on the grounds that it could fall into the hands of outside (i.e., non-Alberta) interests.

Throughout the early 1950s the federal Parliament experienced a number of heated sessions associated with various pipeline incorporations. In 1956, however, Parliament was racked by an unusually acrimonious debate over the federal government's handling of the Trans-Canada Pipeline. The intensity of the debate over both the parliamentary behavior and energy policy aspects of the Pipeline debate contributed to the defeat of the St. Laurent Liberals by the Diefenbaker-led Conservatives.\textsuperscript{12} In 1957 a Royal Commission on Energy was established. Following its report, the federal government created the National Energy Board in 1959 and established a National Oil Policy in 1961.

**Pipeline Routes, Transmission Costs, Foreign Ownership, and Exports**

The geographical fact that Canadian reserves and Canadian markets are separated by vast distances and natural barriers such as the Rocky Mountains and the Canadian Shield, has conferred special importance on the issue of oil and gas transportation. Questions of pipeline routes, the inclusion of exports, the price of exports, and the cost of transmitting Canadian fuels to Canadian markets have been the focus of much acrimonious debate.\textsuperscript{13}

For example, concern about national integration and self-sufficiency in fuels was reflected in the objective of preserving exclusive Canadian jurisdiction
over transmission systems by ensuring that they were built entirely within Canada. 'All-Canadian' routes had the advantage of being free from U.S. interference in the delivery of Canadian oil and gas to Canadian markets across U.S. territory and second, would not be subject to pressure for excessive exports to the U.S. This concern with exclusive jurisdiction, however, often clashed with the equally important concept of economic efficiency, which in this case was reflected in the objective of reducing the cost of transmitting Canadian fuels to Canadian markets and thereby improving the competitive position of Canadian fuels in Canadian markets. It was argued that the unit cost of transmitting Canadian fuels to Canadian markets could be lowered by building in an 'export component' to take advantage of economies of scale achieved through increased throughput volumes. John McDougall, in his excellent history of Canadian fuel policies, characterizes the spirit of this debate and its outcome:

... (given) the fact that the pipelines routed through the U.S. were likely to market a portion of their throughput in the United States, it is not surprising that numerous debates in Canada over the construction of pipelines pitted nationalists who felt that Canadian markets should be served entirely with Canadian fuels and delivered by means of pipelines built exclusively within Canada, against "free marketers," who felt that Canadian markets should be served by Canadian sources only if necessary and then only by means of pipelines built along the cheapest possible routes. The former would maximize interprovincial trade at the expense of international trade, while the latter would do the reverse. The decisions actually taken and the transmission systems actually built resembled neither the nationalist nor the free-market, continentalist extreme. Viewed as a network of oil and gas transportation systems, the Canadian pipeline projects approved between 1949 and 1961 form what could be called either a quasi-national or a semi-continental pattern of fuel transportation and distribution ...
Five major transmission systems were incorporated and given federal approval prior to 1960. Interprovincial and Trans-Canada were to supply central Canada with Alberta oil and gas respectively. Transmountain and Westcoast were to do the same to the West coast. All four employed the 'joint service' concept. That is, they were designed to serve export as well as domestic markets and in fact depended on exports to be viable. In the most extreme case, Westcoast, in order to achieve export markets, entered into an arrangement whereby it sold gas to American distributors at a price considerably lower than the prices charged Canadian consumers. The fifth line; Canadian-Montana, was built at the request of the American military and the Canadian Department of Defense to meet the gas needs of the Anaconda Copper smelter in northern Montana which was producing war materials for the Korean War effort. However, it is the Trans-Canada Pipeline which is most illustrative of the issues. Before presenting a brief portrait of the Trans-Canada debate, it is essential to look at a major energy policy statement made by C.D. Howe on behalf of the St. Laurent government on March 13, 1953.

In a prescient nod to future conflicts, Howe acknowledged the constitutional provision respecting provincial resource ownership while also stressing Ottawa's power over international and interprovincial trade. Of central importance in this statement are the very different attitudes the government exhibited toward oil and gas. The major concern with oil was to move it "from the source of production to refineries within economic distance in the cheapest possible way," and "to arrange for markets for that portion of Canadian output that cannot be economically used in Canadian refineries in the market that offers the highest return to the producer." The logic of this attitude is reflected in both the Interprovincial and Transmountain pipelines. In fact,
Interprovincial was built south of the Great Lakes through the U.S. in order to serve both the American midwest and central Canadian markets.

For natural gas, on the other hand, Howe applied the logic which governed policy respecting the other premium energy source, electricity. It was government policy, Howe claimed, to refuse permits to move natural gas by pipeline across the border until the government was convinced "there can be no economic use present or future for that gas within Canada." Westcoast and Canadian-Montana were to be the only exceptions. So while Howe appeared to reject the idea of a nationwide market for Canadian oil because of the high transportation costs to central Canada, he insisted that "the only reliable supply of natural gas for the provinces of Ontario and Québec must be from western Canada by means of an all-Canadian pipeline." The means would be the Trans-Canada Pipeline.

The Trans-Canada Pipeline

The Trans-Canada pipeline was lauded by its supporters as a classic example of nation building in action. Indeed, Howe was fond of comparing it to that other great transportation project - the building of the CPR railway, the project so central to John A. Macdonald's National Policy. Howe argued that the building of the natural gas pipeline was as crucial for the building of an east-west continental nation in the twentieth century as the building of the Canadian Pacific Railway had been in the nineteenth. It would carry Canadian resources from the West to Canadian consumers and manufacturers in central Canada, and do so entirely on Canadian soil. So commendable were its objectives, that the lone voice of concern raised in Parliament during its original bill of incorporation
was that of a member from Cape Breton, who was concerned that the proposal to market Alberta natural gas as far east as Montreal, would threaten the market for Nova Scotia coal. Moreover, the initial proposal included no reference to exports. In fact, the pipeline was extolled as a means to reduce Canada's dependence on American supplies of coal and oil. Yet, before it was finished this project would tie Canada even more tightly into a continental energy market, bring down a national government and, as historian William Kilbourn put it, "raise most of the classic issues in Canada's survival as a nation."

American economic influence and the nature of Canadian-American relations; the debate between north-south continentalism and east-west nationalism, the questions of transportation and national unity, of energy and national growth, of control over natural resources and their exploitation; the latent conflict between western producer and eastern consumer; dominion-provincial relations; the problem of public versus private enterprise and the compromise of the crown corporation; the connections between business and politics, and the role of regulatory bodies between them; the rights of Parliament; and the place of popular feelings, pressure groups and the press in the difficult matter of making decisions on complex issues of great national importance. ¹³

The idea of the Trans-Canada was conceived by an American entrepreneur in opposition to projects proposing a continental gas swap, in which Alberta gas would be exported to the western U.S., and central Canada would be supplied from Texas by an extension of existing mid-western U.S. pipelines. During the development of the project, the Trans-Canada proposal was combined with the Western Pipe Lines proposal which included an export component (at Emerson, Manitoba) to make it financially feasible. Initially, the Canadian owners of the Western project intended to build the line to central Canada south of the Great Lakes through the U.S.
In 1954, Trans-Canada was in financial difficulty and had secured few supply or market contracts for gas. The following year Trans-Canada approached Howe requesting government bond guarantees. Howe and the government agreed to provide financial support which could have resulted in government equity ownership in Trans-Canada. Gulf Corporation of Pittsburgh, whose Canadian subsidiary Gulf Canada Ltd. was to supply roughly 40 percent of Trans-Canada's gas needs, had established a policy of refusing to sell to a company controlled by government, or which could be controlled by government through the exercise of rights. Accordingly, Gulf refused to let Gulf Canada (then called British American Oil Company but referred to in this study by its current name) sign contracts with Trans-Canada. In their haste to get the project completed before the expected 1957 election and underway before the winter, non-construction season, the government chose not to challenge Gulf. Rather, it choose another tack and created a crown corporation to finance and operate the most expensive and difficult northern Ontario section of the all-Canadian route. Trans-Canada had by this time acquired an option on steel pipe and needed further support to ease its financial difficulties. The St. Laurent government agreed to a temporary arrangement whereby 51 percent ownership would reside with American interests. Even though the company was then majority American-owned, Howe still agreed to provide further loan guarantees and furthermore to use closure to force the Trans-Canada legislation through the frenzied House of Commons.

The Trans-Canada debate was particularly furious because of the opposition's anger at the government's readiness to grant loan guarantees to an American-controlled firm and over the Liberals' treatment of Parliament. The controversy generated by the Pipeline debate both highlighted the importance of energy policy and contributed to the defeat of the Liberals after 22 years in
power. One of the first acts of the new Diefenbaker government in 1957 was to appoint Toronto industrialist Henry Borden to head a Royal Commission on Energy. The Borden Commission achieved three things in particular. It helped depoliticize the volatile energy issue. It assessed the need for an independent agency to supervise the activities of the petroleum industry and it settled the question of whether or not the oil pipeline system should be extended to Montreal in order that the refineries there could use Canadian crude oil rather than off-shore imports from Venezuela and elsewhere. The legacy of the Borden Commission was the creation of the National Energy Board in 1959, and the adoption of the National Oil Policy in 1961. Before reviewing these developments it is necessary to note briefly the final Report of yet another Royal Commission:

The Gordon Commission

One of the key issues addressed by the Walter Gordon-led Royal Commission on Canada’s Economic Prospects was the impact of foreign direct investment on Canada’s economic growth. With respect to the oil and gas industry, the Report was optimistic about its growth prospects, but pessimistic about it reducing its high level (roughly 80 percent) of foreign ownership. The Commission concluded that the foreign-owned subsidiaries - in large part due to their access to parent company financial resources - had the size to finance large-scale capital investments, to engage in competitive bidding for land for exploration and development, to generate revenues at many or most stages of the integrated industry, and perhaps most importantly, to satisfy most of their investment capital needs from retained earnings thereby decreasing the need to involve Canadian equity ownership.
The Commission also noted a number of other advantages which foreign-owned subsidiaries had which resulted in decreasing the degree of decision-making in the hands of the Canadian-owned sector and which in other ways worked to Canada's disadvantage. For instance, United States government tax incentives encouraged American firms to go abroad to explore for oil and gas. Via inter-company transfers foreign-controlled firms tended to charge their parent companies too little for raw materials and to overpay them for things they acquired from them such as imported oil, and management, research and development services. Subsidiaries also tended to use equipment and supplies from traditional parent company sources in the U.S. or elsewhere rather than to seek out Canadian supplies.

The Gordon Commission made a number of recommendations including: greater reliance on foreign capital in the form of bonds or mortgages; a minimum 20-25 percent Canadian ownership of companies operating in Canada; the appointment of more Canadians to senior management positions; the appointment of independent Canadians to the subsidiaries' boards of directors; greater use by foreign-owned firms of Canadian engineering, professional, and service personnel; more Canadian sourcing of supplies, materials, and equipment; and, the requirement of Canadian participation in future oil and gas exploration permits and leases. These recommendations had little impact on the politicians and officials in Ottawa and the producing provinces and it would be another twenty-three years before these issues would be addressed more directly - in the 1980 NEP.
The Borden Commission, Natural Gas Exports, and the Alberta to Montreal Pipeline

John McDougall has argued that the vague generalities in which the terms of reference for the Borden Commission were phrased suggested that the new Diefenbaker government had not determined the substance of a new national energy policy. "The job of the commission would not simply be to recommend the policies that will serve the national interest but in fact to define the national interest." McDougall observed further that "the key question here is: whose interests were eventually to be taken by the commission to constitute the national interest?" The Commission's ultimate decision on export volumes and the Alberta to Montreal Pipeline, at least in part, answers this question.

The debate surrounding natural gas exports in the '50s was multifaceted despite the St. Laurent government's straightforward 1953 statement. The producing provinces, the cities of Edmonton and Calgary, and the major consuming provinces were in agreement that Canadian market requirements for natural gas should be met at the lowest possible price and that supplies should be reserved for a number of years in the future before exports were allowed. In other words, long-term availability at stable prices was the objective. From the industry's perspective, however, it was availability that was the main concern. McDougall characterized the industry's argument as follows:

The Canadian Petroleum Association (CPA), Westcoast Transmission, Shell Canada and others continuously stressed the importance of export markets in encouraging the development of reserves. The dynamics of the interdependence between markets and reserve development argued by these parties was that the enlarged demand caused by exports would raise prices and that in turn, higher revenues to producers would stimulate increased exploration and development ... There is a circularity to this reasoning which has persisted in export
policy ever since. It is born of the producer's argument that the best protection with regard to future supply is the export of gas. The circularity consists in the fact that the volumes of gas that are counted upon to justify the export of gas (that is, the volumes of gas necessary to protect the future increase in demand in the Canadian market) are allowed to depend upon the export of gas for their development. Whether the rate of discovery and development of reserves has, in fact, any relationship whatsoever to the rate of export of gas is a question open to empirical investigation. But a problem can arise even if new discoveries are so generated. The gas to be exported and the gas whose expected development is supposed to justify exports are, of course, different lots of gas; the latter may only become available at higher cost and in more inaccessible locations than the exported gas it is counted on to replace. Hence, it is possible that by making exports allowable on the basis of trends in discovery, proven reserves at current prices will be exported, while the protection of Canadian requirements will depend upon future reserves at higher prices.18

In its conclusions regarding gas exports the Commission rejected the position of the cities and provincial governments and stated that "in the administration of export policy it would be unfair to producers of natural gas to require, at this time, that proven reserves be set aside for all long-term future needs in Canada."19 McDougall thus concluded "that policies recommended as being in the Canadian national interest necessarily entail fairness to producers of natural gas is an assumption which may or may not be valid, but it is one that the Commission did not bother to justify."20

The Borden Commission's rejection of the Alberta to Montreal Pipeline also involved different dynamics in defining 'the national interest'. On the one hand, as a result of falling world oil prices, the Canadian oil industry in the late 1950s was encountering increasing difficulty in competing against imports of cheaper foreign oil. Because the price of Canadian produced oil was established by the
majors and based on the Chicago-gate price, Alberta oil prices were considerably higher. Consequently, Alberta production was running at less than 50 percent capacity. On the other hand there was the problem of the U.S. government's 1959 decision, taken as a result of pressure from the independent U.S. producers, to establish a Mandatory Oil Imports Program. While Canada and Mexico were granted an 'overland exemption' for reasons of U.S. security of supply, imports were still limited.

The Canadian independents, in particular, needed cash flow to finance their growth and were anxious to find new markets. Canadian-owned Home Oil Company, supported by a group of other independents, proposed constructing a thirty inch diameter oil pipeline from Edmonton to Montreal to deliver 200,000 barrels per day in 1960 and 320,000 barrels per day in 1965. Such a line would have the advantages of: supplying Alberta crude oil producers with a guaranteed market; increasing Canadian national security by eliminating the dependence of Montreal refineries on imported oil; creating major industrial benefits across Canada; ending the $350 million a year outflow of foreign exchange to pay for imported oil; and by ensuring access to all three of Canada's major oil markets, create a major stimulus for new exploration and production in western Canada. The catch was that in order to make the pipeline a financial success the Montreal refineries owned by the oil majors would have to sign long-term agreements to use the full capacity of the line. Long-term contracts themselves were not unusual as most of the refineries had signed them with their foreign parent companies for offshore oil. Yet, the multinationals were unanimous in their opposition to Home Oil's proposal. The majors, led by Imperial Oil, phrased their opposition in terms of both increased costs and opposition to greater government involvement in the industry. It was argued that Alberta oil delivered
to Montreal would be more expensive than offshore oil and that alternative market opportunities for Canadian crude existed in the Pacific and north central U.S. The multinationals argued that government protection of the Montreal market would be mandatory if the pipeline went ahead and governmental interference in the crude oil market was generally opposed.

In his interpretation of this period, J.G. Debanné points to two other related reasons for the multinationals' position. The oil imported into Eastern Canada from the Middle East and Venezuela was very profitable. The Venezuelan government was demanding an increasing share of revenue and therefore "the multinationals were anxious to produce their Venezuelan oil as soon as possible while conditions were favourable. Since the oil was higher priced than Middle East oil, both at the source and at the North American ports of entry, the multinationals preferred to route as much Venezuelan oil as possible to eastern Canada where they were able to maintain higher prices than in comparable regions of the U.S., such as New England." The American government, which had just imposed its own restrictions on imported oil, was concerned for political reasons that Venezuelan oil not be displaced in eastern Canada by western Canadian crude. They felt that the guaranteed market for the Venezuelan oil in eastern Canada would strengthen the Venezuelan economy and thereby enhance the stability of the Venezuelan government.

The second reason is related to the ownership of imported oil relative to the prorated production from Alberta. As Debanné pointed out, the system allowed the Jersey or Shell controlled refineries in Montreal to be supplied exclusively from Jersey or Shell-controlled oil fields respectively and to have much of this oil transported in company-owned tankers. In other words, more Jersey or Shell oil was sold for every barrel of oil imported by Imperial and Shell
refineries in Montreal than if this oil originated from 'prorated' production in Alberta. This was because Shell and Imperial production in Alberta was "diluted" by the proration formula which allocated 'production allowables' to all Alberta producers.22

In opposition to the Alberta-Montreal line many of the major companies not surprisingly expressed a preference for natural continental patterns of supply in which Canadian and American crudes would be freely used in the most economical markets. What this meant in practice was that the Montreal market was to be reserved for overseas sources of supply while Canadian production was to grow by expanding in markets in Ontario and lower mainland B.C. and by increasing penetration of accessible U.S. markets. Such a scheme would in fact emerge within a couple of years in the form of the 1961 NOP.

In addition to Debanné's account other analysts have provided different interpretations of the outcome of the Borden Commission's decision to reject the Home Oil proposal. David Crane, for example, interpreted the same events even more starkly as a significant sacrifice of the national interest to the interests of the majors. He concludes:

... in this confrontation between the oil majors and the Canadian independents, the majors won. The Royal Commission came down clearly on the side of the majors ... Yet though the independents had lost this battle, there was a heightened awareness among Canadians of the ways in which the majors' power could override the national interest. Evidently there were two sets of rules: The United States, at the urging of its oil industry, could establish quotas as well as a tariff on oil imports, but the Canadian subsidiaries of the same companies could argue that these things would be bad for Canada. The majors' preferred supply patterns were simply aggravating a reduced-production predicament in Alberta that increased the likelihood of more takeovers of cash and credit-poor Canadian independents.23
On the other hand, McDougall interpreted the same decision in terms that come much closer to saying that the general national interest was not badly served:

Still it is hard to sustain the argument that the Montreal pipeline issue pitted the Canadian interest or Canadian nationalism against the power of the American government and American firms. While these factors were unquestionably present, there is little evidence of Canadian interest in the scheme except on the part of the Canadian independent firms, and even then only if reliable American markets could not be obtained. Little support for the policy emanated from central Canada: Ontario already received Alberta oil, and no representatives from Quebec even addressed the issue in Parliament. This lack of support for the idea in Quebec was probably a reflection of the fact that Alberta oil would be more costly than Venezuelan oil delivered to Montreal. No one seemed impressed with the security advantages of self-sufficiency for Canada, despite the Suez crisis only two years before. In sum, the only Canadians with a strong interest in the movement of Alberta oil to Montreal were the independent Canadian oil producers, and even they had more to gain from seeking a reduction in the American restrictions against imports from Canada.24

The National Oil Policy

The Borden Commission was undoubtedly influenced by the economic rationality of a continental approach to the problems of oil production and marketing. In rejecting the idea of import restrictions for the Montreal market the Commission declared that such a decision "if made before the potentialities of the United States markets were fully exploited, would, among other things, seriously impair Canada's position vis-a-vis existing United States import restrictions and might jeopardize the development of a continental energy policy."25 Just over a year after the Borden Commission recommended it, the Diefenbaker government announced its National Oil Policy in 1961. Having rejected a line to serve Montreal markets
with Canadian oil, the Borden or Ottawa Valley Line and the NOP reflected a consensus that satisfied the established practice of the multinationals, provided a protected national market for Alberta crude in Ontario and the rest of the country west of the line, and gave eastern Canadian consumers east of the line lower priced off-shore oil. The Borden Commission also offered the following view about the value of future continental flexibility.

We mention the possibility of a continental policy not because we believe it can be developed in the immediate future, but because we feel that care should be taken to ensure that Canada, by its actions and commitments now, does not jeopardize the subsequent possible development of such a policy.26

The Diefenbaker Tory government supported the mixed continentalist and gradual national market expansion line of argument and augmented it by stating that they would try to help the independent Canadian producers by seizing every opportunity to increase access to the U.S. market for Canadian oil. The Lester Pearson-led Liberals explicitly endorsed the overall NOP approach to resource sharing arguing that "if defense is to be considered on a continental basis, then resources and materials for continental defense must also be based on a continental basis."27 Thus, both major parties approved of the essential features of the NOP.

The NOP decision was therefore surprisingly non-controversial, in part at least, because it reflected a delicate balance between the needs of a number of interests. Moreover, it was not a statutory policy and thus could be interpreted to have been arrived at in a quasi-voluntary way. Markets were being "regulated" but not in an imposed draconian way. There is no question that the NOP satisfied the multinationals and the U.S. government and served to enhance
continental integration of the Canadian and American oil markets - even though it could not achieve the status of a full continental energy policy because of the U.S. import restrictions. However, it is also important to note that this decision of the Canadian government also won the support of the Canadian provinces affected.

Specifically, western Canadian oil was ensured its 'natural' market for expansion, the U.S. midwest, and was safeguarded against competition from cheaper oil where such competition could have hurt, namely, in the Ontario market. This satisfied Ottawa, the producing provinces, and the industry as it ensured that the industry would continue to grow in the West. Québec and the Maritimes enjoyed somewhat lower prices than would have been possible had they been supplied by western Canadian oil. The Canadian government benefited in the balance of payments by importing 'cheap oil' east of the Borden line and exporting 'expensive oil' west of it.

The only Canadians who could be said to have been hurt financially by the NOP were the consumers in Ontario who had to pay for the marginally higher priced western Canadian oil. J.G. Debanné argues, however, that the Ontario government accepted the NOP and the higher retail prices it entailed in exchange for the concentration and expansion of a large refining and petrochemical industry in the province. 28 There is continuing dispute as to how harmful the NOP was to smaller independents. In the early 1960s they were very marginal importers of foreign oil into Ontario. They became more involved in 1968 when the gap between Montreal and Toronto prices increased.
The 1960s: Production, Expansion and Regulatory Consolidation

Compared to the 1950s, the 1970s and the 1980s, the 1960s - actually 1962-1972 - must rank as a time of rapid production and expansion coupled with quiet regulatory consolidation. In many respects it was the calm before the storm. With the main oil and gas pipelines in place, a National Energy Board established to oversee the administration of energy policy and the National Oil Policy protecting the domestic oil industry, no major new policy initiatives were launched until the early 1970s.

The early '60s also saw the consolidation of ownership and control by the major oil companies as the Canadian-controlled oil industry experienced the largest takeover activity in its history. "The eight major internationals by 1962 (had) some 60 percent of oil production and about 95 percent of refining capacity; in Alberta the fourteen top companies held 63 percent of the oil and gas lands." Virtually the only response to the issue of foreign ownership was the Diefenbaker government's 1961 policy that established land regulations in the north and offshore. Under the terms of the Canadian Oil and Gas Lands Act, this policy restricted the granting of production licences to Canadian-owned firms or foreign-controlled companies in which Canadians would have a chance to invest. In practice this meant very little, however, as there were few restrictions on who could hold exploration permits. On the frontiers, both in the '60s and for many years to come, it was the exploration, and not the production stage that was important.

The other, albeit unsuccessful, attempt to deal with the issue of foreign ownership was taken by Walter Gordon in his first budget as finance minister in the newly elected 1963 Pearson Liberal government. Gordon proposed a series of tax amendments which were intended to curb foreign takeovers and to increase
Canadian ownership in foreign-controlled companies. He introduced a tax of 30 percent on the value of Canadian corporations taken over by non-residents and a regulation which restricted the benefit from accelerated depreciation under Canadian tax laws to companies which had a degree of Canadian ownership, that is, above 25 percent. He also proposed that petroleum companies with 25 percent or more Canadian ownership could reduce the withholding tax on dividends to foreign stockholders from the usual 15 percent to 10 percent while the same tax for other companies would be increased to 20 percent. These provisions were withdrawn in the face of massive opposition from the multinationals, the opposition Conservative Party, and the Canadian business and investment community.

One of the key objectives of creating the NEB was to depoliticize the energy issue by shifting decision making responsibility with respect to pipeline construction and export volumes and prices from the high profile partisan Cabinet-Parliamentary arena of the 1950s to the low-profile business-like forum of a quasi-independent and expert regulatory agency. This objective was clearly achieved. Cabinet decisions to approve NEB actions do not automatically come before Parliament, and it would appear that much of the potential opposition was lulled by the "symbolic reassurance" of the NEB's independence and expertise. In fact, the consensus is that during the decade of the '60s the NEB decided energy issues almost exclusively in response to the representations of the provincial governments and private companies which participated in its proceedings. The central objective of Canadian energy policy throughout the 1960s was to expand production partly through the export of greater volumes of oil and natural gas to the U.S. The lack of any significant public opposition to the decisions taken in promotion of this objective must be understood in the context of a decade that
was dominated by cheap and apparently reliable supplies of foreign oil, and by increasing Canadian oil and gas reserves. Simply put, there seemed to be little reason to fear that a rising rate of exports was in conflict with national needs and priorities.

The NEB's decisions respecting pipeline construction and export volume and price determination reveal a set of issues that are, for the most part, still relevant today. More specifically, in order to license exports the NEB had to determine the extent and adequacy of Canadian reserves. This presented two problems. The first was that numerous geographical, geological, economic, and political factors interacted in the determination of demand and supply forecasts and in the estimation of reserves. This forecasting of the future is still much more of an 'art' than a 'science.' As McDougall put it:

The rate at which Canada exported gas to the United States, therefore, depended essentially on the apparently technical matter of how the NEB operationalized the basic formula: exportable surplus equals established reserves minus Canadian requirements (ES = ER-CR). There is no question that in its detailed procedures this was a technical matter, but it is also true that the board's use of data, methods, and formulae in arriving at such estimates was, and indeed had to be, also a matter of political judgement.30

The second factor relates to the issue of trust and dependence. While the NEB had some expertise, it was primarily dependent on the oil and gas industry for both the 'numbers' and the expertise to interpret them. These structural and informational issues were of no minor consequence, as a large estimate of reserves could lead to a larger exportable surplus.

To the extent that there was any conflict or controversy during this period it focused on the dispute between producers and consumers - particularly the
large gas distribution companies in Canada - as to whether the board should be more liberal or more conservative in its determination of exportable surplus. Increased gas exports would lead directly to greater competition among transmission companies for gas supplies, and thereby to higher well head prices. Producers would welcome this prospect, consumers would not. Throughout this period the NEB pursued a generally liberal or 'export oriented' approach, altering their rules throughout the period to accommodate this liberalization. The liberalization culminated in the Board's August 1970 decision to approve for export the largest single volume of gas exports in Canadian history. Exports also, of course, affect the rate of new discoveries and thus are an engine of development at the same time that they may reduce longer term total supply for domestic needs.

In promoting a strong export oriented policy for Canadian oil and gas, the Board was following the position espoused by the Borden Commission and strongly articulated by the Liberal government. The Liberals' commitment was in evidence in statements made by J.J. Greene, the Minister of Energy, Mines and Resources. In 1969, Greene encouraged Washington to share his idea of continental energy arrangements so that "people will benefit, and both countries will benefit, irrespective of where the imaginary border goes." Even more grandly, in 1971 Greene tried to convince Americans to import more Canadian oil and gas "because Canada had 923 years of oil and 392 years of natural gas in the ground." These statements reflect not only the effervescent buoyancy of the late '60s and early '70s, but also Ottawa's heavy reliance on industry-supplied information. Within three years the industry would be telling Ottawa that Canada was running out of oil and gas. Throughout the '60s Ottawa was becoming increasingly aware of its dependence on industry for information and
on its own limited policy instruments in this field. To that end, in 1966 the Department of Energy, Mines and Resources was created, and Ottawa purchased 45 percent, and controlling interest, of Panarctic Oils. Panarctic's task was to undertake risky oil and gas exploration in the high Arctic and thus was one of the earliest links between energy and northern development policy.34

Thus, it can be seen that while the 1950s had been a period of rapid start-up growth, the 1960s had been a period of even greater production and expansion but coupled with quiet regulatory consolidation. Canadian oil and gas consumption grew steadily, prices were stable and the country's hydrocarbon potential appeared unlimited. This politically less eventful decade made the adjustment to the energy crisis of the early 1970s all the more traumatic.

C. The Opec Crisis and Beyond 1973-1983

The Broadening Politicization of Energy

The oil price and supply shocks of 1973 are usually cited as the major turning point in the politics of energy both domestically and internationally.35 And indeed they were. Yet, on both the domestic and international fronts the 1973 shocks were preceded by unilateral actions on behalf of key governments which broke with traditional patterns of behaviour in fundamental ways, and in so doing, ultimately contributed in a significant fashion to the restructuring of relationships which took place in the post-1973 period.

OPEC was founded in 1960, but until 1970-71 had remained relatively ineffectual. Within a year of the 1969 overthrow of King Idris of Libya by Colonel Khaddafi, the new Libyan regime had successfully imposed new operating terms on the independents and majors producing in Libya. The new terms included higher posted prices and higher tax rates. Libya's success
precipitated OPEC-wide action of a similar nature. The OPEC meetings in Caracas in 1970 and Tehran in 1971 resulted in new agreements with the international industry regarding increased prices and taxes and greater government participation. In addition, OPEC members agreed, for the first time, to employ concerted and simultaneous action to force compliance by the industry. By late 1973, however, the OPEC countries had become dissatisfied with the 1971 Tehran Agreements. This was in large part because repeated devaluations of the American dollar and rising inflation in the western world had reduced much of OPEC's anticipated gain. OPEC's position as a supplier also assumed even greater importance after 1970 because U.S. sources of supply began to decline thus reducing the strategic role of the Texas Railway Commission in the "management of markets." On October 8, 1973 negotiations commenced with the companies to revise the 1971 Agreements. Two days earlier war had broken out in the Middle East. Within weeks, oil had assumed a new status as a political weapon, and the resulting supply concerns among consumer nations and the militancy of some of the Arab members had presented new opportunities for OPEC with respect to oil pricing and state involvement.

Meanwhile, as these world events unfolded, there were significant domestic political changes as well. The Peter Lougheed-led Conservative party campaigned successfully in the 1971 Alberta provincial election on a platform promoting the use of the province's oil and gas wealth to diversify the provincial economy, thus resurrecting a historic and persistent theme in Western Canadian politics. The Conservative victory ended 31 years of Social Credit rule. The new government discovered in its attempt to increase the province's share of the economic rents generated by Alberta's depleting oil reserves that its hands were tied by a set of decisions taken by the Social Credit government in the late
1940s. In 1948 Social Credit agreed to insert in petroleum and natural gas leases a specific provision that the maximum royalty rate which would be payable by producers under the leases would be limited to 16-2/3 percent of gross production. Social Credit even went so far as to provide statutory confirmation of these maximum royalty provisions in the 1949 Mines and Minerals Act. The new Conservative government argued that these arrangements were, in the seller's market of the early 1970s, generating unnecessarily large profits for Alberta producers.

In response to this situation the Alberta government introduced in 1972, a "Natural Resource Revenue Plan" to boost royalties from the fixed maximum 16.7 percent level without actually breaking contractual arrangements with the industry. After extensive negotiations with the industry the government proposed to superimpose on the royalty structure a tax on remaining oil reserves. This would have had the same effect as raising the maximum royalty rate to 23 percent. A few months later, in the face of federal government initiatives such as an oil price freeze and an oil export tax, Alberta moved unilaterally - eschewing the traditional practice of prior consultation with the industry - by withdrawing its proposed new royalty scheme and announcing that in the future royalties would rise with oil price increases.

For the industry this was a major departure from past practice. This was virtually the first indication the industry had that the government of Alberta perceived that it had a set of interests related to oil and gas that were distinct from those of the industry. The fact that it was done by an avowedly conservative and free enterprise-oriented government was of little consolation to the industry. Yet, rather than acknowledging that conditions had changed materially since the late 1940s and that the royalty system was due for an
overhaul, thereby garnering some political goodwill, the industry clung to "principled" arguments about the sanctity of contract while at the same time exploiting the advantageous terms of the 1949 clause. In retrospect, it is clear that the unilateral action of the Alberta government did in fact mark a major turning point in the relationship of the Alberta government and the industry. Within a year, Alberta and the neighboring province of Saskatchewan moved to introduce new legislative initiatives designed to strengthen their control over the production, pricing, marketing, and regulation of their resources.

The OPEC Crisis and Producer-Consumer Relations

Canada, and indeed most of the industrialized world, was completely unprepared to cope with the consequences of the four-fold increase in international oil prices and the partial oil embargo imposed by the Arab members of OPEC in the wake of the 1973 Middle East war. The reasons for Canada's unreadiness were simple. First, the government had no direct access to information on which it could base its policy. In 1974, the Minister of Energy, Mines and Resources, Donald Macdonald, admitted that "one of the difficulties facing the Canadian government is that it is virtually dependent on major international companies for its sources of information."36 Second, the government only had an embryonic policy-making ability. According to Bill Hopper, Petro-Canada's president, "you could (have) put the people in Energy, Mines and Resources who knew anything about oil and gas in one corner of Imperial's corporate economic department."37

With no means to gather information independently, and in any event, only limited means to digest it, the government predictably reeled from crisis to
crisis in 1973 and 1974. Thus, in quick succession, the government imposed oil export controls, similar controls over the export of refined products, announced the extension of the Interprovincial oil pipeline to Montreal, froze domestic oil prices, levied an export tax on crude oil, developed an oil import compensation scheme to protect consumers dependent on imported oil, considered and rejected acquiring a subsidiary of one of the major multinational oil companies, and contemplated the imposition of oil rationing.

An additional response by the minority Liberal government to the events of the fall of 1973, was the decision announced in December 1973 to establish a national oil company, Petro-Canada. Contributing factors to this decision were: Ottawa's concern about the vulnerability of Québec and Atlantic Canada to interruption in world markets; Ottawa's growing frustration with its lack of control over security of supplies; the growing popularity among the producing nations of state-to-state contracts; Ottawa's recently recognized lack of solid information with respect to Canada's indigenous supplies and reserves and the growing apprehension of being dependent on the foreign-owned industry for this information. Two additional political factors which combined with the others to ensure Petro-Canada's creation were the growing acceptance among the bureaucrats in the Department of Energy, Mines and Resources, that a state oil company could extend their control over the energy sector and expand their departmental influence and the fact that the minority Liberal government was dependent for its parliamentary life on the support of the NDP, who advocated the creation of a state oil company. It is important to stress in this context, however, that Petro-Canada's creation was viewed as an alternative to nationalization, rather than an instrument of nationalization.
A number of Ottawa's initiatives in the 1973-74 period led to forceful provincial reaction. In March of 1973, Ottawa moved to control the export of oil when a rapid jump in shipments to the United States threatened to disrupt domestic supplies. In September 1973, Ottawa ended the essentially market-based price setting mechanism by freezing the domestic price of oil for six months and imposing an export tax on oil shipped to the U.S. The decision to freeze prices was taken quickly and followed the action of Imperial Oil (the acknowledged price setter) to increase prices. Of equal importance, the freeze decision was viewed by Alberta to be one of the first instances of unilateral federal actions. Such acts would escalate over the rest of the decade in a series of mutual acts of "political aggression" reflecting the different national and regional interests involved and the different political parties in power.

The proceeds from the export tax were used to help subsidize eastern Canadians dependent on oil imports. The Oil Import Compensation Program (OICP) was the result. Provoked by what they saw as federal intrusions into traditionally provincial areas of responsibility, the provinces retaliated through new legislation, to further secure their constitutional control over the production, regulation, marketing, and pricing of oil within the province. Because royalties were tax deductible, however, the federal government soon became concerned that, as oil prices rose, and with them royalty payments to the provinces, its own revenues would decline and its ability therefore to manage the inflationary and distributive effects of oil price increases would be reduced.

Accordingly, in the Budget of May 6, 1974, Finance Minister, John Turner, proposed to amend the Income Tax Act to disallow the deductability of provincial royalties for the purposes of calculating federal corporate income tax. This action angered the producing provinces even more. Meanwhile, the oil
industry in the wake of the post-1973 economic downturn, felt itself to be further 'squeezed' by the two levels of government in the latter's attempt to capture a larger share of resource revenues. Faced with a widespread slowdown in exploration caused by both the economic downturn and by the desire of the industry to put pressure on the government, Alberta reduced the revenues it was collecting.

Later, in 1975, Ottawa passed the Petroleum Administration Act to provide itself with broad powers over the pricing of oil and gas in Canada. This showed Ottawa's determination to set prices itself if federal-provincial negotiations failed to produce a consensus. H.V. Nelles had concluded about this volatile 1973-75 period that:

The net effect of this vigorous federal intervention was to hold Canadian energy prices well below world levels, but thereby to internalize in the form of sharp federal-provincial conflict, the struggle raging internationally between oil importing and exporting countries.38

Yet, it is essential to recall that between 1973 and 1978, the price of oil and natural gas in Canada did rise quickly through Ottawa-producing provinces' agreements, albeit without reaching world levels.39 After resisting Alberta's call for world prices, the federal government eventually agreed to let Canadian prices move towards that level. By mid-1978, Canadian prices were 80 per cent of world price with the gap between domestic and international prices being less than $3 per barrel. In the wake of the 1979 Iranian revolution, world prices doubled, and the federal government renounced its policy of linking domestic prices to world prices. This not only left Canadian prices far below international ones, but also increased conflict between Alberta and the federal government.
Generally speaking, federal policy initiatives throughout the '70s were motivated by the following objectives: to cushion the impact of rapidly escalating international petroleum prices on Canada's industrial sector, and in doing so, to provide a comparative advantage to Canadian export manufacturers; to protect all Canadian consumers from OPEC set world prices and to subsidize those Canadians who are dependent on offshore crude; to slow the inter-regional transfer of income from oil-importing provinces to the Western producing provinces; to dampen the inflationary impact of rising energy prices on the Canadian economy; to protect the federal tax base and federal revenues and to limit the size of equalization payments. At the same time, it sought to encourage the development of new supplies; to encourage conservation, and; to ensure that the producing provinces, as owners of the resource, received an adequate price for their depleting resource. The "adequacy" of this price was of course central to the dispute and was not viewed in the same way in Ottawa and Edmonton.

Throughout most of the '70s the primary focus of Ottawa-producing provinces conflict was not so much pricing as revenue sharing. Pricing, of course, had implicit and explicit revenue sharing effects and so was not a minor matter. Ottawa saw the demands on its revenues increase directly as a result of rising prices - the Oil Import Compensation Program and equalization payments being the most obvious. Furthermore, the federal government argued that its tax base was being restricted through the provinces' new royalty schemes and consequently it was not obtaining its fair share of natural resource revenues. The two most inflammatory federal legislative initiatives, the export tax and royalty deductibility disallowance, were specifically designed to increase the federal share of resource revenues.
Pricing, however, has been a particularly thorny issue in Western Canadian-Ontario relations, as the producing provinces wanted higher prices while Ontario argued that prices should increase slowly. Québec was also a large consumer, but chose as a matter of principle, to side with the producing provinces and support unfettered provincial control over natural resources. Ontario feared that rapidly escalating petroleum prices would have severe repercussions for its industry's competitive position internationally and would increase unemployment. Ontario argued that it was economically unwise for Canada to follow blindly the monopoly price set by OPEC - a price which was not related to the cost of producing conventional supplies of Canadian oil and gas. Furthermore, Ontario charged, the price increases of the late '70s were not necessary to encourage the development of new energy supplies, but were simply the result of the competing appetites of the federal and provincial treasuries.

Perhaps the best example of how Alberta-Ontario energy conflict reflected the larger clash of competing visions of the development of the Canadian economy, is found in the petrochemical industry. Alberta's plans for economic development were centered partly around making the province a world-scale petrochemical producer based on the local supply of feedstocks. Such a development would compete directly with Ontario's petrochemical industry. Alberta was particularly upset by the decision in 1974 to proceed with the Petrosar development in Ontario. Ontario feared that rising national prices and Alberta's control over its own prices, combined with the possibility of restricted availability of Alberta's supplies would harm the Ontario industry's competitive position in the U.S. Consequently, Ontario demanded some assurance of future energy supply; federal guarantees that supply commitments would be met; and,
the redistribution of resource revenues for use by consumers and for energy adaptation and conservation.

It is quite clear that throughout the post-1973 period the major governments exhibited not only diverging interests and objectives with respect to the control of energy developments but also differing perspectives regarding the constitutional powers over resources.

The Taxation of the Resource Industry

It is also essential to relate energy policy developments in the late 1970s to the overall debate about the comparative level of effective taxes paid by the resource industries as it evolved in the early and mid-1970s. These taxes are usually gathered in statistical data under the general title of the "mining" industry but the category includes oil and gas. The Carter Royal Commission on Taxation questioned the generosity of the tax provisions.60 Table 2.1 compares the effective tax rates on book profits (that is, before income tax but after all mining taxes and royalties) of the mining versus the manufacturing sector from 1969 to 1975. The resource sector has enjoyed a consistent advantage. The tax advantage has narrowed, however, from about 25 percentage points in the pre-Carter tax reform period to 7 points in 1975. The narrowing of the gap reflected both increases in the mining sector and reductions in the manufacturing sector. These data predate the existence of incentives such as the super-depletion allowances. It should also be noted that in the mid-1970s the entire sector provided only about 1.2% of provincial revenues and 0.5% of federal revenues.

Table 2.2 provides another glimpse of the pattern of resource taxation in the 1969 to 1975 period. It shows the total of income taxes and other levies paid to governments as a percentage of book profits before any such payments. It
Effective tax rate is the ratio of federal and provincial income taxes to the before-income-tax profit rate.

Income taxes are the amount of taxes payable at the after-tax-profit rate after the subtraction of all provincial mining taxes and royalties. The after-income-tax profit rate is then obtained by subtracting federal and provincial income taxes, income taxes, and royalties. The after-income-tax profit rate is then obtained by subtracting federal and provincial income taxes, income taxes, and royalties. The after-income-tax profit rate is then obtained by subtracting federal and provincial income taxes, income taxes, and royalties.

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<tr>
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<td>0.6</td>
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<td>0.4</td>
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Table 2.1
Erective tax and Royalty Rates on Mining and Manufacturing

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<th>Year</th>
<th>Federal</th>
<th>Provincial</th>
<th>Territorial</th>
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<td>1970</td>
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<tr>
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<table>
<thead>
<tr>
<th>Year</th>
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<td>1973</td>
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<td>1.1</td>
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<tr>
<td>1978</td>
<td>0.7</td>
<td>0.0</td>
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</tr>
</tbody>
</table>
again shows that effective tax rates on the resource sector increased but shows that the provincial governments accounted for over 16 percentage points of the increase while the federal government accounted for only about 4.4 percentage points. The data also indicate that effective rates were lower except in 1974 and 1975 when mining taxes increased and manufacturing rates were reduced.

It is important to understand the central basis of the tax advantages that the resource industries enjoyed. One key provision was their ability to write off expenditures on exploration and development immediately. Rather than allowing ordinary depreciation this gave a tax advantage to the firm since the present value of tax payments is reduced by virtue of their being postponed. In addition, resource industries were able to deduct an earned depletion allowance. This is inherently a much less defensible tax break since as an allowance for the using up of a depreciable asset, the costs of acquiring the asset (e.g., the exploration and development expenses) have already been written off.

A variety of reasons and rationales have been advocated by the resource industry for these special provisions. These include arguments that the risks are greater, that Canadian incentives cannot be out of line with U.S. tax regimes, and that other sectors are subsidized with tariffs and other incentives. Tax economists generally argue that the advantages enjoyed by the resource industry cannot be justified on economic grounds. The existence of these advantages reflects therefore the political skills of the industry and the central political role of resource ownership in the politics of federalism.

On this latter point, neither of the tables adequately capture the sensitive role of provincial royalties as a rent accruing to the owners of the resource, especially a depleting resource. A 1978 federal-provincial report on resource taxation expressed the issues in an understated language that stands in sharp
contrast to the heated language and passion of the debate on this question in the post NEP-period. It cautioned the reader of taxation tables as follows:

Considerable care must be exercised in using and interpreting such information. Mining taxes and royalties are in part payments to the provinces in their capacities as owners of the resources. If these resources were privately owned, there would obviously be some charge for their use and this payment would be considered a normal cost of production to the companies. Information on the ratio of total revenues of government from mining to book profit cannot therefore be treated in the same fashion as is information on the effective income tax rates given above. As well, interpretation of comparisons between sectors must proceed with caution given that payments by other sectors for society’s scarce resources are costs of production and not taxes in these statistics.

Nevertheless, royalties and mining tax payments are subject to the discretion of governments just as are income taxes and do represent an actual cash flow from the mining sector to governments. Given governmental control in setting these charges, they are lumped in with income taxes in the debate about the treatment of the industry. In light of the difficulty of determining what proportion of provincial levies represents a reasonable payment for the use of resources, and what proportion constitutes a tax as such, this debate is not subject to easy resolution.41

As the value of resource revenues increased several fold in the late 1970s the issue of the appropriate share of revenues among all the key interests escalated quickly as did the issue of ownership and control of resources. So also did the debate about the relative wealth of the oil and gas industry versus other industries and the larger tax reform debates that these comparisons inevitably rekindled.
State Enterprises and the Expansion of Petro-Canada

Direct government intervention in the oil and gas industry increased significantly throughout the 1970s. Alberta and Saskatchewan created the Alberta Energy Corporation and Sask-Oil respectively. The governments of Canada, Alberta and Ontario, invested equity in the Syncrude Tarsands project in 1975 to keep it from collapsing after a private firm had withdrawn. In 1978, the federal government created the Petroleum Monitoring Agency to monitor the financial performance of the oil and gas industry and thus overcome another of the government's perceived weaknesses in strategic policy information.

Petro-Canada came into existence in July 1975, and grew rapidly throughout the remainder of the 1970s. In April and May of 1976, the federal government transferred to Petro-Canada its 45 percent share of Pan-Arctic Oils Ltd. and its 15 percent share of the Syncrude project. In August of 1976, Petro-Canada purchased Atlantic Richfield Canada and in 1978-79, Pacific Petroleum. The latter acquisition launched Petro-Canada into the full range of industry activity including the downstream functions of refining and marketing. Petro-Canada became an active explorer in both the Arctic and the eastern offshore and within five years of its birth was Canada's sixth largest producer of oil and gas with assets in excess of $4 billion.

In 1979, Petro-Canada became, for a short time, the object of 'privatization' initiatives by the newly-elected Conservative government of Joe Clark. In the face of strong public support for Petro-Canada the Tories puzzled over how to achieve 'privatization' throughout their brief period in office. Their final proposal, unveiled during the 1979-80 election campaign, would have retained for the government a 30 percent controlling interest. The electoral
defeat of the Conservatives in 1980 by a Liberal party committed to a strong and growing Petro-Canada ended the uncertainty about Petro-Canada's existence.

The Alaska Pipeline Debate

Another key energy issue of the 1970s revolved around the choice of a northern pipeline system to deliver Alaskan natural gas to the mainland U.S. The Canadian government had been promoting a land based transmission system to the U.S. government since the mid-60s, and in support of this idea established, in the late 1960s, an inter-departmental task force on northern energy development. By the early '70s a consortium had been formed to build a line from Alaska across the northern Yukon to the Mackenzie Delta and up the Mackenzie Valley through Alberta into the U.S. This consortium was called the Canadian Arctic Gas Pipeline Ltd. and was dominated by the major multinational oil companies. In 1974, Justice Thomas Berger was appointed to head the Mackenzie Valley Pipeline inquiry into the social and environmental impacts of such a development. In the mid-70s, AGTL (now Nova, an Alberta Corporation) dropped out of the CAGPL consortium and sponsored an alternative project to build the northern pipeline down the Alaska Highway. In 1977, the Arctic Gas proposal was rejected by the Berger Inquiry, the National Energy Board, and ultimately the government, in favour of the newer Alaska Highway proposal. Its Canadian ownership and commitment to a strong Canadian procurement policy as well as the fact that it crossed less environmentally and politically sensitive areas were all important contributing factors in these decisions. In an attempt to provide some impetus to the project as a whole, the federal government approved, in July 1980, the 'prebuilding' of the southern.
section of the line from Alberta gas fields to U.S. markets. Ottawa also approved new exports of natural gas through the prebuilt section.

The Alberta Heritage Fund

Another key event in the pre-NEP era was the establishment by the Lougheed Conservative government of the Alberta Heritage Savings Trust Fund. Created in 1976, the Heritage Fund was central to the principles continuously supported throughout the 1970s by the Alberta Conservatives. The fund was to accumulate a pool of capital in order that a portion of the revenues from non-renewable resources would be utilized to benefit future generations of Albertans. This central idea of intergenerational equity is simultaneously an appeal to longer term efficiency in that it was intricately linked to the Lougheed government's commitment to diversify the Alberta economy and thus to break it away from its historic experience with the boom and bust cycles of a resource dependent economy. Some of the fund would also be utilized to improve the quality of life of Albertans that could not otherwise be afforded. It could also help provide an alternative governmental revenue source in the future if one were needed. Though initiated by the Lougheed Conservatives it is worth stressing that the federal government through then Finance Minister, John Turner, strongly urged Alberta to establish such a fund so that the revenues would not distort the equalization of revenue formulas that governed intergovernmental finances.

It must be stressed that only about 30 per cent of the non-renewable resource revenue went into the fund. The rest went into the general coffers of the Alberta government. Such general revenues amounted to over 50 per cent of Alberta's revenues and thus contributed to Alberta's capacity to have lower tax
rates than other provinces, including no sales tax. The fund grew six-fold, increasing from $2.2 billion in 1977 to $13.1 billion in 1982. Though the fund did not initially attract great national attention it quickly became the focal point for political and economic controversy at the national level and within Alberta. At the national level, despite the recognition that the concepts behind the fund were sensible and valid, the fund became a visible symbol of the westward transfer of wealth. This was especially the case in 1979 and 1980 when projections began to appear which showed the fund reaching the level of over $150 billion by the early 1990s. Alberta viewed the growing fund as the just deserts of its long historic wait to shed its dependence on central Canada. The federal government saw it as demonstrating that something was wrong with the national distribution of wealth, a view easily reinforced by the partisan elements of the conflict and by the federal government's growing deficits and by the projected growth of the fund. Thus fundamental interests clashed, since both the federal and Alberta governments saw the same pool of petro-dollars as a potential tool of economic development. The notion of what "economic development" actually meant, however, was left to further debate. Within Alberta, despite massive political support for the overall purposes of the Heritage Fund, there was growing criticism about whether the fund was really being used for diversification or rather for relatively safe investments. Later, in the midst of the 1982 recession it came under pressure in a different way in that criticism centered on why the fund was not being used to help those Albertans who were hard hit by the recession. In 1982, funds were, in fact, used for such purposes and the proportion of revenues that went into the Heritage account were reduced to 15 per cent for a two year period.
The Clark Government and the Domestic Effects of the Second OPEC Crisis

The 1970s, as we have referred to the shorter 1973-79 period, went out with a roar just as it came in. Indeed, 1979 was, like 1973, a traumatic year for energy politics. 1979 included what is commonly referred to as the second OPEC crisis. While oil prices had actually declined 5 percent in real terms between 1974 and 1978, the 1979 Iranian Revolution and the consequent removal of 2.5 million barrels a day from world oil markets, the subsequent fears of oil shortages and the resultant panic buying on the spot market caused the world oil price to double. The 1979 Tokyo Summit of the seven major industrialized nations was dominated by the energy issue. In Canada, energy taxes, oil and gas prices and the future of Petro-Canada dominated domestic politics, first in the Crosbie Conservative budget in December 1979 and in the subsequent election campaign which resulted in the return to power of the Trudeau Liberals in February 1980.

It is important to stress that despite the fact that the revolution was raging in Iran, energy was not a key issue in the May 1979 Canadian election which gave political power to the Progressive Conservatives under Joe Clark for the first time in sixteen years. During their time in opposition the Conservatives' energy policy had been shaped by the Members holding the key shadow cabinet positions, who tended to represent that element of the Conservative party which deeply distrusted government intervention in the economy. At its core the Conservatives' policy consisted of the general objective of achieving self-sufficiency in oil by 1990, a general concept of promoting Canadianization through tax and investment incentives and an election promise to 'privatize Petro-Canada.' One of the major themes of the Conservative's 1979 campaign was that they could better manage the fractious
and volatile federal-provincial relationship than could the Liberals. Clark felt that he could achieve more congenial federal-provincial relations by embracing a less centralist 'community of communities' image of Canada, and second, by sharing the same partisan colours as the majority of provincial premiers.

Although the Clark government was unable to achieve a new pricing and revenue-sharing agreement with the Lougheed government during the summer and fall of 1979, they were nevertheless obligated to devise a framework for a pricing and fiscal regime in order to construct their December 11, 1979 Budget. Energy measures comprised the main and most controversial features of John Crosbie's 'short-term pain for long-term gain' Budget, the defeat of which brought down the Clark minority government. The following quotation from a confidential memo from John Crosbie to the Conservative caucus is worth quoting at length, as it outlines how Crosbie explained the energy features of his Budget to the Tory caucus:

Tonight, I fulfill our election promise by providing detailed projections of our revenues, expenditures and deficits out to 1983-84. I am also releasing a paper which sets out and describes the economic assumptions on which the fiscal projections are based...I now refer to a series of major new measures in the energy field to achieve our goal of self-sufficiency oil by the 1990s.

Let me make the situation as clear as I can. The revenue and expenditure figures relating to 1980-81 and the following fiscal years are based on the assumption that we will conclude an agreement with the oil and gas producing provinces on our new energy policy and on oil and gas pricing. The agreement involves oil and natural gas price increases over the years 1980-84 so that prices rise at a measured pace toward 85 percent of the lesser of U.S. levels at Chicago or the international price.

The Government of Canada intends, in connection with any increase in oil and natural gas prices, to ensure that excess profits are not made by the industry as a result of accelerating prices but that the industry has an adequate
rate of return and retains the necessary revenues for continuing exploration and development of new energy sources.

We intend to ensure, through or new energy tax, that the Government of Canada obtains roughly half of the returns from oil and gas price increases that exceed $2 per barrel and thirty cents per thousand cubic feet per year.

On this basis, the Government of Canada will have sufficient revenues from the increases in oil and gas prices to carry into effect energy programs, conservation programs, and offset programs to assist the regions and people of Canada.

The exact form of our energy tax has not yet been fully worked out, but it will be a tax sufficient to give the Government of Canada the revenues we have indicated we need from oil and gas price increases to carry out the programs we have indicated are necessary. I have every confidence that the agreements now reached will go forward and that a new energy tax will be in place before July, 1980.

Because of the absolute necessity of further encouraging our people to use fewer oil products, to conserve oil products now having to be imported in even larger quantities and at ever greater prices as our own domestic supplies dwindle, and in order to raise badly needed revenues for the Government of Canada in a manner that also serves another vital national purpose, an excise tax of twenty-five cents per gallon is imposed on gasoline, diesel, and other transportation fuels effective tonight.

This tax will apply to all users of transportation fuels and will replace the current tax of seven cents a gallon on gasoline which applied only to non-commercial users. Thus the increase is eighteen cents a gallon for those using gasoline for personal use only. Farming, commercial fishing, and urban public transit systems will be entitled to a rebate of ten cents per gallon and so will be taxed effectively at fifteen cents.

All federal proceeds from the new energy tax and a substantial part of the proceeds from the excise tax will be returned to the economy in the form of direct measures to assist in developing alternate energy sources, conservation methods, and to assist regions and people in Canada in absorbing these higher costs...
I am announcing tonight an income-tested, refundable, energy tax credit of $80 per adult and $30 per child per year, phased in over two years, for the benefit of lower- and middle-income Canadians. The cost of this measure when in full effect will be $1 billion each year...

The super depletion allowance for frontier drilling will be extended at a reduced rate to the end of 1980 and then replaced. The write-off for Canadian oil and gas property; including land bonus payments, will be reduced from 30 percent to 10 percent...

The Budget Papers also outline the energy package. The main thrust of this program is to give us self-sufficiency in all energy sources by the end of the century, including oil. I would recommend that you read the Budget Papers on energy which set out clearly our energy position and potential. It is estimated that the exports of gas the National Energy Board has approved will help our balance of payments in a major way. The reason we can allow ourselves this badly needed relief on our balance of payments is that our supply potential has increased. The exports we have approved are above and beyond the supplies needed to use for substitution for oil. Therefore, it is incorrect for anyone to say that we are jeopardizing our self-sufficiency plans by exporting at this time...

