Evolving Priorities: Canadian Oil Policy and the United States in the years leading up to the Oil Crisis of 1973

by

Ian Muller

A thesis
presented to the University of Waterloo
in fulfillment of the
thesis requirement for the degree of
Master of Arts
in
History

Waterloo, Ontario, Canada, 2008

AUTHOR'S DECLARATION FOR ELECTRONIC SUBMISSION OF A THESIS

I hereby declare that I am the sole author of this thesis. This is a true copy of the thesis, including any required final revisions, as accepted by my examiners.

I understand that my thesis may be made electronically available to the public.

Abstract

This study investigates the relationship between the oil industries of Canada and the United States in the years leading up to the 1973 oil crisis. Shortly after the Second World War it became apparent that American domestic production would not sustain that nation's energy demands. As a result, an important energy relationship developed between Canada and the United States in the 1960s and early 1970s.

The 1973 oil crisis represented a turning point in energy relations between Canada and the United States. Historically, through multinational oil company influence and the general reality of petroleum surpluses, Canadian oil policy was defined by its reliance on exporting oil to the United States. Exemptions to the American mandatory oil import quota system led to the excessive output of Canadian petroleum resources, which in conjunction with a legacy of overstated reserve estimates created Canadian energy shortages by 1973.

In an effort to prevent the 1973 oil crisis from further hindering the Canadian petroleum industry, Canadian officials transitioned Canada's oil policy towards the nationalistic strategy of self-sufficiency. The harsh reality of the oil embargo, elevated prices, and supply shortages that occurred as a result of the oil crisis placed an emphasis on the necessity of nations providing for their own energy needs. Canada's embrace of the goal of self-sufficiency was thus viewed with a sense of legitimacy. The similar self-sufficiency goals of American policy limited the degree to which they could protest a policy that placed the United States in a disadvantaged position. Canada's move towards a more self-sufficient oil policy represented the desire of the Canadian government and people to take greater control of their oil industry.

Acknowledgements

I would like to express my gratitude to my advisor Dr. Bruce Muirhead for his thorough review and helpful feedback of my thesis. I would also like to thank Dr. Andrew Hunt and Dr. Daniel Gorman for their willingness to participate in this process as readers. Finally, a great deal of thanks is owed to my family for their continual support of my academic pursuits.

Table of Contents

Introduction

The decades following the Second World War witnessed the growing dependence of the industrialized world on petroleum energy sources. The internal combustion engine, which powered all manner of technology, ran on derivatives of crude oil. Demand for petroleum products continued to escalate and by the 1970s, nations with substantial oil reserves became globally important. In North America the energy industry played a prominent role in the bilateral relations of Canada and the United States. Shortly after the Second World War it became apparent that American domestic production would not sustain that nation's energy demands. As a result, an important energy relationship developed with Canada in the 1960s and 1970s. Canada was rich in energy resources, but the country's significantly smaller population had much lower energy demands than that of the United States. Canada's situation was unique for this reason; its oil industry produced a higher percentage of energy supplies than the nation required for consumption.

The significant discovery of major petroleum reserves in Alberta in the late 1940s demanded that Canadian officials actively seek markets for which to produce and distribute this growing energy surplus. Initially a contingent of large, primarily U.S. based, multinational oil companies controlled the vast majority of petroleum reserves offshore and this resulted in these companies ultimately dictating the level of production, and degree to which Canada's resources were being utilized. This situation also encouraged high levels of foreign oil imports into American markets.

However, U.S. government officials became concerned with the level of reliance the American oil industry had placed on foreign imports. Beginning in 1957, a series of volunteer and mandatory controls were placed on petroleum imports coming into the United States to discourage further and increased dependence on foreign reserves. Increased U.S. government regulation over the American oil industry coincided with the Canadian government's creation of the National Energy Board (NEB) in 1959, and the National Oil Policy (NOP) in 1961. These two Canadian initiatives in the late 1950s and early 1960s also attempted to gain greater government control over the direction of the oil industry in Canada. U.S. import control programs were based on protecting domestic producers and ultimately, national security reasons. The United States still required sources of foreign imports to sustain its growing energy demands, however, and Canadian exemptions from the U.S. oil import programs were created because Canada was determined to be the most secure foreign source of oil to fuel U.S. demand. This American policy proved to be beneficial for the emerging NOP, which will be discussed below, through which the federal government stressed the need to export increased volumes of petroleum to U.S. markets, and ultimately aimed at the creation of a continental energy policy.

In October 1973, the world was shaken by an oil crisis that emerged out of the tensions resulting from the Arab-Israeli conflict, continual American financial support of Israel, and the growing power of the Organization of Petroleum Exporting Countries. In the years leading up to the oil crisis, Canada's oil policy had progressively shifted toward a policy of self-sufficiency. This strategy, which stressed a country's reliance on its own resources for sustainability, represented a more nationalistic oil policy. With drastic oil shortages exacerbated by the oil crisis, the Canadian government felt self-sufficiency and a uniquely Canadian oil policy was imperative.

This study traces the development of Canadian oil policy from the 1950s through the early 1970s, utilizing a variety of sources to evaluate the events that formed the basis and motivation behind Canada's transition towards a more independent oil policy. The importance of oil policy issues is clearly evidenced by the prominence of this debate in the academic scholarship of the 1960s and 1970s. James Laxer, in particular, features prominently in the literature concerning the relationship between the Canadian and American energy industries. This study assesses both Canada and the United States individually, and then combines the information for analysis. Edward Shaffer's work, *Canada's Oil and the American Empire*, provides useful insight into the bilateral energy relationship between Canada and the United States, a relationship not featured as prominently in the academic literature. J.L Granatstein and Robert Bothwell's *Pirouette*, Francisco Parra's *Oil Politics*, and Stephen J. Randall's *United States Foreign Oil Policy Since World War I* are several examples of recent scholarship that provide a comparison to the primary literature and allow for an understanding of the evolution of opinion and arguments behind the transitions in oil policy executed by both Canada and the United States.

Further, this study consists of a survey of media reports, government documents, and official government studies, commissions and reports. The journalism coverage of the evolving oil issue is especially important, as it gives an ongoing account that stresses the immediate reaction and believed implications of the changes taking place in the oil industry. In addition to valuable briefing documents and personal correspondence, published government documents provide important insight. The Canadian reports of the *Royal Commission on Energy* (1959), *An Energy Policy For Canada* (1973), and the U.S. Cabinet Task Force on Import Control's report, *The Oil Import Question* (1970), provide a primary assessment of the rationale and argument behind policy decisions. The combination of these government documents in conjunction with scholarly and journalistic sources gives a well-balanced selection of perspectives and arguments concerning the Canadian-American relationship as it relates to the petroleum industry.

The study of the petroleum industry can be complex in its utilization of scientific and economic terminology. The focus of this work is the evolving relationship between Canada and the United States as it relates to petroleum demand and supply. Consequently, an effort is made to provide scientific and economic explanations in a brief and succinct manner, in attempt to not distract from the central focus of the study. Also, statistics regarding oil import and export levels are used in approximate terms. For example, numeric estimates for levels of exports per barrel per day are utilized primarily to illustrate large increases and reductions, and are not intended to be the basis of the study.

Due to the transnational focus of the study, the tensions between the federal and provincial governments of Canada are not detailed. The main reason for this is that the main conflict between the province of Alberta and the federal government did not begin to take place until late 1973 and ultimately culminated in the years following the concentration of this work. In addition, the central issue of contention revolved around federal control over energy prices and revenues, which is outside the scope of this study.

The 1973 oil crisis represented a turning point in energy relations between Canada and the United States. Historically, through multinational oil company influence and the general reality of petroleum surpluses, Canada's oil policy was defined by its reliance on the United States. The United States exploited this reliance through concessions and restriction exemptions to encourage Canadian policy to remain embedded in the U.S. oil industry. However, it was the free rein that Canada enjoyed through the exemptions to the American mandatory import quota system that allowed for the initial success of Canada's National Oil Policy. The massive output of Canadian petroleum resources as a result of the NOP, in conjunction with a legacy of overstated Canadian reserve estimates, ushered in the reality of Canadian energy shortages by 1973. Encouraged by a desire to retain the level of government control experienced with the NOP, Canadian officials transitioned Canada's oil policy towards the nationalistic strategy of self-sufficiency. The harsh reality of the oil embargo and related elevated prices and shortages that occurred as a result of the oil crisis placed an emphasis on the ability of nations to be able to provide for their own energy needs. Canada's embrace of the goal of self-sufficiency was thus viewed with a new sense of legitimacy. The similar self-sufficiency goals of American policy limited the degree to which they could protest a policy that placed the United States in a further disadvantaged position. Canada's move towards a more self-sufficient oil policy represented the desire of the Canadian government and people for a greater realization of national sovereignty, and the opportunity to take a further step out from beneath the shadow of the United States.

Chapter 1
The 1973 Oil Crisis: Canada and the United States in Context

The 1970s were a volatile decade for both the producers and consumers of natural resources. In particular, conflict emerged over the ownership and distribution of petroleum products. Both multinational corporations and individual nation states became sensitive to the growing importance of petroleum resources on a global scale. This brief introduction will provide an international context for the events of the oil crisis of 1973, in order to frame the forthcoming discussion on the implications of this crisis for Canadian-American relations.

A strong foundation of scholarship exists which outlines the importance of petroleum in the twentieth century, and the reasons why this particular resource continues to be a source of conflict internationally. In particular, the academic community in North America focuses on the events, policies, and relations between major oil-producing states, multinational petroleum companies, and the United States.

This contextual summary will connect the events of the 1973 oil crisis, Arab-Israeli war, and the Arab oil boycott to the foreign and economic policies of Canada and the United States. These events contributed to a significant shift in the global availability of petroleum products. The declining availability of Middle Eastern petroleum supplies had significant implications for Canadian-American energy relations. To properly understand the impact of oil on Canadian-American relations, it is important to understand the involvement of the two countries in the events leading up to the oil crisis.

American political connection to the Middle East intensified after the First World War. U.S. President Woodrow Wilson endorsed Britain's Balfour Declaration in 1917, which promised support for the establishment of a homeland in Palestine for the Jewish people. This endorsement represented American support of Britain's World War 1 objectives, however, opponents argued that the decision was ignorant of Palestinian opposition.[1] American involvement in the oil rich Middle East would be significantly influenced by the relationship the nation established with the newly formed state of Israel in 1948.

Several factors reinforced the perception of a U.S.-Israeli alliance. Israel's relationship with the United States periodically resulted in unprecedented levels of economic and military aid. The academic, David Baldwin, compares the per capita amount of aid distributed by the United States to different global regions to illustrate Israel's privileged position. Baldwin found that Marshall Plan participants received on average, slightly more than U.S.$20 per person from 1948 to 1952. Recipients in the developing world rarely received as high as U.S.$1 per person per year. However, Israel received a thirty-year average of nearly U.S. $200 in per capita in aid. Only at the height of the Vietnam War did South Vietnam receive more aid as a single country.[2] The nature of the U.S. relationship with Israel impacted American interaction with other Middle East nations in the years following the Second World War.

The international petroleum industry also influenced the role the U.S. played in the Middle East. A significant characteristic of the post-war petroleum industry was the level of control held by petroleum companies. It was not powerful Cold War nations like

---

[1] Kathleen Christison, "U.S. Policy and the Palestinians: Bound by a Frame of Reference," *Journal of Palestine Studies* 26, no. 4 (Summer, 1997): 49.
[2] David A. Baldwin, *Economic Statecraft* (Princeton: Princeton University Press, 1985), quoted in Roy Licklider, *Political Power and the Arab Oil Weapon: The Experience of Five Industrial Nations* (Berkeley: University of California Press, 1988), 190.

the U.S. that dictated the flow of the world's petroleum resources, but large multinational oil companies. While a majority of these companies were American based, control did not rest with U.S. government officials. Initially, large multinational corporations controlled the discovery and distribution of oil resources. During the 1950s, multinational corporations realized the potential and value of the oil fields of the Middle East. Due to the size and potential wealth possible from these fields, a large contingent of oil companies choose to collectively cooperate in a manner by which they could cultivate the region's resources for the largest profit possible. Of primary importance was maintaining a price structure agreeable to all corporations, and attractive enough to ensure plentiful demand.[3] As a result, this monopoly of seven major oil companies, (Mobile, Esso/Exxon, Chevron, Gulf Oil Company, Texaco, British Petroleum, Shell), created and controlled a vertically integrated system of production, distribution, and sale of petroleum and its by-products.

The private sector control over the increasingly important Middle Eastern reserves did not last. The oil companies started to experience resistance when oil-producing states began to reject the control exerted by these multinationals over the pricing structure of oil per barrel. In an attempt to regain control over their resources, the oil-producing nations of Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela founded the Organization of Petroleum Exporting Countries (OPEC) in September of 1960.[4] The formation of this organization was an important first step for the oil producing nations of the world to become more directly involved and take greater control over their petroleum resources.

---

[3]Francisco Parra, *Oil Politics: A Modern History of Petroleum* (London: I.B. Tauris, 2004), 35-36

[4] Diane B. Kunz, *Butter and Guns: America's Cold War Economic Diplomacy* (New York: The Free Press, 1997), 227.

Saudi Arabia, Kuwait, and Libya also founded the Organization of Arab Petroleum Exporting Countries (OAPEC) in 1968, which was designed to complement OPEC in that region.

These newly formed organizations advocated greater control and ownership of petroleum resources. By 1972, OPEC stressed the need for producer countries to control their own oil production through obtaining greater ownership of oil concessions and local companies. While this type of reform fell short of nationalization, it effectively meant that multinational corporations would not continue to hold the power over petroleum resources.[5] This shift towards OPEC control was significant because of the volume of oil resources at stake. By early 1972, the now ten members of OPEC produced around 57 percent of the world's total oil output, and 90 percent of the world's oil exports.[6] The oil-producing nations of OPEC and the Middle East had established themselves as important actors in a vital region of worldwide resource production.

With multinational corporation dominance in the Middle East challenged by OPEC and OAPEC, the availability of the region's petroleum reserves to the American oil industry was put in jeopardy. The reliance on oil supplied from the Middle East through multinational companies left the United States in a precarious situation as the unlimited access to foreign petroleum sources traditionally enjoyed was no longer guaranteed. In addition, the instability of the Middle East emerged to further limit the availability of the region's petroleum supplies, both to the United States, and globally.

[5] Kunz, 228-229.
[6] "Oil Crisis Looms As OPEC Meets in Tehran Today," *Wall Street Journal*, 3 February 1972, p. 6.

In October 1973, the fourth Arab-Israeli war broke out. A series of separate but connected events triggered the oil embargo and oil crisis. Tensions in the region remained from the Six-Day War of June 1967 as Arab nations believed that U.S. financial and military support contributed to Israel's seizure of territory.[7] Further U.S. support of Israel had heightened this perception. On October 19, 1973 the United States announced a massive new program of military aid for Israel. The next day, Saudi Arabia commenced a total ban on shipments of oil to the United States. OAPEC members followed suit, additionally embargoing oil to the Netherlands for supporting Israel.[8] OAPEC members also drastically reduced their total oil exports in order to prevent embargoed countries from being able to purchase oil from other importing nations. This action produced a worldwide oil shortage, further aggravated by OPEC's decision to raise oil prices to four times their initial price in a short period of time.[9] Major oil-producing nations in the Middle East were now using the power of their resource wealth to shape foreign policy. As a result, the world faced a severe oil crisis.

The political motivations of the oil embargo within the context of the oil crisis had important implications. The oil embargo, and the petroleum production cutbacks constituted a political weapon. The "oil weapon" utilized the restriction of resources to influence the international power structure, and in this case also, as a consequence for the actions of the United States. The explicit purpose of the embargo and production cutbacks were to put pressure on Israel to return territories captured in the 1967 war, advocate for an independent Palestinian state, and alter the status of Jerusalem which had

---

[7] Parra, 175.
[8] Parra, 181.
[9] Roy Licklider, *Political Power and the Arab Oil Weapon: The Experience of Five Industrial Nations* (Berkeley: University of California Press, 1988), 11.

been occupied by the Israelis in 1967.[10] However, while the United States remained the primary target of the oil embargo, the entire world experienced the influence of the oil crisis and subsequent oil shortages.

Existing scholarship suggests that the American government made several mistakes, which allowed the oil crisis to impact the United States negatively. While U.S. support of Israel angered the Arab world, the continually demonstrated colonial attitude of the United States toward oil producing states proved to be significantly detrimental as well. Long standing American assumptions held that western countries would retain economic control over the resources of less developed nations without resistance or threat of losing access to these sources. In the case of the United States, American oil companies exercised economic control over petroleum exporting nations. The assumption that these nations would never challenge foreign political and private sector control was maintained despite examples of oil producing nations nationalizing their oil industries. For example, Mexico had nationalized its industry in 1938, and Iran had followed in 1951 (but this lasted only until a U.S. Central Intelligence Agency coup overthrew the government of Iran in 1953).[11] The formation and activity of OPEC also called into question the assumption that developing nations would continually cede control of their oil resources to other nations and companies. The oil crisis demonstrated the emerging importance of both OPEC and OAPEC, and exposed the significant weakness of American oil policy characterized by a reliance on foreign oil supplied through the monopoly of major oil companies.

---

[10] Licklider, 11.
[11] Kunz, 225, 227.

In *Butter and Guns: America's Cold War Economic Diplomacy*, Diane B. Kunz correctly argues that the problem with continued and dominant private sector control over the U.S. petroleum and energy industries emerges when the needs of the private and public no longer coincide, and the interest of the public suffers. Oil companies will inevitably raise the price of oil when supplies run scarce to safeguard their profit margins. American society was increasingly tied to a cultural lifestyle that depended on cheap supplies of petroleum for use in automobiles, heating, and electric power generation.[12] The availability of plentiful oil supplies represented a national priority for the United States. However, by the early 1970s the United States faced a dramatic oil shortage with the multinational oil companies the United States traditionally depended on losing their control and influence to OPEC and the growing independence of foreign oil producing nations.

The oil crisis impacted Canada differently than the United States. Canadian foreign policy was motivated less by securing access to petroleum resources. There were also no Canadian multinational oil companies with oil interests or holdings in the Middle East. Canada's role in the region varied from conflict mediation to the promotion of economic and bilateral relationships. Initially, the source of Canadian political involvement in the Middle East emanated from the country's commitment to the United Nations. As one of the UN's early supporters, Canada became involved with the organization's attempts to mediate the Arab-Israeli conflict, the first major issue to come before the UN. Canadian policymakers such as Lester B. Pearson desired the UN to succeed in its mandate of mediator and peacemaker. Indeed, Pearson had played an

[12]Kunz, 225-227.

important role on the United Nations Special Committee on Palestine (UNSCOP), reflecting Canada's involvement with partition plans and the establishment of a Jewish state.[13] The significance of Canada's role was heightened during the 1956 Suez Crisis when Pearson was Canada's Foreign Affairs Minister. A Canadian official, General E. L. M. Burns, headed the United Nations Truce Supervision Organization, and the country promoted a multilateral, and practical solution to the crisis. The well-documented United Nations Emergency Force, the peacekeeping force suggested by Pearson which won him a Nobel Peace Prize, remains one of Canada's strongest foreign policy legacies.[14] Canada's role as peacekeeper defined the nation's early activity in the Middle East.

However, a shift in Canadian policy emerged. Pearson became Prime Minister in 1963 following the Progressive Conservative government of John Diefenbaker, which had been elected in 1957. Following the end of the Second World War, Canada's foreign policy came to embody the principles of internationalism. In terms of foreign policy, the concept of internationalism holds that nations are, and should be part of a broader community of economic and political cooperation. With Pearson as Prime Minister, Canada's foreign policy represented what is more accurately described as liberal-internationalism, which is based on the assumption that independent societies and autonomous individuals can bring peace and prosperity through greater interaction, cooperation with other nations as well as the promotion of economic and political

[13]Tareq Y. Ismael, "Canada and the Middle East," in *Canada and the Third World*, eds., Peyton V. Lyon and Tareq Y. Ismael (Toronto: The Macmillan Company of Canada, 1976), 241.
[14]Ismael, "Canada and the Middle East," 246.

intervention.[15] This philosophy is clearly evident in Pearson's commitment to the UN. The historiography suggests that from 1968 to 1973 Canada's Pearsonian liberal-internationalism began to decline.[16] The election of Pierre Elliot Trudeau in 1968 contributed to the change within the governing Liberal Party. A new foreign policy document produced by Trudeau's government, *Foreign Policy for Canadians*, became the blueprint for Canada's new international focus. The Trudeau foreign policy doctrine of 1970 stated that national interest is defined by six themes; economic growth, social justice, quality of life, peace and security, sovereignty and independence, and a harmonious natural environment.[17] These priorities naturally influenced Canada's foreign policy. Economic growth and resource sustainability emerged as significant priorities.

In terms of economic growth, responsible spending in the realm of foreign policy was stressed. Specifically, Canada's role with the UN was challenged for its economic viability. The United Nations' financing procedures disenchanted Canada as the country continued to bear unequal financial responsibilities for certain missions, like the UN operation in Cyprus. The withdrawal of the United Nations Emergency Force from the Middle East prior to 1967 brought similar doubts about Canada's participation in conflict resolution missions.[18] Economic strains related to foreign policy issues more generally

---

[15] Fred Halliday, "Three Concepts of Internationalism," *International Affairs (Royal Institute of International Affairs 1944-)* 64, no. 2 (Spring, 1988): 187,192.
[16]David Dewitt, and John J. Kirton. "Canada-Middle East Relations: The End of Liberal-Internationalism," in *The Middle East at the Crossroads*, eds., Janice Gross Stein and David B. Dewitt (Oakville, Ont.: Mosaic Press, 1983), 177.
[17]Peyton Lyon, "Canada's National Interest and the Middle East," in *Canada and the Arab World*, ed. Tareq Ismael (Edmonton: University of Alberta Press, 1985), 27.
[18]Dewitt, and Kirton. "Canada-Middle East Relations: The End of Liberal-Internationalism," 178.

contributed to the broader debate within Canada regarding the country's focus in international affairs.

Canadian policy in the Middle East stressed neutrality, however, the country's policy orientation was challenged in reaction to broader changes in the dynamics of the region. For example, President Nasser of Egypt expelled Canada's UNEF forces from Egypt as a result of a perceived Canadian bias that favored Israel during the 1967 Arab-Israeli war. Canada's close relationship with both the United States and the United Kingdom was blamed for jeopardizing and challenging Canada's neutral image in the eyes of certain Arab countries.[19] As a result, Canada's role in the Middle East, to this point largely focused on peacekeeping, became significantly restricted.

From an international perspective, the oil crisis of 1973 appeared only to impact Canada in a peripheral nature. At the time of the embargo, Canada had a low dependence on oil from the Middle East. Initial reaction from the government suggested that the country felt secure in its position. In a statement to the Canadian House of Commons, Mitchell Sharp, the Secretary of State for External Affairs, maintained that Canada would continue to focus on the preservation of international peace and security, and support for UN resolutions in the Middle East.[20] However, a closer examination suggests that the utilization of the oil weapon did have implications for Canada.

At the onset of the oil embargo, confusion existed as to whether Canada was also an intended target. At this time, Canada did not have adequate embassies or consulates to determine if and why Canada was a blacklisted nation. Canadian dependence on Middle Eastern oil imports was also growing. By 1973, Arab oil accounted for 25 percent of

---

[19]Ismael, "Canada and the Middle East," 253.
[20]Licklider, 109.

