

EXCALIBUR INTERVIEW

With James Laxer on Canadian Energy Policy

Remember when a gallon of gas was 39 cents? Or 69 cents?

James Laxer, chairman of the Atkinson Political Science department, takes a behind the scenes look at the oil industry to see just where all that money is going.

Laxer, well-known ex-leader of the Waffle, a left wing formation in the New Democratic Party, published last year a detailed study of Imperial Oil and the Canadian oil industry called "The Big Tough Expensive Job."

By PAMELA COURTOT

EXCALIBUR — In 1973 the federal government reported that enough fossil fuel existed in Canada to meet Canadian needs and keep exports at the then current rate. Now they tell us that we only have enough fuel for fifteen or twenty-years. Where did they get their figures and how did such an enormous overestimation occur?

LAXER — Well the basic source of information for the oil industry in Canada in terms of the amount of production that the government estimates is possible comes from the petroleum industry in this country. When it comes down to making specific forecasts of how much oil and gas can be produced this year next year or over the next ten or fifteen years, the only organization that has the capacity to do that is the major petroleum companies that do the exploration. It was on the basis of their estimates in 1973 that the government came out with its optimistic forecast and its energy report in June 1973.

What they predicted was that between that time and the end of the century this country could increase its production of petroleum from just under 2,000,000 barrels of oil a day and that Canada would have a surplus of oil down to the middle of the next century.

The 1976 energy report also based on the estimates of the major petroleum companies in Canada showed a decline of 60% in the estimated reserves that this country has and estimated that by the beginning of the 1980's we would be running into serious difficulties with oil supply, not only for the part of the country that imports oil now but also for the part of the country that uses Canadian oil. In other words, our 80 year surplus turned into something like a 7 or 8 year surplus in a space of two and a half years.

EXCALIBUR — Which companies play the major role in the oil industry in Canada and in giving the government these figures?

LAXER — It's the major integrated foreign-owned petroleum companies the biggest of which is Imperial Oil.

EXCALIBUR — Imperial likes to say that they are a Canadian company. Is this so? Do you have some idea of exactly where profits do end up?

LAXER — Well Imperial Oil is in fact 69% owned by one share holder and that share holder is Exxon Corporation in New York. The company has very little capacity to make decisions in Canada. The president of the company, Jack Armstrong, who is a Canadian from Dauphin Manitoba was testifying before the Royal Commission on Corporate Concentration last year and he said that Imperial Oil can only change its budget by \$5 million without getting in touch with head office in New York to approve the change. When you consider the fact that the revenues of the company are now in the order of \$4 billion one can see how thoroughly unimportant a \$5 million change in the budget would actually be. It means that the Canadian officers have very little control over the decisions the company makes.

Something like \$100-million goes out in dividends to the share holders and of course since 69% of those dividends go to the major share holders it means something like \$69-\$70 million a year ends up going directly to Exxon Corporation in the form of profits sent out of the country.

EXCALIBUR — Now as far as the big major projects, the Syncrude Project and the MacKenzie Valley pipeline proposal, are the companies going to make more profits on these large ventures?

LAXER — Yes. In the case of Syncrude they are going to make a huge profit because they are partners of the federal government, the Alberta government and the Ontario government and they have won some very important concessions. Syncrude is going to come on stream at the world price which means that the Syncrude product will go on the market at a price of something like \$13-\$14 a barrel which is more than any other source of Petroleum in Canada.

And in addition to that there are very real tax incentives for Imperial Oil to put its money into Syncrude. For every dollar that Imperial invests in Syncrude they get to write off \$1.33. Or to put it another way, if they invest \$3 they get to write off \$4. and because of the rate of corporate tax in this country it means that when they invest \$1 in Syncrude it only costs the company 39 cents. The other 61 cents is in effect a public investment.

EXCALIBUR — So that, in fact that technology which is developed in Canada and as you said is 61% paid for by the Canadian tax-payer becomes the property of an American company.

LAXER — Yes. The government has put up something like 30% of all the working capital into Syncrude and 30% of the investment and in turn for that of course they make 30% of the profits. But there is a hitch to that, and the hitch came from first president of Syncrude who was a man named Spraggens.

