Trading for Latin American oil

by David Murray

Throughout the 1970s, Canada followed a conscious policy of increasing ties with individual Latin American nations and with multilateral inter-American organizations. In Canada's foreign policy of the 1980s, the countries of Latin America and the Caribbean will loom even larger. Within this inter-American context, Canadian officials see two predominant themes: oil and trade.

The availability of energy may be the single most important global issue of the decade. For Canada, the prime concern of the moment is a secure oil supply. Almost 20% of Canada's crude oil is imported, and that percentage could rise, perhaps even double, over the next ten years. This stark reality, combined with the volatility of the Middle East, has brought Canadian relations with Venezuela and Mexico increasingly into the limelight.

Oil from Venezuela

Canada has been importing 100,000 barrels of oil a day from Venezuela for some time and this has been taken up entirely by refineries from Montreal to Halifax. No formal agreement exists between the two governments to cover these oil imports, although Venezuela has indicated a desire to have a government to government agreement instead of a contract with multinational oil companies. Now that Canada has signed such an agreement with Mexico, and with the political disputes about the nature and powers of Petro-Canada settled by the 1980 Canadian federal election, an agreement with Venezuela, similar to that with Mexico, may be possible.

The lack of a government to government agreement is not the only problem in the Canadian-Venuzuelan relationship. Canada runs a huge trade deficit with Venezuela because of the cost of the oil imports. Of Canada's oil imports in 1979, 40 per cent came from Venezuela and the trade deficit exceeded 858 million dollars. Canada's Venezuelan imports grew from nearly 1.3 billion dollars in 1978 to over 1.5 billion in 1979 largely because of the increased cost of oil and petroleum products. The deficit was kept down to $858 million only because of record high Canadian exports worth $700 million. Should the rapid escalation of world oil prices continue, not even record-breaking Canadian export sales to Venezuela can prevent the trade deficit increasing. Within several years, it could exceed a billion dollars.

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The oil link between the two countries does hold out opportunities for new forms of technological collaboration, for example, in areas like the extraction of heavy oil from tar sands. Whether it poses new problems or creates conditions for co-operation, oil will likely determine Canadian-Venezuelan relations in the 1980s even more than has been the case until now.

But Venezuela no longer stands alone among Latin American nations as a Canadian oil supplier. Mexico is about to join her, making that cross-Caribbean energy axis between Venezuela and Mexico of vital importance to Canada in the coming years.

Early in 1979, the Trudeau government initialled an agreement with Mexico providing for Mexican oil sales of up to 100,000 barrels a day for ten years. No precise delivery schedules were included in the agreement nor were they announced by Mexico. The coming to power of Joe Clark's Progressive-Conservative government in 1979, and the possibility of Petro-Canada's dismantlement, delayed the formal signature of the Canadian-Mexican oil agreement. Finally, the two countries agreed to sign the agreement during President José Lopez Portillo's visit to Canada in May 1980.

Mexican oil pact

Two weeks before the arrival of the Mexican President in Ottawa, the Canadian government received word that the Mexicans wanted to re-negotiate the oil agreement which the two leaders were to sign. Canada wanted to preserve the original Mexican commitment to supply up to 100,000 barrels a day but President Lopez Portillo, claiming he could not bind his successor, refused to commit his country to more than 50,000 barrels a day.

When the frantic two weeks of negotiations were over, the two governments had come up with a triad approach to describe their conclusions; (a) an agreement on industrial and energy co-operation signed by the respective Cabinet Ministers (b) a lengthy communiqué issued jointly by Prime Minister Trudeau and President Lopez Portillo and (c) an oil contract which remained to be negotiated directly by the two government oil companies, Pemex and Petro-Canada, covering price and delivery schedules.

Since the Canadian government refused to include specific amounts of oil purchases in the agreement itself, these were left to the communiqué. The Mexicans somewhat mollified Canadian frustration over not preserving the 100,000 barrel commitment by agreeing to speed up delivery schedules in order to provide 50,000 barrels of oil to Canada by the end of 1980.