Canadian oil imports. Furthermore, at the onset of the 1973 war and oil embargo, Canada was no longer a UN Security Council member, leaving the country excluded from relevant negotiations.[21] In the article "Canada and the Middle East," Tareq Ismael argues that during the embargo Canada's voice in international affairs lacked significance. The perception of Canadian foreign policy was that it had developed a closer association with the policies of the U.S. government.[22] American officials also began to recognize Canada as an increasingly important source of petroleum resources, and ongoing negotiations explored the possibility of bilateral energy cooperation. While Canadian foreign policy became more commonly associated internationally with the policies of the United States, this did not represent the reality of Canadian-American relations in regards to oil policy.

The oil crisis acted as a turning point for Canadian oil policy. The tensions brought by the oil crisis put a premium on Canadian petroleum reserves and put greater emphasis on the nation's relationship with the United States. However, by 1973 Canadian policy was actually further separated from the policy of the United States. For instance, in the fall of 1972 Mitchell Sharp, the Secretary of State for External Affairs presented the foreign policy Third Option strategy that advocated developing economic, as well as diplomatic relations with countries other than the United States. Japan and the member countries of the European Community were mentioned as potential nations for Canada to cultivate closer ties with.[23] In specific relation to oil policy, Canada introduced controls on oil exports, and ultimately instigated a reduction in the quantity of oil being exported to the United States during the years immediately following the oil

---

[21]Ismael, "Canada and the Middle East," 262.

[22]Ismael, "Canada and the Middle East," 264.

[23] Gordon Mace and Gerard Hervouet, "Canada's Third Option: A Complete Failure?" *Canadian Public Policy* 15, no. 4 (December, 1989): 387-388.

crisis. At the same time, the rapidly declining availability of Middle Eastern oil after the 1973 oil crisis placed greater expectations and significance on the petroleum resources of the western Canadian provinces. It is the emergence of this reality, the importance of Canadian oil for bilateral relations between Canada and the United States that will be the focus of this study.

Both Canada and the United States were involved in the Middle East in the years leading up to the oil crisis. The United States pursued a foreign policy that attempted to assure that private oil companies had the ability to discover and distributed petroleum resources from the Middle East. Canada's foreign policy aims in the Middle East were concentrated on working within existing unilateral organizations such as the UN in order to foster conflict resolution. Ultimately, when OPEC and OAPEC effectively adopted oil as a weapon, both Canada and the United States were impacted by the dramatic cutbacks. The United States faced the reality of an exacerbated fuel shortage, and Canada struggled to determine the best strategy for both preserving and utilizing its own petroleum resources.

Chapter 2
The Evolution of Canadian Dependency on U.S. Petroleum Markets

In the decades leading up to the turmoil of the 1973 oil crisis, the search for and procurement of petroleum resources represented an important issue for bilateral relations between Canada and the United States. The 1947 discovery of the Leduc oil field in Alberta provided North America with a significant new source of petroleum. Canadian oil exports to the U.S. quickly rose as this discovery coincided with the United States becoming a net importer of petroleum for the first time after the Second World War. The emergence of a U.S. need for increased volumes of imported oil initially represented a promising trend for the Canadian oil industry.

However, foreign multinational oil companies determined the degree to which Alberta's oil was utilized. The majority of oil companies operating in Canada were American owned. These U.S. corporations prevented Canadian oil exports from approaching their potential output capacity in an effort to protect U.S. producers. As a result, Alberta's petroleum resources were consistently under-utilized until the late 1950s. Canada's dependence on exporting Alberta oil to U.S. markets restricted any ability to directly challenge the multinational companies to increase production and future discovery. The emerging world oil surpluses of the 1950s further disadvantaged the Canadian oil industry. The availability of cheap foreign source of oil meant that Canadian oil became less competitive in American markets. This situation prompted the Canadian government to develop an oil policy designed to expand the volume of Canada's petroleum exports and recover a level of control over Canadian petroleum reserves from the multinational oil companies.

In 1957 Prime Minister John Diefenbaker established the Royal Commission on Energy to recommend to the Canadian government a national strategy to increase the profitability and performance of the oil industry through the creation of new markets. A discussion of the Royal Commission's findings will follow below, however, the overriding significance of the recommendations made was the belief promoted that the success of the Canadian oil industry depended on securing access to petroleum markets in the United States. This strategy attempted to capitalize on the industry integration already established by the multinational oil companies. The United States recognized the need for Canadian oil imports, but this study will demonstrate that the American government remained aloof in reciprocating any formal continental oil plans advocated by Canadian officials at least over the period covered here. The United States felt secure with the belief that its petroleum needs could be maintained through Canada's continued reliance on American markets.

The Canadian discovery of petroleum in Alberta came during a decade when oil companies were beginning to doubt the existence of any large oil reserves in western Canada. By the end of the Second World War, Canada was only producing small quantities of oil from the Turner Valley region. This lack of production occurred at a time when the domestic needs for petroleum were approaching desperate measures. By 1946, Canadians were consuming oil at a rate of 221,000 barrels a day, with the majority of this supply coming from foreign sources.[24] For example, Canadian refineries in the prairies were forced to import crude from as far away as Texas and Oklahoma. As a result of transportation costs associated with the American sources, Canadian refineries

[24]Earle Gray, *The Great Canadian Oil Patch* (Toronto: Maclean-Hunter Limited, 1970), 97-98.

paid $1.93 a barrel in transportation costs, approximately four times that paid by U.S. refineries.[25] The breakthrough discovery at Leduc therefore carried great hope for a turnaround in Canada's energy industry.

The significance of the Leduc discovery was widely reported. When Imperial Oil's No. 1 well produced oil, excitement spread throughout the province. While oil company officials initially remained conservative with their predictions, Imperial's western production manager, Walker Taylor, remarked that the well had the best possibilities of any well the company had drilled in Western Canada outside of Turner Valley.[26] By the early summer of 1947, a more concrete realization and understanding of the importance of the Leduc site had become apparent. Alberta oil authority and supervisor of publication for the Alberta Department of Economic Affairs, J.L. Irwin, released a statement in May of 1947 suggesting that if production at Leduc remained on pace, its significance would not only be felt provincially and federally, but internationally as well. Irwin's statement attributes this optimism to Leduc's close location to rail and highway transportation routes, the fact that the wells had a favorable drilling depth of approximately 5,000 feet, and that the oil itself was a high quality product free of sulphur.[27] The growing optimism and potential of the Leduc region attracted the attention of major foreign multinational oil companies. Alberta's oil fields now represented a significant new source of petroleum.

---

[25]Earle Gray, *Impact of Oil: The Development of Canada's Oil Resources* (Toronto: The Ryerson Press/Maclean Hunter Limited, 1969). 14.

[26] "Oil Fever Hits Alberta When Gusher Comes In," *The Globe and Mail*, 14 February 1947, sec. 1.

[27] Sidney Norman, "Alberta Again Takes Centre of Industrial Stage," *The Globe and Mail*, 21 June 1947, p. 20.

An initial lack of Canadian control over the petroleum industry at Leduc allowed a consolidation of American and foreign influence over the increasing discovery and production in Canada. The majority of Canadian companies originally responsible for the first discoveries in Alberta in the 1940s were unable to maintain their independence. U.S. petroleum companies increasingly gained control over potential resource sites through the acquisition of Canadian subsidiaries. For example, Frontenac, a Canadian subsidiary of American Texas Co. (Texaco) leased over one million acres of land in Alberta hoping to find windfalls similar to the Leduc site.[28] While the new oil found at Leduc gave many in Canada the belief that the country would no longer be dependent on foreign imported oil, it was becoming apparent that foreign companies were gaining primary control over Canadian petroleum resources.

Multinational dominance over new discoveries at Leduc was consistent with American reliance on private industry controlling the discovery and production of petroleum resources on a global scale. This was certainly seen in the Middle East where several factors had given the major American multinational oil companies' effective control and influence over key Middle East oil supplies between 1947 and 1954. Of particular importance was the purchase by Esso and Mobil of part ownership of the Arabian American Oil Company (Aramco) concession in Saudi Arabia.[29] This arrangement increased the role played by the U.S. multinationals in the Eastern Hemisphere. The reaction from the American government to the Aramco case had significant implications. The argument made is that the U.S. government facilitated

---

[28] Douglas Colvey, "Canada's Oil: Flow Mounts in New Leduc Field; Search in Dominion Widens," *Wall Street Journal*, 8 September 1947, p. 1.
[29] Frank Church, "The Impotence of Oil Companies," *Foreign Policy*, no 27 (Summer, 1977): 27-8.

American multinational dominance for U.S. foreign policy objectives. This was accomplished, it is suggested, through allowing companies to credit payments to the Middle East oil-producing powers against U.S. corporate income tax as a form of U.S. foreign aid, allowing companies to form a consortium to market Iranian oil, and in the case of the Aramco merger, foregoing anti-trust investigations.[30] This example illustrates the manner by which government action strengthened and encouraged the U.S. multinational oil companies.

As was the case in the Middle East, U.S. multinational oil companies continued to gain greater control over the Canadian oil industry. By 1969, four companies, Imperial, Gulf, Shell, and Texaco accounted for 35 percent of produced oil, and approximately 70 percent of all refined petroleum products manufactured and sold in Canada.[31] With the exception of Shell, these companies were all American controlled, or subsidiaries of U.S. firms.

Historical analysis of the industry suggests that aspiring Canadian oil companies were unable to sufficiently deal with international competition. A good example of the challenge faced by the Canadian oil industry is the case of the Imperial Oil Company. Imperial Oil was originally formed by a group of independent Canadian petroleum refiners in 1880 in response to competition from U.S. oil companies. However, within 18 years the Canadian company was acquired as a subsidiary of John D. Rockefeller's giant Standard Oil (Esso after the 1911 anti-trust dissolution of Standard Oil which became Exxon in 1973).[32] Despite the best efforts of aspiring Canadian oil companies, it proved

[30] Church, 32.
[31] Gray, *The Great Canadian Oil Patch*, 257.
[32] Ibid., 258.

impossible to compete with the dominance of foreign multinationals. The influence of these companies reached the point where the major oil companies began to take responsibility for procuring Canada's oil imports, which had initial benefits for Canada. This occurred when Canadian subsidiaries began to buy cheap oil from the foreign sources of their large parent companies.[33] This diminished the significance of Canadian petroleum resources, and reinforced the reliance of the Canadian oil industry on the major foreign multinational companies.

Relevant historical sources and subsequent academic analysis provide arguments to explain how multinational companies gained so much control in Canada. By the 1950s, the era of cheap oil, the subsidiaries of American major oil companies enjoyed very little interference from either provincial or federal governments in Canada.[34] However, it has been suggested that this non-interference was the result of the perceived importance of the major oil companies for the Canadian industry. If the Canadian government began to interfere, it was argued that the major companies would scale back production in Canada, and increase flows from other sources internationally.[35] As a result of U.S. multinational companies controlling the Canadian oil companies these corporations dictated levels of production and other key aspects of the Canadian industry.

The United States became a net importer of oil for the first time in 1948. American oil companies started to utilize Canadian subsidiaries to replace the growing

---

[33]Peter Foster, The Blue-Eyed Sheiks: The Canadian Oil Establishment (Toronto: Collins, 1979), 50.
[34] James Laxer, *Oil and Gas: Ottawa, the Provinces and the Petroleum Industry* (Toronto: James Lorimer & Company, Publishers, 1983), 2.
[35]Edward Shaffer, "The Empire of Exxon," in *The Big Tough Expensive Job: Imperial Oil and the Canadian Economy*, eds., James Laxer and Anne Martin (Canada: Press Porcepic, 1976), 7.

scarcity of domestic supply in the United States.[36] As a result, Canadian petroleum exports to the United States increased, though not by any significant amount due to cheap foreign oil. This rise is indicative of Canada's early role as a vital source of raw materials for the United States. Academics writing in the early 1970s suggested that as North American economies developed, so, too, would the level of interdependence between the Canadian and American economies.[37] With American fuel needs growing, the level of attention placed on the Canadian oil industry by American multinational oil companies increased.

However, American multinationals also had the ability to hold Canadian petroleum resources in reserve, in order to exploit the cheaper production and transportation costs of Middle Eastern and other foreign petroleum sources. To a certain extent Canadian petroleum was treated like an extension of American reserves, with multinational officials content not to utilize the resources immediately, especially in light of cheaper options overseas. The implications of oil dependency increasingly appeared to have negative implications for the Canadian oil industry.

The growing Canadian dependence on American markets became more problematic with changing international circumstances. In the early 1950s, Alberta gained greater access to American markets through the extension of pipelines to key US refineries and because of a slowdown of oil availability overseas. For example, the refineries of Puget Sound in Washington State emerged as a logical destination for

---

[36] Paul Daniel and Richard Shaffner, "Lessons from Bilateral Trade in Energy Resources," In *Natural Resources in U.S.-Canadian Relations: Volume I The Evolution of Policies and Issues*, eds., Carl E. Beigie and Alfred O. Hero, Jr. (Boulder, Colorado: Westview Press, 1980), 307.
[37] Vittorio Bonomo and J. Ernest Tanner, "Canadian Sensitivity to Economic Cycles in the United States." *The Review of Economics and Statistics* 54, no. 1 (Feb., 1972): 2.

Alberta's oil, especially with the construction of the Trans Mountain Oil Pipeline in 1952. The Puget Sound refineries were new to the Pacific Coast and reflected the conclusion that California refineries no longer had the capacity to keep pace with the growth in demand from both civilian and military sources.[38] The Trans Mountain Oil Pipeline shipped oil from Edmonton to Vancouver and the Pacific Coast, where it supplemented crude already being received at Puget Sound. The U.S. Petroleum Administration for Defense published a report in 1951 that advocated for Canadian oil imports, determining the Canadian overland route to be safer than foreign sources of oil dependent on vulnerable sea routes, especially during times of conflict.[39] The Korean War (1950-1953) heightened the importance of these particular defense issues, as well as the attractiveness of Canadian petroleum for American refineries. The relatively quick end to hostilities in Korea shifted the focus of petroleum consumption back to domestic markets.

A global surplus in petroleum emerged in the mid-1950s in response to technological advances, and as a result of several international events. New technology utilizing petroleum dramatically increased the consumption of different types of oil and gas. Technological advances allowed petroleum to become the standard fuel for residential and commercial heating. Fuel oil also became an accepted substitute for coal, the popularity of the automobile made petroleum a vital resource, and railroads also converted from coal to heavy fuel and by the mid-fifties to diesel fuel.[40] Oil companies were motivated to increase production dramatically to meet these new petroleum needs.

---

[38] *Royal Commission on Energy: Second Report* (Government of Canada, 1959), 28.
[39] *Royal Commission on Energy: Second Report*, 29.
[40] Canada, Department of Energy, Mines and Resources report, *An Energy Policy for Canada – Phase I* (Ottawa: Department of Energy, Mines and Resources, 1973), v. 2, 32.

Increased availability of cheap foreign sources of oil more than satisfied the growing demand, but put Canadian oil exports in a disadvantaged position.

The cultivation of new oil reserves worldwide flooded the North American market, creating a petroleum surplus. For example, in Venezuela after 1947, crude oil and natural gas reserves rose from 7.3 billion to 16 billion barrels. In addition, production increased from 435 million to 1,027 million barrels per year.[41] Venezuelan oil fields had the added advantage of being located close to ocean transport routes, which represented a key factor in keeping Venezuela's oil cheap and more competitive. Middle Eastern reserves also experienced significant growth during this period. In 1947, reserves in the region were estimated at 19.6 billion barrels, which constituted 37 percent of total world reserves (excluding the U.S.S.R.). By 1957, new discoveries had increased Middle Eastern reserves to 169.5 billion barrels, 70 percent of total world reserves.[42] These reserves also enjoyed access to ocean routes. This period can be characterized by the rapid increase in world oil reserves.

Several other factors contributed to the increasingly large global surplus experienced globally by late 1957. The closure of the Suez Canal during the 1956-57 Arab-Israeli war had caused the escalation of tanker rates. The reopening of the Suez Canal in late 1957 allowed tanker prices to drop significantly, eliminating the brief competitive advantage experienced by oil from Alberta to American refineries like Puget Sound on the American Pacific Coast.[43] The large oil reserves from the Middle East could once again reach markets for cheap prices. In addition American demand for

---

[41] *Royal Commission on Energy: Second Report*, 33, 50.
[42] Ibid.
[43] Ed Shaffer, *Canada's Oil and the American Empire* (Edmonton: Hurtig Publishers, 1983), 145-6.

petroleum had not reached the levels of consumption expected by industry officials. This was primarily due to a short recession experienced by the American economy that lowered demand and temporarily reduced the importance of the previously mentioned technological advances that promoted petroleum use.[44] The reality of global petroleum surpluses had implications for the Canadian oil industry.

In 1957, an expansion of the Trans Mountain Pipe Line was completed in anticipation of continued and increased Canadian exportation to Puget Sound. However, by the fall of 1958, demand dropped, a result of the surplus of cheap foreign oil described above. As a result, Canadian crude exports to the Pacific coast diminished to 11,000 barrels a day, down from a peak average of 94,000 barrels a day in July of 1957.[45] Despite the initial slowdown in available markets for Canadian oil, a tension emerged in the U.S. oil industry between the decision to import cheap foreign oil exclusively, or to continue to increase more expensive imports from Canada. The introduction of U.S. oil import controls significantly contributed to the Canadian oil industry's ability to retain access to U.S. markets despite cheaper foreign alternatives.

The United States had not required oil import controls in the immediate postwar years because of fuel shortages within the American oil industry. However, prior to the global slowdown associated with the Suez Crisis, the U.S. Cabinet Advisory Committee on Energy Supplies and Resource Policy advocated in 1954 for a balance to be set between domestic and foreign supplies of oil to American refineries.[46] This initiative sought to protect supplies of domestic oil in the United States, and prevent the

[44] Shaffer, *Canada's Oil and the American Empire*, 146.
[45] *Royal Commission on Energy: Second Report*, 33, 44.
[46] Ibid., 33, 40.

widespread use of oil from foreign sources. Further justification for import controls lay in the belief that excessive imports were harmful to orderly industrial growth, and discouraged domestic exploration.[47] The possible elimination of all domestic petroleum supplies was viewed as a significant national security threat. As a result, the committee suggested a voluntary quota system for oil imports in which the 1954 ratio of crude and residual fuel oil imports to domestic production would be maintained.[48] This policy was based on the principle of protecting the American oil industry at a time when the end of the Korean War had eased U.S. fuel demand.

The direct consequence of the global petroleum surplus of the late 1950s was the re-emergence of a strong world oil trade based on the general weakening of petroleum prices. As described, the availability of foreign oil diminished the value of the Canadian resource for American refineries. Western Canadian oil remained competitive in price for only small markets in the Canadian west and adjacent U.S. states.[49] However, early Canadian exemptions to the initial U.S. voluntary oil import controls allowed Canada to continue to export petroleum to select U.S. sites. Arthur S. Fleming, director of the U.S. Office of Defense Mobilization and responsible for exempting both Canada and Venezuela from the voluntary controls, justified the exemptions on the grounds that both countries lay within the American sphere of influence, and shared common defence concerns and priorities.[50] The fact that subsidiaries of American oil companies dominated

---

[47] Leonard Waverman, "The reluctant bride: Canadian and American energy relations," in *The Energy Question*, eds., Edward W. Erickson and Leonard Waverman (Toronto: University of Toronto Press, 1974), 220.
[48] *Royal Commission on Energy: Second Report*, 33, 40.
[49] Daniel and Shaffner, "Lessons from Bilateral Trade in Energy Resources," 307.
[50] James Laxer, *Canada's Energy Crisis* (Toronto: James Lorimer & Company, Publishers, 1975), 17.

the Canadian oil industry also contributed to this exemption. The United States felt that protecting its oil interests domestically represented a clear national security priority. While Canada was exempted from this initial quota system, the mere existence of American controls indicated growing instability within Canada's oil industry.

While certain Canadian oil industries officials were encouraged by Canada's exemption from early U.S. import controls, the majority opinion remained that this would not stimulate any new growth for the Canadian oil industry. It was not believed that the exemptions would translate into increased sales of Canadian crude oil into any new U.S markets. The decision of where to buy crude oil still rested with the American refineries. Unless the Canadian oil industry implemented a policy persuading U.S. refineries to buy Canadian petroleum that was more attractive than other sources, Canadian reserves would continue to be underutilized.[51] Canadian exemptions from U.S. oil import controls were not sufficient to solve the problems faced by the Canadian oil industry.

The increasing loss of American markets for Canadian petroleum motivated the Canadian government to develop a strategy designed to achieve greater influence and control over the Canadian oil industry. Canadian officials believed that the virtually exclusive foreign control of the Canadian oil industry had allowed Canada to fall into the position they now found themselves in with the rapidly diminishing American markets for Canadian oil. By 1958, it was reported that there were more than 8,000 wells in Alberta capable of producing oil at approximate levels of 780,000 barrels per day. However, production at this time rarely exceeded 300,000 barrels per day, a direct result of Canada's lack of a national marketing policy for oil according to Alberta's Premier

[51] *Royal Commission on Energy: Second Report*, 33, 135.

Ernest Manning.[52] In order for the Canadian oil industry to survive and flourish, it was thought, the government needed to develop a national energy strategy.

Motivated by the need to more clearly defined Canadian policy, Prime Minister John Diefenbaker established a Royal Commission in 1957 to determine an effective national policy for the export and marketing of crude oil, petroleum products and natural gas. Headed by Henry Borden, the Royal Commission on Energy was split into two parts; the first concentrated on natural gas, and the second dealt with petroleum resources. The key aspect of the second report of the commission was to determine the most realistic future markets for Canadian oil.

In making recommendations for maintaining and creating new markets for Canadian crude oil, the Royal Commission on Energy made multiple proposals designed to strengthen the government's influence over the oil industry, and the domestic oil producers of Canada. This national policy consisted of recommendations to: encourage and permit the export of Canadian crude oil without license; ensure the continued use of Canadian crude in refinery areas of Canada accessible by existing pipeline facilities; have oil companies supply the Ontario market with Canadian crude; ensure that the Canadian oil industry take vigorous and imaginative action to add markets in the United States; no government action should be taken to construct pipeline facilities to transport Canadian crude to Montreal refineries; and, if government action was required to implement these national policy proposals it should take the form of licensing.[53] The Royal Commission believed these recommendations to be the starting point for the re-organization of the Canadian oil industry.

---

[52] "National Gas Policy Urged by Manning," *The Globe and Mail*, 4 February 1958, p. 3.
[53] *Royal Commission on Energy: Second Report*, 33, 144.

Due to the landlocked nature of oil in Alberta, the common belief was that markets for Canadian oil would be confined to domestic consumption, and exports to the United States. The cost of moving Canadian crude long distances over land, and the cost of further exploration, development and production of crude oil in Canada were on average higher than the Middle East and Venezuela, eliminating any other markets for Canadian petroleum.[54] As a result, an effective policy for Canada required securing both Canadian and American markets.

The Royal Commission on Energy signaled the importance of American markets for the Canadian oil industry. The conclusions and recommendations of the commission clearly stated that the United States was the only realistic export market for Canadian crude oil.[55] The commission recommended that the Canadian government should position the Canadian oil industry in line with U.S. foreign policy to garner support for potential continental energy cooperation. It is this recommendation of the Royal Commission that will be focused on first.

It was suggested that early exemptions of Canadian oil from the American voluntary import control program, described above, represented a shift in U.S. policy that suggested a potential willingness to consider a continental energy strategy. However, the commission was careful to point out that the exemption of Canada from American import controls should not be interpreted as effecting an automatic reinstatement of Canadian crude oil to import levels previously enjoyed. As a result of exemptions to U.S. import controls, Canadian crude oil would be more competitive on a price basis. However, producing companies would still determine the level of Canadian crude exported to

---

[54] Ibid., 56.
[55] Ibid., 134.

