Crude Oil Pricing

Fundamental to the NEP's approach to pricing was the belief that Canadian prices should be insulated from the disruptive effects of developments in volatile international petroleum markets, and the assumption that prices would continue to rise. While both tenets were debatable at the time, most industry observers accepted them. But lower-than-international NEP prices, designed to protect consumers, alienated the producing provinces and weakened investment in the Canadian petroleum industry. Ultimately they caused confusion in the minds of consumers as Canadians watched world prices decline while domestic prices marched upward.

Since 1974, oil has been available at a uniform price across the country, even though foreign producers supplying Eastern Canada received a higher international price while domestic producers received a lower administered price. Import subsidization continued under the National Energy Program, announced on 28 October 1980. The made-in-Canada "blended price" of the NEP was a complicated weighted calculation based on various sources of supply and provided for a domestic price set below the international price.

The NEP revenue-sharing formula was imposed effective 1 January 1981, after the federal and provincial governments failed to agree on revenue sharing in the wake of increased oil prices. While the producing provinces had pressed for world prices, Ontario had led the argument for a controlled rate of increase on the grounds that the cartel price set by OPEC was unrelated to the cost of producing conventional oil and gas in Canada.

In retaliation, Alberta reduced production of its oil. A negotiated price schedule contained in the 1981 Memorandum of Agreement with Alberta replaced the original 1980 formula. This was altered in the NEP Update of 1982. By 1983 the schedule of price increases was becoming incompatible with the softening of world market prices, and the provincial agreements had to be revised.