

The Best of Times? Petroleum Politics in Canada

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**Keith Brownsey
Mount Royal College
Calgary, Alberta**

1. Introduction:

It is the best of times for the Canadian oil and gas industry. As natural gas and oil prices have risen over the past two years petroleum companies have seen their profits increase dramatically.¹ Domestic exploration is at unprecedented levels and investment in convention oil and gas production is increasing. It is also the worst of times for Canada's oil and gas industry. Uncertainty, competition, and costs have created a situation of mounting uncertainty. Prices for oil and gas remain unstable, foreign investments are subject to increasing domestic and international scrutiny, aboriginal land claims threaten to disrupt domestic exploration and production, and the Kyoto Protocol to the United Nations Framework Convention on Climate Change² poses extra costs in an increasingly competitive world market for oil. Reserves in the Atlantic Offshore, moreover, have proven to be more elusive while conventional supplies of oil and natural gas are in decline and the massive reserves of the oil sands and heavy oil in western Canada have proven to be far more expensive to recover than oil from the middle east. The present may be profitable but the future holds little promise.

The political-economic situation of uncertainty is framed within the context of competing ideologies and policies of the federal and producing provinces. The most contentious issue within the Canadian oil and gas industry is the *Kyoto Protocol To The United Nations Framework Convention On Climate Change*. The world turned upside down on 2 September 2002 – at least, the world turned upside down in the Canadian oilpatch. After years of benign neglect, the federal government was once again attempting to assert control over the Canadian oil and gas industry. At the Johannesburg Summit on a Sustainable Environment, Prime Minister Jean Chretien announced that Canada would both ratify and implement the *Kyoto Protocol*. The previous year the federal government had loudly announced its approval of the Bush administration's *National Energy Plan* and its intention to secure inexpensive and abundant supplies of oil and gas for the United States. On several occasions Jean Chretien had committed his government to selling Canada's oil and natural gas to the United States in ever increasing quantities. But the September 2002 announcement changed the situation. The federal government was suddenly committed to implementing a vague set of environmental regulations that the Canadian oil and gas industry was convinced would mean its demise in the competitive global marketplace. Federal government efforts to reassert a national federal presence through

¹“Big oil companies gush profit. Prices surge amid war, disrupted supply,” *Globe and Mail* 12 May 2003, B5.

² United Nations, *Kyoto Protocol to the United Nations Framework Convention on Climate Change* (Kyoto: December 1997).

environmental regulation were unwelcome.

Unlike earlier attempts at to influence the direction of energy policy – especially during the period 1973-1985 – the federal government’s motivation was not to secure supply or to share in the wealth of the oil and gas sector. Through ratification of the *Kyoto Protocol* the Liberal government sought to counter the new-sovereignist tendency of the Bush administration³ in an effort to reassert a federal role in domestic oil and gas production. The federal effort to resist the north-south pull of the United States and to reassert at least some influence in the oil and gas sector is an effort to reduce the harmful effects of global warming through the reduction of greenhouse gas emissions (GHGs). But it is also an attempt to maintain Canada’s position in the oilpatch as a supporter of multilateralism in the international community as opposed to the unilateralism of the United States under the presidency of George W. Bush.

While some in the industry view the Kyoto Protocol as simply another in a long history of jurisdictional disputes between the provinces and the federal government over control of natural resources – specifically oil and natural gas – its impact is very different. As an international agreement to reduce GHGs, the Kyoto Protocol is a step in the integration of the oilpatch into the international community. Through the 1980s and 1990s the Canadian oil and gas industry supported free-trade with the United States and was a staunch defender of both the 1988 Canada-U.S. Free Trade Agreement and the 1993 North American Free Trade Agreement. While the industry had fought against the nationalist policies of the Trudeau-era National Energy Program, demanding to be left alone to sell its product at world prices to whomever it wanted, the industry had not foreseen the extension of global commitments beyond the opening and securing of markets. The idea that global commitments could mean anything but the ability to explore, produce, and sell its product was unthinkable. The debate over the implementation of the Kyoto Protocol is not the traditional continentalist-nationalist tension but a potentially new paradigm between the continentalist tendencies of George W. Bush’s new-sovereignty foreign policy and the expanding multilateralism of Jean Chretien’s Liberal government. Although international in scope, the domestic conflict over the Ottawa’s re-entry into oil and gas regulation through the Kyoto Protocol is situated in the context of an historical conflict between the producing provinces and the federal government over control of the key provincial resources. While the conflict over Kyoto may have international implications one of its most immediate effects is in the Canadian oilpatch.