American markets.[56] The primary problem for greater integration involved ensuring Canadian access to American markets.

American concerns regarding the reliability and security of foreign oil contributed to Canada emerging as a preferred foreign supplier of oil, and provided the Canadian oil industry with a greater share of U.S. oil markets. At the time of the Royal Commission, American reserves were only predicted to support production for approximately twelve years at that current rate of output; however, by 1967 it was estimated that U.S. demands would be around 49 percent of total world demand.[57] As a result, the U.S. would be forced to fill the void of oil supply with foreign oil. The possibility of oil-producing nations using the U.S. shortage of domestic oil as a weapon of manipulation represented a threat to U.S. national security. Considering the instabilities of the Cold War context, it was essential that the United States secured adequate sources of necessary resources from a reliable country of interest. The national security factor created a competitive edge for Canadian petroleum reserves. The full extent of the relationship between national security factors and Canadian imports is detailed in the following chapter.

The Royal Commission on Energy recognized that Canadian exports to the U.S. needed to increase, and pressed for a solidification of this growth with guaranteed American markets for Canadian petroleum. It was argued that the growth in Canadian exports to the U.S. occurred as a result of an American policy that called for the stimulation and development of new petroleum reserves in Western Canada to ensure the

[56] Ibid., 73.
[57] Ibid., 61.

security of continental energy supplies.[58] In the minds of U.S. energy officials, however, this stopped short of a recognized continental energy agreement and represented continued efforts to protect America's national security in relation to energy resources.

Despite the lack of a formalized continental energy plan, efforts to open American markets continued as a result of the findings of the Royal Commission on Energy. Organizations emerged with the goal of solidifying the relationship between Canadian and American energy industries. Consumers' Gas for example, proposed a permanent Canadian-U.S. international commission for the consolidation of energy exchange. This proposed commission would consider the export-import of gas on some unit basis related to the export and or import of oil, coal, electricity and water.[59] This commission represented the potential cooperation that could take place as part of a greater continental energy plan.

In relation to recommending opening U.S. markets for Canadian oil, the Royal Commission on Energy also focused on the issue of multinational control in Canada. The commission recommended that international oil companies with major interests in Canadian production and refining rearrange the way they supplied American markets to allow for larger quantities of Canadian crude oil. The commission indicated that setting time limits for companies to increase their Canadian exports should be established, or the Alberta oil would be diverted to eastern Canadian markets.[60] The findings of the commission recognized the dominance of U.S. oil companies, and the recommendations

[58] J. G. Debanne, "Oil and Canadian Policy," in *The Energy Question*, eds., Edward W. Erickson and Leonard Waverman (Toronto: University of Toronto Press, 1974), 134-135.
[59] "Canadian-U.S. Board For Gas Sales Urged," *The Globe and Mail*, 8 July 1958, p. 13.
[60] Clark Davey, "Boost Market for Canadian Oil in U.S., Foreign Firms Advised: Borden Commission Asks National Policy," *The Globe and Mail*, 29August 1959, p. 1.

suggested that the Canadian government attempt to influence multinational control over the Canadian oil industry through threats of increased regulation.

With oil production in Western Canada reaching new heights and the continued unpredictable nature of U.S. import policies, certain Canadian oil producers and the provincial government of Alberta pushed to secure Canada's only domestic market relying on foreign imported oil, the Montreal refineries.[61] Certain industry officials believed that Canada should concentrate on providing national needs with domestic resources.

The issue of sending domestic oil to Montreal refineries emerged out of the eroding value of Canadian petroleum prices. The Royal Commission on Energy stated that the ability of the Canadian industry to simply maintain existing markets at home would be adversely affected by the continuing lower prices for overseas oil caused by the previously mentioned world oil surpluses of the 1950s.[62] Concern arose at the potential of cheap foreign crude flooding the Ontario market. However, during the proceedings of the commission, the major oil companies stated that the area of greatest available growth for Canadian domestic crude was the province of Ontario.[63] In order to protect domestic markets, prices for Canadian crudes were lowered to remain competitive. Their price, both at refineries and in the field were now tied to, and dependent on, the price of overseas crude.[64] In the face of diminishing U.S. markets, and international threats to domestic markets, pressure within the Canadian industry increased, primarily from independent oil producers, to open Montreal refineries to Western Canadian oil.

---

[61] *Royal Commission on Energy: Second Report*, 126.
[62] Ibid., 82.
[63] Ibid., 76-7.
[64] Ibid., 84.

Independent Canadian oil producers were interested in gaining greater access to Montreal refineries because of the traditional dominance of foreign oil in Quebec. At the time of the Royal Commission on Energy's deliberations, international oil companies owned all five of Montreal's refineries, which controlled 80 percent of Canadian refining capacity and produced about 43 percent of crude consumed domestically. However, of these five multinational oil companies, four companies had more than an 85 percent stake in producing Venezuelan crude oil.[65] Due to their monopoly over the global oil industry, these foreign oil companies had the ability to refuse to use Alberta oil in either their Montreal or American refineries. In an effort to counteract the multinational presence, independent oil producers demanded that a pipeline be built to connect Alberta's oil fields with refineries in Montreal.[66] Despite the insistence of these independent oil producers, perhaps because of the influence exerted on it by the majors, the Royal Commission on Energy remained reluctant to recommend that Alberta crude be shipped to Montreal refineries.

The Royal Commission stated in its final report that the key to the Canadian oil industry's success was an effective national policy ensuring the use of Canadian crude in domestic markets such as Ontario and successfully and substantially increasing the exportation of crude oil to the U.S. If this became a reality, the Commission strongly believed that the production of Canadian crude oil would be maintained at a level that would sustain a strong industry and provide incentives for further exploration and development.[67] Furthermore it would be neither necessary nor desirable to utilize the

[65] Shaffer, *Canada's Oil and the American Empire*, 149.
[66] Ibid.
[67] *Royal Commission on Energy: Second Report*, 138.

Montreal refining area as an outlet for Canadian crude. In addition, the Commission held that a decision to impose restrictions in order to secure the Montreal market for domestic Canadian oil would impair Canada's chances of developing a future continental oil policy with the United States in the future and would jeopardize the existing voluntary import quota exemptions.[68] The Royal Commission on Energy clearly positioned the best interests of the Canadian oil industry with continued pressure to open U.S. markets, and focus domestic markets on Ontario, rather than the refineries of Montreal.

The most significant recommendations to emerge from the Royal Commission on Energy were the creation of the National Energy Board (NEB), and the implementation of the National Oil Policy (NOP). Part of the role of the Commission has been to determine the necessity of a national energy board. In 1959, it recommended that such a board was desirable, and in May of that year, a legislative proposal was introduced into Parliament and the resulting National Energy Board Act was proclaimed the following November.[69] One of the most important functions of this board would be to establish national estimates of domestic oil and gas reserves, as no figures were previously available for government planning.[70] The advantage of this board was its ability to consolidate responsibilities dealing with the Canadian oil industry. In addition to setting estimates, the National Energy Board Act transferred responsibility for pipelines from the Board of Transport Commissioners to the National Energy Board, as well as jurisdiction over oil, gas, and electricity exports from the Minister of Trade and Commerce. The

---

[68] Ibid.
[69] National Energy Board, "Why Was the National Energy Board Created?" Government of Canada, National Energy Board. http://www.neb.gc.ca/clf-nsi/rthnb/whwrndrgvrnnc/rhstry-eng.html (accessed January 28, 2008).
[70] "Energy Board To Be Set Up After Report," *The Globe and Mail*, 10 June 1958, p. 3.

NEB would also now be the organization responsible for regulating relevant tolls and tariffs.[71] The creation of the NEB signaled the beginning of change in the Canadian oil industry.

It would not be until 1961 that the official National Oil Policy emerged from the recommendations of the Royal Commission on Energy. The NOP officially abandoned the proposition of a pipeline carrying domestic crude from Alberta to Montreal, leaving the Montreal refineries and Maritime provinces dependent on imported foreign oil. The remainder of Canada, all territory west of the Ottawa River, would be reserved for domestic crude.[72] As advocated by the Royal Commission on Energy, the effectiveness of the NOP was its ability to create more American markets for Canadian crude, and provide Ontario refineries with domestic crude.

The most outspoken criticism of the Royal Commission emerged from the Canadian investment industry, which presented its concerns through a statement presented to Diefenbaker by the Investment Dealers' Association of Canada. It criticized the recent Royal Commission as being a "great blow to the confidence of foreign investors in Canada," and presented four main objections to the recommendations of the commission.[73] The four concerns presented were: that the principal suggestions of the commission would impair Canada's ability to import capital from abroad; investors were not in favor of the Board of Transport Commissioners being obliged to regulate the rates and earnings of certain oil and gas pipelines; that public testimony and consultation was required before a new method of earnings regulation was established; and, finally, that

[71] National Energy Board, "Why Was the National Energy Board Created?"
[72] Shaffer, *Canada's Oil and the American Empire*, 160.
[73] "Sees Borden Report Harmful," *New York Times*, 28 January 1959, p. 19.

the recommended method of pipeline rate regulation was not practical and discouraged further public financing of pipeline companies.[74] The Canadian investment community was not alone in its criticism of the Royal Commission.

Certain segments of the academic community and oil industry also emerged with concerns regarding the commission and its findings. Writing in 1961, shortly after the full release of the commission's recommendations, Anthony Scott of the University of British Columbia voiced his concerns in an article for *The Canadian Journal of Economics and Political Science*. Scott's article presents several main criticisms, which are outlined and elaborated along with a general analysis of the commission itself. First, Scott believed the commission should have put more attention towards the status of Canada's export reserves. While recommendations showed concern about the decline in oil exploration rates, no significant emphasis was placed on finding a solution for this problem.[75] Also of concern in Scott's opinion was the Royal Commission's reliance on the multinationals and provinces for data used to conduct its analysis. Specifically, the commission relied on geological estimations of oil reserves provided by both multinational companies and the provinces. Scott argued that this represented a potential conflict of interest because it was these figures that were used to determine whether, and how much, oil certain companies and provinces could export.[76] In addition to opposition from the academic community, criticism of the Royal Commission also appeared from within the Canadian oil industry.

---

[74] Ralph Blackmore, "Rocking the Boat? Report Attracts More Criticism," *The New York Times*, 6 February 1959, p. 13.
[75] Anthony Scott, "Policy for Crude Oil," *The Canadian Journal of Economics and Political Science* 27, no. 2 (May, 1961): 268.
[76] Scott, 268.

D. D. Loughney, a senior vice-president with British American Oil (a Gulf Oil subsidiary), urged, at the annual meeting of the Saskatchewan division of the Canadian Petroleum Association, that the proposed National Energy Board must be purely advisory in scope. Loughney was specifically concerned with the recommended wide-ranging powers of granting and withholding licenses and certificates for export and transmission.[77] His concerns represented a certain segment within the oil industry that feared the creation of an energy board with extended power and control would encroach on the private sector's ability to determine its own export levels.

Despite the criticism facing the Royal Commission's recommendations, the Canadian oil industry was strengthened as a result. The Royal Commission presented Canada with an energy plan, the NOP, and an organizational framework, the NEB, with which to implement this policy. As a result, Canadian oil policy during the 1960s emphasized the desire to create further markets for Canadian oil. Diplomatic missions from Ottawa were sent to Washington with the priority of securing American markets for Canadian oil.[78] The full extent of the NOP, and the manner in which the Canadian oil industry experienced rapid expansion into U.S. markets will be discussed in Chapter 4 of this study.

As previously mentioned, in 1955, a U.S. cabinet committee advised that all oil imports should be voluntarily restricted to maintain the 1954 ratio of imports to domestic production. However, the eventual failure of the U.S. voluntary oil import controls to effectively reduce foreign imports led the American government to establish, by

---

[77] "Wide Powers Opposed: Urges Energy Board Be Simply 'Advisory,'" *New York Times*, 30 January 1959, p. 18.
[78] J. L. Granatstein, and Robert Bothwell. *Pirouette: Pierre Trudeau and Canadian Foreign Policy* (Toronto: University of Toronto Press, 1990), 79.

Presidential proclamation on March 10, 1959, a system of mandatory controls on oil imports. The U.S. president, Dwight Eisenhower, stated that the new program was intended to insure a stable and healthy industry capable of discovering new reserves to replace those in jeopardy of depletion.[79] U.S. policy-makers felt that a mandatory program would prove more effective than the voluntary initiative of 1954. The one significant difference of the mandatory program was the hard ceiling it put in place for the import of foreign crude at 12.2 percent of domestic U.S. production.[80] The mandatory controls were set to prevent the common, frequent, and unregulated exemptions of the previous voluntary program.

This transition in American policy proved to be an initial cause of concern for Canadian officials. Canadian government officials worried that the mandatory American import controls would not contain similar exemptions for Canadian oil as found in the initial U.S. voluntary import controls. This Canadian concern existed despite assurances from the U.S. government that the current U.S.-Canada oil import situation would not change. In a letter from Eisenhower to Diefenbaker on March 10, 1959, the president attempted to assure Diefenbaker that during the formulations of the new regulations, every effort was made to minimize negative effects on imports originating from Canada. Furthermore, Eisenhower stated that to his understanding there would be no change in the level of imports from Canada resulting from the new controls at that time.[81]

---

[79] James W. McKie, "United States and Canadian Energy Policy," in *Oil in the Seventies: Essays on Energy Policy*, eds., Walter Mead, et al. (Vancouver: The Fraser Institute, 1977), 251.
[80] J.G. Debanne, "Oil and Canadian Policy," 126.
[81] Dwight D. Eisenhower, "Letter from President Eisenhower to Prime Minister Diefenbaker," 10 March 1959 in *Foreign Relations of the United States, 1958-1960.*

Communication between the two governments suggests that at first this assurance did not fully convince Canadian officials. Prime Minister Diefenbaker responded with concern that the consequences of this new American oil import policy could be more serious in the future than anyone could then contemplate.[82] Specifically, Diefenbaker was concerned about the implications of public reaction to the United States interrupting Canadian oil exports.

This concern soon became irrelevant. An exception was factored into the mandatory program labeled the 'overland exemption' and applied to both Canadian and Mexican oil imports. The impetus for this exemption came from U.S. government officials concerned with the general security of oil supplies globally in a Cold War context.[83] Canadian imports were, in the eyes of the American government, as secure as domestic oil supplies. These Canadian reserves could be relied on in case of war or other imminent threats to American national security.

American oil policy depended on available access to foreign oil. Since the end of World War Two, domestic supplies in the U.S. could no longer fulfill the petroleum needs of Americans. However, the volatile nature of the Cold War created significant concerns regarding the vulnerable position created by American reliance on foreign imported oil. As a safeguard, import control quotas were established to minimize the

---

Western European Integration and Security, Canada Volume VII, Part 1 (1958-1960), 753. United States Department of State.

[82] Telegram From the Embassy in Canada to the Department of State, 10 March 1959 in *Foreign Relations of the United States, 1958-1960. Western European Integration and Security, Canada Volume VII, Part 1 (1958-1960)*, 754. United States Department of State.

[83] J.G. Debanne, "Oil and Canadian Policy," 126.

control of foreign imports, and attempt to reinvigorate domestic discovery and production.

A secure source of crude oil was, however, still paramount to the national security of the United States. The availability of Canadian crude oil with the discovery of the Leduc site in Alberta represented a clear solution to the increasing fuel needs of the United States. Canadian petroleum was geographically close, and the two governments shared similar foreign policy and national security concerns. U.S. multinational companies moved quickly to establish control and influence over the newly expanding oil industry north of the border through Canadian subsidiaries of major U.S. companies. While U.S. multinational corporations provided the American oil industry with a degree of security, the foreign domination of Canadian resources limited the early growth of the Canadian oil industry.

The Canadian government instigated the Royal Commission on Energy in 1957 to clearly define a Canadian policy for the production and export of Canadian petroleum. The recommendations of the commission attempted to maintain and increase Canadian access to U.S. markets, while providing more direction in terms of production levels and the destination of exported oil. At the core, Canadian policy-makers desired a unified continental energy plan where both governments would collectively steer policy.

American access to multiple foreign sources of oil in addition to Canadian reserves ensured that U.S. officials did not seriously consider continental energy plans. While talks occurred, U.S. policy focused on reserving enough American petroleum markets for Canadian oil to keep Canadian oil policy dependent on exporting oil to the U.S. By providing exemptions for Canada from import controls and quotas, U.S.

officials believed they were securing petroleum reserves well into the future. However, continued access to American markets strengthened the Canadian oil industry.

Chapter 3
The Era of U.S. Oil Import Controls

The oil policy of the United States during the twenty years leading up to the oil crisis of 1973 attempted to guarantee a protected and available petroleum supply for the country. The realization following World War Two that domestic production could not sustain the increasing needs of the nation turned the attention of the U.S. energy sector towards the importation of foreign oil, which were needed to prevent oil shortages in the United States. However, debate emerged regarding the degree to which the U.S. should allow itself to become dependent on foreign nations for its petroleum needs. In 1959, the Mandatory Oil Import Program was initiated and placed hard limits on the level of foreign oil imported into the U.S. In response to the perceived ineffectiveness of import controls, the U.S. Cabinet Task Force on Oil Import Control was commissioned in the late 1960s to revaluate the initiative and determine the viability of the program. This chapter will expand on the nature of the U.S. oil import programs previously mentioned, and detail how the American policy of implementing import controls weakened the U.S. domestic oil industry, while exemptions from the import control program strengthened Canada's oil industry significantly.

Dealing with foreign imports of petroleum became an issue in the late 1940s, when the realization emerged that the U.S. would no longer enjoy the security of an assured domestic oil supply large enough to meet demands. American oil companies had the ability to compensate the lack of domestic supplies through importing foreign oil. However, the American policy shifted towards controlling the impact of foreign imports. By the 1950s, several oil import control programs were initiated to limit on the levels of foreign oil imported into the U.S. American officials justified this protectionist measure on two main principles. The first justification was that U.S. oil companies would be forced to focus attention on domestic exploration with the goal of discovering new petroleum sources instead of relying on importing foreign oil. This represents the philosophy of the energy development strategy of self-sufficiency. The other principal rationale for import controls revolved around national security concerns, which suggested that U.S. strategic and defense positions would be significantly weakened if foreign nations were to threaten to cut off oil supplies. Oil import controls were designed to both protect and strengthen the American oil industry. Before evaluating the specifics of the oil import programs, it is necessary to first understand the basic structure of the controls.

The implementation of a quota system of import controls implies several consequences. First, consistent with all protectionist policies, quotas on imported oil create a two-price system where the domestic price differs from the world price. Additionally, this form of control gives the government the ability to limit import rights because a legal right to import or block imports has been created.[84] The decision to place economic controls on foreign imports needed to be a calculated one. By attempting to protect the American domestic oil industry, the United States ran the risk of alienating foreign supplies and losing access to reserves potentially needed in the future.

By the mid-1950s the U.S. government came to the conclusion that import controls were required. President Dwight D. Eisenhower's Advisory Committee on Energy Supplies and Resources Policy recommended that if a situation arose where crude oil and lower-priced residual fuel (fuel oil that remains after the removal of valuable

---

[84] Kenneth W. Dam, "Implementation of Import Quotas: The Case of Oil," *Journal of Law and Economics* 14, no. 1 (April, 1971): 2.

distillates from petroleum[85]) imports exceeded the proportion of those imports to domestic production in 1954, then economic controls should be put in place.[86] When this situation became a reality, several import control programs were instigated.

The U.S. government first issued appeals for voluntary cuts in the volume of foreign imported oil. On July 29, 1957, Eisenhower requested that major oil importing companies operating east of the Rocky Mountains voluntarily lower their crude oil imports by approximately 10 percent from the 1954 through 1956 average.[87] All companies were made aware that a failure to adhere to this voluntary program would lead to formal mandatory enforced controls. The Voluntary Program, (often referred to as the Second Voluntary Program following initial controls promoted by the 1954 Advisory Committee on Energy Supplies and Resource Policy), originated as the result of the findings of the Special Committee to Investigate Crude Oil Imports.[88] Although it can be conceded that these initial voluntary programs experienced minor success restricting foreign imports, the programs were progressively less successful.

Several reasons caused the breakdown and ineffective nature of the voluntary programs. The primary problem was the lack of compliance by the major oil companies to follow the controls. The result was the ultimate failure to limit the import of products and unfinished oils, in addition to crude oil.[89] The independent oil producers were quick to put blame on U.S. owned multinational oil companies. According to independent

---

[85] "residual oil," *Merriam-Webster Online Dictionary*. 2008. http://www.merriam-webster.com (20 March 2008).
[86] Dam, 5.
[87] Laurence Burd, "Voluntary Oil Import Cut Asked by Ike," *Chicago Daily Tribune*, 30 July 1957, B5.
[88] Edward H. Shaffer, *The Oil Import Program of the United States: An Evaluation* (New York: Frederick A. Praeger, Publishers, 1968), 20.
[89] Dam, 9-12.

producers, American multinational oil companies focused too much attention on their foreign operations. Large multinationals faced constant pressure from the actors who controlled foreign oil reserves to increase production in order to pocket greater profits. Also, U.S. companies experienced competition from other internationally based multinational oil companies. U.S. companies feared that they would lose access to oil supplies entirely if they were thought to be cutting back production.[90] The mentality of multinational oil companies was to attempt to work around, or simply ignore, these voluntary quotas in order to maintain control over the international oil industry. The consistent failure of the voluntary programs to prevent the inflow of foreign oil forced the U.S. government to implement a more strictly regulated system.

As a result, President Eisenhower issued a proclamation on March 10, 1959, which placed petroleum products under a system of mandatory import controls. This represented a significant change in economic policy for the United States. Generally speaking, American foreign economic policy had favored trade liberalization and the subsequent easing of import restrictions since the end of the Second World War.[91] However, specific national security concerns were maintained to be the motivation and justification behind the solidification of protectionist policies for the oil industry embodied by the Mandatory Oil import control program.

The national security justification for the implementation of oil import quotas was predicated on the belief that a continued dramatic increase in the levels of foreign oil in U.S. markets would put the United States in a vulnerable position. If foreign supplies

---

[90] Sebastian Raciti, "The Oil Import Problem," *Studies in Industrial Economics*, no. 6. (New York: Fordham University Press, 1958), 68.
[91] Shaffer, *The Oil Import Program of the United States: An Evaluation*, 22.

were cut or curtailed, the United States would be thrown into a disastrous energy crisis. The unexpected loss of a significant portion of foreign supply in the event of a global crisis would create a drastic fuel shortage that would impact every segment of life in the United States. With the rise in automobile use, and the growth in reliance on oil for heating and electric power generation, U.S. petroleum demand was guaranteed to increase. Procuring alternate supplies, or developing new sources of petroleum in time of crisis in order to ease this demand would take several years, and have a profoundly negative impact on the economy.[92] Voluntary, and the subsequent mandatory, import controls were largely instigated to prevent a detrimental reliance on foreign imports, which would threaten national security during future petroleum supply interruptions.

