

of crude oil over their 1978 output. In that case, even though the level of oil disruption should have triggered the oil sharing agreement, because the Middle East producers agreed to lift more oil, the agreement was never implemented or tested at that time. The witness indicated that procedures followed were such that they were immediately in touch with all other producing countries and they said they would compensate quickly not to take draconian action. In other words, we went to great lengths so as not to trigger the agreement. I think this is important, because we often refer to this agreement as being one which will take care of an improbable short supply.

The second point I would like to raise is that in his testimony Mr. Honarvar mentioned that the IEA can only act in a consultative way in facilitating the oil sharing arrangement once an emergency has been declared. The implication here is that the IEA has no powers to enforce individual behaviour by countries, and we certainly have examples from both 1973-74 and 1979-80, when some countries acted very much in their own self-interest. For example, in 1973, during the Arab oil embargo, France went a long way to distance itself from support for Israel and even from support from some of its fellow Western European countries to be taken off the Arab embargo list.

A third point I would like to highlight today is that Canada has no government-mandated strategic oil reserve, and it is not required to by the IEA since it is currently a net oil exporter, a status that seems likely to change in the near future. According to the charts that the Department of Energy, Mines and Resources left with the committee, Canada typically maintains an industry inventory of crude oil plus refined products of about 60 to 70 days of domestic consumption. However, a substantial part of that is not available for draw-down, as it is needed for such things as pipeline fill, refinery processing stocks and tank bottoms.

Canada does not have any particular strategic reserve of oil that could be used for a very long period to sustain a reduction in off-shore supply. The International Energy Agency has no control over the price of oil when this implementation agreement comes into effect; we have seen that disruptions or even the prospect of shortfalls can lead to very large price increases, as was seen in both 1973-74 and 1979-80, and those price shocks are still with us today.

Those, honourable senators, are the comments I wanted to draw to your attention. This particular bill has given us an opportunity to look into the workings of the International Energy Agency, which has importance for us and special implications in connection with the work the committee is doing on Petro-Canada and the role it might play in a Canadian energy policy. It has a great deal to do with the bill that the committee expects to come before it, dealing with Hibernia and the entering into of agreements to support production from offshore Newfoundland and the prospect that virtually all of the production from that field will be exported to the United States.

I did want, honourable senators, to note this at this time not so much because it has to do with Bill C-4, although it does, as

because principally it has to do with the future work of the committee and the considerations that it should have in mind when determining the adequacy of the energy policy of the Government of Canada.

**Hon. Douglas D. Everett:** Honourable senators, I have a question for the honourable senator. I am sure that he will be dealing with the effects of the Free Trade Agreement, to which this is a prelude, in respect of the sufficiency of energy supplies in Canada and the possibility of rationing or prorating under the agreement itself. However, I got a bit of an impression that he denigrated somewhat the work of the International Energy Agency, in that the agreement had never been implemented and, indeed, there was only a consultative role that it could play, that it had no effect over prices, and that Canada has no strategic reserve because it is an oil producer and, presumably, its excess of production does provide that reserve.

I am wondering if he would not agree that the agency has performed well—certainly it did in the 1973-74 oil crisis and in the later oil crisis of 1978-79, in that the shortfall was made up by other producing countries and there was an avoidance of having to implement the prorating arrangements. Would he not, rather than denigrate the work of the agency, be inclined to say that the fact that it was there did create the conditions under which we did not have a greater shortfall than the 7 per cent under the agreement?

**Senator Hays:** Honourable senators, I think that “denigrate” is a stronger word than I would like to use about my comments on the IEA. Just to remind honourable senators, the IEA is an autonomous organization within the OECD.

The point I want to make is that it has never been tested in times of crisis. Even though we had an opportunity to test it in 1979-80, we chose not to, and I have a strong feeling that we chose not to because we did not want to see how difficult it would be for the 20 member countries to actually implement what it is that they have agreed to in the agreement, and I can understand that. It is like any agreement that 20 countries might have entered into. It is not very clear what will happen if it ever is implemented. The point is that it has not been implemented. It has been tested, but only as to supply and never as to price, with the exception that the agency has invited buyers and sellers of oil to tell the agency whether or not they were able to agree on price. There was no disclosure of what the price would be. In short supply situations, as those of 1979-80 and 1973-74 showed us, the major causes for alarm and panic, lineups at gas pumps, disruptions and so on are price and the fear of a problem, not the actual problem.

● (1420)

I am drawing attention to this because I have heard it referred to as being the answer to all our short-supply problems. I seriously question that. In any event, we will have an opportunity to determine whether or not it really is the answer that many hold it out to be in a short-supply situation. That is work that we will be able to do in connection with other studies before the Energy Committee at the present time.