The modification of the super depletion allowance was necessary in order to ensure that high income investments did not receive tax savings in excess of their investments. Also higher revenues will now be available to oil producing companies, because of increased prices. The allowance, as you know, is aimed at increasing capital available for exploration and development.48

Thus, though weakened by the absence of an agreement with Alberta, the Crosbie Budget revealed components of an energy policy that were not present in the Conservatives' pre-1979 election platform. An excess-profits tax and an energy tax credit as well as the 18 cent increase in transportation fuel taxes were a recognition of the broader energy issues of the 1970s.
The 1980s: The NEP and its Aftermath
The Eighteen Cent Election

The decade of the 1980s arrived with Canada in the midst of a chilly, yet heated, election campaign. Not surprisingly, given the baleful stare of the Ayatollah which bore down on Canadians nightly from their television sets, energy was the centre of attention. As one reporter observed, noting the importance energy had developed for partisan politics:

The basic differences in philosophy and approach of the three major political parties are reflected nowhere more clearly than in the energy policies they are presenting to the electorate in this campaign. 49

In fact the 1980 election is often referred to as the 'energy' election or the 'eighteen cents' election in reference to the eighteen cents a gallon increase in the excise tax on gasoline that was a key feature of the December 11, 1979 Tory Budget. The period from the defeat of the Conservatives in a vote of non-confidence over the Budget to the time of writing in late-1983 was one of the most traumatic and complex periods of energy politics ever experienced by any country.

The Liberals believed that on energy issues they were on the right side of public opinion. They linked their criticism of Conservative energy policy to an equally critical view of the Conservative's decentralized "community of communities" view of Canadian federalism. 50 The Liberals focused their "who speaks for Canada" attack on the Tory view and linked their own policy to strong support for Petro-Canada, an increased role for Canadian companies and the government in the ownership of the oil and gas industry, and "made in Canada" energy prices below those indicated by the Tories.
The key themes of Liberal energy policy were outlined in Pierre Trudeau's Halifax 'energy' speech on January 25, 1980. Trudeau promised to:

1) Set a made-in-Canada pricing policy to secure adequate supplies of energy at reasonable prices.
2) Achieve energy security through the accelerated development of Canada's domestic potential and the insuring of Canada's off-shore supply.
3) Develop a more balanced energy program through the replacement of oil by natural gas and other energy forms.
4) Strengthen and expand Petro-Canada as an instrument of national policy.
5) Place a new emphasis on conservation and the promotion of energy alternatives.
6) Ensure that Canada's energy sector becomes more Canadian-owned and controlled.
7) See that energy becomes part of a larger economic strategy, forming the core of any industrial or regional development approach.51

The following quotation also showed that the Liberals had serious intentions regarding the issue of a greater Canadian presence in the Canadian oil and gas industry:

We need the federal government as an active player, not a passive bystander... Petro-Canada also shows how government can work with industry to attain national objectives... Liberals want to expand Canadian ownership and control. We have already stated that our goal in the oil and gas industry is 50 percent Canadian ownership by the end of the decade... We will ensure that the booming energy sector will be majority Canadian owned. We will use the federal government's regulatory and purchasing power to encourage Canadian firms and channel Canadian savings into new investment opportunities.52
The Liberals returned to power by recapturing most of twenty-three Ontario "swing" seats they had lost in the 1979 election. In the 1979 election Liberal support in Ontario fell from fifty-five to thirty-two seats. In 1980 they captured fifty-two seats. Together with their victory in seventy-four of seventy-five Québec seats, the Liberals returned to power with 86 percent of their parliamentary support in central Canada. The sudden defeat of a Conservative government with strong western Canadian representation, in effect, by Toronto area voters, largely on energy issues only added to the historic build-up of western resentment and regional alienation. In their April 14, 1980 Throne Speech the Liberals reiterated their election campaign promises about strengthening Petro-Canada, adopting as a specific goal at least 50 percent Canadian ownership by 1990 and generally strengthening "the stake of Canadians in their own economic destiny."53

The NEP

In 1979-80, in the wake of the Iranian revolution and the doubling of world price, the outbreak of the Iran-Iraq war and renewed worldwide concern about energy supply and security, Alberta was experiencing a major exploration and construction boom. As a result of the major West Pembina strike in 1977 and the rather disappointing drilling results on the frontier, industry attention had been drawn back to Alberta in the late 1970s.

Thanks to the Ayatollah Khomani and the Iranian revolution, the industry saw the international commodity value of its oil and gas assets literally double over night. Consequently, they redoubled their efforts to get much higher prices for their products. The industry thought it had finally achieved a large measure of success when the federal Tories agreed to peg Canadian prices to 85 percent
of world price. They were not, however, pleased with the Conservatives windfall tax of 50 percent on increases over $2 a barrel or thirty cents a thousand cubic feet. Canadian energy issues were not dissimilar in this context to U.S. issues. For example, in the U.S. the majors also garnered large profit increases at precisely the same time that there were gasoline shortages and consumer outrage. This lent political support for the Carter Administration's passage of an oil and gas windfall profits tax bill.

Throughout the post-1973 period the oil and gas industry had experienced spectacular growth. This is witnessed by the performance of the oil and gas index which vastly outpaced the growth of all other industries represented by the Toronto Stock Exchange 300 Composite Index. The 1980 PMA Monitoring Survey provides a comparison:

... the 1970s were obviously a decade of outstanding growth. In 1972, the petroleum industry earned $18 in net income for every $100 earned by the aggregate of all other non-financial industries (excluding petroleum)... The comparable figures for 1975 and 1980 were $24 and $42... For the petroleum industry, the rates of return on shareholders' equity rose from 10 percent in 1972, which mirrored the average for all non-financial industries at that time, to over 21 percent in 1980. The 21 percent rate of return in 1980 was well above the 15 percent average for other non-financial industries in that year.34

The petroleum industry was recording huge profit increases (53.8 percent in 1979 and 31 percent in 1980) Calgary was undergoing a construction boom of major proportions and the entire Alberta economy was at the point of overheating. The federal and Alberta governments realized that huge economic rents could be generated by the single stroke of a pen, simply by moving the Canadian price closer to the $32-34 (U.S.) world price. Virtually everyone was
assuming in 1979-80 that oil prices would continue to rise and the federal Conservative and Liberal governments realized that maintenance of the existing revenue sharing scheme would result in a massive shift of revenues to the industry and to the Alberta treasury and in the process confound the intricate formulas for federal-provincial equalization payments. In the face of this, the Liberals decided to take on the industry and the producing provinces over pricing and revenue sharing when they returned to power. Marc Lalonde, the new Minister of Energy, and Prime Minister Trudeau found senior EMR officials were also anxious for substantial change, as a result of their frustration, even under the federal Tories, of being unable to negotiate an energy agreement with the Alberta Tories.

Throughout the spring and summer of 1980 federal-Alberta negotiations failed to produce an energy agreement. In August 1980 the Petroleum Industry Monitoring Survey of oil and gas industry activity for 1979 showed that foreign control of the industry (using petroleum revenues as the measurement base) stood at 82 percent and foreign ownership at 74 percent. The report also pointed out the increased cash flows and profits of the industry and noted that increased proportions of industry funds were being used to expand into non-energy related resources. The report also noted that substantially higher levels of dividends were being paid to investors in this industry than in other sectors. Given the extremely high rate of foreign ownership this meant, of course, that the vast majority of these dividends were leaving the country. In 1979 the industry captured 41 percent of energy revenues, while 46 percent went to the provinces and 13 percent to the federal government. Following the failure of negotiations Alberta unilaterally increased the price of oil $2 a barrel on August 1, 1980.
The sudden and surprising return to power of the Trudeau Liberals following the defeat of the Crosbie Budget and the electoral defeat of the Clark government brought with it an aggressive Liberal view of national priorities. The Liberals used the rhetorical question "who speaks for Canada" as their anchor for an assertive, aggressive federal visibility strategy on national priorities. Their basic intent was to take whatever initiative they feasibly could in taxing, spending, and regulatory decisions to increase the federal government's (and therefore the Liberals') direct contact with individual Canadians and with interests and interest groups. The strategy was explicitly premised on a desire to skirt the provinces and to increase the visibility of national institutions and Ottawa's policies.

This domestic form of anti-provincial nationalism was reflected in both specific major policy initiatives and in the overall scope and intensity with which the Liberal view was pursued. It was a central feature behind the constitutional initiatives of 1980, particularly the Charter of Rights which Ottawa portrayed as a measure which gave power to individuals and took it from governments, both federal and provincial. It was a major element of the Liberals' defence of Petro-Canada both before and during the 1980 election. Its importance in the energy sphere was reinforced in the NEP itself by the proposed package of takeovers of unspecified foreign multinational corporations, and by the fundamental shift in oil and gas industry incentives off the tax system and on to a system of direct grants which favoured Canadian firms. The NEP grants were intended in political terms to show visibly and persistently how the energy industry was beholden to Ottawa rather than to Alberta and other producer province patrons.

The visibility strategy was also reflected in other major policies initially planned by the Liberals. These included the Liberals' promised national
industrial policy (later to emerge as a broader statement on economic development), a special Western Canada initiative under the aegis of a Western Development Fund, and new social policy proposals under the Established Programs Financing Act (EPF).

In focusing on this overall view of Liberal priorities it is nonetheless important to note that particular policy initiatives were not motivated only by visibility concerns. For example, the issue of Ottawa's deficits and deteriorating fiscal condition was also a real problem in several important respects. The division of the potentially massive resource rents which would result if Canadian prices moved significantly toward new world prices, the four-fold increase to over $4 billion of the federal Oil Import Compensation Fund which contributed to a federal debt then approaching $10 billion, and other fiscal issues were central features of the overall Ottawa-Alberta negotiating context that the Liberals had to deal with in 1980.

The successful fight by the federalist forces, including key Quebec Liberals, in the Quebec referendum on Sovereignty-Association for Quebec also contributed greatly to the political hawkishness of the Liberals in 1980. It led directly to the renewed sense of urgency to break the decades old constitutional deadlock. It matters not that the Liberals scarcely mentioned the Charter of Rights proposal in either the referendum debate or in the election itself. What matters in the context of the energy issue is that the referendum fight energized the Trudeau government and whetted their appetite for other battles in which "who speaks for Canada" could equally be the clarion call.

It was in this context that on October 28, 1980 the Liberal government introduced the NEP in conjunction with their first post election budget. The
NEP had been devised under conditions of budget secrecy and Canadians were surprised with the "details" of the program, that is, by the "means" if not by the objectives. The objectives of security, opportunity and fairness were those that the Liberals had been promising since the election campaign. But the "means" were where the real controversy resided. The NEP unilaterally imposed a new four year pricing regime for oil and gas; established a new revenue sharing scheme which would increase Ottawa's share of petroleum revenues by levying several new taxes including a new tax on natural gas sold in Canada or exported; launched a massive energy substitution program to reduce oil imports; and created a program to increase Canadian ownership in the petroleum industry, in part, by changing the exploration and production incentive program from a tax based to a grant based system and in part through direct acquisition.

Reactions to the NEP

The reaction from the producing provinces and many elements of the industry was strong and hostile. Some elements of the western Canadian populace, who were already angry about Ontario's abandonment of the Conservatives in the 1980 election, became even angrier and for a period of time some flirted with the various nascent western separatist movements.

Despite the strong indications provided by the Trudeau Halifax speech that a major new policy which would stress Canadianization, a larger revenue share for the federal government, and a made-in-Canada price was forthcoming, much of the industry, the producing provinces, and the American government reacted with surprise and anger at all or some aspects of the NEP. The Alberta government, charging that Ottawa had "without negotiation, without agreement, simply walked into our home and occupied the living room," unveiled a three-
pronged retaliation to the NEP. It would challenge the legality of Ottawa's proposed tax on natural gas, delay the approval of new tarsands and heavy oil projects, and reduce oil shipments to eastern Canada by 15 percent over a period of nine months. The Social Credit government of British Columbia which was enraged by the new tax on natural gas (B.C. produces virtually all gas and very little oil) accused Ottawa of perpetrating a bare-faced money grab and decided to withhold the revenue generated by the Federal government's new natural gas tax. Ontario's Conservative government responded to Alberta's reduction of oil shipments to the East by accusing the Alberta government of greed and callousness, for "respond(ing) to a continued and prolonged disagreement by imposing deep economic penalties on the working men and women, the pensioners, the businessman, the people of Canada."57

The new Reagan Administration, which was elected a week after the unveiling of the NEP reacted to it in a number of ways. Partly as a result of their opposition to the 'Canadianization' aspects of the NEP on ideological grounds and partly as result of the pressure applied on them by American oil companies, the Reagan Administration developed throughout 1981 a two-front bilateral and multilateral (at GATT, OECD, and the IEA) campaign against the NEP. The Americans focused their criticism on the features of the NEP which discriminated in favour of Canadian firms, and on the 25 percent crown interest provision which applied equally to Canadian and foreign firms. American industry also reacted angrily to a few high profile takeovers or attempted takeovers of U.S. companies by Canadian firms.58

Elements of the Canadian industry, particularly the large Canadian-owned firms, while criticizing some features of the NEP reacted somewhat more positively but quietly to other aspects of the NEP. Some big and medium sized
Canadian firms both in and outside of the oil industry saw the NEP as an opportunity to expand or enter the booming oil and gas business and they participated in the above mentioned takeovers or attempted takeovers of oil companies in both Canada and the U.S. In this regard they were strongly supported by the willingness of Canadian banks to lend them the necessary money. The foreign-owned sector reacted with varying shades of anger to the NEP’s plans to ensure that the industry would be 50 percent Canadian-owned by 1990. The larger foreign-owned firms reacted by significantly slashing exploration budgets for the coming year, while their parent companies exerted pressure on the U.S., British, and Dutch governments to pressure Canada to change aspects of the NEP. Somewhat to Ottawa's surprise, many of the smaller Canadian-owned firms also reacted negatively to the NEP - in part on ideological grounds to the evident increase in government intervention, in part in opposition to the new NEP taxes which would in their view adversely affect their cashflow, and in part because the new incentive program encouraged exploration on the Canada Lands where few small firms were equipped or anxious to move. This element of the industry reacted by significantly curtailing drilling programs and by shifting a percentage of their exploration activity to the U.S., where the Reagan Administration had announced the complete deregulation of oil and the intention of deregulating gas prices.

The general public response to the NEP was positive. Even the Canadian Petroleum Association's own confidential poll indicated that 84 percent of Canadians supported the move to make the oil and gas industry at least 50 percent Canadian-owned. A December 1981 Gallup poll showed that 64 percent of Canadians would favour even more rapid Canadianization, specifically 75 percent Canadian ownership by 1985. This included a plurality of Canadians
from all regions and age groups and both sexes. The same December 1981 poll asked respondents if they favoured or opposed the expansion of Petro-Canada into Canada's largest oil company, by buying one of the four major foreign-owned oil companies - Imperial, Gulf, Shell, or Texaco. Fifty-five percent favoured the proposal and 28 percent opposed, once again with a plurality in favour across all categories.61 Even as adament an opponent of the NEP as the federal Conservative energy critic, Harvey André, admitted that "the NEP is a successful policy. The people like it."62

Ottawa responded by asking if Alberta's planned retaliation did not "beg a fundamental question about our economic union: should provinces interfere in the free movement of goods - especially strategic goods such as oil within Canada?"63 To the industry's threat to transfer a number of drilling rigs to the U.S., Ottawa responded that little new oil had been discovered in Alberta anyhow in the last couple of years despite extensive drilling and there was no need for new gas discoveries.64 This reaction was based on the federal assumption (which not everyone shared) that Canada already had a large natural gas surplus and that large new oil discoveries would be needed to meet future Canadian oil demand. It was thought to be more likely that such discoveries would be made on the frontiers rather than in the already well explored Western Sedimentary Basin. In March 1981, Ottawa instituted special increases in oil product prices, referred to unofficially as the "Lougheed levy," to pay for the additional imported oil needed to replace the cutback Alberta production.

Other Important Post-NEP Developments

In November and December 1980 the Federal government introduced the initial regulations regarding Canadian ownership rate determination and the
Petroleum Incentives Program. In December Ottawa introduced Bill C-48, the Canada Oil and Gas Act. This Act established new rules and regulations for exploration and production on the Canada Lands, and provided for the 25 percent Crown Interest in every development right on the Canada Lands. The Canada Oil and Gas Lands Administration (COGLA) was established to administer the Act and to renegotiate stricter exploration agreements on existing leases. COGLA became fully operational in 1982. In January 1981 the government introduced Bill C-57, An Act to Amend the Excise Tax Act and the Excise Act, to provide the enabling legislation for the petroleum and gas revenue tax (PGRT) and the natural gas and gas liquids tax (NGGLT).

In February 1981 Petro-Canada acquired Petrofina, an integrated, Belgian-owned oil company for $1.46 billion dollars. In April, Ottawa announced that beginning May 1, 1981 it would implement the special Canadian Ownership Charge provided for in the NEP on sales of petroleum products and natural gas to cover the costs of Petro-Canada's purchase of Petrofina. Later in 1981, the partially federal government-owned Canadian Development Corporation acquired Elf Aquitaine, a French company, for $1.6 billion. Critics of these purchases argued that while they increased the level of Canadian ownership and control, the expenditures of vast sums of money were uneconomic, did not produce any additional oil or gas, and thereby did not contribute to greater security of supply for Canada.

At the height of the industry campaign against the new energy taxes, the Petro-Canada purchase of Petrofina, and other aspects of the NEP, the Federal government released in March 1981, The State of Competition in the Canadian Petroleum Industry, the report of the Director of Investigation and Research, prepared under the authority of the Combines Investigation Act. This report
charged that the major integrated firms had, as a result of following uncompetitive practices such as overpaying parent companies for imported oil and operating an inefficient gasoline distribution system, overcharged Canadians by $12 billion for petroleum products between 1958 and 1973. The report also listed other practices employed by the majors which had acted to restrict competition in the industry. Based on the evidence provided in the report, The Restrictive Trade Practices Commission began an investigation complete with hearings across Canada. The release of the Report in March when the government had had the report in its possession earlier reveals some of the tactical political manoeuvring that was being engaged in by the various interests. The report had the effect of placing the multinational majors, which had been employing a major media and lobbying campaign against the NEP, back on the defensive.

In May 1981 the Federal government announced the inauguration of the Canadian Oil Substitution Program (COSP), a major off-oil initiative of the NEP. It was to be operated by the Department of Energy, Mines and Resources and by utilities in the provinces, and was intended for the conversion from oil to natural gas or electricity or to other energy sources. Throughout the following few months additional oil substitution programs were put in place in pursuit of NEP objectives.

In June 1981, the Major Projects Task Force submitted its Report. The Task Force, which was set up in 1978, constituted a bipartisan group of eighty senior labour and business leaders under co-chairpersons Shirley Carr, executive vice-president of the Canadian Labour Congress, and Robert Blair, president of Nova. This Task Force identified some $440 billion worth of potential investment in mega projects by the year 2000, 90 percent of which could be
spent on energy production and distribution and hydrocarbon processing. The Task Force concluded that based on historical practice, the participation of foreign-owned firms in key decision-making positions of these mega projects would likely decrease the benefits to Canada. It went on to make no less than fifty-one recommendations for improving the benefits to the Canadian economy from the construction of major projects. The focus of these was the recommendation that Canadian-owned firms be chosen to play key roles in the management, engineering, procurement, and construction of future mega projects so that industrial and regional benefits from these projects would be maximized and hence become part of a coherent industrial and economic development policy.

The government did, however, make some concessions to the American government and the foreign-owned sector of the industry. In May 1981 Ottawa offered compensation for the 25 percent crown interest by way of "ex gratia" payments. Ottawa also amended the industrial benefits legislation to ensure competitive conditions for foreign suppliers. In July 1981 Finance Minister, Allan MacEachen, asked the Canadian banks to help slow down the rate of takeovers of foreign firms by Canadians, by making loans less readily available to Canadian firms. In February 1982 Ottawa dropped plans to give Canadian-controlled firms preference in gas exports. In April 1982 Marc Lalonde announced he would not proceed with legislation to give Canadian oil companies power to force out their foreign shareholders. In an additional response to its opponents Ottawa announced in the November 1981 Budget document, "Economic Development for Canada in the 1980s," that it rejected the idea of using the NEP as a model for the Canadianization of other largely foreign-owned sectors of the Canadian economy.67
Undoubtedly the most important post-NEP event was the conclusion of an Ottawa-Alberta agreement. After months of hard bargaining and political brinkmanship, Ottawa and Edmonton signed a new Memorandum of Agreement on energy pricing and taxation, on September 1, 1981. Larry Pratt characterized the deal as follows: "In essence, Alberta and the federal government each made concessions to achieve an outcome that permits the province to protect its jurisdiction, Ottawa to extend its Canadianization program and both sides to collect more revenues (at the expense of energy consumers). The petroleum industry appeared to improve its position slightly."

The industry and other analysts did not agree with the latter part of Pratt's assessment however. Energy analysts such as Helliwell and McRae strongly criticized the NEP both on the grounds that it would harm industry cash flows far more than Ottawa projected and that it was, in total, going to be uneconomic in the macro economic policy sense. Scarfe and Wilkinson also strongly criticized the revenue-sharing implications arguing that Ottawa's share, when one included both taxing and prices was now at virtually 47 percent of revenues rather than at the 20 percent figure Ottawa was claiming. Somewhat later, following the takeovers by Canadian firms and the onset of the recession, other assessments began to conclude that it was the Canadian firms that were in the greatest financial difficulty.

The key underlying flaw of the September 1, 1981 Agreement, which was to appear within weeks of the signing and become clearer within the following few months, was that the taxation and revenue-sharing provisions of the Agreement were based on a pricing scenario which assumed that world prices would continue to rise by 2 percent per annum in real terms throughout the life of the Agreement, that is, until December 31, 1986. Both the New Oil Reference Price
(NORP) and the price ceiling for old oil (75 percent) contained in the agreement were tied to world price. The inaccuracy of the single scenario price assumption of the Agreement would create serious problems for the signatories within a year and a half.73

Meanwhile, on September 24 and October 26, 1981 respectively, agreements were also reached with the producing provinces of British Columbia and Saskatchewan. On March 2, 1982 the Canada-Nova Scotia Offshore Oil and Gas Agreement was announced. At time of writing an agreement between Canada and Newfoundland had proved unattainable. Newfoundland has long asserted its ownership over its continental shelf, basically on the strength of the argument that it brought the resources of the continental shelf into Canada when it joined Confederation. The Clark Conservative government was sympathetic to this view and the other arguments in favour of provincial ownership of the offshore and agreed in principle in September 1979 to transfer ownership of offshore resources to the provinces. The Liberal government, on the other hand, has argued that Ottawa has and must maintain, in the national interest, jurisdiction over offshore resource development. The Liberals have attempted to negotiate a regime of administrative arrangements in which the provinces would have a major say in how offshore resources are developed, and in which, until they become 'have' provinces, the coastal provinces would receive the same kind of revenues as are derived by provinces for onshore resources. While Nova Scotia may have found such an arrangement to its satisfaction, at least in part because it gave it a leg up over Newfoundland in the competition to become the major offshore supply centre for the burgeoning east coast petroleum industry, for Newfoundland the memory of having been so close to its coveted position of constitutional supremacy was still strong and it flatly refused to agree to a Nova
Scotia-like deal. Instead, in mid-February 1982 the Newfoundland Conservative government announced a reference case concerning ownership of offshore resources to the Newfoundland Supreme Court, which it subsequently lost, and called a provincial election for April 6, 1982, which it won handily. On March 8, 1984, the Supreme Court of Canada decided unanimously that the federal government had jurisdiction over offshore resources.

On February 26, 1982 the government tabled in the House of Commons, Bill C-94, the omnibus Energy Security Act. The opposition Conservatives were opposed to the way in which the bill was presented to the House charging that it was really eight bills. The Tory opposition reflected not only their opposition to the energy aspects of the bill, but the alleged disregard for Parliament as represented by the format of the bill. This is particularly salient, given that the memory of the government's parliamentary conduct with respect to the Constitution Act was still fresh in the minds of the opposition Tories. This caused what was to be known as the 'Bells Affair.' The Tories called for a motion of adjournment, caucussed, and refused to report for division until the Liberals broke the bill down into its component parts. The division bells rang from March 2 till March 17 as the three major parties negotiated outside of the House. The affair ended in a compromise including the break-up of the bill into eight new bills.

In the spring of 1982 a number of factors dovetailed to dampen the short-term outlook for the industry. Continued high interest rates; the deepening of the world-wide recession; the softening of demand for oil in Canada and globally along with the growing realization that the emerging glut of oil on world markets may be more than a short-term temporary condition; the maturation of many of the conservation and substitution programs put in place since 1973 in
the western consuming world; the subsequent softening of world price and the growing dissension within OPEC, all combined with the new, higher royalty and taxation provisions of the September 1981 Canada-Alberta Agreement, to squeeze industry cash flow and profits. Provincial approval of the Alkans Project (Shell) and Cold Lake heavy-oil project (Imperial Oil) was withheld by the Alberta government as part of its retaliatory campaign against the federal government and the NEP. By the time the Canada-Alberta Agreement was signed ten months later the 'economics' of these massive $13 and $12 billion projects, respectively, had become clouded. Despite the extensive, high level negotiations between the companies and the two levels of government, including the provision of generous taxation and fiscal incentives by the governments, the industry sponsors decided to cancel the projects.

In response to the industry's situation, the Alberta and federal governments made significant adjustments designed to get increased revenue into industry coffers. On April 13, 1982 the Alberta government announced a $5.4 billion program consisting of royalty reductions and special grants and credits with the objective of increasing revenue flows to the industry in 1982-83. At the end of May, Ottawa unveiled the NEP Update. It included a $2 billion assistance plan designed primarily to aid the Canadian 'juniors' of the oil and gas industry. Some taxes were suspended while others were reduced, and higher prices were offered for certain categories of oil. As a result of the September 1981 Agreement, 'old oil' (discovered before December 31, 1980) was allowed to more than double from its January, 1980 price of $14.75 a barrel, to $29.75 in January, 1983. New oil was allowed to achieve world price. As a result of these price increases and the above adjustments, industry's cash flow was projected to go from $6.5 billion in 1982 to $8.6 billion in 1983.
The NEP Update published in the spring of 1982 stressed the adjustability and flexibility of the NEP. It stated that:

The National Energy Program is not a single document nor a static set of policies ... prices, taxes or direct initiatives ... The National Energy Program is a dynamic and comprehensive set of evolving responses to a changing world - whether through compromise with the provinces, or through necessary mid-course corrections in specific initiatives or the fiscal burden.\(^75\)

In reality this meant that the initial NEP and the Canada-Alberta Agreement had produced onerous cash flow effects on the oil and gas industry as the recession took hold.

In 1982 Petro-Canada acquired the refining and distribution assets of B.P. Canada for $347.6 million. By April of 1983 the Petro-Canada purchase of Petrofina had virtually been paid off via revenues collected through the Canadian Ownership Charge. Petro-Canada now had assets in excess of $7 billion and the Canadian public continued to favour Petro-Canada. Petro-Canada retail sales in 1982 were up by as much as 30 percent in a shrinking market. One of the reasons given for the purchase of the 2,357 B.P. outlets was that Petro-Canada needed to have more service stations to meet public demand, and because of public demand the stations are more valuable assets to Petro-Canada than to B.P.\(^76\)

The same success could not be claimed for the private sector Canadian giant Dome Petroleum. After having enjoyed tremendous success in the 1970s and having led the Beaufort play and pioneered in Arctic exploration, Dome over-extended itself in 1980 with the acquisition of Hudson Bay Oil and Gas from U.S.-based Conoco. In the late 1970s Dome had become what was sometimes referred to as Ottawa's "chosen instrument" aiding the "need to know" (about
Canadian reserves) the objective of the federal government. Dome President Jack Gallagher is often credited with convincing the federal government to introduce the 'super-depletion allowance' for wells costing over $5 million. Super-depletion applied to only the most expensive offshore drilling, such as that which Dome was doing in the Beaufort. Super-depletion was scheduled for cancellation in the Tory Budget of 1979 and expired in April of 1980. Depletion on provincial lands was done away with in the NEP. Depletion on Canada Lands was phased out by the Canada-Alberta Agreement.

In order to take advantage of the maximum grants under the NEP for its Beaufort Sea exploration program Dome created a wholly Canadian-owned subsidiary, Dome Canada. The combination of high interest rates, and in the summer and fall of 1982, shut in oil production and decreased gas sales made it impossible for Dome to meet its loan obligations. To rescue it from its financial difficulties, Dome's Canadian banks and the federal government agreed in the fall of 1982, to an equity infusion package which, if fully implemented, would see the banks and Ottawa attain effective control of the company. At the time of writing, Dome's management and directors were still hoping to avoid having to use the banks/Ottawa rescue package, and falling interest rates were working in Dome's favour. Dome remains, for the present, however, an asset rich - cash poor company, but with good long term prospects if it can survive the short term.

Just as Dome's interest rates problem resulted partly from international events beyond its control - the Reagan Administration's high interest rate, monetarist anti-inflation policy - another international development beyond its control may have had further harmful impact on Dome. Since late 1981 the combination of the recession, restructured energy consumption patterns in the
industrial countries and the post-1973 emergence of much new non-OPEC production (Britain, Norway, Mexico, U.S.S.R.), has resulted in decreased demand, increased supply, a shrinking share of the world oil market controlled by OPEC and subsequently downward pressure on international oil prices. This situation resulted in much internal feuding within OPEC (which, after all, had two members at war with one another) over price levels and production quotas and led to a two-week summit negotiation among the OPEC countries in London in March 1983. The outcome of this summit was a reduction in the OPEC benchmark price, adjusted within OPEC for quality, to $29 U.S. per barrel. As mentioned above, this had the effect of putting pressure on the Canada-Alberta agreement which forecast the 1983 world price for oil to be $38.50 (Canadian) when it is in fact $29.00 (U.S.). Consequently, Canadian oil has already exceeded its ceiling of 75 per cent of world price. Ottawa and Edmonton agreed to cancel a price increase due for July 1983.

While Dome has a strong asset position in the Canadian prairies (in addition to Dome's original reserves, Hudson's Bay Oil and Gas was a major producer of oil and gas in Alberta) its flagship operation was its Beaufort Sea program. The decreasing world oil price has cast a major shadow of doubt across most of Canada's frontier developments because of the tremendous costs of exploration, production, and transmission in the harsh environment of the Arctic and East coast. Extraordinarily expensive projects such as the Alaska Highway Pipeline, the Polar Gas Pipeline, and the Arctic Pilot Project have been placed in limbo. As a result of the NEP 'Carrot' (the grants which pay most of the costs of exploration depending on a firm's Canadian ownership rating) and 'Stick' approach (COGLA's renegotiation of stricter work programs and a system of land relinquishment in the exploration agreements with existing lease holders),
exploration momentum has been maintained on the frontiers for the time being. If the grants are not significantly reduced, this could prove to be a very farsighted move if the world supply glut turns out, for whatever reasons, to be a short-term phenomena. If, on the other hand, world oil demand and prices stay soft for the next decade it could prove to be a case of pouring good money after bad. It has not been determined yet what price a barrel of Beaufort Sea oil would have to demand in the market to make major production development economically feasible. In addition, Beaufort Sea exploration had not yet produced the sorts of massive discoveries that were hoped for. Canada has no immediate need for frontier gas and very well may not need Beaufort oil in the 1990s either, which raises further questions about export markets. For strategic reasons the Hibernia oil play on the East coast appears to be the key frontier project, but it suffers from serious environmental risks and the political impasse between Ottawa and St. John's.

As stressed above these combined events in 1981 and 1982 were putting extraordinary pressure on the Canada-Alberta Agreement by 1983. On June 30, 1983 a new eighteen month deal was struck, this time without the acrimony of the 1980-81 negotiations. Under these arrangements conventional old oil prices were frozen at the current price of $29.75 a barrel (about 83 percent of the world price.) The $4 per barrel price increase scheduled for July 1, 1983 was cancelled; and the same would happen to the price increases scheduled for 1984, if the world price did not rise. Domestic gas prices, initially scheduled to rise by twenty-five cents a thousand cubic feet every six months would be held to 65 percent of the oil price. Thus gas producers would get the August 1, 1983, and part of the February 1, 1984 increases. Ottawa would absorb the increased costs to consumers through reductions in its gas excise tax. The new agreement also
extended the new oil reference price which was at or near the world price to include oil discovered after March 31, 1974, and oil produced from wells drilled in gaps in existing oil fields. The net effect of these measures was that about 35 percent of Alberta oil would qualify for the world price. Industry cash flow would increase by about $250 million, and both governments would benefit from the stability created.

A further post-NEP event to note was the changes announced in August 1983 to help put a cap on the burgeoning costs of the Petroleum Incentive Payments (PIP). The PIP costs would be partially controlled through a mechanism in which wells costing over $50 million would henceforth have to receive individual ministerial approval to be eligible for PIP grants. Companies would also have to show that their drilling costs were competitive. The demand-driven nature of the multi-billion dollar PIP expenditures had made them difficult to control, and these costs were becoming increasingly visible in a period of massive federal deficits. Thus the other half of the "visibility coin" was beginning to rear its head. This historical overview of post-war energy developments will provide the reader with an historical perspective on the issues and events which will be analysed in greater detail in the following chapters.
Footnotes

1. This is also the case in many other important policy fields. See Glen Williams, Not for Export: Toward a Political Economy of Canada’s Arrested Industrialization (Toronto: McClelland and Stewart, 1983).


11. Ibid., p. 66.


17. McDougall, op.cit., pp. 82-83.

18. Ibid., p. 84 and pp. 94-95.


22. Debanné, op.cit.


26. Ibid., pp. 18-19.


29. Crane, op.cit., p. 46.


56. From Premier Peter Lougheed's television address to the province in reaction to the Federal Budget and NEP, October 30, 1980, pp. 12-13.


61. Ibid., p. 4.


76. While Petro-Canada's market share remained strong in 1983, it was unclear from the Gallup Polls, at least, how public opinion on Petro-Canada was evolving. A November 1982 Gallup Poll confirmed strong support - 63 percent, up marginally from 62 percent in 1980 - for Petro-Canada being involved in retail sales. Six months later in April 1983 a Gallup Poll found that only 8 percent of the respondents made some effort to buy at Petro-Canada stations. Moreover, the poll found that 45 percent would sell Petro-Canada to the private sector, compared to 22 percent in the summer of 1979 when the Clark Conservative government first made the suggestion. Thirty-four percent of the April, 1983 sample would not sell Petro-Canada and 21 percent were undecided.


PART II

Energy Politics: The Pre-NEP Legacy

With Chapter 2's historical overview of post-World-War II energy politics as general background one can now proceed to a second look at the pre-NEP legacy. The next two chapters re-examine in greater detail many of the events discussed briefly in Chapter 2. The assessment in Part II focuses more explicitly on the two inter-connected relationships of power in Canadian energy politics examined in this study, namely, the government-industry and intergovernmental energy relationships. Though space dictates the need for a separate chapter on each, it should be increasingly evident as one proceeds that the two sets of relationships form a kind of political triad of relationships. The two chapters provide the initial evidence and line of argument about the need to see energy politics as being imbued over time with complex causality flows between key interests in the economy and polity.

Once again, as was the case in Chapter 2, Part II deals with a large time period. This is necessary to appreciate political power in any sector of politics. Part II also begins the process of differentiating the divergent interests that exist in energy politics as set out in Chapter 1 and as referred to (albeit very briefly) in Chapter 2. These interests - different segments of the industry, and different governments and the partisan relations interwoven in them and among them - are traced both to understand energy politics per se and to show in an
initial way the value of portraying energy politics through the framework suggested in Chapter 1.

It was also argued in Chapter 1 that only by searching for evidence among key projects, major decisions, and important episodic phenomena over a broad period of time can one begin to make judgements about the possession and exercise of power among the key economic and political interests. Chapters 3 and 4 cover the entire post-war pre-NEP period and assess the different types of evidence necessary to evaluate relationships of power. Chapter 3 re-examines major projects and key government decisions, whereas Chapter 4 re-examines a number of essential ongoing issues such as pricing and resource management which have persisted throughout much of the post-war period. By investigating a number of different kinds of evidence over a broad period of time one can begin to assess the utility of the suggested framework. There is, of course, also additional information - over and above that introduced in Chapter 2 - which must be imparted regarding the various events in post-war Canadian energy politics. Part III presents an even more detailed analysis and extends the evidence further into the recent post-NEP era and in more depth to particular companies. In effect, it provides a third analytical cut at energy politics.
Chapter 3

The Government-Industry Energy Relationship: The Pre-NEP Years

Introduction

This chapter looks at the pre-NEP legacy of the government-industry relationship through an analysis of six key events in energy politics during the 1947-1979 period. They are: the Trans-Canada Pipeline (TCPL) issue, the Borden Commission's decisions on natural gas exports and the Alberta-Montreal Pipeline and the subsequent Diefenbaker government's decision to establish a National Oil Policy, the establishment of Petro-Canada, the Syncrude bailout, the northern pipeline issue, and finally the Clark government's 1979 energy policy.

The objective is to develop a comprehensive understanding of this relationship as it evolved and as it stood in 1980, when the Liberals formulated and introduced the NEP. This understanding is necessary in order to appreciate the impact of the NEP and to comprehend the changes it caused in the basic relationships of power.

The Trans-Canada Pipeline

The key interests involved in the TCPL conflict were the initially competing pipeline companies which later combined into TCPL, Gulf Oil Corporation, the federal Liberal government - then entering its third consecutive decade in power - the opposition parties, in particular the Tories, and the
governments of Alberta and Ontario. It must be remembered that, while the
Trans-Canada debate reflected a clash of interests similar to that which took
place in the other 1950s decisions to build and not to build various pipelines, it
was unique in that the federal Liberals exposed in the TCPL case a much
stronger commitment to creating a national market for gas than they had for oil,
and for ensuring that this project be built entirely within Canadian jurisdiction
under Canadian ownership, than was the case with the other pipelines.

The TCPL case reveals a clash of objectives among the key government,
industry, and partisan interests in Canadian energy politics in the 1950s. One
focal point for the clash of interests in this "complex issue of great national
importance" was the underlying tension "between east-west nationalism and
north-south continentalism." McDougall has amplified and clarified this tension
between nationalist and continentalist "logic" as exhibited in the pipelines
debates. The debates "pitted nationalists who felt that Canadian markets should
be served entirely with Canadian fuels and delivered by means of pipelines built
exclusively within Canada against 'free marketers,' who felt that Canadian
markets should be served by Canadian sources only if necessary and then only by
means of pipelines built along the cheapest possible routes. The former would
maximize interprovincial trade while the latter would do the reverse."2

More specifically, the nationalist position argued that national integration
and national unity could be enhanced by: overcoming the imposed divisions of
geography and federalism and thereby strengthening Canadian energy security
and specifically self-sufficiency in natural gas by linking Canadian markets with
Canadian resources; strengthening Canadian sovereignty by constructing the line
solely within Canadian jurisdiction, and; maintaining Canadian control by ensuring that the pipeline company be majority Canadian-owned. Regional objectives were reflected by arguments about both the need to ensure that Canada's major population and industrial base in central Canada was guaranteed a stable and secure supply of Canada's premium fuel, and at the same time, the need to support the energy base of the Alberta economy.

On the other hand, concerns for efficiency, as expressed by the continentalist position, dictated a view that less expensive markets could be found for the Alberta gas producer's product in the U.S., but that if it was to be mandated by public policy that Canadian markets were to be served, then the costs of constructing the lines and transmitting the gas should be lowered for Canadian producers and consumers by building an export component into the line. Alberta producers, it was argued, had to be given ample markets for their natural gas production even if this meant exporting, since expanding markets were needed to ensure the producer's cash flow, economic viability and a healthy exploration and development environment. The inclusion of the 'joint service' concept in the four major oil and gas transmission systems, meant that neither the purely nationalist nor continentalist arguments prevailed. As McDougall has noted, the result of the systems put in place between 1949 and 1961 was a quasi-national or semi-continental pattern.

The upshot was that national integration of Canadian markets and resources was achieved, but at the cost of reduced national sovereignty - the U.S. Federal Power Commission had to grant import licenses for the gas exported by the line at Emerson, Manitoba - and for a time national control, as
the line became temporarily majority American controlled. In the end, however, the political will exercised by the Liberals ensured that the company would be Canadian-owned and controlled. The end result, as is often the case in a country which includes both producer and consumer interests, was that the pressures for regional sensitivity more or less equalled each other, and both national and continental integration were strengthened simultaneously.3

The government-industry relationship between the main private sector interests, Gulf and Trans-Canada, and the federal government reveal a consensus over the shared objective of ensuring the project's completion, but also exposes instances of industry pressure and government accommodation which reflects the power of both private sector interests. The Gulf Corporation of Pittsburgh's 'policy' of refusing to sell oil or gas to a company controlled or potentially controlled by government, as described in Chapter 2, sounds positively archaic in the 1980s environment of energy politics, and indeed it provides a very trenchant example of how the government-industry relationship has changed over the past 30 years. As stressed in Chapter 2, this action by Gulf lead to the federal Liberal's temporary acceptance of majority foreign ownership of the pipeline company in 1956-57.

In the early 1950s the 'seven sisters' of the international oil industry, including Gulf, had openly conspired to boycott the production of 'hot oil' from Iran which had nationalized the Iranian holdings of British Petroleum. The successful boycott contributed, along with the expenditure of $700 thousand and the organizational talents of the Central Intelligence Agency, to the over-throw of the offending Mossadeq regime.4 Given this sort of heady success in
manipulating the political fortunes of third world governments, the American and British oil companies had little hesitation in pressuring, for both ideological and practical reasons, for various restrictions on the policy options of 'sovereign' western states such as Canada. The refusal of the Canadian government to challenge Gulf's actions gives credence to Gulf's interpretation of its power. The fact that the parent American company totally dominated the decision-making power of its Canadian subsidiary, even at the potential risk of harming Gulf Canada's image, is instructive. Whether this dominant parent-submissive subsidiary relationship has changed by the early 1980s is open to empirical investigation. 

The relationship of Trans-Canada and the Federal Liberal government is also revealing. By being committed for political and policy purposes to the 'construction' of the project entirely within Canada, yet by refusing, for ideological reasons and for fear of the consequences for Canadian-American and government-industry relations, to consider the option promoted by the Cooperative Commonwealth Federation (CCF) in Parliament, namely to construct the project by public enterprise, the Liberals weakened their negotiating position vis-à-vis Trans-Canada. While Trans-Canada did not get everything it sought, it continually came back to the government for aid and assistance gaining in the process government bond and loan guarantees (even when the company became temporarily American-owned). TCPL also obtained the license to export up to one quarter of its throughput, a government commitment to take action according to the company's schedule, and finally government agreement to finance and construct and later sell back to Trans-
Canada the most expensive section of the line through the rugged Canadian Shield of northern Ontario. All of which reflects the possession of some very considerable bargaining power.

Partisan interests also conflicted in a major way as a result of the Trans-Canada. It is generally acknowledged that the Liberal government’s performance in, and treatment of, Parliament during the Pipeline Debate contributed directly to its defeat by the Conservatives in 1957. Thus, the bitter partisan conflicts over the respect for Parliament, the role of foreign capital in the Canadian energy industry, the role of energy projects in national economic development, the appropriateness of public enterprise, the interests of producer and consumer regions, and the control and management of national resources must be acknowledged not only for their importance to Canadian energy politics but also for their importance as currency in the ongoing partisan power struggle. Virtually all of these issues were still central, twenty-five years later, to the partisan and parliamentary battles surrounding the NEP.6

The Borden Commission: Natural Gas Exports, the Alberta-to-Montreal Pipeline and the National Oil Policy

As noted in Chapter 2, the establishment of the Royal Commission on Energy, headed by Toronto industrialist Henry Borden, was one of the first acts of the newly elected Diefenbaker government and a direct outcome of the Trans-Canada controversy. As John McDougall has argued, the fact that the terms of reference for the Commission were couched in vague generalities suggests that the Diefenbaker government had not determined the substance of a new energy
policy or indeed, even the 'national interest' on energy questions. In effect, the Diefenbaker government seemed to abdicate its responsibility for energy questions to the Commission. The Borden Commission's entry into this policy vacuum meant that it could not help but have a significant impact on Canadian energy politics. A number of its proposals revealed the nature of the industry-government relationships.

The oil and gas industry, for a variety of reasons, enjoyed prodigious power in Canadian energy politics during this period. And within the industry, the multinationals were much stronger than the Canadian-owned firms. A key factor in the power of the multinationals in this pre-Energy, Mines-and Resources, pre-Petro-Canada period, was their control over a pivotal political resource, namely, information. Because of their control of geological, technical, economic, and financial information and knowledge and their skillful way of presenting it to the Commission and governments, the industry enjoyed great success in winning both the Commission's and government's support for its positions. In part because of this, the Borden Commission and the federal and Alberta governments adopted throughout the 1960s an approach to energy issues which reflected the logic, interests, and ideas of the global and continental planning system of the multinational majors.

With respect to gas exports, two related industry arguments were quickly accepted by the Commission. These were: 1) that exports were necessary, even before long-term supplies for Canadian consumers were assured, and 2) the increased prices that would accompany heightened demand, would result in higher revenues to the industry and thus would stimulate further exploration and
development. In accepting the industry argument that it would be unfair to producers to require that proven reserves be retained for long-term future needs, the Commission rejected the positions put forward by a number of governmental interests, including provincial governments and the city governments of such major metropolitan consumers as Edmonton and Calgary.

In the case of the proposed Alberta-to-Montreal Pipeline, the Commission's preferences were also instructive about the underlying relationships of power. The major competing interests were the Canadian independents led by Home Oil and the integrated majors led by Imperial Oil. As noted in Chapter 2, because of the impact of its Mandatory Oil Import Program in exacerbating the shut-in oil problem of the Alberta producers, and secondly because of its concerns with Venezuelan oil production, the U.S. government must be considered a key interest. In arguing the advantages of an oil line from the Alberta fields to the major Montreal market, Home Oil appealed to diverse concerns for regional sensitivity, security, and national integration. The line would supply Alberta crude oil producers with a guaranteed market, increase national security by eliminating the dependence of Montreal refineries on imported oil, create industrial activity across Canada, aid the national balance of payments by ending the annual $350 million a year outflow of capital to pay for foreign oil and create a major stimulus for new exploration and production in the west. Imperial Oil challenged this line of argument by appealing to concerns for efficiency and regional self-interest in leading the fight against the line. It argued that the use of western oil in Montreal refineries would be more expensive than imported oil and would necessitate additional costly government regulation of the industry.
Imperial and the other majors appealed to regional concerns by arguing that Quebec consumers would have to bear the additional expense of using higher cost western crude. The lack of support for the line among Quebec politicians suggests this argument had some impact. Imperial also argued that western producers would be better off to pursue a continentalist strategy of attempting to secure further U.S. markets closer to home.

As outlined in Chapter 2, the majors had other concerns which appealed primarily to the needs of their own global production and marketing networks. The U.S. government, by its imposition of oil import quotas and tariffs in support of its own western independent producers created much of the shut-in problem for the Alberta producers, but for its own geo-political reasons also opposed the use of Alberta oil in the Montreal market. What is interesting about this decision is the lack of support of other significant interests for the project; the lack of support of the Ontario and Quebec governments, federal politicians, and Montreal industrialists is particularly noticeable. The Borden Commission clearly bought the (economic efficiency) argument of a continental market as proposed by the majors in rejecting the development of a national crude oil market.

In rejecting a line to serve Montreal markets with Canadian oil and in explicitly promoting a continental energy policy, the Borden Commission's views led inexorably to the National Oil Policy (NOP). By establishing the Ottawa Valley Line, or Borden Line as it came to be known in 1961, the Diefenbaker government added political legitimacy to the established practice of the multinationals, and in the process shut the offshore imports of the U.S.
independents out of the rapidly growing Ontario market. The decision not to allow Alberta oil into Montreal would handicap later national governments, result in supply worries, and establish the necessity of creating the Oil Import Compensation Program in 1974 when the once plentiful and cheaper Middle Eastern and Venezuelan oil suddenly became less secure and a lot more expensive. At the same time that it rejected the establishment of a secure and nationally integrated Canadian oil market serving all three of Canada's major markets, the NOP also strengthened continental integration by making additional surplus Canadian oil and gas available for export to the United States. It must be acknowledged, however, that the NOP also strengthened national integration to the extent that it caused the forced integration of Ontario markets with Alberta oil fields.

Yet, from the perspective of the main interests involved, the NOP was surprisingly non-controversial. In the pre-OPEC environment of cheap and plentiful international oil, and the control of the international oil economy by the Seven Sisters, the arguments of those private sector and public sector interests who supported mixed concerns for efficiency, equity, and regionalism—to Quebec via lower prices, to Alberta via the safeguarding of its higher-priced crude from competition from cheaper imports in the Ontario market, and to Ontario via the concentration and expansion of the refining and petro-chemical industry there—carried the day. The support of the opposition Liberals for continental energy planning ensured that the CCF was the lone opposing voice in Parliament. The compliance of the relevant provincial governments and the support of the American government and the multinationals isolated those
Canadian-owned firms such as Home Oil and the independents in Ontario who were still unhappy with their market situation.

**Syncrude**

The politics surrounding the massive 125,000 barrel a day oil extraction plant in the tar sands of the Athabaska regions of northern Alberta are complex and intriguing. The project, and its evolution from a $500 million plant at the pre-construction stage in 1972 to a $2 billion project which had to be rescued from collapse by the equity investment of three Canadian governments in February 1975, provides a revealing glimpse into the government-industry relationship by exposing the levels and kinds of leverage that a consortium of foreign-owned companies was able to exert over Canadian governments at the time. There were two key periods of leverage and hence of power, one primarily with the Lougheed Cabinet in August 1973, and the second primarily with Ottawa in January 1975. In the latter the consortium threatened to 'kill' the already-under-construction project unless both governments met a further set of demands by making an additional set of concessions. The original Syncrude consortium (Imperial Oil 30 percent, Atlantic Richfield 30 percent, City Services 30 percent, and Gulf 10 percent) and the governments of Alberta and Canada were the key interests involved in shaping the outcome of the issue.

The Lougheed Conservatives, as we saw in Chapter 2, had come to power in Alberta in 1971 on a campaign promise to use the province's increasingly valuable oil and gas reserves to stimulate the diversification of the provincial economy. The worldscale, non-conventional oil producing Syncrude project
became a symbol of that diversification, and much of the governments prestige was tied to its success. As Larry Pratt puts it, "Peter Lougheed had deliberately created public expectations of growth and spectacular progress and his personal image and credibility were now bound up with Syncrude's fate." The Lougheed government rejected the advice of a group of senior civil servants, that it break with the historical precedent established by the development of the province's conventional oil and gas reserves. The past approach had, the officials charged, resulted in "tremendous and unregulated growth," "short-term benefits" to the province and "long-term costs" arising from exported energy, technology, job opportunities, and environmental damages in addition to the depletion of nonrenewable resources. Specifically, Lougheed was urged to develop the bituminous tar sands in a way which would reverse the "historical trend of ever increasing foreign control of nonrenewable resource development in Canada" by consciously employing Canadian technology and services and by emphasizing orderly growth and development which would ensure the protection of the environment and thereby enhance the benefits to Canadians and Albertans.

In part the Lougheed government's rejection of this strategy can be explained by the fact that the senior civil service was still associated, to a certain extent, in the new government's mind with the previous longstanding regime. Yet, it is unlikely the developmental approach promoted by the civil servants would have proved acceptable for a Social Credit Government either. Ultimately, the nationalist and interventionist approach of the civil servants was rejected by the Conservatives on ideological grounds. By being committed to tarsands development, but having rejected an approach which would have
entailed strict developmental regulation and the explicit utilization of Canadian technology and services, the Government was faced with negotiating the terms of development with the multinational majors:

In negotiating with the affiliates of these giant corporations, governments are often at a decided disadvantage, for the highly centralized companies can pit provinces, countries, regions, even different fuels, against each other, in order to win the terms they seek. And where a government is isolated and sees no alternative to the multinational corporation and its priorities, then that government will have little power to dispose of its resources as it thinks best. It is this situation which accounts for the rise of international organizations like OPEC, founded to counter the bargaining power of the world oil cartel. And it is precisely the same situation which has placed Canada's future energy supplies in question and left our governments open to corporate blackmail. Governments who play poker with companies like Syncrude are playing against a stacked deck.11

Thus, in order to achieve its objective of provincial development and economic diversification the Alberta government yielded to Syncrude's demands in August 1973. The consortium got the concessions it wanted in terms of taxation and other fiscal conditions, pricing, altered labour laws, provincially-financed infrastructure, weakened environmental laws, exemption from pro-rationing and others. When Lougheed announced on province-wide television on September 18, 1973 that the project was to proceed he added that the whole thing depended upon Syncrude winning some important tax and pricing concessions from Ottawa. He publically assured the industry and Albertans that he would lobby hard to make sure the concessions were granted.
Ottawa responded favourably, recommending that any reference to royalties be deleted and the concept of a joint venture be substituted in the Alberta-Syncrude agreement. Among other advantages, this would provide a loophole for tax purposes and in effect exempt Syncrude from Ottawa's recently announced decision to disallow royalty payments to provinces as deductible for federal income tax purposes. With respect to pricing, Ottawa agreed to let Syncrude oil move toward international prices, provided such prices were 'fair and reasonable' to the economy and citizens of Canada. In addition, Ottawa agreed not to subject Syncrude production to any pro-rationing scheme, thereby guaranteeing that full production could be marketed, in export markets if necessary.

In agreeing to these arrangements Ottawa was reacting to regional pressures and was trying to do its part to ensure that a project which the Alberta government was committed to went ahead. It is worth mentioning that at about this same time in 1973 the Liberals had held a Western Economic Opportunities Conference to try to boost their dismal "presence" in the West in the midst of a minority Parliament. Consequently, the Liberals were anxious to be seen supporting a high profile western project. Initially, security was not a major consideration, as the Syncrude partners planned to export part of the production. In the words of Jerry McAfee, president of Gulf Canada, the tar sands provided "the best prospects for maintaining Canada's important oil export trade with the United States."12

After Atlantic-Richfield announced it was pulling out of the project on December 4, 1974, the remaining consortium partners unveiled, on January 16,
1975, a new set of demands which Edmonton and Ottawa would have to meet by January 31, 1975 to ensure completion of the project. These included absolute access to world price, fresh guarantees for exemption from the non-deductability provisions of the Turner budget and from any future pro-rationing of oil production, and the public sector infusion of a billion dollars in equity and/or further tax concessions. Ottawa responded to the threat by reiterating its pledge that the project would be exempt from the budget provisions whereby royalties, or payments in lieu of royalties would no longer be deductible for income tax purposes, by providing, as it refused to do in 1973, categorical assurances that Syncrude oil could be sold at world price, by once again reaffirming the project's exemption from pro-rationing, and finally by investing $300 million in public funds in the project in return for 15 percent ownership. Alberta invested $200 million for 10 percent and Ontario $100 million for 5 percent ownership.

The Liberal federal government clearly yielded to the industry power play. By complying with the industry's demands Ottawa could claim to be aiding Albertans by contributing to a major regional development project which would also have advantageous industrial spin-offs for other parts of Canada. Most importantly, in the emerging post-OPEC crisis situation of Canada's perceived deteriorating oil supply position, Ottawa could be seen to be enhancing Canadian oil security by strengthening Canada's domestic supply of accessible oil. This last factor could be seen to benefit Canadians from B.C. to Quebec, who rely on Canadian crude, and improve the domestic balance of payments by reducing net imports of oil.
Nearly a decade later, it is reasonable to argue that given the continued uncertainty and instability of international oil markets, it is a good thing Syncrude was built. It is debatable, however, whether the governments paid too high a price for its completion. There is no question that the private sector interests, represented by the consortium partners exacted a high price from the governments of Alberta and Canada. In terms of what this case reveals about the possession and exercise of power in the government-industry relationship, Pratt's argument about why the politicians negotiated from a position of weakness is, in general, persuasive. He argued that "three essential failings destroyed that possibility (of turning the January 1975 crisis into an opportunity) and fatally weakened the bargaining power of the governments." One major impediment in those pre-Petro-Canada days to effective bargaining by the political leaders was their lack of crucial information. Second, Canada's balkanized political system weakened the common interests of the governments and indeed presented exploitable divisions for the consortium. Third, for ideological reasons the "governments involved were literally incapable of seeing alternatives to capitulation." As Pratt further argued, had they been bargaining from a self-perceived position of strength, the governments could have made "a public statement to the effect that Syncrude would not be shut down: that if the oil companies chose to cut and run, they would lose their investment in the project, be sued for breach of contract and shut out of any future development of the tar sands. If required, the tar sands would be developed by Crown corporations - but they would be developed."
Indeed, it is difficult to find any issue of substance on which the consortium failed to achieve its basic objectives. Both governments appeared incapable of exercising much strength against the consortium. As the following passage argues, this is not surprising given that the governments negotiated from a position of weakness; albeit one that was largely self-imposed:

The point is not a philosophical one; it is purely a question of power politics. By renouncing the option of public ownership and development of the tar sands, the political leaders lost their sole opportunity to checkmate what we have called the oil industry's monopoly veto power - its power to threaten to block development of resources such as the Athabasca sands. Without such an option in reserve, without a bargaining card of last resort, the politicians simply lacked credibility when they bravely asserted that they would not be intimidated or pressurised into concessions. To put it even more categorically, the governments could not have won the showdown with the oil companies without being prepared to nationalize Syncrude and develop the tar sands on their own.15

Petro-Canada

Writing six months after the Trudeau government's December, 1973 parliamentary response to the OPEC crisis, Glyn Berry had the following to say about the impact of the crisis on the federal government-industry relationship:

When energy issues could be defined in the narrow terms preferable to the oil industry, it enjoyed impressive power ... When decision making on energy matters was relatively non-controversial the companies' targets of influence - MPs, regulatory agencies, federal ministers, etc. - seem to have been benevolently responsive or so the history of government policy would seem to indicate. Consultation with the industry on energy matters was an accepted element in the decision-making process ... With the advent of the energy crisis, however, all this changed ... new issues grew with the crisis as it exploded into many
areas -provincial autonomy, foreign policy, foreign ownership, consumer protection, and regional disparities ...
When the problem of rapidly rising fuel prices was injected into an already inflationary situation, public consternation grew and the majority of provincial governments, as well as some organized groups, pressed for federal action. When the federal government responded, the multifarious efforts of the oil companies were insufficient, in the new crisis situation, to preserve their former degree of autonomy, and the emergence of fundamental constitutional issues left the industry clinging to redundant technical arguments. The companies were forced to stand by as spectators while the short-term future of Canadian energy policy emerged from a federal-provincial bargaining process. Their position had been weakened further by the power possessed by the NDP during a period of minority government.16

Berry is quite correct in identifying the 1973 energy crisis as a major conjuncture in the government-industry relationship of power. One of the key, and retrospectively, most far-reaching features of Trudeau's December 6, 1973 eleven point oil policy statement was the decision to create Petro-Canada. As outlined in Chapter 2, this decision was but one of a spate of control-expanding initiatives spawned by a coalescence of political and bureaucratic imperatives induced in response to an externally-generated crisis of uncertainty and instability. By rejecting the option of nationalizing a subsidiary of one of the major multinationals, the government avoided the option that would have most shocked the existing relationship. While the creation of a new state enterprise in the petroleum industry has been described even by its first Chairman, Maurice Strong, as an alternative to, rather than an instrument of, nationalization,17 it nevertheless considerably strengthened the federal government's arsenal of instruments which it brought to its side of the relationship with the industry. In
combination with the emergence throughout the 1970s of a few large and powerful Canadian-owned and controlled private sector firms, the genesis and growth of Petro-Canada in the years since 1975 has in a significant way restructured the composition of the petroleum industry in Canada. As a result of this development, the various relationships of power between the two major levels of the state and the various sectors of the industry have changed markedly as well.