However, this protectionist policy had to be altered because the United States still needed to import a significant volume of foreign oil. The increasing perception within government and the public was that certain sources of foreign imported oil were more secure than others, such as oil supplies originating from Western Hemisphere countries. Advocates of import quotas and controls found it difficult to convince the public and the oil industry how imports from Canada, and to a lesser extent Mexico and Venezuela, represented a national security threat. Shipping oil from shorter distances in the Western Hemisphere was viewed as ideal, especially from Canada through pipelines, which were perceived to be the safest method for transporting petroleum.[93] Canada also represented a stable political country not prone to the instability that plagued Central and South American nations. Similar to Canada, factors of geographical proximity and significant

---

[92] Richard B. Mancke, "The Genesis of the U.S. Oil Crisis," in *The Energy Crisis and U.S. Foreign Policy*, eds., Joseph S. Szyliowicz and Bard E. O'Neill (New York: Praeger Publishers, 1975), 56.
[93] Dam, 28.

U.S. political influence in the hemisphere also set Mexico and Venezuela apart from overseas suppliers.

The reality remained that because of declining U.S. domestic production American refineries were forced to continue their reliance on imported foreign oil. The preference for Western Hemisphere sources of oil emerged in American policy shortly after the official proclamation of mandatory import controls. On April 30, 1959 President Eisenhower amended the original import control proclamation by exempting crude oil, unfinished oils, or finished products that were transported into the United States by pipeline, rail, or other methods of overland transportation.[94] As a result, Canada was provided with an exemption from the mandatory import quota program. Under the "overland" exemption, Canadian exports were allowed to increase their share of the total import quota, and Canadian oil was now exempt from import tickets distributed to U.S. refineries as part of the mandatory quota program.[95] While this policy appeared to be aimed at all Western Hemisphere sources of petroleum, in practice it remained narrow in scope. Since pipelines were regarded at this point as the only true economical means of transporting petroleum overland, the exemption really only applied in significance to Canada.[96] Special arrangements and similar exemptions were also made for Mexico and Venezuela, but with lesser significance and impact. It was the Canadian exemption that garnered the most attention because it had the most significant implications for the U.S. oil industry.

---

[94] Shaffer, *The Oil Import Program of the United States: An Evaluation*, 110.
[95] James W. McKie, "United States and Canadian Energy Policy," in *Oil in the Seventies: Essays on Energy Policy*, eds. Walter Mead, et. al. (Vancouver: The Fraser institute, 1977), 252.
[96] Shaffer, *The Oil Import Program of the United States: An Evaluation*, 110.

Under the overland exemption, Canadian crude was able to reach American markets by pipeline, rail, and other land transportation for relatively low costs because of the close proximity of Alberta oil to key U.S. refineries. Several American refineries had been constructed along the Canadian border in anticipation of obtaining access to Canadian imports.[97] The emerging ease by which Canadian oil imports were reaching U.S. markets was also the result of favorable pricing. While Canadian crude was not as cheap as oil from the Middle East, its large reserves were still priced cheaper than U.S. domestic crude oil, and much more accessible than crude from the Middle East.[98] This created the potential for vast amounts of Canadian petroleum to reach American markets. At this point, Canadian reserves were still believed to be in great excess of Canadian demands, both present and future. However, U.S. government officials were determined to keep Canadian imports from dominating American markets, without removing Canada's exemption.

A temporary solution emerged with the formation of a bilateral, voluntary agreement between Canada and the United States in 1967 to reduce the levels of Canadian oil exports to U.S. refineries. The U.S. Interior Department had attempted to restrain the increase in Canadian imports throughout the 1960s. However, warnings to companies, and negotiations with the Canadian government proved ineffective.[99] In an effort to calm American concerns, the Canadian National Energy Board (NEB) agreed to restrict Canadian oil exports to U.S. refineries east of the Rockies to an average rate of approximately 306,000 barrels a day by 1969, down from the existing rate of

---

[97] Dam, 29.
[98] Ibid.
[99] Ibid., 30.

approximately 350,000 barrels a day.[100] Canadian officials were not opposed to the reduction because they wanted to protect the access to U.S. markets the Canadian oil industry enjoyed as a result of exemptions to American import controls. Despite this agreement, and concerted efforts from both governments, oil exports from Canada to American markets continued to rise.

Many sectors of the Canadian oil industry were accustomed to U.S. controls on Canadian imports carrying little weight, and believed this to be a more symbolic, than a practical program. Canadian producers shipped crude in excess of voluntary quota levels, even before the formalized overland exemption from mandatory controls.[101] This spoke to the continued inefficiency of the controls and ineffectiveness of the bilateral negotiations to prevent excess Canadian exports. Canadian exports continued to increase dramatically throughout the late 1960s. By early 1970, imports of Canadian crude and unfinished oil into the United States reached approximately 653,000 barrels per day, well over 300,000 barrels per day in excess of the agreed upon limit.[102] This situation regarding Canadian petroleum was very complex for the American government at this point in time. By the end of the 1960s it was still firmly believed that Canadian crude was more secure than other foreign sources of supply. However, imports from Canada still needed to be controlled because of the economic and competitive threat they posed to the U.S. domestic oil industry.[103] This aspect of protecting domestic markets was also an important intended function of U.S. import controls.

---

[100] David Crane, "Producers want import ban: NEB plans action to keep oil exports inside quota," *Globe and Mail*, 30 April 1969, Report on Business, p. 1.
[101] Crane, Report on Business, p. 1.
[102] Dam, 31.
[103] McKie, 252.

The protection of domestic markets was stated to be the primary purpose of import controls, and was also directly connected to issues of national security. Specifically, U.S. producers were actively concerned with the potential impact of large volumes of imported oil flooding domestic markets. If multinational oil companies had the ability to import oil from foreign holdings into the United States, there existed less incentive to invest time and resources into discovering new American domestic reserves. It was further argued that U.S. national security could only be maintained if the government provided a guarantee through import controls that the domestic petroleum industry would not be weakened by foreign imports. A weak oil industry was thought to be a threat to American industrial growth and would hinder the military and civilian petroleum supplies necessary for national defense.[104] National security, however, represented only one element of the interests of the domestic oil industry.

As previously alluded to, domestic oil producers were primarily interested in protecting the profitability of their industry, believing that appealing to national security concerns was the most effective way to prevent the complete erosion of U.S. domestic petroleum reserves.[105] The fear of a threat to national security had deep significance for the American government, especially given Cold War tensions. The conflicts in Korea (1950-53), the Suez Canal (1957-57), Hungary (1956), Cuba, during the missile crisis of 1962, and Czechoslovakia (1968) illustrated the instabilities of the mid-twentieth century world. Oil producers strongly pushed the national security motivation, in an effort to protect the viability of their domestic petroleum resources.

[104] Stephen J. Randall, *United States Foreign Oil Policy Since World War I: For Profits and Security* (Montreal & Kingston: McGill-Queen's University Press, 2005), 267.
[105] Mancke, 56.

However, there was some definite legitimacy to the domestic industry's fear of foreign imports, and their desire to protect their U.S. markets. Throughout the 1960s, U.S. dependency on offshore oil supplies increased. Between 1960 and 1975, U.S. energy consumption doubled, with the industry's reliance on imports increasing from 23 percent to 39 percent of total consumption. A further example of the increase in this reliance on foreign imports emerged from U.S. military statistics. During the same period, evidence suggested that the U.S. armed forces relied on foreign sources for approximately 40 percent of their fuel requirements.[106] The national security motivation relies on the assumption that imports only become a threat to national security when the degree to which the United States relies on foreign imports becomes significant. These figures suggest that the United States was drawing near to a point where a drastic cut in the levels of these imports would have significant national security implications.

Analysts presented specific scenarios regarding petroleum supplying nations, and the scenarios where their security of supply could be compromised. For example, U.S. officials expressed concern about eastern Canada's reliance on foreign imports. The argument was that in the event of a global crisis, curtailed petroleum shipments from foreign sources such as Venezuela would force Canada to re-organize its distribution of supply and consequently reduce or eliminate Canadian oil exports to U.S. markets, endangering U.S. security of supply.[107] The fear of this scenario becoming a reality provided a clear example of why import controls were advocated to encourage the growth and development of new domestic petroleum supplies in the U.S.

---

[106] Randall, 269.
[107] Ibid., 268.

By the late 1960s, the increasing perception of import controls was that they had failed to achieve their promised purpose. In regards to protecting and promoting domestic production, new sources of American petroleum simply failed to materialize. A study by the Independent Petroleum Association of America (IPAA) revealed that since 1958, crude oil capacity increased at half the rate of growth in demand, accompanied with significant decline in excess capacity. The study reflects the findings that by 1965 the average number of active and drilling oil well rigs in the United States was 1,387, down from 2,619 in 1956.[108] This situation did not improve. U.S. domestic production continued to lag behind demand with only a 5 percent rate of growth in the United States by 1970.[109] Import controls were designed to spur domestic production and fill the void created by limiting the access of foreign oil.

While domestic production fell dramatically, there were indications that import controls prevented the significant decline of exploratory activity. Data collected on the Chase Manhattan group of oil companies illustrates that in 1958, these companies spent approximately 72 percent of their exploratory and development activity in the United States. As of 1966, this figure was approximately 73 percent.[110] The Chase Manhattan example suggests that oil companies were not focusing any more attention on domestic markets, but activity remained fairly consistent. However, it had become apparent that the activity the controls were envisioned to promote was not the appropriate solution for the American domestic oil industry.

---

[108] James E. Jensen, "Crude Oil: Capacity, Supply Schedule, and Imports Policy," *Land Economics* 43, no. 4 (Nov., 1967): 384.
[109] Randall, 282.
[110] Shaffer, *The Oil Import Program of the United States: An Evaluation*, 212.

Geological factors provided the best explanation as to why import controls failed to produce an increase in domestic production. Industry officials believed that the U.S. interior region was depleted and the only good quality domestic reserves remaining were offshore and on the periphery of the United States.[111] The lack of available reserves to be "discovered" contributed to the failure of import controls. As well, the enforcement of import controls required higher domestic crude oil outputs because the competition of foreign priced oil was restricted. Cheaper, domestic U.S. crude oil increased both demand and domestic output as a result.[112] However, as has been illustrated, U.S. domestic production did not have the capacity to accommodate a dramatic increase in demand. It was a vicious cycle.

Further, import controls were criticized because of their failure to encourage domestic production, and because they complicated U.S. foreign and economic policy. For instance, the restrictions on purchasing foreign crude mandated by quotas could possibly strain foreign relations. Diplomatic problems could easily arise in the Caribbean, South America, or the Middle East if nations that historically relied on exporting oil to the United States reacted negatively to the full operation of the quota system. The permanent loss of access to these markets would be the ultimate consequence.[113] Limiting reliance on the oil markets of traditionally unstable regions did not solve the foreign relations problems of the U.S. import controls.

Oil imports from nations considered by U.S. officials to be safe from a national security perspective were also complicated by factors that could threaten the ability of the

[111] Jensen, 385.
[112] Mancke, 56.
[113] Jensen, 391.

United States to secure access to petroleum reserves. It was maintained that the volume of oil imported from legitimate national security concern sources was insignificant, but more attention should ultimately be placed on ensuring the security of imports originating from Canada.[114] The national security justification for import controls reflected the belief that in the event of a global supply crisis, imports from Canada could be increased to meet American needs. However, this position ignored the risks still associated with placing a high degree of reliance on Canadian imports. The government continually debated the option of pursuing self-sufficiency. Proposals existed for Canada to build a pipeline from Alberta to Montreal refineries, which would significantly threaten the availability of Canadian reserves to continue supplying key U.S. refineries. It was argued that it was the Canadian bargaining position that resulted from the possibility of reallocating exports for American markets to eastern Canada, and not U.S. national security concerns, which secured Canadian exemptions from mandatory import controls.[115] U.S. national security in relation to energy depended on having access to secure sources of petroleum, and Canada remained the most secure source for oil imports, albeit with certain caveats.

The possibility of Canada threatening export cutbacks illustrates that ultimately the U.S. government could not ignore the national security justification for oil import controls. It remained that Middle Eastern sources of oil were problematic. The then recent history of the difficulty of maintaining both the Suez Canal open and Iraq Petroleum Company pipeline in Syria in 1956 flowing provided clear warnings about the dangers of relying on Middle Eastern sources. A further concern was the growing worry

[114] Mancke, 56.
[115] Shaffer, *The Oil Import Program of the United States: An Evaluation*, 119.

that future Venezuelan governments would not remain as favorable to the U.S. as had historically been the case.[116] With the importance of petroleum increasingly apparent, securing American national security was an important justification for import controls.

Significant opinion still remained that the import control system was flawed in relation to national security. Writing in 1971, for example, Walter J. Mead and Philip E. Sorensen did not deny that a national security problem existed within the U.S. oil industry, but they believed that import controls failed in several ways as a solution to the national security problem. A strong motive of the oil industry in advocating for import quotas was to obtain a higher price for its domestic product.[117] However, the high cost of domestic crude led many oil producers to develop sub marginal fields while continuing to produce products from inefficient wells causing the misallocation of resources, which damaged American national security. Also, as mentioned above, domestic reserves were depleted faster as a result of restrictions placed on imports. Other industries, such as petrochemicals, which use oil as a field stock in producing products sold on global markets, would also be rendered non-competitive. Ultimately, Mead and Sorensen argued that quotas were not an effective method for securing U.S. national security because a significant relationship failed to exist between the quota and the volume of reserve productive capacity.[118] Import controls were criticized in other areas as well.

Writing in the *Journal of Law and Economics*, Kenneth W. Dam elaborates on a selection of miscellaneous problems also associated with oil import controls. The shortages in U.S. domestic supply caused by the introduction of import quotas had

---

[116] Jensen, 390.
[117] Walter J. Mead and Philip E. Sorensen, "A National Defense Petroleum Reserve Alternative to Oil Import Quotas," *Land Economics* 47, no. 3 (Aug., 1971): 212.
[118] Mead and Sorensen, 212-213.

ramifications for all industries connected to oil production. These were exacerbated because import quotas grouped a number of products together, or crude oils of varying market values, and as a result discouraged the importation of lower-valued products. A good illustration of this problem is with asphalt, a situation similar to the issue with the petrochemical industry previously discussed. Due to the fact that asphalt crude had a low market value per barrel in comparison with other finished products, many oil companies used their quota to import higher-valued products, neglecting crude used in making asphalt.[119] As a result, the U.S. markets experienced shortages in the supply of asphalt and other lower valued petroleum products, in addition to existing shortages for premium oil products.

A second problem highlighted by Dam is the lack of efficient enforcement of import controls. When the import quota level was in a period of flux, the information required to determine the quantity of the quota to be received by each individual company was the responsibility of the quota recipient. However, the Oil Import Administration lacked sufficient manpower to properly verify each quota recipient's quota rate claim. Furthermore, Dam argued that the Oil Import Administration lacked the industry expertise to even understand the effects of its own regulations.[120] The result was the creation of several alternative programs and proposals to replace the then current system of import controls.

One significant proposal was to replace import quotas with a tariff system. It was argued that the switch to tariffs would serve to generate a better process of allocating oil supply by restricting domestic oligopoly power and stimulating an increase in domestic

[119] Dam, 53.
[120] Ibid., 54-55.

production. Tariffs and quotas differ in their effect on the structure of the domestic oil industry. While quotas allow domestic companies to restrict output, a tariff system would allow competitive supply because domestic firms are forced to produce.[121] The difficulty with a tariff system would be determining the appropriate tariff rate. Differing crude prices globally, for example between Venezuela and the Middle East, and the constantly changing tanker rates would complicate the tariff mechanism. As a result, it was argued that tariff rates would end up being discriminatory between nations, and the tariff rate itself would be too high to be practical.[122] Any U.S. commitment to a system of tariffs would also have to comply with the country's obligations under the General Agreement on Tariffs and Trade. A system of import controls involving tariffs was not the only alternative program being advocated.

Another significant proposal involved alterations to the quota system in the form of quota auctions. The Texas Independent Producers and Royalty Owners proposed in 1968 that the federal government switch to the sale or auction of import licenses for approximately U.S.$1.25 a barrel.[123] In brief, this proposal had one clear benefit; capitalize on the fiscal benefit of oil licenses. The auction system would minimize the financial impact of import restrictions by giving the government the opportunity to produce revenue through the auction of licenses. At the U.S.$1.25 per barrel rate, and for one million barrels of oil a day, the potential revenue of an auction system could reach as

---

[121] Ryan, C. Amacher, et al., "Import Controls on Foreign Oil: Comment," *The American Economic Review* 63, no. 5 (Dec., 1973): 1032-1033.
[122] Jensen, 391.
[123] Ibid., 391.

high as U.S.$500 million a year.[124] This was revenue that could be garnered without taxing American citizens.

The quota auction system attempted to provide ways to adapt the existing quota system of import controls, but was met with significant resistance from the U.S. oil industry. Inland refiners argued that multinational oil companies would acquire all of the available licenses. They argued that an auction system would eliminate their ability to obtain domestic crude supplies at a weighted average below the price received by other domestic producers. In addition, the consensus of the entire U.S. oil industry was that it would be unfair for the financial benefits of an auction to be transferred from the industry to the U.S. Treasury.[125] This significant resistance from the oil industry ensured that the auction system was implemented.

As a result of national security issues remaining important for the maintenance of import controls, the National Defense Petroleum Reserve Proposal was put forward as an option to be considered. Under this program, the federal government would purchase fully or partially developed petroleum reservoirs and set them aside as a reserve to be utilized only in the event of an emergency that threatened U.S. fuel security.[126] This reserve would be a short-term solution to immediate shortages faced by the United States in the event of a crisis. This did not represent a solution to the import control problem, but could be utilized as part of the solution to the national security concerns voiced by oil industry officials.

[124] Dam, 56.
[125] Dam, 56.
[126] Mead and Sorensen, 213.

In the wake of sustained industry debate and general criticism regarding import quotas, President Richard Nixon created the Cabinet Task Force on Oil Import Control in 1969 to determine the preferred strategy for U.S. oil policy. The mandate of the Task Force was to conduct a comprehensive review of oil import restrictions through a process which involved collecting inventories of relevant documentation in relation to import controls, and consulting with knowledgeable staff experts from associated government departments and agencies.[127] The Secretary of Labor, George Shultz, chaired the Task Force, with the Secretaries of State, Treasury, Defense, Interior, and Commerce, and the Director of the Office of Emergency Preparedness making up the remainder of the members. Observer representatives from the Department of Justice, Bureau of the Budget, Council of Economic Advisors, Office of Science and Technology, Office of the Special Trade Representative, and the Federal Power Commission also participated. The observers took part fully in Task Force deliberations, and contributed their special expertise to the conclusions of the study.[128] This selection of government officials would present their findings to the U.S. government and oil industry.

The Task Force focused on several issues. One particular priority was determining effective measures to limit U.S. reliance on Eastern hemisphere imports to the challenging limit of 10 percent of requirements.[129] The Task Force was also faced with balancing political and diplomatic pressures with national security concerns. The U.S. Department of State was concerned that a system of more strict quotas on imports

---

[127] Cabinet Task Force on Oil Import Control. *The Oil Import Question: A Report on the Relationship of Oil Imports to the National Security* (Washington, D.C.: U.S. Government Printing Office, 1970), 1.
[128] Cabinet Task Force on Oil Import Control. *The Oil Import Question: A Report on the Relationship of Oil Imports to the National Security*, 1.
[129] Randall, 282.

should be based on a broad range of factors such as the political stability of the supply area, and the potential vulnerability of transport.[130] Utilizing these considerations would ease diplomatic tensions the Department of State felt import controls were causing among allies. The Task Force also attempted to provide Nixon with an accurate assessment of the import quota system and provide information for future decisions regarding import controls on oil.

When it presented its findings to President Nixon in 1970, the conclusions proved to be controversial. In a letter to Nixon, Secretary of Labor Shultz stated that after reviewing the well over 10,000 pages of memoranda, letters, and other written submissions, the conclusion of the majority of the Task Force was to recommend a substantial change in both the method and direction of import controls.[131] The issue of major concentration was concern over the degree of dependence the United States placed on insecure foreign sources; import controls did not adequately address security considerations:

> The fixed quota limitations that have been in effect for the past ten years, and the system of implementation that has grown up around them bear no reasonable relations to current requirements for protection either of the national economy or of essential oil consumption. The level of restriction is arbitrary and the treatment of secure foreign sources internally inconsistent. The present system has spawned a host of special arrangements and exceptions for the purposes essentially unrelated to the national security, has imposed high costs and inefficiencies on consumers and the economy, and has led to undue government intervention in the market and consequent competitive distortions.[132]

---

[130] Ibid.
[131] George P. Shultz, letter to President Richard Nixon, 2 February 1970 in Cabinet Task Force on Oil Import Control. *The Oil Import Question: A Report on the Relationship of Oil Imports to the National Security*, ii.
[132] Cabinet Task Force on Oil Import Control. *The Oil Import Question: A Report on the Relationship of Oil Imports to the National Security*, 128.

Concern also emerged regarding the control and direction of the import program. According to the Task Force too much control had been left to State regulatory authorities, and if import controls were to properly serve national security needs, a strong system of federal control was required.[133] Clearly, at least according to the Task Force, the import control system appeared to be in a state of disarray.

The Task Force presented a suggested policy route for a more efficient system of import controls. It was recommended that oil import quotas be phased out and replaced with a high, but declining, tariff.[134] The Task Force believed that the liberalization of import controls would not weaken the economy if the tariff gradually decreased in value. The President was advised to adopt of a system of tariff restrictions no later than January 1, 1971, at an approximate rate of U.S.$1.45 per barrel. However, the Task Force clarified that the timing of this import control should await the development of additional information about the productive potential of North America's frontier areas for further petroleum discoveries.[135] The majority of Task Force participants voiced a preference for tariffs over quotas as the basic system of control for several reasons. The rationale was that tariffs encouraged greater efficiency in domestic markets, permitted greater federal control over this national security program, lowered the dependency of domestic buyers on particular suppliers, substituted the marketplace for government allocations of import licenses, eliminated vested interests in quota allocations which had impeded necessary changes in the control system, and assured the benefit of these low-cost imports for the public, rather than the recipients of quota allocations. The resulting revenue would be

[133] Ibid.
[134] Mancke, 58.
[135] Cabinet Task Force on Oil Import Control. *The Oil Import Question: A Report on the Relationship of Oil Imports to the National Security*, 129-131.

reserved for petroleum security.[136] The Task Force recommended the gradual phasing in of tariffs in order to minimize any negative impact. Both tariff and quotas would be utilized for a period of several years, following which an appropriate "security measure" would be established to prevent imports from insecure sources. Finally, a management system would be required to monitor the new tariff system, especially during the transition period.[137] While the majority of participants in the Task Force consented to these conclusions, there were dissenting opinions.

Secretary of State William P. Rogers, Secretary of the Treasury David M. Kennedy, and Secretary of Defense Melvin R. Laird attached supplementary views to the findings of the Task Force. Secretary Rogers refreshed the concerns of the Department of State maintaining that full consultation between the American government and relevant foreign governments would be necessary to enable the proper assessment of the national security and foreign policy ramifications of the proposed changes to import controls.[138] He was concerned that the change in policy would provoke adverse reactions from foreign governments. Secretary Kennedy wanted to guarantee that oil imports only increased gradually, and in relation to demand. Also, he maintained that the revised oil import control system should be managed with the continual goal of expanding the output of the U.S. domestic oil industry, and the discovery of new sources of crude oil.[139] Secretary Laird believed that continuous surveillance and adjustment of the import control program was needed, and could only be achieved through an interdepartmental management and control organization chaired by the Director of the Office of Emergency

[136] Ibid., 134.
[137] Ibid., 134.
[138] Ibid., 131.
[139] Ibid.

