LAST WORD

Petroleum Aid: Healthy Dividend from Small Investment

Ask Canadians to identify the Official Development Assistance (ODA) arms of the federal government and they probably could identify the Canadian International Development Agency (CIDA). But what of the International Development Research Centre (IDRC), the International Centre for Ocean Development (ICOD) and Petro-Canada International Assistance Corporation (PCIAC)? The future of CIDA as this country's lead ODA agency seems secure, its $2,167,352,000 budget for the current fiscal year representing an 8% increase over 1989-90. The same holds true for the IDRC and the ICOD, their respective budgets having been increased 5.3% to $114,300,000 and 21.8% to $12,300,000. PCIAC's budget also is increased for 1990-91, up 7.5% at $53,000,000, but the prospect of its parent corporation, Petro-Canada, being privatized raises questions about the future of this specialized instrument of ODA.

Its objective is promotion of oil and natural gas development in the less-developed countries (LDCs). During the prolonged downturn in world oil prices because of overproduction, mainly within the Organization of Petroleum Exporting Countries (OPEC), short-term demand for new reserves was virtually non-existent. But PCIAC, like the petroleum industry as a whole, works with a longer-term perspective. The recent upturn in world oil consumption and concomitant upward pricing pressures has created problems for the LDCs in that higher import costs strain their already overburdened economies.

Most experts seem convinced that the boom-and-bust conditions of the 1970s will not be repeated during the next 10 years or so, but even if the tightly balanced market results in no unsupportable increase in prices or no significant price instability, the price of imports for oil-dependent countries will continue to present severe problems. A study completed for PCIAC has suggested that an increase in oil prices to $22 per barrel would, in the year 2000, add $20 billion to the oil import bill of developing countries. Their Gross National Product would be 15% lower if oil prices remained at the levels that have prevailed for several years. The same study concluded that in the unlikely event that oil prices do not rise, the oil import bill would be greater and the burden on aggregate GNP would still be substantial. So access to reliable and sustainable supplies is essential for their economic well-being — indeed, for the well-being of all oil importers.

The projects underwritten by PCIAC reflect a broad international interest shared by Canada in encouraging diversification of oil supplies. The international community quite vigorously supports development of hydrocarbon resources and the United Nations General Assembly last fall passed a resolution calling on all donor countries to increase the amount of aid designated for energy exploration and development.

PCIAC's involvement in a developing country usually begins with a request for assistance from that country. PCIAC then determines whether a programme of assistance would be justified on the basis of several criteria. This include the degree of dependence of the country on imported oil, its geological prospectivity when exploration assistance if requested, the needs of the relevant national oil company or agency, the degree of current involvement or interest on the part of private industry, the views of other donors such as the World Bank, and the priority of the country in Canada's ODA policy.

No Shortage of Potential

While some developing countries have limited petroleum resources, most have some potential or actual endowment. The issue in many cases is not so much a scarcity of hydrocarbon resources but of financial, technical and human resources. Where geological prospects appear worth investigating in the national interest but are not yet clearly attractive to other investors, Official Development Assistance for oil and gas exploration can be of tremendous benefit. Despite growing concern over the effects of fossil fuels, the LDCs have no alternative in the short-to-medium term. In fact, oil and gas would actually be a viable alternative in many cases to the burning of fuelwood, which is more environmentally damaging than fossil fuels in terms of local ecosystems and agricultural productivity.

The oil and gas sector in many developing countries faces major obstacles. Weak administrative structures, limited resources and inadequate petroleum sector infrastructure often are combined with the absence of geological/geophysical data. This frustrates resource management, obstructs planning and implementation of exploration, exploitation and commercialization and impedes supply and distribution. Moreover, because of their serious cash positions, a number of oil-importing LDCs cannot assemble the technical, economic and financial data needed to stimulate private sector interest.

PCIAC works with the Canadian oil and gas industry, international agencies and other donors and, after the World Bank, is the most important agency engaged in this kind of work in the LDCs. It continues to rely on the goods and services of an internationally competitive industry at home and, in many ways, is a showcase for Canadian technology in markets that have been dominated by multinational companies.

A case in point is a $10 million contribution to a programme in Ghana, through which PCIAC undertook to provide goods and services that would enlarge the scope of exploration activity there if the Ghanaians could put together a consortium. The outcome includes a three-well programme, the PCIAC commitment, and contracts let in Canada for more than $20 million in goods and services.

Energy, Mines and Resources Minister Jake Epp has declared that the government's intent in the event of Petro-Canada's privatization is that PCIAC's activities would continue within an appropriate relationship with Petro-Canada and perhaps other Canadian companies. Clearly the details remain to be worked out in the months ahead, but the expectation is that PCIAC will continue to implement projects in such a way as to benefit both the LDCs and the Canadian petroleum industry. Peter Towe is Chairman of Petro-Canada International Assistance Corp.