



# Statements and Speeches

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No. 75/20

## MOVE TO ESTABLISH A NATIONAL PETROLEUM COMPANY

A Statement to the House of Commons on March 12, 1975, by the Minister of Energy, Mines and Resources, the Honourable Donald S. Macdonald.

It is my pleasure today to rise and move that Bill C-8, to establish a national petroleum company, be read the second time and referred to the Standing Committee on National Resources and Public Works. This bill is a most important element in the Government's long-term planning to secure adequate supplies of energy to meet our national needs. It is firmly rooted in the basic objectives of our energy and resource policies, which are to ensure for Canadians adequate and reliable supplies at reasonable prices, as well as a direct share in the wealth which development of our resources generates.

My emphasis on long-term planning is deliberate and necessary. We harbour no illusions that establishment of a national petroleum company is likely to lead to early and spectacular results in terms of massive energy development or financial success. I want the House to know that we are going into this venture in full realization of the fact that the hazards of exploration risk, technical and commercial uncertainty await this venture. We are nevertheless convinced that the national interests now require a significant degree of federal public enterprise in the oil and natural-gas area. This enterprise will complement other federal efforts in the uranium and nuclear sectors, and reinforce provincial activities in electric power.

The vehicle we have chosen to carry out this function is a national petroleum company. Its organization, structure, objects, powers and duties are described in the bill and summarized in the Administrator's recommendation attached to it. The bill is neither lengthy nor complex, and detailed discussion of its provisions should be held for the committee stage. I do wish to spend some time, however, explaining to the House why this legislation has been brought forward.

Honourable members will recall that the energy-policy review which I published nearly two years ago included extensive description of the role of state participation in the energy industry in Canada and abroad, together with a careful analysis of the benefits and drawbacks which might stem from the creation of a Canadian national petroleum company. The advantages and disadvantages, as represented

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in the review, appeared to balance out, and no conclusion was drawn one way or the other. I think that this fairly reflected the Government's position at the time.

I need hardly remind the House how much things have changed since then. The physical limitations of commercially-accessible energy resources in Southern Canada have become even clearer. The economic, technical and environmental problems of developing the energy resources on our geographical and technical frontiers -- the North, the oil-sands and the offshore -- have, if anything, been magnified by the passage of time. The terms and channels of access to overseas oil and energy supplies to meet deficiencies in our domestic resources have sharply changed. Fresh uncertainties have arisen as to the physical security of those supplies in certain circumstances. And we have experienced, and still face, huge increases in the real cost of our energy supplies, whether from the domestic frontiers or from abroad.

Our published analysis of the pros and cons of public enterprise in the petroleum industry was carried out towards the end of a long period of tranquillity, and apparent stability, in domestic and international energy affairs. The changes since then, in circumstances and outlook, have been radical and, for the most part, permanent. It is the extent and nature of these changes which have, in our view, tipped the balance decisively in favour of federal entrepreneurship in the oil and energy industries.

This does not mean that the Government finds that Canada has not been well served by private enterprise in the petroleum industry. Private companies, whether Canadian or foreign-owned, have generally worked vigorously to develop our oil and gas resources, to create transportation systems for them, and to refine and distribute oil products efficiently. The privately-owned Canadian oil industry has a good record of technical and managerial innovation.

The concerns which have led the Government to propose establishment of a national petroleum company have much more to do with the future than with the past. These concerns relate principally to matters of energy supply -- particularly the supply of oil and gas.

The Government does not feel assured that the private sector can be relied upon to mobilize all of the enormous amounts of capital which will be required to secure energy development consonant with Canadian needs over the longer term. Nor can it be certain that, faced with attractive investment opportunities and geological possibilities abroad, the private oil industry will be able to con-

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concentrate as much effort on our own petroleum-prospective areas over the next decades as our needs require.

There are uncertainties, too, in respect of arrangements to import the oil which we need to supply consumers in the eastern part of our country. Oil resources in overseas exporting countries are quickly coming under the ownership and control of state-owned petroleum companies. As I will elaborate later in these remarks, circumstances could well develop in such a way that oil imports could more advantageously be made by a nationally-owned Canadian corporation than by the private companies which have so far served us in this area.

The compelling reasons for creation of a national petroleum company relate, therefore, primarily to security of supply -- from our domestic resources and also possibly from abroad. Besides providing a new focus for mobilizing capital and skills in the service of necessary resource development, the company will bring to the petroleum sector the social benefit to Canadians of the pride, satisfaction and confidence of owning a portion of this critically-important Canadian industry. I firmly believe that a majority of Canadians desire such a presence and a broadening of Canadian ownership in this industry.