Preparedness. He also presented several concerns from a national security standpoint. In order for security considerations of import controls to be considered paramount, domestic exploration needed to be maintained at then current rates, security issues needed to be satisfied before tariffs were altered, changes in import levels needed to be gradual, and continuous surveillance would be required to prevent the reduction of the U.S., or U.S. controlled, tanker fleet.[140] In addition, both the secretaries of the Interior and Commerce did not wish to associate themselves with the report of the Task Force, and filed separate views.[141] The recommendations of the Task Force, including these supplementary opinions, were presented to the executive branch of the U.S government.

The initial response from President Nixon regarding the findings and recommendations of the Task Force appeared to be positive. In a statement released on February 20, 1970, the president suggested that despite some divergence of views within the Task Force, there existed areas of agreement concerning actions that could be taken immediately. Specifically, all Task Force members agreed on the need for a new management system to set policy for the oil import program. Nixon pledged to direct George A. Lincoln, the Director of the Office of Emergency Preparedness, to chair an interdepartmental Oil Policy Committee. This panel would initially include the Secretaries of State, Treasury, Defense, Interior, and Commerce, and the Attorney General, and the Chairman of the Economic Advisers. The Oil Policy Committee would advise both the Oil Import Administration of the Department the Interior, which would still carry out administrative functions, and the Director of the Office of Emergency Preparedness, which would retain a policy direction role, and the coordination, and

[140] Ibid., 132.
[141] Ibid., 1.

surveillance of the import program.[142] This action represented an effort to create a more efficient way to implement import controls.

At the outset, Nixon was also receptive of the Task Force's recommendations regarding the role of Canadian imports. The Task Force firmly stated that Canada should be regarded as a more reliable source of oil imports than all other foreign sources and questioned the rationality behind favoring maritime shipments from Mexico over maritime from Canada.[143] Nixon acknowledged that all members of the Task Force agreed that a degree of national security could be afforded by adopting an integrated North American energy market and he directed the Department of State to continue to examine the possibility and implications of a freer exchange with Canada.[144] However, Nixon's willingness to embrace the full recommendations of the Task Force proved to be short lived.

Nixon's opposition to important aspects of the Task Force's recommendations emerged over the role of Canadian imports. While initial statements from the president after the release of the findings of the Task Force carried the tone of willingness to consider a closer relationship with Canada, the actions of his administration did not reflect this. Instead of starting a legitimate discussion with Canada regarding possible continental oil plans, Nixon announced that he was extending the existing quota

---

[142] Richard Nixon, "Statement About the Report of the Cabinet Task Force on Oil Import Control," February 20, 1970. John T. Woolley and Gerhard Peters, *The American Presidency Project* [online]. (Santa Barbara, CA: University of California (hosted), Gerhard Peters (database). http://www.presidency.ucsb.edu/ws/?pid=2878).
[143] Randall, 283.
[144] Richard Nixon, "Statement About the Report of the Cabinet Task Force on Oil Import Control," February 20, 1970. John T. Woolley and Gerhard Peters, *The American Presidency Project* [online]. (Santa Barbara, CA: University of California (hosted), Gerhard Peters (database). http://www.presidency.ucsb.edu/ws/?pid=2878).

system.[145] U.S. import policy in relation to Canada would in fact be reversed. In March of 1970 Nixon ordered a reduction in Canadian imports from an average of 634,692 barrels per day to 395,000 barrels per day, a policy change Canadian officials complained was implemented without any discussion or warning to the Canadian government.[146] In doing so, Nixon directly contradicted the findings of the Task Force. Canada historically had been very open to the development of a continental oil policy and working with the United States to fill its energy needs. However, this intensification of the U.S. oil quota system, and the abandonment of any special privileges for Canada, threatened the availability of the primary source deemed 'safe' by the majority of U.S. policy makers.

Nixon's policy was interpreted in different ways. While the White House initially indicated that the cutback would be temporary, a letter signed by a presidential assistant revealed at the time the possibility that the Canadian import restriction was related to an American desire for a comprehensive energy agreement with Canada that would ensure Canadian supplies would be available to the United States.[147] In effect it was an attempt to force Canada to the bargaining table

Further, at least according to Helmut Frank, Nixon's actions were misguided because they did nothing more than further damage the already stagnant U.S. oil industry. In an article in *Science*, he argued that by disregarding certain recommendations of the Task Force, Nixon left the U.S. with no real policy direction for oil imports for the three-year period after 1970. Domestic reserves and productive capacity of crude oil fell, but

---

[145] J. L. Granatstein, and Robert Bothwell. *Pirouette: Pierre Trudeau and Canadian Foreign Policy* (Toronto: University of Toronto Press,1990), 82.
[146] Jay Walz, "Canada Resents U.S. Fuel Policy," *New York Times*, 31 May 1970, p. 2.
[147] Walz, "Canada Resents U.S. Fuel Policy," 2.

demand continued to grow.[148] The increasing energy needs of the United States in the early 1970s would force President Nixon to change the direction of U.S. oil policy.

In April of 1973, Nixon addressed an Energy Message to Congress in which he announced that oil import quotas would be phased out. In addition, Nixon requested legislation for a number of energy initiatives designed to increase domestic energy supplies. These included: facilitating the construction of a trans-Alaska pipeline to bring North Slope crude oil to mainland U.S. markets; the elimination of price controls on newly discovered gas; and, tax credits for exploratory drilling.[149] The emphasis on domestic exploration for new oil fields attempted to bring focus to the reality that oil demand in the U.S. was reaching new heights. Nixon implemented a system of licenses and fees in place of quotas, which essentially allowed unlimited imports at higher rates.[150] This policy attempted to meet the dramatic rise in oil demand.

International factors also played a role in Nixon's difficulty in setting a permanent path for U.S. energy policy. The improvement in the general coordination and direction of the Organization of Petroleum Exporting Countries (OPEC) made the possibility of sizable interruptions in the flow of oil imports globally a legitimate concern.[151] This threat emanated from the reality that OPEC was gaining the type of control envisioned when the organization was formed. OPEC's stated purpose was to gain influence and ultimately full control over oil resources from the large multinational companies that had

---

[148] Helmut J. Frank, "Economic Strategy for Import-Export Controls on Energy Materials." *Science*, New Series 184, no. 4134, Energy Issue (April 19, 1974): 317.
[149] Francisco Parra, *Oil Politics: A Modern History of Petroleum* (London: I.B. Tauris, 2004), 169.
[150] "Nixon's Energy Message Holds Few Surprises," *Science News* 103, no. 17 (April 28, 1973): 269.
[151] Mancke, 58.

historically controlled the international oil industry. Of specific interest was OPEC's desire to prevent these companies from keeping world oil prices artificially low. While OPEC initially struggled to accomplish this goal, the Teheran Conference in January 1971 marked a turning point. There, OPEC used a threat to cut off all oil exports to successfully demand a 50-cent per barrel price raise.[152] The growing significance of OPEC in the global oil context further threatened the security of the oil supply of the U.S.

Nixon's new oil policy renewed a willingness to work out a continental energy plan with Canada that had existed in the early 1970s. Reports emerged in early 1973 that Canadian and U.S. officials were involved in negotiations towards a possible agreement for sharing continental oil supplies in the event of an emergency that affected oil supply. U.S. officials hoped that this would eventually lead to a continental energy plan that would include provisions for other resources, such as natural gas.[153] However, despite a historic willingness to consider the creation of a continental energy plan by 1973, Canadian officials were no longer as open to the idea. The following chapter will examine the continental energy debate that had increasingly important implications for the Canadian-American energy relationship.

The establishment of oil import controls by the Eisenhower administration was intended to prevent the further dependence of the American oil industry on foreign imports and promote the goal of oil self-sufficiency. These controls failed to encourage domestic growth in petroleum reserves and live up to their intended national security justification. The dramatic increase in fuel demands in the decades following the Second

---

[152] Mancke, 58.
[153] Edward Cowan, "U.S.-Canada Oil Talks Gain," *The New York Times*, 17 January 1973, p. 45.

World War created the growing American reliance on the importation of foreign oil. The 1959 Mandatory Oil Import Program attempted to prevent foreign oil from dominating the U.S. oil market. However, this system of quotas proved largely ineffective, and the Cabinet Task Force on Import Controls established by President Nixon advocated significant changes. Despite a thorough set of recommendations, Nixon's reluctance to change this system brought increasing instability to the U.S. energy sector. In contrast, Canada's oil industry would emerge strengthened through a combination of the country's own commitment to a national oil policy, and as a result of exemptions from the majority of U.S. import controls.

Chapter 4
The Canadian Situation in the 1960s: The National Oil Policy in Action

The Canadian Royal Commission on Energy recommendations led to the National Oil Policy (NOP) in 1961. This series of initiatives for the Canadian oil industry occurred as the program of mandatory import controls in the United States was being phased in. The Canadian policy's purpose was to increase the production of western oil resources through a division of the Canadian oil market into two zones. A line was created at the Ottawa Valley, leaving all markets west supplied by Canadian oil, and those to the east dependent on foreign oil. An emphasis was also placed on increasing the volume of oil exported to the United States. Only after this goal was accomplished, would Canadian petroleum sources be exploited to near their potential. The Canadian NOP also had implications for the U.S. The Canadian policy stressed increased volumes of oil to be exported to the U.S. at a time when U.S. industry officials were wary of increasing their reliance on foreign sources of oil. However, it was also the case that Canadian oil was deemed safe by U.S. national security authorities, an advantage that proved important for the initial success of the NOP.

As a result of U.S. fears of the instability of foreign imports, Canadian oil was permitted under exemptions that allowed increased production from Alberta to find U.S. markets. This early expansion brought the perception that Canadian policy was actually the beginning of a continental oil plan. While the United States initially remained reserved and unwilling to commit to a continental oil strategy, the dramatic growth in energy demands in the United States brought a shift in this position by 1973. President Nixon's Cabinet Task Force on Oil Import Control reached the conclusion that it was in the best interest of the U.S. to formalize a closer energy relationship with Canada. However, despite the historical desire of the Canadian industry to form a continental oil agreement with the United States, by the early 1970s the political climate in Canada was no longer so much in favor. The NOP had flourished as a result of exemptions to the U.S. mandatory import program and this success gave Canadian officials the confidence to begin developing a distinctly independent Canadian oil policy through the gradual reduction of their reliance on exporting oil to American markets.

Canadian Trade Minister George Hees announced the NOP in the Canadian federal House of Commons on February 2, 1961. The NOP, he pointed out, represented the findings of the Royal Commission on Energy, and the early work of the Canadian National Energy Board which had continued to study the continually changing conditions of the oil industry, both in Canada and internationally. The NOP set target levels of oil production with the objective to reach approximately 800,000 barrels per day by 1963. The increase would occur on a gradual basis with initial targets of 640,000 barrels per day for 1961, and 625,000 barrels per day guaranteed by mid-year. Hees stated that the NOP would achieve these targets through the allocation of domestic oil in all markets west of the Ottawa Valley, in addition to the expansion of oil exports.[154] Utilizing domestic oil in Ontario markets resulted in the reduction of foreign oil imported into Canada. Canadian markets east of the Ottawa Valley would continue to use cheaper international oil, primarily from Venezuela. The NOP thus had several implications: Canadian markets supplied with western Canadian oil became further integrated into the U.S. domestic supply system because from 1961 until the early 1970s, Ontario markets

[154] "Text of Hees Speech in House," *Globe and Mail*, 2 February 1961, Business and Finance, p. 26.

paid the higher prices for petroleum associated with U.S. markets, while Eastern Canada enjoyed cheaper foreign priced oil.[155] The effectiveness of the Canadian policy also depended on increased access to U.S. markets and the cooperation of multinational companies.

A major component of the NOP required the oil industry to increase production in Alberta. This was initiated with subtle pressure from the Canadian government. The government presented oil companies with the option of dramatically increasing the production of Canadian crude, or face mandatory government regulations designed to increase exportation. The government had the authority to impose such controls under section 87 of the National Energy Board Act. The National Energy Board (NEB), established in 1959, would evaluate the contribution of individual companies towards the targets set for the industry, as well as report on the general progress of the program.[156] This monitoring of the activities of the multinational companies would act as a loose form of enforcement.

However, the NOP was beneficial for the majority of companies, and as a result compliance was not an issue. The way the NOP divided the Canadian oil market corresponded exactly to the interests of certain companies. At the time of the implementation of the NOP, multinationals controlled the dominant share of oil production in Western Canada, as well as the Interprovincial Pipeline. Multinationals preferred that western Canadian oil supplies be routed to Pacific Northwest and mid-continent U.S. markets rather than to Eastern Canadian regions. The economics of

---

[155] James Laxer, *Oil and Gas: Ottawa, the Provinces and the Petroleum Industry* (Toronto: James Lorimer & Company, Publishers, 1983), 8-9.
[156] "Canada Tells Refineries To Boost Output, Use More Domestic Crude," *Wall Street Journal*, 2 February 1961, p. 2.

transportation costs dictated that for most oil companies, sending oil by pipeline to western and mid-continent U.S. markets was more economically viable and profitable than transporting oil further to eastern North American markets.[157] The NOP thus worked in harmony with the established and preferred supply plan already being utilized by multinational oil companies.

For example, the NOP's Ottawa Valley division was set at the very point where transportation costs equalized the difference between well-head prices of domestic and imported crude. This allowed a company like Standard Oil of New Jersey with its Canadian affiliate (Esso in Canada) to continue to import Venezuelan oil at the posted price to Montreal refineries, but also benefit from increased Canadian exports to American refineries.[158] This dominance is especially significant because of the difference between prorated and owned oil production. In both Canada and the United States, oil production was prorated, which allocated production allowables to all producers. Prorated oil production involved making a prospective determination of the quantity of oil demand in either the state or province for each month, and if domestic supply exceeded demand, monthly allowables were allocated to other reservoirs and wells in the area.[159] In the case of Venezuelan and the Middle Eastern production, multinational corporations exclusively owned production in these areas. Standard Oil of

---

157 J. G. Debanne, "Oil and Canadian Policy," in *The Energy Question: An International Failure of Policy. Volume 2 North America.* eds., Edward W. Erickson and Leonard Waverman (Toronto: University of Toronto Press, 1974), 128.
158 Ed Shaffer, *Canada's Oil and the American Empire* (Edmonton: Hurtig Publishers, 1983), 160.
159 Stephen L. McDonald, "Conservation regulation and the elements of a national energy policy," in *The Energy Question: An International Failure of Policy. Volume 2 North America.* eds., Edward W. Erickson and Leonard Waverman (Toronto: University of Toronto Press, 1974), 341.

New Jersey or Shell, for example, supplied Montreal refineries with oil from production areas they controlled and transported in tankers they also owned. As a result, more Standard or Shell oil could be sold for every barrel of oil imported by refineries in Montreal than if the same oil originated from 'prorated' production in Alberta.[160] The multinational oil companies would not have wanted to relinquish control over the profitable foreign oil markets of the Atlantic seaboard. The NOP reinforced a system designed to ensure the profitability of the multinational corporations.

Despite the fact that the NOP appeared to favor multinational oil companies, Canadian officials believed they could still exert their control over their industry through the threat of enforcing a reallocation of Canadian petroleum to specific markets. The Canadian government could follow through with the option of building a pipeline from Western Canada to Montreal refineries. This would eliminate the need for foreign imports, and be detrimental to oil companies that favored the established NOP practice of supplying western U.S. markets. Due to the cost of a pipeline of that magnitude, the government of Canada would be required to significantly contribute to the financing of such a project. This would inevitably lead to greater government involvement in the oil industry, a situation multinational oil companies wished to avoid.[161] Canadian officials believed the NOP worked within the existing oil industry system to increase production by the oil majors operating in Canada.

The reaction of the Canadian oil industry to the NOP was also favorable, as it should have been given the advantages bestowed on it. John W. Proctor, General

---

[160] Debanne, 128-9.
[161] J. H. Carmical, "Canada's Oil Plan Expected to Work," *New York Times*, 12 February 1961, p. 13.

Manager of the Canadian Petroleum Association, expressed hope that the production targets set by the Canadian government could be met over the proposed three-year period. Proctor stated that if the market increase in production were achieved through the efforts of the petroleum industry without any formal government regulation, the oil industry in Western Canada would benefit significantly.[162] These comments by a representative of Canadian oil suggest that the NOP had domestic support in addition to the confidence espoused by multinational oil companies.

The major emphasis of the NOP revolved around the creation, or opening, of U.S. markets for the increased production of Canadian petroleum. Canadian officials began laying the groundwork for opening American markets to Canadian crude before the official release of the NOP. In late January of 1961, Canadian Minister of Finance Donald Fleming and Minister of Trade and Commerce George Hees met with the U.S. Secretary of the Treasury, Douglas Dillon, the Secretary of the Interior, Steward Udall, the Secretary of Commerce, Luther H. Hodges, and George W. Ball, the Undersecretary of State for Economic Affairs. American officials believed the meeting represented an attempt by the Canadian government to inform the U.S. government that it desired additional midwest U.S. oil markets for increased volumes of Canadian crude oil exports.[163] When the NOP was implemented, it was hoped that U.S. markets would begin to import more Canadian oil. Canadian officials believed this policy was consistent with what was expected of Canada following the introduction of the overland exemption

---

162 "Prices Reserved," *Globe and Mail*, 2 February 1961, Business and Finance, p. 26.
163 "Canadians Tell U.S. of Plans to Spur Oil Exports to Midwest," *New York Times*, 26 January 1961, p. 37.

for Canadian oil shipped to U.S. markets.[164] Canada recognized that the NOP could take advantage of the growing reality among American officials that perceived Canadian oil as the most reliable and strategically safe source of foreign crude oil.

Significant motivations existed for the U.S. government to accept this new Canadian policy. The U.S. oil industry endorsed the Canadian decision not to build a pipeline to Montreal for a separate set of reasons. The American government feared the ramifications of Canada eliminating a key market for Venezuelan oil. U.S. officials worried that if Canada were no longer an available destination for Venezuelan oil, the U.S. would either be forced to absorb Venezuelan crude into U.S. markets, or provide the South American nation with economic aid.[165] If making U.S. markets available to Canada could further discourage a Canadian pipeline to Montreal, U.S. officials believed this was in the best interests of the United States and the American oil industry.

The benefits of Canadian imports also seemed to outweigh any potential negatives. There was a certain degree of hesitancy among some U.S. producers at the prospect of immediate increases in Canadian imports. The concern was that increased Canadian imports would further curtail and impede U.S. domestic production. The United States was divided into 5 geographical oil districts. The states bordering on the Pacific Ocean, plus Arizona and Nevada made up district 5, while districts 1-4[166]

---

[164] "Canada Tells Refineries To Boost Output, Use More Domestic Crude," *Wall Street Journal*, 2 February 1961, p. 2.
[165] "Washington May Review Policies on Control of Crude Oil Imports," *Globe and Mail*, 2 February 1961, Business and Finance, p.26.
[166] District 1 (ME, NH, VT, MA, CT, NY, PA, NJ, DE, MD, WV, VA, NC, SC, GA, FL)
District 2 (OH, KY, TN, MO, IL, IN, MI, WI, MN, IA, OK, KS, NB, SD, ND)
District 3 (AL, MS, AR, LA, TX, NM)
District 4 (CO, WY, MT, ID, UT)

consisted of the remainder of the country.[167] The argument was maintained that this Canadian oil, which was largely headed to Pacific Coast or district 5 refineries, would actually replace oil currently coming from Indonesia and the Middle East.[168] This represented a reallocation of the source of imported oil for some large multinational companies and as a result, not a direct threat to U.S. domestic oil sources. The increased Canadian imports replaced oil from regions increasingly deemed 'unsafe,' or perceived to be a threat to U.S. national security. It was this type of foreign oil that U.S. policy was attempting to limit reliance on. The American oil industry recognized that Canadian imports represented the best option for foreign imports, as long as they did not encroach on U.S. domestic production.

The NOP initially proved to be successful in its primary goals. Evidence suggests that production in the Canadian west grew and the increased volume of oil exported by Canada found new, or expanded existing, American markets by over 1300 percent between 1958 and 1973.[169] This growth occurred at a time when U.S. fuel needs were experiencing a dramatic rise. By the end of 1961, production had already reached the government target of 640,000 barrels a day, and it continued to grow in 1962, increasing by as much as 20 percent over 1961 levels.[170] As a result, production exceeded the voluntary target of 720,000 barrels a day, as was set for the industry.[171] The situation continued to reflect the positive influence of the NOP for the remainder of the 1960s.

---

[167] Kenneth W. Dam, "Implementation of Import Quotas: The Case of Oil," *Journal of Law and Economics* 14, no. 1 (April, 1971): 6.
[168] Carmical, 13.
[169] Shaffer, *Canada's Oil and the American Empire*, 160.
[170] "Production Of Oil Climbs in Canada," *New York Times*, 24 September 1961, F27.
[171] "Reach Targets for Crude Oil As Exports to U.S. Show Rise," *Globe and Mail*, 3 July 1962, B3.

Canadian industry observers believed that by 1972 the favorable market situation in the U.S., and the continued rate of increase for Canadian oil products would culminate in the elimination for Canada of its over-all import deficit of oil and oil products.[172] High production and a seemingly available U.S. market strengthened the Canadian oil industry and gave confidence in the early direction of the NOP.

As a result, it appeared that Canada and the U.S. were closer to an agreement regarding the creation of an informal continental oil program. Two main factors contributed to the already close economic ties experienced by Canada and the United States in relation to the oil industry, including the growing integration of the Canadian and U.S. oil industries, and the subsequent reliance that resulted from the closer integration. The American and Canadian oil industries have historically been integrated as a result of the large multinational companies that operate in Canada through subsidiaries. By the early 1960s it was judged that U.S. companies had gained control of approximately 75 percent of the Canadian oil industry.[173] A further illustration of the integration of Western Canada and Ontario into U.S. domestic operations was the fact that the Interprovincial Pipeline, which supplied Ontario with Western Canadian oil under the NOP, ignored international boundaries by running south of the Great Lakes, delivering oil to American markets in the north and mid-west U.S. along the way.[174] As a result, the integration of the Canadian and U.S. oil industries seemed perfectly tailored to the creation of a shared continental oil plan.

---

[172] Andrew Snaddon, "National Oil Policy Easily Hits Target," *Globe and Mail*, 6 January 1962, p. 7.
[173] Carmical, 13.
[174] James Laxer, *Canada's Energy Crisis* (Toronto: James Lorimer & Company, Publishers, 1975), 72.

Canadian reliance on the U.S. oil industry occurred as the result of the lack of an alternative source for exported Canadian oil, and the exemption from U.S. import controls that Canadian oil enjoyed. This exemption was especially significant because it occurred at a time when the U.S. government had become more protective with the encroachment of foreign sources of oil. The resulting argument put forth by certain analysts was that the cooperation demonstrated by the U.S. government towards Canadian imports, and the Canadian oil industry, represented the development of a common market in oil for the continent, which had been a goal of the Canadian oil industry and government.[175] The overland exemption guaranteed Western Canadian oil a natural market for expansion in the United States, and safeguarded the Canadian industry against competition in U.S. markets from cheaper foreign sources of oil.[176] The exemption reinforced Canadian reliance on the U.S. oil industry.

However, despite this somewhat favorable scenario for the official implementation of an established economic plan for oil on the continent, certain actors in the U.S. energy sector were concerned over the growing volume of Canadian exports to the United States. From the onset of the NOP an undercurrent of caution existed within the U.S. domestic oil industry towards the widespread acceptance of Canadian imports. Following the announcement of the NOP, the U.S. Secretary of the Interior, Stewart L. Udall, publicly cautioned Canada against attempting to sell too much Canadian oil to U.S. markets. While the U.S. had been notified in advance of the change in Canadian policy, Udall suggested that Canada's exemption status would be put in jeopardy if

[175] "Petroleum Industry Sells Record Volumes in Oil, Gas," *Globe and Mail*, 2 January 1962, Business and Finance, p. 18.
[176] Debanne, 128-9.

