



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.

CANADIAN OIL

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 producer could rebel against these prices and cut his far below the American level, while still retaining a handsome profit over his production costs.

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

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

This increasing world competition stemmed from the rise of 20 to 30 smaller international companies which began breaking up the cosy party of the International Majors.

These became known as the "International Minors". At the same time, forces of nationalism in oil-producing countries have led to a number of state-controlled firms, state control of share blocks in companies, state regulation of percentages of profits that must remain in countries of exploitation and increases in tariffs.

This together with the gradual increase of the International Minors, started a downward pressure on the international oil prices. With international prices declining, however, US prices have remained steady or gone up, in a domestic market shielded by a high wall of quotas and tariffs.

What has preserved the remarkable profitability of American oil has been the US import policy of 1959, in direct response to the looming crisis in international oil.

This does not happen because:

- a) Sixty-two per cent of the Canadian oil industry is American controlled.
- b) It is in the interests of the oil producers to maintain the

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 c) Any smaller Canadian producer...
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