A state enterprise in the energy field had been considered in detail in the document An Energy policy for Canada,18 produced by EMR in 1973. The OPEC crisis and the resultant vulnerability of oil consumers in Quebec and the Maritimes (a direct result of the Alberta to Montreal Pipeline and NOP decisions taken over a decade earlier) militated in favour of developing an instrument over which Ottawa had direct control and which could enter into state-to-state bilateral arrangements, which were becoming increasingly popular with OPEC and other producer nations. Concerns for security and stability of supply were reflected in the other key mandate of the state company. Given the recently acknowledged instability of international oil markets, and the recently recognized, in Ottawa, limited control the federal government had over the oil and gas industry, the federal government wanted Petro-Canada as an instrument for expediting frontier exploration in pursuit of the objective of 'needing to know' what Canada's reserves of oil and gas were. The record profits of the foreign-dominated industry in Canada in 1973, the tarnished image of the industry as a result of its flip-flops on the size of Canada's oil and gas reserves, the public's suspicion about the industry's role in the 1973 crisis and questions
about its potential for profiteering from the dramatic price increases, along with Ottawa's growing fear of being totally dependent on the foreign-controlled industry for crucial information, all combined to convince the federal government that they needed a direct 'window' on the machinations and operations of the industry in Canada.

As Berry mentioned, the NDP, who advocated the creation of a state oil company, held the balance of power in the 1972-74 minority Parliament. While there is no question that the NDP pushed hard for a state oil company and made this a condition of their continued parliamentary support of the Liberals, Larry Pratt disputes the NDP's claim of having fathered Petro-Canada by arguing that the Liberal cabinet and caucus had come to a similar conclusion as to the need for a government-owned company and indeed the Liberals created Petro-Canada after they had regained majority government status in the July 1974 election. The Conservatives, on the other hand, strongly opposed Petro-Canada's creation arguing that it was an unnecessary and inefficient intrusion of the state into the economy. The Conservatives mounted a filibuster at the committee stage during the parliamentary passage of the Petro-Canada Act. Their intense dislike of Petro-Canada must not be underestimated, as four years later they would ignore the strong public support Petro-Canada had developed and make its 'privatization' the centerpiece of a short-lived campaign to reduce state involvement in the economy. The Alberta government certainly didn't like the idea of Petro-Canada which they darkly viewed as yet another attempt by the federal Liberals to extend federal influence and power into areas of provincial jurisdiction.
As Pratt has argued, an additional major impetus for the creation of Petro-Canada was the growing realization among the officials of EMR that a state oil company would allow them to strengthen their control over the petroleum industry as well as enhance their authority over energy matters within the state bureaucracy:

The concept of a national oil company found its strongest advocates within the government, notably in an Energy Department attempting to extend its control over the petroleum industry. Large permanent bureaucracies crave predictability and stability. Confronted in late 1973 with an international supply crisis whose outcome it could not determine, and lacking influence over a multinational business notoriously resistant to political influence, Canada's federal bureaucracy sought to reduce uncertainty and to increase its knowledge of, and control over, the petroleum industry. Petro-Canada was created as an enterprise test case—a bureaucratic device to witness what actually happened and why.20

In a world of an ever-increasing number of state oil companies, North America had remained the exclusive domain of private oil, and the oil companies, despite government assurances that Petro-Canada would benefit them, were not initially happy with its arrival on the scene. Indeed some elements of the industry were bitterly opposed to it and virtually all private sector interests criticized the idea of giving Petro-Canada preferential rights. Yet the creation of Petro-Canada did provide the federal government with an important new instrument to bring to its relationships with both the industry and the producing provinces. Not only did the company provide Ottawa with its first significant data-gathering and window-on-the-industry functions, it was an operational instrument which could be used to influence the outcome of
developments. It would also later become an important symbol of security and national identity for Canadians.

**The Alaska Highway Pipeline**

The decade-long northern pipeline issue is important not only for what it reveals about the government-industry relationship but also for what it divulges about the shifting balance of power within the industry. As mentioned above, one important feature of the 1973-1980 period of Canadian energy politics was the emergence of large Canadian-controlled majors. One of the major developments contributing to this new configuration within the industry was the outcome of the northern pipeline issue. The much smaller Canadian-controlled Foothills consortium successfully challenged the foreign-controlled giants of the industry which were allied in the Canadian Arctic Gas Pipeline consortium (CAGPL). "Foothills and Arctic Gas epitomized the confrontation between David and Goliath, East and West, nationalists and continentalists."21 By offering the government a pipeline option that not only crossed less environmentally, socially, and politically sensitive areas but which also represented a major energy mega-project which would be designed, built, operated, and controlled by Canadians, Foothills achieved a victory which marked a major milestone in the maturation of the Canadian-owned and controlled sector of the industry.

The outcome was pivotal in that it signified the emergence of a Canadian controlled major. It was, however, additionally important in that Alberta Gas Trunk Line was headed by a self-proclaimed Canadian nationalist - in an industry
renowned for its anti-nationalist and anti-statist sentiment - who was not in the
least hesitant, as many small Canadian-owned firms were, to acknowledge and
indeed highlight the national ownership and control divisions within the industry
and the implications thereof for company procurement policy, independence of
company decision-making, and for Canada's national balance of payments,
research and development effort and the like. Bregha, in his exhaustive
chronicle of the pipeline saga, noted that in response to Imperial Oil's attempt to
have the federal government force a merger between Foothills and Arctic Gas,
similar to that which transpired in 1972 between the Northwest Project and Gas
Arctic, Blair indicated his unwillingness to share power with the foreign majors:

Having won, Foothills was in a position to dictate its
terms. It did so just as Imperial's board was meeting: it
was ready to welcome new partners but not the major oil
companies. 'Exxon tried to exercise too much muscle' in
pushing Arctic Gas, Blair explained, referring to Imperial
by its corporate parent's name.\textsuperscript{22}

The key interests involved in shaping the outcome were the Foothills
consortium (Alberta Gas Trunk Line and Westcoast Transmission), CAGPL
(Imperial Oil, Gulf, Shell, TCPL), the Canadian government, the U.S.
government, and a coalition of northern native groups, their southern support
groups, and a number of environmental organizations.

As the northern pipeline issue evolved through its various stages, and as
extraneous circumstances changed, the concerns reflected in Ottawa's
justification for the project also changed. In the early 70's, a northern line was
defended as a means of maintaining U.S. markets for Canadian oil and gas and for precluding the necessity of tanker traffic down the B.C. coast carrying U.S. oil and gas to west coast American markets. As shortages of Canadian gas loomed in the mid-70s, efficiency and security concerns came to the forefront, with the pipeline being touted as the most efficient means of gaining access to new Canadian supplies of natural gas for the Canadian market. As Canadian need for northern gas declined in the late 70s, regional and economic concerns became more explicit as the project was championed as a means of providing a substantial stimulus to the Canadian economy, both along its northern and western route and in industrial Ontario, as well as a worthwhile friendly gesture to the U.S.

In addition to the two private-sector consortia which sponsored the competing projects, the key interest was the Canadian federal Liberal government. Since the late 1960s the Liberal Cabinet and federal bureaucracy had been active and enthusiastic proponents of a northern mega-project. As Helliwell argues, an increasingly important theme of Canadian energy politics is that "Canadian federal and provincial governments alike are overly inclined to appear in too many conflicting roles at the same time; acting as resource owners, as project entrepreneurs, as taxing authorities, as economic and environmental regulators, and as providers of subsidies. This excessive jumble of roles often makes it difficult to establish either credibility or accountability for the resulting policies."23 Helliwell's critique, while focused more generally, is particularly applicable to the northern pipeline issue. Various components of the federal government - the National Energy Board (NEB), Mackenzie Valley
Pipeline (MVPL) Inquiry, the Task Force on Northern Oil Development (TFNOD), Alaska Highway Pipeline Inquiry, Environmental Assessment Review Panel, the Northern Pipeline Agency (NPA), and cabinet - have all had a role to play in the ultimate outcome. In some respects the roles complemented one another, in other respects, they were blatantly in conflict.

With respect to the government-industry relationship, the most important components of this mix of governmental actors was the political leadership in cabinet and the bureaucratic leadership in the TFNOD, NEB, and the NPA which never wavered in their support for a northern pipeline mega-project. For ideological and political reasons the Canadian political and bureaucratic leadership was unable to comprehend a range of options which would have strengthened their bargaining position with the consortium sponsors and with the American government. Consequently, the pipeline saga reflects a sense of drift, a continuous series of concessions both to the pipeline sponsors and to the Americans.

For a number of reasons the government proved incapable of taking a stance that would allow it to maximize Canadian benefits through negotiations with the industry sponsors. In order to maximize its bargaining position the government would have had to have been prepared to refuse to approve the project unless it met the country's and the government's conditions. A major bias in the government's attitude towards resource development precluded such an option, however. "Throughout the 1970s, the question of whether to exploit the Mackenzie Delta reserves was never asked; the only question was always when and how ... This is a policy by rote of growth for growth's sake. It helps to
explain how the government was able to shift its support so effortlessly from pipeline proposal to pipeline proposal. Each in the end meant the same thing: faster development, more jobs, more exports, more wealth. 24 This hard and fast commitment to a northern pipeline by key political and bureaucrat interests contributed to the attenuation of government neutrality and independence and resulted in the creation of a highly consensual government-industry relationship; but one in which the government is the weaker partner but merit of the industry's ultimate control or veto power over the actual construction decision and production process:

Surely one of the most remarkable characteristics of the pipeline decision-making process has to be what can only be called the symbiotic relationship which prevailed between government and industry. In 1972, government pressure helped Gas Arctic and the Northwest to merge. In 1979, government policy favoured the realignment of gas export applications behind Pan Alberta. In the former case, the most powerful alliance of oil and gas interests ever forged in the country was created; in the latter, the government backed itself into a corner by contributing to the momentum behind pre-building without receiving any of the assurances that the rest of the Alaska Highway pipeline would follow.

The government-industry partnership in large resource projects, of course, is not just a recent phenomenon in Canada. (Trans-Canada Pipelines, Panarctic Oils, Syncrude) ... The government's role as a developer, while it has undoubtedly fostered economic growth, has also been of direct economic benefit to large resource companies. Moreover, it has led to a confusion of interests, the government's function as the protector of the public good being tempered by its association with the companies it ostensibly regulates. 25

The government's performance throughout the 1970s showed that its major objective was to ensure that a northern pipeline was built, and it did virtually
everything it could to ensure the project's success short of agreeing to financially backstop it. There are a number of relevant government actions throughout this period which expose the symbiotic nature of the government-industry relationship:

from 1968 to 1972 the TFNOD became the "central body for determining northern resource policy." A secretive, senior level committee composed of the DMs of EMR, Transport, Indian Affairs and Northern Development, and the Chairman of the NEB, quickly became "a transmission belt for industry initiatives requiring speedy approval by Cabinet," "a secret forum ... where senior officials could meet in confidence with business executives." The TFNOD was entirely development oriented and adopted an active approach to the promotion of a Mackenzie pipeline corridor over its major competitor. As Dosman puts it, the Committee saw as its task the need "to convince the oil industry of the merits of a Mackenzie pipeline system." 26

the TFNOD and the government supported the consortium approach to northern development even though the more appropriate objective would have been to promote private sector competition which would have avoided "a common front of corporate interests backed by Washington. Consortia of this kind would exert formidable pressure on senior officials." In 1970 the TFNOD determined that its central problem would be to convince the competing groups to pool their capital and expertise into a single consortium, so that government and industry "might plan together the pattern of northern resource extraction and delivery." In June 1972, after
considerable trouble in overcoming tensions between Gas Arctic and Northwest, success was achieved with the merger of the two competing groups into CAGPL.27

as outlined below, when the government realized that Berger might interpret his mandate more broadly than the narrow "determine under what conditions a pipeline would be built," the government tried to intimidate him. As Bregha argues the government exhibited indifference, if not hostility "to the principle of public participation." It refused to provide public interest groups with "the means to articulate alternatives to pipeline development; it denied them funding to challenge Foothills' and Arctic Gas' arguments before the NEB; it also denied them access to much of its own information, gathered, one must point out, at the taxpayers' expense.28

In the final negotiations in the spring and summer of 1977, the federal government, as it had throughout, continuously accommodated the Canadian decision-making process to meet U.S. deadlines. Because the Americans, in a wise bargaining strategy, threatened right up until the time of signing in September of 1977 to reject the two Canadian alternatives in favour of the all-American El Paso project, the Canadian government became, as a result of its commitment to a northern pipeline, the major lobbyist for the Mackenzie Valley and then the Alaska Highway pipelines in Washington. This was hardly a position from which to negotiate advantageous conditions from either the U.S. government or the pipeline sponsors.

Thus, the most important conflicts here were not between government and industry, but between sectors of the industry, and between all of these pro-
development interests and that element of northern society opposed to a pipeline. One of the unintended but most far-reaching consequences of the northern pipeline issue was that it thrust the issue of native rights and native land claims and the environmental sensitivity of the north onto the main stage of Canadian politics. The politicization of the northern native groups and the nurturing of a new generation of native political leaders may prove to be the major legacy of the northern pipeline. The major vehicle for the participation of native people and the major forum for exposing southern Canadians to the cultural, social, economic and environmental concerns of the northern native people was the MVPL Inquiry. Judge Thomas Berger of the British Columbia Supreme Court, a well known Indian rights lawyer and former leader of the NDP in B.C., was named to head the Inquiry in March 1974. The establishment of the Inquiry and the appointment of Berger by the Liberal government were both intended, at least in part, to assuage the NDP which held the balance of power in the 1972-74 Liberal minority government. Berger's insistence on visiting the communities along the pipeline route to hear the concerns of the people first hand, and his commitment to provide funds to major northern interest groups and native and environmental organizations so they could present their cases more effectively, may have gone beyond what the government had anticipated — indeed, it is well known that when Berger adopted a broader view of his mandate "the government tried to intimidate him by threatening to change his terms of reference, withhold documents, make a decision before his report was ready and limit his budget" — but it reflected the government's need to ensure or at least
to appear to ensure that all interests were treated fairly and judiciously in the determination of the outcome.

Indeed, this period of Canadian energy politics is important in that it represented the emergence of a significant native-environmental coalition both in the north and in southern Canada, which, largely through its access to the media via the Berger Inquiry, was able to help turn public opinion against the MVPL. Despite the expenditure of millions of advertising dollars the CAGPL consortium was unable to counter this. Bob Blair — his ear always to the newly sensitive political ground — attended a number of northern community hearings and polled southern Canadian opinion, and as a result developed the political acumen to realize that northern political, environmental, and social issues would help turn the political tide against the Yukon Northern Slope-Mackenzie Valley route, if, given the government’s lengthy commitment to a northern pipeline, a reasonably viable alternative was available. The Liberal government had decided in the early 1970s that a northern pipeline was in the national interest. Foothills won because it was able to adapt its proposal to meet the government’s needs. CAGPL, perhaps because it was dominated by the major multinationals which had grown used to the Canadian government changing its needs to accommodate the oil companies, was unwilling, incapable of change and therefore lost the battle.

1979: Government Industry Energy Relations Under the Conservatives

Energy was not a major issue in the May 1979 federal election campaign despite the fact that the Islamic revolution was raging in Iran, OPEC’s second
largest producer. Despite gaining only a minority government and 35.89 percent of the popular vote (less than the Liberal's 40.11 percent), Joe Clark somehow interpreted his victory as a mandate for fundamental change. In fact, that the Conservatives were elected at all was more a function of the peculiarities of the electoral system than the result of a massive shift of support to the Conservatives. Clark hired as his economic advisor Jim Gillies, an ex-MP, who was well known as a conservative, neo-classical economist and a member of the party's right-wing. Gillies, who had been involved in forming the party's energy policy while in opposition, was far less interested in kowtowing to public opinion than in leading the country, whether it liked it or not, down a Thatcherite conservative path. The key symbol of the fundamental change the Tories hoped to institute was the privatization of the state oil company, Petro-Canada. "To the Tories Petrocan was a symbol. By getting the state out of the state oil company, they would be able to prove that they were, in fact, different from the Liberals, that they were serious about cutting back the role of government, that they meant what they said about promoting individual and private enterprise."\(^{33}\)

In addition to the poorly-conceived privatization promise, the Conservatives' energy policy was initially quite thin in that it amounted to a general objective of achieving self-sufficiency by 1990 and a vague idea of promoting Canadianization. As a result of spending sixteen consecutive years in opposition, the Tories brought copious amounts of political naivete to the government benches, particularly where their assumptions about the degree of cooperation they could expect from the Conservative Premiers on such fundamental issues as oil and gas pricing were concerned.
Like the actions by Kadaffi and the Shah of Iran in 1972-73, the victory of the Ayotollah Khomeini and his Islamic Fundamentalist Revolution in 1979 had a dramatic impact on both global and Canadian energy politics. Indeed, as Joe Clark and the Conservatives were basking in the euphoria of electoral victory the spot market price for oil was more than doubling to around $40 U.S. a barrel. This generated a crisis for the Clark government, but one different from that faced by most of the rest of the industrialized world. The Canadian crisis was a result of the fact that Canada is both a producer and a consumer-importer. The geographical and federal cleavages of the Canadian political economy, which are accentuated, by the location of oil and gas reserves and markets, were once again stimulated by the dramatic escalation in world price.

The Alberta government and the Canadian oil industry inducted the Ayotollah Khomeini into the Canadian oil patch hall of fame alongside Kadaffi and the Shah, and began recalculating what the "market" price of their oil was and therefore how much they were "subsidizing" Canadian consumers. The dramatic international price increases were a godsend to the industry and Alberta since the existing pricing and revenue-sharing agreement, which was due to expire on July 1, 1980, was up for renegotiation. Hence, the producing provinces and the oil industry geared up the arguments about higher prices being good for Canada because it is a producer. They noticed that the Clark Conservatives identified oil self-sufficiency as their prime energy objective, and noted the Joe Clark had returned from the June 1979 Tokyo Summit having promised to reduce Canada's oil imports by 100,000 barrels a day by 1980. Given that Canada was importing 450,000 barrels a day, and that it was unlikely new
Canadian production could make up the shortfall, the producing provinces and the industry realized this meant the federal Tories were willing to use the price mechanism to reduce consumption. Both Alberta, which produces 85 percent of Canada's oil, and the industry were well plugged into the Clark government and both were determined to get higher prices. Furthermore, officials at EMR were not opposed to higher prices either, though they pointed out to the new government that substantially raising prices while maintaining the present revenue-sharing regime (10 percent federal government, 45 percent provincial government, and 45 percent industry) would have major consequences for other policy fields.

Not surprisingly, the Conservative government of Ontario and the Conservative MPs within the Ontario and Atlantic caucuses were less enchanted with the prospect of dramatically higher oil prices. This would not only substantially increase Canada's oil import bill and thereby significantly worsen the federal deficit, and place greater pressure on Canadian interest rates and the dollar, but it would invariably raise the cost of domestic oil and gas used by their consuming constituents to the benefit of the Alberta Treasury and the oil company profit margins. The Clark government, struggling to get a grip on governing after sixteen years in opposition, and staggering under the burden of a number of disastrous election promises, needed an energy crisis which would turn their two provincial support bases in Alberta and Ontario against one another like they needed the proverbial 'plague.' Yet, that is precisely what they had.
Concern for security and stability were reflected in the Conservative's overriding objective of moving Canada off the international oil market by 1990 and thereby away from the blackmailing clutches of OPEC. Clark continually stressed the fact that unlike Japan and Germany, for example, which are forced by nature to go to OPEC, Canada could become self-sufficient in oil and thus in energy, if Canadians were prepared to face up to reality, that is to pay the price. The Canadian Energy Bank concept introduced by the Conservatives was justified as a means to a secure energy future for Canada. It was intended as a new financial institution, a vehicle to help Canadians invest in Canadian resource development, particularly in frontier regions. It would support projects like pipeline construction, which need high front-end financing; development of hydro, coal, and more experimental sources. It would also help fund home insulation, furnace retrofits, fuel substitution, urban transit, and other conservation measures.

The Conservatives were in the process of approving major new natural gas exports as they prepared their budget and were anxious about being seen to be granting new natural gas exports at the very moment when they were supposed to be most concerned with Canadian security. But new natural gas exports and higher prices could be justified as a means of getting more revenues into the industry coffers which it could then use to undertake further exploration in pursuit of the self-sufficiency objective.

The eighteen cents a gallon increase in the excise tax on gasoline to twenty-five cents a gallon was an explicit attempt by the Conservatives to use the price mechanism to force Canadians to be more efficient in their use of
gasoline and thus to reduce oil imports. The pricing policy chosen for natural gas, that is to have it rise at 85 percent heat content parity with oil for production under contract and at 65 percent for new volumes, was designed to encourage both conservation and the efficient substitution from oil, which Canada imports, to natural gas, of which Canada has a surplus.

Most of the principles of the Conservatives' energy program were supported by the industry. Yet it was the fundamental issues of price and revenue sharing which would ultimately determine the nature of the relationship of the industry and the Clark government. The Conservatives also hoped that their policy on Petro-Canada would enhance their relationship with the industry. The Petro-Canada privatization objective reflected the anti-state intervention bias of the neo-conservative right wing of the party. It ran into difficulty with the public, in part, because it conflicted with two main concerns in Canadian energy politics, security, and national identity, both of which Petro-Canada embodied. As a result, the Opposition was able to exploit the public's concern with the insecurity of the international energy situation in 1979-80 and the public's suspicion of the major foreign oil companies, both of which were issues which Petro-Canada directly addressed. Furthermore, it caused division within the party, caucus, and Cabinet as those Conservatives who did not share their more extreme colleagues' convictions about state intervention and public enterprise, were not willing to throw their support behind the proposal.

It is in this overall context that the key industry interests and those of the three relevant Conservative governments can be understood. The governments were more directly in conflict over the issue of pricing and revenue sharing, a
dispute outlined in detail in Chapter 4. In the context of this chapter's focus, however, one should appreciate the industry's general response to the Conservatives as well as their view of the Petro-Canada issue.

The petroleum industry as a whole had great expectations from the arrival in Ottawa of a strongly pro-business Conservative government, which had apparently taken heed of industry arguments and made oil self-sufficiency its prime energy policy objective. The industry was well plugged into the Conservative party both through the Alberta caucus, and through the influence of the Toronto business community, much of which was Conservative, and much of which shared the oil industry's sentiments about high prices and state intervention. The industry had strong allies in Jim Gillies, Clark's economic advisor, and Harvy André, Clark's close friend, MP for Calgary Centre, and ex-energy critic. Two ex-Imperial Oil employees were senior officials on the staff of Energy Minister Ray Hnatyshyn.

The industry wanted the Tories to move to world price or at least to a formula which connected Canadian price to a high percentage level of world price. With respect to Petro-Canada some of the more hard-line elements within the industry clearly wanted to see it privatized. Others though, particularly the majors, saw advantages to having Petro-Canada around. In the 1960s and 1970s, the multinationals had faced nationalizations or other impositions on their freedom in many countries, and as a defensive tactic had developed a strategy of bringing the host country government, either directly or through the state oil company, into an equity position in energy developments, preferably as a minority partner. This strategy could be especially beneficial in a country like
Canada where expensive and risky frontier or non-conventional developments were involved. Such an approach has the advantage of giving the government a direct equity stake in the viability of the project, and with a financial stake in a project a government is much less likely to let it collapse or otherwise become delayed. This strategy also brings into the position of producer that element in society which is responsible for taxation and the regulation of environmental, labour and other relevant law. Most importantly, perhaps, it provides access to the state's pool of capital. Alberta Liberal leader and Lochiel Exploration President, Nick Taylor, calls this, with characteristic verve, the strategy of marrying the landlord's daughter, "you quit paying rent, get the best bed in the house, and the biggest porkchop."34

The hard-line, free-enterprise ideologues in the Conservative party led by Jim Gillies, could not comprehend that big oil could develop such a pragmatic stance regarding Petro-Canada and consequently they were shocked and angered when Imperial Oil and some other major private sector actors let it be known to the Taskforce which Clark had created to devise a way to privatize Petro-Canada, that they did not think having Petro-Canada around was so bad.

The Conservatives never got a chance to introduce their new energy taxes and for industry-Conservative Party relations it is just as well. The industry would not have been very pleased with the new "windfall profits" tax, or, as it was more attractively called, the Energy Self-Sufficiency Tax, which would have given Ottawa 50 percent and the provinces 50 percent of any price increase over two dollars per barrel and thirty cents per thousand cubic feet of gas per year. The new taxes and revenue-sharing scheme presented in the ill-fated Budget
would have had the effect of increasing the federal share almost entirely by reducing the industry share. The federal-provincial-industry split would have changed from 10-45-45 to 19-44-37.

As a party and as a government, the federal Conservatives never quite came to grips with either of the major planks of their energy policy - Petro-Canada and oil and gas pricing. This was, in part, because the Progressive Conservative Party embodies two major lines of division: the ideological right-wing - moderate cleavage and the regional division between its Ontario and Alberta power bases. For the Petro-Canada privatization issue, the right-wing-moderate cleavage was key and for pricing the Ontario-Alberta cleavage had primacy. As Jeffrey Simpson has noted, "Petro-Canada stuck in the party's craw like a bone in a dog's throat:"

Nothing so clearly illustrated the divisions within the Conservative Party as the question of what to do with Petro-Canada ... The party's initial position that a crown corporation in the energy field was unnecessary reflected the views of those within the party who deeply distrusted state intervention in the economy. They happened to occupy the key shadow Cabinet positions shaping the party's energy policy, but once the party came to power a wider range of views within the party was brought to bear on Petro-Canada. Representatives of another strain of Conservative thinking supportive of state undertakings to expand Canadian ownership of industry made their objections known to their hard-line, free enterprise colleagues.35

The pro-privatization element, which included Gillies, Clark, Lowell Murray, William Neville, Robert de Cotret and Sinclair Stevens, was impervious to public opinion which was strongly in favour of retaining Petro-Canada. Other
prominent Tories, including Ray Hnatyshyn, Bill Jarvis, John Fraser, John Crosbie, David McDonald, and Flora MacDonald from the Clark Inner Cabinet, opposed the privatization proposal. The Conservatives' polling expert, Allan Gregg, provided evidence that the latter group were much more in line with the public mood, which saw Petro-Canada as an important instrument of energy security in an increasingly uncertain environment.

The reason that this particular issue area is going to present a problem for us is not because the people of Canada are either for or against institutional changes to Petro-Canada as a crown corporation. Rather, the public is increasingly aware that the future is, at best, uncertain.

More particularly, the entire energy issue and energy-related issues tend to bring this belief into focus for the average individual. Our action, therefore, is being presented through the opposition and the media as fueling the uncertainties of the future.

In other words, in the face of an impending "energy crisis" and excessive profits by multinational companies, we are seen to be dismantling the only Canadian entity standing between the people and the problem. We must, therefore, when explaining these changes to Petro-Canada, present something more than a kneejerk commitment to free enterprise.36

Nevertheless, and ironically enough in large part due to Clark's personal commitment to see the privatization through, the anti-Petro-Canada element prevailed, to the Party's electoral peril. The Conservative Government of Ontario had access to the same public opinion polls and they knew of Petro-Canada's popularity in Ontario. Bill Davis left no doubt where he stood on the
issue. He opposed the federal Conservative's plans for Petro-Canada. As he told the provincial legislature:

Our Government believes the present national responsibilities of Petro-Canada should be retained and that the federal government should retain ownership of Petro-Canada as a national publicly owned petroleum institution ... I do not feel the federal government and our mixed economy have anything to fear from a financially viable Petro-Canada operating as a Crown corporation to enhance energy security for all Canadians.37

Canadianization was clearly the weak part of the Conservative's energy policy. In part, because they were not able to pass a budget, the Tories never actually devised a strategy for Canadianizing the Canadian oil industry. To the extent that they articulated a strategy—in the face of trying to privatize Petro-Canada, the growth of which had increased levels of Canadian ownership and control—it amounted to vague generalities about altering the tax system to provide incentive for Canadians to buy shares of foreign-owned firms. Some foreign-owned firms simply weren't interested, however, in offering stock to Canadians, but those that were could be understood to support such a plan as it would increase demand for their stock and therefore increase its value.

Thus, the government-industry relationship during the Tory interregnum was too brief to characterize. It would appear, however, that there were issues which could have resulted in some conflict in the relationship, as well as much agreement on many broad parameters of an energy program.
Conclusion

Clearly, the overall drift in the government-industry relationship of power over the pre-NEP post-war period was toward greater government intervention in the industry and therefore toward a diminution of the previous industry dominance of the relationship. Throughout the post-war period partisan conflict and nationalist-versus-continentalist debates characterized the government-industry relationship. While industry dominance of the relationship has diminished somewhat the importance of the industry to energy developments has not. The federal government decided not to challenge the fundamental power of the industry in the mid-1970s by nationalizing one of its members but rather chose to start a new Crown corporation. Despite Petro-Canada's rapid growth between 1975 and 1979 and the state ownership of shares by several governments in other firms involved in the oil business, the industry was still primarily privately owned at the end of this period. Due to the control of the private firms over the vast majority of the productive apparatus, the major sources of technological and geological information, and the major capital pools, the private oil sector retained a great deal of its power. An important development for the industry which had implications for the overall government-industry relationship was the emergence within the industry of public and private Canadian-controlled firms capable of competing as commercial rivals and project sponsors with the traditional foreign-controlled majors. While it appeared, briefly in 1979, that the industry would once again move into a more dominant position in the government-industry relationships there were signs that even the Conservatives would not allow the industry the autonomy it had enjoyed
in the glory years prior to 1973. The Liberals obviously did not feel that the
government-industry relationship, at least as far as the federal government was
concerned, was equal enough. They felt that fundamental changes had to be
made to effect changes in the intra-industry relationship as well as in the
Ottawa-industry relationship. These would emerge in the NEP:
Footnotes To Chapter


3. For a more in-depth conceptual analysis of this issue see Glen Toner, "Oil, Gas and Integration," in Jon Pammett and Brian Tomlin (eds.), The Integration Question: Political Economy and Public Policy in Canada and North America (Toronto: Addison-Wesley, 1984).


5. There is no question, however, that since the NEP, Gulf Canada has expended considerable effort and vast sums of money in a major advocacy advertising campaign to convince a suspicious public that: a) it, in fact, has autonomy and is different from tightly controlled 100 percenters such as Mobil, Amoco, and Chevron, and b) Gulf Canada's operation provides all sorts of benefits to Canada. The primary mode of advertisement for Gulf were full-page ads in prominent daily newspapers like the Toronto Globe and Mail, and two-page ads in major Canadian news magazines such as Macleans.


10. Ibid.

12. Cited in Ibid.

13. The federal government felt, in retrospect, that it had fared particularly poorly in a fiscal sense as a result of the 1975 Syncrude deal, gaining only a negligible tax take. The memory of this was still fresh in the minds of federal officials as they entered the 1979 and 1980 revenue-sharing negotiations. They were determined this would not be the outcome of the new negotiations. From an interview with a senior author of the NEP.


15. Ibid., p. 170.


22. Ibid., p. 139.


25. Ibid., p. 195.

27. Ibid., pp. 66-69 and 99-115.
34. Interview with the author, Calgary, Alberta, January 4, 1983.
CHAPTER 4

Intergovernmental Energy Relations: The Pre-NEP Years

This chapter examines the pre-NEP legacy of intergovernmental energy relationships as they evolved throughout the post-war period to 1979. Unlike Chapter 3, which focused on key events in Canadian energy politics to show the nature of government-industry relations, this chapter focuses on two of the key pre-NEP time periods introduced in Chapter 2 and highlights energy developments within these periods which reveal the main features of intergovernmental energy relations. Intergovernmental energy relations in Canada can only be understood, however, in the context of the evolving constitutional and interregional relationships which have developed since World War II. Thus, it is necessary to commence this chapter by briefly reviewing: a) the constitutional powers of each level of government with respect to the administration of energy policy, as they stood in the pre-NEP period prior to the promulgation of the Constitution Act, and b) the historical relationship of western and central Canada and thus the roots of western alienation. Within these constitutional and historical patterns, one can then see the emergence of the two key relationships, the federal-producing province relationship, and the Alberta-Ontario interprovincial relationship.

Division of Powers with Respect to Non-Renewable Natural Resources

The constitutional division of powers is at once the essence of federation and an area of constant friction between legislative authorities. This is particularly the case for the administration of natural resources as the constitution provides for both strong federal and provincial powers, while at the same time containing controversial areas of both overlapping and uncertain
jurisdiction. Thus, in order to discuss the politics of the control of natural resources one must examine the rights of the provinces as owners of the resources within their boundaries and consider the ways in which the federal government might, in the exercise of its constitutional jurisdiction, restrict the exercise of those ownership rights.

Under section 109 of the British North America Act, all lands, mines, minerals and royalties belong to the provinces. This is a very important provision in relation to energy resource development, granting, as it does, authority to the provinces to manage their own energy resources. Provincial ownership is reinforced by the property and civil rights clause 92(13), the power to levy direct taxes, 92(2), and the authority over the management and sale of public lands belonging to the province, 92(5). These powers together confer on the provinces far-reaching authority over the management of all lands in the province, even those that are not public lands. It has been conceded for many years that the provinces have primary responsibility for the regulation and management of natural resources and primary access to natural resource revenues. The federal government exercises these "provincial powers" of land ownership in the Yukon, the Northwest Territories, and in off-shore areas.

There are a number of significant bases for federal involvement in the natural resources sector as well. The "trade and commerce" power, 91(2), gives Parliament jurisdiction over all aspects of interprovincial and international trade. This includes interprovincial pipelines and oil and gas exports and consequently is an important authority with respect to marketing. The "declaratory power" as spelled out in section 92(10) (c) gives Parliament control over provincial works it "declares" to be "for the general advantage of Canada" or "of two or more of the provinces." This declaratory power was used by the
federal government to attempt to gain control over all aspects of atomic energy. The courts later conferred federal jurisdiction on other grounds. The "emergency power" of section 91 gives Parliament extensive authority to legislate and maintain "peace, order and good government." Section 91 (3) provides virtually complete freedom to employ any mode or system of taxation, the only limitation being the prohibition of section 125 against taxation of "Lands and Property" belonging to a province. This power is important with respect to the provision of incentive systems for resource development. "The spending power" is Parliament's power to make payments for purposes other than those for which it can legislate. This was used to provide direct grants to home owners for home insulation, notwithstanding the fact that jurisdictionally provincial governments are responsible for all aspects of this field. Finally, even though this power has not been used since 1943, the federal Parliament may reserve or disallow provincial legislation.

In addition, in the wake of the 1973 energy crisis, the producing provinces and the federal government passed new legislation pertaining to the management and pricing of oil and gas. Ottawa's Petroleum Administration Act gives it the power to fix the domestic price of oil and gas in the absence of an agreement with a producing province. The Alberta government's Petroleum Marketing Act gives it the power to set oil prices within the province, and the Natural Gas Administration Act gives it the same power with respect to gas.1

Offshore resources were placed on the agenda of the constitutional discussions at the request of the provinces in October 1978, however, complete agreement on the issue has proved impossible to reach. Newfoundland has consistently asserted its ownership of the continental shelf and has proposed the constitutional entrenchment of the principle that resources of a province's
continental shelf be treated in the same manner as resources located on land. While all coastal provinces have a stake in having offshore resources treated equally in constitutional terms with onshore resources, Newfoundland has clearly been the driving force behind this movement. Newfoundland's case rests on three principles—one unique to Newfoundland, the other two common to all coastal provinces. First, Newfoundland claims that the ownership of these resources resided with the Dominion of Newfoundland before Confederation and was not alienated from Newfoundland in that process. Second, it argues that in the interests of fairness those provinces which have some of their resources covered with water should be granted equal constitutional treatment with those whose resources are located on land. Newfoundland also argues that Ontario has always owned and controlled the underwater resources of the Great Lakes, and that since both the Great Lakes and the water covering the mineral resources of the continental shelf are international waters, the mere fact that water is fresh or salt should not detract from equality of treatment. Finally, Newfoundland feels that because it is the adjacent provinces which will experience all the adverse impact which attends offshore resource development, it is crucial that they have the legislative authority to manage such development. They claim this authority can only come from the rights of ownership.

The federal Conservative government of Joe Clark was sympathetic to these arguments and agreed in principle in September 1979 to transfer ownership of offshore resources to the provinces. However, the Clark government was defeated in February 1980 by the Liberal administration of Pierre Trudeau, which argued that Ottawa had and must maintain jurisdiction over offshore development. The Liberal government proposed a regime of administrative arrangements in which the provinces would have a major say in how offshore
resources are developed, and in which, until they became "have" provinces, the coastal provinces would receive the same kind of revenues as are derived by provinces for onshore resources. Beyond that point they would share an increased proportion of offshore resources with all Canadians. 

Thus, while it appears that the provinces have sufficient constitutional authority to decide when, how, and under what conditions natural resources will be developed, there are also ample grounds to justify a federal presence in this policy area. A natural consequence of this situation of substantial jurisdictional overlap is, of course, federal-provincial conflict.

A Brief History of Western-Central Canadian Relations

The debate over the management of energy resources illuminates the underlying tension that exists in the Canadian political economy between the industrialized manufacturing core of central Canada and the natural resource staple producing western periphery. The hostility exhibited by western Canadians and their provincial governments towards a number of Ottawa's energy policies in the 1970s was not unique. Rather it was a continuation of a decades-long tradition of regional dissent resulting from the region's frustration with its economic role. The pattern of economic development which cast Canada in the role of an economic satellite and marginal supplier of resource staple products to other more advanced countries, chiefly Great Britain and the United States, is roughly analogous to the historical relationship of western Canada to central Canada. Just as the United States and Great Britain had for Canada as a whole, central Canada acted as a source of capital, manufactured goods and immigrant labour as well as a market for the staple products of the West. The federal government, representing the ambitious business-state
coalition put together by John A. Macdonald and his associates, played a major role in this developmental process by establishing policies designed to facilitate the production and export of staple products from the West. This concept was anchored in the National Policy of 1879, which ensured the completion of the Pacific Railway, encouraged western settlement, created a new frontier of investment opportunities through tariff protection for the commercial, manufacturing, and financial interests of central Canada.

In addition, control over the land of western Canada was instrumental to Ottawa's plan for transcontinental expansion and western agricultural settlement. Consequently, when the province of Manitoba was created in 1870, it was given an inferior constitutional status. Specifically, Crown lands in the new province were retained by the central government "for the purposes of the Dominion." When the provinces of Saskatchewan and Alberta were carved out of the old Northwest Territories in 1905, Ottawa once again retained control over natural resources. It took nearly three more decades of protest and provincial rights agitation before control over natural resources was transferred to them in 1930.

By then, western Canadians already resented their colonial status within Canada. The transfer of control over natural resources did little to alleviate this resentment, for 1930 also marked the advent of the decade-long drought which, together with the economic depression, had devastating consequences for the Prairies. As the western economy expanded and diversified, new grievances, largely focused on oil, gas, potash and mineral wealth, joined the column of historical grievances. In addition to the natural resource disputes, the tariff, and the activities of the banks, transportation policy - particularly railroad freight
rates - federal monetary policy and the regional distribution of manufacturing remain the cornerstones of western economic discontent.

It should be noted that there is no general agreement about the relative degree to which the West's disadvantages are the fault of federal policy or simply the logic of market economics for a vast, sparsely populated market geographically peripheral to the national and continental centres of economic power. Nevertheless, there is general agreement that, on resource taxation and energy pricing, the West was placed in a uniquely discriminatory position by national policies. The prime examples of this discrimination were the federal government's two price policy for oil and its export tax on oil. The former kept domestically consumed oil below its international commodity value. The federal government used the revenues derived from the latter to help subsidize eastern consumers who were dependent on imported crude. In an oft-cited quotation, former Saskatchewan Premier Allan Balkeney articulates a widely held western view about federal policies:

We in the West find it passing strange that the national interest emerges only when talking about Western resources or Eastern benefits. If oil, why not iron and steel products? If natural gas, why not copper? If uranium, why not nickel? And to add insult to injury, we in the West are now being told that the national interest demands a rail transportation policy in which the user pays full cost. What user will pay the most under that kind of system? Landlocked Saskatchewan. Air transport is subsidized. The Seaway runs monumental deficits. Our ports are all subsidized. Truck transport is subsidized by many provincial highway systems in Canada. But in rail transport - the one upon which we depend - we are told the user must pay. 3

In essence, however, it does not even matter that much whether the West's economic grievances are carved in solid economic stone, but rather that they
exist, are part of the political culture and, as such, influence political behaviour. Regardless of whether regional discontent is subject to partisan manipulation by provincial political elites, there is no question that in the past it has influenced political behaviour in the West with respect to both the provincial and federal arenas. Moreover, it continues to do so.

For most of its history the West was a high-risk society - farmers were reliant on outside capital and volatile commodity markets and vulnerable to distant decisions affecting communications and transportation. Western farmers often felt themselves to be at the mercy of the railways, the banks, the manufacturing trusts, and the grain trade. In the face of these political and economic insecurities, the farmers organized themselves through the cooperative movement, the wheat pools and their farm organizations to better their position. The farmers' organizations became effective lobbies and, up until the end of World War I, the farmers tried to rectify their problems within the traditional party system.

However, as the disillusionment of westerners with the two traditional parties grew, it took a new partisan twist. When the traditional parties were no longer perceived as adequate forums for the articulation of western views, agrarian protest moved to form alternative parties. The emergence of the Progressive party at the federal level in 1921 and the victories of United Farmers of Alberta in 1919 and the United Farmers of Manitoba in 1922 were the first manifestations. The western protest against central Canadian institutions and political parties was aggravated by the Depression and the failure of the Progressives, whose platforms and leadership were partially co-opted by the Mackenzie King Liberals.⁴
As a result of these factors, and in keeping with the populist tradition of the Prairie political culture, two new protest parties were born during the Depression. Social Credit was a right-wing populist movement established by the lay preacher "Bible Bill" Aberhart. It focused its critique of the causes of the economic depression on the actions of eastern financial institutions and came to power in Alberta in 1935. The left-wing populist Co-operative Commonwealth Federation (CCF) was founded in 1932 and attempted to unite farmers and workers with a more wide-ranging and general critique of capitalist society. The CCF became the government of Saskatchewan in 1944. Both the Social Credit, in 1953, and the New Democratic party (successor of the CCF), in 1971, went on to win elections in British Columbia. The NDP has also been elected in Manitoba, forming a government there for the first time in 1969.

Since the Depression, with the exception of two brief "interregna" in the late 1950s and 1970s, the Liberal party has, as a result of its domination of the large central Canadian electorate, dominated the federal electoral scene. In the words of one of the leading authorities on prairie politics, Westerners have developed a perception of the Liberal federal government as an "imperial government," which, when necessary, will sacrifice western interests in the name of national unity, but in reality, in the interests of central Canada.

Perhaps not surprisingly, the Liberal electoral success in central Canada has been matched by their lack of success in the West. Moreover, the affiliation with the federal Liberals has proven to be a major thorn in the side of western provincial Liberal parties; in 1980, there was but a single Liberal Member of the Legislative Assembly in the four western provinces (Manitoba). In the mid 1970s, in the wake of major energy conflicts, provincial Conservative and NDP governments in Alberta and Saskatchewan respectively, were returned to office.
with increased majorities after fighting elections based on strengthening provincial powers over resource management. In the 1980 federal election, the Liberals returned only two MPs from the West. Since westerners see themselves in a position of permanent political disadvantage in federal politics, they have turned to their provincial governments for protection.  

The coincidence of international circumstance (the energy crisis) and jurisdic-
ditional responsibility (control over resources) provided western Canada (and potentially the Atlantic provinces) with the opportunity to redress the perceived historical economic and political inequalities within the Canadian federation. The governments of the western provinces wished to seize the opportunity to diversify their economies beyond the historical boom-bust syndrome of dependence on the traditional staples and to localize decision-making power over the region's economy and society. The key to the provinces' economic development strategy was thought to be the control over the management and revenues of the natural resource sector, particularly the depleting reserves of non-renewable conventional oil and natural gas. The western provinces' intention to use the considerable leverage provided by increased natural resource revenues to encourage a fundamental diversification of the regional economy has, as a concomitant, the alteration of its traditional role within the national economy and, hence, of the structure of the national economy itself.

Since the Leduc discovery, the Canadian society and economy have developed a way of life dependent upon both cheap and abundant energy. That energy, however, is not evenly distributed. Ontario and Quebec (which together used about 55 percent of the oil and gas consumed in Canada in 1981) produced almost none of either fuel. Conversely, the three western provinces supplied virtually all of Canada's oil and gas.  

Depleting Canadian supplies and rapidly
rising international prices after 1973 saw the ill-prepared federal government attempting to reconcile the competing interests of the major energy-producing and energy-consuming provinces, while at the same time maintaining its own unique set of interests. The energy debate also saw the government of Ontario become increasingly critical of the western producing provinces and vice versa. It is within this historical context of the West's development within the Canadian political economy that the energy controversies which strained federal-provincial and western-central Canadian relations in the '70s must be viewed.

**Intergovernmental Energy Relations: The 1950s and 1960s**

Richards and Pratt have traced both the government-industry and intergovernmental energy relationships, as they relate to the two prairie producing provinces, back to their earliest stages in the period surrounding the transfer of jurisdiction over natural resources to the two provinces by constitutional amendment in 1930. In the following quotation, they capture the importance of natural gas for the sensitive intergovernmental relationship in the early period. It is important to note that in the post-1973 period, as international supplies of oil became more expensive and less secure and as oil achieved a new status as a political and economic weapon, worth a great deal both financially and psychologically to those who controlled it, oil would come to assume a status similar to natural gas for intergovernmental relations:

Natural gas has been viewed as a crucial fuel for industrialization by "nation-builders" such as C.D. Howe as well as "province-builders" such as Peter Lougheed and the reconciliation of national and provincial interests has tested the flexibility of Canada's federal political system on a number of occasions over the past three decades.
From Alberta's perspective, the most important economic and political influences on the growth of provincial powers over the gas industry were, first, pressures to prevent the wastage of gas through flaring or unsound methods of development; second, the threat of federal encroachment over provincial resource jurisdiction; and third, political pressures from Alberta consumers, industrial interests, opposition parties, and the media to give priority to provincial gas requirements.10

As mentioned in Chapter 2, oil and natural gas had in the 1930s and 1940s a distinct status in the eyes of the federal and provincial policy-makers. Whereas oil was treated pretty much as a regular mineral commodity, natural gas was treated as a birthright; as a provincial and/or national patrimony to be carefully managed and used to aid the industrialization and diversification of the provincial and/or national economy. This had not always been the case however, as vast volumes of natural gas were flared off in the Turner Valley field from 1914 through the 1920s. The growing opposition to and sense of loss from this wasteful practice led to the introduction of various conservation measures by the Alberta government subsequent to it being transferred responsibility for natural resources in 1930.

Concerns about exports from the province, the proper rates of production and the cost of natural gas to Albertans as consumers stimulated a good deal of political controversy in the province and showed the special place natural gas held in the hearts and minds of Albertans. These political disputes and, ultimately, the policies chosen by the Alberta government, reflected concerns about security and regional development. In the face of public concern about these interrelated issues, the Alberta government established in November 1948 the Dinning Natural Gas Commission to inquire into the proven and estimated reserves of natural gas in the province, and to investigate the present and
estimated future consumption in the province. The issue of exports and their impact on depletion and local costs was extremely important at this point because pipeline companies were agitating to export Alberta gas to central Canada and to the U.S.

In its March 1949 report, the Dinning Commission supported the principle, consistently voiced by Alberta interests which appeared at the Commission's hearings, that the people of the province should have first call on provincial natural gas supplies and that Canadian consumers should take priority over foreign users if and when a surplus developed. With respect to determining a surplus, many Albertan interests insisted that Alberta's requirements be assured for up to fifty years before exports were approved. The Alberta government eventually settled for a thirty year period. The Alberta government's formula for determining if a surplus was available for export was pivotal, as in September 1949 the Board of Transport Commissioners ruled that a company required the Alberta government's permission to export gas from the province before the Board could hear its application for permission to build a pipeline.

The federal Liberal government also realized the role that natural gas could play in the industrial development and space heating needs of other Canadian provinces and their policy objectives tended to reflect concern for national integration and equity among all Canadians. In April 1949 the federal government moved to strengthen its control over the interprovincial and international trade in oil and gas by introducing the Pipe Lines Act. In sponsoring the bill the Minister of Transport justified its introduction by arguing that "the importance of the oil and gas industries to the economic welfare of Canada cannot be overemphasized.“11
In reaction to the Dinning Commission Report and the federal Pipeline Act initiative, the Manning Social Credit government in a turbulent special session of the provincial legislature in July, 1949, pushed through several new pieces of legislation, including the Gas Resources Conservation Act. This new legislation greatly strengthened Alberta's well-head control over gas. It also empowered the Oil and Gas Conservation Board to control the removal of gas from the province by issuing export permits. The Manning government considered this a necessary move because it had failed to convince the federal Liberal government to insert protective clauses in federal pipeline legislation requiring provincial permission before gas could be exported.

Impending approval of the Trans-Canada project in early 1954 necessitated a further controversial intervention by Alberta into the natural gas industry. As Richards and Pratt have stressed, "the precondition of new gas sales was the creation of a corporate instrument to defend the province from predatory encroachment into its resource base by outside monopolies backed by an aquisitive federal Liberal government." This instrument, as we saw in Chapter 2, was the creation of Alberta Gas Trunk Line (later to become Nova, An Alberta Corporation). The Manning government was concerned that via its jurisdiction over federally incorporated pipelines, Ottawa could extend its control over resources into the province. Alberta Gas Trunk Line would provide a single integrated gathering system and act as a common carrier inside Alberta, distributing pooled gas to export companies such as Trans-Canada at the provincial border:

This would keep the export companies - and Ottawa - out, and prevent encroachments on the province's jurisdiction. If the ostensible threat was constitutional, it was Alberta's underlying fears of the empire-building instincts
of Mr. Howe and his corporate allies that alerted Social Credit to the threat and provoked its defensive response. The parallels with the Lougheed administrations' reaction in 1973 to the federal export tax on oil are striking.13

No issues of great significance affected the intergovernmental relationship in the 1960s. The Alberta-to-Montreal Pipeline and National Oil Policy decisions were resolved in a manner that was acceptable to the governments of Alberta and Ontario and the federal government. Alberta production increased steadily throughout the 1960s even though Alberta and Ottawa both would have preferred to have exported greater volumes of gas and oil to the U.S. In fact, the single most frustrating issue for both levels was the restricted access to American Markets for Alberta production. Yet, by the latter part of this period in the early 1970s the portents of change for the intergovernmental relationships were imminent. Shifting power relations in certain OPEC countries and the election of the Lougheed government in Alberta on an activist platform of utilizing energy developments to diversify the provincial economy prepared the way for the shocks that visited the intergovernmental relationships in the 1970s.

**Intergovernmental Energy Relations: the 1970s**

The dramatic price increases internationally and the consequent 'raising of the stakes' domestically, had the effect of unveiling with shocking clarity the intergovernmental conflict of interests in Canadian energy politics. The combination of spectacular oil price increases, the spectre of unstable supplies, the magical creation of huge economic rents, and the emergence of oil as a strategic commodity resulted in the dawning realization among the eleven senior Canadian governments that with respect to pricing, revenue-sharing and control
of resources many of them had different and even opposing interests. However, due to the peculiar nature of the Canadian constitution and the Canadian political economy only a few of the governments could actively intervene to influence the situation. The producing provinces and the federal government had constitutional authority in respect of these various contentions and the 1973-74 period saw a remarkable bout of constitutional sparring between these two levels of jurisdiction. The opposition between the interests of producing and consuming regions, which had erupted into a full-blown conflagration internationally, produced more constrained conflict in Canada. Donald Smiley summarizes the issue:

The dramatic increases in oil prices imposed by the Organization of Petroleum Exporting Countries (OPEC) in 1973 has conferred upon national governments the imperative of attempting to ensure energy supplies within their respective jurisdictions. Just as the crises has resulted in fundamental shifts in geopolitical power between oil importing and oil exporting nations and opened up new cleavages and conflicts among nations, so in Canada new advantages have been realized by provinces with endowments of fossil-fuels and new vulnerabilities experienced by provinces and regions deficient in such resources. In general terms, the energy crisis has directly or indirectly joined a group of crucial issues in public policy, federal-provincial relations, and the most fundamental aspects of national life-foreign ownership; the rights of native peoples; the protection of the natural-environment; the respective roles of public and private enterprise in economic development; interprovincial fiscal equalization and other attempts to reduce interprovincial disparities; and persistent patterns of production and consumption developed on the basis of cheap and seemingly inexhaustible sources of energy.14

The following section will analyse this period of intergovernmental energy relations by focusing on the contentious themes of: a) oil and gas pricing, b) revenue-sharing, and c) resource management.
a) Intergovernmental Relations: Oil and Gas Pricing

The division of the Canadian oil market in 1961 by the National Oil Policy (NOP), instituted a two price system for the Canadian oil market. The market east of the Ottawa Valley received cheaper imported oil, while Ontario and the West were reserved for the more expensive Alberta crude. It is important to remember that the price of oil in Toronto was based on the posted price of Alberta oil which was not itself, however, based on the cost of finding, developing, and producing oil in Alberta. Rather, and this is a major indication of the strength of the industry in determining price, the Alberta price was set at the equivalent to the Chicago-gate price for Texas oil, which was protected by U.S. import controls. Between 1961 and 1970 compliance with the NOP was voluntary. By 1970, however, the differential between the cost of foreign oil in Montreal and the cost of domestic oil in Ontario was great enough, around a dollar a barrel, that independent marketers were willing to risk selling imported oil from Quebec in Ontario. At the request of the majors the NEB prohibited this practice by forcing the licensing of all imports into Canada and by refusing to allow the further movement of petroleum products across the NOP line.\textsuperscript{15}

The rapid escalation of international oil prices in 1973 upset the traditional relationship of domestic and foreign oil prices, vitiated the NOP and forced the federal government to address fundamentally the issue of oil and gas pricing in Canada. It was this international event and the federal government's reaction to it that set off the chain of events which resulted in arguably the most acrimonious constitutional and inter-regional conflicts in Canada's history.

The issue of oil and gas pricing is so basic to a large, cold country like Canada that it involves all of the dominant concerns of Canadian political life, security, national integration, redistribution, efficiency, regional sensitivity and
equity. Virtually none of the major interests in Canadian energy politics are unaffected by major pricing changes. Interests such as the federal government and the governments of the major producing and consuming provinces, the petroleum industry, Canadian consumers and the major industrial sectors which have oil or gas as a key input - such as the manufacturing, transportation, agriculture, mining, and petrochemical industries - are all directly affected. To the extent that the value of their product is influenced by relative changes in the cost of their major competitive energy sources, the non-petroleum energy sector is also directly affected. Dramatic escalations in price impact upon the clientele and mandates of many provincial and federal government departments, though the two most directly affected and involved, for the relevant governments, would be the departments of energy and finance. Two other important institutions, the first ministers conferences and the equalization system, were also directly affected by the 1973 price increases.