Canada increased exports to the United States too rapidly.[177] The concern over the level of Canadian imports became tied to the debate regarding the mandatory import quota program in the U.S. Canada's exemption represented a constant tension in the U.S. oil industry. Despite the 1967 agreement between Canada and the U.S. for Canada to voluntarily restrict the quantity of oil it exported, described in the previous chapter, the eventual failure of this arrangement was one factor contributing to President Nixon's decision to appoint the Cabinet Task Force on Import Controls. As the previous chapter detailed, the Task Force evaluated the import control program on whole, determining if the existing system of exemptions for Canadian oil represented the best option for the American industry. The findings of the Task Force recommended that U.S. policy embrace Canadian imports fully, and commit to the establishment of a formal and established continental energy plan. The president, however, had a different idea.

Canada continued to be the main proponent behind continental energy talks until the late 1960s. In March of 1969, President Nixon and Prime Minister Trudeau discussed the possibility of a more general continental energy policy, which the latter pushed.[178] In late 1969, these discussions continued between the U.S. Interior Secretary, Walter Hickel and the Canadian Energy Minister, J.J. Greene. Greene viewed them as favorable, remarking that great advantages could accrue to Canada and the U.S. through "a closely co-ordinated energy policy between the two nations."[179] Hickel agreed, publicly endorsing the idea. The discussion preceded the findings of Nixon's Task Force, but the

177 David Halberstam, "Canada Warned on Oil Campaign," *New York Times*, 3 February 1961, p. 31.
178 J.L Granatstein, and Robert Bothwell. *Pirouette: Pierre Trudeau and Canadian Foreign Policy* (Toronto: University of Toronto Press,1990), 79.
179 "Hickel backs Greene on joint energy plan," *Globe and Mail*, 11 December 1969, B14.

Interior Secretary stated that Greene's remarks accurately reflected their discussion, and the formulation of a potential continental policy that would include oil, natural gas, hydroelectric power, coal, and other forms of energy.[180] This emerging U.S. willingness to discuss continental policy in a more formal context reflected an evolution in U.S. energy priorities that was furthered by the findings of the Task Force, but downplayed and stalled by the Nixon administration.

In their attempt to build and secure domestic sources of petroleum, U.S. officials increasingly turned their attention to the potential of newly discovered oil in Alaska in 1968. The difficulty that presented itself with Alaskan oil was transporting it to the lower 48 states. In September of 1969, the Humble Oil Company sent a specially reinforced oil tanker, the *SS Manhattan* through the Northwest Passage in an attempt to judge the viability of commercial vessels traversing Canadian Arctic waters on a routine basis. However, the *Manhattan* required the help of a Canadian icebreaker to navigate the passage. While the *Manhattan* was the largest ship to make it through the Northwest Passage, and in the shortest period of time, optimism was reserved because of the extremely critical reaction it drew from the Canadian government.

U.S. activity in the Artic was perceived to threaten Canadian sovereignty, and also raised general environmental concerns. Several recent tanker spills in the United Kingdom gave prominence to this particular environmental concern. In a response that attempted to address both of these concerns, the Canadian government passed the Artic Waters Pollution Prevention bill on April 8, 1970. This legislation attempted to prevent potential pollution in the Arctic by instigating a system of Canadian control over all

[180] "Hickel backs Greene on joint energy plan," B14.

commercial shipping in the region, which would be enforced with fines and other penalties.[181] This government action attempted to provide environmental protection, while at the same time promoting Canadian sovereignty in the north. The Canadian action created conditions that dictated that the cost associated with properly equipping an oil tanker eliminated the Northwest Passage as an economically viable shipping option.

Certain American officials believed that a continental energy plan was a realistic option for gaining access and transporting Alaska's newly discovered oil. By late 1969, as a result, Secretary Hickel began to take the initiative for working one out. Hickel firmly believed that a continental agreement was needed in order for Canada to consent to a pipeline routed through Canada from the North Slope of Alaska to the continental U.S.[182] While statements regarding continental energy strategies that emerged from the 1969 discussions between the two officials were largely attributed to Greene, the Canadian Energy Minister maintained that it was actually Hickel who initiated the conversation. The Canadian goal, the minister claimed, had been to ensure that the findings of the yet to be released Cabinet Task Force on Oil Import Controls were consistent with the Canadian desire to maintain access to important U.S. markets for Canadian crude.[183] Hickel's interest in discussing a continental energy plan suggested that opinions in certain offices in Washington were open to change. The findings of the Cabinet Task Force reinforced the belief that many officials in Washington believed a continental energy plan to be an important and necessary route for U.S. policy.

---

[181] Granatstein, and Bothwell, 81.
[182] Terrance Wills, "U.S. is pushing continental energy plan to get Alaska gas, oil," *Globe and Mail*, 10 December 1969, p. B14.
[183] Wills, B14.

The previous chapter concluded with the tension surrounding the argument for developing a continental oil plan that emerged with the findings of Nixon's cabinet task force. The U.S. oil industry increasingly felt reliant on Canadian reserves because of the growing influence of OPEC that resulted from the Teheran agreements of 1971. In addition to OPEC asserting more control over international oil pricing, the U.S. experienced the almost complete disappearance of new oil-producing capacity in the United States. Further costs associated with developing new oil and gas reserves in the United States dramatically increased.[184] The reality of serious petroleum shortages in the U.S. energy sector provided the interest to seriously consider a full-scale continental energy plan.

The problem that emerged was determining in what form a continental energy plan would take shape. While the cabinet task force largely advocated closer economic energy ties between Canada and the U.S., its findings were inconsistent. The over-riding conclusion was that Canada should be considered the most reliable foreign source of oil for the U.S. if it was agreed upon that the nation needed to rely on western hemisphere sources of petroleum.[185] However, the Task Force remained unconvinced that complete reliance should be laid on Canada, despite the aftermath of the Arab-Israeli War of 1967, when U.S. oil industry officials realized that oil boycotts had emerged as a potentially powerful political weapon. Still, a strong energy agreement with Canada could help to undercut any potential Arab boycott aimed at the U.S.[186] However, U.S. officials were

---

[184] Debanne, 135.
[185] Stephen Randall, *United States Foreign Oil Policy Since World War I: For Profits and Security* (Montreal and Kingston: McGill-Queen's University Press, 2005), 283.
[186] Laxer, *Canada's Energy Crisis*, 74.

not entirely comfortable with the Canadian oil industry's ability to meet U.S. national security needs.

By 1970, the findings of the Task Force suggested that Canada was still vulnerable as a result of the country's own reliance on foreign imported oil for eastern Canada. For the United States, a fully harmonized U.S.-Canadian energy policy could only be instigated after the elimination of this perceived Canadian liability.[187] If Canada altered the NOP to ensure all Canadian domestic markets were supplied by secure Canadian petroleum, U.S. fears of a sudden drop-off in Canadian supplies would be mediated. American officials indicated that in order to ensure the security of Canadian supplies Canada needed to increase storage facilities in Montreal and other eastern centers from a 60-day to a 90-day capacity, a cost to Canada of approximately CAD$100 million.[188] This assumed that Canadian capacity could then provide for existing U.S. markets, along with the addition of eastern Canadian markets. At this point it was suggested that the U.S. would consent to a formal energy pact for the continent. President Nixon even indicated during one point of the oil import policy review that "a unique degree of security [could] be afforded by moving toward an integrated North American energy market."[189] Nixon's subsequent action, and the general direction of American policy did not match the sentiment of this statement.

Shortly after declaring the benefits of a continental energy plan, Nixon ordered a dramatic reduction of Canadian imports, as was discussed in the previous chapter. The

---

[187] Cabinet Task Force on Oil Import Control. *The Oil Import Question: A Report on the Relationship of Oil Imports to the National Security* (Washington, D.C.: U.S. Government Printing Office, 1970), 94.
[188] Shaffer, *Canada's Oil and the American Empire*, 162.
[189] Richard Nixon, Department of State Bulletin LXII (March 30, 1970), 470 as quoted in Randall, 284.

political scientist, James Laxer, suggests that this policy represented a clumsy attempt by the government to force Canada into a formal energy pact. The United States was looking for a large-scale increase in Canadian natural gas imports. Two months later, the White House formally admitted that the quota was aimed at pressuring Canada into a long-term energy agreement.[190] This intentional and public attempt by the U.S. government to influence Canadian energy policy proved significantly flawed as Canada refused to go along, in spite of long-standing Canadian policy.

The early 1970s emerged as a crucial period for the energy relationship of Canada and the United States. The unfavorable policy implemented by the Nixon administration angered both the Canadian government and public. The journalist, Peter Foster, argued that the growing sentiment of public opinion in Canada represented the belief that Canada's industrial sophistication was being held back by a perceived primary economic role of serving the United States with raw materials.[191] As a result, further economic integration under a continental energy plan that would include collaboration with an even wider range of energy resources was met with resistance.

While the U.S. now continued to press for a continental energy plan, Canadian officials publicly stated that they would not be coerced into an agreement. J.J. Greene, the most recent Canadian advocate for a continental energy plan, sternly articulated Canada's reluctance in a May, 1970 speech to the Independent Petroleum Association, an audience that included several high ranking U.S. State Department officials. He suggested that the U.S. had grown complacent in taking Canadian resources for granted.

---

[190] Laxer, *Canada's Energy Crisis*, 75.
[191] Peter Foster. The Blue-Eyed Sheiks: The Canadian Oil Establishment (Toronto: Collins, 1979), 30-1.

Furthermore, Canada would retain firm control over its natural resources and all further bargaining between the two countries on the topic of continental resources would have to reflect Canadian solutions for Canadian problems.[192] As well as communicating this more nationalistic turn in Canadian policy, Greene attempted to convey two other points. The first was that Canada would only increase the flow of natural gas to the U.S. if the Canadian oil industry continued to receive incentives that would allow unfettered access to petroleum markets in the U.S. The second point responded to the U.S. Cabinet Task Force's concerns regarding the security of supply for eastern Canada; Canada must retain the right and freedom to dictate the appropriate policy for ensuring the security of this supply.[193] Canada would not act as an economic and political extension of the United States.

Oil shortages intensified in the early 1970s becoming a factor in Canadian policy. By the end of 1972, with U.S. demand rising, and the Interprovincial Pipeline reaching its capacity, Canadian petroleum supplies began to feel strained.[194] Canadian officials became focused not on securing U.S. markets, but ensuring that Canadian supplies could adequately supply Canada's domestic market. Despite Nixon's reductionism rhetoric, the U.S. continued to need Canadian oil and gas because of the fast increase in American demand.

The most significant change in Canada began to take effect in early 1973. Reflective of a Canadian desire to preserve a sovereign and independent oil policy designed to protect the country's ability to supply its own energy needs, Ottawa began to

---

[192] Jay Walz, "Canada Resents U.S. Fuel Policy," *New York Times*, 31 May 1970, p. 2.
[193] Laxer, *Canada's Energy Crisis*, 76.
[194] Granatstein and Bothwell, 84.

limit the level of oil it exported to the U.S. Canadian Energy Minister Donald S. MacDonald announced in February that effective March 1st the National Energy Board would license all oil exported out of Canada. The oil flow would be monitored to determine the level appropriate in relation to Canada's own emerging fuel shortages.[195] This reduction reduced the oil flowing to U.S. markets. Canadian oil officials were not expected to curtail exports below the set quota of 675,000 barrels per day to refineries east of the Rockies, which was significantly less than the 800,000 barrels per day currently being shipped to the U.S. Midwest.[196] Further Canadian cutbacks would follow.

By September 1973, the specifics of Canada's energy controls emerged. Canadian officials announced an export tax on crude oil of 40 cents a barrel.[197] The rhetoric from the Canadian government regarding the export tax continued to focus on the renewed Canadian priority of ensuring its own energy security and self-sufficiency. Parliamentary debate focused on the need for Canada to protect Canadian reserves from international oil shortages as well as insulating the domestic price from a volatile world market.[198] There was also the opinion that oil shortages and drastic loss of domestic supply in the U.S. should serve as a warning to the Canadian oil industry. These measures thus attempted both to prevent American shortages and price escalation from spreading to Canada by using an adjustable export charge and subsidy in the east to ease

---

[195] Jay Walz, "Ottawa Imposes Oil Export Curb," *New York Times*, 16 February 1973, p. 74.
[196] Walz, "Ottawa Imposes Oil Export Curb," 74.
[197] Edward Cowan, "Canada's Aloof Oil Policy," *New York Time*, 30 September 1973, p. 169.
[198] William Borders, "Canada is Making Oil Policy Shift," *New York Times*, 10 September 1973, p. 51.

dependence of the price of crude in Canada from the price in the U.S.[199] Canadian actions represented a clear new direction for Canadian energy policy.

This new policy direction effectively ended the NOP. The NEB's rules became redundant following the escalation of oil prices in 1973, the first oil shock, as imported oil became more expensive than domestic oil.[200] Also, the creation and further opening of U.S. markets for Canadian oil, a central purpose of the NOP, was no longer the goal of Canadian oil policy.

The creation of Canada's National Oil Policy as a result of the findings of the Royal Commission on Energy proved to be effective. The NOP was created with the ultimate goal of increasing production in the oil rich western province of Alberta. In order to facilitate this development, the Canadian oil industry was divided into two areas based on a division at the Ottawa Valley. All territory west of this line would be supplied by Canadian oil, while foreign oil remained the source for provinces to the east. Gaining greater access to new, and existing, U.S. markets was also crucial to the success of the NOP. With the NOP succeeding in an era during which Canada enjoyed increased integration into U.S. markets as a result of exemptions to U.S. import quotas, significant debate occurred in Canada around the possibility of the two nations developing a continental energy plan. While Canada had historically been the main proponent of such a strategy, by the early 1970s, energy shortages and demand in the U.S. made the idea more desirable. By 1973, however, the confidence brought by the early success of the NOP allowed Canadian officials to begin instigating a new more nationalistic oil policy

---

[199] Ted Greenwood, "Canadian-American Trade in Energy Resources," *International Organization* 28, no. 4, Canada and the United States: Transnational and Transgovernmental Relations (Autumn, 1974): 695.
[200] Shaffer, *Canada's Oil and the American Empire*, 214.

that stressed self-sufficiency, and a distinct turn away from exporting petroleum products to the U.S.

Chapter 5
Oil Policy and the Self Sufficiency Goal

The Canadian government's abandonment of an oil policy defined by export markets and continental energy plans was largely the result of the rising imperative to adopt a self-sufficient energy strategy. This was based on the goal of enabling domestic energy production to satisfy the nation's energy requirements. In the Cold War context, self-sufficiency significantly contributed to a nation's national security. A dependable energy source base was essential for the maintenance of a healthy economy, and the effective operation of the nation's armed forces. The ability of a nation to rely on its own resources during a crisis, especially as a result of energy cutbacks or interruptions from foreign sources, was the philosophy behind the self-sufficiency strategy. The importance of this strategy would become even more apparent in the years following the oil crisis of 1973.

Canada's move towards self-sufficiency occurred during a time when energy shortages and escalating demand increasingly defined the international oil industry. By 1973, the argument made by industry analysts was that traditional estimations of Canada's oil and gas reserves were too high, potentially leaving Canada with significant energy shortages. This came as a shock to Canadians and Canada's transition towards a policy of self-sufficiency occurred through the implementation of an export tax and, ultimately, reductions in exports. Access to U.S. oil markets, through exemptions to American import controls, had strengthened the Canadian oil industry and had provided Canadian officials with the ability to change the direction of Canadian oil policy. The evolution of Canada's developing oil policy also demonstrated the continuing desire for greater Canadian influence in the nation's energy sector.

Broadly speaking, the policy of self-sufficiency represents both economic and national security priorities. From an economic standpoint the self-sufficiency policy focuses on the principle of 'self-reliance,' essentially the ability of a nation's energy production to satisfy its energy requirements. Self-reliance is argued to be a necessity for the proper protection of national security priorities and a desirable goal for any country that has the means to achieve it.[201] The connection between energy self-sufficiency and national security is based on several concepts. Maintaining a sufficient energy, and particularly oil, supply is vital to ensuring the proper operation of a nation's armed forces. In the event of a prolonged military conflict, access to petroleum would be essential for maintaining operational status through fueling the necessary military equipment required for combat and troop transportation.[202] A threat to a nation's energy supply would be equated to a threat to that nation's national security.

Ensuring a healthy economy is also an important aspect of the self-sufficiency strategy. It is argued that in the event of an energy supply interruption, essential civilian services could be jeopardized. Utilities, heating, and the operation of motor vehicles would become increasingly expensive. Rising energy costs would injure domestic industries and eventually damage the competitive position of the nation in international

---

[201] James W. McKie, "United States and Canadian Energy Policy," in *Oil in the Seventies: Essays on Energy Policy*, eds. Walter Mead, et. al. (Vancouver: The Fraser institute, 1977), 265.
[202] Joan Edelman Spero, "Energy Self-Sufficiency and National Security," *Proceedings of the Academy of Political Science* 31, no. 2, The National Energy Problem (Dec., 1973): 123-124.

trade.[203] A crippled economy would further threaten a nation's ability to defend itself politically, and militarily. The ultimate goal of energy self-sufficiency is to maintain a nation's ability to domestically supply its energy needs, especially in the event of energy supply interruptions, in order to alleviate national security concerns.

By the early 1970s, Canadian energy policy appeared to be adapting to reflect the principles of self-sufficiency. Reports emerged suggesting that Canada was close to facing an energy crisis. Existing predictions that Canada's energy resources were vast and plentiful had been greatly overstated, or so it was now thought. For example, in 1970, the Canadian Federal Energy Minister, J. J. Greene, cited reports that Canada had approximately 923 year's supply of oil, and 392 year's supply of natural gas remaining. However, three years later the National Energy Board (NEB) contradicted this statement arguing that Canada could only rely on slightly more than a decade's supply of oil remaining in established producing zones, and potential frontier areas for development were proving to be both disappointing, and expensive to develop.[204] While the potential of these frontier areas remained, the actual development of these reserves was still many years off. Other estimates shared similar predictions; within five to ten years. The Geological Survey of Canada estimated that between 1969 and 1973 the recoverable reserves of oil dropped from 141 billion barrels to 99 billion barrels.[205] Scholarship both at the time and in the years following has debated the legitimacy and accuracy of oil reserve estimates. For the purpose of this study, it is crucial to understand that by late

---

203 Spero, 123-124.
204 Ian McDougall, "Canada's Oil and Gas: An 'Eleventh Hour' Option That Must Not Be Ignored," *Canadian Public Policy* 1, no. 1 (Winter, 1975): 50.
205 Ed Shaffer, *Canada's Oil and the American Empire* (Edmonton: Hurtig Publishers, 1983), 223.

1973, the Canadian belief was that the country would soon face a drastic oil shortage. The reality of this situation was that determining the wealth of oil reserves was a complex endeavor and it was difficult to accurately base policy on estimates.

It was believed that in order for Canada to become self-sufficient in oil, the process would need to be calculated and gradual. Part of this would involve conservation and substitution to deal with continually rising energy demands.[206] In the case of substituting different energy sources for oil, natural gas would be a crucial resource. Canada could rely on its large established natural gas reserves to reduce oil consumption and replace what would otherwise be future demand growth for oil, with natural gas substitutes. Other substitution possibilities were coal and electricity.[207] If these were properly utilized, or so it was believed, Canada's reliance on petroleum could be reduced.

The main problems regarding conservation existed from Canada's oil demands, as well as a carefree attitude towards the exportation of oil to the United States. Canadian energy policy had been largely based on the assumption that Canada's supply of oil and gas was virtually inexhaustible, and that extensive energy use was essential to a high quality of life.[208] This assumption was now shown to be false; even despite that there was no motivation to embrace policies of conservation. The optimistic projections regarding Canada's oil reserve capacity in the early 1970s led to massive, low-cost exports to the United States. Also, no steps were taken to ensure that the East Coast had access to oil. As a result, increased foreign oil imports were needed to satisfy escalating

---

[206] Ronald S. Ritchie, "Oil Self-Sufficiency for Canada?" *Canadian Public Policy* 6, no. 3 (Summer, 1980): 463.
[207] Ritchie, 463.
[208] John A. Olthuis, "Prerequisites of a Self-Sufficiency Debate," *Canadian Public Policy* 6, no. 3 (Summer, 1980): 484.

East Coast demand.[209] Evidence suggests that Canada's aggressive oil export policy of the 1960s and 1970s was the largest factor behind the nation's petroleum supply depletion.

There were potential, and undiscovered sources of petroleum in Canada. The frontier areas of the Arctic, and the oil sands of Alberta represented Canada's best possible future reserves. Exploration in the Beaufort Sea, the Arctic Islands, the Labrador Straits area, and the Grand Banks and other shallow water areas off the East Coast produced high hopes for future commercially viable oil reserves. The oil sands of Athabaska and Cold Lake were already discovered, but the technological ability to efficiently and economically cultivate this particular resource location was lacking.[210] The potential of these regions for the future supply of Canada's energy supplies provided the motivation for pursuing a self-sufficiency strategy. The inability to predict when these reserves would become available necessitated the protection of rapidly disappearing Canadian oil reserves in the mid 1970s. This strategy provided a security of supply for Canada's short-term domestic needs. Canadian policy makers would always have the option of returning to a policy based on large volumes of exports if these prospective reserves proved fruitful.

Canadian officials began to significantly alter Canada's oil export policy in order to protect domestic markets. This evolving policy direction resembled the basic principles of a self-sufficiency strategy. Parliamentary debates in 1973 focused on the possibility of re-allocating the majority of oil from its expansive reserves for Canadian use to protect the country against international oil shortages and insulate the domestic

[209] Olthuis, 483.
[210] Ritchie, 464.

price from the volatile world market.[211] Formal Canadian controls on oil exports emerged as the beginning of a new direction for Canadian oil policy.

The gasoline shortage that emerged in the U.S. in the initial months of 1973 increased demand on Canadian oil and exacerbated fears of oil shortages in Canada. Reports emerged in February 1973 that Canada faced an imminent oil shortage as early as March. The Minster of Energy, Mines and Resources, Donald S. Macdonald, announced that effective March 1, the NEB would license all oil exports.

In a statement to the U.S. House Committee on National Resources and Public Works on the Export of Crude Oil, Macdonald expanded on Canada's rationale for instigating controls on oil exports, informing U.S. officials that under Part VI of the National Energy Board Act, a NEB-approved amendment would instigate the licensing of crude oil exports, effective March 1, 1973. Macdonald assured the Committee that this action was taken after extensive discussions with provincial ministers, and industry, and the amendments "will ensure that oil exports do not exceed quantities surplus to reasonably foreseeable requirements for use in Canada."[212] The Canadian government stressed that the strain on the Canadian oil industry was the result of export demand, to the point where the capacity of Canadian oil production and transportation systems was threatened, and the ability of Canadian producers to supply oil to domestic refiners was in jeopardy. Macdonald did suggest that the amendment was interim, and a more

[211] William Borders, "Canada is Making Oil Policy Shift," *New York Times*, 10 September 1973, p. 51.