As this enterprise develops, we can reasonably expect to reap a number of side benefits. A degree of knowledge and insight will be available which simply cannot be acquired by other means. This insight will extend to a first-hand experience of the effects of our own and provincial governments' policies, and thereby to the appropriate design of those policies to the benefit of all parties. The national petroleum company may also be able to play an important role in regional development. Also, within what might be regarded in part as a "social function", the company will be expected to pay special attention to education and training of native peoples in the petroleum sector. Finally, the company would be expected to carry out research into problems of petroleum development which are peculiar to Canadian circumstances.

Let me now exemplify how we envisage the company will be able to serve the national interest in terms of expanding our domestic supply potential, improving our access to overseas resources, and reaping a number of other benefits for the country as a whole.

We have chosen to set the national petroleum company in a corporate business framework as a means to achieve our goals better. In its organization and business methods, the company will be subject to the basic disciplines of an operating statement and balance-sheet.

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The corporation will be responsible to its shareholders, the people of Canada. I think the directors of the company may, from time to time, judge that short-term profit-maximization is not in the interests of these shareholders, all of whom stand to be affected directly or indirectly by the corporation's actions. That criterion may properly be modified in the interests of long-term future energy supply for Canada, and in terms of job opportunities or the development of particular parts of Canada.

The company will be able to mobilize capital on an important scale, even by the standards of those large private enterprises which characterize the energy business in Canada. The initial capitalization of \$500 million can be supplemented by debt-raising to \$1 billion. I should expect that the Federal Government would stand behind the company when it seeks to raise debt capital. The capital resources which the company will thereby be able to command are substantial and will enable it to play a significant role in our total petroleum investment picture at a relatively early stage in its life.

The Government expects that the most important function of this enterprise will lie in the area of oil-and-gas exploration and development, particularly in our frontier areas. Private investment, both Canadian and foreign-controlled, will continue to play an important role in this area. However, we are looking to the company to increase the Canadian presence in a sector which is of critical importance to assuring future energy supplies. Where possible, the company would seek to operate jointly with both Canadian and foreign firms in development activity.

As the House knows, the Federal Government holds a 45 percent interest in Panarctic Oils Ltd. For the past eight years this company has carried out an extensive exploration program in the Arctic islands. The national petroleum company would co-ordinate Government interests and objectives in relation to Panarctic's future activities.

There may be areas of exploration which are not undertaken by the private sector, either because commercial returns are not easily defined by the corporations involved or because they are deemed to be too far distant. There may also be areas of exploration which are not pursued by the private sector because of the financial burdens involved. These are cases where the company would carry out exploration activities of its own.

This public enterprise will not be restricted to exploration for conventional hydrocarbons. Considerable technological advances remain to be achieved in the field of synthetic-oil and gas produc-

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tion. Syncrude is a case in point. This important undertaking, which may become the first investment of our new petroleum company, is a large-scale step towards the commercial development of the oil-sands.

The road ahead is a long and difficult one. The mining technology, which is more developed than the unproved *in situ* technique, can sustain access to more than 20 billion barrels of much-needed reserves. The investment requirements are, however, very large -- and probably beyond the capability of any single corporation, or even group of companies, operating in our country. Also, the largest private entities which may be potential participants in oil-sands projects are necessarily the foreign-controlled internationals. The best way to secure a Canadian presence a rate of development consistent with our national interest, a proper share of the income generated by such activity and full access to new technology is by a direct Government involvement in key ventures through a corporation which can develop the necessary expertise. Our national petroleum company would then be in a position to act as a catalyst for succeeding projects, assisting in their planning and financing as well as participating ultimately in their revenues.

About four-fifths of the immense resources of the oil-sands can only be unlocked by successful development of *in situ* technology. It is clearly a matter of prime national interest to foster research in this area. Our national petroleum company should be the vehicle through which this federal participation in research is supported and monitored. It would thereby secure for the country the technology and access to patents needed for *in situ* commercial exploitation of the oil-sands.

Exploration, development and associated research are but the first important steps toward commercial development of our frontier oil resources. To bring them to market will involve the construction and operation of transportation systems of unprecedented size, complexity and cost. To bring these facilities "on-stream" threatens to strain the financial resources of private industry and capital markets. An alternative to even heavier reliance on foreign investment to finance these projects would be participation in them by a national petroleum company. This would seem a natural extension to its efforts, by assuring that the energy resources it helped to find and develop are brought to the Canadian consumer without undue delay and at least cost.