The federal government faced a dilemma as a result of the price escalation. Alberta oil had held a privileged position in the Canadian economy, while Quebec and the Maritimes provinces had enjoyed access to cheaper offshore oil. The increase in the cost of imported oil reversed this relationship. Given the magnitude of the increase in the international price, a decision to maintain the two price system would have had severe repercussions for the economies of the already most depressed regions of Canada. The continuance of the two-price system would have clashed fundamentally with the redistributive objective of various federal programs designed to reduce regional disparities. In other words, the poor would have gotten poorer and the rich richer. In addition, for a federal government fighting a war against separatism in Quebec, the prospect of
subjecting Quebec consumers to an oil price substantially above that of Ontario was not attractive.

It would hardly be fair to subject the citizens of Quebec to high and unstable international oil prices when the reason they did not have access to secure, stable priced Canadian sources was the federal government's decision a decade earlier to reject the Edmonton-to-Montreal pipeline. Thus, in order to protect the security of Quebec consumers a pipeline would now have to be built to Montreal. In order to provide itself and the country with a breathing space to consider the alternatives and to let the international scene unfold further and become a little clearer the federal Liberals instituted in September 1973 a six month oil price freeze.

This price freeze marked a major conjuncture in Canadian energy politics. It was the first direct application of the federal government's authority over interprovincial trade and commerce with respect to energy pricing - much to the vexation of the producing provinces. Second, the price freeze transferred for the first time in Canada the price setting function from the industry, and in particular Imperial Oil, to the federal government. This power to set the price of oil used in Canada outside of the producing province was one that Ottawa would, thereafter, jealously guard. Moreover, the way in which the price freeze and export tax decisions were made and imposed was a precursor of the type of unilateralism that was to characterize energy policy decision-making over the next few years and, in the process contribute to a high level of distrust among governments. The Liberals made the decision to impose the price freeze and the export tax in a hurry over the Labour Day weekend in 1973. These were not normal times and the government did not feel it could wait for the next budget, which was not expected until 1974, to deal with the issue. In any event, they had
just been through the stormy period of the Carter Tax Commission conflicts and hence were not keen to tiddle around with the tax system. Earlier in the century an export tax had been applied to exports of Ontario hydro to the U.S., so the Liberals felt they were on safe constitutional ground in deciding on an export tax on oil. In the meantime they had asked Alberta to design a better royalty system and Alberta felt rebuffed when a major new federal tax was imposed before they had finalized and responded with their review. This action set in train the rapid-fire, ploy-counterploy which characterized relations in the following two years.

Even prior to the events of the fall of 1973 there were important precursors to the new aggressiveness of the Alberta Lougheed Conservatives. When in opposition, Peter Lougheed and his energy critic, Don Getty, were persistently critical of the Social Credit government for being passive vis-à-vis Ottawa. Alberta owned the resource, they charged, but was not involved in crucial decisions made in Ottawa. They were especially suspicious of the National Energy Board, and did not regard it as a neutral quasi-judicial body. Before the OPEC shocks hit, Alberta was under strong pressure from Ottawa to export more of its then exceedingly cheap gas to Ontario via the TransCanada Pipeline. Lougheed said no unless two conditions were met. These were, first, assurances of genuine consultations, and second, a better price for gas sales to the rest of Canada. As pointed out in Chapter 2, hearings in Alberta had shown that natural gas was undervalued. At about this time, Lougheed held a meeting with the President of TransCanada Pipeline Ltd. (TCPL) and asked the President of TCPL how the pipeline monopoly was going to facilitate price increases. Lougheed was told curtly that Alberta did not set prices - TCPL did. The meeting ended abruptly when Lougheed left the room. By the summer of 1973 Alberta and Ottawa were on the verge of agreeing to an upward movement in gas
prices and seemed to have developed a modus vivendi regarding consultation. But then came the sudden events of the Labour Day weekend of 1973, as well as the OPEC crisis in October and the spate of new policy that emerged out of Edmonton and Ottawa in December 1973.

On December 6, 1973 in the Parliamentary energy speech which outlined the federal Liberal government's response to the OPEC crisis, Pierre Trudeau announced that the federal government would abandon the two-tier system in favour of a commitment to a single price of oil for all Canadians adjusted only for transportation charges. A unified price was to be achieved by extending the Interprovincial pipeline to Montreal and thereby making Canadian crude available to Canada's second largest and import-vulnerable market, and by establishing an Oil Import Compensation Fund, financed by revenue from the oil export tax, to reimburse refiners who purchased offshore oil. The subsidy would amount to the theoretical difference between the price of Alberta oil transported to Montreal and the cost of foreign oil landed there.

Even if the federal government committed itself for reasons of equity, regional sensitivity, and redistribution to a unified price in Canada, the level of that price still had to be determined. Was it to be equal to the price of foreign oil landed in Montreal or to the Edmonton price, which was still linked to the lower U.S. price? The controversy over this question was to dominate the Canadian energy scene for most of the 1970s and during the early part of the 1980s. Initially the federal government resisted moving to world price for Canadian produced oil, arguing that the international price was inappropriate for Canada because it was totally unrelated to the cost of producing oil in Canada. Ottawa insisted that the Canadian price reflect the 'fraternal responsibilities'
that existed between Canadian regions and that while prices must rise they must be fair to all Canadians.

Alberta argued that because oil and natural gas are depleting, non-renewable resources they should be sold "only at prices that reflect fair value." As the producer of 85 percent of Canada's oil and gas, Alberta obviously had a strong material interest in oil prices moving as rapidly as possible to the world level. To strengthen its control over pricing the Alberta government established, as part of the aforementioned spate of legislation passed in December 1973, a provincial Petroleum Marketing Commission, a Crown corporation. As Richards and Pratt put it, "the purpose of all the legislation was to strengthen the province's ownership and control of its resources, including the pricing of these resources in interprovincial and international commerce."17

Ontario, on the other hand, as the major consuming province, had little interest in higher prices though it nevertheless recognized that prices would have to increase. It therefore pressed for restrained price rises, arguing that the majority of price increases would go to the federal and producing province's treasurers and would result in little additional discovery of oil and gas, and that price increases would contribute to the already severe inflationary pressures and to even higher levels of unemployment. By convincing Ottawa and the producing provinces to preserve oil prices below world levels, Ontario and the other oil-importing provinces would ensure that consumers captured a certain share of the economic rents that were being generated by the escalation in world price.

At the Federal-Provincial Conference on Energy on January 22-23, 1974 it was agreed that there should be a unified single price for oil throughout Canada. On March 27, 1974 the Prime Minister and Premiers agreed that until July, 1
1975 the price of Canadian crude oil would be set at $6.50 a barrel. Upon returning to power with a majority government after the July 8, 1974 election, the Liberals moved to strengthen their constitutional position with respect to the regulation of the price at which oil and natural gas are sold in Canada. The Petroleum Administration Act (PAA) provided the federal government with the authority to set the price of Canadian oil and gas in the event that a negotiated price could not be arrived at through agreement with the producing provinces.

In defending the bill, the Liberals presented the federal government as the final arbiter of provincial interests, as the only government able to strike a compromise between producer and consumer interests. While the parliamentary debate on the bill juxtaposed "firms, governments, and MPs from the producing provinces (who) tended to argue the merits of a higher price in ensuring long-term security of supply, (from) their counterparts from the consuming provinces—especially the central Canadian ones—(who) argued the merits of a lower price in holding down the cost of living and maintaining the competitiveness of Canadian manufacturing industries," it also raised the question about the constitutionality of the bill, which some Conservative members argued was a violation of the principle of the provincial control of natural resources. Yet, as John McDougall concludes from his study of this period, "the Conservative members and the conflicting (or, at best, extremely vague) positions they took with respect to the desirable price level of oil in Canada create the impression that the party was either unable to resolve the conflict between consumer-province and producer-province interests within its own ranks, or (probably more likely) was attempting to promote, or at least defend, producer interests without appearing to be obviously abandoning the interests of consumers, especially those in Ontario." The NDP made even fewer nods in the direction of producer
interests than the Liberals, and this reflected their belief that with proper public-sector management, long-term self-sufficiency could be realized at much lower prices than the Liberals or Conservatives would concede. Ultimately, the PAA was passed with the support of the two opposition parties. Given our focus on the behaviour of key interests, McDougall's overall conclusion about the PAA debate is important:

...almost without exception, increases of any magnitude in the Canadian oil price - whether they were to go all the way to world price or were to be held well short of that level - tended to be supported solely on the basis of their contribution to Canada's future security of supply; higher prices were reluctantly or enthusiastically endorsed, but in either case were endorsed only to the extent that they would contribute to the national interest in the long-term availability of supplies. There were few voices expressing the idea that higher prices were justified simply by virtue of making their owners, the citizens of Alberta and Saskatchewan, rich.

A First Minister's Conference convened on April 9-10, 1975 to discuss what to do with oil prices once the existing agreement expired on July 1. The federal government had by this point come around to accepting that higher prices were necessary. "This position seems to have resulted from the pressures of the producing provinces, the decreasing activity in oil exploration by private companies, the increasingly pessimistic estimates of domestic reserves of oil, and a recognition of the need for energy conservation." The Ontario government opposed new price increases arguing that 90 percent of the increased revenues resulting from the increase in domestic price from $2.70 per barrel to $6.50 per barrel over the previous eighteen months had gone to the coffers of the federal and producing governments and had done little to enhance the supply of oil and gas. Consequently, the conference adjourned with no agreement
marking the demise of the federal-provincial conference as a forum for oil price setting. The federal government later raised the price of a barrel of oil to $8.00 when the previous agreement expired. In reaction, the Ontario government imposed a ninety-day freeze on the increase from $6.50 to $8.00 a barrel on oil sold within Ontario. In May, 1977, Ottawa and the producing provinces concluded an agreement which would allow Canadian prices to move to world price by $1.00 increases twice a year. By late 1978 Canadian prices had reached 80 percent of world levels. By mid-1979 the world price skyrocketed in the wake of the Iranian Revolution and Canadian prices once again fell well short of the international mark.

Without question, then, oil and gas pricing was a major source of conflict in the intergovernmental relationships between 1973 and 1979. It would, soon, once again be a major source of contention between governments. Related to the issue of oil and gas pricing is the issue of revenue-sharing. Once price levels have been determined, in other words, once the size of the pie has been determined, the question of who gets what still has to be settled. Consequently, the two issues are usually, and often painfully, decided in tandem.

b) Intergovernmental Relations: Revenue Sharing

Revenue-sharing among governments and between governments and the industry cuts to the heart of the federal and capitalist systems upon which the Canadian political economy is built. Like pricing, all of the dominant concerns are reflected in the various positions taken by the key interests.

The acrimony of the Ottawa-Edmonton, Ottawa-Regina relationship was highlighted by the rapid fire action/reaction of the 1973-74 period over revenue sharing. The initial salvo was fired by the new Lougheed government in 1972
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when it informed the industry, as outlined in Chapter 2, that it planned to introduce new measures to circumvent the restrictive Social Credit royalty limits and thereby to increase the province's share of oil and gas generated revenues. American oil production peaked in 1970, and in April 1973 U.S. oil import quotas were removed. Between 1970 and 1973 Canadian oil exports to the U.S. increased by 83 percent. Fearing that this rapid growth in exports might deprive Canadian refiners of their crude oil supplies, the federal government imposed export controls in March 1973. To the extent that export controls restrained Alberta production it reduced Alberta's royalties. In the face of the strong U.S. demand Canadian crude prices had increased substantially and reached the point of $3.80 per barrel at the wellhead by August 1973. It was at this point that the federal government increased the intensity of the intergovernmental tensions by freezing oil prices and levying an export tax on oil exported to the U.S.

The rapid escalation in world price which followed the outbreak of the Arab-Israeli war and the ensuing oil embargos created the potential of realizing massive new economic rents if the Canadian price followed the world price. Economic rent is the excess income generated over and above that necessary to provide a normal return to the capital and labour employed. In other words, they are not costs of production but a residual item which remains after all the costs of production, including a normal rate of profit, have been paid. It was the contest for the relative shares of the new rents that would be created by the new price increases which fueled the three-cornered conflict among the federal government, the producing provinces, and the industry.

Alberta realized that the rapidly emerging seller's market would provide it with the revenues to put into operation its ambitious development strategy,
which was, in brief, to "encourage local industrial processing of its energy and agricultural resources and, through its ownership of most of Canada's oil and natural gas, to negotiate a transfer of secondary industry, high-income jobs, and decision-making from central Canada to the West."22 By capturing the bulk of the new economic rents Alberta would have the leverage to utilize subsidies and incentives, as well as to create the most attractive tax system for both corporations and individuals in Canada, in pursuit of its larger development strategy. As Richards and Pratt have argued, "federal intervention was a threat, but it was also a golden opportunity for the Conservatives: Ottawa's actions could be used as justification for abandoning Social Credit's dated inflexible royalty arrangements with the petroleum industry." Thus, in early October of 1973, after Ottawa's imposition of the export tax and the price freeze, but before the major escalations in world oil prices, "the Lougheed cabinet startled the oil industry by suddenly abandoning its new royalty plans, the subject of months of lengthy negotiations and public hearings, and announcing that royalties would henceforth rise with international oil prices." This strategy revealed that despite Alberta's reliance on the oil and gas industry as the major economic force to restructure the place of the provincial economy within the Canadian economy, the province had developed a more fluid and ambivalent relationship with the industry and was willing to use it as a bargaining chip in Alberta's conflicts with Ottawa: "the province's primary objective was evidently to force Ottawa to withdraw its export levy by squeezing the industry; damage done to the oil industry could be repaired by Alberta later on."23

Saskatchewan also felt the export tax was an appropriation by Ottawa of revenues that should have gone to the provinces, which owned the resources. The Saskatchewan NDP government was also determined that the industry was
not going to achieve windfall profits from the price increases, and accordingly imposed in October 1973 a royalty surcharge which would have the effect of capturing for the Saskatchewan government virtually 100 percent of any further increase in Canadian oil prices. British Columbia, for its part, increased its royalty rates on oil and established the British Columbia Petroleum Commission (BCPC) which, through the assumption of the bulk of the contracts of Westcoast Transmission and other B.C. gas carriers, could appropriate most of any future increase in natural gas prices. In that regard, royalties on the small volumes of gas not under contract to B.C.P.C. were raised 25 percent up to twenty cents mcf and 50 percent on prices in excess of twenty cents mcf. In early 1974 Alberta raised its royalty rates on natural gas to 50 percent of the price between thirty-six cents and seventy-two cents mcf, and 65 percent of the price in excess of seventy-two mcf. Royalty rates were also restructured so that the provincial government would collect sixty-five percent of the price in excess of $4.41 per barrel.24

The federal government rejected the provinces' charge that the export tax was either an infringement on provincial authority or part of the federal share of revenues, since it was used entirely to subsidize Canadian consumers who were forced to use imported oil and thus was necessary to maintain the agreed upon principle of one price for all Canadians. As part of the very generous taxation regime put in place in the earlier post-war period to stimulate the growth of the Canadian oil and gas industry, the oil companies had been able to deduct royalties, taxes, and other like payments made to provinces from their federal corporate income tax. The federal Department of Finance saw Saskatchewan and Alberta's new higher royalties as 'thinly disguised income taxes.' Given the impact of rising energy prices on the macro economy in general, and the
equalization formula (though, as we saw earlier, energy revenues were not totally included) in particular, the federal government was in no mood to relinquish its authority or tax base. Shaffer has captured the essence of the federal motivation:

The federal government, for its part wanted the economic rents not only for its own revenue needs but also to retain its control over the country. If the bulk of the rents flowed into the coffers of the provincial treasuries, the economic power of the provinces would grow relative to that of the federal government. It would then become increasingly difficult, if not impossible, to formulate any effective national economic policy. With their increased economic base, the provinces would be in a position to wield far more political power than in the past. This dispersion of power from the centre to the periphery would pose the danger of the balkanization of Canada. In more specific terms, Alberta, as the chief recipient of economic rents, would become the most powerful province in Confederation and would be in a position to undermine federal jurisdiction over the nation's affairs. The federal government was not inclined to abdicate its role, especially to a province containing only one-tenth of the population. Thus, it was essential for the federal government that it obtain a certain minimum share of the economic rents before it consented to large increases in prices.25

To counter the province's royalty increases which were eroding the federal tax base, and which would as a consequence reduce Ottawa's share of energy revenues, the federal government introduced in the May 1974 budget, a provision to amend the Income Tax Act in order to disallow the deduction of provincial resource royalties in the calculation of taxable federal corporate income. The minority Liberal government was defeated on this budget, but subsequent to their return to power on July 8, 1974, reintroduced the measure as part of the November 1974 budget. "In presenting the November budget the Minister of Finance noted that the federal government had drawn back from many of the
provisions in the May budget. He invited provincial authorities to reconsider their fiscal regimes in responding to the needs of the industry and the nation.\textsuperscript{26}

The federal action enraged the province and angered the industry which "felt it was being injured in the crossfire of the shootout at the OK Corral."\textsuperscript{27}

"The major petroleum companies confronted all three western producing provinces with a well co-ordinated capital strike - withdrawing drilling rigs, cancelling new projects and investments, and laying off employees. This campaign was particularly effective in Alberta, as it threatened many of the provinces oil-dependent businesses with sudden recession."\textsuperscript{28} The provinces were forced to respond to the federal power play and the industry pressure. In December 1974 Alberta implemented a Petroleum Exploration Plan which was estimated to cost $2.5 billion. It reduced royalties and introduced new drilling incentives, among other measures. Saskatchewan also introduced measures to rebate a portion of the increased tax liabilities arising from the non-deductability of royalties. Throughout the summer and fall of 1975 the producing provinces introduced additional royalty deductions and other incentive schemes.

Ontario was not directly involved with Ottawa, the producing provinces, and the industry in the competition for the increased energy revenues. Nevertheless, higher prices and increased taxes - for example, on July 1, 1975 Ottawa introduced an excise tax of ten cents a gallon on sales of motor gasoline for non-commercial use to help finance the Oil Import Compensation Fund; when the export tax revenues would no longer cover import subsidy costs - directly effected Ontario consumers. Canadians east of Ontario benefited from the subsidy, while the producing provinces enjoyed the benefits from higher prices and royalties. As mentioned above, in an economic climate of increasing...
unemployment (from 6.0 percent in December 1974 to 7.2 percent of March 1975) and increasing inflation (annual rate of increase in consumer prices was in excess of 11 percent) Ontario rejected a new round of price increases at the April 1975-First Ministers' Conference. Moreover throughout the 1973-75 period and beyond, Ontario continually reminded Ottawa of its national responsibilities with respect to economic management and the need to develop offsetting policies to counter the effects of increased prices.

The magnitude of the revenue involved, and the importance of its capture for the economic and fiscal policies of governments, raised the stakes and clarified the conflicts and coincidences of interest between governments. Of no small importance in this context was the visible burgeoning of the Alberta Heritage Fund. As we saw in Chapter 2, the fund was in part established at Ottawa's suggestion as a way of avoiding excessive fiscal equalization problems. At the same time the larger it grew and the more visible the projections about its future multi-billion dollar growth into the 1990s became, the greater was Ottawa's interest in having the major say in the recycling of Petro-dollars. It is interesting to compare Alberta to Saskatchewan in this regard. Saskatchewan too was accumulating resource wealth but it did not parade its wealth in one place such as in a heritage fund only. Saskatchewan had its own similar fund (albeit of much smaller size), but as an NDP government it was more inclined to diversify its wealth investment through several instrumentalities including its several Crown Corporations. It was therefore a less visible target.

In the final analysis, however, the struggles over pricing and revenue-sharing were as acrimonious and as hard fought as they were precisely because each of the relevant governments had the constitutional authority and/or political power to defend their interests, as they interpreted them, against the
encroachments of other governments. Yet, this question of constitutional authority, and the jurisdiction over resource management which emanates from it, was itself a major issue of contention in this fractious period of intergovernmental energy relations.

c) Intergovernmental Relations: Resource Management

... the energy situation has impelled governments to evolve more comprehensive and coherent policies towards energy, and such policies have led directly to severe intergovernmental conflict. When energy was cheap and in seemingly inexhaustible supply the public authorities did not much concern themselves with alternative energy sources, the impact of energy policies on the economy or energy conservation. These circumstances have changed. 29

Ultimately the federal-provincial conflicts over pricing and revenue-sharing reflect the larger struggle over the constitutionally defined need and politically defined desire of the producing provinces and Ottawa to strengthen their control over the management of energy resources. As shown above, the control over energy resources and the revenues generated by these resources, is central to the historical relationship of the producing provinces and Ottawa and the historical relationship of central and western Canada. The emerging sellers' market of the early 1970s kindled hopes in the hearts of westerners that they could use their resource strengths to diversify the prairie economy away from the historic vulnerability of the boom-bust syndrome endemic in a dependence on primary resources. The 1973 Western Economic Opportunities Conference was pervaded by the themes of resource control, economic diversification, and industrial development. The various assertions of provincial authority over the
control of natural resources undertaken by Alberta and Saskatchewan must be understood in this context.

The changes to the provincial royalty regimes, the establishment of the Alberta Petroleum Marketing Commission, the B.C.P.C., Sask-Oil, the Alberta Energy Corporation, the Alberta Heritage Savings Trust Fund, for example, were all attempts by the producing provinces to put in place new instruments which would strengthen their control over resource management. Control which, it is deemed in the producing provinces, is necessary to allow the provinces to pursue their respective provincial development strategies.

By the same token, the events of the mid-70s impelled the federal government, which has its own set of obligations and constitutional authorities with respect to energy policy management, to strengthen its position. The extension of the Interprovincial Pipeline to Montreal to displace 250,000 barrels a day of imported oil, the March 1973 export controls, the autumn price freeze and export tax, the PAA, the establishment of Petro-Canada, increased funding of Panarctic Oils, the support of Syncrude and the northern pipeline as well as the royalty deductability legislation are all examples of initiatives undertaken to pursue energy policy goals and to enhance federal authority over resource management.

It is not surprising, given this flurry of activity in the mid-70s, that in pursuing their own objectives the federal government and governments of the producing provinces would come into conflict over the management of resources. Nowhere was the conflict more striking, however, than when the federal government joined as co-plaintiff in the oil industry challenge to the Saskatchewan Oil and Gas Conservation, Stabilization and Development Act.
The Act was introduced in December 1973 as part of the provincial attempt to extend and strengthen its constitutional control over its oil and natural resources. The Act was a complex piece of legislation but its central function was to nationalize (with compensation) virtually all freehold oil and gas rights, and to impose a "royalty surcharge" on all Crown production. The intent of the surcharge was to impose a 100 percent tax on all incremental rents arising from future price increases.

To prevent evasion of the surcharge by transfer pricing among divisions of an integrated oil company, Bill 42 empowered the Minister of Mineral Resources to specify for purposes of calculating the surcharge due, the market price whenever he deemed oil was being sold at a price below it. The Calgary-based oil industry decided that one of its members should challenge the constitutionality of Bill 42 and in February 1974 Canadian Industrial Gas and Oil Ltd. (CIGOL), an independent company producing oil in Saskatchewan, initiated such an action. After May 1974, the constitutional challenge to Bill 42 assumed an enhanced significance. Whereas it began as a manifestation of the oil industry's traditional mistrust of the NDP, it became the arena for a major constitutional battle between the federal and provincial governments over resource jurisdiction.

At the level of the Court of Queen's Bench and the Saskatchewan Court of Appeal the constitutionality of Bill 42 was upheld. However, in an important November 1977 decision, the Supreme Court of Canada ruled that the sections of the Act establishing the royalty surcharge were ultra vires. The details of the case are analysed in detail in other works and for our purposes it will only be necessary to highlight the key features of the decision and to consider some of its larger political implications.

The thrust of the Supreme Court judgement was that the royalty surcharge was a tax and not a royalty. A majority judgement placed great stress on the
powers granted to the Minister by Bill 42 to specify, for purposes of calculating the surcharge, the market price of oil. Because of this power, it was argued, the producing company would become a conduit passing on the surcharge to the purchaser of the crude oil. Thus the surcharge constituted an indirect tax and was *ultra vires*. Second, because provincial legislative authority does not extend to fixing the price of goods sold in export markets, which they found the price-setting powers of Bill 42 to do, the Supreme Court majority judgement ruled that the bill infringed on federal jurisdiction over trade and commerce. Such an unqualified conclusion strengthened the constitutionality of the federal *PAA* which, as we saw earlier, authorizes Ottawa to negotiate agreements with producing provinces for oil prices, and in the event of failure to agree, to establish unilaterally the maximum price for oil entering into interprovincial trade.

As Richards and Pratt stated in 1979 in the wake of the CIGOL case "the uncertainty surrounding the current constitutional division of powers over resources has increasingly prompted Saskatchewan and Alberta (plus certain other provinces) to exercise their proprietary rights." They further speculated that given this uncertainty an increasingly attractive option for producing provinces would be to establish Crown corporations which could retain ownership to the point of sale to a final customer, thereby enabling the province "to garner economic rent via the Crown corporation's profits, potentially obviating the constitutional proscription on indirect taxation by a province." Alberta had established such a vehicle in December 1973 with the creation of the Petroleum Marketing Commission. There was some speculation at the time that given the setbacks to the Saskatchewan resource management strategies in the CIGOL and Central Canada Potash cases that the industry or federal government might also
challenge the Alberta resource management legislation. No legal challenge to
Alberta's legislation was launched, however, and no further legal action was
taken until Alberta, as part of its retaliation to the NEP, drilled three wells near
the U.S. border and challenged the federal government's authority to tax exports
from them (as provincial property) in a Supreme Court reference case. Alberta's
position was upheld.

Thus we can see the constitutional ambiguity involved where resource
management is concerned. What is less ambiguous is the political acrimony
engendered by various governments moving into one another's perceived
constitutional territory. The constitutional battles over resource management
were both the cause and effect of the overall intergovernmental conflicts
stimulated by the OPEC-induced 1973 escalations. These disputes caused
the provincial governments to redouble their efforts via the constitutional
patriation negotiations which were underway in the late 1970s, to restrict
federal involvement where provincial resources are concerned.32 The
Government of Alberta took an extreme provincial rights position in this debate,
motivated by a largely defensive response to what it felt was a federal campaign
to reduce and abridge the powers of the provinces over natural resources. In
their 1978 "Harmony in Diversity: A New Federalism For Canada"33
constitutional discussion paper, the Lougheed Conservatives called for the
termination of the federal powers of disallowance and reservation and for severe
limitation on the federal declaratory and emergency power. They also wanted to
entrench provincial powers over resources by: strengthening provincial
ownership and control over natural resources; reaffirming provincial authority to
tax and collect royalties from the management and sale of their natural
resources; establishing provincial jurisdiction over offshore mineral resources;
giving provinces access to direct and indirect taxes; and by establishing a provincial role in certain areas of international relations. Alberta further proposed that the provinces have the right to appoint 40 percent of the members of federal regulatory agencies such as the National Energy Board, and that a new representative constitutional court be created to settle constitutional disputes. Such an extreme package of amendments would have essentially emasculated federal power in this area and, not surprisingly, only very little of it actually materialized in the new Constitution Act of 1982.

In conclusion, then, it seems abundantly clear that the political and constitutional energy wars of the 1970s did have a significant impact on the relationship of governments to one another as well as the relationship between governments and industry. Donald Smiley has suggested three major impacts of the 1970s energy wars on the federal system, Canadian institutions of government and intergovernmental energy relations:

First ... on the organizational side prior to 1973 responsibility for energy matters was divided in the federal and provincial governments among several departments and agencies which carried on their activities with little relation to each other. These thrusts have been reflected as clearly as anywhere in Ontario where there has been established a Ministry of Energy with responsibilities for various energy policies and an Ontario Energy Corporation to develop energy sources. In general terms this new degree of coherence has given rise to intergovernmental conflict as the various jurisdictions define their interests in respect to energy in a more clear-cut, expert and comprehensive way ... Secondly, the energy crisis has rapidly extended public involvement in energy matters and has launched the country on experiments in joint public-private ownership ... It is possible to foresee complications in such arrangements, not only between their public and private components but also in circumstances as that of Syncrude where one or more governments holds equity shares under the jurisdiction of another; this was presumably the kind of consideration which has led Ottawa to block the
participation of the government of Quebec in the Pan-Arctic consortium ... and perhaps most crucially, the energy crisis has led, in respect to these matters, to a resurgence of power and purpose by the central government ... these new imperatives projected the national government into many new activities in which it had hitherto done little or nothing - energy conservation, the development of new energy sources, the building of new pipelines for oil and natural gas, the control of the domestic price of petroleum, emergency legislation allowing Ottawa to control the domestic supply of oil and so on. In all these circumstances, and others, new patterns of relations with the provinces have evolved.\textsuperscript{34}

1979: Intergovernmental Energy Relations Under the Conservatives

The conundrum the Clark Conservatives had to master with respect to oil and gas pricing and revenue-sharing, was to increase prices enough to induce conservation and to increase exploration without being seen to be caving into the industry and capitulating to the Alberta government, while at the same time getting a larger share of energy revenues for the federal government to help reduce the federal deficit and to pay for the various conservation, substitution, and redistribution programs they had devised as part of their larger energy strategy. As the outcome of the February 1980 election showed, they failed to pull it off: in fact, they self-immolated in Ontario in the process. The Conservative's attempt to walk a tightrope between the demands of their Alberta and Ontario brethren, while pursuing their own independent set of interests, is a revealing glimpse into both the government-industry and intergovernmental relationships as they stood in 1979.

Energy pricing negotiations between Ottawa and the producing provinces are always complex and fraught with frustration. No one, however, feels the frustration more than the 'outsiders,' in this case the industry and the governments of the consuming provinces. The industry, because it does not sit at
the bargaining table, is limited to attempting to influence public opinion and lobbying decision-makers in both levels of government beforehand. Though it normally finds a more responsive ear in the capitals of the producing provinces, it is also sometimes shocked by the outcome of negotiations. The same holds for the governments of the consuming provinces. Because they have not sat at the negotiating table since the demise of the first ministers conference as a forum for determining energy prices in 1975, they are largely restricted to trying to exercise some leverage by influencing public opinion in their provinces. In his analysis of the Clark Government, Jeffrey Simpson has captured the essence of the relationship of energy to partisanship and intergovernmental relations:

Nothing had adequately prepared either Joe Clark or his party for the task at hand. In Opposition, the Conservatives drafted an unrealistic energy policy based on a number of misconceptions and a refusal to confront the key question in any sensible energy policy: the price of oil and natural gas. Once in power, the Opposition party found its illusions shattered by the civil service, which produced a series of policy recommendations for which the Conservatives were unprepared. Similarly, the Conservatives had convinced themselves, more by constant repetition than by cogent analysis, that energy and other federal-provincial problems could be solved if the new Government in Ottawa spread sufficient goodwill around the country. It had taken months of excruciating bargaining with Lougheed even to approach an agreement, and the story of these months is, in part, Joe Clark's slow disillusionment with the Alberta premier and the shaking of the young Prime Minister's conviction that the Conservative premiers of Canada really wished him to succeed. He was naive on entering the negotiations; nothing in Opposition had prepared him for the intractability of provincial governments. He believed that by showing goodwill and making early concessions he would consummate a speedy energy agreement that would fulfill his election promise to end the warring between Ottawa and the provinces. He discovered that the premiers cared at least as much about their own provinces as about the national interest, and cared much more about their own political necks than about helping Joe Clark. Clark learned a lesson that a more experienced Prime...
Minister would have understood. In federal-provincial relations, premiers are colour-blind when the vital interests of their provinces are at stake; in fact, it is often easier for them politically to have a federal government of a different political stripe to blame at provincial election time.\(^\text{35}\)

The Conservative governments of Canada, Alberta, and Ontario were clearly all major interests where oil and gas pricing and revenue sharing was concerned. Even though the industry had insiders such as James Gillies and Harvey Andre representing their positions at the centre of power within the Clark government, the government proved willing to take on the industry to the extent that they would heavily tax away the windfall profits created by a new pricing regime. Gillies for ideological reasons, and Andre for regional as well as ideological reasons, accepted the Alberta and the industry positions and even went so far as to try to argue that huge price increases could somehow be disassociated from their larger economic and fiscal consequences. In so doing they showed themselves to be inflexible, and lacking in political acumen and as a consequence became increasingly marginal players. Even Lougheed argued that Ottawa should heavily tax the oil companies unless the companies re-invested their profits in new energy-related projects.

While the Clark government was willing to go to higher prices, they were still cognizant of the need to make the connection for the public between higher prices and energy self-sufficiency, that is, to show that something was to be gained in exchange for higher prices. With respect to revenue shares, Clark claimed that while he had no problems with a rapidly growing Alberta Heritage Fund - it was speculated that if the Alberta proposal in the negotiations was accepted the Fund would have grown to $30 billion by 1985 and by 1990 could have amounted to $100 billion - there was still the question of the federal
responsibilities for national economic management, of which the recycling of petrodollars within Canada was a key issue. The Clark government initially offered Alberta a major price hike, $6 per barrel a year, in exchange for Alberta's agreement to recycle oil revenues through two new federal institutions, the National Energy Bank and a Stabilization Fund. Alberta refused to make an equity contribution to either, so the federal government decreased its price offer in the December 1979 budget to the $4.00-4.50 range.

In addition to this direct interest in revenue sharing, the federal Conservative government also had an indirect interest in the flow of revenues created by petroleum price increases. For example, because the federal government derived most of its revenue from the non-energy sectors of the economy it had to be cognizant of the impact of higher oil and gas prices on the revenues of these other sectors. Faster price increases would also restrict the utility of the excise tax. In other words, the federal government had to take the larger view of the impact of higher prices on the national economy, and more specifically, of the impact of the vast shifts of revenues to the Alberta Treasury and to the multinationals-dominated oil industry on the federal government's credibility and authority over national economic management.

The fact that Joe Clark headed a Conservative government made little impression on the Lougheed Conservatives. The Alberta government started from the principled position that Alberta owned the non-renewable oil and natural gas resources, and that these resources were depleting and in the process were undervalued and underpriced in Canada relative to their international commodity value. One legacy of the bitter 1973-74 energy wars was the Alberta position that it was 'subsidizing' Canadian consumers by the difference between the world price and the Canadian price. The dramatic increases OPEC was able
to enforce in the aftermath of the Iranian Revolution significantly increased the size of this subsidy, though no-one in Canada had done anything; a poignant reminder of how developments halfway around the globe can have a major impact on domestic Canadian politics.

The Alberta-Ontario and Alberta-Ottawa struggle over pricing and revenue-sharing since 1973-74 reflected the fundamental, structural interregional and federal-provincial tension that exists in Canada over the past and future development of the Canadian economy. To further its objective of restructing the Canadian economy, Alberta was determined to extract large price increases out of Ottawa and this time they wanted to entrench a formula that would tie Canadian price to the U.S.-Chicago price. Despite these structural and historical factors, the partisan and personal determinants cannot be ignored. After fighting for years with the centralist Trudeau Liberals, the Alberta Conservatives saw the Clark image of Canada as a community of communities and his rhetoric about improved federal-provincial relations as an opportunity. Simply put, they thought they could stare-down the inexperienced, pro-business Clark government. They were not willing to negotiate very much. The importance of the personalities involved should not be underestimated:

The fact that Joe Clark was a Conservative scarcely moved Peter Lougheed. Clark had once worked for Lougheed, and the Alberta premier considered Clark to be his intellectual inferior. He simply did not have much respect for the Prime Minister of Canada, whom he felt was poorly briefed and not quite up to the job. 36

In essence, the Alberta government wanted higher prices and at least the same share of revenues (45 percent) as before; if Ottawa wanted additional revenues they could take them out of the industry. While this is another case of
Alberta distinguishing between its own interests and those of the industry, Alberta did warn Ottawa about imposing too high a windfall profits tax, one which would turn the industry off. Alberta also opposed the nature of the energy self-sufficiency tax, which it charged was a royalty at the wellhead. Alberta wanted to retain control over decision-making with respect to granting concessions on the prices for new volumes of natural gas. That is, if concessions were being made regarding natural gas prices in order to encourage new contracts, Alberta wanted it to be clear that it was making the concessions and not being forced to do so by the federal government. This is, of course, a classic case of politicians and governments wanting to visibly capture the political credit for popular programs.

Alberta rejected the concept of an Energy Bank and Stabilization Fund if they were conceived to be primarily instruments to recycle petrodollars. The Lougheed government let it be known that if there was any recycling of Alberta's share of resource revenues that they would do it. Alberta was willing to lend $2 billion over five years to the Energy Bank but only at near-commercial, not concessionary rates; this was a far cry from the grants and cheap loans the federal Conservatives had been looking for. Finally, in mid-November 1979 Lougheed accused the Clark government of giving in to Ontario. As Lougheed put it, "In examining your position, I find considerable symmetry between your position and the one advanced by the Government of Ontario." Lougheed was also angered over Ontario's counselling the federal government in a policy paper to be prepared to use its declaratory power if necessary in order to fulfill its national responsibilities.

The William Davis led Conservative government in Ontario had a set of interests quite distinct, to say the very least, from those of the industry and
those of the producing provinces and Ottawa. It was well known, even pointed out in the federal Cabinet's own energy background paper, that inflation would rise roughly 0.6 percent and unemployment 0.2 percent for every $1.00 increase in the price of a barrel of oil. Ontario was solely a consumer province. It and its industrial base would suffer the most in terms of the inflationary and unemployment consequences of higher prices. Furthermore, higher prices would represent the outflow of billions of consumer's dollars to the producing provinces and the industry over the life of a multiyear agreement. Ontario knew price increases over the $2.00 a barrel a year increase of the previous agreement were inevitable, but when they heard that the federal Conservatives were offering $6.00 per barrel a year increase for three years they were outraged. The provincial Conservatives were in a minority government situation and their polls, like the provincial Liberal and NDP polls, showed that major price increases were unpopular in Ontario. Because they did not sit at the bargaining table, Ontario's best hope for some success in, influencing the outcome lay in galvanizing public opinion in Ontario against a rapid escalation in price. Consequently, Davis made a series of speeches denouncing huge price increases. He charged that the federal-Alberta deal, as he understood it, was "an excessive and imprudent response to the claims of the producing provinces and the petroleum industry." Davis felt frustrated and alarmed by what appeared to be a "seemingly unrelenting commitment to chase an artificial, erratic and soaring world price - a price set by interests and circumstances foreign to Canada and to our economic realities."38

Recognizing that higher prices were inevitable and that they would increase inflation and unemployment and hurt economic growth in Ontario, the Davis Conservatives wanted the federal government to take a bigger slice of oil
and gas revenues and to recycle them through the economy in order to offset the impact of higher prices. Ontario also insisted that the producing provinces relinquish some of their revenues to help mitigate the economic consequences of higher prices in the consuming provinces. If the producing provinces balked, then Ontario urged Ottawa to consider using its draconian constitutional power to alter unilaterally the revenue flows. This suggestion, along with Ontario's resistance to immediate and large price increases, incensed the Lougheed Conservatives.

In the end, the Federal Conservatives found themselves caught between the hard line position taken by their provincial cousins, both of whom accused the Federal Tories of siding with the others. Just as Davis gambled and lost in 1975 when his intransigence at the April First Ministers' Conference led to the demise of the Conference as a forum for price negotiations and thus removed Ontario and the other consuming provinces from the negotiating table, the Lougheed intransigence with the Clark government also proved to be a strategy that backfired as it ultimately contributed to the demise of the Clark government and the return to power of a Liberal government willing to take a much tougher stance with Alberta.

The sole intergovernmental energy issue on which the Clark government achieved strong provincial support from the relevant provincial government was the issue of offshore resource ownership. This is not surprising given that the Clark government was willing to transfer ownership of offshore resources to the coastal provinces, as it agreed to in principle in September, 1979.

Quite clearly, then, the fact that Conservatives occupied the government benches in Edmonton, Queen's Park, and Ottawa did not preclude energy issues from causing considerable stress and conflict in intergovernmental energy
relations. This, of course, reflects the fact that vital energy issues such as pricing, revenue-sharing, and resource management play into a complex structural and historical relationship in the Canadian political economy that has the key governmental interests representing distinctive concerns and claims. It is one of the features of Canadian political development that provincial governments, when and where they have the capacity to do so, strive to actively shape the development of their provincial economies and societies. When an issue as pivotal as oil and gas pricing and revenue-sharing can have a major impact on economic growth provincially as well as regionally and nationally, it is not surprising that provincial governments will fight hard to achieve their objectives—using all the resources available to them. Federal governments of whatever political stripe, because of their structural responsibilities in this area, will also want to satisfy their obligations. Given the power that each of these interests can bring to this issue, it is not surprising that intergovernmental conflict is a natural feature of Canadian energy politics.

Concluding Observations on the Pre-NEP Years

Two sets of interim observations can be offered at this stage of the analytical journey. One concerns the substantive energy issues to which the NEP was responding and at the same time attempting to influence. The second concerns the conceptual focus of the study.

In respect of the immediate nature of the cumulative pre-NEP legacy, one can see from Part II what a troubled state both the government-industry and intergovernmental relationships were in during the 1979-80 period. A number of developments in the 1979-80 period contributed to the troubled state of these
relationships. Among these were: the Iranian Revolution, the supply cut of 2.5 million barrels per day it caused and the subsequent 150 percent increase in world price; the outbreak of the Iran-Iraq war and the renewed fears of shortages it engendered; the federal Conservative budget and Petro-Canada privatization debacle; Alberta's intransigence in the 1979 and 1980 price and revenue-sharing negotiations; the emergence of massive new economic rents; fear of petroleum industry acquisitions of other sectors of the Canadian economy and the expatriation of capital by foreign-owned oil companies; the concern of the federal and Ontario governments with the prospect of huge interregional transfers of wealth from consuming provinces to Alberta and the resulting continued spectacular growth of the Alberta Heritage Trust Fund; anger in Western Canada over Ontario's abandonment of the federal Conservatives in the 1980 election; and the intergovernment quarreling over the patriation of the constitution in general and the sections on natural resources in particular.

While developments in the 1979-80 period both reflected and aggravated the strained government-industry and intergovernmental relationships, these relationships were troubled for deeper structural reasons. An appreciation of these underlying reasons emerges more readily when one adopts and utilizes the overall approach used in the study, that is one which: explicitly recognizes the importance of these two relationships of power; traces their interconnection over time; locates the different interests at stake in specific ways; and shows over the entire period examined the two way movement of causal forces between government and economy.

In the 1947 to 1972 period of Canadian energy politics both relationships were basically characterized by consensual relations. Both government and industry fundamentally and consciously agreed on what basically should be done.
Despite the fears expressed in the Gordon Royal Commission about foreign domination of the industry, little heed was taken by governments, and the government (federal and provincial) industry relationships were predominantly industry-oriented, in that industry was knowingly given wide latitude by both the federal and provincial governments in the development of Canada's oil and gas reserves. Furthermore, the federal and provincial governments shared the objective of encouraging oil and gas production and of stimulating the growth of the domestic petroleum industry. Hence, there was a basic consensus of values between the federal and provincial governments over the management of Canada's growing oil and gas reserves. This period of Canadian energy politics was one of minimum government interference in the interplay of market forces. The price and supply shocks induced by the 1973 OPEC Crisis ended all that.

The quadrupling of world oil price dramatically raised the stakes of energy politics in Canada, and in the post-1973 period it became increasingly clear to the producing provinces, the consuming provinces, the federal government, and the industry that they each had distinct and, to some degree, different interests with respect to oil and gas pricing, and revenue sharing. This realization resulted in, arguably, the most acrimonious intergovernmental and government-industry conflict in post-war Canadian history, as each of the key interests mobilized to protect its position and to stalemate the opposition. The overall result of the 1973-74 confrontations was increased governmental assertiveness and intervention and strengthened state authority in the energy policy field. As a direct consequence the industry's predominance in the government-industry relationships declined. The net effect, then was that the government-industry and federal government-producing province relationships became much more equal, with the federal government relative to the producing provinces and both
levels of government relative to the industry strengthening their capabilities and positions. The Alberta-Ontario relationship shifted decidedly in favour of Alberta and Ontario came to rely more and more on the federal government to guard its interests. This is particularly true after the breakdown in 1975-1976 of the first ministers' conferences as a meaningful forum for establishing oil and gas prices. It seems likely that the Federal-Provincial First Minister's Conference was doomed anyhow as a device for setting oil and gas prices. It is clearly unsuitable for the producer provinces as they are invariably outgunned by the consumer provinces. As their interests regarding the pricing of oil and gas clarified throughout the 1970s, the producing provinces would have inevitably become dissatisfied with the First Minister's Conference for this function. It was also doomed by Peter Lougheed's view that it was ultimately he and the Prime Minister who settled pricing disputes.

The industry, of course, as a result of its control over the productive apparatus and major capital pools, remained a powerful interest. With respect to the intra-industry configuration of power, one of the key developments of the 1973-1980 period was the emergence of large Canadian-controlled companies capable of competing in a meaningful way with the foreign-controlled majors.

By 1978, following three and a half years of relative calm on the international oil scene and decreasing real world oil prices, things had quieted down in Canada as well, and many of the wounds created by the 1973-74 conflicts had begun to heal. Because the conflicts were the result of fundamental differences of interest within these two relationships of power, many of the old sores were reopened and new wounds were suffered as a result of the next dramatic 'raising of the stakes' in 1979. It was out of this period and the events since 1973 that the NEP emerged.
As stressed above, in Part II we have begun to differentiate the interests involved. But even this level of differentiation is incomplete in identifying interests, particularly at the corporate level. In Part III one moves to a third cut at energy politics, this one centred on the NEP itself and bringing our analysis into the early 1980s.
APPENDIX I

Alberta's 12-Point Agenda
Federal-Provincial Conference on Energy
November, 1979

Meet the Tokyo Declaration and move towards world prices for oil over a reasonably short period, or at least to a price slightly below a United States' composite price;

Co-operatively construct oil sands and heavy oil plants on an accelerated and agreed upon schedule;

Provide more incentives for producers to implement enhanced recovery techniques in our existing oil fields;

Assure oil and gas explorers and producers of improved cash flow and tax incentives to provide the much needed funds required to provide more expensive new oil supplies;

Substitute where practical Canadian natural gas for imported foreign crude oil and put in place the necessary transportation systems;

Permit export of surplus natural gas to the United States on appropriate terms. This will help provide funds to develop additional energy supplies, improve our balance of trade, and strengthen the Canadian dollar;

Encourage Newfoundland and Nova Scotia to develop their offshore oil and gas potential;

Continue to encourage frontier exploration in the North, with appropriate tax and other incentives;

Support a western electric grid based on Manitoba hydro-electric potential;

Replace imported United States coal with Canadian coal;

Concentrate our energy research and development policy on evaluating the best possible substitutes for crude oil;

Encourage consumer restraint or conservation through price increases and other national programs such as home insulation.
Notes to Chapter 4

1. This was the state of constitutional affairs pertaining to resource ownership and management throughout the 1970s. After years of frustrated efforts and hard federal-provincial bargaining the Constitution Act was proclaimed in April, 1982. Canada's new Constitution consists of the Constitution Act of 1982 and the B.N.A. Act of 1867 and all the amendments thereto. While the Constitution Act of 1982 does affect jurisdiction over oil and gas directly through the resource amendment and perhaps indirectly through the Charter of Rights, the real substance of legislative jurisdiction is still to be found in the 1867 Act, the important features of which are described above. The resource amendment is found in Section 50 of the Constitution Act 1982, which adds Section 92A to the 1867 Act. It will suffice here to note only three subsections of 92A. 92A(2) enables a province to make laws in relation to the export from the province to another part of Canada of the primary production of a resource, with the qualification that such laws may not discriminate in prices or in supplies exported to another part of Canada. Subsection (3) states that nothing in Subsection (2) derogates from the authority of the federal government to enact laws in relation to the same matters. Most important in terms of provincial jurisdiction is section 92A(4), which expands the taxation power in respect of non-renewable natural resources. Whereas prior to the amendment the province was limited to direct taxation within the province to raise revenue for provincial purposes, it is now empowered to make laws in relation to the raising of money by any mode or system of taxation in respect of non-renewable natural resources, including indirect taxation of resources. Depending on how the courts interpret it, certain aspects of the Charter of Rights could also have ramifications for energy activities. All one can really do at the present, is acknowledge that the "stakes involved in jurisdiction (over natural resources, both in terms of revenue and political power), are so astronomical that any changes or concessions will be made carefully and grudgingly," and that "the new constitution has increased the legislative base of the provinces with regard to non-renewable natural resources, but has done nothing to shift the overall balance of power between the two levels of government." John B. Ballem, Oil and Gas Under the New Constitution," Inaugural lecture delivered at the official opening of the Canadian Institute of Resources Law, Calgary, Alberta, December 2, 1981. See also Ibid., "The Energy Crunch and Constitutional Reform," The Canadian Bar Review, Volume 57, (1979), pp. 740-756.

2. The Liberals reasserted the federal government's jurisdiction over these resources in the NEP, designating them as part of the Canada Lands. Nova Scotia and the federal government have agreed to put the ownership issue aside, however, and in March 1982, the two governments signed an agreement outlining the administration and management of Nova Scotia offshore resources. Newfoundland has refused to do so, and instead referred the question of jurisdiction to the Court of Appeal of the Supreme Court of Newfoundland in February 1982. Three months later, in May 1982, Ottawa sent a reference to the Supreme Court of Canada on this same issue. Newfoundland lost its case in the provincial Supreme Court
and on March 8, 1984, the Supreme Court of Canada in a unanimous judgement ruled that the federal government had jurisdiction over offshore resources.


20. Ibid., p. 139.


23. Ibid., p. 225.


27. Don McIvor, President and Chief Executive Officer, Imperial Oil, interview with the author, May 19, 1983.


31. Ibid., pp. 293-294.

32. See Ballem, *op.cit.*


36. Ibid.; p. 194.

37. Cited in Ibid., p. 201.


Part III

Introduction to PART III

The NEP was clearly a federal power play; it did not, however, come as a complete surprise. As argued in Chapter 1, the NEP must be seen and can only be understood in the context of the broader policy agenda of the newly elected Liberal government and in the historical context of the conflictual energy politics of the previous eight years. Those who attempt to view the NEP in an ahistorical fashion or who try to disembowel it from the other political and policy disputes to which it is connected can only provide incomplete and flawed explanations. Viewed in the context of the other high profile initiatives undertaken by the recentralizing Liberal government within the first year or so of its new mandate, the NEP can be seen as part of an interrelated effort by the Liberals to reaffirm the central government's economic management powers and political visibility by checking what the Liberals considered to be the surging centrifugal forces of provincialism and foreign ownership.

Provincialism in the late 1970s was best exemplified by the flush oil-producing provinces who were increasingly flexing their fiscal muscle to influence the direction of economic growth in the country. The control over decision making and balance of payments problems generally associated with foreign ownership, were most poignantly reflected by an industry which was not only the fastest growing economic sector but which was also dominated by the high profile foreign giants of the international oil industry. The Liberals felt that to achieve the objective of breaking the slide to balkanization they would have to challenge head-on the power of the industry and the power of the
producing provinces. The outcome of such a strategy was likely to be a fundamental alteration of both the federal-producing province and federal government-industry relationships of power. Thus, seen in the historical context of energy politics, the aggressive 'act first, talk later' strategy of the NEP was the latest stage of the ongoing eight year energy battle which had already been marked by consultation, unilateralism, conflict, ploy and counterploy.¹

In that light, the unilateral imposition of the NEP in the wake of the failed energy negotiations can, at least in part, be interpreted as a bargaining ploy by the federal government to force Alberta to negotiate 'seriously.' The motivation for using such a ploy was the result of a convergence of both bureaucratic and political imperatives. The EMR officials who had been involved in the Alberta negotiations under the Clark government and again in the early months of the new Liberal regime were frustrated by what they considered to be Alberta's refusal to negotiate. They were convinced that the Lougheed government was not negotiating seriously because it felt it could achieve its objectives, as it nearly did with the Clark government, by employing the bargaining tactic of principled intransigence.² Negotiations between the Lougheed Conservatives and the Trudeau Liberals were usually difficult and this was once again the case when they met on a few occasions in the spring and summer of 1980. The Albertans basically told the Liberals that they would accept nothing less than a package equivalent to the aggregate benefits of the deal allegedly arrived at with the Clark government.

Bouyed by their miraculous return to power and their success in contributing to the 'non' victory in the Quebec referendum, and committed to the perceived need to reassert the visibility and strength of the federal government, the Liberals felt they could stake out a position on the energy issue which would
allow them to meet some of their election promises while at the same time leaving themselves in an advantageous position with enough leeway on pricing and taxation to later make concessions. It was a case of bidding high but being willing to negotiate back. The failed negotiations and the subsequent development of the NEP in mid-1980, took place in an international atmosphere of fear over future energy supplies and continued price increases, and in a national context of a booming petroleum sector, reflected by record industry profits and overheating producing province economies. The prospect, moreover, was for even more extraordinary wealth generation in the petroleum sector and the accumulation of the excess revenue in provincial and corporate treasuries, if, as was assumed in 1980, oil prices inevitably moved skyward throughout the 80s.

As a producer, the shocking 150 percent price increase of 1979-80 was both a curse and a blessing for Canada. As an importer and a consumer the consequences were overwhelmingly negative. Not only did the price shock directly escalate Canada’s oil import bill, but it strengthened inflationary pressures globally, reduced the disposable income in consumers' pockets, and pushed the world over the precipice into economic recession. For a country like Canada which depends on exports for one third of its GNP, the recession was particularly disastrous. As a producer, however, price increases also contained potential benefits. Canada would receive higher prices for the oil and gas it exports, and if the higher prices from exports were passed on to the industry they would stimulate exploration and spinoff industrial activity within Canada. If captured by governments oil and gas revenues could be used to provide more extensive services or tax breaks for citizens. If Canada were a unitary state or if the federal government had ownership of the oil and gas resources throughout Canada, the federal treasury could benefit by using fiscal
instruments such as excess profits tax to capture economic rents caused by rapid price increases. However, given the regional and federal divisions within Canadian energy politics, large price increases and the division of the revenues generated thereby, present problems unlike those faced by most other producers. Because the federal treasury must compete with the industry, the governments of the producing provinces, and the governments of the consuming provinces striving to capture a share of the economic rents for consumers via lower than world prices, rapid price increases present dilemmas for national economic management for a Canadian federal government very much different than what takes place in most producing countries where price increases are a welcome boon. For the individual or the corporation the macroeconomic impacts of higher prices is decidedly different depending on whether one lives in a consuming or a producing province.

For a government facing a growing deficit, at least part of which was both directly and indirectly the result of world oil price increases, the appeal of using energy revenues to improve its financial position was especially strong. This was particularly true given that the industry involved "was building earnings position and equity ownership, whether reinvested or not, to a degree involving disproportionate control of the Canadian private sector for the long range. That such ownership control ... happened to ... concentrate in companies owned and often directed by non-residents just made the general problem more acute publicly." This was particularly true since the "very large wealth being accumulated by the petroleum producers in Canada" was taking place under the old and much lower pricing regime established in 1977. New increased prices would, if the revenue sharing formula remained intact, only exacerbate the situation. In 1980 the federal government was receiving about 10 per cent of the
oil and gas revenues, while the industry and producing provinces each received 45 per cent. A larger share of increased oil and gas prices was virtually the sole potential source of large, new revenues available to the federal government.

Increased revenues from oil and gas price increases was particularly attractive to the federal government since such increases could be defended on the basis of the principle of equity because of the 'special case' nature of petroleum pricing. That is, oil and gas prices were not considered a free market price but an administered price, as they were set internationally by a producer's cartel and nationally by inter-governmental negotiation. Because prices were determined throughout the world by administrative fiat and totally unrelated to the costs of production, the governments of producing countries used various legislative techniques to capture the vast majority of the economic rents - excessive income generated over and above that necessary to provide a normal return to the capital and labour employed - for the public treasury. In Canadian energy politics, of course, there were two legislative authorities in addition to the industry with legitimate claims on these economic rents. Part III analyses the struggles that ensued within and between both relationships in the wake of the NEP.
Footnotes

1. The NEP is noteworthy if for no other reason than than it is written not in the turgid 'bureaucratese' of most government documents but in an argumentative, polemical style. This was no mistake, of course. Indeed, it reflects the fundamental political purpose of the NEP. Its authors knew that it would create a confrontation with the industry, particularly the foreign majors and the producing provinces, particularly Alberta, and the federal government knew its strongest defense was a good offense that appealed to public concerns and sympathies.

2. That is, as a matter of principle in Canadian federalism, Alberta argued, all natural resources should be treated equally. As it stood, the oil and gas owned by the citizens of Alberta was priced far below its international commodity value, whereas the natural resources owned by the people of the other provinces are not subjected to this same forced undervaluing. Thus Albertans are providing a major subsidy to Canadian consumers while being discriminated against.