[212] *Text Of A Statement To The House Committee On National Resources and Public Works On the Export Of Crude Oil By The Hon. Donald S. MacDonald, Minister of Energy, Mines and Resources* (Feb., 15, 1973), in Box 24, Drawer 12, Folder 17, William E. Simon Papers, 1972-1977, Special Collections, David Bishop Skillman Library, Lafayette College, Easton, PA.

permanent decision would be made after the NEB held a public hearing to provide interested parties with the opportunity to present feedback on appropriate methods for protecting the long-term viability of oil exports.[213] Macdonald stressed the importance for Canada of establishing an oil policy that concentrated more on principles of self-sufficiency rather than expanding oil markets. Licensing was the initial step taken by the Canadian government in the direction of a new, independent oil policy that differed fundamentally from the recently abandoned NOP.

In June of 1973 the Canadian Department of Energy, Mines and Resources published a two-volume report on the future direction of Canadian energy policy entitled *An Energy Policy for Canada*. This report analyzed Canada's energy industries, projected future conditions respecting price, supply and demand, and indicated the general direction of the federal government's policy preferences.[214] The report was intended to formalize the new direction of the Canadian oil industry. Self-Sufficiency was one of five models of energy development outlined by the report for the general direction of Canadian policy. In all five scenarios studied, capital investments in electricity, coal, uranium, natural gas distribution, and oil marketing were not assumed to diverge from historic trends.[215] In other words, the report did not intend to deal with any unforeseeable energy supply interruptions. The self-sufficient development model

---

[213] *Text Of A Statement To The House Committee On National Resources and Public Works On the Export Of Crude Oil By The Hon. Donald S. MacDonald, Minister of Energy, Mines and Resources* (Feb., 15, 1973), in Box 24, Drawer 12, Folder 17, William E. Simon Papers, 1972-1977, Special Collections, David Bishop Skillman Library, Lafayette College, Easton, PA.

[214] James Laxer. *Canada's Energy Crisis* (Toronto: James Lorimer & Company, Publishers, 1975), 77.

[215] Canada Department of Energy, Mines and Resources, *Energy Policy for Canada, Phase 1, Volume 1, Analysis* (Canada Department of Energy, Mines and Resources, 1973), 210.

outlined several main assumptions. First of all, natural gas exports would not be expanded and the export of crude oil would not exceed imports of oil for Canadian needs. Also, the construction of the Mackenzie Valley natural gas pipeline would be delayed, but the moderate development of eastern offshore gas and oil would be initiated in 1975. The present rate of conventional oil and gas development would be continued through 1975, however, oil sand developments were to be limited.[216] This represented the initial structure of a self-sufficiency study.

An Energy Policy for Canada outlined four other energy development strategies in addition to self-sufficiency. The standard development strategy differed from self-sufficiency in that it was predicated on the construction of the Mackenzie Valley natural gas pipeline to begin in 1975, and also the gradual increase of oil sand development. Extensive development strategy expanded on the development strategy of standard development primarily through a focus on the development of Arctic offshore oil. Maximum development would introduce other energy sources by developing a uranium enrichment plant in 1977, as well as maximizing the potential capacity of Canada's oil sands and offshore energy possibilities. This development strategy also committed to additional pipeline development. Finally, delayed development essentially resembled standard development, but with delays for developing the Mackenzie Valley gas and oil production capacity.[217] The Canadian policy document presented a very broad spectrum of possibilities for the future direction of Canada's oil policy. Despite its intended

[216] Canada Department of Energy, Mines and Resources, *Energy Policy for Canada, Phase 1, Volume 1, Analysis*, 210.
[217] Ibid., 216.

purpose, *An Energy Policy for Canada* did not follow through on providing a clear statement regarding a defined energy policy for Canada.

An examination of the export reductions that commenced between 1973 and 1974 suggest that despite the argued ambiguity of *An Energy Policy for Canada*, Canadian policy did turn towards the strategies of self-sufficiency. However, this report did not explicitly promote self-sufficient development as Canada's defined policy choice. Criticism of the report focused on the perception that it presented only the advantages and disadvantages of each development model presented. James Laxer argues that this ambiguity was deliberate by the authors. Laxer maintains that the neutral stance taken reflects the fact that the report relied on the safe assumption that Canada's petroleum industry would continue to export a large proportion of its production to the United States, and that the development of Canada's energy industries would continue to evolve in response to continental patterns of demand.[218] As a result the four strategies other than self-sufficient development focused on the continued cultivation of Canadian energy sources and the further development of transportation networks, which suggested renewed and continued trade with the United States. The report ignored the growing reality that energy shortages were pushing Canadian policy more closely towards the necessity of embracing the self-sufficient development model. While the four other strategies put a strong emphasis on developing future Canadian resources, they did not adequately provide immediate security of supply for domestic sources.

By the fall of 1973, Canadian controls and restrictions in the energy industry became a reality. In September 1973, Prime Minister Trudeau announced plans for the

[218] Laxer. *Canada's Energy Crisis*, 79.

construction of an oil pipeline to Montreal, a voluntary freeze on petroleum prices, and the implementation of a control mechanism designed to break the close association between Canadian and U.S. petroleum prices.[219] The most significant aspect of these energy policy initiatives was the 40 cents a barrel export tax that took effect on October 1, 1973. Canada's Minister of Energy, Mines and Resources, Donald Macdonald, justified this tax by arguing that in a world increasingly plagued by energy shortages, Canada would not continue to export new gas at old prices.[220] The Canadian oil industry would not survive if it continued to allow U.S. markets to purchase Canadian petroleum at uncompetitive prices. Economic controls imposed were designed to lessen the impact of oil shortages in Canada and protect the Canadian industry.

The international political instability of October 1973 significantly altered the dynamics of the international oil industry. The latter half of 1973 witnessed the deterioration of the political situation in the Middle East. Of primary contention for Arab nations was the continued occupation by Israel of the West Bank, Jerusalem, the Golan Heights, and the Sinai Peninsula down to the Suez Canal, territory taken during the Six-Day War of June 1967. With the growing significance of oil as a vital natural resource, the possibility emerged that oil-rich Arab countries could use access to petroleum as a potentially debilitating political weapon in an effort to discourage continued American political support for Israel. In April 1973, Saudi Arabia's Minister of Petroleum and Mineral Resources, Sheik Ahmed Zaki Yamani, and Deputy Oil Minister, Prince Saud al-Faisal, visited the United States and presented the ultimatum that Saudi Arabia would not

[219] J.L. Granatstein, and Robert Bothwell. *Pirouette: Pierre Trudeau and Canadian Foreign Policy* (Toronto: University of Toronto Press, 1990), 85.
[220] Edward Cowan, "Canada's Aloof Oil Policy," *New York Times*, September 1973, p. 169.

expand capacity to the planned 20 million barrels per day by 1980 unless the U.S. modified its policy towards Israel.[221] Saudi Arabia attempted to use its vast oil resources as a bargaining device. The significance of this threat was heightened because of the tightening global oil supply situation.

The shrinking international oil supply and subsequent rise in market price for petroleum was the result of a number of factors. In brief, the imposition of petroleum limits in Kuwait and Libya, continued delays experienced by the U.S. in accessing North Slope oil in Alaska, and the apparent peaking of oil production in Venezuela all significantly restricted oil supplies world-wide, especially those reserves available to the U.S. Concurrently, demand for oil in industrialized countries continued to soar with actual oil consumption rates in October 1973 reaching approximately 9 percent above the previous year's level.[222] This situation was significant for the Canadian oil industry because as other foreign sources of oil became increasingly unattainable, the demand placed on Canadian oil by the U.S. grew dramatically.

In October 1973, military conflict resumed in the Middle East. On October 6, Egypt and Syria launched an attack on Israeli forces occupying disputed territories. This renewal of military operations occurred in the midst of a power struggle between OPEC and the multinational oil companies regarding the price of oil. In September 1973, during OPEC's 35th conference in Vienna, the two sides attempted to re-negotiate the Teheran, Tripoli, and Lagos agreements as the posted price of those agreements did not accurately represent the prevailing conditions and trends; actual inflation rates reached

---

[221] Francisco Parra. *Oil Politics: A Modern History of Petroleum* (London: I.B. Tauris, 2004), 176.
[222] Parra, 176.

approximately four times greater (1972 over 1971) than the 2.5 percent per year escalation provided for in the former agreements.[223] Arab nations believed they had a right to accurately priced crude oil, and were no longer willing to remain under the control of multinational companies.

The hostilities of October 1973 proved to give OPEC the push needed to take full control over the oil resources of the Middle East. On October 17, 1973, Arab oil ministers from ten countries met in Kuwait and agreed to reduce petroleum production by five percent each month until all Israeli troops were removed from the territories occupied during the Six-Day War of 1967. The next day, Saudi Arabia also announced production reductions of ten percent until the end of November, following the lead of the earlier coalition. However, matters were significantly worsened when the U.S. government announced on October 19 that it would be providing Israel with a massive new program of military aid. The formal use of oil as a political weapon followed. Beginning with Saudi Arabia on October 20, Arab nations announced a total ban on shipments of oil to the United States.[224] This constituted an oil embargo on the U.S., and ushered in a significant oil crisis.

While Canada was not directly affected by the Arab oil embargo, the dramatic oil shortages still had significant implications for Canada. Eastern Canada remained dependent on foreign oil, and it was the area of Canada most affected by the embargo. The majority of foreign oil headed for eastern Canada was shipped by multinational companies and flowed first through U.S. markets. Atlantic Canada was also thought to be the worst off because it already represented the most economically disadvantaged

---

[223] Ibid., 177-178.
[224] Ibid., 180-181.

region in Canada. The region witnessed a doubling of fuel costs, and faced the possibility that a percentage of its energy needs would not be met.[225] The sudden rise in the international price of oil also impacted the oil pricing debate in Canada.

Of immediate concern was the now widened gap between the frozen price of Canadian oil and the price of overseas oil delivered to the east coast prior to the embargo. Initially the Canadian government planned to counteract this differential with an increase in the export tax to $1.90 a barrel, an alternative to letting the Canadian price rise. However, opposition from the Alberta provincial government, and the oil industry prompted the federal government to agree to a gradual rise of the price of Alberta oil after January 31, 1974. The New Democratic Party (NDP) put this proposal in jeopardy with their hold on the balance of power in the Canadian Parliament through their support of Trudeau's minority government, which had been elected in 1972. The NDP had been the driving force behind the price freeze, and believed any price rise to be direct opposition of this policy, and as a result threatened to end their support of Trudeau's government.[226] The federal government maintained the need to shield Canada to the greatest extent possible from the serious problems associated with providing adequate oil supplies, and set an appropriate price for Canadian crude.

In late November 1973, Prime Minister Trudeau began to present what Canada's oil policy would look like in the aftermath of the oil crisis, insisting that the first responsibility of the federal government was to ensure the basic and essential fuel needs of Canadians. As a result, an emergency conservation program for Canadians was

---

225 Granatstein and Bothwell, 85.
226 J. G. Debanne, "Oil and Canadian Policy," in *The Energy Question: An International Failure of Policy. Volume 2 North America*, eds., Edward W. Erickson and Leonard Waverman (Toronto: University of Toronto Press, 1974), 138.

announced which included a form of petroleum rationing at the wholesale stage, and the creation of a national Office of Energy Conservation.[227] This Canadian policy direction contained elements that spoke to the even greater desire for self-sufficiency urgently needed in the midst of the oil crisis.

Canadian officials still attempted to convince Americans that Canadian oil policy was not distancing itself from the United States. In *Canada's Energy Crisis*, James Laxer argues that this new Canadian direction contained the framework for a continental self-sufficiency strategy for energy. Laxer points to a November 22, 1973 national television address where Trudeau unrealistically pledged to continue Canada's high rate of exports to the United States.[228] Trudeau's initial aim was to develop an oil policy in which Canada could become self-sufficient in its oil supply, without giving up the lucrative export trade to the United States. The extent and prolonged nature of the oil shortages and general industry difficulties of the oil crisis proved to test the viability of this American friendly policy goal.

The prime ministry presented a formal proposal to parliament to deal with the oil crisis and energy shortages in the form of an eleven-point oil policy plan in early December 1973. The plan represented what was argued to be a realistic assessment of energy priorities, as well as an attempt through compromises to secure NDP support. Trudeau's policy statement called for:

1. The establishment of an Energy Supplies Allocation Board which would ensure the fair allocation of petroleum products during shortages;

[227] William Borders, "Canada Plans Voluntary Curbs on Fuel," *New York Times*, 23 November 1973, p. 32.
[228] Laxer, *Canada's Energy Crisis*, 85-86.

2. Abolition of the 'Ottawa Valley Line' so that Western provinces would have a guaranteed outlet for increased production, as well as a guaranteed security of supply for Eastern provinces;
3. The establishment of a pricing mechanism that would provide incentives for developing Canada's frontier and non-conventional resources such as the tar sands;
4. A declaration not to cut off exports to the United States, or reduce imports from reliable suppliers;
5. Assurance that any escalation in returns and revenues as a result of higher oil prices would be used in a manner conducive to security and self-sufficiency;
6. Establishment of a publicly owned Canadian petroleum company to effectively increase petroleum exploration and development;
7. Commitment to the early completion of a pipeline to serve Montreal and Eastern Canadian markets;
8. Intensification of research on oil sands extraction to speed development;
9. Maintenance of the price of domestic heating during the present heating season, and undertake discussions with the government of Alberta and the oil industry to secure their agreement to maintain the price of domestically produced oil at the current level until the end of the winter;
10. A continued tax on exported oil, equal to the difference between the domestic price and the export price as determined by the NEB; and

11. The federal government's offer to share the proceeds of the export tax to January 31 with the producing provinces on a 50/50 basis was extended with a pledge to further discuss proceeds with the premiers in February.[229]

The Trudeau plan represented the first significant declaration of Canadian oil policy since the end of the NOP.

However, the instability created by the 1973 oil crisis proved that in order for Canada's oil industry to survive, oil policy would need to remain flexible. While Trudeau's eleven-point plan declared that Canada would not reduce exports of oil to the United States, increasing domestic shortages dictated that Canada would inevitably be required to start that process. Macdonald stated on February 1, 1974 that Canada would reduce its crude oil exports to the U.S. in the next two years, as well as prohibit massive American investment to extract oil from Alberta's tar sands. Macdonald attempted to discourage U.S. expectations that Canada would be able to sustain continued exports at the high volumes that existed in 1973.

Canadian policy was continuing the drive towards energy self-sufficiency, but in a much more nationalist manner than had earlier been the case. In the case of oil, approximately 115,000 barrels a day of western crude were diverted from U.S. markets to eastern Canada.[230] By the fall of 1974, Canadian officials placed a numeric value on the reduction of oil exports. Effective January 1, 1975 the sale of crude oil to the U.S. would be reduced by 100,000 barrels a day, leaving exports at approximately 800,000 barrels per day. According to a statement by Donald Macdonald, this figure could drop to

---

[229] Debanne, 138-139.
[230] Edward Cowan, "Canada Oil-Export Cuts Seen," *New York Times*, 2 February 1974, pgs. 37, 41.

approximately 650,000 barrels per day by the following July, and the possibility existed for exports to be phased out completely by the end of 1982.[231] These initial reductions suggest that Canadian officials continued to adapt Canadian oil policy in order to achieve a degree of self-sufficiency.

Prime Minister Trudeau communicated with U.S. President Gerald R. Ford in December 1974 of Canada's need to proceed with a more protective oil policy. Trudeau reaffirmed Canada's decision to cut oil exports to the United States for the time being. President Ford utilized this meeting to voice American concerns regarding the direction of Canadian oil policy, specifically mentioning that certain U.S. refineries in the Midwest had been built for Canadian oil, and sharp reductions would be significantly detrimental to their continued operation.[232] This reaction beginning to emerge out of Washington represented a reluctance to accept the Canadian policy goal of self-sufficiency.

However, the initial American reaction to Canada's evolving policy direction remained reserved. U.S. officials realized that in the midst of growing fuel shortages, they could not risk alienating Canada, as they still relied on a significant volume of imports from north of the border. U.S. officials began to analyze the impact of reduced availability of Canadian oil in March 1973 when Canada announced the introduction of its initial export restrictions. U.S. officials were primarily concerned with the policy implications of Canada exerting increased control over its oil exports, and disallowing further applications for oil and gas exports as of March 1973. It was argued that the eventual consequence for the U.S. oil industry would be substantial reductions in the

---

[231] Robert Trumbull, "Canada Reducing Oil Going to U.S.," *New York Times*, 23 November 1974, p. 1.
[232] David Binder, "Trudeau Tells Ford He Plans Protective Oil Policy," *New York Times*, 5 December 1974, p. 10.

volume of oil available for import into the United States. Despite the fact that no actual reductions had been announced at this point, it was believed that with each year that passed until frontier and synthetic reserves were added to Canada's reserve base, the constraints over what portion of those reserves available to the United States would continue to shrink.[233] As a result, U.S. officials feared these controls would mean imports from Canada would not be able to satisfy the growing oil demands of the United States. Another significant American concern existed over the Canadian proposal to retain a large percentage of their low-cost reserves for domestic use. U.S. officials argued that this would force American markets to import the costly reserves of the frontier areas. The assumption made by U.S. officials was that the United States would be forced to invest in high cost Arctic gas and oil exploration because without capital investment from American based multinational oil companies, production would not occur in these regions.[234] Obviously, Canada's move towards the further embrace of certain self-sufficiency policies greatly concerned officials in Washington.

American industry leaders also came forward with concerns. In a series of correspondence with U.S. Deputy Secretary of the Treasury and Chair of the President's Oil Policy Committee, William E. Simon, officials from Standard Oil and the Consumers Power Company of Michigan presented their worries about Canada's evolving oil policy. F. E. Mosier, Vice President of Standard Oil (Ohio) argued that if the Canadian NEB abandoned the allocation of exports, independent U.S. refiners in the Upper Midwest and

---

[233] James Reddington, *Memorandum For the Record* (March 20, 1973), 5. In Box 24, Drawer 12, Folder 17, William E. Simon Papers, 1972-1977, Special Collections, David Bishop Skillman Library, Lafayette College, Easton, PA.
[234] James Reddington, *Memorandum For the Record* (March 20, 1973), 6. In Box 24, Drawer 12, Folder 17, William E. Simon Papers, 1972-1977, Special Collections, David Bishop Skillman Library, Lafayette College, Easton, PA.

Great Lakes area would lose significant portions of the crude oil supplies flowing to their refineries. If independent refiners lost their Canadian supplies, Mosier believed they would likely not be able to replace it. He wanted government assurances that traditional refiners of Canadian crude would continue to be able to purchase and import Canadian supplies.[235] The U.S. oil industry could not afford to lose access to Canadian petroleum reserves.

Concern continued to exist surrounding what the U.S. oil industry feared to be the inevitable limited access to Canadian petroleum supplies. Robert G. Nunn, Jr. wrote to Simon on behalf of Consumers Power Company of Michigan about similar concerns with Canada's export controls.[236] In response, Simon could offer little more than an assurance that the U.S. government was working with the Canadian government to explore possible alternative programs for American companies. One potential option was for the U.S. Office of Oil and Gas or Oil Import Appeals Board to determine which U.S. refineries had no alternative to importing Canadian oil, and provide them with license-fee exemption tickets, which would be honored by Canada.[237] The U.S. government attempted to work with the American oil industry and the Canadian government to lessen the impact of Canadian exports controls.

---

[235] F. E. Mosier, letter to William E. Simon (May 1, 1973) In Box 24, Drawer 12, Folder 17, William E. Simon Papers, 1972-1977, Special Collections, David Bishop Skillman Library, Lafayette College, Easton, PA.
[236] Robert G. Nunn, Jr., letter to William E. Simon (May 14, 1973) In Box 24, Drawer 12, Folder 17, William E. Simon Papers, 1972-1977, Special Collections, David Bishop Skillman Library, Lafayette College, Easton, PA.
[237] William E. Simon, letter to Robert G. Nunn, Jr. (May 22, 1973) In Box 24, Drawer 12, Folder 17, William E. Simon Papers, 1972-1977, Special Collections, David Bishop Skillman Library, Lafayette College, Easton, PA.

Washington had remained relatively reserved in reaction to the announcement of Canada's export tax on crude oil in September 1973 although temperatures were raised quickly. The State Department released a statement on September 14 complaining of a lack of consultation between the two nations in regard to the tax, further stating that the action came as a surprise and was not welcome information.[238] American officials disliked the price discrepancy this new export tax created between the prices paid in Canada and the United States. The Canadian federal government had already frozen the price of domestically produced oil at CAD$3.80 a barrel. As previously mentioned, the export tax paid the difference for imported oil for eastern Canada. The tax rate was defined as the difference between the Chicago price and the new Canadian standard of CAD$3.80. Canadian subsidies additionally brought down the price of oil imported into Canada to a single national price, lower than the world price. The end result was that the United States would pay the world price for Canadian crude oil, while Canadians would benefit from a cheaper price.[239] As well, U.S. officials were dismayed that a percentage of Western Canadian oil would now be re-allocated to supply Canada's eastern markets through the newly proposed Sarnia to Montreal pipeline, and this would entail the gradual cutback of petroleum traditionally intended for U.S. markets.

With the reality of further Canadian export controls emerging in the fall of 1973, U.S. reaction became increasingly hostile. Many oil consuming regions of the northern United States had no practical alternative to Canadian energy. One Harvard economist argued for the imposition of a tax on Canadian oil piped through the U.S. as a form of

[238] Edward Cowan, "Canada's Aloof Oil Policy," *New York Times*, 30 September 1973, p. 169.
[239] Granatstein and Bothwell, 86.

retaliation.[240] Fear intensified in the U.S. as experts hinted that oil shortages were likely to negatively impact the American economy and that the scarcity of fuel would slow the operation of U.S. industry. American financial markets had already reacted negatively to general energy shortages as well as the international oil crisis with the Dow Jones average falling to a two-year low in November 1973.[241] This bleak outlook for the U.S. economy contributed to the negative reaction of American officials to the news that Canada was placing controls on oil exports.

However, not all American actors remained bitter; the official American response remained restrained and to a certain degree supportive of Canadian policy. In February 1974, Macdonald met with U.S. Department Secretary of the Treasury and now the Administrator of the Federal Energy Office, William E. Simon, to discuss energy issues. Simon wished to reassure Macdonald that self-sufficiency was an objective that both nations shared. However, in light of this fact Simon wished to convey with urgency the fact that both countries should cooperate on energy matters, and the decision to pursue national self-sufficiency could still promote a relationship of mutually beneficial independence.[242] Simon believed this should be even more evident in the wake of the oil crisis.

The primary issue that Simon wished to get Canadian cooperation on was to promote the possibility of Canadian export reductions being held off until other U.S. energy sources became available. He also pursued the position that it was in the interests

[240] Granatstein and Bothwell, 86.
[241] "Worry over oil crisis leads to plunge in stock prices," *Globe and Mail*, 27 November 1973, p. 1.
[242] "Mr. Simon's Talking Points and Agenda For Meeting with Canadian Energy Minister Macdonald," 1. In Box 24, Drawer 12, Folder 17, William E. Simon Papers, 1972-1977, Special Collections, David Bishop Skillman Library, Lafayette College, Easton, PA.

of both countries to develop the Athabasca Tar Sands, and proceed with the construction of a natural gas pipeline to serve Arctic gas resources.[243] Macdonald's goal for the meeting was to provide clarity for American officials regarding the purpose and goal of the Canadian export tax on crude oil. The Canadian spent two days, both in public appearances and in closed door meetings, delivering the message that the Trudeau government's energy policy was attempting to look after Canada's immediate national interests, which he argued was also the goal of U.S. energy policy for the United States.[244] Macdonald's discussions with Simon proved to be quite successful.