However successful our domestic resource-development is, over the next few years we are likely to remain dependent on foreign sources

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for petroleum supply to Eastern Canada. The Government has acted to reduce this dependence by promoting the construction of pipeline facilities to bring Western Canadian oil to Montreal. It is also taking steps domestically, and in conjunction with other countries, to minimize the risks and consequences of overseas supply dislocation. And it has, of course, cushioned the Eastern Canadian consumer from the effects of recent overseas-oil price increases. The basic element of supply for Eastern Canada -- namely, the importation of foreign crude oil for refining here -- nevertheless remains in the hands of private companies.

It is a striking fact that every one of the dozen countries from which we import significant quantities of crude oil has its own state oil company and is progressively increasing the role of that company in relation to international transactions. If circumstances continue to develop in this direction, it could be that it will be more advantageous for us to import some of our crude oil through a public enterprise rather than entirely by means of private companies. The national corporation will be ready to take part in petroleum-importing activities if it is clearly in the national interest for it to do so. The obvious interest to be served is that of importing at lower cost than the private companies are able to.

It is conceivable, as well, that a national company might be able to enter into arrangements with a foreign state petroleum company which would offer greater assurance of supply continuity than could be provided by arrangements effected by private importers. In a general way, the corporation might well be a most effective vehicle for the implementation of constructive political and trade relations with the oil-exporting countries.

I should like now to turn to the matter of the domestic ownership of Canadian energy resources. Phase I of the energy-policy studies revealed that the extent of foreign ownership or control of the petroleum industry is in excess of 90 per cent. One way in which Canadians can assert their presence in this heavily-dominated sector of our economy is by having a nationally-owned company which could bring together smaller Canadian companies into a larger, more competitive entity through joint ventures and the forming of various consortia. I should emphasize here that the development of the North will require capital of a magnitude not normally available to most Canadian-owned companies. The national corporation can play a decisive role in the formation of joint ventures in an attempt to alleviate this problem. Such partnerships may offer viable alternatives to the small Canadian operators who, in the past, have had to sell out to the internationals when they ran short of risk capital.

This leads me to a most important aspect of the operation of the company, that of staff and manpower training. People are a company's most important resource and the Canadian petroleum industry has developed over the years a highly competent group of professionals who have become experts in all phases of industry operations, including its management. The majority of these are employed by foreign-owned companies. The corporation will offer opportunities which are commensurate in challenge and scope and, as its role may ultimately be just as diverse as those of some large international companies, it will provide a good training-ground for Canadians wishing to link their careers with the oil industry in the service of Canada.

Many of the activities of the company will take place in frontier areas inhabited by our native peoples, and I look to the company to play an important role in training Canadians of Inuit [Eskimo] and Indian origin. It could in this way make an effective contribution to the social as well as the economic development of the North.

This bill before us provides powers for the company to engage in "downstream" activities of the petroleum industry such as oil-refining and -marketing. While the Government intends thereby to keep our options open and enable us to respond to future needs and opportunities, it is our present view that this sector of the industry is well provided for by private companies. Moreover, the costs of entering this phase of the business are extremely high and might not immediately be justified in relation to the more pressing need for development of the basic resources.

The House is aware that the economic growth and social progress of our country have taken place in an economic framework characterized by both public and private enterprise. Examples of successful public entrepreneurship in the fields of civil aviation, electric-power generation (particularly in development of the CANDU nuclear reactor, the country's most successful energy project), railway transportation and petrochemicals, are too numerous to mention here. Until recently, our fuel industries have been characterized by almost complete private ownership. I want it to be clearly understood that the national petroleum company which we propose will not replace private industry or private entrepreneurship. We look to the private sector to continue to find, develop, transport and deliver the bulk of our fuel-energy needs. The national petroleum company is intended to supplement and stimulate the efforts of the private sector in a co-operative atmosphere, to the benefit of all Canadians.

Whether under public or private direction, a significant part of the Canadian economic activity is located in energy-producing acti-

vities. The largest part of this production is vital to other Canadian industrial activities and to the support of the Canadian "life-style". The climate of Canada and the standard of living to which we aspire combine to make this sector of the economy one of the most important. The Government has always recognized the special status of this industry. The creation of the national corporation will add to the instruments available to the Government of Canada to advance Canadian interest in secure and adequate energy supplies and in the sharing of the wealth which Canadian resource endowments make possible.

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