Chapter 5

Energy Politics and the NEP: Government-Industry Energy Relations

Introduction

Parts I and II of this study focused on the key events, issues, and projects of the post-war period which exposed the power of the various private sector and governmental interests in Canadian energy politics. While Chapter 2 provided a broad overview of these major developments, Chapter 3 focused more specifically on the pre-NEP government-industry relationship by taking a more detailed look at six key cases where the nature of the relationship and the power of the key interests were revealed. Part of the overall conclusion of Part II was that while there was a quantum growth in the power of both the federal and provincial governments in the post-1973 period, the industry retained considerable power both because of its ownership of the productive apparatus and because of the divided nature of state power. Both relationships became increasingly equal in strength but volatile in nature, in that all three major interests were forced to react to both unsettling international events and the actions and reactions of one another. The overall purpose of this chapter is to outline the motivations of the federal government with respect to the industry, and to analyse the resultant overall impact of the NEP on the government-industry relationship of power in the 1981 to 1983 period.

This chapter delimits the analysis even more directly to a narrower period of time and to fewer interests. For the previous analysis of the broad historical periods it was acceptable to treat the industry as a single interest vis-à-vis the key state interests. For the most part the only distinction that was made between the various elements which comprise the industry was to focus on the division of the industry on the basis of ownership, that is, between foreign and Canadian owned and controlled firms. In this chapter we will differentiate
among the interests in the industry on the basis of national ownership and size. The specific objective here is to identify, describe, and assess the overall initial reactions of key industry interests to the aggressive federal initiative, the NEP. There are other effects of the NEP which cannot be assessed here, both because of the short time period covered but also because the specific impacts of the policy instruments used are not examined, given the broader political focus of the study. Because it is a federal initiative to which the industry interests were reacting we will focus on the federal level of government, while recognizing of course that each of the industry interests identified herein have relationships with the provincial governments.

The NEP: Motivations and Impacts

With respect to the petroleum industry three factors governed federal thinking: a) the industry had been very favourably treated in the past relative to other sectors by federal taxation policy, and now that the industry was buoyant and strong it was time for it to pay a higher and fairer share of the tax burden; b) the industry was predominantly foreign-owned and increased revenues flowing into company coffers would either flow out of the country to foreign owners, damaging the national balance of payments or be used to expand within the industry or into other industries thereby expanding the power of foreign capital in Canada; and c) increasing the share of federal revenues relative to the industry share would not decrease the industry’s ability to explore for new reserves because the industry’s absolute dollar returns would still increase as their relative share declined. While many in the industry did in fact feel that the federal government had a strong case for a larger share of energy revenues, they felt, for the most part, that Ottawa should take its additional revenues from the provincial share. The industry argued that it needed much higher absolute
revenues to engage in the exploration and development of new reserves, particularly the high cost non-conventional and frontier plays that were thought to hold the key to self sufficiency for Canada.

While the federal government had been increasingly asserting its authority over the industry throughout the post-1973 period, there was still the preponderant feeling among the Liberals and federal officials that the industry felt it had mainly to deal with Alberta, that the federal government was a minor player which would be sucked along by the flow of events. The Liberals felt that this perception was reinforced by the Clark government's presentation of the federal government as little more than a referee between competing provincial communities. This grated on federal Liberal sensitivities because Ottawa, through the tax system, paid for most of the industry incentives. Because the incentive program was implemented through the privacy of the tax system, the federal government was not, in its opinion, being given the proper recognition or political credit by the industry or the general public. The Liberals were determined to change this perception. It was their modus operandi to achieve for the federal government the political credit in the eyes of Canadians for the dollars Ottawa contributed for services provided by the provinces, and for benefits Ottawa provided for corporations and individuals via tax expenditures. The symbolic effect of having to apply to the federal government for grants to cover the exploration costs formerly covered by depletion allowances would not be lost on the industry.¹

Because of the high level of foreign and particularly American ownership in the Canadian oil and gas industry, the Liberal's plans to expedite the growth of Canadian ownership caused an inadvertent worsening of Canadian-American relations. Even though, as Stephen Clarkson has argued in his analysis of this
period of Canadian-American relations, the NEP was not intended to confront the American government, its objectives and chosen means became entangled with American electoral politics and developments in the private sector to contribute to an overall souring of the relationship:

After all, Energy Minister Marc Lalonde, the chief architect of the NEP, had aimed the program not at defying the United States but at shifting political power from Alberta and economic rents from the oil industry towards the federal government. Lalonde was not anti-American. In all the hectic months of planning the NEP, little thought had been given to what would be the reactions of the United States to this projected internal change in the dynamics of the federal system.²

There were a number of factors contributing to this lack of attention accorded the possible implications of Canadianization for the American government. For instance, because the NEP was devised under conditions of budget secrecy, the 'American watchers' in the Department of External Affairs were not involved.³ Furthermore, Canadian-American relations were at an all time high after the Canadian Embassy's rescue of American diplomats in Iran, and the Carter Administration, which was in power as the NEP was being devised, "owed Canada one" for approving the Alaska Highway Pipeline Prebuild. So while the Canadianization aspects of the NEP were intended to strengthen national integration by increasing Canadian ownership in the fastest growing sector of the economy, and while "there was no thought among the architects of the new Liberal strategy that their plans would lead them to a confrontation with Washington," it did.⁴ Two of the major extraneous factors which precipitated a hostile reception for the NEP in the U.S. were: a) the arrival in power, a week after the introduction of the NEP, of a new nationalist Republican Administration which, unlike the Carter Administration, was
indebted to the American oil industry; and b) the attempted takeovers by Canadian firms of American oil companies in the U.S. rather than in Canada as the NEP proposed.

Profile of Energy Industry Interests

As shown in Chapter 3, one of the key developments for energy politics as a whole in the 1970s and for the intra-industry configuration of power in particular, was the emergence of three large Canadian-controlled oil and gas companies. The three firms, Dome, Petro-Canada, and Nova are diversified into a variety of activities in the petroleum business and each has expanded in recent years by both acquisitions and expansion of their industry activity. They make a difference in Canadian energy politics because, as the Alaska Highway Pipeline case shows, they are capable of mounting an intra-industry challenge to the former total financial and technological hegemony of the multinationals. Another important impact is that they provide the federal government in particular with an alternative set of major industry interests and a very real option to the power of the multinationals. Indeed, one of the main objectives of the NEP's Canadianization initiatives was to facilitate the emergence of other Canadian majors.

With the rising world oil prices and increased economic rents of the post-1973 period energy politics expanded to involve many policy fields other than energy. Energy policies in turn were directly affected by decisions taken in other fields such as fiscal and taxation policy. In particular, tax expenditures were introduced into the tax system to encourage high income Canadians, such as doctors, dentists, and lawyers to invest funds in the oil business. Additionally, the tax system via depletion allowances and the famous 1977 'Gallagher' super
depletion amendment provided exceptionally generous tax provisions for tax paying companies which reinvested in the industry. Both of these tax law provisions were established in the name of the energy policy objectives of pursuing energy security and of increasing the knowledge about Canada's northern reserves. As a consequence, in the late 1970's and into 1980 Dome and other majors were drilling multi-million dollar wells in the Beaufort and off the east coast for tax write offs in excess of 100 per cent, and Alberta was experiencing a classic exploration boom. The Clark Conservatives wanted to end this situation whereby high income investors received tax savings in excess of their investments and introduced in their budget amendments to the super depletion allowance.

While there are several criteria one could adopt to divide the industry, the most important—and perhaps widely accepted in terms of differentiating the common interests of various firms—are the criteria of ownership and size; that is, foreign majors, foreign juniors, Canadian majors and Canadian juniors. While the majors are clearly identifiable by the size of their operations, juniors is a less discrete category in that it tends to be used to mean non-majors and as such includes both intermediate and small companies. There is also the traditional division of the global industry into the 'Seven Sisters' (Exxon, Gulf, Shell, BP, Texaco, Mobil, Standard Oil California), and the 'independents' which includes other large American (Occidental, Continental, Hess, Getty) and non-American firms (CFP, ENI) and in recent years the state-owned companies of major OPEC and non-OPEC producers (Pemex, BNOC, Statoil). For space and analytical reasons we will have to limit the number of industry interests we can focus on here. The most important individual firms in Canadian energy politics fall into
the categories of foreign majors, Canadian majors, and Canadian juniors. Thus we will not deal with the category of foreign juniors here.

**Multinationals** These are, of course, the Canadian subsidiaries of the seven sisters, some of which, like Imperial and Gulf, are incorporated in Canada and have some significant Canadian minority shareholdings (20 to 25 percent) to Texaco which has less than 10 per cent. Also included are the '100 percenters' such as Mobil and Chevron which, as their nickname suggests, are 100 per cent owned by the foreign parent and are not even incorporated in Canada. Given that American ownership of Canadian industry is the overwhelming feature of Canadian energy politics we will focus here on the three major American firms, Imperial, Gulf, and Texaco.

**Canadian Majors** The three acknowledged 'heavy hitters' of the Canadian owned sector are Dome, Petro-Canada, and Nova (which includes Husky Oil Ltd.), though on a strictly 'reserves' rating PanCanadian, the subsidiary of Canadian Pacific, is larger than Nova. Because of its importance to a number of key energy projects and the stature of its President, Bob Blair, Nova far outweighs PanCanadian in importance in the Canadian oil patch. Other 'emerging' Canadian majors are Norcen, Hiram Walker Resources (Home Oil and Consumers Gas) and by reserves level, Alberta Energy Company, Canada Development Corporation (Canterra) and Noranda Mines (Canadian-Hunter). For our purposes here we will focus on Dome, Petro-Canada, and Nova.6

**Canadian Juniors** This group includes such disparate interests as firms as large as Sulpetro and Ocelot to very small one to five person exploration outfits. No attempts will be made here to trace the reactions of specific firms to the NEP but rather the reaction of this group as a whole will be assessed.7
NEP Objectives: Impacts on the Industry

At the grandest level, the three major stated objectives of the NEP were:

To establish the basis for Canadians to seize control of their own energy future through security of supply and ultimate independence from the world market;

To offer to Canadians, all Canadians, the real opportunity to participate in the energy industry in general and the petroleum industry in particular, and

To establish a petroleum pricing and revenue-sharing regime that recognizes the requirement of fairness to all Canadians no matter where they live.

All three of these stated NEP objectives - security (self-sufficiency in oil by 1990), opportunity (50 percent Canadian ownership and control by 1990), and fairness (made-in-Canada prices and a greater share of oil and gas revenues for the federal government) - had direct consequences for the industry. Let us review them briefly. The security objective was to be achieved by both reducing the demand for oil and by increasing supply. On the demand side, "the cornerstone of the NEP is a drive to reduce oil consumption, through conservation efforts and the use of more plentiful fuels in place of oil."

More specifically, a massive new series of grants-based oil substitution and conservation initiatives, and increased incentives for the use of renewables were introduced. On the supply side, a generous grants-based petroleum exploration incentives program was designed to target oil exploration to the frontiers where it was assumed 'major' new discoveries, which could have a significant impact on Canada's supply-demand equation, were more likely to be made. Security was also to be pursued by expanding the domestic energy distribution system. In addition, a more rigorous work program was to be demanded of land holders on Canada Lands.
The opportunity objective was to be pursued by instituting an exploration and development incentive program skewed to favour firms with high Canadian Ownership Rate (COR) and Canadian Control Status (CCS) levels; by forcing foreign operators to take on Canadian partners to the level of 50 percent before production licenses would be granted for projects on Canada Lands; and by providing for the growth of Petro-Canada through a special levy on consumers known as the Canadian Ownership Charge.

Fairness to consumers was to be achieved by restraining the pace and level of price increases, to the federal government by increasing its share of oil and gas revenues via several new taxes and by reserving for the federal government a 25 per cent interest in all existing and future petroleum rights on Canada Lands and to the producing provinces by increasing the price paid for their oil and gas.

To recapitulate, then, the security objective would effect the industry by altering the demand for its various energy sources, by increasing the attractiveness of frontier exploration, and by enforcing more rigorous work programs on Canada Lands; the fairness objective would restrain the pace of oil price increases and introduce several new taxes and other changes to the tax system which would decrease the industry's relative share of oil and gas revenues; the opportunity objective and its Canadianization goals would provide preferential treatment to Canadian private and public firms and in so doing distinguish between elements within the industry. While the pricing and taxation measures of the industry would apply equally to all interests within the industry, the Canadianization measures very much differentiated on the basis of national ownership and control.

That the foreign domination of the industry was a problem, which, in the eyes of the Liberal government, "required fundamental change... in the
structure of the oil and gas industry" is clear. The introductory section of the NEP entitled 'The Problems' outlined in detail what the government understood to be the peculiar problem of foreign domination of the oil and gas industry. That the government saw the case of the oil industry as special is reflected in the fact that on several occasions the NEP stressed that "the Government of Canada believes that the oil and gas sector is a unique case, and that special measures not required in other sectors are needed to ensure more Canadian control." It is worth citing at length from 'The Problems' section of the NEP as it essentially provides the official rationale for the ambitious initiatives introduced in the NEP to alter the government-industry and intra-industry configurations of power:

A major objective of national policy over the years has been to foster a strong petroleum industry, through pricing and tax incentives more generous than those available outside the resource sector... The most important reason for developing these national policies was a determination to promote the domestic oil industry and encourage economic growth in Western Canada, even though it meant imposing higher direct costs on other parts of the country, and left the Government of Canada with little income from the petroleum industry. These policies have succeeded. The petroleum industry enjoys unprecedented prosperity and growth. No other industrial sector in Canada can match its vitality and outlook. The financial facts are striking. Net oil and gas production revenues in Canada have risen from $1.2 billion in 1970 to $11.1 billion in 1979... the effect of the (OPEC) price increases is a massive transfer of wealth, now and in the future, from consumers to producers. Most of these producers are foreign-owned; the wealth transfer is therefore away from Canadians.

Yet, the oil and gas industry, far from drawing in foreign capital, has - since the 1974 oil crisis - been a capital exporter. The industry, in addition to maintaining its normal dividend and interest payments, supported net capital outflows abroad of $2.1 billion in 1975-79... If dividends and interest payments are added to this total, the total outflow over the period 1975-79 becomes...
approximately $3.7 billion. Dividends rose from $200 million a year in 1973 to $600 million in 1979. In addition, the foreign parents have received fees for technological, operating, and managerial services.

Moreover, the prospect is for these capital exports to grow. The continued increase in oil and gas prices that will occur means a further large foreign wealth transfer from Canadians to foreign shareholders. By ignoring the problem of foreign ownership in the past, Canadians have lost a significant share of the benefits of having a strong resource base. If we fail to act now, Canadians will lose once again.

Indeed, the loss may become permanent. Each year brings a further windfall gain to the foreign-owned firms. The value of these firms and, therefore, the cost to Canadians of securing control over them, has increased three- to four-fold - equivalent to tens of billions of dollars. A further delay will put the value of companies in the industry so high as to make the cost prohibitive, leaving Canada with no choice then but to accept a permanent foreign domination by these firms.

Reinforcing the impact of buoyant cash flow, the system of tax incentives inadvertently fostered concentration in the industry and, with it, foreign control. While the incentives have served the purpose of encouraging investment, they have not been available on the same basis, or to the same extent to all investors. For example, the Income Tax Act for many years allowed only firms whose "principal business" was resources to claim favourable write-off rates for petroleum exploration expenditures. Except in special situations, the Act permitted only investors with resource income to claim depletion allowances for such expenditures. The net result was to favour those who were already in the industry. Since these were predominantly foreign companies, the result unintentionally worked against Canadian ownership objectives.

Of the top twenty-five petroleum companies in Canada, seventeen are more than 60 percent foreign-owned and foreign-controlled, and these seventeen account for 72 percent of Canadian oil and gas sales. This is a degree of foreign participation that would not be accepted - indeed, simply is not tolerated - by most other oil-producing nations.

... foreign-controlled firms control the future through their control of the land in which exploration takes
place. The frontier land permits are largely held by foreign-controlled companies... Similarly, the existing oil sands plants are dominated by foreign-controlled firms... The rapid growth that is inevitable for the energy sector in Canada over the next decade or two would strengthen further the position of these foreign oil companies, giving them even greater power in the Canadian economy than they have today... Yet over that period, Canadian consumers and taxpayers would contribute the cash and provide the tax support for much of the investment made by these companies.12

The NEP then specified three goals which would rectify the 'problem' of foreign domination:

- at least 50 percent Canadian ownership of oil and gas production by 1990;
- Canadian control of a significant number of the larger oil and gas firms;
- an early increase in the share of the oil and gas sector owned by the Government of Canada.13

Energy Politics: The Reactions

The Multinationals: General and Individual Responses

As that element of the industry singled out for criticism in the NEP and whose dominance of the industry the Canadianization measures of the NEP were intended to challenge, the foreign owned majors could be understood to have reacted angrily to the Program. The federal government expected as much. Both as individual firms and as a group through the Canadian Petroleum Association (CPA), the foreign majors condemned virtually all aspects of the NEP. They charged that the restrained oil and gas price increases in combination with the increased taxes would make it impossible to achieve self-sufficiency by 1990 because the industry would not have the requisite capital to undertake the required exploration. While generally agreeing that security ought
to be the chief objective of Canadian energy policy the multinationals denounced
the pricing and revenue-sharing aspects of both the NEP and the subsequent
September 1981 Canada-Alberta Agreement, which, while it raised prices, also
raised taxes.

While they didn't criticize the concept of Canadianization, or the other
objectives for that matter, the foreign majors as a whole condemned the
instruments employed by the government to achieve Canadianization. These
firms vigorously denounced the 25 per cent Crown Interest as confiscatory and
strongly criticized the Petroleum Incentive Grant system which would
discriminate against them by providing larger incentive grants to Canadian
firms. These companies pressured their home governments in the U.S., Great
Britain and the Netherlands to apply pressure on the Canadian government to
change the Canadianization, procurement and other aspects of the NEP which
favoured Canadian firms. The majors also utilized their position within the
multilateral energy forum, the International Energy Agency, to criticize
Canadian policy. Within Canada, they lobbied the Alberta government and the
federal Conservatives to force the Liberals to make fundamental changes to the
NEP. The major concrete action the majors employed to both signal their
dissatisfaction with the NEP, especially its fiscal aspects, and to pressure the
Liberals to alter the NEP was to slash, amid great fanfare, their planned
exploration budgets for 1981.

While a number of the multinationals had indicated to the Commission
which Joe Clark had established to determine a way to privatize Petro-Canada
that they were not opposed to having Petro-Canada around, virtually all of these
companies opposed and attacked the Petro-Canada expansion called for in the
NEP. Some firms, such as Imperial Oil, expressed doubt that the Canadian firms
favoured by the NEP could succeed in the frontiers and the non-conventional plays. Yet, the foreign majors knew that despite the expenditure of millions of advertising dollars throughout the 1970s, they had a poor public image.\textsuperscript{14} This was enhanced by the price hikes internationally in 1979 and reflected in the NEP's polemical attack on them. In the immediate aftermath of the NEP the multinationals, through the CPA, commissioned a major public opinion survey to investigate public opinion on the industry, energy issues and the NEP. The study concluded that the multinationals had, at best, a mediocre public image and that the NEP and particularly Canadianization were popular. To counter this state of affairs the CPA developed a $3 million advocacy advertising campaign to help improve the overall image of the industry. A number of the individual multinational firms also organized multi-million dollar advocacy advertising campaigns. The issue of the foreign majors' image escalated in importance after the highly publicized \textit{State of Competition in the Canadian Petroleum Industry} Report, in March, 1981, charged them with ripping off Canadians by $12 billion (in 1981 dollars) between 1958 and 1973.\textsuperscript{15}

When it became clear that the September 1981 Canada-Alberta Agreement would not provide the sorts of improvements in their fiscal arrangements that they had hoped for, the foreign majors responded by maintaining their exploration budget cutbacks. Arguing that they could not go ahead with the mega-projects given the inadequate returns that they could expect (specifically, less than a 20 per cent discounted rate of return) Imperial Oil abandoned the Cold Lake heavy-oil project in the fall of 1981 and Shell canceled the Alsands project in April 1982. When it became apparent that the NEP would for the most part remain intact, a number of the foreign majors decided to 'hedge their bets'
and decrease their costs by farming out sections of the Canada Lands leases to Canadian-controlled firms eligible for PIP grants.

To develop a better understanding of the tenor of the multinational's response, it will be useful to investigate the reactions of some specific companies. It will not, however, be possible, nor necessary, to assess the reactions of all the foreign majors. Imperial Oil, Texaco and Gulf are all integrated internationals, subsidiaries of members of the fabled 'seven sisters' of the international industry, but all three also have strong roots and lengthy records in Canada. It will be adequate to assess the nature of their reactions to the NEP.

Imperial Oil

Imperial Oil is the largest oil company in Canada and has for decades been recognized as the industry leader. It is about 70 percent owned by the world's largest oil company, Exxon of the U.S. In many respects Imperial was more restrained in its public reactions to the NEP than were other members of the industry. Throughout the 1970s Imperial had become increasingly involved in non-conventional oil plays including Syncrude of which it was the major partner. Indeed, Imperial is often criticized for having made a strategic error in writing off conventional exploration in the Western Sedimentary Basin too quickly and as a result missed out on the later 1970s West Pembina discovery, which it later bought into at considerable expense. Given its major stake in two of the key non-conventional plays, namely, the Beaufort Sea and the Cold Lake heavy oil project, Imperial had stressed throughout the 1979-1980 period the importance of raising prices for oil and for pursuing oil self-sufficiency as the prime objective of Canadian energy policy. Both Cold Lake and the Beaufort were high cost
alternatives to conventional production, involved long lead times and only made sense economically if Canadians were willing to pay the high prices they would involve in order to be less dependent on imported oil. Thus, J.G. Livingstone, President of Imperial, stressed that, "the plain fact is there just isn't any cheap oil around anymore. Unless Canadians are willing to pay a realistic price for energy, we will not only fail to develop our indigenous resources, but our dependence upon foreign suppliers will grow more desperate each year."16

In one of his major reactions to the NEP Livingstone focused on the widely diverging views of the country's energy future represented by the NEP's projected supply-demand projections and those of the industry. He said that Imperial estimated that net oil imports, then running around 350 thousand barrels a day, could rise to 600 thousand barrels a day by the mid-1980s. His explanation for the disparity of views centred on differing expectations of industry performance under the NEP. "The federal government clearly believes that its program offers the industry sufficient inducement to enable it to develop new supplies in sufficient quantities and at sufficient speed to meet NEP projections. Equally obviously, a large portion of the industry does not share this opinion and therefore takes a different - and to its way of thinking, a more realistic - view of the situation."17 Livingstone also used this dual focus on the non-conventional projects and the idea of self-sufficiency to criticize the Canadianization objectives of the NEP: "Unfortunately some - though certainly not all - of the companies who allegedly stand to benefit from the budget have not yet developed the expertise and resources necessary to tackle the really mammoth projects - in the oil sands, and in the Arctic and the Atlantic offshore - on which future self-sufficiency will depend to a major extent."18
Livingstone criticized the pricing, taxation, and incentive features of the NEP which in his opinion, constrained an all-out effort to bring on additional supplies. While he applauded the 'positive' directions of the NEP to encourage "conservation and the substitution of oil by other more available fuels," Livingstone argued that "at the same time we have to face the fact that we cannot conserve and substitute our way to self-sufficiency. Along with an all-out effort to conserve and substitute we must have a corresponding all-out effort to develop new supplies -- with all speed from all possible sources."\(^{19}\)

Livingstone's "gravest reservation" about the NEP - and a theme he stressed on several occasions before September 1981 - was that "by reducing industry cash flows and severely curtailing incentives to reinvestment, the program is bound to have a marked effect on the industry's ability to find and develop new petroleum supplies."\(^{20}\) He particularly emphasized the PGRT which he argued had 'hidden' impacts, "One hidden effect of the tax is that by reducing a company's producing revenues, it also reduces its ability to take advantage of tax credits related to resource revenue that could be ploughed into reinvestment."\(^{21}\)

Imperial's emphasis on the fiscal regime is not surprising given its large investment in Cold Lake. Approval for Cold Lake and the AIsands tarsands project had been withheld by Alberta as part of its retaliation against the NEP. Imperial tried to influence the outcome of the post-NEP federal-Alberta negotiations by continuously arguing that unless the new oil pricing and taxation agreement provided a 20 percent discounted cash flow return for Cold Lake it would have to be abandoned. Imperial was aware that the NEP anticipated that the tarsands and heavy oil projects would make a contribution to Canadian oil supply by 1990 and therefore felt they were in a strong position to demand such a high return.
Imperial also reacted to the changed environment of energy politics represented by the NEP by upgrading its Ottawa office by assigning a company vice-president to act as the company representative. In March 1981, Imperial Oil took out full page ads in 37 daily newspapers across Canada to refute the allegations of the State of Competition in the Canadian Petroleum Industry.

On September 17, 1981 Livingstone responded that overall he was disappointed with the terms of the Ottawa-Alberta agreement. He said that while the agreement had some positive elements - an agreement had been reached, the agreement brought some stability to the regulatory environment, the export tax on natural gas was effectively removed, and the pricing schedule for new oil was bound to encourage exploration - there were a number of very disappointing aspects to the agreement. Livingstone identified these as the high tax rate imposed on old oil through the PGRT increase and the incremental oil revenue tax, and the failure to improve industry cash flow on anything like the scale required. Livingstone's major concern was for the future of oil-sands development in light of the agreement. With respect to Cold Lake he stressed that:

Under the pricing and tax regimes provided, including the restrictions on tax credits, we can foresee about a 15 percent discounted cash flow return for the Cold Lake project. In our discussions with both the federal and Alberta governments we have consistently said that we would need to receive a 20 percent DCF before we could proceed with this high risk investment. Without some adjustment therefore, the terms of the new agreement do not appear to provide an adequate return to allow Cold Lake to be reactivated at this time ... I will hasten to add, however, that Imperial remains extremely anxious for Cold Lake to be reactivated and that all our efforts continue to be directed towards this end.
In fact, in late 1983 Imperial Oil announced that it planned to reactivate the Cold Lake project, though on a much smaller scale. While Imperial cancelled the Cold Lake megaproject in late 1981 they largely maintained their exploration program in the Beaufort Sea. They farmed-out parts of their land holdings to Canadian controlled firms eligible for high PIP grants, and built a new $150 million drilling system. In sponsoring this project Imperial adopted an approach which garnered it much good will in Ottawa. Imperial prepared its system design through Canadian design contractors. Then, at each subsequent contract stage, Imperial came to Ottawa and showed its requirements, went out of its way to source Canadian, and broke up its contracts into component parts rather than require one total package contract. It bought its own Canadian steel for the project and shipbuilders bid knowing they had to use this steel. Canadian content in the construction phase is said to be over 70 per cent, even though the caisson was actually built in Japan. Imperial was praised in Ottawa as being helpful and open. In addition to high Canadian content, more fundamental Canadian long-term benefits (technology transfer, improvement of capabilities in design, production and management) are high as well. Imperial is also rated high by federal officials in maximizing Northern participation (in employment, service and contracts), as it did in the expansion of its Norman Wells, N.W.T. oil field, as well as its Beaufort Sea operation.

Texaco Canada

Texaco Canada is 91 percent owned by the American parent. It had a reputation, in the immediate pre-NEP years, as being a highly conservative company, tightly controlled by its parent, which reinvested only a small percentage of its cash flow in Canada and did little frontier exploration while
funneling most of its revenues to the parent company. Of all the fully integrated foreign majors Texaco is identified as the one most like the "100 percenters" or "red phone" operations such as Mobil, Amoco, and Chevron which are 100 percent owned by and tightly controlled from head office in the U.S.

Not surprisingly, given the company's extremely high level of foreign ownership and its limited autonomy over decision making, Texaco Canada's opposition to the Canadianization measures of the NEP were central to its response. Although Texaco never criticized the 'principle' of Canadianization they were very critical of the government's chosen methods. In particular, Texaco focused its attack on the government acquisitions and the PIP grants. Texaco consistently indicated the NEP as being excessive. In the wake of the Petro-Canada acquisition of Petrofina, Texaco charged that "the NEP is clearly excessive... there is no need for more government control of the oil industry... governments already hold all the levers of power that determine the supply, distribution, and pricing of oil and gas in this country."²³ Texaco consistently labeled the Canadianization measures as arbitrary and discriminatory. In his remarks to the April 1981 annual meeting of Texaco Canada shareholders, R.W. Sparks, Chairman of the Board and Chief Executive Officer spoke of the misguided priorities of the government which led it to impose a system of discriminatory incentive grants for exploration. He was perhaps even more concerned however, that "government takeover of an established efficient affiliate of an international company does not give Canada more oil. It only turns more private industry over to the state, and sends out of this country billions of Canadian dollars that are needed for investment here."²⁴

By September 1981, the emphasis in Texaco statements began to shift away from worries of government takeovers and shift towards worries about the
system of "discriminatory incentive grants." This shift may have been a result of the fact that the enabling legislation for the PIP grants was awkwardly making its way through the House of Commons, first in the form of C-94, the omnibus Energy Security Act and later as Bill C-104. Texaco's presentation to the House of Commons Standing Committee on Energy Legislation argued that "with the requirement for 50 percent Canadian participation in productive Canada Lands already assured by the Canada Oil and Gas Act, there is no need for further discriminatory measures based on the degree of Canadian ownership, as proposed in Bill C-104."25 Texaco further argued at some length, that the discriminatory measure of Bill C-104 would be counterproductive to the primary NEP objective of oil self-sufficiency. In its public criticisms of Canadianization, Texaco, despite being 91 percent American owned, stressed the Canadian origins of the company which "goes back 108 years - to the era of the Fathers of Confederation. We intend to remain here for a long time to come, and with your continued support we will continue to grow, to prosper and to serve Canadians across the length and breadth of this great land."26

Texaco tended to deal with the crown interest provisions of Bill C-48 separately from the Canadianization measures. On March 12, 1981, in the company's opening statement to the Standing Committee on National Resources and Public Works which, at that time, was hearing testimony on Bill C-48, Texaco argued that the forfeiture of the 25 percent interest disregarded the circumstances under which the interest had been acquired and disregarded the holders efforts to evaluate that interest by risky, expensive means. The company statement said that:

It has been stated that the forfeiture of 25 percent to the Crown is justified because the Canadian taxpayer by way
of tax deductions granted to the industry, actually footed the bill for a substantial part of the $5 billion spent on Canada Lands. The tax deductions were provided by the government as an incentive, and indeed these incentives formed an integral part of the decision making process of industry to make the high-risk investment necessary to explore Canada Lands. We are most concerned over the frightening realization that the Federal Government now proposes to penalize those who responded positively to its policy. Texaco, in good faith, made significant investments in response to the economic ground rules in effect and it should not have to retroactively give up 25 percent of its interest in Canada Lands. ... If Government policy dictates that a 25 percent interest must be retained by the Crown, such policy should apply only to future Crown dispositions and the interest should be on a participating basis.27

This line of reasoning would be repeated in future executive speeches and presentations. The company had made investments in good faith and now the government was ready to change the rules of the game and confiscate existing rights retroactively and without compensation: "The (back-in) measure is unfair to any company which invested large sums of money ... took the risks ... did the work, then found the ground rules changed. If this back-in provision were to apply only for new exploration on federal lands, that would be one thing; but making it retroactive is simply unfair."28

With respect to the fiscal implications of the NEP there was a shift in emphasis in the Company's statements after September 1981. In April of 1981, Texaco Canada President Roland Routhier had listed the four most objectionable measures of the NEP as being: the PGRT; the back-in privilege; the withdrawal of depletion allowances; and the Canadianization measures. But by March of 1982 the Alberta-Ottawa fiscal regime was identified as the major problem while the back-in provision had been relegated to a list of "other regressive measures." Texaco had calculated that the 8 percent PGRT would actually reduce cash flow
at the wellhead by approximately 25 per cent because government royalties were not deductible in determining the levy and the levy was not deductible for income tax purposes. Like other companies Texaco Canada hoped that their cash flow position would be improved as a result of the September 1981 Agreement.

Because they felt this did not happen, Texaco's argument against the PGRT was broadened to embrace the entire fiscal regime created by the Memorandum of Agreement. Focussing on the cash flow problems facing the industry, Texaco Canada's Annual Report for 1981 would state:

The larger companies such as Texaco Canada . . . must be allowed to generate and retain enough cash flow to be able to invest in an all-out drive that is necessary to find and develop sufficient new domestic oil reserves . . . The inadequate return for "old oil" results primarily from the combination of heavy provincial royalties and taxes and the federally imposed Petroleum and Gas Revenue Tax, which is currently set at 16 percent. These royalties and taxes are not deductible for the determination of taxable income and are only partially offset by "resource allowances" which were introduced in lieu of deductibility. Consequently, substantial portions of the revenues of Texaco Canada and other oil companies are subject to the onerous burden of double taxation.29

Yet, Texaco Canada's financial position over the entire 1981-84 period was quite healthy. It paid heftier PGRT increases, but this was in part, at least, because over the entire 1978 to 1982 period Texaco Canada spent only about 8.7 percent of cash flow on exploration compared to over 23-percent by the other multinationals.30 Moreover, by 1984, Texaco Canada was becoming a gas rich but oil vulnerable company. Only in 1983 did Texas begin to increase its level of exploration activity. This included a joint venture with Sun Life Assurance Co. of Canada and Atco Ltd. to form ATS Exploration Ltd. to increase activity on the frontiers.
In conclusion, then, a review of Texaco Canada's position on the NEP reveals a shift in emphasis and content over time. Between October of 1980 and the signing of the Canada-Alberta Memorandum of Agreement in September of 1981, relatively less criticism was directed at the fiscal regime than at the Canadianization measures and, in particular the back-in provisions of Bill C-48. After September 1981, the company's criticism was directed at the effects of the PGRT on the company cash flows (especially when the PGRT was taken together with provincial royalties and the pricing arrangements for old oil) and at the discriminatory features of the proposed Petroleum Incentives Program.

**Gulf Canada**

Two consistent themes of Gulf's statements on the NEP were that the government had placed its objectives in the wrong order of priority and that the government had failed to provide the necessary measures to achieve the desired first objective of self-sufficiency. In February of 1981, Gulf stated that it interpreted Ottawa's broad energy policy objectives as reflected in order of priority offered them in the NEP to be:

1. Fifty percent Canadian ownership and control by 1990;
2. Equitable and effective energy revenue sharing arrangements;
3. Economic growth through energy development;

Gulf claimed to have "no disagreement with these objectives in their broadest sense," though they argued that "our analysis of the impact of the NEP ... shows

77. Ibid.


82. Robert Blair, "Notes for a Speech to the Financial Analysts Federation Seminar," Calgary, January 27, 1982, p. 6. It should be remembered that Blair was co-chairman of the Major Projects Task Force which recommended in June 1981 that a larger Canadian procurement, management, engineering and construction capability be developed and actively employed in Canadian natural resource projects. That Blair intended to follow up these Task Force policy recommendations by moving Nova's group of companies into a position whereby they could provide such services is clear. As he told the 1982 annual General Meeting of Husky shareholders:

The concept we have developed jointly with Bow Valley Industries is to position our companies in the creation of a new Canadian-owned exploration operator capability, as completely equipped as Petro-Canada, but private sector owned, and thereby contribute equipment and exploration expertise and action. Our joint venture is also featuring Canadian-serviced equipment to a new level of offshore operations, to fully meet the national - and regional government policy objectives... A shortage of equipment operators having Canadian content continues to be projected for that area. We can do a useful job from the point of view of all of those parties and expect that by taking every effort and our share of the risks, can get the rights to some very worthwhile positions in the Canada Lands. Robert Blair, "Speech to the Annual General Meeting of Shareholders of Husky Oil Ltd.," May 6, 1982, pp. 4-5.

that the program places these objectives in the wrong order of priority.\textsuperscript{31} In Gulf's view the proper order of importance was the reverse of the above list.

In his December 1980 speech, John Stoik, President of Gulf Canada, acknowledged that the NEP contained some positive aspects. These positive aspects were listed by Stoik as: the idea of encouraging the use of Canada's natural gas or coal in order to reduce imports of costly and insecure oil; measures designed to reduce energy consumption; measures to increase oil supply such as the incentive price for tertiary oil; and the $38 per barrel price offered for production from the oil sands. Subsequent to December of 1980, however, there would be few words of praise for any aspects of the NEP.

Stoik's criticisms of the NEP in December of 1980 were wide ranging:

- To the extent to which energy tax revenues would be recycled into the energy sector, they would be applied mainly to conservation measures and would therefore do little to promote new sources of supply.

- The increase in the federal revenue share would be taken almost entirely from the industry revenue share.

- The only significant incentives provided for exploration were in the frontiers, on Canada Lands. But the new grants would be heavily biased against the multinational affiliates who had done the most to establish Canada's frontier potential.

- Frontier exploration would continue to qualify for the 33 1/3 percent depletion allowance and companies would be eligible to apply for incentive grants of up to 25 percent of exploration costs. However, in the case of companies not classed as "Canadian," the incentive payments would be nullified by the requirement to carry the cost of the new 25 percent back-in. Furthermore, the proposed incentive payments would be taxable.
There would, under the NEP fiscal regime, be a reduction of cash flows for even Canadian companies.

The withdrawal of earned depletion on all development work could jeopardize the viability of some frontier projects, since development programs were predicted to be in the order of ten times as costly as the exploration phase.

The problem with Petro-Canada or other government agencies buying out multinational affiliates would be that a lot of money would go out of the country, while not one barrel of oil or cubic foot of natural gas would be added to Canada's reserves.32

In his first speech on the NEP Stoik announced Gulf's investment cutbacks. He said that Gulf estimated its reduced cash flow as a result of the NEP to be about 30 percent. He said that "after a month of intensive study, we have come to the conclusion that we will have no alternative but to reduce our spending plans for this period (five years) by 15 percent or $900 million."33 Stoik also made it clear that if the NEP was revised or if new negotiated settlements could be arrived at with the provinces which were satisfactory to Gulf, "we are prepared to reinstate spending to the limit of the additional cash that will be available to us."34 Indeed, during the period from December 1980 to September 1981, Gulf appeared to assume that the fiscal regime would be altered in the federal-Alberta negotiations in favour of the industry. The company therefore concentrated its efforts on lobbying for an acceptable fiscal regime rather than on criticising specific pricing or taxation features of the NEP. Thus, Gulf, like most other companies, was disappointed with the results of the September 1, 1981 Memorandum of Agreement:

We said (in December of 1980) that we were prepared to reinstate spending to the limit of additional cash made
available to us through revisions to NEP or through agreements to be negotiated between Ottawa and the producing provinces. But last September, when the producing provinces and Ottawa signed the oil and gas pricing and taxation agreements, it was the signal to the industry that the door was closed. The federal-provincial agreements further reduced cash flow in the early years of those agreements; but I still hope for relaxation of some of the National Energy Program's most onerous provisions.35

While Gulf's reaction to the NEP's pricing and taxation proposals were relatively subdued between October of 1980 and September of 1981, its criticism of the government's approach to Canadianization of the industry was loud. In December of 1980 Stoik observed that: "As a Canadian, I can understand the government's desire to see increased Canadian content in the industry. But when we examine the very rapid growth of the Canadian sector over the past few years, we seriously question whether the discriminatory and confiscatory measures contained in the new policies are justified."36 He argued that by the end of 1979 Canadian control of industry assets had already reached 34 percent and, if this trend had continued for just two more years, then the government's original objective of 50 percent of the industry assets by 1990 would have been achieved in 1981. However, added Stoik: "In view of this trend, it is not surprising that the government, in August, suddenly abandoned its previous objective of having 50 percent of the assets in Canadian hands by 1990, and changed it to 50 percent of the production revenues - 72 percent of which it claims are still going to multinational affiliates."37 Stoik felt that since a company has no control over who buys its shares, a preferable approach to Canadianization would have been for the government to create incentives for Canadians to buy and hold industry shares: "Governments already have complete
control over the industry, so the focus should be on increasing Canadian equity ownership, which would keep more of the dividends in Canada."^{38}

Stoik's stress on Government incentives to encourage Canadians to buy and hold oil and gas industry shares must be understood in light of Gulf's secondary share offering which had been made in the spring of 1980. At that time the parent company of Gulf Canada, Gulf Corporation, had acquired Amalgamated Bonanza Ltd. This acquisition had been paid for with Gulf Canada shares. Also at that time, a five for one stock split of Gulf Canada shares, together with a Gulf Canada secondary offering, had increased the float of stock available to the general public by almost 40 percent. These events allowed Gulf Corporation's holdings in Gulf Canada to be reduced by approximately 8 percent to 60.2 percent. Commenting on this opportunity for Canadians to buy into Gulf Canada in the spring of 1980, Stoik stated in his December 1980 speech that: "As you know, Gulf Oil Corporation reduced its interest in our company by about 8 percent during the past year. We were hoping this would result in a significant increase in our Canadian ownership, but foreign investor enthusiasm for our future prospects was such that our Canadian ownership increased by only one percent, to about 21 percent."^{39} In future public statements, especially during the spring of 1981, Gulf would use the 1980 secondary offering as an example of: "... reasonable, logical movement toward increased Canadianization,"^{40} that would have succeeded if only the government had provided sufficient tax incentives to Canadians.

Gulf's criticism of the NEP pricing and taxation regime was subdued until after the Canada-Alberta Agreement. The Canadianization measures and the back-in provision of Bill C-48 were, however, consistently attacked by Gulf's public statements. "(The government's) line of reasoning does not answer the
basic unfairness of retroactively changing the rules and taking assets found in
good faith under previous agreements. In our case, a 25 percent back-in on
successful frontier discoveries would far exceed the value of any incentives we
have received, and whatever compensation we will eventually get under the
revised regulations."41

While many of the foreign majors downplayed the Bertrand Report and
chose not to highlight it in their 1981 annual shareholder's meeting noting that an
inquiry was underway which would in the end exonerate the industry, Gulf's J.C.
Phillips, Chairman of the Board, devoted his entire speech to refuting "many of
the irresponsible allegations which it contains ..." Phillips made three main points
in his speech. First he argued that the high prices charged consumers by the
majors as compared to those charged by the independents merely reflected the
additional services being provided by the majors to the consumer, "People were
not just looking for gasoline - which was the only product most of the small
independents provided. They also wanted convenience, accessibility, and a range
of services. Prices that provided this complete range of services just had to be
higher than prices that delivered only gasoline." Second, Phillips allowed that
overbuilding of service stations had occurred in the 1950s in response to the
demand of a rapidly expanding car-driving public, but also noted that
consolidation and conversion of retail outlets followed, "... a classic example of
market forces dictating correction." Finally, Phillips rejected the charge that
consumers were overcharged as a result of paying unnecessarily high prices for
foreign crude between 1958 and 1973. The underlying assumption behind the
latter allegation, said Phillips, was that all companies should have been buying
crude oil on the spot market which, in the period under review, was frequently
below the official price. Phillips stated that such an assumption overlooks the
fact that no responsible firm would build a multi-million dollar refinery without assurance of continuous feedstock supply at reasonably predictable cost predictability that was not available when purchasing crude on the spot market.42

Despite its extensive criticism of the NEP Gulf maintained its commitment to its major Beaufort Sea exploration program. In a series of ongoing negotiations between mid-1980 and the end of 1983 with the federal government over the approval of its radical new drilling system and its exploration agreements, Gulf developed a reputation throughout the COGLA-OIRB network as a difficult project sponsor which gave inadequate regard to maximizing Canadian content and industrial benefits. Gulf was criticized for not giving Canadian firms adequate time to bid for contracts, for not providing complete information on performance requirements, and for 'designing out' Canadian equipment. Only after the application of power at the top through a series of meetings between the Minister of Industry, Trade and Commerce and the President of Gulf was Gulf brought around to giving Canadian companies full and fair opportunity. During this same period Gulf ran a series of full-page newspaper advertisements stressing the Canadian roots of its executives and the benefits to Canadian businesses all across Canada of Gulf's procurement policy, right down to listing the local cafés frequented by Gulf employees in prairie oil towns. It is now estimated that after all the government arm twisting Canadian content in the massive, nearly $700 million drilling system is about 50 per cent.

Gulf later tried to depreciate the $700 million drilling equipment over three years. This escalated the cost per well and was widely regarded as an attempt by Gulf to exploit the PIP grant system. The upshot of this escalated cost would be higher PIP grants from the federal treasury. Gulf Canada's
Canadian partner Canterra Energy Ltd., a subsidiary of the half federally-owned
Canadian Development Corporation, objected to the use of the equipment and its
cost and eventually withdrew from the project.

Early in 1984 the fate of Gulf Canada in the post-NEP era took on a new
twist when Gulf Corporation, its U.S. parent, was acquired by the Standard Oil
Company of California (Socal). This greatly increased the probability that
Gulf Canada's assets would be sold both to help Socal pay for the takeover and to
assuage U.S. anti-trust regulations. It is highly unlikely, moreover, that Ottawa's
Foreign Investment Review Agency (FIRA) would approve a sale to foreign
controlled interests.

For the foreign majors, as a whole, there is no doubt that the first two
years of the NEP fiscal regime, in conjunction with their own tactical responses
and other important independent factors such as the recession and the permanent
effects of conservation and off-oil incentives, produced reduced earnings. Imperial Oil reported a doubling of taxes from $1.1 billion in 1980 to over $2
billion in 1982 with earnings decreasing about 52 percent over the same period.
Texaco reported a 13 percent decrease from 1981 to 1982 and Gulf Canada was
down by 32.7 percent in the same period. Most of the majors, however,
attributed the strong decline primarily to what were increasingly regarded as
permanent reductions in the level of downstream sales. This lead to the closing
of seven refineries and paralleled twenty-seven such closings in the U.S. and
twenty-eight in Europe. It also meant significant staff cuts including 1200 at
Gulf Canada and 800 at Imperial.

These overall effects must be put in some context, however. First, the
majors also benefitted from the PIP grants especially since many of the PIP
funds flowed indirectly to the multinationals via farm-ins with Canadian firms.
Second, it must be remembered that the multinationals still have the best capacity to plan "for the long haul." They operate on ten and fifteen year time frames and were well suited to wait patiently for a new government or new policies more in line with their interests.

The Canadian Majors: General and Individual Responses

Even though Petro-Canada and the two private sector majors Dome and Nova were among the most sanguine voices in the industry on the Canadianization issue, they quite naturally shared with the rest of the industry opposition to the pricing and taxation features of the NEP. For example, Dome's Chairman Jack Gallagher and President Bill Richards told their shareholders in April 1981 that:

There are a number of negative factors in the National Energy Program including the wellhead revenue tax and excise tax on natural gas and natural gas liquids. These new taxes will affect the cash flows of all oil companies operating in Canada. It is hoped that current provincial and federal government negotiations will result in a modification of these new taxes or a reduction of royalty or an increase in price, or a combination of these so that the producer's share will be increased sufficiently to encourage a major exploration effort. 45

Indeed, in a less prosaic moment, Bill Richards labeled the NEP as "confiscation without compensation." Dome was, in particular, not pleased with most of the changes destined for the Canada Lands. Dome was one of the leading frontier explorers and had, via super depletion allowances and other arrangements, managed to couch its operation in a very favourable fiscal policy blanket. The changes to the royalty system, the Crown Interest and the shifts in the incentive system all directly affected Dome. Nova's operations were confined to the western basin in 1980 and it too argued the inadequacy of the
price rises and the onerous combined federal-provincial tax take. It was marginally happier with the outcome of the 1981 Canada-Alberta Agreement. Petro-Canada, as an oil company, would also have preferred higher prices and lower taxes, but found itself, by the very nature of its lineage and favoured status, defending, or at least "explaining," the pricing, taxation and other aspects of the NEP.

The NEP, by providing higher incentive grants for Canadian firms, by encouraging the acquisition of foreign-owned firms, and by requiring a minimum of 50 per cent Canadian ownership on projects on the Canada Lands, included specific measures to move the industry toward the objective of 50 per cent Canadian ownership by 1990. While the chief executives of these three firms, Bob Blair, Jack Gallagher and William Hopper, had all called for greater Canadianization of the industry in the past, they and their companies had mixed feelings about the instruments chosen to achieve the objective. Dome and Petro-Canada's reactions were the most celebrated. Dome created Dome-Canada, retained 48 per cent ownership and offered the other 52 per cent to Canadians via a share offering. It also purchased a large foreign-owned firm, Hudson's Bay Oil and Gas, from Conoco for altogether about $4 billion. Petro-Canada purchased Belgian-owned Petro-Fina for $1.45 billion and the refining and marketing assets of B.P. Canada for $347.6 million. Nova had in 1979 made a significant purchase of the foreign-owned firm Husky Oil, which in turn made a smaller acquisition in the post-NEP era of Uno-Tex Petroleum for $371 million. Nova did, however, become far more active in the Canada Lands as a result of the NEP incentives.
Dome

Reflecting its major potential role as a key frontier producer Dome took particular exception to the NEP's adjustment of the Progressive Incremental Royalty on Canada Lands. On Canada Lands the government royalty consists of a basic royalty of 10 percent of the value of production, plus 40 percent of "net profit" implemented according to a Progressive Incremental Royalty (PIR) scheme, plus the Petroleum and Gas Revenue Tax, plus an income tax on the remainder. PIR is designed to levy a royalty only to the extent of net annual profit in excess of a 25 percent floor rate of return. The PIR had been in place prior to the announcement of the NEP. Between 1975 and 1977, industry and the federal government had discussed a number of possible amendments to the PIR for discoveries made on Canada Lands. Following these discussions, Bill C-20 was drafted which provided for a three year PIR exemption for discoveries made on Canada Lands before December 31, 1982. However, Bill C-20 was never passed and Bill C-48 reduced the previously proposed three year holiday to any discovery made prior to December 31, 1980. Therefore, President Bill Richards told the House of Commons Committee on National Resources and Public Works that:

Our programs were designed to take advantage of these opportunities and are already scheduled for three years hence. Consequently, we have already taken commitments in the expectation that the PIR holiday would be provided for in Bill C-20, and consequently we feel again that this is the reduction of a right which we felt we had already received. We feel that the substantial unexpected changes in the fiscal regime tend to be damaging to the financeability of these (energy) projects, tend to be detrimental to Canada's reputation as a stable country with sound policies.
In April of 1981, Dome Petroleum requested the government to amend the PIR exemption in Bill C-48 to take into account the "understanding with government as stated in Bill C-20."

Dome Petroleum is the largest natural gas liquids producer and marketer in Canada. This foremost position is well illustrated by Dome's 20 percent participation in the Arctic Pilot Project and by Dome's-proposed $4 billion dollar LNG export facility on British Columbia's northwest coast. Dome had hoped the natural gas tax would be modified in the federal-provincial negotiations during 1981. However, despite the fact that the Canada-Alberta Agreement of September 1981 reduced the export tax on natural gas to zero, Dome still argued that further tax relief and pricing measures were needed if the "critical cash flow shortage facing gas producers was to be alleviated."47

Along with the September 1981 gas taxation and pricing measures, Dome also listed the statement on gas marketing, contained in the accord, as being unsatisfactory. The Canada-Alberta accord stated that: "If the National Energy Board determines that there is an exportable surplus, it is the intention of the Government of Canada to authorize additional exports."48 Dome's Senior Vice-President John Beddome responded to this statement by saying that: "Although this offers a clear promise of improved sales via increased exports the real issue lies in answering the question of whether in fact there is an exportable surplus. Our industry has long felt that this very surplus exists and we must get on with the task of moving this gas."49 Dome's continuing campaign for greater gas exports was carried on throughout 1982. For example, in December of 1982, Bill Richards argued that the "development of export markets provides the economic justification for the exploration necessary to provide Canada with a secure supply of natural gas." Richards added the caveat that: "We don't, of course,
intend to pursue export sales without developing the domestic market as fully as is practical.\textsuperscript{50} Thus Richards took a position compatible with that of the NEP Update of May 1982.

Dome Petroleum did not find the fiscal regime of the NEP or subsequent energy accords as being completely satisfactory. While Dome did state that the NORP of the Canada-Alberta accord would provide significant new incentives for the exploration of provincial lands,\textsuperscript{51} if also felt that the taxation burden on industry, particularly on that industry segment committed to the frontiers, was onerous. In October of 1982, Jack Gallagher would state that: "We suggest that some of the more prolific fields in the frontier areas can stand the original base royalty of 10 percent plus PIR and the income tax, but to my knowledge, there are no oil fields that have been found in the frontier areas to date that are economic to develop with the additional PGRT tax and the 25 percent retroactive back-in by the federal government."\textsuperscript{52}

Dome clearly had the highest profile response to the Canadianization objective with its creation of Dome Canada and its acquisition of Hudson Bay Oil and Gas (HBOG).\textsuperscript{53} While the PIP ownership levels for maximum grants were later reduced to a lower level, as stated in the NEP they required that firms be 75 percent owned and controlled by Canadians to be eligible for the maximum PIP grants. Despite its Canadian roots and management, Dome Petroleum was about 65 percent foreign owned. During November and December of 1980 and January 1981, Dome's management discussed the effect of the new incentive regime on Dome's Beaufort operations with federal government representatives. In the last week of January, 1981, Jack Gallagher and Marc Lalonde held a joint news-conference in Calgary at which Dome announced the creation of a new Dome subsidiary, Dome Canada. A public offering of Dome Canada shares was
made constrained to Canadian individuals and institutions. This offering represented a 52 percent interest in the new company. Dome Petroleum would take up the remaining 48 percent through a cash purchase of stock and the transfer of some of its TransCanada Pipeline shares (TransCanada was a subsidiary of Dome Petroleum) to the new Dome Canada.

An agreement was entered into between Dome Canada and Dome Petroleum which allowed Dome Canada to earn a 50 percent interest in Dome Petroleum's provincial lands in return for Dome Canada paying all exploration costs. On Dome Petroleum's Canada Lands, Dome Canada would be eligible to earn between a 10 percent and 50 percent interest in return for paying all exploration costs. Because Dome Canada would be over 75 percent owned by Canadians, the company would be eligible for the maximum PIP grants. In addition, the transfer of TransCanada shares to Dome Canada increased the Canadian ownership rating of TransCanada to the extent that it was eligible for maximum PIP grants.

As part of the Dome Canada - Dome Petroleum agreement, and as a further public commitment to Ottawa's Canadianization goals, Dome Petroleum announced its intention to raise its own Canadian Ownership Rate as per the following schedule:

- 35 percent by December 1982
- 40 percent by December 1983
- 45 percent by December 1984
- 50 percent by December 1985
- 60 percent by December 1990

This commitment was related to yet another component of the same agreement which allowed Dome Petroleum an option to purchase up to 55 percent of Dome Canada's shares (up from Dome Petroleum's original interest of 48 percent)
within six years. If Dome Petroleum wished to exercise this option and still have Dome Canada retain full government PIP grants, then Dome Petroleum would have to increase its Canadian Ownership Rating.

In Dome Petroleum’s 1980 Annual Report the company stated that the creation of Dome Canada, together with its own commitment to increasing levels of Canadian ownership, should be regarded as a “positive response to the Federal Government’s policy to encourage increased Canadian ownership of the oil and gas industry.” A fuller explanation for the establishment of Dome Canada, and one perhaps less directly related to Dome’s good will towards the federal government, was provided by Dome’s President, Bill Richards, in April of 1981. Richards told the House of Commons Committee on National Resources and Public Works (conducting hearings on Bill C-48) that:

Immediately following the introduction of the National Energy Program, we in Dome found ourselves, so to speak, off-side; that is to say that we had a Canadian ownership rating of substantially under 75 percent and we had no reasonable expectation of being able to increase our Canadian ownership rating, in any reasonable period of time, to that rate. We found ourselves, therefore, in an extremely difficult position. We had plans for the commitment of approximately $400 million in capital expenditures by the end of 1981, in order to keep our planned schedule to be on stream by the end of 1986.

With no availability of the substantial incentives that were offered by the National Energy Program, our program was in deep difficulties. To respond to the initiative taken by the Government of Canada, we formed a company, Dome Canada Limited...  

The HBOG acquisition involved the purchase of 53 percent of the shares from the American oil company Conoco for $1.8 billion in June 1981, and the follow up acquisition of the remainder two months later. The later part was necessary to allow Dome access to HBOG’s cash flow. Altogether the deal cost
Dome $4 billion, and together with high interest rates and softening gas markets contributed to Dome's debt management problems.

Dome appeared to also have mixed feelings regarding the incentive grants scheme as opposed to the previous tax based incentives or other incentive options open to the government in 1980. Dome's 1980 Annual Report did state that: "The Company has endeavored to take advantage of the positive features in the National Energy Program, specifically the exploration incentives in both Federal and Provincial areas..." However, in January of 1981, Jack Gallagher told the Toronto Board of Trade that interest free federal loans, repayable out of production, "would have a better chance of political survival" than the PIP grants. The concern voiced by Gallagher in January of 1981 - on the political vulnerability of PIP - became of greater importance as the company's debt position worsened during 1981 and 1982.

Dome had banked heavily on the PIP grants and was owed $130 million for its 1981 exploration activity, with even higher sums payable for 1982. Suffering under a heavy debt load and inadequate cash flow Dome was naturally anxious about the long delays in the passage of PIP legislation in the House of Commons. In his spring 1982 appearance before the House energy legislation committee Bill Richards strongly urged the members to expedite passage of Bill C-104, the PIP grant legislation.

