The Canadian petroleum industry

Keeping the

'It is not important

who gets the dividends,

Wall Street or Bay Street'

Joe Greene,
minister of energy, mines
and resources

The American need for Canadian resources has never been so great as it is today. Because of the energy crisis now looming in the United States, American government officials are at this very moment negotiating a continental energy pact with Canada. One of the resources that would, no doubt, be included in such a deal is oil.

In the following article by Gordon Cleveland, (condensed from The Last Post, Vol. 1, No. 3) an attempt is made to shed some light on the nature of the American oil industry in Canada and to give a detailed analysis of why Canadian oil is in such demand.

The United States is the largest and most important single oil market in the world. Oil is the power base for the operation of the vast majority of its industrial enterprise.

The world oil market has historically been dominated and controlled by the seven major internationally integrated oil companies, commonly known as the "International Majors" or "The Seven Sisters".

In order of size based on sales, they are:

* Standard Oil of New Jersey
* Royal Dutch Shell
* Mobil
* Texas Oil (Texaco)
* Gulf Oil
* Standard Oil of California
* British Petroleum (BP)

With the exception of Shell, which is Dutch-owned, and BP, which is British-owned and half government-controlled, the International Majors are US-based, owned and controlled.

Sales of the five US majors in 1967 were $32 billion, or one third of the Gross National Product of Canada.

In 1966, the US Majors' foreign investment represented 40 per cent of the total US direct investment overseas.

In the most recent major study, in 1960, the Seven Sisters were shown to own over 70 per cent of all refining capacity in the non-Communist world.

Price fixing

Essential to the domination of the International Majors is the maintenance of an artificially high world price structure for petroleum.

The Majors were able to sustain this artificial price-fixing structure because of their high vertical integration — that is, control over the exploration, the exploitation, the transport, the refining, and a large part of the market (gas outlets, for example). In short, vertical monopoly.

World prices, including Canadian, have historically been set to a level required to make US oil production economic. Prices in Venezuela and the Middle East, for example, were set by the US majors at a level high enough to guarantee profits for oil produced out of the "Gulf of Mexico Price Zone", the Texas producing region.

Thus even though companies like Jersey Standard and Gulf Oil in 1959 drew two thirds of their net income from foreign operations, it was important to their profits to keep the Gulf of Mexico prices as high as possible. And since the cost of production in the Middle East is at most one third of producing inside the US, it becomes crucial to the survival of the international cartels to maintain a high price level calibrated to the most expensive production area.

A task force set up last year by the Nixon administration reflected the magnitude of this price distortion. It revealed that if import restrictions into the US were lifted, and the country thrown open to the onslaught of cheap foreign-produced oil, the domestic wellhead price of $3.30 per barrel would decline by 1980 to $1.87 a barrel.

Thus Washington, sensitive to the lobbies of this immensely powerful industrial sector, preserves the position of Texas oil from the competition of a cheaper external market, and delivers staggeringly inflated profits to the companies that explore in foreign countries.

The price-fixing knows no borders and extends directly into Canada. Here is an example of the operation of the price-control system in Canada in the late Fifties:

The price of oil at the wellhead in Western Canada in the late fifties varied between $2.50 and $2.65 a barrel. This price was set through a complicated procedure that assured that the price of Western oil in Central Canada would be the same as the price of oil from the closest major petroleum-producing centre in the US, in this case Illinois. This assured that Canadian oil could not compete effectively with the bulk of American oil, even in Canada's own markets.

This $2.50 to $2.65 a barrel from the West, according to the Borden Commission on Energy of 1959, actually cost only slightly in excess of one dollar (not including taxes) to produce. That is the measure of American control over the continental and world market price.

It might seem logical that one Canadian produ[...] could rebel against these prices and cut his far be[...] the American level, while still retaining a handso[...] profit over his production costs.

This does not happen because:

a) Sixty-two per cent of the Canadian oil industry [...] American controlled,

b) It is in the interests of the oil producers [...] maintain the highest possible price, therefore prof[...]

c) Any smaller Canadian producer who rebell[...] could be easily crushed in any price war,

d) no one need worry about his price being un[...]dercut because imported oil from the internation[...] market is equally controlled.

As long as the companies play the game, they a[...] prosperous and protected. If anyone tries to buck [...] game, he faces price wars, battles for markets [...] for supplies.

In this complex price-control system, coupled w[...] the US control of Canadian oil production, alrea[...]lies a continental energy policy.

But what the US wants extends even beyond th[...]

Lifting · skirts

It's fair to begin to ask why our neighbor, [...] already sleeps with us when and if he chooses, [...] suddenly proposing marriage. And why Joe Gre[...] ran to Washington lifting the Liberal Governme[...] skirt.

In the late Fifties and into the Sixties, the [...]ternational oil market began to quaver. For the fi[...] time on any major scale, a world surplus of oil sta[...] developing. The patterns of control of the [...]ternational Majors started becoming undone, and [...] world oil market started slowly shifting its face.

This increasing world competition stemmed fr[...] the rise of 20 to 30 smaller international compa[...] which began breaking up the cosy party of the [...]ternational Majors.

These became known as the "Internati[...] Minors".

At the same time, forces of nationalism in [...] producing countries have led to a number of st[...] controlled firms, state control of share block[...] companies, state regulation of percentages of pro[...] that must remain in countries of exploitation [...] increases in tariffs.

This together with the gradual increase of the [...]ternational Minors, started a downward pressure [...] the international oil prices. With international pri[...] declining, however, US prices have remained ste[...] or gone up, in a domestic market shielded by a [...] wall of quotas and tariffs.

What has preserved the remarkable profitabilit[...] American oil has been the US import policy of 195[...] direct response to the looming crisis in internatio[...] oil.

This was, simply, the erection of a quota w[...] around the US, which effectively sealed out [...] cheaper foreign oil. By thus sealing off the pri[...] market, it was able to stabilize prices and, of cour[...] protect the US oil industry.

This import policy, enshrined in diverse pieces [...] legislation established under the Eisenhower a[...]ministration, was achieved largely at the insisten[...] of the independent domestic producers who could [...] wiped out if their expensive production facilities w[...] thrown into the competition of cheaper world [...] (These independents, with their Texas oil lobb[...] controlling a large number of Senatorial a[...] Congressional votes, are more important in the [...] market than the international Majors, since the [...] Majors control only one third of crude oil reserve[...] the US, whereas in other countries they control 6[...] 70 per cent of the reserves.)

Canada's response

The response of the Canadian government to [...] same crisis in international oil prices was [...] establishment of the Borden Commission, wh[...] resulted in the national oil policy established in 19[...]

In Canada there had also been a battle between [...] independent petroleum interests and the [...]ternational Majors, but the Majors were m[...] stronger here than in the US. The bid of the [...]dependents for the same kind of security as the [...] independents in large part failed.

The substance of the 1961 policy was the divisio[...] the Canadian market into two parts — all of Cana[...] oil markets west of the Ottawa Valley were to [...] served by domestic (Alberta) oil; all markets e[...] were to be served by imported foreign oil. This wa[...] voluntary policy, rather than the mandatory US [...] but since at the time it was the policy, the Maj[...] wanted, no one should be surprised that it was [...]fectively followed for some years until mate[...] conditions began to change.

This left the independents somewhat out in the c[...] since the Western Canadian market is not profita[...] enough, so a natural corollary of the 1961 policy [...] that the federal government had to constantly p[...]