Following the meetings, Simon told reporters that he had concluded that Canada's oil export tax was justified. The American official affirmed the legitimacy of Canada charging the U.S. a higher price for oil to offset the price Eastern Canada must pay for oil from Venezuela and the Middle East.[245] The significance of Simon's statement is the manner in which he also took aim at previous criticism of the Canadian policy by State Department officials. Indeed, he took "violent issue" with State's statement regarding Canadian controls, a significant voice of support for Canadian policy from an official believed to enjoy close ties with President Nixon.[246] Political support from a U.S. official with Simon's credentials gave the Canadian oil policy legitimacy.

As Canadian oil policy became increasingly restrictive, American criticism of it continued, but with little impact. Following the Canadian announcement of export

---

[243] "Mr. Simon's Talking Points and Agenda For Meeting with Canadian Energy Minister Macdonald," 2. In Box 24, Drawer 12, Folder 17, William E. Simon Papers, 1972-1977, Special Collections, David Bishop Skillman Library, Lafayette College, Easton, PA.
[244] Ross H. Munro, "Canada's oil export tax is justified, Simon says," *Globe and Mail*, 2 February 1974, p. 1.
[245] Ross H. Munro, "Macdonald scores a major success," *Globe and Mail*, 4 February 1974, p. 9.
[246] Munro, 1.

cutbacks in late 1974, the State Department once again voiced its disappointment. In what was described as a carefully worded statement, State expressed hope that Ottawa would not fully carry out cuts after consultation with the oil producing western provinces.[247] However, Canada continued with plans for a January 1, 1975 cutback of Canadian oil exports. In a meeting between Ford and Trudeau, the American president maintained that he supported several U.S. Senators who had voiced objections to the oil cutbacks, and the potential harm they could cause to the U.S. However, Trudeau was quick to point out that Canada's post-oil crisis energy policy closely resembled the philosophy and ideas behind the Ford Administration's own self-sufficiency inspired energy program, labeled Project Independence.[248] American hypocrisy, in this instance, was discounted.

The first self-sufficiency policies adopted by the U.S. government had involved the oil-import programs of the late 1950s. Both the voluntary and mandatory oil-import programs had attempted to assure domestic supplies of oil through protecting the American oil industry from foreign competition, and ensuring that the drilling and exploration necessary for self-sufficiency was carried out.[249] In the fall of 1973, at essentially the same time that Trudeau presented the new direction for Canada's oil policy, President Nixon initiated an oil policy based on renewed policies of self-sufficiency. Throughout 1973, Nixon's government had instigated an energy program that had involved a series of comprehensive executive studies to evaluate the nation's

---

[247] Bernard Gwertzman, "Canadian Oil Cut 'Disappoints' U.S.," *New York Times*, 24 November 1974, p. 18.
[248] David Binder, "Trudeau Tells Ford He Plans Protective Oil Policy," *New York Times*, December 1974, p. 10.
[249] Spero, 126.

current and future energy needs. Nixon's energy policy focused on the priorities of increased domestic production in all forms of energy, more effective energy conservation efforts, a pledge to meet energy needs at the lowest possible cost, the reduction of excessive regulatory and administrative impediments to the construction of energy-producing facilities, cooperation with other nations in research to prevent energy shortages, and the intensification of scientific and technological research to further the development of new energy sources.[250] In September 1973, Nixon presented four related pieces of legislation dedicated to energy policy, that dealt with the proposed Alaska pipeline, deepwater ports, the deregulation of gas, and strip mining.[251] The Nixon administration believed that those were key energy initiatives that would enable a greater degree of self-sufficiency for American oil policy.

Canadian oil policy attempted to adapt to the oil crisis of 1973 through a gradual move towards self-sufficiency. As a result of Canada's oil reserve capacity it was possible for the nation to embrace the possibility of self-sufficiency through the re-allocation of its resources, and the cultivation of potential, but as yet undeveloped reserves. The United States, however, because of its prolonged reliance on imported oil, did not have the same opportunities to succeed along these lines. The U.S. Oil Import Program of self-sufficiency for instance, only remained viable because exemptions allowed U.S. producers to continue to import high volumes of Canadian petroleum.

---

[250] Rogers C. B. Morton, "The Nixon Administration Energy Policy," *Annals of the American Academy of Political and Social Science* 410, The Energy Crisis: Reality or Myth (Nov., 1973): 67.

[251] Richard Nixon, "Remarks About the Nation's Energy Policy," September 8, 1973. John T. Woolley and Gerhard Peters, *The American Presidency Project* [online]. Santa Barbara, CA: University of California (hosted), Gerhard Peters (database). http://www.presidency.ucsb.edu/ws/?pid=2878).

This American commitment to self-sufficiency provided the similar Canadian energy policy with a sense of legitimacy. The oil crisis of 1973 intensified the Canadian need to pursue this protectionist and nationalistic strategy. The restrained U.S. reaction did not signal an acceptance of Canada's shrinking role as an exporter of oil to the U.S., but an acknowledgment that Canada was pursing the very same goal the U.S. set for itself. U.S. objection to Canadian self-sufficiency policy could not be sustained because American officials believed that the opportunity still remained for cooperation between the two nations on energy issues.

It is now clear that despite the efforts of both Canada and the United States to quell the impact of the oil crisis through energy self-sufficiency, both nations faced rapidly deteriorating economic situations. With the price of oil four times higher than before the oil crisis, the United States entered into an energy-related recession. By January 1975, unemployment reached a 35-year high of 8.2 percent. Double-digit inflation and a 3.1 percent decline in American industrial production between November 1973 and March 1974 resulted in a significant period of stagflation.[252] The situation was no better in Canada. In 1975, unemployment had reached 7.2 percent, and inflation approached 11 percent. An ill-advised period of Canadian wage increases, at rates roughly double those in the United States, had forced Trudeau to introduce wage and price controls in the fall of 1975 following the federal election of that year.[253] Canada's industry was also impacted by the economic slowdown. Demand for Canadian exports

[252] Diane B. Kunz, *Butter and Guns: America's Cold War Economic Diplomacy* (New York: The Free Press, 1997), 242.
[253] Gerald Clark, "Waking up from the Canadian dream," *New York Times*, 6 June 1976, p. 54.

was weakened and widespread inflation resulted from higher prices for imports.[254] The economic situation of the post-oil crisis world was bleak.

Canada's oil policy increasingly embraced the principles of self-sufficiency in an effort to maintain sovereignty over the Canadian energy sector. In the years leading up the oil crisis of 1973, Canada's oil policy transitioned away from an export intensive NOP that desired a continental energy strategy, to a more nationalistic policy concerned with providing security of supply for domestic use and decreasing reliance on foreign imports for the east coast. The Arab oil embargo, and the general aftermath of the 1973 oil crisis re-affirmed the growing Canadian sentiment that the achievement of self-sufficiency was a justifiable goal. While Canadian oil policy may not have fully achieved self-sufficiency, the focus on self-reliance further encouraged Canadian officials to develop a uniquely Canadian oil policy, designed to meet the needs of the Canadian industry and people.

[254] G. V. Jump and T. A. Wilson, "Macro-Economic Effects of the Energy Crisis 1974-1975," *Canadian Public Policy* 1. no. 1 (Winter, 1975): 32-33.

Conclusion

The events of the 1973 oil crisis echoed around the world. In North America especially, this event acted as a turning point for the Canadian-American energy relationship. Canada struggled to define its oil policy throughout the 1960s and 1970s. The Canadian belief in the unlimited capacity of its natural resources promoted close ties to the continually expanding markets of the United States. However, Canada's desire for a more independent oil policy became apparent through its actions early on in 1973. The traditional Canadian position of lobbying the U.S. for increased access to American oil markets was replaced with export controls, and taxes. It was not until after the implications of the events of the oil crisis were felt that Canada committed to a policy of export reductions. This represented the new goal of oil self-sufficiency set by the Canadian government. Without the impact of the oil crisis, Canadian officials would have faced substantial opposition in pursuing an oil policy that abandoned the lucrative U.S. oil markets.

The oil crisis illustrated the problems associated with non-renewable sources of energy remaining the focus of Canadian energy policy. As worldwide reserves of petroleum disappear, the importance of an effective oil policy is heightened. The devastating oil shortages that occurred as a result of the oil crisis exposed the misdirection of Canada and American oil policy. The economies of both countries suffered as a result. Oil continues to be an important resource, and the supply shortages and international tensions of the 1970s should serve as a warning of the dangers of the misuse and excessive production and exportation of natural resources.

References

Amacher, Ryan, C., et al., "Import Controls on Foreign Oil: Comment," *The American Economic Review* 63, no. 5 (Dec., 1973): 1031-1034.

Baldwin, David A. *Economic Statecraft*. Princeton: Princeton University Press, 1985. In Roy Licklider, *Political Power and the Arab Oil Weapon: The Experience of Five Industrial Nations*. Berkeley: University of California Press, 1988.

Binder, David. "Trudeau Tells Ford He Plans Protective Oil Policy," *New York Times*, 5 December 1974.

Blackmore, Ralph. "Rocking the Boat? Report Attracts More Criticism," *New York Times*, 6 February 1959.

Bonomo, Vittorio, and J. Ernest Tanner, "Canadian Sensitivity to Economic Cycles in the United States." *The Review of Economics and Statistics* 54, no. 1 (Feb., 1972): 1-8.

Borders, William. "Canada is Making Oil Policy Shift," *New York Times*, 10 September 1973.

Borders, William. "Canada Plans Voluntary Curbs on Fuel," *New York Times*, 23 November 1973.

Burd, Laurence. "Voluntary Oil Import Cut Asked by Ike," *Chicago Daily Tribune*, 30 July 1957.

Cabinet Task Force on Oil Import Control. *The Oil Import Question: A Report on the Relationship of Oil Imports to the National Security*. Washington, D.C.: U.S. Government Printing Office, 1970.

Canada Department of Energy, Mines and Resources, *An Energy Policy for Canada, Phase 1, Volume 1, Analysis*. Canada Department of Energy, Mines and Resources, 1973.

Carmical, J. H. "Canada's Oil Plan Expected to Work," *New York Times*, 12 February 1961.

Christison, Kathleen. "U.S. Policy and the Palestinians: Bound by a Frame of Reference," *Journal of Palestine Studies* 26, no. 4 (Summer, 1997): 46-59.

Church, Frank. "The Impotence of Oil Companies," *Foreign Policy*, no. 27. (Summer, 1977): 27-51.

Clark, Gerald. "Waking up from the Canadian dream," *New York Times*, 6 June 1976.

Colvey, Douglas. “Canada’s Oil: Flow Mounts in New Leduc Field; Search in Dominion Widens,” *Wall Street Journal*, 8 September 1947.

Cowan, Edward. “Canada’s Aloof Oil Policy,” *New York Time*, 30 September 1973.

Cowan, Edward. “Canada Oil-Export Cuts Seen,” *New York Times*, 2 February 1974.

Cowan, Edward. “U.S.-Canada Oil Talks Gain,” *New York Times*, 17 January 1973.

Crane, David. “Producers want import ban: NEB plans action to keep oil exports inside quota,” *Globe and Mail*, 30 April 1969.

Dam, Kenneth W. “Implementation of Import Quotas: The Case of Oil,” *Journal of Law and Economics* 14, no. 1 (April, 1971): 1-60.

Daniel, Paul, and Richard Shaffner. “Lessons from Bilateral Trade in Energy Resources,” in *Natural Resources in U.S.-Canadian Relations: Volume I The Evolution of Policies and Issues.* eds*.,* Carl E. Beigie and Alfred O. Hero, Jr. Boulder. Colorado: Westview Press, 1980.

Davey, Clark. “Boost Market for Canadian Oil in U.S., Foreign Firms Advised: Borden Commission Asks National Policy,” *Globe and Mail*, 29 August 1959.

Debanne, J. G. “Oil and Canadian Policy,” in *The Energy Question: An International Failure of Policy. Volume 2 North America*. eds., Edward W. Erickson and Leonard Waverman. Toronto: University of Toronto Press, 1974.

Dewitt, David, and John J. Kirton. “Canada-Middle East Relations: The End of Liberal-Internationalism,” in *The Middle East at the Crossroads*. eds., Janice Gross Stein and David B. Dewitt. Oakville, Ont.: Mosaic Press, 1983.

Eisenhower, Dwight D. “Letter from President Eisenhower to Prime Minister Diefenbaker,” 10 March 1959. In *Foreign Relations of the United States, 1958-1960. Western European Integration and Security, Canada Volume VII, Part 1 (1958-1960)*, 753. United States Department of State.

Foster, Peter. *The Blue-Eyed Sheiks: The Canadian Oil Establishment*. Toronto: Collins, 1979.

Frank, Helmut J. “Economic Strategy for Import-Export Controls on Energy Materials,” *Science*, New Series 184, no. 4134 Energy Issue. 19 April 1974, p. 317.

Globe and Mail, “Hickel backs Greene on joint energy plan,” 11 December 1969.

Globe and Mail, “National Gas Policy Urged by Manning,” 4 February 1958.

Globe and Mail, “Petroleum Industry Sells Record Volumes in Oil, Gas,” 2 January 1962.

Globe and Mail, “Prices Reserved,” 2 February 1961.

Globe and Mail, “Reach Targets for Crude Oil As Exports to U.S. Show Rise,” 3 July 1962.

Globe and Mail, “Text of Hees Speech in House,” 2 Febraury 1961.

Globe and Mail, “Washington May Review Policies on Control of Crude Oil Imports,” 2 February 1961.

Globe and Mail, “Worry over oil crisis leads to plunge in stock prices,” 27 November 1973.

Granatstein, J. L., and Robert Bothwell. *Pirouette: Pierre Trudeau and Canadian Foreign Policy*. Toronto: University of Toronto Press, 1990.

Gray, Earle. *Impact of Oil: The Development of Canada’s Oil Resources*. Toronto: The Ryerson Press/Maclean Hunter Limited, 1969.

Gray, Earle. *The Great Canadian Oil Patch*. Toronto: Maclean-Hunter Limited, 1970.

Greenwood, Ted. “Canadian-American Trade in Energy Resources,” *International Organization* 28, no. 4, Canada and the United States: Transnational and Transgovernmental Relations (Autumn, 1974): 689-710.

Gwertzman, Bernard. “Canadian Oil Cut ‘Disappoints’ U.S.,” *New York Times*, 24 November 1974.

Halberstam, David. “Canada Warned on Oil Campaign,” *New York Times*, 3 February 1961.

Halliday, Fred. “Three Concepts of Internationalism,” *International Affairs (Royal Institute of International Affairs 1944-) 64, no. 2 (Spring, 1988): 187-198.*

Ismael, Tareq Y. “Canada and the Middle East,” in *Canada and the Third World.* eds., Lyon, Peyton V. and Tareq Y. Ismael. Toronto: The Macmillan Company of Canada, 1976**.**

Jensen, James E. “Crude Oil: Capacity, Supply Schedule, and Imports Policy,” *Land Economics* 43, no. 4 (Nov., 1967): 384-392.

Jump, G. V., and T. A. Wilson, “Macro-Economic Effects of the Energy Crisis 1974-1975,” *Canadian Public Policy* 1. no. 1 (Winter, 1975): 30-38.

Kunz, Diane B. *Butter and Guns: America's Cold War Economic Diplomacy*. New York: The Free Press, 1997.

Laxer, James. *Canada's Energy Crisis*. Toronto: James Lorimer & Company, Publishers, 1975.

Laxer, James. *Oil and Gas: Ottawa, the Provinces and the Petroleum Industry*. Toronto: James Lorimer & Company, Publishers, 1983.

Licklider, Roy. *Political Power and the Arab Oil Weapon: The Experience of Five Industrial Nations*. Berkeley: University of California Press, 1988.

Lyon, Peyton. "Canada's National Interest and the Middle East," in *Canada and the Arab World*. ed., Tareq Ismael. Edmonton: University of Alberta Press, 1985.

Mace, Gordon, and Gerard Hervouet, "Canada's Third Option: A Complete Failure?" *Canadian Public Policy* 15, no. 4 (December, 1989): 387-404.

Mancke, Richard B. "The Genesis of the U.S. Oil Crisis," in *The Energy Crisis and U.S. Foreign Policy*, eds. Joseph S. Szyliowicz and Bard E. O'Neill. New York: Praeger Publishers, 1975.

McDonald, Ian. "Conservation regulation and the elements of a natural energy policy," in *The Energy Question: An International Failure of Policy: Volume 2 North America*. eds., Edward W. Erickson and Leonard Waverman. Toronto: University of Toronto Press, 1974.

McDougall, Ian. "Canada's Oil and Gas: An 'Eleventh Hour' Option That Must Not Be Ignored," *Canadian Public Policy* 1, no. 1 (Winter, 1975): 47-57.

McKie, James W. "United States and Canadian Energy Policy," in *Oil in the Seventies: Essays on Energy Policy*. eds., Walter Mead, et al. Vancouver: The Fraser Institute, 1977.

Mead, Walter J., and Philip E. Sorensen, "A National Defense Petroleum Reserve Alternative to Oil Import Quotas," *Land Economics* 47, no. 3 (Aug., 1971): 211-224.

Merriam-Webster Online Dictionary. "residual oil," http://www.merriamwebster.com, 2008. 20 March 2008.

Morton, Rogers C. B. "The Nixon Administration Energy Policy," *Annals of the American Academy of Political and Social Science* 410, The Energy Crisis: Reality or Myth (Nov., 1973): 65-74.

Mosier, F. E. Letter to William E. Simon (May 1, 1973) In Box 24, Drawer 12, Folder 17, William E. Simon Papers, 1972-1977, Special Collections, David Bishop Skillman Library, Lafayette College, Easton, PA.

Mr. Simon's Talking Points and Agenda For Meeting with Canadian Energy Minister Macdonald, 1. In Box 24, Drawer 12, Folder 17, William E. Simon Papers, 1972-1977, Special Collections, David Bishop Skillman Library, Lafayette College, Easton, PA.

Munro, Ross H. "Canada's oil export tax is justified, Simon says," *Globe and Mail*, 2 February 1974, p. 1.

National Energy Board, "Why Was the National Energy Board Created?" Government of Canada, National Energy Board. http://www.neb.gc.ca/clf-nsi/rthnb/whwrndrgvrnnc/rhstry-eng.html (accessed January 28, 2008).

New York Times, "Canadians Tell U.S. of Plans to Spur Oil Exports to Midwest," 26 January 1961.

New York Times, "Production Of Oil Climbs in Canada," 24 September 1961.

New York Times, "Sees Borden Report Harmful," 28 January 1959.

New York Times, "Wide Powers Opposed: Urges Energy Board Be Simply 'Advisory,'" 30 January 1959.

Nixon, Richard. Department of State Bulletin LXII (March 30, 1970), 470. As quoted in Stephen Randall. *United States Foreign Oil Policy Since World War I: For Profits and Security. Second Edition* (Montreal and Kingston: McGill-Queen's University Press, 2005), 284.

Nixon, Richard. "Remarks About the Nation's Energy Policy," September 8, 1973. John T. Woolley and Gerhard Peters, *The American Presidency Project* [online]. Santa Barbara, CA: University of California (hosted), Gerhard Peters (database). http://www.presidency.ucsb.edu/ws/?pid=2878).

Nixon, Richard. "Statement About the Report of the Cabinet Task Force on Oil Import Control," February 20, 1970. John T. Woolley and Gerhard Peters, *The American Presidency Project* [online]. (Santa Barbara, CA: University of California (hosted), Gerhard Peters (database). http://www.presidency.ucsb.edu/ws/?pid=2878).

Norman, Sidney. "Alberta Again Takes Centre of Industrial Stage," *Globe and Mail*, 21 June 1947.

Nunn, Jr., Robert G. Letter to William E. Simon (May 14, 1973) In Box 24, Drawer 12, Folder 17, William E. Simon Papers, 1972-1977, Special Collections, David Bishop Skillman Library, Lafayette College, Easton, PA.

Olthuis, John A. “Prerequisites of a Self-Sufficiency Debate,” *Canadian Public Policy* 6, no. 3 (Summer, 1980): 481-488.

Parra, Francisco. *Oil Politics: A Modern History of Petroleum*. London: I.B. Tauris, 2004.

Raciti, Sebastian. “The Oil Import Problem.” *Studies in Industrial Economics* 6. New York: Fordham University Press, 1958.

Randall, Stephen J. *United States Foreign Oil Policy Since World War I: For Profits and Security*. Montreal & Kingston: McGill-Queen’s University Press, 2005.

Reddington, James. *Memorandum For the Record* (March 20, 1973), 5. In Box 24, Drawer 12, Folder 17, William E. Simon Papers, 1972-1977, Special Collections, David Bishop Skillman Library, Lafayette College, Easton, PA.

Ritchie, Ronald S. “Oil Self-Sufficiency for Canada?” *Canadian Public Policy* 6, no. 3 (Summer, 1980): 463-471.

Royal Commission on Energy: Second Report. Government of Canada, 1959.

Science News. “Nixon’s Energy Message Holds Few Surprises,” 103, no. 17 (April 28, 1973): 269.

Scott, Anthony. “Policy for Crude Oil,” *The Canadian Journal of Economics and Political Science* 27, no. 2 (May, 1961): 267-276.

Shaffer, Edward H. *Canada’s Oil and the American Empire*. Edmonton: Hurtig Publishers, 1983.

Shaffer, Edward H. “The Empire of Exxon,” in *The Big Tough Expensive Job: Imperial Oil and the Canadian Economy*. eds., James Laxer and Anne Martin. Canada: Press Porcepic, 1976.

Shaffer, Edward H. *The Oil Import Program of the United States: An Evaluation*. New York: Frederick A. Praeger, Publishers, 1968.

Shultz, George P. Letter to President Richard Nixon, 2 February 1970. In Cabinet Task Force on Oil Import Control. *The Oil Import Question: A Report on the Relationship of Oil Imports to the National Security* (Washington, D.C.: U.S.), ii.

Simon, William E. Letter to Robert G. Nunn, Jr. (May 22, 1973) In Box 24, Drawer 12, Folder 17, William E. Simon Papers, 1972-1977, Special Collections, David Bishop Skillman Library, Lafayette College, Easton, PA.

Snaddon, Andrew. “National Oil Policy Easily Hits Target,” *Globe and Mail*, 6 January 1962.

Spero, Joan Edelman. “Energy Self-Sufficiency and National Security,” *Proceedings of the Academy of Political Science* 31, no. 2, The National Energy Problem (Dec., 1973): 123-136.

Text Of A Statement To The House Committee On National Resources and Public Works On the Export Of Crude Oil By The Hon. Donald S. MacDonald, Minister of Energy, Mines and Resources (Feb., 15, 1973), in Box 24, Drawer 12, Folder 17, William E. Simon Papers, 1972-1977, Special Collections, David Bishop Skillman Library, Lafayette College, Easton, PA.

Trumbull, Robert. “Canada Reducing Oil Going to U.S.,” *New York Times*, 23 November 1974, p. 1.

Wall Street Journal, “Canada Tells Refineries To Boost Output, Use More Domestic Crude,” 2 February 1961.

Wall Street Journal, “Oil Crisis Looms As OPEC Meets in Tehran Today,” 3 February 1972.

Walz, Jay. “Canada Resents U.S. Fuel Policy,” *New York Times*, 31 May 1970, p. 2.

Walz, Jay. “Ottawa Imposes Oil Export Curb,” *New York Times,* 16 February 1973, p. 74.

Waverman, Leonard. “The reluctant bride: Canadian and American energy relations,” in *The Energy Question*, eds., Edward W. Erickson and Leonard Waverman. Toronto: University of Toronto Press, 1974.

Wills, Terrance. “U.S. is pushing continental energy plan to get Alaska gas, oil,” *Globe and Mail*, 10 December 1969, p. B14.