Dome opposed the 25 percent back-in provisions contained in Bill C-48. The company argued that as a result of industry representations to government during 1976 and 1977 an agreement had been arrived at that Petro-Canada would have no production take on any lands where a significant discovery had been made or where Canadian ownership was over 35 percent. If, however, Canadian ownership were under 35 percent, then the interest accruing to Petro-Canada...
would vary according to the degree of Canadian ownership. This agreement, said Dome, was embodied under certain amendments to the Canada Oil and Gas Land Regulations in July of 1977. On the basis of these regulations ("on the basis of these understandings,") Dome involved itself in expenditures in excess of $600 million. "It is our view, said Bill Richards in April of 1981, "that the present provision for a Petro-Canada take is contrary to the arrangements we understood we had at that time, and we feel that it is unnecessary in view of the large share of the profits which the government already owns."\textsuperscript{59}

In late 1982 Dome was forced by its increasingly critical debt situation to sign an arrangement with the federal government and its Canadian bankers which would see Ottawa and the banks gain substantial control over Dome's management decisions in exchange for the infusion of $1 billion. Fortunately for Dome, it had not by the end of 1983 been forced to activate this arrangement. Dome managed to stay afloat by selling assets and cutting corporate costs. It also benefited from lower interest rates (a decrease in the interest rates of 1 percent saved Dome around $50 million a year). In late 1983 Jack Gallagher and Bill Richards were replaced by a new management team headed by Howard McDonald.\textsuperscript{60}

**Petro-Canada**

Petro-Canada Vice-President Joel Bell agreed with his private sector counterparts that prices must increase. Even though "increased oil prices are not popular and can be expected to have an adverse impact on the rate of inflation, it is evident that higher oil prices are needed both to reduce the growth in demand and to encourage the development of new sources of supply."\textsuperscript{61} This is a line Petro-Canada would often take throughout the post-
NEP period, particularly after softening world prices dampened the escalation of domestic price increases in 1982-83.

We have seen that particularly between September 1981 and mid-1982, much of the industry argued that the cutbacks and layoffs in the oil industry were the fault of the NEP, in particular the PGRT and the IORT. Petro-Canada officials, however, were attributing the ills of the industry less to the NEP than to changing market conditions by no means unique to Canada: "There is a great deal of gallows humour going around Calgary these days.... Much of the blame for this pessimism has been focussed on the National Energy Program and indeed, while some of this blame is justified, most of the reasons for the serious problems facing the oil and gas business today have world roots that have nothing to do with the NEP."62 While acknowledging that the fiscal regime of the NEP was designed for buoyant times, Joel Bell said: "We do work in an industry which is looked to for government revenues -- partly because the prevailing values are not established by a free market and partly because our industry has been the one real strength of producing country economies in recent years, and hence a logical place to turn for the needs of public treasuries."63 The fiscal regime cannot solve the problems of extreme debt leveraging or the absence of gas markets for shut-in reserves. Changing the fiscal regime, said Bell, would not fully compensate for dashed presumptions of constantly rising real world prices and never-ending demand growth.

In part because the federal government did such a poor job of defending the NEP after it introduced it, in part because of the favoured status provided Petro-Canada under the NEP, and in part because a senior Petro-Canada official, Joel Bell, had been involved in the preparation of the NEP, Petro-Canada found
itself in the position of having to carry much of the defense of the Canadianization aspects of the NEP.

One of the more notable "defence tactics" Petro-Canada employed in the immediate aftermath of the NEP against its critics, was the downplaying of its size within the energy sector and the importance of its role within the context of the NEP. For example, in March of 1981 Bell would state that: "Acquisitions by Petro-Canada, or other agencies of Government also sounds ominous to many observers. Petro-Canada only need achieve a certain size and revenues base to perform the basic role designed for it - to be able technically and operationally to make a challenging project go; to provide additional risk capital to fund large and risky projects; to participate in the international market to protect Canadian interests; to help Government understand the industry; to add to the level of activity in priority areas; and to increase the Canadian content in those activities. In fact, it would be dangerous for Petro-Canada to be conceived of as a giant-sized firm representing a large part of the industry."64 And in the following month Bell would again downplay the role of Petro-Canada, this time with respect to the NEP: "Once again, the objectives of government policy of which Petro-Canada is part, do not only turn to Petro-Canada for their implementation. The more responsible and entrepreneurial Canadian companies, including some not previously in the oil business, have and will spearhead part of the change sought in the complexion of the Canadian oil and gas industry. In fact, the extent of this response will affect the extent to which recourse is had to Petro-Canada or other Government vehicles for the realization of the goals."65

Petro-Canada did not deny that a national oil company enjoyed certain advantages over private sector firms, but it argued that these advantages were
"minimal," even with respect to the back-in privilege, "... the government is now proposing to take a 25 percent carried interest through the exploratory stages on federal lands, offer a 25 percent grant to all spenders regardless of nationality, and could transfer that carried interest to any agent, including Petro-Canada ... The government has, however, required of us that we meet the highest work-level commitments on our land holdings and expects us to use our land position aggressively to draw new participants, especially Canadian participants into the activity where they are inclined to join with us."66

The retroactive nature of the Crown Interest provision in Bill C-48 was readily admitted by Petro-Canada, but the corporation argued that there was nothing especially new about retroactivity in public policy:

This element (back-in) was criticized as being retroactive and it is, in the same sense that any change in tax or other form of government take is retroactive when imposed where previous investment has occurred. The effect of this provision is to have the government participate in 25 percent of the future value of production. This is clearly more flexible than a direct tax or royalty on production. The government must spend its 25 percent of all costs on exploring and developing the fields ... In the Canadian context, the selection of this technique is motivated by the Government's desire to have a greater understanding and capacity to influence activities on Canadian Lands. It is also important to understand that this provision increases Canadian ownership and reduces the difficulty of achieving 50 percent Canadian ownership requirement, since despite being a fiscal provision, it also counts toward the ownership requirement.67

Petro-Canada also attempted to deflect criticism of its activities under the NEP by emphasizing that its existence was merely a pragmatic response by government to new problems in the energy sector of the economy: "The proliferation of (national oil companies), even in jurisdictions of widely divergent
political philosophies, suggests that a government oil company should be seen more as a matter of policy expedience for the government to conveniently serve its goals rather than a reflection of political philosophy. Too much of the debate on national oil companies has turned on philosophies and on the extremes of either public ownership or private enterprise rather than on the utility of a government company to complement or replace other public policies aimed at achieving energy goals. This has deflected the discussion from the more appropriate consideration of the productive co-existence of public and private goals and bodies.\textsuperscript{68}

Yet, of course, Petro-Canada, as a major governing instrument in energy policy, did enjoy special advantages in the NEP. The Liberals were responding to both strong public support for Petro-Canada and to strong support within the caucus and party when they mounted a stout defense of Petro-Canada in the face of the Clark government’s privatization plans, and during the election. Indeed, Trudeau’s January 23, 1980, Halifax election speech identified Petro-Canada as a key instrument for pursuing both security and Canadianization goals.\textsuperscript{69} He promised to strengthen and expand Petro-Canada. Consequently, Petro-Canada enjoyed major equity infusions from the government and access to the Canadian Ownership Change revenues to finance its acquisitions. This, of course, was a major focus of criticism of NEP critics. What Petro-Canada did not do is of as much interest as what it did. The NEP stated that "for these reasons, the government of Canada (through Petro-Canada and other instruments) intends to acquire several of the large (foreign) oil and gas firms."\textsuperscript{70} With the exception of Shell the ten largest foreign-controlled firms were American. Despite polls which showed strong public support for Petro-Canada acquiring one of the largest foreign-owned firms,\textsuperscript{71} Petro-Canada did not acquire any of them, but
rather purchased Belgium-owned Petrofina, the eighteenth largest company in Canada (in February 1981), and then later the refining and marketing assets of British-owned British Petroleum (Fall, 1982) the twentieth ranked company. The American companies that were acquired were bought by privately-owned Canadian companies. Via these purchases Petro-Canada moved from being the seventh largest to the fourth largest oil company in Canada.\textsuperscript{72}

In a speech given exactly a year after the introduction of the NEP, Petro-Canada Chairman William Hopper revealed some of the anger which Petro-Canada felt toward other Canadian-owned elements of the industry which had been very vocal in their criticism of Petro-Canada:

Finally, I would like to return to my comments made earlier by industry about the state of gloom and doom that the industry is creating. Petro-Canada has been a member of the Independent Petroleum Association of Canada since we were invited to join in 1976. We have not been an active member nor have our views on policy issues been sought. Over the last year many statements have been made by IPAC that we have disagreed with strongly. In fact, they have attacked us - one of their own members. Their strong attack on the National Energy Program and the Energy Pricing Agreement is in my view wrong and harmful to the interests of its member companies, shareholders in those companies, and Canadians in general. As a consequence, Petro-Canada will resign its membership in IPAC as of today.\textsuperscript{73}

Earlier in his speech, perhaps as a result of the purpose of his speech, Hopper had directly spoken to the charge that the NEP and Petro-Canada were another example of "creeping socialism" and a further erosion of free enterprise:

Government intervention in the economy, particularly to favour Canadian companies and especially Petro-Canada, is characterized by critics as inherently, and by definition, bad. Government intervention wasn't inherently bad for this industry when the federal government stepped in to protect the young Canadian oil
industry in 1960 with the protection of the Ottawa Valley line. Many Canadians paid higher oil and gas prices for a decade to assist and protect this industry. That wasn't what was said when government was asked to assist the building of the TransCanada Pipeline. That certainly wasn't what was said by three members of the Syncrude Consortium when the fourth dropped out. Then government intervention was not only welcomed, it was demanded. The simple fact is that the oil business can't have it all their own way... Simply put, oil is now a strategic commodity. Since 1973 it has become the object of governmental concern all over the world. Anyone who thinks that government intervention in the economy is going to decrease probably also believes in Unicorns. As to creeping socialism; if the NEP is the final word, this industry, and all others, can sleep comfortably at night.²⁴

Petro-Canada officials were better able to withstand the barrage of criticism directed at them by foreign and Canadian critics, because they knew Petro-Canada had strong support among the mass of Canadians. It had weathered its major crisis to date, one that threatened its very existence, and emerged, according to the polls, as a very popular national symbol. In the post-NEP period Canadians continued to favour Petro-Canada whose retail sales were up by as much as 30 per cent in a shrinking market. It was also clear that a larger number of private sector executives and employers were willing to work for the state company. After all, it was one of the companies still growing in the industry in 1982-83. Petro-Canada sought to maintain its appeal by conducting an extensive television and newspaper advertising campaign which appealed to Canadian's nationalist sentiments by distinguishing itself and the consequences of its efforts from those of the multinationals, with slogans such as "Petro-Canada: It's Ours" and "Buy Petro-Canada and pump your money back into Canada."
In Nova's 1980 Annual Report the company stated that under the National Energy Program:

- The price of oil to consumers in Canada and the netbacks being offered to producers in various producing arenas are both too low to allow the domestic balancing of supply and demand by the early 1990's.

- Primary production of many heavy oil wells under the existing royalty structure in Saskatchewan, combined with the new federal taxes and pricing, cannot recover basic costs, and other wells are not generating sufficient cash flow to support routine maintenance requirements.

- The combined impact of current tax, royalty and pricing provisions for tertiary and enhanced heavy oil production does not encourage such production to meet previous expectations.75

In February of 1981, Robert Blair stated that the Nova group of companies had not yet changed its investment plans as a result of the National Energy Program. Apparently, Nova did not revise its investment plans because the company anticipated significant changes in the NEP's fiscal regime: "Back in October 1980 when the National Energy Program was outlined, the NOVA group of companies reviewed the documents carefully and with our customary optimism. Our thoughts were also tempered because we knew that the National Energy Program was developed in anticipation of stiff provincial opposition so that there were likely components that would 'give way' so to speak during Federal/Provincial negotiations.76 However, by February of 1981, Blair observed that: "It is growing apparent however that the flexibility we thought would exist, which would include some fundamental aspects of the National Energy Program, has not been shown."77
During the first half of 1981 Blair argued that a large increase in the price of domestic oil was essential for three reasons: (1) to assure producers of adequate netbacks (2) to encourage substitution to gas and (3) to provide more room for negotiation between federal and provincial governments. This last reason was stressed repeatedly by Blair in his public statements. For example, in his message to shareholders in March of 1981, Blair stated:

... I suggested in January that if there were an increase instantly, or with a few months forewarning, of $10 per barrel in the Canadian oil price, coupled with an instant start of gas-for-oil substitution, the overall effect on the Canadian economy would be a plus.

... I do not suggest the $10 increase to make oil companies richer, but to give the situation more room for negotiation. If ever and wherever petroleum producing companies start making much more than they need to develop next year's supply, or more than society trusts them to hold in their possession as a matter of public concern, then set the tax rates accordingly and let them work with the balance. What a private sector petroleum company needs is enough net price, after royalty and tax, to justify its new investments on the expectation of making a return reasonable to the associated risk.78

The new pricing schedule of September 1981 was regarded by Blair as providing an "excellent incentive right now to find and produce new light oil" in Alberta; especially when the NORP price was combined with the NEP Update changes and the Alberta government royalty initiatives.79 It should be noted that by September of 1981 NOVA was in a good position to take advantage of the NORP. In August of that same year Husky Oil had purchased Uno-Tex for $371 million. Whereas Husky had previously been primarily confined in Canada to heavy oil extraction, it now possessed a vehicle for expanding its activities in conventional oil production.
In June 1979 Nova, then AGTL, acquired a controlling interest in the American owned Husky Oil, in the process snatching Husky from Petro-Canada's grasp. This acquisition represented not only a major enlargement of the company's range of activities, but also represented a major change in main revenue sources for the company. In 1975 gas transmission had accounted for 90 percent of AGTL's net operating income. By 1979 gas transmission contributed only 46 percent while petroleum contributed 40 percent. Petrochemicals and manufacturing accounted for the residual. In keeping with the newly diversified base of the company, AGTL changed its name to NOVA, An Alberta Corporation in August of 1980. With respect to the name change, Nova's 1980 Annual Report noted that:

It is important to note that while NOVA is proud of its ability to change and diversify, its Board wanted to be sure the Alberta base of the Company continued to be emphasized. It is as true as ever that by far the majority of NOVA's assets are located in Alberta as are its permanent headquarters and most of its employees and offices.\(^{80}\)

On the subject of Canadianization, Bob Blair stated that, while "I have been counted among those who maintain that it will be better when there is more resident ownership, full management, professional and expert authority and technical investigation at all levels in the petroleum industry in Canada ... I would not be prepared at all to be counted on the side of any who argue that petroleum companies who are not majority owned or substantially owned by Canadians, should get out of Canada or become scorned as operators."\(^{81}\)

One of the Canadianization elements of the NEP is the COR/PIP regime. In November of 1980, Blair observed that the PIP grants would only help Husky if the company was able to shift from more development to exploration
commitments and from provincial to federal lands. Blair had no criticism to make of the shift from tax based incentives to the PIP direct grant system. As we have previously seen, Husky was able to make the shift from production to exploration through its acquisition of Uno-Tex. By 1982 Husky was also investigating possibilities for frontier participation. Blair noted in a January 27, 1982 speech to a Financial Analysts seminar in Calgary that:

We ... have good reason to expect that throughout 1982 and 1983 Husky will emerge as one of the half dozen leading investor vehicles for exploration off the east coast of Canada and with some participation in the Canadian Arctic. ... A shortage of semi-submersible vessels is anticipated, and we believe has provided Husky/Bow Valley the opportunity to put ourselves forward to the federal and provincial governments having jurisdiction and desiring exploration action and to the major companies who have the main land spreads, as business-like participants who will bring the indicated contribution of Canadian Ownership Rating and a special element of Canadian content to the provision of equipment and services.82

Although Nova was able to take advantage of PIP, it felt that in some respects the program went too far. In September of 1982, Blair criticized the complexity and intensity of Canadian Ownership Rating under the NEP:

The general point of some greater incentive to domestically controlled companies is supportable. But this rigorous inquisition on the exact degree of Canadian ownership is inefficient and even more important is insulting by its exact comparisons to some excellent corporations in Canada who do everything else right, but just do not happen to maintain a high level of Canadian ownership. For some, their rating stays low because one foreign parent maintains a control block, for others just because more non-resident than resident individuals have chosen them for investment through the stock markets. Anyhow, the rating process did not need to be turned into such an elaborate degree-of-citizenship comparison.83
While Nova did not extensively comment on the 25 percent crown interest on Canada Lands, it did consistently voice concern over the 'public ownership' thrust of the NEP, feeling it had been unduly stressed in the original NEP document. In September of 1982, Blair would wax reflectively to Ottawa to:

Back away from some of the factors in the National Energy Plan which have caused the greatest upset, starting with the "retroactive" back-in provision. I understand that the provision was not expected to be seen as badly discriminatory, but it certainly is so perceived. In principle, it was not anti-foreign, but practically it affected foreign companies mainly. Whatever the merits of professionals' arguments about 25 percent back-in matching 25 percent incentive payments, I think that the foreign perception of unfairness should be acknowledged by this time, and some other tax technique substituted. Any sign of a government acting retroactively as to a right of ownership can be serious in shaking confidence of an industry.

Nevertheless, Nova moved aggressively into the east coast offshore play, both by building drilling rigs in partnership with Husky and Bow Valley and by farming in to two major plays on the Scotian shelf. Husky also shared in the direct issuance of four exploration agreements by the Canada-Nova Scotia Offshore Oil and Gas Board. Farm-ins were also negotiated with Gulf, in the Beaufort Sea. That Husky became an active frontier participant between 1981 and March 1983 is evidenced by its status as the seventh largest PIP grant recipient at $40 million. It followed Dome Canada ($486 million), Petro-Canada ($431 million), Canterra ($130 million), Norcen ($92 million), Gulf Canada ($56 million), and Mobil ($46 million). Husky also proposed a $3.5 billion heavy oil project for the Lloydminster area. The conditions for the approval of this project were still being negotiated with the Alberta, Saskatchewan, and federal governments in 1984.
The Canadian Juniors: Reactions to the NEP

The category 'Canadian Juniors' includes literally hundreds of exploration and production companies. Most of these firms are members of IPAC, though so are the Canadian majors and the emerging Canadian majors identified above, with the exception of Petro-Canada which withdrew in 1981. Thus IPAC's reactions and positions were not identical to those of the juniors. Because there are so many juniors, and because individual company's responses varied in tone and substance it will not be possible to deal with specific companies. There were, however, enough similarities in the general response to make it possible to distil an overall reaction to the NEP by the juniors.

It can safely be said that the reaction of the Canadian owned juniors surprised the federal government and perhaps did more than anything else initially to tarnish the credibility of the NEP. Critics of the NEP could point to the reaction of this element of the industry as proof that the NEP authors did not really know what they were doing. It was, after all, this element of the industry - the aggressive, ambitious, dynamic small Canadians - along with the larger Canadian firms of course - which the Canadianization features of the NEP were supposed to favour. Like the rest of the industry they could have been expected to oppose the pricing and taxation provisions of the NEP. It is virtually part of the credo of the oil patch to oppose all increases in taxation and to constantly press for higher oil and gas prices. To the extent that oilmen felt the federal government really did deserve a larger share of energy revenues, they felt Ottawa should take it from the provincial share. However, the vociferous opposition of the juniors as a group to the Canadianization provisions of the NEP, which had both an ideological and material basis, was somewhat more of a surprise. To an extent this can be attributed to the political and psychological
composition of the people who run the juniors. Many of these oilmen are not particularly interested in or knowledgeable about politics and of those who are, most tend to see politics as a low form of activity, an inherently less important activity than wealth creation. Consequently, many of these people were unaware of the extent of the politicization of oil and gas over the previous decade; of the degree to which both energy politics and energy policy had expanded to involve much more than solely energy issues. Many were therefore shocked by the breadth, political motivation and polemical nature of the NEP.

Ideologically this element of the industry tends to be on the most conservative end of the Canadian political spectrum. Psychologically the people who run the juniors tend to embody the stridently independent, free-enterprise mentality of small business. Many of them have had career experience in the large bureaucracies of the major oil companies and were uncomfortable in technocratic functions and with the committee decision-making structures of the large firms. Rather they preferred the direct decision-making authority which is possible in a small company. While some of these firms have grown to quite a large size in recent years, they are still the most vulnerable interests in the overall context of Canadian energy politics. They are vulnerable to the majors, to government policies and to the market place. For example, past generations of Canadian juniors were taken over by the majors during the periods of great expansion by acquisition in the 1950's, 60's, and 70's. Moreover, the juniors have neither the capital to outbid the majors for exploration land, nor the technology or capital to challenge the majors in the frontiers. Consequently, they have in the past been largely restricted to the Western Sedimentary Basin and even there they end up with the land the majors chose not to bid for, or they do farm-in exploration on leases already tied up by the majors. They are also
vulnerable to decisions of government policy makers. For example, tax expenditures built into the Canadian tax system in the late 1970's provided them with access to the tax saving investment dollars of high income Canadians via drilling funds, which many of the juniors came to rely on for a significant part of their working capital. The threat to remove these in the McEachen 1981 Budget for a series of unrelated reasons exposed the juniors to loosing one of their key revenue sources. National Energy Board, Cabinet and U.S. regulatory agency decisions regarding oil and natural gas exports, and the price of these products in export and domestic markets directly affects their ability to sell their main products. They are also vulnerable to the vagaries of the market with respect to the demand for their products, the level of interest rates and the like.

The juniors shared with the rest of the industry the opposition to the constrained price increases allowed by the NEP. This is an obvious focus of opposition as it decreases the potential value of the assets of the oil and gas companies. In addition, one of the 'security' features of the NEP impacted on the juniors in a significant way. Specifically, one of the key measures of the NEP regarding enhanced energy security was to induce Canadian consumers, both residential and commercial, to switch from scarce oil to abundant natural gas for space heating needs. In addition to providing financial grant incentives to convince consumers to switch, the NEP utilized the price mechanism by promising that the natural gas price would be held at 65 percent of the oil price in Canada. Given that most of the juniors are primarily gas producers, this lower cap on the price of natural gas directly restricted their revenues per mcf.

With respect to taxation, the two new taxes introduced in the NEP, the PGRT, and the NGGLT, and the removal of the incentive program off the tax system had direct consequences for the cash flow of the juniors. Because most
of these firms were primarily gas producers the NGGLT was of direct consequence. Because upstream revenues are usually their only source of revenue, the fact that the PGRT was imposed at the well head and allowed for no write-offs affected the juniors even more than the integrated majors which had revenues generated from other levels of the integrated chain. Most of the juniors were active in 1980 in the western provinces and therefore, the NEP's intention to phase out the earned depletion allowance for exploration on provincial lands and to eliminate the depletion allowance for expenditures on conventional oil and gas development would have a direct impact on those firms that were in a tax-paying position. Of course the tax based depletion allowances were replaced in the NEP by the direct incentive grant program which allowed the federal government to target the incentives according to Canadian ownership levels and location of exploration and development. However, there were two practical problems associated with this program for the juniors, in addition to a major ideological dislike among many of them for the influence the PIP grants gave the government over the decision making of the individual companies.

First, throughout the 1970's the juniors had often gone to the foreign equity markets to raise capital and in the process had taken on foreign equity to the extent that in some cases the Canadian juniors did not have the requisite 75 percent ownership level to qualify for the highest PIP incentive payments. Secondly, given that the PIP objective was to channel exploration dollars to Canadian firms many of the juniors were upset that the levels of the PIP grants were dramatically higher for the Canada Lands, where few of them had the expertise or the capital to become involved, than the provincial lands, where most of them saw the bulk of their future exploration taking place. While the obvious reason the PIP grants were higher on the Canada Lands was that the
costs and risks were much higher, many of the juniors felt the NEP had prematurely de-emphasized the potential of the Western Sedimentary Basin to contribute to Canada's future oil supplies. None of the juniors were active in the frontiers, and few felt they had the necessary expertise to operate there, or even with the high PIP payments the financial capacity to carry a debt load for frontier exploration, given the long periods before payback. On the other hand, those who were interested, like some of the larger Canadian juniors, in making a move to the potentially rich frontier plays recognized that interventionist measures such as the high PIP payments and the requirements for 50 percent Canadian ownership for a production license on Canada Lands were probably necessary to get them involved, given that the majority of the best land was already leased by the foreign majors.

With respect to the NEP's stated objective of increasing Canadian ownership levels by encouraging the acquisition of foreign firms, the juniors were for the most part, and largely for ideological reasons, opposed to Petro-Canada's expansion through acquisitions. On the other hand, a number of the larger Canadian juniors engaged in or contemplated engaging in takeovers.

Circumstantial developments south of the border had the effect of making the NEP appear even more onerous. The election of the aggressively pro-business Reagan administration in the U.S. a week after the introduction of the NEP on a conservative platform of reducing government regulation of the economy in general, and completely deregulating oil pricing and phasing out the regulation of gas prices in particular, was music to the political ears of the oil juniors, particularly when juxtaposed with the sour notes of the NEP. The prospect of deregulated prices, markets for full production, and an overall lower state/federal tax burden in the U.S., compared with constrained price increases
for oil and particularly for gas, assumptions of limited market expansion for gas, increases in federal taxes and the prospect of further federal-provincial wrangling over revenue shares in Canada, combined with the juniors' gut-reaction hostility to the federal Liberal's centralism and interventionism and ideological attraction to the Reagan neo-conservative message, coalesced to convince a number of the juniors to cut back on their exploration activity in Canada and shift a greater share of their activity to the U.S. Thus it can be seen that there was both a material and ideological basis to the reaction of the juniors.

The introduction of a New Oil Reference Price (NORP), essentially world price, for 'conventional new oil,' that is oil from pools discovered after December 31, 1980 in the September 1, 1981 Canada-Alberta Agreement was an improvement to the pricing picture for the juniors, though the Agreement as a whole was much less efficacious than many of them had expected, and had the effect of shaking the faith of some of these companies in the Government of Alberta. One of the additional consequences of the Agreement and the largely negative reaction to it by the CPA, IPAC, a number of the majors and some of the juniors was to restrict to an even greater extent the investor interest in oils. As mentioned above the stock market and particularly the drilling funds are far more important to the juniors than to the larger firms who can finance more of their exploration from retained earnings and other internal revenues. Most of the juniors belong to IPAC, and as mentioned above IPAC took a very critical position on the Canada-Alberta Agreement. As a result of this position and the high profile political campaign that IPAC and some of its member companies chose to engage in in attempting to reverse the NEP, the organization became increasingly alienated from the federal government. As a consequence, a
number of IPAC members decided that to get their message across in Edmonton and particularly in Ottawa, they would have to negotiate separately from IPAC.

A loose organization of 157 juniors came together to lobby federal energy officials for changes in the tax and pricing structures, and they felt they were able to have an impact. By late spring of 1982, it had become obvious that the single price scenario upon which the revenue sharing assumptions of the Memorandum of Agreement were based had been quickly dated by changes in the world energy prices. Consequently, the industry had not benefited from the Canada-Alberta Agreement to the extent the governments had projected. After the passage of eight months and much hard industry lobbying and political agitation both levels of government concluded that further alterations were needed with respect to prices, royalties and taxation. On April 13, 1982 the Alberta government announced a $5.4 billion program consisting of royalty reductions and special grants and credits. On May 31, 1982 the federal government announced the NEP Update, which included a number of pricing and taxation changes which were generally thought to be a response to the lobbying efforts of the 157 juniors. Both IPAC and the CPA acknowledged the improvements involved in the NEP Update but were not satisfied that it had gone far enough and consequently maintained their critical stance.

For the juniors the most important features of the NEP Update were the $250,000 exemption from the PGRT, which constituted $900 million of the $2 billion in benefits involved in the package, and the introduction of the category 'new/old' oil, or oil discovered between 1973 and 1981, which would be allowed to move to a price level of 75 percent of world price. Since the juniors found the vast majority of their oil in the period since 1973, they would therefore benefit the most from such increases. The Incremental Oil Revenue Tax (IORT)
introduced in the September 1981 Agreement was reduced to zero for a year. While these changes are not everything the juniors would have liked, they were seen as positive "proof of exactly how specific that cause and effect relationship" between the 157 juniors and Ottawa had become.

The juniors continued to lobby both levels of government throughout 1982 and 1983, and the 1983 Amendment did extend world price to oil produced between 1974 and 1980 and to oil from infill wells, thereby covering most of the production of the junior firms. While some of the juniors farmed-in to the leases of the foreign-owned majors in the Canada Lands most strove to find NORP oil in western Canada. The most severe problem faced by the juniors as a group was that of shut-in natural gas. Throughout 1983 the juniors and other gas producers lobbied the Alberta and federal governments to take measures to increase gas exports to the U.S., such as decreasing the export price, but the major problem remained the existence of surplus U.S. production and soft U.S. markets.

A Summary of the Industry Response

This analysis of the overall reactions of various firms and elements within the industry to the NEP shows that there were variations on certain themes of the industry response to the NEP depending on the companies size, ownership and major sphere of operation. By aggregating the specific firms dealt with here back into their industry categories we can get a sense of the general position which emerged within these industry groups and how they varied from one another. The industry as a whole agreed that the price increases allowed in the NEP were inadequate, and when combined with the increased taxes would make the achievement of self-sufficiency impossible because the overall effect, even with incentives, would be inadequate netbacks to the industry. The foreign
majors were highly critical of the shift in the incentive system and the PetroCanada expansion and especially critical of the Crown Interest. Their response involved lobbying their home governments to pressure Ottawa for changes, slashing their exploration budgets, and canceling the non-conventional mega-projects. They also attempted to change their public image and to refute the Bertrand Report by employing major advertising campaigns. Once it became clear the NEP would remain largely intact, they attempted to take advantage of the PIP system by farming-out parts of their Canada Lands leases to Canadian controlled firms, by working with COGLA to address Canadian benefits standards, and by trying to take advantage where possible of loopholes in the PIP program. As a group they attempted, albeit with limited success, to put together through the CPA an alternative energy program which could meet the concerns of all CPA members, and thereby be used as an example of "common-ground" positions for lobbying the various governments.91

The three Canadian majors used their access to the federal government to lobby for changes in pricing, taxation, COR regulations and natural gas exports and pricing. While they were critical of aspects of the Canadianization program, they also moved to take material advantage of it by, in Nova's case, using their high PIP payments to transfer more of their exploration to the East Coast, and in Dome and Petro-Canada's case by making significant acquisitions, as well as maintaining their leading roles on the Canada Lands.

As a rule the junior firms reacted with anger to the centralist and interventionist thrust of the NEP. Most of the companies cut back their exploration programs and a number shifted a percentage of their exploration activity to the U.S. They, of course, continued to lobby the federal and provincial governments for changes to the pricing, taxation, and royalty regimes.
and met with some success. While as a whole they were quite critical of the chosen means to increase Canadianization, a number of the juniors sought to achieve advantages for their shareholders by acquiring foreign firms or farming in to foreign held leases in the Canada Lands.

The Federal Response

The federal government responded to the industry in a number of ways, both verbal and concrete, in the three-year period following the introduction of the NEP. While Chapter 2 and the Appendix list the full range of federal actions, we will focus here on only the most prominent, the ones which most directly affected the industry. It is, of course, true that Ottawa was reacting simultaneously to the industry and the provinces and a number of its actions were directed at both. It has been necessary for analytical purposes in Chapters 3, 4, 5 and 6 to somewhat artificially distinguish between the two interrelated relationships of power.

The federal government moved quickly, in November and December of 1980, to introduce the initial regulations regarding Canadian ownership rate determination, the Petroleum Incentives Program and the new legislative regime for the Canada Lands. Ottawa established the Alberta Technical Advisory Committee (ATAC) in November. It was an initiative of Senator Bud Olson, who was acting both in his political capacity as the only Alberta minister (albeit unelected) in the Trudeau Cabinet and in his role as the Minister of State for Economic Development. Olson wanted to create a means to help restore communication with the oil and gas industry in the explosive early months after the introduction of NEP. The ground rules for involvement in ATAC was that the basic principles and features of the NEP were not to be discussed. Only the fine-
tuning of the NEP was to be "allowed," hence the title 'technical.' ATAC was composed of about 15 senior executives drawn from about 10 Canadian firms such as Nova, Dome, Home Oil, Husky, Voyageur, and Westcoast Petroleum, in short some of the presumed beneficiaries of the NEP. An official of the CPA was also present, thus being the only indirect link to the multinationals. ATAC met frequently in Calgary from early November 1980 to the early spring of 1981 and had some influence on the content of the NEP legislation.

The major concerns raised in the earliest meetings in November 1980 were about the impact of the PGRT and the natural gas tax. ATAC members argued that the new taxes would have a large negative impact on corporate balance sheets, especially for the non-integrated and therefore mainly Canadian firms. Not surprisingly, there were concerns about key concepts in the NEP such as the precise meaning of Canadian ownership and control, how distinctions would be made between exploration and development, and what would constitute approved costs. There were also concerns about the "paper burden" effects of all the new requirements, especially for small Canadian firms. While a number of other important issues were discussed between federal and industry officials in the closed ATAC sessions over the next few months, the Canadian firms were able to get some action on two of these issues. Specifically, the federal government reduced the levels of Canadian ownership that would be required to gain access to the highest PIP grants for a limited number of years and Petroleum Incentives Administration officials were told to find ways to reduce the paper burden on the juniors. Thus, the ATAC exercise provided Ottawa with a useful means to establish contact with key industry interests and to get industry input on some of the technical issues raised by the NEP programs. For the companies, participation in ATAC provided a concrete means of getting their concerns,
especially about some of the 'unintended' consequences of the NEP, across to its authors.

In December the Liberals introduced Bill C-48, the *Canada Oil and Gas Act*. The Act established new regulations for exploration and production on the Canada Lands, and provided for the 25 per cent Crown Interest in every development right on the Canada Lands. It also established the Canada Oil and Gas Lands Administration (COGLA) to administer the Act and to renegotiate stricter work agreements on existing leases. The oil and gas industry was notorious for having low levels of Canadian content in its major projects. Through the exercise of its "bargaining chamber" influence on foreign majors that controlled most of the Canada Lands leases, COGLA was instructed to ensure that Canada received higher levels of industrial benefits from exploration activity in the north and offshore.

In February 1981 Prime Minister Trudeau rejected a request from IPAC that a special joint committee of the House of Commons and the Senate be established to undertake a full examination of the impact and ramifications of the National Energy Program. IPAC's basic argument was a) that the NEP merited the same level of thoughtful scrutiny as the constitutional reform proposals because the consequences were far too serious to have elements of the NEP treated as routine legislation, and b) that the government was proceeding at too fast a clip so that the impacts of the various facets of the NEP were not being related to one another.

At the height of the industry campaign against the new energy taxes, the Petro-Canada purchase of Petrofina, and other aspects of the NEP, the federal government released in March 1981 *The State of Competition in the Canadian Petroleum Industry*. As mentioned above, this report charged that the major
integrated firms (in other words the foreign majors) had, as a result of following uncompetitive practices such as overpaying parent companies for imported oil and operating an inefficient gasoline distribution system, overcharged Canadians by $12 billion (in 1981 dollars) for petroleum products between 1958 and 1973. The report also listed other practices employed by the majors which had acted to restrict competition in the industry. Based on the evidence provided in the report, a Restrictive Trade Practices Commission began an investigation, which included holding hearings across Canada. The release of the Report in March, when the government had had the Report in its possession earlier, reveals some of the tactical political manoeuvring that was being engaged in by the various interests. The Report had the effect of placing the foreign majors, which had been employing a major media and lobbying campaign against the NEP, back on the defensive.

Three months later in June 1981, the federal government released the Major Projects Task Force Report entitled Major Canadian Projects: Major Canadian Opportunities. It had been established in 1978 and was comprised of a group of 80 senior business and labour leaders. It was co-chaired by Nova's Robert Blair and Shirley Carr of the Canadian Labour Congress. Reflecting the 'buoyant' assumptions about what would happen to world oil prices over the rest of the century, the Report bravely identified some $440 billion worth of potential investment in major projects in Canada to the year 2000, over 90 per cent of which would be spent on energy production and distribution and hydrocarbon processing. The Task Force concluded that based on historical practice, the participation of foreign-owned firms in the key decision-making positions of these mega-projects would likely decrease the potential benefits to Canada. It went on to make fifty-one recommendations for improving the
benefits to the Canadian economy from the construction of major projects. The 
focus of these was the recommendation that Canadian-owned firms be chosen to 
play key roles in the management, engineering, procurement and construction of 
future mega-projects so that industrial and regional benefits would be 
maximized. These findings and recommendations of course reinforced the "need 
to increase Canadian content" sentiments expressed in the NEP and given 
legislative authority in the Canadian Oil and Gas Act. The Chief Executive 
Officers of the Royal Bank and Imperial Oil and three other multinationals 
(Cominco, Dow Chemical and Algoma Steel) filed formal dissenting views.

The most important development in 1981, both for the industry and for 
energy politics in general, was the conclusion by Alberta and the federal 
government of a Memorandum of Agreement on Energy Pricing and Taxation. The 
terms of the Agreement were to govern pricing and taxation from 
September 1, 1981 to December 31, 1986. To arrive at an agreement the two 
governments had to agree on a pricing scenario for the 1981-1986 period, in 
order that they could 'run' their numbers. They forecast that world price would 
rise steadily, by 2 per cent in real terms, throughout the period, and 
consequently concluded that there would be approximately $212.8 billion dollars 
of revenue to divide up, $94.2 billion of which was to go to the industry, $64.3 to 
Alberta and $54.3 to the federal government. Old oil, that is, oil discovered 
before January 1, 1981, was to increase in stages to the level of $57.75 by July 1, 
1986, though it was not to be allowed to exceed 75% of international price. The 
New Oil Reference Price (NORP) was introduced. NORP would provide higher 
prices (estimated to be $77.48 at the wellhead and $79.1 delivered at Montreal 
by July 1, 1986) for conventional new oil, that is oil from pools initially 
discovered after December 31, 1980; for incremental oil recovered by enhanced
recovery schemes commencing after December 31, 1980; and for synthetic oil from projects commencing operation after December 31, 1980. NORP (adjusted to the average quality of imported crude oil laid down at Montreal) was never to exceed 100 per cent of the international price. Syncrude was given world price for its production subject to certain future conditions. The natural gas pricing arrangement was altered so that natural gas destined for markets east of Alberta would now be priced at the Alberta border. The Alberta border price in effect September 1, 1981, was increased by 25 cents Mcf on February 1, 1982, and by 25 cents per Mcf every six months thereafter.

The price increases for conventional old oil were well short of what the industry had hoped for. Moreover, the industry charged, the impact of the positive changes that were made to the pricing system were vitiated by the increases in taxes. The NGGLT was reduced to zero for gas exports although Ottawa put in writing that this decision did not prejudice its right to levy such a tax. The NGGLT was retained for domestic sales and it was stated that it would be used to ensure that the parity relationship between the wholesale price of natural gas at the Toronto City Gate and the average price of crude oil at the Toronto Refinery Gate will remain at approximately 65 per cent. The PGRT was raised from 8 per cent to 16 per cent effective January 1, 1982, though there was a 25 per cent resource allowance allowed. The rate of PGRT for Alsands and Cold Lake was reduced from 16 per cent to 10.67 per cent until the particular project achieves payout. "Because the 'old oil' price structure will provide significantly higher prices for oil already being produced profitably at lower costs - thus inviting excess profits - the federal government will levy a special tax on incremental revenues from such oil."95 The IORT was to be set, effective January 1, 1982, at a rate of 50 per cent on incremental old oil
revenues, after deducting Crown royalties associated with higher prices. Changes were also made in the Income Tax Act to phase out earned depletion in the Canada Lands (33 per cent in 1982, 20 per cent in 1983, 10 per cent in 1984 and zero thereafter). The federal government claimed the Agreement represented a fair trade-off between the interests of consumers, producers and both levels of government. The Liberals felt they were bargaining from a position of power. They had got more than they had bargained on in the NEP and therefore felt they were able to make concessions on pricing without detracting from their overall objectives. They were able to strengthen their Canadianization program and maintain their revenues through the tax increases.

Provincial approval of the Alsands project (Shell) and the Cold Lake heavy-oil project (Imperial Oil) was withheld by the Alberta government as part of its retaliatory campaign against the federal government and the NEP. By the time the Canada-Alberta Agreement was signed ten months later, the economics of these giant projects had become problematic. By early 1982 both the Alberta and federal governments had come to realize that the failure of world energy prices to follow their price forecast curves meant that they had squeezed the industry harder than they had intended. Thus within two months both levels of government announced major concessionary programs designed to get greater revenue flows to the industry in 1982-83. In April 1982, both governments also attempted to "sweeten the pot" for the Alsands project by granting it further additional taxation and fiscal incentives. Nevertheless, the increasingly uncertain prospects for world oil prices, the high cost of money, and a series of other factors convinced the Alsands partners that the $13 billion project was too risky to proceed.
Alberta moved first with respect to making concessions, announcing on April 13, 1982, a $5.4 billion program consisting of royalty reductions and special grants and credits. The federal government followed in May 1982 with the NEP Update. The Liberals used the NEP Update to argue the 'program' nature and flexibility of the NEP, 'asserting that it was not a single document, nor a static set of prices, taxes or initiatives, but rather a dynamic and comprehensive set of evolving responses to a changing world. Precisely because the world was not co-operating with the assumptions of the Canada-Alberta Agreement, the federal government had to use the NEP Update to make a further series of changes to both prices and taxes.

The NEP Update gave the Liberals a concrete opportunity to respond to its critics. They did so by producing a very 'upbeat' analysis, and by relinquishing $2 billion dollars. They claimed a number of successes for the October 1980 - May 1982 period - the provincial energy agreements, a reduction in Canadian oil demand, increased frontier exploration, a Canadianization program well ahead of expectations, the achievement of fairness in revenue-sharing, and even such 'problems of success' as shut-in conventional oil production. Overall, the NEP Update asserted, "remarkable progress has been made towards the objectives of the National Energy Program, in just 18 months." Yet, the very need for a NEP Update suggested all was not well. While the changing global situation complete with its unprecedented drop in world oil demand and increased downward pressure on prices caused 'new complications,' overall, the Update argued, "the petroleum industry's projected situation appears satisfactory, (yet) there are areas of real concern in the short term, especially with respect to smaller oil and gas companies and the gas industry in general." In addition to
giving itself a pat on the back, the federal government would 'address' these concerns.

While fewer concrete proposals emanated from the Update regarding the problems of natural gas producers, concrete proposals were made regarding measures to increase the industry's cashflow. More money ($500 million for a 'laterals fund') would be spent to expand the gas distribution infrastructure in Quebec, specifically by building laterals off the Trans-Quebec and Maritime (TQ+M) Pipeline. Further gas exports and exports of liquified natural gas (LNG) would be approved if found to be in excess of Canadian needs and if the export prices reflected the commodity value of natural gas over the long-term. Yet the problem of selling already authorized export volumes (only 63 per cent of authorized volumes were actually sold in the first quarter of 1982) was acknowledged to likely remain a problem, given the competition of other fuel sources with gas in the U.S. "It would probably be overly optimistic to expect major changes to the current system, which generally favours, in one way or another, U.S. gas over Canadian supplies." In other words, the federal government was not willing to dramatically reduce the export price of Canadian gas exports to shore up Canadian exports to the U.S: "to have reduced prices further would only have reduced overall returns to producers, and would have meant that Canadians were selling off their non-renewable resources for less than their long-term intrinsic value." 99

To deal with the problem of shut-in oil production, which it blamed in part on "the continuing influence of additional imports by eastern refiners, which were arranged at the time of the government of Alberta's mandatory production restrictions and which could not be immediately cancelled," 100 Ottawa promised to make changes to the Oil Import Compensation Program to ensure that eastern
refineries could not utilize imported oil to take advantage of compensation payments when domestic production was available. 101

It was in the changes to the taxation and pricing regimes, however, that the federal government put its money up front. The PGRT was reduced for a year from 16 per cent to 14.67 per cent resulting in an effective tax rate on production revenue of 11 per cent after the resource allowance deduction. IORT was reduced to zero per cent for one year. Oil discovered after 1973 was allowed to receive the 75 per cent of world price level. While this measure would be particularly helpful to the juniors who had discovered most of their oil after 1973, the PGRT exemption via a $250,000 annual credit on production revenue was designed specifically to aid small producers. The PGRT exemption was to account for $900 million of the $2 billion package. The NARP was extended to several new categories of higher cost oil production and was calculated to provide another $500 million. Thus, while the Liberal government asserted that the industry was generally in a satisfactory position, it reached into its pockets to make pricing and taxation concessions which would primarily benefit the junior firms.

In late 1982 the federal government together with the major Canadian banks from which Dome had borrowed heavily, devised a plan which would keep Dome from falling into receivership. In exchange for a major capital infusion of $1 billion, the banks and Ottawa would have attained a major say in the management of Dome. To date, Dome has not had to take up the banks/Ottawa proposal.

The OPEC benchmark price was reduced from $34 to $29 (U.S.) per barrel in March 1983, after a two-week summit meeting of OPEC members. This had the effect of causing Canadian conventional oil to exceed its ceiling of 75
per cent of world price. There was some argument between Alberta and Ottawa as to whether the old oil price could under the terms of the September 1981 Agreement, be rolled back so that it would not exceed the 75 per cent level. Ottawa finally conceded that there would be no rollback and the two governments agreed that a price increase due for July 1983 would be canceled. But this arrangement was not enough. In the face of the evolving global conditions which were placing extraordinary pressure on the Canada-Alberta Agreement, the two governments were forced to amend the 1981 Agreement. On June 30, 1983, a new eighteen month deal was struck. In a further attempt to get higher returns to the industry and at the same time to maintain its commitment to consumers, Ottawa froze conventional oil prices at $29.75 a barrel and altered the status of oil discovered between March 31, 1974 and 1980 so that it would be allowed to qualify for world price. Ottawa also allowed world price for oil from "infill" wells drilled in gaps in existing oil fields. Ottawa claimed that these changes could increase industry cash flow by as much as $250 million between July 1, 1983, and December 31, 1984. The federal government also made concessions regarding natural gas. While insisting that the price of natural gas must remain at 65 per cent of the price of oil in order to encourage further substitution, Ottawa agreed to allow natural gas price increases for producers in August 1983 and February 1984, and agreed to reduce the NGGLT (to zero if necessary) to allow this. Thus, the federal government made the major financial sacrifices in the Amendment.

Consequently, the federal government's revenues were not matching earlier forecasts which, of course, were based on rising prices. At the same time the federal government was liable for open-ended PIP grants which were not easily controlled because they depended on industry activity, much higher levels of
which had been demanded of Canada Lands explorers by COGLA in earlier months. Faced with decreasing energy revenues, examples of industry attempts to exploit the PIP system, and the prospect of deficits in energy arrangements, Ottawa announced changes in August 1983 to help cap the costs of the PIP grants. Wells over $50 million would henceforth be required to receive individual ministerial approval, in order to be eligible for PIP grants, and companies would have to show that their drilling costs were competitive.

Conclusion

Quite clearly, the NEP and subsequent developments reveal several attempts by Ottawa and the various industry interests to exercise the power they possess in Canadian energy politics. With the NEP the federal government exercised its powers of exhortation, taxation, expenditure and regulation in an attempt to effect fundamental change in both the Ottawa-industry and the intra-industry relationships of power. In turn, the various industry interests employed public denunciations of the NEP or other appeals to public opinion, and exercised their control over capital spending, exploration budgets and corporate borrowing, as well as their connections with other governments to signal their various positions to Ottawa and to attempt to force the federal government to alter aspects of the NEP. There were clearly features of the NEP that the industry as a whole disagreed with. Yet, the various corporate interests within the industry were treated differently enough by the NEP, that, particularly for the Canadian-controlled firms, it was necessary to calculate whether it was possible to take advantage of aspects of the NEP, even if, as a whole, the company or its chief officials were ideologically or personally opposed to the NEP.
In response to the reaction of the various industry interests to the NEP, the federal government used both verbal and concrete measures to lash out at certain elements of the industry—especially in defending its Canadianization program and Crown Interest proposal—and to appease others. While some of its reactions can be considered direct reactions to the application of power by the industry, others were in part reactions to pressure being applied to it by other governments. In fact, the government-industry and intergovernmental relationships have to be understood as part of a complex, interrelated three-sided arrangement. In order to consider the two relationships in an integrated way it is necessary to consider the impact the NEP had on the intergovernmental relationship.
Footnotes


3. One of the authors of the NEP told this author that External officials would not have been listened to anyhow, as External had come to be perceived in EMR as the "self-perceived defender of American interests in Canada."


5. An analysis of the relative influence of various oil companies and industry groups in Ottawa published October 27, 1980, the day before the introduction of the NEP, argued that Dome, Nova and Petro-Canada "probably have more clout than the rest of the industry put together." Their influence was considered an exception in that the industry as a whole lacked credibility. The foreign companies, "a group that public opinion polls say is as popular with most Canadians as a skunk at a garden party," were divided into two groups. "Companies with considerable Canadian content and a commitment to the country such as Imperial, Shell and Gulf... can get access to Mr. Lalonde when they want to." "Another group of multinationals is not trusted at all. Texaco, Amoco, Mobil and Chevron are regarded in Ottawa as quintessentially bad corporate citizens, ugly Americans intent on taking Canadians for all they can get with no regard to Canadian interests." James Rusk, "Powers in the Oil Lobby Cull Clout from the Flag," Toronto Globe and Mail, October 27, 1980, p. 9.

6. A full blown discussion would include the analysis of the reactions of each of these firms. Unfortunately such breadth is beyond the scope of this study.

7. This profile of this industry is not meant to be exhaustive. For example, one element of the industry not dealt with here but of considerable importance to energy politics in Alberta is the Alberta-based oil industry supply, service and manufacturing sector. This sector is also of importance federally because of Ottawa's often stated objective of encouraging the development of Canadian manufacturing, supply, and service companies capable of capturing a greater share of the industrial spinoffs from oil and gas exploration and production. The Energy Services Association (ESA), the Canadian Association of Oilwell Drilling Contractors (CAODC), and the
There would, under the NEP fiscal regime, be a reduction of cash flows for even Canadian companies.

The withdrawal of earned depletion on all development work could jeopardize the viability of some frontier projects, since development programs were predicted to be in the order of ten times as costly as the exploration phase.

The problem with Petro-Canada or other government agencies buying out multinational affiliates would be that a lot of money would go out of the country, while not one barrel of oil or cubic foot of natural gas would be added to Canada's reserves.

In his first speech on the NEP Stoik announced Gulf's investment cutbacks. He said that Gulf estimated its reduced cash flow as a result of the NEP to be about 30 percent. He said that "after a month of intensive study, we have come to the conclusion that we will have no alternative but to reduce our spending plans for this period (five years) by 15 percent or $900 million." Stoik also made it clear that if the NEP was revised or if new negotiated settlements could be arrived at with the provinces which were satisfactory to Gulf, "we are prepared to reinstate spending to the limit of the additional cash that will be available to us." Indeed, during the period from December 1980 to September 1981, Gulf appeared to assume that the fiscal regime would be altered in the federal-Alberta negotiations in favour of the industry. The company therefore concentrated its efforts on lobbying for an acceptable fiscal regime rather than on criticising specific pricing or taxation features of the NEP. Thus, Gulf, like most other companies, was disappointed with the results of the September 1, 1981 Memorandum of Agreement:

We said (in December of 1980) that we were prepared to reinstate spending to the limit of additional cash made


33. Ibid., p. 15.

34. Ibid.


37. Ibid., p. 8.

38. Ibid., p. 9.

39. Ibid., p. 8.


43. See Toronto Globe and Mail, March 6, 1984, pp. B1 and B5.

44. See Oilweek, op. cit., and January 9, 1984, pp. 22-27.


46. Bill Richards, "Comments to the House of Commons Standing Committee on Natural Resources and Public Works," April 1, 1981.


49. Beddome, op.cit.


51. Beddome called NORP a "powerful incentive mechanism for the production of new sources of oil." The NORP system in his estimation represented dramatically higher prices and provided for increases in the before tax netback on new oil of over three times those provided under the original blended price proposal of the NEP. Natural gas on the other hand received the least favorable pricing treatment. Beddome, op.cit.


53. For a detailed analysis of the HBOG and Dome Canada period see Jim Lyon, Dome: The Rise and Fall of the House that Jack Built (Toronto: Macmillan, 1983).


56. Richards, "Comments to House of Commons ...," op.cit.


59. Richards, "Comments to House of Commons ...," op.cit.
76. Robert Blair, "Notes for a Speech to the Financial Post Conference,"

77. Ibid.

78. Robert Blair, "President's Message," in Nova, An Alberta Corporation:

79. Robert Blair, "Notes of a Speech to the Annual Meeting of the Canadian
Life and Health Insurance Association," Edmonton, June 1, 1982, p. 6.


81. Robert Blair, "Notes from a Speech to the Conference on the
2-3.

82. Robert Blair, "Notes for a Speech to the Financial Analysts Federation
Seminar," Calgary, January 27, 1982, p. 6. It should be remembered that
Blair was co-chairman of the Major Projects Task Force which
recommended in June 1981 that a larger Canadian procurement,
management, engineering and construction capability be developed and
actively employed in Canadian natural resource projects. That Blair
intended to follow up these Task Force policy recommendations by moving
Nova's group of companies into a position whereby they could provide such
services is clear. As he told the 1982 annual General Meeting of Husky
shareholders:

The concept we have developed jointly with Bow
Valley Industries is to position our companies in the
creation of a new Canadian-owned exploration
operator capability, as completely equipped as
Petro-Canada, but private sector owned, and
thereby contribute equipment and exploration
expertise and action. Our joint venture is also
featuring Canadian-serviced equipment to a new
level of offshore operations, to fully meet the
national - and regional government policy
objectives... A shortage of equipment operators
having Canadian content continues to be projected
for that area. We can do a useful job from the point
of view of all of those parties and expect that by
taking every effort and our share of the risks, can
get the rights to some very worthwhile positions in
the Canada Lands. Robert Blair, "Speech to the
Annual General Meeting of Shareholders of Husky
Oil Ltd.," May 6, 1982, pp. 4-5.

83. Robert Blair, Statement for Panel Discussions on "Economic Nationalism in
84. Ibid., p. 12.


87. Some of those engaging in takeovers were: Sulpetro; United Canso Oil and Gas Ltd; Fairweather Gas Ltd; Drummond Petroleum Ltd; Turbo Resources Ltd; Aberford Resources Ltd; and Francana Oil and Gas Ltd. A number of the acquiring companies later experienced financial difficulties; as high interest rates and softening international prices increased their costs and decreased the value of the assets they had purchased.

88. Many of the juniors that bought into the U.S. during this period later had to take embarrassing writedowns on their U.S. assets when these assets proved to be less valuable than expected: "the value of all U.S. oil and gas reserves fell when world oil prices fell; some reserves were smaller than the purchasers had been led to believe; some deals were over-priced; some accounts receivable were worthless when partners and customers went bankrupt; and the rules of the game could change abruptly in the maze of regulations by states, federal authorities and even Indian tribes." Juniors weren't the only Canadian companies to experience this however. Dome had to writedown its U.S. properties by $214 million in 1982, and Hiram Walker Resources (Home Oil) experienced a writedown of $177 million on the assets it purchased from Davis Oil of Denver. The Canadian affiliates of the American multinationals did not engage in this shift of activity to the U.S. as they are not mandated by corporate policy to operate outside of Canada. See Gillian Steward, "Southern Discomfort: How Canadian Oilmen Lost Their Shirts in the U.S.," Energy, October, 1983, pp. 73-74.

89. See NEP Update, op.cit.

90. In terms of relationships among the juniors, the key actors in the group of 157 took credit for the advantageous features of the Update. "Lobbying as 157 companies we got hundreds of millions poured in the juniors ... we give Ottawa the biggest bang for the buck in getting the exploration and development industry back to work," said Peter Aubrey, a director of Zephyr Resources Ltd. Moreover, this group was increasingly disenchanted with IPAC's political posturing and the resulting negative image this was portraying of the industry's prospects for potential investors. "If we had not done our presentations independent of IPAC we wouldn't have got what was in NEP-II" (NEP Update) said Uldis Upitis, president of Pancontinental Oil Ltd. "It's absolutely paramount that we form our own organization and spread the word to the country. This is a profitable industry. We've got to tell the conventional sources of capital - the doctors, dentists, lawyers - that this is the time." See "NEP-II, The Payoff for Junior's Lobbying," Financial Post, June 12, 1982, p. 4:
91. If the CPA members ever doubted the difficulty involved in formulating an energy policy which satisfied the concerns of all interests within the industry as well as the concerns of governments, consumers and other interests, their attempt to develop an alternative energy program should have been a sobering experience. The CPA executive, secretariat and member firms worked for over two years trying to devise such a program. While the release of this document was 'imminent' throughout the latter half of 1983 it had still not been made public by March 1984.


