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Domestic oil supply deficiency forces reduction in exports

Donald S. Macdonald, Minister of Energy, Mines and Resources, made the following statement on the supply and demand of Canadian oil to the House of Commons on November 22:

In February 1973 I announced that the National Energy Board would hold a public hearing "in order to provide opportunity for interested parties to be heard as to the appropriate methods for protecting the public interest in respect of oil exports over the longer term". After preparatory work, notice of the Board's hearings with respect to this matter was given on July 5, 1973 and companies and interested groups were asked to file briefs with the Board by October 15. Subsequently, the Board held hearings in Calgary, Vancouver and Ottawa, terminating on May 2, 1974. The Board, after carefully considering all submissions, testimony and argument presented, set out its findings in a report to me in the matter of the Exportation of Oil, which it submitted under Section 22 of the National Energy Board Act. Under Section 23 of the Act, reports of the Board made under Part II may be made public with the approval of the Minister and, having regard to the importance of this report, I decided that it should be made public so that all Canadians may be aware of the oil supply and demand outlook in Canada and of the need to take further action with respect to oil exports.

The Government accepts the Board's finding that steps should be taken to reduce exports of oil with a view to providing additional protection for Canadian requirements. To this end, the Board intends to modify immediately its licensing procedure.

The Government accepts the Board's recommendation for a new export-control system. However, in view of the impending requirements for the Montreal market, I intend to seek early consultation with the producing provinces with a view to reducing exports more sharply than under the Board's recommended formula. The Board allocated 250,000 barrels per day (bpd) for the Montreal market from 1975 onward but proposed that these supplies be declared surplus to Canadian requirements – and therefore eligible for export – until the Montreal line comes onstream in 1976. I intend to discuss with the provinces the advisability of "shutting in" these supplies beginning in mid-1975, rather than considering them surplus to Canadian requirements for export purposes until the line is completed in 1976. This would result in a reduction of exports to a level of about 650,000 bpd for the latter part of 1975, compared to an export level of some 800,000 bpd that would otherwise be in effect.

New formula adopted

Evidence produced before the National Energy Board during its hearing and its appraisal of this evidence indicated an inevitable decline in producibility of indigenous crude oil commencing next year and continuing in the 1980s, when frontier oil and larger quantities of oil-sands output are expected to become available. Based on present supply and demand trends, there is a forecast deficiency in supply to the domestic market served by Canadian oil in early 1982 which would grow to 200,000 barrels a day by late 1983. In the face of this prospect the Board decided to adopt a new procedure to determine the level of oil exports, based on a formula by which the volume of crude oil available for export licensing during a given year will be related to oil producibility, demand for Canadian use, and a conservation expectation as estimated for that year. The volume of oil exports thus computed would be reduced by a factor which would become more severe as the estimated period of self-sufficiency decreased.

The Government decided against an immediate and complete discontinuance of oil exports because cessation of exports would provide for sufficient producibility for only a few months additional to that provided by the phased reduction of exports approved by the Cabinet. That is an immediate halt to export would extend sufficient deliverability for about two-and-a-half years, while the Government's decision to phase down exports in line with the Board's recommendations will extend the period for about one-and-a-half years. As I stated, it is my intention to seek consultation with the producing provinces with an aim to extending this period to two years by beginning the phase-down of exports next year and in 1976.

Effects abroad and at home

An immediate halt to exports would be disruptive to Canadian/U.S. trade relations. It would deprive certain northern U.S. refineries and their communities of the Canadian crude oil that they have traditionally relied upon.

In Canada, a sudden and complete reduction of current exports would deprive industry of a major source of cash flow required to find the higher cost reserves of the frontier areas. It would also idle a portion of the capacity of producing facilities which have been financed over the past few years. There would be a major impact on the income of the oil-producing provinces, on the oil-service industries, and a major effect on Canada's foreign exchange.

In adopting its new procedure, the Board will identify the volume of allowable oil exports for a period of at least one year, but annual average levels will be adjusted to account for immediate supply and demand factors by issuing monthly export licences, as at present. Hearings will be held periodically to receive evidence with respect to the potential producibility of Canadian oil, the domestic demand for indigenous feed stocks, and the effects of conservation on Canadian consumption and surplus.

Conservation measures

While the Board is forecasting that by 1982 there will not be enough crude-oil production in Canada to meet the Canadian market demands which are now served by Canadian oil production, plus 250,000 barrels a day for Montreal, this outlook can be altered not only by the Board's proposed export-control formula but also by greater attention by all levels of Government and by all citizens to conservation measures in the use of energy. The Federal Government will announce this winter a series of programs designed to conserve all forms of energy.

In 1960, when the Federal Government launched the national oil policy, the export level was about 100,000 barrels a day. By 1970 exports had risen to 670,000 barrels a day. The rapidly