Syncrude is a joint venture on behalf of three major foreign - owned petroleum companies and they are the majority share-holders, not the governments. As a result they are interested primarily in the arrangement under which Syncrude sells its oil to the participating companies. They don't care whether Syncrude makes a high profit or not. They want Syncrude to sell oil to them at such a rate that they will make a profit. This means that the governments are not likely to make much of a profit because there is not much incentive for the partners to show their profit through Syncrude itself but rather to declare those profits through city service and gulf Imperial which are the partners.

In fact Spraggens himself, the first president of the company said that he didn't expect the company to declare any profit at all for the first seven years of its operation 30% of nothing is nothing and that may well end up being what the governments make as their share of the profits for some time to come.

EXCALIBUR — The oil companies claim that they only make one cent on every gallon of gas that is sold at the retail level.

LAXER — That's right, but that one cent figure refers only to the refining and marketing of petroleum products, it has nothing to do with the sale of crude oil. If you read the fine print in those ads like the Macleans magazine ads of Imperial Oil which say that they make less than their cent a gallon, they say in the ad itself that Imperial has other sources of profit through the sale of gas and oil. The interesting thing is that if you look at breakdowns of where the company makes its profit through the sale of crude oil and natural gas.

For example, a breakdown of Imperial's profits for 1975 estimated that out of a \$250 million profit the company made \$150 million producing oil and gas. Now that \$150 million is not included in Imperial's one cent figure. So what they're doing is taking one small sector of the industry, where they have been having a problem making a profit, that is in refining and marketing and they are thereby declaring that their profits are low there. If you actually include the full operation and you look at their tax incentives you come to the conclusion that they make 12 or 13 cents a gallon.

EXCALIBUR — The companies also claim that increases are essential to speed up exploration for the benefit of Canadians. Over the last few years profits have greatly increased. What kind of extra expenditures have been made for exploration?



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LAXER — If you look at the five integrated companies together the figure I have for 1972-75 is that their profits were up 90% overall and that their exploration expenditures were up 45%. Imperial's profits were up 65% from \$150 million - \$250 million a year and during that period they didn't increase their exploration expenditures at all. The exploration expenditure in the first year was \$74 million and the same in 1975 so there was no increase.

EXCALIBUR — How is Petrocan going to be able to compete or play a role in oil and gas development in this country, when the field is dominated by giant corporations.

LAXER — Petrocan under the legislation can operate in all areas of the petroleum industry. It has under the legislation the capacity to do research and development to do exploration, to do drilling and lifting and production and sale and marketing of petroleum products. What the company appears to be likely to do is to take part in rather difficult and marginal exploration activities which will be of benefit to the private sector. Petrocan has made it quite clear that it doesn't see its relationship to the rest of the industry as being anything but that of a kind of helping hand from government. So absurdly enough instead of having competition from the public sector it will simply offer a kind of minor subsidy, to the private sector.

EXCALIBUR — Would you think it fair to say that the government set up Petrocan as a means of stifling criticism levelled against the multinationals?

LAXER — Yes. There is no doubt about that. Petrocan was set up because there is a very large amount of resentment against the petroleum industry in this country. There was

a Gallup poll taken just over a year ago that showed the majority of Canadians are in favour of public ownership of the major foreign-owned oil and gas companies. I think Petrocan was set up to head off that sentiment and to demonstrate to the people that something was being done. Under the legislation Petrocan could be used as a mechanism for bringing a significant part of the industry under public ownership and I would like to see it used in that way. But I'm afraid that it's been set up as a kind of public relations operation to satisfy Canadians that something more is being done than actually is.

EXCALIBUR — You feel that it would be in the best interest of this country to nationalize the oil industry?

LAXER — I feel that it would be in the best interest of this country to put a company like Imperial Oil under public ownership. I think right now the call for nationalization of the whole industry right now as a practical proposition is not likely to gain too much political support. But I think that if one said let's take the major oil company in Canada Imperial Oil, and let's make that into a crown corporation owned and controlled in Canada. Let it compete with the private sector but let it allow us to have a Canadian public presence in the industry, that would get support.

I think that would be very beneficial, and would allow us to find out once and for all whether the public sector can do a better job. That's the process we went through when we nationalized hydro back at the turn of the century. At first Ontario Hydro did compete with a number of private companies and I don't think that there are very many people in Ontario today who think that we would benefit in any way from selling it back to the private sector.