

such R&D. The situation was worsened by falling oil prices and the impression that this was an activity for which Petro-Canada had little enthusiasm.

The Committee does not see Petro-Canada evolving into the more diversified energy conglomerate that might want to undertake such activities and concludes that Petro-Canada was not the appropriate vehicle for this R&D. Nevertheless, Canada requires a vehicle for the diverse energy R&D previously performed under the lead of the Energy Division at the National Research Council, and the government should specify how this function will be carried out in the future.

Rationalization of the Downstream Petroleum Sector

Petro-Canada has played a major part in rationalizing Canada's domestic petroleum industry. The Corporation has grown to account for approximately one-fifth of Canadian oil refining and marketing – second only to Imperial Oil with its 28% share of refining capacity and 24% market share – at the same time as the number of its competitors has been decreasing (with Petro-Canada's acquisitions being a major factor in their disappearance). There are two possible effects of this rationalization. On one hand, having fewer participants in the downstream industry holds the potential for improved efficiency of operation through economies of scale and rationalized refining, distribution and marketing systems. On the other hand, Canadian consumers may have experienced higher retail prices in having fewer competitors for their business.

The Committee concludes that the federal government erred in allowing Petro-Canada to become such a dominant part of the downstream industry, where it appears that the Corporation has chosen to compete primarily through acquisition and advertising rather than through the price mechanism. Mr. Hopper testified to the Committee that diversification into the downstream sector was essential to the long-term survival of his company. In his words:

...I don't think Donald Macdonald fundamentally understood what this company was about in the long term. Look, if you were to set up a company and have it explore only in the frontier and not acquire anybody, in five years we would have been totally bust...I mean, if I were to survive in this company and have the company survive, which was my ambition, I had to acquire some assets. I had to acquire cash flow. I had to build a corporation that could stand on its own. Governments change and have changed. It was clear that this company could simply not go out and drill holes in the frontier without any source of cash other than from government. It was far too tenuous a proposition.

(Canada, Senate, Standing Committee on Energy and Natural Resources, 16 November 1989, pp. 29-30)