94. Memorandum of Agreement, op.cit.


97. NEP Update, op.cit., p. 5.

98. Ibid., p. 6.


100. Ibid., p. 67.

101. Earlier, on April 1, 1982, Ottawa had announced an 'action program' designed to increase domestic oil production. It included the following measures:

- Assurance that Canadian heavy crude oil exports to the United States will continue to be competitively priced;
- National Energy Board consideration of export licences for heavy crude oils for periods up to one year;
- The National Energy Board to consider applications for exchanges of light and heavy crude oil via United States into eastern Canada;
- The National Energy Board to evaluate whether chronically shut-in crude oil, such as Saskatchewan light sour blend, can be allocated separately to refiners in eastern Canada or considered surplus to domestic requirements and exported;
- Eastern Canadian refiners to import only minimum volumes required under their offshore supply contracts; and
- Offshore contracts for heavy crude not to be renewed unless tied to access to light crude.
CHAPTER 6

Energy Politics and the NEP:
Intergovernmental Energy Relations

The constitutional division of power and the geographical division of the Canadian political economy have assured the intergovernmental relationship a primary position in Canadian energy politics. Chapter 2 provided the broad overview and Chapter 4 examined in detail the historical evolution of the key dimensions of intergovernmental energy relations. In this chapter we will continue to focus on the two key provincial governments of Alberta and Ontario and the federal government as we investigate in detail the dynamic and turbulent post-NEP period of intergovernmental energy relations. One of the overall conclusions of Chapter 4 was that while there were a number of specific developments in the 1979-80 period which aggravated relations along both dimensions of the intergovernmental relationship, there were also larger structural reasons for the troubled state of the relationship in the immediate pre-NEP period. Indeed, many of the wounds resulting from the 1973-74 intergovernmental energy battles had begun to heal by 1978-79, yet the fundamental, structural differences of interest which underpinned the conflicts were intact, and revealed once again by the 1979 price shocks internationally and the defeat of the Clark government domestically.

Chapter 4 analyzed the three key governments as major interests in Canadian energy politics. By assessing their positions on pricing, revenue sharing, and resource management throughout the post-1973 period, we were able to (a) discern where their various positions and interests converged and diverged, and (b) appraise the temporal and historical reasons for the ways in
which energy decisions caused developments in the federal-provincial and interregional relationships.

In this chapter we will identify the federal government's motives with respect to those aspects of the NEP which directly affected the provinces. We will then examine Alberta's response to the NEP, Ontario's response to the NEP and Alberta, and the federal Liberals' reaction to both. Our objective here is to clarify and enhance our knowledge of the specific characteristics of the intergovernmental relationship in order to contribute to the development of a better understanding of the larger world of Canadian energy politics.

**Energy Politics and the NEP: Motivations and Impacts**

We just came out of a referendum (the Québec referendum) in which we fought hard for a united Canada. We defeated those who wanted political sovereignty with economic association. We did not carry out this difficult battle to get economic sovereignty with political association.

(Marc Lalonde, June 18, 1980)

Alberta, with its booming energy economy, and Québec, with its separatist government, had been the leading provincial proponents of greater decentralization of the Canadian federation since the mid-1970s. Upon returning to power, the Liberals exhibited a renewed determination to halt what they had belatedly come to view as a dangerous process, one which was leading to a disintegration of federal authority and power. In the case of both provincial governments, a showdown over the future of Confederation was imminent. As the Lalonde statement above indicates, the federal side was energized by the
"Non" victory in the Québec Referendum on Sovereignty Association in May of 1980. If the Liberals pursued their election promises and used energy policy as a surrogate for restructuring the fiscal basis and political balance of power within Confederation, they could be assured of initiating a major federal-provincial and interregional confrontation.

Of course, the federal government was fully aware of this. On the first page of the NEP they stated that "within the political structure of our own Confederation, our internal energy problems could be allowed through excessively prolonged debate to become divisive, disruptive, and a cause of increased uncertainty at the very time when there is urgent need for decision, management and unity." They justified their decision to provide unilateral 'leadership' by noting that "within the space of a year two national governments have attempted, in concert with the provinces, to reach agreement on oil and gas prices as part of a national scheme for the management of our energy future and the equitable distribution of benefits. On all sides the positions have been reasonable yet consensus has not been possible." In seizing the initiative from the producing provinces with the NEP, the federal government had to build the case for "Made-in-Canada" prices, and for a larger share of revenue for the federal coffers. In challenging the existing revenue sharing regime and in rejecting dramatic price increases the Liberals appealed primarily to concerns for stability and fairness or equity. In a subsection of "The Problems" section of the NEP entitled "Energy Benefits and Burdens," the Liberals provided the rationale for the pricing and revenue sharing features of the NEP which would most directly effect the producing (and consuming) provinces and therefore effect not only the federal-provincial but also the interregional dimensions of the intergovernmental relationship. It is worth citing at length, as it outlines the
federal critique of the existing situation, and rationale for the major changes introduced in the NEP:

The impact (of oil price increases) on Canada's economy is not borne equally by all parts of Canada; the petroleum-producing areas benefit from OPEC actions, while the rest of Canada is penalized... A large proportion—approaching one-half—of the revenue from these higher domestic prices accrues to the governments of the petroleum-producing provinces; most of it to Alberta. The resulting inter-regional transfers of wealth are now so large, and growing so rapidly, that they have become a national issue.

The national and provincial governments in Canada have specific rights, powers, and obligations under the provisions of the British North America Act. However, there is no legislatively-defined arrangement under this Act for the sharing of revenues arising from the exploitation of natural resources, including petroleum. The revenue share accruing to each level of government is a function of a mixture of fiscal instruments that has evolved over time. The result is a distribution of benefits that is extraordinarily unfavourable to the national government...

... The Government of Canada has a legitimate claim to a share of the energy industry's revenues to support its energy initiatives, and its broad economic management responsibilities— to cushion individual Canadians from the adverse economic effects, to facilitate industrial adjustment, and to see that fair play is done. As already noted, OPEC price rises provide a windfall to Canadian energy producers; they also hit hard at the economy, driving inflation rates up, and growth and employment down. This is a crucial difference between Canada and most other energy-rich countries, among them federal states like Australia, or unitary states such as Norway and the United Kingdom. In these countries, the national government obtains most of the revenues accruing from the increase in price of domestic petroleum; it captures the "upside" appreciation; it gets the financial wherewithal to offset the negative economic consequences of world oil price shocks. In Canada, one provincial government— not all, and not the national government—enjoys most of the windfall under current policies. These policies are no longer compatible with the national interest...

To rely entirely on new taxes upon the industry would be unfair. It would also be ill-advised, for it would
put in jeopardy our energy supply objectives. Finally, it would miss the basic point: what is the appropriate distribution of oil and gas revenues among governments?

What share of revenues reflects the needs and responsibilities of the two levels of government? At present, provincial governments receive more than three-quarters of the oil and gas production revenues accruing to governments. Alberta, with 10 percent of Canada's population, receives over 80 percent of the petroleum revenues gained by provinces.

Under existing arrangements, the Government of Alberta is enjoying rapid increases in its oil and gas revenues. Its revenues have grown faster than its expenditures, even though those expenditures have risen faster than those in any other province. Alberta has been able, moreover, to reduce substantially its tax rates for non-resource corporations, and its citizens enjoy the lowest tax burden, and the highest disposable incomes in Canada. With rising oil and gas prices, the revenues accruing to the province are sufficient to allow the Government of Alberta to have growing budgetary surpluses for the foreseeable future ... Canadians must decide, however, whether the current arrangements, which concentrate the financial benefits of higher oil prices in one provincial government and give little benefit to the national government, are appropriate. The Government of Canada believes the present system is inappropriate and unfair.

Restrained price increases and a new series of federal taxes were the methods chosen by the Liberals to redistribute a larger share of economic rents to the national government and to energy consumers; that is, to equalize the energy benefits and burdens.

Price

The Liberal's election promise of a 'Made-in-Canada' blended price reflected, of course, a fundamental rejection of the argument that Canada ought to tie its domestic prices to the world price. "That would be a mistake. Under such a policy, Canadian prices would reflect uncertain and erratic movements in
world oil prices. Canadian economic performance would be made even more vulnerable to the economic repercussions of the world oil situation.\textsuperscript{5} The Liberal pricing policy also rejected using a major price increase as the main instrument to achieve conservation. "Entrenched social and economic patterns based on relatively cheap oil, must be modified, but this takes time. Government must move on all fronts to create a total environment that both encourages and allows consumers to cut their energy consumption.\textsuperscript{6}" Furthermore, world prices or prices linked to world prices were not felt necessary to encourage increased supplies. This was primarily because "the overwhelming share of Canada's current oil and gas production was found prior to ... 1973. It is not necessary to give producers windfall gains on these reserves in order to encourage new discoveries."\textsuperscript{7} The Liberals confidently intoned that "a price mechanism reflecting Canadian costs, not international oil prices, and which offers high and predictable returns for higher cost and risky resources" was a better way to provide "the necessary incentive." The final precept of Liberal pricing policy was the refusal to link Canadian natural gas prices to world oil prices. This was because while Canadian prospects in oil were problematic, Canada was thought to have abundant supplies of natural gas that could be produced at moderate prices. "Linking Canadian prices to world prices would keep the price of gas to the consumer rising at the same rate as the price of oil. This would inhibit the massive-scale substitution away from oil that must take place if Canada is to achieve energy security."\textsuperscript{8}

The NEP pricing regime included a slowly rising wellhead price for conventional oil, and a reference price for synthetic crude oil from the tarsands. "This will be the lesser of $38 a barrel, effective January 1, 1981, and escalated annually thereafter by the Consumer Price Index, or the international price."\textsuperscript{9}
Production from approved tertiary-enhanced recovery methods would receive a 'tertiary supplement' which for a barrel of oil at 15°API gravity would be added to the conventional price to equal a price of $30 per barrel on January 1, 1981. The various streams of domestic oil would be combined with the weighted-average cost of imported oil to form the 'blended' price. The petroleum consumer via the Petroleum Compensation Charge, which would be phased in, would take over responsibility from the taxpayer for the cost of subsidizing imported oil. The blended price was never to exceed 85 percent of world price or the average price of oil in the U.S., whichever was lower. Natural gas prices were to rise more slowly than oil to encourage consumers to use gas in preference to oil. There was to be a "one-year pause" in wellhead price increases for gas sold into the domestic market. The overall objective was to induce a massive shift from oil to natural gas use for space heating by reducing the price from an equivalent of 80 percent of the price of oil to around 65 percent by 1983, and by providing a number of grant incentives to consumers for furnace retrofits and the like.

The upshot of the NEP pricing package for the producing provinces was, of course, to restrain in a major way, when compared to world prices, the price they would receive for their oil and gas resources. Even though conventional oil was scheduled to reach $66.75, Oil Sands Reference Price $79.65, and Tertiary Recovery Oil $62.85, by 1990, the assumption in 1980 was that world prices would increase to much higher levels as world price was already around $39 Canadian. In addition to the absolute limits, the pace of increases - conventional oil was scheduled to rise $1 every six months until the end of 1983, from then until the end of 1985 by $2.25 every six months, and thereafter by $3.50 every six months "until it reaches its appropriate quality-determined level relative to
the oil sands 'reference price.' - was considered far too slow by the producing provinces.10

The producing provinces consistently used two arguments, (a) that their oil and gas were rapidly depleting non-renewable resources, and (b) that in fairness oil and gas should be treated like any other province's natural resources, to buttress their case for prices closer to the international price. The Liberals addressed both of these arguments in the NEP. In a special 'box' section of the NEP the Liberals rejected the Alberta government's claim that their resources were rapidly depleting, allowing at most that reserves of conventional crude oil had declined:

Alberta's Oil and Gas Resources - Rapidly Depleting?

In total, Alberta's remaining established reserves of oil and gas were larger in 1979 than in 1970, despite the production of huge quantities of oil and gas during the decade. What has changed is the mix; reserves of conventional crude oil and equivalent have declined, while natural gas reserves and oil sands resources committed to operating plants have increased.

The oil sands reserves in the table are those dedicated to the existing Suncor and Syncrude plants only. Total oil sands reserves are far greater. The Alberta Energy Resources Conservation Board (AERCB) estimates established surface-mineable oil sands reserves to be about 25 billion barrels from the Athabasca deposit alone. Total non-conventional petroleum reserves in Alberta are far higher again.

For natural gas, the table below reflects an increase in remaining recoverable reserves from 48 trillion cubic feet in 1970 to about 61 trillion cubic feet in 1979.
Alberta Oil and Gas Reserves*

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<th>1970</th>
<th>1979</th>
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<tr>
<td>Total remaining established reserves (billions of barrels of oil equivalent)</td>
<td>18.5</td>
<td>18.7</td>
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Relative shares

- Conventional crude oil and equivalent: 53% 36%
- Natural gas: 45% 56%
- Oil sands: 2% 8%

*Based on estimates by the Alberta Energy Resources Conservation Board.11

The argument that oil and gas resources should be treated like any other is also rejected. On a number of occasions the NEP argues that "energy has always been a special case:"

No Canadian can escape the impact of changes in its availability or price. Its influence on other activity - other products, other services - is pervasive. Reliance upon it is enormous. None of us can eliminate this reliance. Governments in Canada and elsewhere have long recognized and responded to this uniqueness. In Canada, for example, trade in the major forms of energy has been closely regulated by federal agencies for many years. Special procedures governing energy exports have been in place for some time, reflecting a national consensus that Canadian needs are to be served first, and that only surplus energy may be exported. At the international level, creation of institutions such as the International Energy Agency reflects a view that energy's role in today's world is extraordinarily important.12

Taxes

Given their objective of strengthening the fiscal capacity of the national government, and the rationale that this was necessary to prevent the further balkanization of the Canadian economy and the excessive accumulation of
Financial surpluses in Alberta, the Liberals had to increase taxes on the industry. The two major new tax sources were the Petroleum and Gas Revenue Tax (PGRT) and the Natural Gas and Gas Liquids Tax (NGGLT). While the PGRT more directly impacted on the industry, the NGGLT amounted to the next federal salvo in the ongoing federal-provincial dispute over export taxes:

For all these reasons the proposals presented to the producing provinces incorporated a federal tax on natural gas exports. The Government of Canada was prepared to introduce a system in which the economic rent resulting from higher international prices for gas exports would have been shared between the producers, the federal government and the provinces. The Government of Canada also indicated that it was prepared to introduce a tax on electricity exports in order to ensure that energy exports were treated on an equitable basis.

The governments of Alberta and British Columbia have strongly opposed a natural gas export tax. They have argued that such a tax is an intrusion on the resource ownership rights. They also argue that taxes on gas exports are discriminatory.

The Government of Canada rejects these arguments. There is no doubt of the federal government's constitutional right to impose export taxes on any commodity. To deny this is an attempt to extend provincial powers well beyond their present constitutional limits. The federal government imposed an export tax on electricity for 38 years, from 1925 to 1963. Similarly, the federal government established a tax on oil exports in 1973. It continues to impose this tax.

A tax on natural gas exports is not discriminatory. These exports have earned enormous economic rents as their price has soared due to OPEC's price increases. Taxation based on the ability to pay is in accord with long-established principles.

Recognizing, however, the strong opposition of Alberta and British Columbia to the gas export tax, the federal government offered to discuss arrangements whereby there would be a sharing of provincial revenues when a province's revenues grew very much larger than those of other provinces. This offer to pursue an alternative which would have yielded the federal government little revenue,
but would have worked towards reducing disparities between provinces, was also rejected. The Alberta government took the view that this proposal was neither feasible nor appropriate as an alternative in the context of the current oil and gas pricing negotiations. ... It is a time when all governments must temper principle with flexibility.

The Government of Canada is, therefore, not proceeding with a natural gas export tax.13

The best that can be said about there not being an export tax imposed, was that the government pulled a quick sleight of hand. They imposed 'A new natural gas and gas liquids tax' to which 'all natural gas sales would be subject,' including those to the export market. The producing provinces were, of course, enraged.

Resource Management

On the larger issue of resource management, the NEP was clearly intended to give the national government greater control over one of the real commanding heights of the Canadian economy. The energy sector had become the brightest star of the Canadian economy. However, it was charged, the same forces which had caused a boom in oil industry activity and fattened petroleum company profit margins had hurt other sectors of the economy. "For example, a recent Department of Finance study concluded that rates of return in Canada's manufacturing industries have been cut in half by 1978, as a consequence of the increases in the real price of oil that had occurred in the 1970s."14 The dramatic OPEC price increases of 1979-80 and their ominous implications for inflation, economic growth, and unemployment both galvanized the Liberals to use the pricing and taxation measures to soften the impact on Canada, and provided them with an opportunity to assert federal direction on energy policy and the economy.
One chosen method of intervention, which had implications for federal-provincial and interregional energy relations, was the NEP's introduction of a two-tiered incentive grant scheme which provided much higher payments for exploration on federally controlled Canada Lands than on provincial lands. In terms of resource management the PIP program is an important instrument because (a) it encouraged a shift in industry capital spending to the Canada Lands in the North and offshore thereby accelerating the exploration of oil and gas resources under federal control, and (b) far more clearly then the incentive system represented by tax expenditures, it identified the federal government as the provider of the exploration incentives employed to search for oil and gas in the provinces. To make certain that exploration on Canada Lands was in fact accelerated, the NEP promised to introduce legislation to ensure stiffer work requirements were extracted from lease holders via new exploration agreements. This was done through the authority of Bill C-48, The Canada Oil and Gas Act, and specifically through negotiations between the lease holders and the Canada Oil and Gas Lands Administration (COGLA) officials.

**Alberta's Response**

I frankly do not think it is possible for us, - as we move into the 1980s - to develop a Canadianism that responds to the diversity of our nation without some major, major readjustments in the way we have operated as a nation in the past. ... The attitude of Western Canada towards Confederation today is dissatisfaction and frustration. ... Alberta is being pressured to continue to sell its oil for less than 50 percent of its value. Alberta has foregone - as a contribution to Canada, from a depleting resource - over $17 billion. That is $8,500 for every man, woman and child in our province. ... Any unilateral action by the federal government - particularly one by a federal government that's been rejected by western Canada - will be resisted by our citizens in the
strongest and most determined ways. It would be a tragic miscalculation by Ottawa if they misjudge the resolve of Albertans in this matter.
(Peter Lougheed, April 16, 1980)\textsuperscript{15}

As the above quotation testifies, the Lougheed government began preparing its populace for the inevitable early in the spring of 1980. When the attack came on October 28, the Alberta government switched their three-pronged retaliation into operation and geared up the mobilization of provincial public opinion. Given its political position as virtually a one party province, at least in terms of legislative power, this was not difficult to do. The retaliation itself consisted of the production cutback of 180,000 barrels of oil a day in three equal stages over nine months; the withholding of provincial approval for the Alsvand and Cold Lake projects; and, the mounting of a constitutional challenge to the legality of Ottawa's proposed tax on natural gas. The Lougheed government explained its actions and rallied public opinion by developing a high-powered "speech and pamphlet" campaign designed to exploit traditional Alberta suspicion and resentment of Ontario and the central Canadian-determined Liberal federal government. This was particularly easy to do in the wake of Ontario's abandonment of the federal Tories in the 1980 election, which resulted in the defeat of a government well represented by Westerners and its replacement by a government virtually devoid of western representation. The Alberta government fundamentally rejected both the policy thrust and the political motivation of the NEP, and in its response highlighted both the federal-provincial and interregional dimensions of Canadian energy politics.\textsuperscript{16}

In his prime-time provincial television response to the NEP on October 30, 1980, Premier Lougheed stated that he could "only surmise that Mr. Trudeau wants to see control of Alberta's resources essentially in the hands of Ottawa."\textsuperscript{17}
He later went on charge that if the oil had been owned by Ontario, Canadians would be paying world price. Lougheed denounced the federal initiatives in graphic terms and used fiery rhetoric to stir provincial passions:

As far as I am concerned, the NEP consists of proposals not programmes and they are not national, they are Ottawa. ... We will sit down and again try to negotiate. Ottawa made no attempt to do so last summer despite some very major concessions and compromises made by Alberta in an attempt to settle our differences on this very vital question for Canada. We are not optimistic about these negotiations but we are never the less still prepared to seek alternative solutions. However, no matter how stormy the weather, we will not capitulate. We will not give away the heritage of this province. (standing ovation) ...18

Merv Leitch, the provincial Minister of Energy charged that the federal government had been bargaining in bad faith:

I have no hesitation in saying to members of this Assembly that I'm convinced the present Ottawa government decided shortly after the last election that they were not going to reach an energy agreement with the province of Alberta. I am convinced that shortly after the election, they concluded that now was the time, and oil and natural gas were the issues upon which to insure that the provinces with small populations would be dominated by the provinces with large populations.19

One of the political tactics employed by the Lougheed government in an attempt to diminish the legitimacy of the federal government, was to refuse to call it the federal or national or even central government, but rather to insist upon identifying it as the "Ottawa government." Another constant theme of the Alberta position was to link the NEP and the constitutional proposals and portray them as part of a larger scheme to take control of provincial resources:
Mr. Speaker, one cannot divorce the energy issue from the constitutional proposals. I view those proposals, in essence, as saying that if a provincial government, if Alberta endeavours to stand on its ownership rights, its ownership over natural resources, to resist the decisions of the Ottawa government, they will then have in place a means whereby the constitution can be amended again by the majority population, by those provinces having a majority of Canada's population. What I've said is a harsh judgement of the Ottawa government, but I'm convinced that the history of our energy negotiations, the budget of October 28, the energy program of October 28, and the constitutional proposals, leave us with no other conclusions.  

Indeed the moral 'high road' of Alberta's positions and the theme the government drilled home at every turn, was the argument that the NEP was part of a larger plan to fundamentally change the nature of Canadian federalism. On November 19, 1980 Lougheed argued:

It is my belief that the Prime Minister's plan to unilaterally change Canada's constitution over the opposition of the majority of the provinces, is closely linked to resource development and western Canadian development. ... If the country proceeds as intended by the Prime Minister, we will have a very different kind of Canada. It will be a much different federal state - if a federal state at all. In my judgement, it will primarily be a unitary state with provinces other than Ontario and Québec - being in a second class position. ... (The NEP's) objectives are an attempt to take over the resource ownership rights of this province. The taxing and pricing powers of the federal government are clearly discriminatory and obviously primarily directed at the two million citizens of Alberta and to a lesser degree, B.C. and the other western provinces. I believe very strongly as you know (and I believe many Albertans also believe), that it is unfair and basically changes the rules of Confederation. It changes the rules in a very significant way from the history of this country in terms of resource ownership rights of the provinces.  

This theme of Ottawa wanting to establish a unitary state in which the residents of all the provinces except Ontario and Québec would be 'second class
citizens' was one Lougheed would consistently return to: "they really want a unitary state where any decision of substance is made in Ottawa. They recognize they have to cater to Ontario and Québec to stay in office but this select group cannot accept any other province becoming moderately independent and not subservient to them for federal discretionary grants ... upstart provinces will never do."\(^{22}\)

In addition to portraying the NEP as a tool of federal and central dominance, Lougheed identified it as an instrument of nationalization, while at the same time conveniently letting his government and the Clark Conservative government off the hook:

In 1979, with the Clark administration, we had difficult negotiations because the senior officials involved in the Department of Energy, Mines and Resources wanted - as they do today - to nationalize the industry. I seriously believe that there is a select group in Ottawa that want to nationalize the industry so that they can fully control it from Ottawa. They have no seats to lose, no Chrysler or Massey Ferguson manufacturing in Alberta. ... We look at the automobile industry - talk about foreign ownership! Look at the petroleum industry - they are already very heavily regulated and sovereignty is protected by resource ownership rights of the provinces. It is control from Ottawa - not Canadianization - that is the motive. It is an obvious smokescreen to say that it is Canadianization.\(^{23}\)

The nationalist and centralist motivations of the NEP were seen as being virtually synonymous for Alberta. Both the pricing and Canadianization components of the NEP were portrayed as central Canadian inspired, and imposed by 'their' federal government. With respect to the relationship of pricing to regionalism, Lougheed had stated in October, 1979 during the peak of the Ontario-Alberta battle:
... the very serious oil pricing dispute. You are aware of
the intensity of it - it is primarily between Ontario - the
largest consuming province - and Alberta who produces 85
percent of Canada's oil. It is over prices. I bear you no
apologies in terms of presenting Alberta's determination
in this issue. ... Ontario also argues that oil (and natural
gas by implication) are somehow different in jurisdiction
from other resources - so they want to change the rules of
Confederation when circumstances suit them. They try to
argue that oil revenues do not belong to the owner of the
resource - but this position doesn't apply to other
resources - to Ontario Hydro or Québec Hydro - but only
Alberta's oil ... This position is repugnant and disturbing
to Albertans - to generations who have paid to protect
industry in central Canada and they now want us to pay
twice - it is not acceptable.24

Alberta would continue to stress throughout this period that Canadian
pricing policy, had resulted in Alberta subsidizing Canadian consumers, the
majority of which are in central Canada, by $17 billion since 1973. This was far
greater than the $4 billion subsidy that Ontario had paid to Alberta and the
industry between 1961-1973 by paying higher than world price. In January 1981,
Merv Leitch would again make the connection between oil prices and the prices
of central Canadian manufactured goods:

Frankly, I have the greatest difficulty understanding why
anyone is arguing about paying world price for oil
produced from the oil sands. We have lived for over a
hundred years in this country totally accepting the
philosophy that it was good for Canada, good for our
national economy, good for the development of
technology, to pay more than the world price for
manufactured goods such as cars, radios, fridges, textiles,
and a host of others. And even when we were paying more
than world price, many of those activities were not very
profitable and therefore didn't return any large tax
revenues to any level of government. Two examples we
can all quickly call to mind are Chrysler and Massey-
Ferguson.25
Even though the proposal to impose an export tax of 4 mills per kilowatt hour was discussed in previous federal energy positions, Leitch noted that "it is worthwhile observing that the proposal is not found in the current federal budget or in the energy program. I think it is worthwhile observing that the two provinces which currently export electricity to the U.S. are the provinces that have sent far and away the vast majority of the Members of Parliament that form the Liberal majority." Despite the fact that public opinion polls showed that Canadianization was popular throughout Canada and despite the support given to Canadianization by the government of the neighboring province of Saskatchewan, the Alberta government depicted Canadianization in regionalist terms:

It is fashionable in parts of this country to attack multinational corporations - who we invited into this country. It ignores the history, the contribution, and the potential for research and development. It is serious in terms of jobs for Canadian oil and gas companies. It seems that they care not a whit in some parts of Ottawa about jobs in this part of Canada. We look at the treatment of a company like Chrysler - the different ways in which they are treated is a disturbing sign of discrimination in the extreme to me. I am trying to control my emotions! I favour Canadianization but not Ottawa's way. Incentives to Canadians - yes, but not penalties to those who are already here.27

Alberta charged that the PGRT, which was a tax on production revenues and did not allow for any write-offs, was a wellhead tax, a veritable royalty. Royalties were considered a sacrosanct provincial right and its application in combination with the introduction of the NGGLT incensed Alberta. As a program of energy policies, the NEP was identified by Lougheed as "economically stupid." Alberta consistently claimed that the consequence of the NEP would not be energy self-sufficiency and security of supply by 1990, rather
the NEP would send the economy into a tail spin. The points explicitly outlined by Lougheed were:

- Reduced cash flow and fewer jobs for Canadians.
- A shift in exploration and production to the United States.
- "Expropriation" of more of the funds from Alberta oil and gas production to the federal treasury and a Canadian consumer subsidy.
- Damage to the Canadian owned segment of the industry.
- Opportunity for Petro-Canada to prey upon companies most unable to withstand the storm.
- Canada becomes increasingly dependent on insecure supplies.
- Natural gas is put on the back burner.²⁸

It is clear then that Alberta's response to the NEP was strident and condemning. The content of the verbal response can be summarized as portraying the NEP as: a centralist attempt to make the smaller province's second class citizens; a plot by a small cabal of federal civil servants to nationalize the industry so they could control it from Ottawa; a plan designed to reward the Liberal party supporters and electorate in central Canada, as opposed to their opposition in the West; a program which together with the constitutional changes was intended to turn Canada into a unitary state; and finally, as stupid economic policy. The production cutbacks, the withholding of mega-project approval and the court challenge, made it clear that Alberta was also willing to act in concrete ways to challenge the federal policy. Throughout November and December of 1980 both the federal Liberals and the Alberta Conservatives flexed their muscles, each having recently been returned to power with fresh, majority governments. Through the early months of 1981 an agreement seemed anything but imminent. Both governments showed their resolve, and Lougheed
steeled the will of his supporters by graphically warning Albertans "to be prepared to suffer and bleed."

However, as the impasse dragged on into 1981, both business and the other governments became increasingly impatient with the instability it was causing in the Canadian investment environment and pressured both Edmonton and Ottawa to reach an agreement. The President of the Canadian Chamber of Commerce said, "I, like many of you, am rapidly running out of patience with the political pugilists who persist in putting the nation's affairs on hold while they pursue their personal vendettas." The oil industry itself began to criticize the stance of the Lougheed as well as the Trudeau government. J.M. Macleod, the President of the Canadian Petroleum Association, suggested that Alberta may be too greedy in its demands for higher oil revenues. "Both governments must bend," he said, "to provide greater revenues to the companies." Last, but certainly not least, in the summer of 1981, all the premiers urged the two disputing governments to settle their dispute.

Despite the return to power in Ottawa of a Trudeau Liberal government, the Alberta government still felt throughout the summer and fall of 1980 that it was bargaining from a position of strength. The two Alberta mega-projects were ready to go, and Alberta knew that the federal government was counting on production from them to contribute about 20 per cent of Canadian oil supply by 1990. Canadian oil consumption had not yet started to drop, and therefore, Alberta felt, the threat of production cutbacks would have real force. Yet Alberta recognized that in imposing the cutbacks they would have to stress that the cutbacks would not be allowed to endanger the oil supply of other Canadians, thereby giving the federal government an excuse to utilize its overriding
emergency powers. As a result of this, however, the cutbacks lost much of their clout.

By the summer of 1981 the Alberta government by its own admission was in a less advantageous position. There was plenty of oil available on world markets, so the importation of additional crude oil to replace cutback Alberta production was more a nuisance than a serious problem for Ottawa. Moreover, Ottawa was even able to gain publicity points by imposing a levy on Canadian consumers to pay for the additional imports and calling it the 'Lougheed Levy.' Indeed, the production cutbacks most hurt the Alberta producers whose oil sales were reduced. In fact, the entire Alberta provincial economy was beginning to feel the effects of the energy dispute and Edmonton was being roundly criticized from all quarters for being intransigent and too demanding. Especially crucial was the pressure being applied on the Alberta government by the Alberta based juniors and the Alberta based supply and service industries. The latter were suffering the brunt of the exploration cutbacks and the shift of exploration activity to the U.S. Ottawa had exercised its power with the NEP. Alberta was forced into a reactive position and found it could really have little effect in forcing changes to what was generally acknowledged to be a popular policy with Canadians.

Over the summer of 1981 senior Alberta and federal officials got down to the task of determining a mutually acceptable pricing scenario, which was the first step to arriving at an agreement. In late August 1981 Energy Ministers Merv Leitch and Marc Lalonde and their respective teams engaged in a marathon bargaining session in Montreal in which a final agreement was hammered out. On September 2, 1981, one day after the last Alberta production cutback came into effect, Canadians witnessed the two archfoes, Peter Lougheed and Pierre
Trudeau, toasting each other on the successful negotiation of an energy agreement. At long last, Lougheed referred to the federal government instead of the Ottawa government.

For his part, Lougheed called the agreement the most significant event in the ten year period his administration had been in office. "The long term consequences and benefits to Alberta are great," he said. "The Minister of Energy and Natural Resources and I believe most Albertans, are pleased with the result." The agreement gave Alberta what it wanted the most - a re-affirmation of its ownership of the resources. Secondly, there was no export tax on natural gas, although the federal government insisted on putting in writing that such a tax could be levied, but for the present it would be at a rate of zero percent. Thirdly, it provided a pricing schedule and revenue sharing regime the Alberta government was prepared to live with (see Appendix two for details). In order to maintain control over, or more specifically to keep federal officials away from, exploration in the province, Alberta agreed to fund and administer the Petroleum Incentives Program in Alberta. Alberta also agreed to make Market Development Incentive Payments (MDIP) to the federal government to facilitate the expansion of gas markets east of Alberta.

Even with a new agreement in place, the energy policy environment was to be anything but stable. At home, much of the industry was upset with the Lougheed government for allegedly taking care of its own interests at the expense of the industry in the September Agreement. By 1982, international factors intervened once again, this time with a softening of the world oil market. Suddenly, the key assumption on which the NEP and the Canada-Alberta agreement had been based was no longer valid. Without continually rising international oil prices, many of the provisions and non-conventional projects
envisioned for Canadian energy development were not considered economically feasible. Moreover, the industry had been squeezed harder than Alberta had anticipated. By early 1982, the two major non-conventional megaprojects were doomed by the softening prices. The Alsânds and Cold Lake projects, whose approval had been put on hold by Alberta during the earlier wrangles, were abandoned because their sponsors could not be convinced of a satisfactory rate of return and a sufficiently high world oil price. This happened despite federal and Alberta promises and commitments of assistance and guarantees.

Throughout late 1981 and early 1982 the Alberta government came under increasing pressure from the Alberta based industry to assist it through a difficult period. On April 13, 1982 Alberta responded with "the Alberta Oil and Gas Activity Program." Through a series of royalty reductions and grants, Alberta hoped to increase the revenue flows to the industry by $5.4 billion over the 1981-1986 period. Alberta continued to lay most of the blame for the sagging fortunes of the industry on Ottawa.

While Alberta agreed in the spring of 1983 to amend the 1981 Agreement, they continued to verbally attack the federal government. In August 1983 Peter Lougheed said:

After the stupidity of the National Energy Program and the rape of western Canada I just don't believe that there's any conceivable way with a region such as the west suffering the economic difficulties of that stupid policy to see a re-election of that government.

Because there's a growing awareness, I believe, in central Canada of how ill-advised that policy was.\textsuperscript{33}
Ontario's Response

The Ontario government and Ontario-based industries were directly attacked in the Alberta response. Interprovincial sparring between Ontario and Alberta had become, of course, a prominent feature of Canadian energy politics. As shown in Chapter 4, the Davis Conservative government was a vocal and assertive defender of Ontario's interests during the period when it appeared the Clark Conservatives were willing to accede to rapid price escalations. Ontario's position reflected the interests of Ontario industry, Ontario motorists, Ontario householders, Ontario tax payers, and of course, the interests of the Ontario government itself as a dominant force in Canadian federalism.

One of the key tactics of the Ontario Government's strategy was to identify the interests of the Ontario economy with the national interest. Davis' dual concern for the Ontario and national economies covered the spectrum from the impact of rapid price escalation on economic growth, inflation, and unemployment, to the need for adequate recycling of oil and gas resource revenues throughout the Canadian economy. It is clearly debatable whether Davis' attack on the Clark government's efforts at negotiating with Alberta was intended only to make Clark aware of Ontario's concerns and to build a public attitude on energy issues in Ontario which Clark could not ignore, or if Davis actually intended to "hammer another nail in Clark's political coffin," as Simpson has argued, with every expression of his "systematic campaign to discredit Clark's energy policy." What is clear, however, is that Davis ultimately denounced the proposed energy deal between Alberta and the Clark government as "an excessive and imprudent response to the claims of the producing provinces and the petroleum industry."
It is useful to juxtapose Davis' public stance in the wake of the NEP with his posture in the Clark era. Obviously Davis felt Ontario's back was to the wall in the Clark period and he came out fighting. The following summary of his speech to the special First Minister's Conference on Energy on November 12, 1979, provides a sense of the breadth (he is critical of both the Clark and Lougheed governments and the petroleum industry) and bite of Davis' campaign:

... Massive price increases would be unjust, unnecessary, and damaging to the Canadian economy, if not to the fabric of Confederation ... the people of Ontario are quite prepared to pay what is necessary to achieve self sufficiency. Certainly, in terms of the real costs of oil development, we are not getting it on the cheap today ... last year the petroleum industry enjoyed 360 percent more revenue then was the case in 1970 ... it is misleading to suggest that Ontario is afraid of change or that we wish to protect an "obsolete" industrial base with the illusion of cheap energy. Indeed, throughout the 60s we accepted oil prices that were above world levels ... I am alarmed at the widespread temptation to turn national economic development policy into a zero-sum game, seemingly at the expense of Ontario.

Any notion that energy development must inevitably lead to a poorer Ontario is not only bad economics, it is also grossly unfair. It would be ironic and unacceptable if the goal of crude oil self-sufficiency - which is supposed to help secure our nation - becomes a weapon for settling what some perceive as old scores between our regions ... surely those who want to build Canada dare not make their case by appealing to regional prejudice and inward myths.

When massive and unprecedented interregional shifts of tax dollars threaten to distort the economy and enfeeble the capacity of our national economy to meet its national responsibilities, then provincial royalties are of legitimate national concern ... I cannot accept the argument that (Alberta) must enjoy a world rate of return, or go for broke on oil revenues, because it is a "depleting" resource ... conventional crude oil reserves are ... only one source of revenue; in total, Alberta's revenue base is not running out, but is increasing steadily and will do so for decades ...

... The stark prospect before all of us is that our differences over the pricing of crude oil really have less to do with energy policy then they have to do with
conflicting aspirations and convictions about the management and future of our country ... We in Ontario are firm in our conviction that energy policy must be defined within a national, not merely provincial context.

There is a view being advanced that Canada is a community of communities or a nation of provinces, and that our country is made stronger not by building the whole but by strengthening the separate parts. In some measure, that may, in fact be true, so long as province-building does not replace nation-building as the most ambitious goal of Canadians. Thus, the Government of Canada must stand not merely as an arbitrator of community differences, but the guardian of the nation as a whole. 36

With the introduction of the NEP, in which the protection of consumer interest and the recycling of petrodollars were prominent aspects, Davis adopted a rather different tack. He remained relatively restrained in his response to Lougheed’s charges and taunts, and later adopted a generally conciliatory attitude toward the West. It is obviously much easier, in Canadian energy politics, to be magnanimous in victory. Nevertheless, Davis was, of course, critical of the production cutback by Alberta. He responded to Lougheed’s October 30 speech in the following manner:

It is my view that the nature of last night’s statement by the Premier of Alberta, while restrained and careful in some respects, is nevertheless a matter of deep regret. While no direct threat is posed to security of supply for Ontarians or Canadians, it will add a liability of $1 billion to the oil compensation fund in 1981 and $1.8 billion in 1982, based on present world prices. This will add to the national deficit and the debt load carried by all Canadians ...

The impact of last night’s statement is economic. It imparts an extra financial burden upon an already tight national economy. This burden is not imposed on Canadians by any foreign power or by any international collapse but by a Canadian provincial government. This has been done despite one conservative estimate which places Alberta’s cumulative revenue from oil and gas from 1980 to 1990 in the $100 billion range.
It is sad and of deep concern that one provincial government, presiding over what is the most rapidly expanding economy in the country, should respond to a continued and prolonged disagreement by imposing deep economic penalties on the working men and women, the pensioners, the business men and the people of Canada. I note, and respect that Alberta will not allow its actions to pose a threat to security of supply.

Davis also felt obligated to respond to Lougheed's charge that if Canada's oil were owned by Ontario, Canadians would be paying world price, and that western Canadians have always paid extra to protect central Canadian industry.

Davis did not actually respond directly to either charge, but instead argued that Ontario has more than paid its way via equalization, while getting in a soft dig about Alberta's "jealousy" of Ontario:

"Last night the Premier of Alberta asked whether Canadians would be paying world prices if the oil and gas were here in Ontario. Let me say this to him, neither in anger nor sadness, but in a spirit of frankness and understanding: We have many wonderful resources in this province, both human and natural. Oil and gas in large quantities are not among them. Our wealth, our manufacturing, our industrial heartland is a source of envy and perhaps frustration to some. It is at the core of a feeling of alienation and regionalism for others.

I answer Mr. Lougheed's question by saying that the record on our sharing of our wealth is clear. Ontario corporate profits, Ontario farmer's incomes, Ontario wages have all been taxed by the national government and redistributed nationwide to advance development elsewhere to help build schools, roads, and hospitals in other provinces.

Additional evidence of the Ontario government's overall satisfaction with the thrust of the NEP is contributed by provincial Treasurer Frank Miller's October 30, 1980 response to the NEP and the MacEachen budget in the Ontario Legislature. While Miller denounced the budget as "an inadequate response to
the resolution of Canada's economic problems," he claimed that it "does present a constructive approach to a national energy strategy." On the issue of pricing, Miller reiterated a key element of the Ontario position, specifically that energy price increases "must be accomplished by a reinvestment strategy designed to support consumer adjustment, provide industrial restructuring incentives, promote conservation and substitution and increase domestic energy supplies." While Miller conceded the necessity of increased domestic oil prices, he insisted that the revenue produced from them serve the national economic priorities, and that the increases be balanced by some offsetting programs to protect consumers from the inflationary impact that increases generate.

Both of these are essentially questions of redistribution. On the latter point Miller charged that the Liberal budget contained no such offsets, "no measures to assist the Canadian public to adjust to the inflationary effects of higher energy prices." Ironically, given the Davis government's opposition to most of the energy measures of John Crosbie's December 1979 Budget, Miller pointed to it approvingly for having proposals "to cushion the impact of energy prices on low income groups least able to absorb the changes." On the former issue of regional distribution and adjustment Miller was also critical:

Four billion dollars will be pumped into the western economy through the western economic development fund. This is in addition to the $38 billion that will flow to the producing provinces as a result of the federal energy package over the next few years. The federal government also plans to consider initiatives relating to industrial diversification and to re-examine trade and industrial policies to serve western development better... I commend these objectives but there should also be concerted efforts to address the same needs across the entire country.
Miller implicitly took some credit for federal positions, stating that "I am pleased to note the federal government has accepted Ontario's position with respect to a blended price structure for oil pricing and has moved to develop a revenue-sharing arrangement that provides increased funds for national priorities." Both of these proposals were outlined in the Ontario Government's August 1979 document, *Oil Pricing and Security: A Policy Framework for Canada.*

Miller's utterances about Canadianization revealed some division within the Ontario Conservative government. In this same legislative speech Miller stated, "I believe strongly that more of the nation's petroleum industry should be Canadianized, but I make a very clear distinction between Canadianization and nationalization." He went on to argue that Canadianization as the NEP proposed it was simply a euphemism for nationalization. He accused the Liberals of "using our money from a tax base to purchase for the government of Canada shares in those companies. That is quite different from encouraging the purchase of shares by individuals and investors in the country, the route I, and I am sure my party, firmly believes." It would appear that Miller was speaking more for himself than for the Ontario government. In fact, his comments on Canadianization would come back to haunt him in the legislature a year later when the Davis government purchased 25 percent of the shares of U.S. owned Suncor. Central to Davis' explanation for the expenditure of $650 million was the NEP goal of Canadianization:

This purchase will assist the Canadianization of the petroleum industry and fulfills a policy commitment announced by the Minister of Energy a year ago for greater Ontario participation in the Canadian petroleum industry. . Over the past several months the Ontario Energy Corporation has considered a number of potential
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opportunities to determine which investment would most effectively contribute to Canadianization of the industry and other policy objectives including a stronger voice for Ontario and its people in the energy business.47

Thus, it is clear that the Ontario government's motivation was to show direct and concrete support for the NEP's Canadianization objective. Davis went on to say in his Suncor speech that it was his desire to bring other Canadian investors into Suncor so that at least 51 percent of Suncor's shares would be owned by Canadians as soon as possible. As a new minority owner of a foreign controlled and owned firm, Ontario wanted Suncor to continue to Canadianize so as to be eligible for higher federal explorative incentives. "The initiatives I have announced today signal a new phase in the activities of the Ontario Energy Corporation and represents a commitment by this government to contribute to crude oil self-sufficiency for Canada and to provide Ontario with a stronger voice in the determination of energy policy in this country."48 In that regard, that very evening Energy Minister Robert Welch announced that Ontario would participate, via the Ontario Energy Corporation in a joint venture with other firms to explore for oil in Hudson Bay. It is clear then that Miller, who initially couched his opposition to Canadianization in conservative ideological language, and later said he didn't see a compelling enough practical reason to spend $650 million of public money for intervention in the private sector, especially in a period in which the government was supposed to be practicing restraint, was outgunned by those in Cabinet who felt the need to signal their support for the embattled federal energy policy (perhaps as a quid pro quo for the federal energy policy having recognized Ontario's interests) and who saw direct intervention in an industry in which Ontario interests had not traditionally been paramount, as necessary to achieve the larger provincial security and economic goals.
Ontario was obviously pleased by the general thrust of the NEP and did not respond in any major way to the alternations to the NEP which took place in 1982 and 1983. But then the blended price concept was never seriously challenged and softening world prices alleviated the Ontario government's worst fears regarding price increases. It is also important to note, of course, that the Ontario Conservative government was the federal Liberal government's closest ally in the constitutional patriation debate which raged alongside the NEP controversy in 1981-82.

The Federal Response

Much of the federal response has already been introduced in Chapter 5, and it will only be necessary here to restate those aspects of Ottawa's response which were directed at the provinces. The immediate federal reaction to the Alberta retaliation was to lament the delay in the commencement of the two megaprojects and to impose a special levy on consumers to cover the cost of the additional imported oil. To lay the blame for the additional charge on the Alberta government the Liberals informally called this the Lougheed Levy. In most of his speeches in the post-NEP, pre-Memorandum of Agreement period, Marc Lalonde avoided directly attacking the producing provinces. Criticism of the provinces was usually done implicitly when discussing the fiscal responsibilities of the federal government, equalization, the problems created by large increases in economic rents, and Ottawa's role in distributing the benefits and burdens of oil and gas price increases. After Ottawa and the producing provinces signed Agreements in the fall of 1981, and Nova Scotia signed in March 1982, Lalonde would cite these as examples of co-operation in Canadian federalism. When Jean Chretien became energy minister he promoted a
conciliatory, co-operative, consultative tone to the provinces though he was still unable to conclude an agreement with Newfoundland.

In November 1982 the federal government released the "Statement on Economic Development for Canada in the 1980s" in conjunction with Finance Minister Alan MacEachen's budget. The Statement represented the Liberal's highest hopes for what energy and other resource developments would do for overall economic growth and development. The Statement crystallized the assumptions of the June 1981 Mega-Projects Task Force Report on the viability of dozens of mega-projects scattered right across the country, the NEP's assumptions about the ability of the Canadian government to ensure greater Canadian benefits from resource mega-projects, and the assumptions of the September 1981 Canada-Alberta Agreement that energy prices would continue their rapid rise, thereby increasing the value of Canadian oil and gas reserves and enhancing the commercial viability of several costly oil and gas developments. Moreover, as the 'engine of growth' resource development was hoped to rejuvenate Canada's industrial sector which would supply machinery, equipment and materials for resource development and for the processing of resource products beyond the primary stage. It was posited that resource developments would stimulate the Canadian high technology industry. The Statement claimed that genuine prospects for growth could be identified for every region of Canada. It was such an agreeable view of the future that it didn't cause much conflict between the key interests in energy politics because all could agree with the vision it projected. Yet, within a few months of its unveiling the document and its optimistic tone seemed oddly anachronistic. The hostility of the business community to the MacEachen budget, high interest rates, dropping oil prices, the seriously depressed economy, declining federal
revenues and a doubling of the federal deficit combined to give the Liberal’s
resource-led economic development strategy a far-away fairy tale quality. The
Economic Development for the 1980s statement became one of the great non-
events of Canadian energy politics.49

In a more concrete sense the concessions made in the September 1981
Agreement reflected both the power of Alberta and the pressure placed on
Ottawa by the other provinces and the business community. The concessions in
the NEP Update were a direct response to Alberta’s earlier package of
concessions. The industry was very receptive to Alberta’s package and
challenged Ottawa to match Alberta’s effort. The federal government continued
to retreat in terms of its share of energy revenues with the 1983 Amendment to
the 1981 Agreement. Alberta charged that Ottawa was not allowed by the 1981
Agreement to roll back the price of old oil which had exceeded 75 per cent of
world price. The Liberals argued that they had this power but in the Amendment
agreed to freeze wellhead prices rather than roll them back. The federal
government also agreed to increase the amount of oil that could receive world
price. While Alberta had continued to pressure for higher prices this can
probably more accurately be portrayed on a concession to the industry,
particularly the juniors. The federal government absorbed through reductions in
the NGGLT the major losses in revenue in order to maintain the price of natural
gas at 65 per cent of oil.
Conclusion

The most striking feature of post-NEP intergovernmental relationships is the virtually opposite reactions of Alberta and Ontario to the NEP. This of course reflected the different ways in which they were treated by the NEP, and their opposite positions on the key issues. While Ontario had reacted vigorously to the direction of energy policy under the Clark Conservatives, they quietly endorsed the NEP, even investing in a foreign oil company to signal their support. Alberta, which on the other hand, had been close to achieving many of its objectives with the Clark government, reacted angrily to the NEP. It adopted a tough rhetorical response and exercised its powers over production authorization, authority over the mega-project developments and constitutional rights to fight the federal initiative. While it reached various accommodations with Ottawa over the intervening period and was able to have some success in gaining higher prices for greater quantities of oil, it continued to unrepentantly and vigorously oppose and criticize the overall thrust of the NEP into 1984. As was the case during the 1973-1974 period the governments clashed over all three dimensions of pricing, revenue-sharing and resource management.

Because of a lack of intra-Alberta partisan opposition, the Lougheed Government had carte-blanche in devising Alberta’s response to the NEP. Throughout the 1970s the Lougheed Conservatives had been increasing their stranglehold on legislative power and during the NEP battle the legislative opposition was miniscule. Moreover, strong popular opposition within Alberta to the NEP combined with strong provincial public support for provincial control over oil and gas, provided the Conservative government with a fertile attitudinal basis of support. If anything the outburst of separatist activity which followed the return to power of the Trudeau Liberals and the NEP caused the provincial
Tories to take an even more strident stand. There was also a good deal of 
consensus in Ontario between the three major provincial parties over how 
Ontario should respond on energy issues. While the Ontario Conservatives 
returned to majority government status after being a minority government 
during the Clark interregnum, the fact that the Conservatives in Ontario had a 
provincial partisan opposition to cope with meant the intra-provincial dynamics 
were different then in Alberta. In fact, the Ontario conservatives took as tough 
a stance as they did during the Clark-Lougheed negotiations because of the 
pressure being applied on them by the provincial opposition Liberals and NDP.

For its part, Ottawa did make a series of concessions on pricing and 
taxation which can be interpreted as accommodations to the power of the 
producing provinces and the various industry interests. It was able to do so, 
however, without alienating Ontario because global developments had softened 
upward pressure on oil prices. In fact, one of the major lessons of the post-1973 
period is to note the extent to which internal developments in Canadian energy 
politics are influenced and affected by international developments.

The focus of Part III on the key governmental and industry interests has 
shown both the range of variations and common positions which emerged within 
the relationship between key interests in the volatile post-NEP period. For 
example, the strains that visited the Alberta-industry, particularly the junior 
firms, relationship in the wake of the September 1981 Alberta-Canada 
Agreement, reveals the interrelated nature of the government-industry and 
intergovernmental relationships. Indeed, as one traces these key relationships of 
power over the post-war period and observes them at close range in the post-
NEP period it becomes increasingly clear that energy politics must be understood 
as the outcome of interactions between a number of key powerful interests
organized around a series of relationships of power. Chapter 7 will trace the concrete expressions of power throughout the post-war period and conclude about the possession and exercise of power in Canadian energy politics.
Footnotes


3. Ibid.

4. Ibid., pp. 10-16.

5. Ibid., p. 23.


7. Ibid.

8. Ibid., p. 24.

9. Ibid., p. 28.


11. Ibid., p. 15


13. Ibid., pp. 33-34.


16. The Alberta government followed the Lougheed October 30 speech to the province with, in December 1980, the production of an extensive ten-page brochure which it distributed to Alberta households. The brochure contained 33 points which explained the Alberta government's position on energy issues and the constitution. It attacked the federal energy program, explained Alberta's reaction and posed and answered a series of other questions. Some example questions are:

14. Are we being unpatriotic when we insist on protecting provincial ownership rights?

17. What about the charges that Alberta is being too selfish?

22. What features of the Alberta proposal would specifically help other provinces?

24. Do the energy issues relate to the constitutional issues?
The brochure closed with an exhortation to Albertans to "send a copy of this brochure describing Alberta's position to friends and relatives in other parts of Canada ... they must realize that we do care for our country ... we are willing to make a very large contribution to Canada. We have already done so." See Alberta, Energy Issues and the People of Alberta, December 1980.


20. Ibid.


30. Ibid.


32. IPAC, on behalf of the industry, offered to make industry officials available to work for the Alberta team during the negotiations leading to the September 1981 Agreement. Alberta politely declined the offer. While Alberta felt it had the necessary technical sophistication within its own energy department to cope with Ottawa, the industry was later suspicious of Alberta's motives when Alberta appeared to fare better in the outcome than the industry felt it did.
33. The Ottawa Citizen, August 6, 1983, p. 6.


36. Ibid., pp. 10-23.


38. Ibid.


40. Ibid., p. 3864.

41. Ibid., p. 3862.

42. Ibid., p. 3861.

43. Ibid., p. 3863.

44. Ibid., p. 3864.

45. Hon. William Davis, Oil Pricing and Security: A Policy Framework for Canada, August 14, 1979. It was in this document that Davis told Joe Clark that "if necessary, the federal government must use its influence and constitutional authority to direct oil and natural gas revenue flows in accordance with agreed national objectives," p. 18. This argument, indeed the entire document, incensed the Lougheed government which the next day released a 4 page, 14 point rebuttal. See "Statement by Premier Lougheed of Alberta in response to Ontario position paper entitled 'Oil Pricing and Security,'" August 15, 1979.


48. Ibid.

49. For a detailed assessment of this period see G. Bruce Doern, "The Mega-Project Episode and the Formulation of Canadian Economic Development Policy," Canadian Public Administration, 26:2, (Summer, 1983), pp. 219-238.

50. It is, of course, true that a series of other provincial responses to the NEP were also taking place during this 1980-1983 period. While we have carefully analysed the reactions of the major consuming and major producing provinces, the most comprehensive analyses would do the same
for each of the provinces. However, such magnitude is beyond the scope of the present study.
Chapter 7

ENERGY POLITICS AND THE NEP: CONCLUDING OBSERVATIONS

Introduction

Chapter one identified two major gaps in the Canadian energy politics literature which this study intended to help redress. One gap was substantive and the other conceptual. The literature review concluded that we are dealing with a young, diverse, unevenly developed but rapidly growing body of literature. In terms of substantive focus, the literature touches on most of the important dimensions of Canadian energy politics and includes some first-class analyses of specific issues. Yet, there remained the lack of an integrated, broad-ranging examination of the nature and evolution of Canadian energy politics.

With respect to the conceptual aspects of the energy politics literature, the literature review revealed that to date the literature has been very disparate; case studies abound, yet two broad historical analyses are the leading works. There is no generally accepted or even widely used analytical framework in the literature. Most studies tended to be informed by the larger approaches to the study of Canadian politics only in a general and indirect way. In fact, it was found that even most of the best works pay only slight attention to employing explicit analytical frameworks. It was concluded that a major gap in the Canadian energy politics literature was the lack of a major attempt to think systematically about energy politics in terms of significant, recurring relationships and how they might be organized into a comprehensive analytical framework. Yet, the subject matter and the various modes of analysis and interpretation in the literature tended to revolve around a series of implicit
relationships between several powerful interests. It was argued that it was now essential to bring greater analytical clarity to the study of energy politics by devising a conceptual framework which would explicitly identify the various powerful interests and draw them into a systematic set of relationships.

This was done by developing a framework comprising five major relationships of power, identifying the structural roots of the power of each interest (in the economic and political institutions of Canadian life), discussing the relationship between the various interests and between the various relationships of power and then delineating the framework to make it operational for the study. It was also argued that to say anything meaningful about energy politics it would be necessary to assess a number of different types of evidence over a broad period of time. Specifically, only by tracing events over a broad timeframe can one assess the relative strengths of various interests vis-a-vis other interests. Thus, an approach was developed to focus on two of the major relationships of power and to trace their development over the entire modern era of the oil and gas industry by evaluating specific policy decisions and disputes, major energy projects and episodic decision making on energy issues in the post-war period.
Conclusions Regarding the Possession and Exercise of Power in Canadian Energy Politics over the Post-War Period

The study has focused on two major relationships of power and has assessed their interrelated development over time by evaluating several kinds of evidence. It has shown the importance of differentiating the specific interests which comprise the larger government and industry categories. One general conclusion that can be drawn at this point is that all of the major interests examined are relevant in that they have exhibited at various points throughout the post-war period that they have power and that under certain conditions, they will attempt to exercise it.

1947 - 1973

Canadian energy politics in this period were essentially characterized by consensual relations. Both industry and government fundamentally and consciously agreed on the need to ensure the growth and expansion of the industry. One of the few voices of concern during this period was the Gordon Royal Commission's warning about the implications of foreign domination of the petroleum industry. None of the governments paid much attention to the Commission's concerns and this in part reflects the fact that the government (federal and provincial) industry relationships were predominantly industry-oriented, in the sense that the industry was knowingly given wide latitude by both the federal and provincial governments in the development of Canada's oil and gas reserves. Moreover, because the federal and provincial governments shared the objective of encouraging oil and gas production and of stimulating the growth of the domestic petroleum industry, there was a basic consensus of values between federal and provincial governments over the management of Canada's
growing oil and gas reserves. More generally, there was a prevalent attitude among the Conservative and Liberal governments which ruled federally and in most provinces during the 1950s and 1960s that foreign investment was the engine of growth for the Canadian economy, and that their political fortunes rested upon delivering economic growth. As we have seen, both popular and governmental attitudes toward foreign investment in the oil and gas industry, and in the Canadian economy as a whole became more fluid and ambivalent in the 1970s and 1980s, with the federal government in particular becoming increasingly critical of the role of foreign capital in the oil and gas sector, resulting of course, in the NEP’s Canadianization program. Thus, this earliest period of Canadian energy politics was one of limited government interference in the industry and of generally congenial intergovernmental relations. Even so, there were a number of instances where the various interests exercised or attempted to exercise power and in so doing differentiated their positions from one another.

The Trans-Canada Pipeline issue underlined two historical debates in Canadian energy politics. The first relates to the use of public enterprise as opposed to other governing instruments to ensure the achievement of government objectives, and the second to the choice between nationalist as opposed to continentalist solutions to Canadian energy problems (particularly as embodied in partisan political debate). The federal Liberal government exposed the considerable power possessed by a majority government in the Canadian institutions of government by essentially forcing their legislative plan through the frenzied House of Commons. However, the opposition parties showed that in the Canadian political system they are not entirely without power as they were able to focus on the Liberals' treatment of Parliament as well as the Liberals'
chosen pipeline strategy to convince the Canadian electorate to throw the Liberals out of office in the subsequent election. Both Gulf and Trans-Canada Pipelines Ltd. were able to exercise some considerable power in shaping Liberal policy and in gaining material concessions from the Liberals. Their power was enhanced by the Liberals' commitment to an all-Canadian line but refusal on ideological grounds to build the project entirely by public enterprise.

The Borden Commission's rejection of Home Oil's Alberta-to-Montreal pipeline proposal - which reflected the concerns of security and national integration - and the subsequent introduction of the National Oil Policy by the Diefenbaker Conservatives - which reflected Imperial Oil's arguments about economic efficiency and regional self-interest - as well as a range of other Commission and government decisions on pricing and exports revealed the prodigious power of the industry in Canadian energy politics throughout this period and the domination of the industry by the multinationals. One major political resource enjoyed solely by the industry in this period was its control over the vital geological, technical, economic and financial information necessary to make policy. At least in part for this reason, throughout the 1950s and 1960s the provincial governments, the Borden Commission and various federal governments adopted an approach to energy questions which reflected the logic, interests and ideas of the global and continental planning systems of the multinational majors. It is also important to note, however, that there was a basic consensus between the relevant provincial governments, the American government and the federal government over the National Oil Policy.

Nevertheless, there were, in the 1950s, several examples of governments identifying their interests as being distinct from those of the other level of government. The best examples are Ottawa's 1949 move to strengthen its
control over the international and interprovincial trade in oil and gas by introducing the Pipe Lines Act. The Alberta government reacted to this as well as to the provincial Dinning Commission's recommendation to satisfy and protect Alberta needs first by passing several new pieces of legislation including the Gas Resources Conservation Act. Alberta moved in 1954 in the face of the impending approval of the Trans-Canada project to create Alberta Gas Trunk Line. While these various government legislative initiatives were done with an eye on one another and a sense of mutual suspicion over the intentions of the other government and expanded somewhat the potential role of each government in the oil and gas industry, they can now be viewed as largely preemptive acts in which the various governments armed themselves with legislative instruments which would be useful in future struggles.

1973 - 1980

The price and supply shocks induced by the 1973 OPEC crisis extinguished the relatively calm and consensual relations which governed the major relationships of power throughout the 1960s. The quadrupling of the world oil price dramatically 'raised the stakes' of energy politics in Canada, and crystalized for the producing provinces, the consuming provinces, the federal government and the industry the recognition that they each had distinct and, to some degree, different interests with respect to oil and gas pricing and revenue sharing. This realization by the key interests resulted in, arguably, the most acrimonious intergovernmental and government-industry conflict in post-war Canadian history, as each of the key interests mobilized to protect its position and to stalemate 'the opposition.'
In March 1973 the federal Liberals unilaterally imposed export controls on oil and gas and six months later, in September 1973, imposed an oil price freeze and levied an export tax on oil. Alberta responded with a spate of legislation including the establishment of the Alberta Petroleum Marketing Commission in an attempt to strengthen the province's ownership and control of its resources, including the pricing of petroleum in international and interprovincial trade. In December 1973 the Liberals ended the two-tier price system and established a single oil price regime for all of Canada and established the Oil Import Compensation Fund. In 1974 they introduced the Petroleum Administration Act. In January 1974 the First Ministers' Conference agreed to the adoption for Canada of the single price system, but by April of 1975 could not agree on what the price should be. Ontario opposed the price increases sought by the producing provinces and their refusal essentially scuttled the First Ministers' Conference as a forum for price setting. The federal government later established a new price level in consultation with the producing provinces.

The rapidly increasing international price and the even less rapidly increasing national price meant there were considerable economic rents up for grabs. Economic rents - the excess income generated over and above that necessary to provide a normal return to the capital and labour employed - are usually divided up between the industry and the national government. In Canada, however, with the constitutional ownership of resources resting with the provinces, the competition is three-sided. Alberta's unilateral alterations to the royalty system in 1973 and 1974, Saskatchewan's 1973 royalty surcharge, and British Columbia's royalty increases and establishment of a petroleum marketing commission were all provincial initiatives designed to ensure the capture of a larger percentage of resource rents by their provincial owners. However, neither
Ottawa nor the industry was totally powerless in the face of the provincial exercises in power. The industry’s activity slowdown or, as it is sometimes called, capital strike, and Ottawa’s 1974 amendment to the Income Tax Act to disallow deductions of provincial resource royalties in the calculation of federal corporate income tax are examples. As a result of the industry and federal actions the provinces returned billions of dollars to the industry in 1974-75 through various exploitation programs.

The magnitude of the revenue involved, and the importance of its capture for the interests involved, raised the stakes and clarified the conflicts and coincidences of interest between them. The struggles over pricing and revenue-sharing were as acrimonious and hard fought as they were precisely because each of the relevant interests had either the constitutional authority, political power or economic power to defend their interests as they interpreted them. The constitutional ambiguity over resource management led the various governments to arm themselves with new legislative weapons and ultimately resulted in the showdown in the CIGOL case when Saskatchewan royalty legislation was challenged by the industry with Ottawa allying itself as a co-plaintiff.

Despite the expansion of state authority, the increased involvement by both levels of government and the resultant quantum increase in the number of regulatory instruments with which it had to contend, the industry - as the Syncrude case shows - remained a powerful interest because of its control over the productive apparatus, the major sources of technological and geological information, and the major pools of investment capital for future exploration and production. The establishment of Petro-Canada and a number of provincial state oil companies can in large part be understood as a direct government reaction to this dominance, an attempt to neutralize or at least reduce these aspects of
industry power. The establishment of Petro-Canada and the outcome of the northern pipeline issue also contributed to a shift in the intra-industry configuration of power. Indeed, one of the major developments of the 1973-1980 period was the emergence of a few large Canadian-controlled companies capable of competing in a meaningful way with the foreign-controlled majors.

The overall result of these various confrontations as revealed by the investigation of several types of evidence - projects, policies, episodic negotiations - was increased government assertiveness and intervention and strengthened state authority in the energy policy field. Concomitantly, the industry's dominance of both of the key government-industry relationships declined. The net effect, then, was that the government-industry and federal government-producing province relationships became much more equal than had been the case, with the federal government relative to the producing provinces and both levels of government relative to the industry strengthening their capabilities and positions. The Alberta-Ontario relationship shifted decidedly in favour of Alberta and Ontario came to rely more and more on the federal government to guard its interests. This was especially so after the breakdown in 1975-76 of the First Ministers' Conference as a meaningful forum for establishing oil and gas prices.

The period from mid-1974 to 1978 was one of relative calm on the international energy scene characterized by decreasing real world oil prices. Things had quieted down in Canada as well. The Canadian oil price moved in stages toward the world price and many of the wounds created by the 1973-74 conflicts began to heal. The Joe Clark-led Conservatives had the misfortune to form their first national government in sixteen years just as the world price for oil was skyrocketing in the wake of the Iranian Revolution and the subsequent
outbreak of the Iran-Iraq war. The 1973-74 conflicts in Canadian energy politics resulted from the fundamental conflicts of interest within the two major relationships of power. These conflicting interests were still salient in 1979, and if anything they were intensified by the increased understanding of the interregional consequences of rapid and large price increases, and by the fact that the same party formed the government in Edmonton, Ottawa and Toronto. The regional and ideological strains within the minority Federal Conservative government made it difficult to develop policy in a period of extreme uncertainty. The Clark government's pricing strategy, new energy taxes, and Petro-Canada privatization plan created a good deal of conflict both within and outside of the party.

The bargaining strategy employed by the Alberta Conservative government revealed the considerable power that a major producing province can wield in Canadian energy politics. While Alberta, allegedly, ultimately came to an agreement with the Clark Conservatives that they could live with, their apparent hardline and intransigent stance during negotiations galvanized the Davis Conservative government of Ontario to mobilize a campaign to discredit the Alberta and ultimately the Clark government's positions on price, revenue-sharing and Petro-Canada. The Davis government's campaign shows that a major producing province is itself not without power in Canadian energy politics, particularly when it contains one third of all Canadian voters in a period of minority government. If anything, the federal Conservatives overestimated their power to govern or, more specifically, to pass a budget in a minority parliament. The internecine quarreling between the three Conservative governments, at this point, worked to the distinct disadvantage of two of them. Bill Davis, Joe Clark and Peter Lougheed had each gambled big on energy issues at various points in
the 1970s and each at one point lost big. Just as Davis gambled and lost in 1975 when his intransigence at the April First Ministers' Conference led to the demise of the Conference as a forum for price negotiations and thus removed Ontario and the other consuming provinces from the negotiating table, the Lougheed intransigence with the Clark government also proved to be a strategy that backfired as it ultimately contributed to the demise of the Clark government and the return to power of a Liberal government willing to take a much tougher stance with Alberta. The Clark government, in part at least because of the pressure placed on it by the industry and the Alberta government, proved incapable of making the sorts of concessions which would have allowed it to strike a deal with the ideologically aligned but consumer region representing (Quebec) Social Credit MPs, which would have assured the successful passage of the Budget.

While the industry-Clark government relationship was generally positive there were two major issues in which the potential for very considerable conflict existed. The pro-privatization Clark people were not pleased with the pragmatic, more neutral stance many of the major oil companies had adopted with respect to Petro-Canada. This factor weakened the Conservatives' strategy for the privatization of Petro-Canada. The industry on the other hand was not at all pleased with the new Conservative taxes which would have meant the capture of most of the new rents by the two levels of government. The fact that neither of these developments came to pass meant that the serious conflict never materialized.
1980 - 1983

The NEP was clearly a shock to each of the major relationships of power in Canadian energy politics. This is precisely what it was intended to be. In the immediate sense, the NEP, and its unilateral imposition, was a bargaining ploy designed to force a 'solution' to the pricing and revenue-sharing dilemmas created by the huge increases in the international price. The NEP was directly preceded by two sets of tense and unsuccessful federal-provincial negotiations, a vicious interprovincial battle and an angry and hard fought partisan contest. During 1979-1980 energy was the dominant issue in Canadian politics as, given the pervasive assumption that oil prices would continue to rise towards $100 barrels of oil by the end of the decade, energy costs and supplies, it was assumed, would be a major factor governing Canadian political and economic development throughout the 1980s. In the slightly larger context of the Liberals overall program, once they returned to power after the Clark interregnum, the NEP can be viewed as part of an interrelated effort by the recentralizing Liberals to reaffirm the central government's economic management powers and political visibility. The November 1981 Economic Development for Canada in the 1980s document revealed the extent to which the Liberals hoped to use energy developments to fill federal coffers, to revitalize the Canadian economy and to enhance the economic management role of the federal government. In the historical context of the previous eight years, the NEP - in particular the revenue-sharing, resource management and Canadianization elements - can be seen as an attempt to 'solve' some longer term problems and to restructure, in a fundamental way, the various relationships of power. The aggressive 'act first, talk later' strategy of the NEP and the polemical tone of the document with its
specific differentiation of regional, governmental and industry interests, can best be understood in this context.

The NEP 'named names', identified those who were part of 'the problem' and those who would be favoured in bringing about 'the solution.' As such, it threw up a major challenge to the power of the foreign majors and the producing provinces, and set off a period of confrontation and conflict unlike anything ever seen before in Canadian energy politics. Seldom had so many powerful interests been affected in one way or another by a government program. Despite the fact that the working class bears the brunt of oil and gas price increases, layoffs, inflation, and the like, organized labour was largely mute during this battle.

While stressing the 'special case' nature of energy, the NEP asserted that self-sufficiency could be achieved with restrained price increases; dismissed Alberta's claim that its oil and gas resources were depleting; charged the multinational majors with being capital exporters; claimed the present revenue-sharing arrangement was unduly enriching Alberta and short-changing the federal government; argued the need to strengthen Petro-Canada and favour Canadian-owned and controlled oil companies; and introduced a new set of taxes and instruments to achieve the stated security, opportunity and fairness objectives.

Even the polls of the Canadian Petroleum Association showed that the NEP enjoyed strong public support. The producing-province governments and the multinationals, in particular, were livid about both the way they were portrayed in the NEP and about the way they would be affected by the various elements of the NEP. The various affected interests responded both rhetorically and concretely to the NEP. Both verbal charges and concrete actions are aspects of the exercise of power in politics. Yet, those who have the capacity only to talk, and therefore not to act, obviously have less clout. Each of the major interests
identified and analyzed in this study have the capacity to act, and in order to appreciate the relative balances within the relationships of power one must assess both the 'talk' and the 'action' of the various interests.

The Alberta Premier and key ministers unleashed a strong series of verbal denunciations of the NEP, linking it to the constitutional negotiations and charging that together they constituted a plan by the "Ottawa" government and the central Canadian provinces to capture control of the western provinces' resources, and to ensure that all provinces except Ontario and Quebec remained second class citizens. Both because the Ontario government had attacked the Alberta position during the Clark period and because Ontario voters, essentially, turned the Clark government out of office Alberta focused its attack on Ontario. Alberta claimed that Albertans had foregone $17 billion in revenues by selling oil at less than 'fair market,' that is OPEC, price, most of which went to Ontarians, charged that Albertans had long paid premium prices for the manufactured products of Ontario's tariff protected industries, and finally asserted that if the oil was owned by Ontario Canadians would be paying world price. Canadianization was attacked as a smokescreen which was being used by a small cabal of 'Ottawa' bureaucrats to nationalize the petroleum industry.

Compared to its strident condemnation of Alberta during the Clark regime, along with its portrayal of the Ontario economy as synonymous with the national economy, Ontario's 'silence' in the wake of the NEP was deafening. Bill Davis indicated he regretted Alberta's attacks on Ontario and was saddened by Alberta's response, in particular the production cutback. Frank Miller argued that the NEP was a constructive approach to a national energy strategy and the Ontario government continued to express support for Petro-Canada.
As indicated by our analysis of Imperial Oil, Texaco, and Gulf, the multinationals individually and as a group through the CPA condemned virtually all aspects of the NEP. The combination of restrained prices and increased taxes, they claimed, would vitiate the achievement of self-sufficiency by not providing the industry with the investment capital via netbacks to do the necessary exploration and development. This charge largely remained intact after the September 1981 Canada-Alberta Agreement, since while it raised prices it also raised taxes. While not criticizing the concept of Canadianization the multinationals as a whole condemned the chosen means of achieving it. They all criticized the PIPs which discriminated against them and denounced the Crown Interest as confiscatory. Virtually all of these firms attacked the Petro-Canada expansion and some, such as Imperial Oil, expressed doubt that the Canadian firms favoured by the NEP 'could do it.' The multinationals also challenged the accuracy and legitimacy of the State of Competition in the Canadian Petroleum Industry Report and its charges.

The Canadian majors expressed support for Canadianization though the firms had mixed opinions on whether the PIPs approach was better than the tax incentives system. This was particularly the case for Dome as it had been a major recipient of tax incentives. Like the rest of the industry the Canadian majors, including Petro-Canada, doubted the price increases were large enough to stimulate the necessary activity particularly when combined with the taxes. Dome in particular was unhappy about the Crown Interest and the Progressive Incremental Royalty which would be applied to their future frontier production. The Canadian juniors are a disparate group and reacted verbally in various ways. What is clear though is that their organization, IPAC, along with some individual firms unleashed strident condemnations of the overall interventionist thrust of
the NEP, the expansion of Petro-Canada, the increased taxes and restrained price increases, and an incentive system which favoured activity in the frontiers far away from their base in the western sedimentary basin.

In addition to their 

In addition to their *verbal* response the various interests have the capacity for action as well. While the verbal reactions were meant to influence public opinion and to let the other interests know where they stood, these interests are important in Canadian energy politics because they also have the capacity to put "their money where their mouth is." By reviewing the *concrete* behaviour of the various interests we will have a better understanding of the possession and exercise of power.

The most immediate concrete reaction to the NEP was Premier Peter Lougheed's October 30, 1980, prime time television address to the people of Alberta. During this address the Premier outlined Alberta's three-pronged retaliation - the production cutbacks, the constitutional challenge to the tax on natural gas exports and the withholding of approval for the Alaidas and Cold Lake megaprojects. The provincial government followed up the Premier's speech by distributing a ten page pamphlet to Albertans outlining Alberta's criticisms of the federal government's energy and constitutional programs. The brochure encouraged Albertans to send the brochure to friends and neighbours in other provinces to show them that Albertans "do care for our country."

When the first stage of the Alberta cutbacks came into effect in March 1981, the federal government announced increases in oil prices to pay for additional oil imported to compensate for the production cutbacks. To identify the 'cause' of the increased prices Ottawa informally called this charge the 'Lougheed Levy.'

Reflecting their overall satisfaction with the NEP, Ontario government ministers kept a low profile during this tense period, intentionally saying little
that would rile the western provincial leaders. At the same time Ontario joined in an alliance with the federal government on the constitutional patriation issue. In October of 1981 the Ontario government materially signalled its support for the Liberals' Canadianization objectives by spending $650 million to purchase 25 per cent of Sunocor.

The initial material reaction of the multinationals was to signal their anger by cutting planned exploration budgets for 1981. They also decided initially to wait for the American government, the Alberta government and the federal Tories to bring the Liberals to their senses. At the same time the multinationals, through the CPA, commissioned a public opinion survey undertaken in April 1981 to probe public opinion about energy issues, the NEP and the energy industry. Based on the findings of the elaborate survey, which indicated a poor public image of the oil and gas industry, the CPA organized a $3 million advocacy advertising campaign to improve the overall image of the industry. A number of the majors such as Gulf and Petro-Canada also spent vast sums of money on advocacy advertising campaigns. This question of industry image became even more central after the highly publicized *State of Competition in the Canadian Petroleum Industry* Report was released in March 1981. After the September 1981 Canada-Alberta Agreement disappointed the industry — particularly Alberta's performance — the foreign majors decided to maintain their exploration budget cutbacks for 1982. In the fall of 1981 Imperial Oil abandoned the Cold Lake heavy oil project, and in April 1982 Shell and the other sponsors canceled the Alsands project. When it was apparent that most of the NEP would remain intact, a number of the foreign majors with land-holdings on the Canada Lands decided to reduce their risks by farming out sections of their land-holdings to Canadian-controlled firms eligible for PIPs.
Among the Canadian majors Dome and Petro-Canada made the most concrete material moves in support of Canadianization by making major acquisitions of foreign firms and in Dome's case by establishing a new Canadian-owned subsidiary. Nova made a minor purchase. Nova in particular made concrete moves to extend its operations onto the Canada Lands. Dome and Petro-Canada were already very active on the frontiers. The Canadian banks were falling all over themselves to lend money to Canadian firms to buy foreign-owned oil companies, and in terms of numbers the majority of the acquisitions were undertaken by the larger juniors. Nevertheless, in the period immediately following the NEP many of the juniors indicated their anger by shifting some of their exploration activity to the U.S. western basin. Other juniors, on the other hand, spent money to farm-in to the land holdings of the foreign majors in the Canada Lands. In other words, many of the Canadian juniors vigorously attacked the NEP verbally but moved to take material advantage for their shareholders of the various inducements embodied in the NEP. Others within the junior camp tried to distance themselves from their more strident peers and lobbied Ottawa separately from IPAC in an attempt to get some alteration to the NEP taxes and pricing systems which would help the junior firms.

While the various industry interests and provincial governments employed these various power tactics in an attempt to change all or parts of the NEP, the federal government was itself reacting both verbally and concretely to the verbal charges and concrete behaviour of the other interests. In late 1980 and early 1981 the Liberals introduced new legislation to give force to the new taxes and the new Canada Lands regime. In March 1981, Ottawa released the State of Competition in the Canadian Petroleum Industry Report. This report conveniently materialized at about the height of the industry media campaign.
against the NEP. In charging the multinationals with 'ripping off' Canadian consumers to the tune of $12 billion between 1958 and 1973, and by commencing a Restrictive Trade Practices Commission investigation, the government was able to force the industry back on the defensive. The government, however, also remained on the defensive, paradoxically, as a result of the run-away success of its own Canadianization policy. By mid-1981 acquisitions worth more than $6 billion had been made by Canadian firms in the wake of the NEP. Concerned about the impact of such a rapid transfer to assets out of the country, Finance Minister MacEachen called on representatives of the major banks to help slow down the rate of takeover by Canadian firms by making loans less readily available. In June 1981 the Report of the Major Projects Task Force was released. It argued that energy developments would be among the leading sectors of the Canadian economy in the future and concurred with the NEP that formal steps would have to be taken to ensure maximum Canadian benefits from developments in a sector traditionally dominated by foreign firms.

Responding to growing political and economic pressure from other provinces and other industrial sectors, the Alberta and federal government finally came to an agreement in September 1981. The Memorandum of Agreement represented a compromise which reflected the power of each of these governments. Alberta was able to extract higher prices and therefore more revenue for itself and, it claimed, the industry. As shown above, the industry which had mistakenly assumed that the Alberta government could force the federal government into compromises the industry was demanding, was shocked to learn that the outcome of the negotiations reflected Alberta's self-interest. The federal government acceded to the higher prices and in exchange got the Alberta government to pay for the PIP program in Alberta. Ottawa
followed the Alberta agreement with agreements with British Columbia and Saskatchewan. In March, 1982 Ottawa secured an Offshore Oil and Gas Agreement with Nova Scotia, while negotiations with Newfoundland collapsed.

As argued above, developments on the international stage, in particular reduced oil consumption due to the rapidly accelerating recession, ended the upward movement of oil prices on which the Canada-Alberta fiscal arrangements were premised. This provided additional evidence to buttress the industry argument that the combined government take was too great. Both governments responded by providing financial and fiscal incentives to 'sweeten the pot' for the Alsands megaproject. As the various consortium partners did their calculations and decided to back out of the project it was canceled. Both levels of government responded to industry pressure and the overall recessionary atmosphere by announcing significant financial concessions to the industry. In April 1980 Alberta announced a $5.4 billion program of royalty reductions and special grants and credits. In May 1982 the federal NEP-Update which included $2 billion worth of federal tax concessions was released.

When in March 1983 the OPEC countries finally agreed to reduce the benchmark price to $29 U.S. per barrel, it became obvious to everyone that the pricing scenario of the September 1981 Agreement was not to transpire. Canadian price had already exceeded 75 per cent of world price and a price increase scheduled for July 1983 had to be canceled. As a result Edmonton and Ottawa were forced to renegotiate the September pricing and revenue-sharing arrangement. By this point both governments had a strong stake in making the system work and accommodations were arrived at with a minimum of conflict. Ottawa suffered the greatest relative loss in revenue share.
In the face of a rapidly growing federal government deficit, an alleged deficit in the energy revenue/expenditure equation and charges that firms were 'gold plating' or manipulating expenses on the Canada Lands to increase PIP payments, Ottawa moved to control PIP costs by requiring wells costing over 50 million dollars to need ministerial approval.

Thus we can see that the dynamic and volatile three year period which followed the introduction of the NEP was characterized by numerous attempts to exercise power, including charges and countercharges and several concrete acts among the range of interests involved. Dominating energy politics in Canada is an overarching three-sided triad of powerful interests represented by the federal government, the producing province governments, predominantly of course Alberta, and the industry. Each of these interests, as it has been shown, have power or the ability to act independently to realize their will and to achieve their objectives. Yet it is a power that is constrained by the countervailing possession of power by the other contending interests in each of the relationships. Having now reviewed the ways in which the various interests have exercised power over the 36 year period one can draw some general conclusions about Canadian energy politics.

Overall Conclusions

1. As a consequence of the several federal decisions in the past decade, including the NEP, the two dominant relationships of power in Canadian energy politics are now more equal in terms of the overall balance of power than at any point in the post-war period. In the 1950s and 1960s the industry was by far the dominant interest because it was the 'doer.' It had the technology, the skills, the knowledge and the capital to do something the governments wanted. This gave
the industry a great deal of bargaining power with which to secure favourable
arrangements and it also gave both levels of government incentive to provide the
industry with the 'environment' it wanted/needed to get on with developing
Canadian potential in oil and gas.

As our analysis of the various key projects, policies and episodic
negotiations which followed the 1973 OPEC crisis showed, the overall level of
government intervention increased substantially between 1973 and 1980 and the
federal government engaged in many acts to maintain or increase its authority.
Still, the Liberals felt that throughout the 1970s energy developments in
combination with developments in other social and economic policy fields had
resulted in an overall shift of responsibility and activity to the provincial level
with a corresponding weakening of federal authority and power. Indeed many
scholars agreed with the Liberal analysis, at least to the extent that 'province-
building' was identified as one of the most important phenomena in Canadian
politics in the 1970s. While there are several different contributing factors as
well as contending explanations of the exact nature of this new surge in
province-building, the resources boom of the late 1960s and early 1970s, and in
particular the increases in oil and gas prices which followed the OPEC crisis, are
usually identified as being among the most important catalysts and forces driving
province-building. It was the oil-flush Alberta government which produced in
1978 the Harmony in Diversity: A New Federalism for Canada document,
perhaps the most lucid statement for a decentralized confederation yet
developed.

The Liberals only seemed to really grasp the extent of the centrifugal
movement under way in Canadian federalism when they were provided a new
vantage point to view proceedings by the May 1979 election of the Clark
Conservative government. The Clark government's portrayal of Canada as a 'community of communities' was sarcastically dubbed by Pierre Trudeau as a vision of Canada as a 'confederation of shopping centres.' The Liberals thought they observed the Conservatives operating from an explicit position of weakness vis-a-vis the provinces. Thus the NEP was intended to be a signal of a revitalized central government as well as a bargaining stance in the ongoing price and revenue-sharing negotiations. That is why the NEP must be understood as first and foremost a political act which was intended to enhance federal power by employing a range of governing instruments which together would restructure the key relationships of power in a way which would reduce provincial and industry power relative to federal power.

There can be no doubt that in this overall sense the NEP was successful and had a major impact on these two relationships of power. The industry as a whole must now take much greater notice of the federal government, in part because it now knows Ottawa can act decisively and may therefore do so again in the future, in part because the incentive grants made the industry openly more dependent upon federal agencies, and in part because a new regulatory regime and a greatly expanded Petro-Canada are a reality. There are aspects of the entire NEP that cannot be fully assessed in the three years covered in this study, but there is little doubt, in an overall sense of political power, that the industry has a much better understanding of the power which a federal government can wield in Canadian energy politics. The days of the industry lobbying primarily the Alberta government and then relying on it to defend the industry's interest in negotiations with the federal government are past. The NEP and subsequent events have taught all elements of the industry that both the federal and provincial governments have both power and their own distinct interests.
The producing provinces as well have a clearer understanding that Ottawa possesses real power in energy politics when the governing party chooses to employ it. Alberta has always been acknowledged to have considerable power in Canadian energy politics. Events since 1979 have shown that both the Ontario and federal governments also have power that Alberta must contend with. In the case of both relationships, however, the slow process of accommodation away from the NEP on both pricing and taxation reveals the power both industry and the provinces were able to exert. While the federal accommodations on these issues reflect in part a federal response to industry and provincial leverage, it also reveals that the federal government was by now dealing from a position of power in that it had received more in the NEP than it had initially expected and could make accommodations on price and revenue-sharing without vitiating the overall program.

2. The broad historical analysis of post-war Canadian energy policy suggests that the increased government involvement in the oil and gas sector by both the federal and provincial levels of government, while in a general sense prompted by conjunctural developments in the international arena, ultimately a direct response to actions taken by the other level of government for the industry. With respect to the initiatives of the other level of government, the post-war period is replete with examples of governments acting to jealously guard their jurisdictional authority from encroachments by the other level of government, as well as, of course, in more recent years battling to protect or increase their share of oil and gas revenues.

Government intervention in the industry tends to take the form of both direct responses to industry's overtures/demands (e.g., the infusion of state
capital in the Syncrude case, the establishment of super-depletion allowances) or industry actions that are perceived as negative for the public or the country and indirect responses to changing perceptions of the industry (Canadianization aspects of NEP, establishment of Petro-Canada). Thus, this research indicates that governments in Canadian energy politics, at least, have a good deal of autonomy, both from the various fractions of capital that make up the industry, and from the other level of government. Indeed, it is often the case that increased state intervention in the industry is often the indirect outcome of actions and reactions taken in the intergovernmental relationship.

The industry is often portrayed by its critics as the all-powerful leviathan in Canadian energy politics manipulating governments into doing its bidding, and by the industry itself as a paper tiger, tied down with regulations at every turn, misunderstood by the public and unappreciated and tightly controlled by government. The historical analysis shows that it is neither of these. Despite what some in the industry argue, the NEP did not strip the industry of power, because it did not fundamentally dispossess the industry of the basis of its power, that is, its control over the productive apparatus and the major pools of investment capital. Moreover, it must be understood that none of the relevant governments viewed the increased state intervention represented by the NEP and the earlier state regulations, as representing a fundamental challenge to the capitalist organization of the oil and gas sector. Even the social democratic government of Saskatchewan which moved in 1975 to nationalize half the potash industry made no such move against the private firms operating in the oil and gas industry.

The NEP did, of course, attempt to encourage shifts between the elements of the private sector in pursuit of Canadian ownership objectives. The NEP did
not, however, despite some rumblings in the actual NEP document that the state-owned sector would increase significantly, represent a fundamental shift to state capitalism. By far the vast majority of the assets in the Canadian oil industry are privately owned. Despite popular support to do so Petro-Canada did not attempt to acquire one of the big six foreign-owned firms (Imperial, Gulf, Texaco, Shell, Amoco, Mobil) which led the Canadian industry in 1979-80. Five of these are American-owned and the hostile challenge to the NEP by the Reagan Administration can, in part, account for this. Interestingly the two firms that state-owned Petro-Canada acquired assets from were European-owned. Indeed, the Reagan Administration continued to challenge Canadian energy policies, such as the pricing policy for Canadian natural gas exports to the U.S. and the Crown Interest, at every opportunity both bilaterally and multilaterally.

3. Conceptually, the framework introduced here posits five relationships of power which are central to Canadian energy politics. The argument was made that there was no absolute ranking among them but that their relative importance depended on the energy issue or issues being analysed. Two of the relationships were chosen and subsequently subjected to in-depth analysis by addressing a whole range of energy issues over a broad period of time. The energy politics literature as a whole has afforded some of the relationships better treatment than others, and in that regard the Canadian-American relationship has probably been treated as well as any. Thus, it was necessary to impose a choice on which of the relationships to study in depth as the simultaneous analysis of all five was impossible due to the constraints of space and resources. The most obvious limitation of this study is that it only treats two of the five relationships of power in detail.
The choice of the government-industry and intergovernmental relationships reflected both my presupposition that these two relationships of power were most in need of an in-depth historical analysis and my suspicion that these two relationships were the most important in the sense that the detailed analysis of them could reveal the most to us about the nature of Canadian energy politics. Two assumptions were made on my behalf in respect of this latter point. The first assumption was that a close analysis of the intergovernmental and government-industry relationships would implicitly involve a certain level of analysis of the partisan and interregional relationships in that the partisan dimension is closely connected to the intergovernmental relationships, and the interregional dimension is entwined with both of the chosen relationships. Second, I felt it would be difficult to imagine a study of Canadian energy politics which did not focus on these two relationships of power. In other words, while a study analysing these two relationships plus one, two or all three of the others is imaginable, an analysis of post-war Canadian energy politics which did not directly focus on the industry, the federal government, and the key provincial governments is virtually inconceivable. Finally, as mentioned in the introductory chapter, my own understanding of Canadian politics and my thinking about the study of Canadian politics has been most influenced by the political economy and neo-institutional approaches which highlight these two relationships as their primary focus. My assumptions about what is pre-eminent in the study of such an important area of Canadian politics, as energy politics reveals this influence.

This research shows that energy politics must be understood as an outcome of both conflict and consensus within at least these two major interrelated relationships of power, over the ability to influence and control energy developments. To attempt to explain energy politics as essentially the outcome
of relations between government and industry with intergovernmental relations merely reflecting intra-industry competition, or conversely, to explain energy politics as solely the 'toing and froing' of competing governments, is to present a fundamentally flawed portrayal of Canadian energy politics. The dynamic force driving energy politics is a three-sided set of competitive relations between governments and the industry. Yet, as the analysis of several industry interests and government interests undertaken herein shows, even this arrangement must be broken down into its elements for various energy issues if one is to develop a sophisticated understanding of Canadian energy politics.

Moreover, this triad of power is likely to continue to characterize Canadian energy politics in the future given the complicated set of structural arrangements which have grown up around energy issues throughout the post-war period, and in particular since 1973. This new complexity is characterized by both the increased statutory and non-statutory involvement of both levels of government in the energy arena, and the increase in the number of important players within the industry. One of the major consequences of the corresponding increase in the complexity of energy relations is that there are few remaining areas of fundamental importance where only two of the key actors are involved. For instance, most issues relating to provincial lands, from which virtually all Canadian oil and gas production now emanates, in some way involves the private producers, the federal government (for example, its powers over pricing outside of the producing province, exports, interprovincial trade in oil and gas, taxation) and the governments of the producing provinces and their authority over royalty rates, taxation, production allowables and the like.

This is not to deny, of course, that there are issues regarding exploration and production on provincial lands which are primarily determined in the
industry-provincial government relationship. The importance of this relationship was recently shown in Saskatchewan where a Conservative government defeated a long-standing NDP government and reduced royalty rates, provided new exploration incentive systems, and reduced the role of Crown corporations in an attempt to spur exploration. It worked, in that the industry signaled its approval by significantly increasing exploration activity. Yet, in explaining the exploration boom one cannot focus solely on the provincial government-industry relationship. The federal government's earlier agreement on October 26, 1981, to allow NORP prices for new oil discoveries, to approve increased exports of Saskatchewan's heavy oil, and to pay PIP grants for exploration, at least some of which could apply to non-tax paying junior exploration firms not previously eligible for tax-based incentives, must be considered in any sophisticated analysis of the Saskatchewan exploration boom.

The one area of exploration activity where developments are ostensibly solely the outcome of actions within the federal government-industry relationship are the federally controlled Canada Lands. Yet, even here such simplicity is illusory. Federal jurisdiction over the major offshore play in the waters east of Newfoundland is challenged by the government of Newfoundland. For exploration in these areas, Newfoundland has its own set of regulatory arrangements in place which the industry in one way or another must contend with. Despite several setbacks, including a Supreme Court judgment in March 1984 that reinforced federal jurisdiction, the issue is far from over.

In other important areas of ostensibly federal jurisdiction provincial governments have managed to negotiate with the federal government binding arrangements which formalize provincial participation and limit federal autonomy. This was the case with the March 1982 Canada-Nova Scotia Offshore
Oil and Gas Agreement. Finally, the territorial governments and important northern Native organizations, both within and without the land claims process, are striving to gain greater influence over hydrocarbon exploration (and potentially) production and transportation developments within their areas. As the Mackenzie Valley Pipeline Inquiry and other subsequent developments have shown, industry and federal power, while paramount, are not the sole factors governing northern energy developments. Moreover, energy developments in the north will get more rather than less complex as they become involved with future political and constitutional developments.
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Interviews

Over 250 personal interviews were undertaken by the author in the course of the research for this study. Given the sensitivity of the issue and the close involvement of many of the interviewees in the events analysed herein, it was decided to undertake the interviews on a not-for-attribution basis, except where the interviewee specifically stated they did not mind being cited. Two examples are Don McIvor, President and Chief Executive Officer, Imperial Oil Limited and Nick Taylor, President of Lochiel Exploration and Alberta Liberal leader. The Interviewees included: senior officials of the Government of Canada, several provincial governments, both territorial governments and numerous Western European governments; senior representatives of several international organizations including the Organization for Economic Cooperation and Development, the International Energy Agency, the European Economic Community, the Organization of Petroleum Exporting Countries, and the International Institute for Applied Systems Analysis; numerous senior officials of Canadian petroleum companies, several private and public Western European petroleum companies, and various important petroleum industry organizations; and a number of energy journalists, university based analysts, and members of the energy securities and financial industries.
APPENDIX A

CHRONOLOGY OF
MAJOR ENERGY POLICIES AND EVENTS

1945 - 1983

1945 Saskatchewan's Department of Natural Resources issued a statement outlining a plan to eventually gain complete social ownership and management of key industries in the development of its natural resources.

1947 Leduc discovery.

1949 (Mar) Dinning Commission of Alberta brought down finding that there was insufficient oil and gas to warrant export from the province. Majority of submissions to Commission wanted Canadians, particularly Albertans, to benefit from their petroleum supplies before considering any export of it.

1949 (Apr) Pipelines Act first introduced in Parliament; gave power of decision over interprovincial and international pipeline transmission of oil and gas to federal government.

1949 (July) Alberta enacted Gas Resources Act and set up Petroleum and Natural Gas Conservation Board to regulate removal of gas from province.

1949 Saskatchewan's CCF government issued memorandum on principles that were to guide them in their provinces resource development: development of resource wealth; raise standards of living; promote economic stability through diversification; prevent physical waste; protect consumer from price gouging; oil majors to be important part of growth.

1949 (Oct) C.D. Howe decides in favour of shipping Canadian oil to U.S. terminus for subsequent shipping to other Canadian ports inspite of arguments citing need for an all Canadian pipeline to help development of northern communities.

1949 Social Credit government of Alberta enacted into sections of the Mines and Minerals Act, a ceiling on the maximum royalty rate payable by producers on petroleum and natural gas leases.

1949 Manning government of Alberta introduces legislation to permit proratation of market demand, thus introducing concept of planned oil to Alberta.

1950 (Oct) Alberta Natural Gas Bill passed incorporating Alberta Natural Gas Company. (This bill essentially condoned the transmission of Alberta gas through the U.S. to westcoast ports.)
1953 (Mar)  C.D. Howe energy policy statement advocated transport of oil via least cost routes and marketing of surplus Canadian oil.

1953 (June)  Oil Policy Committee of Saskatchewan government issues memorandum calling for creation of Crown corporation to explore and produce oil and gas.

1954  Saskatchewan's Premier, T.C. Douglas, abandoned nationalizing interests by pulling back from deal to farm out Crown reserve land to Consumer's Co-op. Oil companies had again threatened to move out of Saskatchewan if deal not retracted.


1956  Trans-Canada Pipeline debates.

1957  Final report of Gordon Commission on Canada's Economic Prospects tabled. Commented on importance of Canada's resources to the Canadian economy and recommended development of comprehensive energy policy; establishment of national energy authority; and regulation of energy exports.


1959 (July)  National Energy Board Act enacted charging NEB with responsibility of monitoring and reporting to Minister of Energy, Mines and Resources on all federal aspects of energy. Given regulatory functions of controlling transportation, exporting/importing of power; and setting utility rates and tariffs.


1960  Diefenbaker government declared that Canada Lands oil and gas production licenses would be granted only to Canadian owned corporations. First time Canadian ownership officially mentioned in any Canadian land policy. Declaration only required foreign owned company to register on Canadian stock exchange, no sale of shares to Canadians necessary.

1961 (Feb)  National Oil Policy announced. Western Canadian oil limited to markets west of Ottawa Valley.

1963 (Oct)  National Power Policy announced advocating development of Canadian power through exporting arrangements with U.S.

1966 Federal government purchases controlling interest (45 percent equity share) in Panarctic Oils Ltd. ($9 million).

1966 Carter Royal Commission on Taxation report released, stating that the multinationals' grievances concerning Canadian tax policy had little justification, economically or socially and that they should be taxed just as other industries are.

1967 (July) Energy Development Group established within E.M.R.

1967 (Dec) Pearson government announced it was entering into partnership with twenty oil and mining companies to carry out joint exploration and drilling programs in the Arctic Islands, through Panarctic.

1967-68 West Coast Transmission application to export natural gas to U.S. resulted in NEB modifying its three test criteria for export licencing in favour of increasing continentalist energy ties to U.S. Alberta and Southern NEB application of 1970 similarly noteable for the above reason.

1968 (Dec) Task Force on Northern Oil Development formed.

1969 Oil discovered at Prudhoe Bay, Alaska.

1969 (June) Oil and Gas Production and Conservation Act enacted.

1970 Province of Québec created public enterprise Société Québécoise d'Initiatives Pétrolières (SOQUIP).

1970 (Jan) Federal government increased its funding of Panarctic to maintain its 45 percent controlling interest as Panarctic expands exploration program.

1970 (Mar) Trudeau announced amendments to Atomic Energy Control Act to prevent American takeover bids of Canadian mining companies, thus stopping Hudson's Bay Oil and Gas Co's bid to take over Denison Mines.

1970 White Paper, "Proposals for Tax Reform" released by federal Finance Minister (E. Benson), stated that special rules were needed to encourage and control the mineral industry. With respect to oil and gas industry it advocated immediate writeoff privileges for exploration and development costs.

1970 (June) Arctic Waters Pollution Prevention Act is enacted.

1971 (June) Referring to Canadian Petroleum Association estimates, the Federal Minister for Energy, Mines and Resources, J.J. Greene,
proclaims that at 1970 production rates Canada has 923 years of reserve oil and 392 years of reserve gas available.

1971 (Feb) Emergency debate on takeover bid by American owned Ashland Oil for Home Oil results in federal government blocking the transaction.

1971 (Aug) Peter Lougheed’s Progressive Conservatives gain power in Alberta.

1972 Lougheed government announces "Natural Resource Revenue Plan," which sought to boost royalty payments.

1972 (Aug) Energy Resources Conservation Board of Alberta, in their "Report on Field Pricing of Gas in Alberta," stated that existing gas prices were well below their commodity value.

1972 (Dec) NEB report indicated that Canada could no longer satisfy Canadian demand and export requirements.

1972 Imperial Oil Ltd. annual report states, "our present energy reserves using present technology are sufficient for our requirements for several hundred years. Export markets will not wait on our convenience ... once lost, export markets cannot easily be regained - assuming they can be regained at all - and their loss would be a genuine economic setback for Canada."

1972 NDP holds balance of power in newly elected minority Liberal Government of Canada.

1973 Foreign Investment Review Agency established.

1973 (Feb) Federal government in its "Statement on the Export of Crude Oil" states that restrictions on petroleum exporting are to be put in place.

1973 (Mar) Canadian Arctic Resources Committee issued report on Canada Land Regulations, stating that the Diefenbaker government of 1961 had given the oil industry carte blanche in instigating the kind of land regulations that were most beneficial to their own interests.

1973 Syncrude deal reached with Lougheed government of Alberta.

1973 (Apr) Saskatchewan government set up Saskoil Company to explore, produce, refine, market, transport, and trade, oil and natural gas.

1973 (June) Ontario announced it would test the constitutionality of Alberta's threat to restrict the flow of gas to Ontario.
1973 (June) Federal government releases energy policy document; *An Energy Policy for Canada Phase 1*.

1973 (Oct) Lougheed cabinet abandoned its new royalty plan and unilaterally pegged royalty payments to rises in the price of international oil.

1973 (Dec) Alberta announced new regulatory package to strengthen their constitutional control over their resources, including the pricing of these resources in interprovincial and international commerce. Packaging included: *Arbitration Amendment Act; Freehold Mineral Taxation Act; Mines and Minerals Amendment Act* (required all producers to sell their oil through marketing commission); *Alberta Petroleum Marketing Act* (set up Alberta Petroleum Marketing Commission to control sale of oil); and *Gas Resources Preservation Amendment Act*.

1973 (Dec) Pierre Trudeau makes major speech in House of Commons regarding federal response to the OPEC crisis. Among the thirteen points announced in the program were the abolition of the National Oil Policy and the proposed establishment of Petro Canada.

1973 In cooperation with Alberta, the federal government makes $40 million available for research and development on the oil sands.

1973 (Dec) Saskatchewan enacted Bill 42 to "nationalize" virtually all freehold oil and gas rights and to impose a "royalty surcharge" on all Crown oil production.


1974 (Jan) Federal-Provincial First Ministers Conference on Energy took place. Principle of uniform oil price across Canada adopted. Oil Import Compensation Program (OICP) started. Agreement reached to continue voluntary oil price restraint. Ottawa also announced policy to encourage energy interconnections between regions. This policy would give grants for feasibility studies of such interconnections and would give loans for 50 percent of the construction costs.

1974 (Feb) Canadian Industrial Gas and Oil Ltd. challenges Saskatchewan's Bill 42 as imposing an unconstitutional provincial tax on the oil industry. The Federal government intervenes as co-plaintiff and the provincial governments of Québec, Manitoba and Alberta intervene on the side of Saskatchewan.

1974 (Mar) Alberta announces new royalty rates, effective April 1.
1974 (Mar) First Ministers agreed to finance higher cost of foreign oil imported into eastern Canada through revenues generated from exporting western oil.


1974 Oil import compensation program procedures put in place.


1974 (May) Minority Liberal government defeated, but on July 8th a majority liberal government elected.

1974 (Sept) Darcy McKeough, Ontario's Minister of Energy, issues his "Statement on Natural Gas" which argues against "scarcity pricing" of gas when there are potentially large domestic supplies available in Alberta. Ontario also argues that reduced tax and royalty payments are just as effective at increasing supply as price increases would be and at the same time would not aggravate inflationary pressures.

1974 Alberta Energy Company Act passed. AEC was to be a resource investment vehicle for public and an instrument for economic growth - part of Lougheed's 1971 election platform.

1974 (Oct) NEB warns that Canadian Oil supplies are inadequate to serve Canadian markets and recommended exports be phased out.

1974 (Nov) Federal budget revised income tax regulation to disallow the deduction of provincial resource royalties in calculation of Federal taxable income.

1974 (Dec) Alberta implemented contingency plan - Petroleum Exploration Plan - which reduced royalties and introduced new drilling incentives for oil exporters.

1974 Alberta Oil Sands Technology and Research Authority (AOSTRA) set up in Edmonton to do energy research on tar sands and heavy oils.

1975 (Jan) Federal government allowed border price of Canadian natural gas exports to begin increasing, thus providing stimulus for increased exploration and development in Western provinces and Canada Lands.
1975 (Feb) Syncrude package renegotiated with Imperial Oil, Canada-Cities Service, Gulf Canada to allow governments of Alberta and Ontario and federal government to become equity partners.

1975 (Feb) Energy, Mines and Resources Minister announces energy conservation program in order to lower rate of growth in consumption and enhance self sufficiency.

1975 (Apr) NEB warns that Canadian Natural Gas supplies soon to be insufficient to meet total demand and existing exports. Canada no longer considered self sufficient.

1975 (Apr) First Ministers Conference held. Federal government decides to increase domestic price of oil to reduce net transfer of income from Canadian's to oil exporting nations. Revenues from export surcharge no longer adequate to cover compensation bill for imported oil for eastern Canada. Oil consuming provinces in opposition to this for fear of increasing their provinces unemployment and inflation rates.

1975 (Apr) Petroleum Administration Act adopted giving federal cabinet ultimate authority over interprovincial oil and gas pricing.

1975 (Summer) Several consuming provinces introduced extended price freezes on petroleum products after Alberta and Ottawa agreed to price increase to $8 per barrel.

1975 (May) Nova Scotian Supreme Court Case between Imperial Oil Limited and Nova Scotia Light and Power Co. Ltd. brought into the open Imperial Oil's use of Bermudian dummy companies to evade Canadian taxes and to resell oil to Canada at higher price than necessary.

1975 (June) Federal government budget speech. Twenty-five percent resource allowance brought in as partial substitute for non-deductible royalties; federal corporate income-tax rate lowered to 40 percent from 50 percent on resource income; price of natural gas increased to make its energy unit comparable to oils' as of November 1, 1975.

1975 (July) Petro-Canada established under Petro-Canada Act.

1975 (Sept) Federal and Alberta governments reached agreement on domestic natural gas pricing and on the flowback system to producers at extra revenues from gas exported at a higher price.

1975 (Sept) Federal government forms Advisory Committee on Industrial Benefits for National Resources Development with objective of encouraging growth of Canadian content in Canadian industry and special projects.
1975 (Oct)  Anti Inflation Program launched.

1975  Federal government issues "New Principles for International Business;" a set of voluntary guidelines for foreign subsidiaries stressing need for greater R&D in Canada; development of Canadian supplies; regular publication of financial information; opportunity for Canadians to buy shares in Canadian subsidiaries.

1975 (Late)  Price of Natural gas fixed at 85% of oil price at Toronto citygate.

1975 (Dec)  Alberta Energy Company awarded Syncrude pipeline contract to unionized contractor passing over lower bid by non-unionized contractor.

1976 (Feb)  Federal government announces intention to impose efficiency standards for automobiles, building and appliances.


1976 (May)  Alberta establishes Heritage Savings and Trust Fund to capture oil and gas revenues in order to spur diversification of Alberta's economy; improve quality of life and act as alternative revenue base.

1977 (Sept)  CHIP program of home insulation grants begun.

1977 (Nov)  Supreme Court rules ultra vires the royalty surcharge section of Saskatchewan's Bill 42 but upheld its nationalization actions.

1977  Foothills consortium defeats the eastern Canadian and foreign controlled Arctic Gas consortium for the right to transport Alaska gas south.

1977  Renewable Energy Resource Branch formed within E.M.R.

1978 (Apr)  Northern Pipeline Agency established under Northern Pipeline Act. Becomes a statutory mechanism to ensure Canadian industrial benefits.

1978 (June)  Petroleum Corporations Monitoring Act enacted. Requires petroleum companies to disclose financial and other statistical data.

1979 (Feb) Ottawa issues energy policy document *Energy Futures for Canadians*.

1979 (Mar) Conservative government in Alberta re-elected with large majority.


1979 (May) Minority Conservative government of Joe Clark elected. Platform included promise to privatize Petro-Canada.

1979 (June) At Tokyo Summit, Joe Clark pledges to adhere to strict energy conservation program and adopts net oil import targets for 1979-1981.

1979 (Nov) At Special First Ministers Conference on Energy, federal and Alberta governments reach partial agreement on crude oil price increases; all synthetic crudes given international price; all conventional oil to be 75 percent of lower Chicago or international price until 1983, and 85% for 1984. Ontario opposed linking Canadian price to international price.

1979 (Dec) Ottawa establishes Energy Supplies Allocation Board under legislation enacted earlier in the year.

1979 (Dec) Parliamentary defeat of the Crosbie budget and its energy proposals, including the 18 cent increase in transportation fuels tax.

1980 (Jan) Trudeau makes Halifax 'energy' campaign speech. Stresses seven points including: a made-in-Canada blended price to keep price below world levels, strengthen and expand Petro-Canada, emphasize conservation and substitution, and ensure that Canada's oil and gas industry becomes more Canadian owned and controlled (50 percent by 1990).

1980 (Feb) Liberals return to power with 86 percent of parliamentary support in Ontario and Québec.

1980 (Apr) Liberal Throne Speech reiterates election energy promises.

1980 (May) Québec Referendum.

1980 (July) Government approves prebuild of Alaska Highway Pipeline.

1980 (Aug) In the face of failed negotiations Alberta unilaterally increased price of $2 a barrel.

1980 (Oct) Alberta announces retaliation to NEP. Includes 180,000 bbl/day cutback in oil production, to be implemented in steps at three month intervals starting on March 1, 1981. Alberta also announces legal challenge to the excise tax on natural gas for exports and-withholds approval of Alands tarsands and Cold Lake heavy oil projects.

1980 (Dec) Introduction of Bill C-48 Canada Oil and Gas Act. It introduces a new fiscal system for Canada Lands. COGLA brought into being to administer new regime.


1980 (Dec) British Columbia announces that it will withold money from the Federal government's natural gas excise tax.

1981 (Jan) Bill C-57, the legislation to provide for the petroleum and gas revenue tax (PGRT) and natural gas and gas liquids tax (NGGLT), introduced.

1981 (Feb) Petro-Canada acquires Petrofina, an integrated Belgian-owned company for $1.46 billion.

1981 (Mar) Federal government announces increases in oil prices to pay for additional oil imported to compensate for Alberta government production cutbacks.

1981 (Apr) Federal government announced that it would implement a special Canadian ownership charge beginning May 1 on sales of petroleum products and natural gas to cover the costs of Petro-Canada's acquisition of Petrofina.

1981 (May) Announcement of inauguration of the Canada Oil Substitution Program (COSP).


1981 (July) The State of Competition in the Canadian Petroleum Industry, the Report of the Director of Investigation and Research, Combines Investigation Act is released. Also known as the Bertrand Report, it charged that as a result of uncompetitive practices the major integrated firms overcharged Canadian consumers by $12 billion between 1958 and 1973. Based on evidence contained in the Report, the Restrictive Trade Practices Commission began an investigation.
1981 (July) Finance Minister Allan MacEachen asks Canadian banks to help slow down the rate of takeover by Canadian firms of foreign firms by making loans less readily available.

1981 (Sep) Canada-Alberta energy agreement signed. Agreements follow with British Columbia (September 24) and Saskatchewan (October 26).

1981 (Fall) Canada Development Corporation acquires 75 percent of Aquitaine Company, a French firm, for $1.2 billion.

1981 (Fall) Cold Lake mega-project abandoned by Esso Resources.


1982 (Feb) Newfoundland-Federal government negotiations on offshore resources break down. Newfoundland government announces a reference to the Newfoundland Supreme Court concerning ownership of offshore resources, which it subsequently lost.

1982 (Feb) Bill C-94 the Energy Security Act is tabled in House of Commons. Resulted in 'Bells Affair.' Division bells rang from March 2 to March 17 as parties negotiated about what to do with the energy bill. Eventually broken down into eight bills.


1982 (Mar) Announcement of $30 million to be spent during fiscal 1982-83 to expand the natural gas distribution system to new market areas, through funds made available to utilities.

1982 (Mar) Announcement of changes in CHIP, making homes built between January 1, 1961 and January 1, 1971 eligible for federal grants to defray the cost of insulating.

1982 (Mar) Newfoundland government announces provincial election for April 6, which it won. On March 16 Newfoundland government released documents relating to negotiations with the Federal government on the offshore.

1982 (Apr) Alberta announces a $5.4 billion program consisting of royalty reductions and special grants and credits with the objective of increasing revenue flows to the industry in 1982-83.
1982 (Apr) Despite extensive high level negotiations between the two levels of government and the Alsands sponsors (Shell), including the provision of 'very generous' taxation and fiscal incentives by the governments, the sponsors decided to cancel the $13 billion mega-project.

1982 (May) NÉP-Update published. Included $2 billion worth of federal tax concessions.

1982 (Fall) Petro-Canada acquired the refining and distribution assets of B.P. Canada for $347.6 million.

1982 (Fall) Federal government and Canadian banks announce an equity injection package to prevent receivership of Dome Petroleum.

1983 (Mar) OPEC countries agree, after two week summit meeting, to reduce OPEC benchmark oil price to $29 (U.S.) per barrel, and set production quotas.

1983 (Mar) As a result of decrease in international price Canadian old oil had already exceeded the ceiling of 75 percent of world price. Consequently, Ottawa and Edmonton agreed to cancel a price increase due for July 1983.

1983 (June) New eighteen month Ottawa-Alberta agreement reached. Conventional old oil prices frozen at $29.75 (83 percent of world price). Gas prices to go up but kept at 65 percent of oil price. Ottawa to cushion gas consumers through reduction in gas excise tax. The NORP would be extended to include oil discovered after March 31, 1974 and from oil produced from wells drilled in gaps in existing oil fields.

1983 (Aug) Ottawa announces measures to control PIP costs. Wells costing over $50 million to receive individual ministerial approval. Companies required to show that drilling costs are competitive.

1984 (Feb) Federal Budget postpones for further year the introduction of the Incremental Oil Revenue Tax. It announces also that revenues from the Canadian Ownership Account would be treated as general revenues, in part because funds for the Dome rescue would not likely be needed, and in part to make it possible to use the funds for more flexible energy purposes.

1984 (Feb) U.S. Economic Regulatory Commission issues policy guidelines that favor market prices for imported natural gas.

1984 (Feb) Ontario Energy Board endorsed principle of direct purchasing of gas by Ontario industry and/or by permitting industrial users to be involved in producing their own natural gas. A federal Task Force on the petrochemical industry also recommends reduced gas prices and gradual deregulation of gas pricing.
1984 (March) The Supreme Court of Canada decided unanimously that the federal government has jurisdiction over offshore resources.