³Michael Hirsh, “Bush and the World,” *Foreign Affairs* 81, no.5 (September/October 2002): 18-43, G. John Ikenberry, “America’s Imperial Ambition,” *Foreign Affairs*, 81, no.5 (September/October 2002): 44-60.

2. The Canadian Oilpatch

Canada is a leading producer of crude oil, bitumen, natural gas, natural gas liquids, sulphur and coal. Canadian oil production in 2001 amounted to 2.76 million per day. This figure accounts for 3.6% per cent of the world's total petroleum production. At the end of 2001 there were 6.6 billion barrels (bb) of proved conventional crude oil reserves and 59.7 trillion cubic feet (tcf) of proved natural gas reserves.⁴ In natural gas reserves Canada has an estimated 733 (tcf) of ultimate resource potential reserves or 13.3 percent of the world's total supply.⁵

With the largest oil sands (crude bitumen) resource in the world, the Alberta and Saskatchewan oil production from raw bitumen – the tar sands and heavy oil – exceeded conventional oil production for the first time in 2001. In 2001, Alberta and Saskatchewan produced 157 million barrels (mb) from the mineable area and 113 (mb) from the in situ area for a total of 271 million barrels. There are approximately 315 (bb) of potential recoverable of conventional oil under anticipated technology and economic conditions. This compares very favourably with Saudi Arabian reserves estimated to be at 261.1 (bb). The total in situ and mineable remaining established reserves are 174 billion barrels. These figures have only recently been considered in totals of world reserves either by the International Energy Agency and are not part of the United States Department of Energy or the BP Amoco annual surveys of world supplies. At the end of 2001 only 2 per cent of established crude bitumen reserves had been produced.

Since the mid 1970s there has been a continual decline in Alberta's conventional reserves of crude oil. With reserves estimated a ultimate potential at 19.7 (bb) and annual production of 893,000 barrels per day in 2000, at current rates of production Alberta's supplies of conventional crude will run out sometime around 2060. Yet, with demand for oil expected to rise in the next decade, Alberta's conventional reserves are likely to deplete long before this date. While conventional oil production will continue to decline, the EUB estimates that production of

⁴ BP Amoco, *BP statistical review of world energy* (London: BP Amoco, June 2002), 4,20.

⁵ National Energy Board, *Canadian Energy Supply and Demand to 2025* (Ottawa: Queen's Printer, 1999), 43. The figures for natural gas are calculated using the *BP statistical review of world energy* total of world wide reserves and dividing by the National Energy Board's estimate of Alberta's ultimate potential gas resources. The resulting estimate of Alberta' share of world reserves is higher than that found in the *BP statistical review*.

bitumen will triple by 2011. This figure would account for as much as 75 per cent of Alberta's total oil supply. The tar sands contain 315 (bb) of recoverable oil. In 2000 production reached 605,000 barrels per day. Approximately \$85(cdn) billion of investment has been announced for the tar sands since 1996. This investment would double current production of oil in Alberta and Saskatchewan.⁶

At the current rate of depletion of 605,000 (bdp) there are approximately 1431 years of production left in the tar sands. Although significant for domestic and North American production, the total ultimate reserves of heavy oil and the tar sands would extent current world consumption patterns less than a decade beyond current estimates. Nevertheless, the future of the western sedimentary basin's oil and gas industry rests with the production of oil from bitumen reserves.

Natural gas reserves in Canada is estimated at 59.7 (tcf). New drilling has not replaced natural gas production since 1982, drilling in 2001 replaced 67 per cent of production from that same year. This compared to 90 per cent replacement in 2000. Natural gas reserve estimates do not include coalbed methane, which the Alberta Energy and Utilities Board believes has the potential to add significantly to Canada's reserves. If this projection is correct gas supply could be revised upward by a considerable amount.

The price of a barrel of oil in Canada is determined in the global market and is measured in United States dollars at the benchmark West Texas intermediate (WTI). While oil prices fluctuated between \$22 - \$33U.S. during 2002 (the price of a barrel of Canadian oil is currently in the range of \$30U.S.), the Organization of Petroleum Exporting Countries set a target of between \$22 and \$28U.S. Worldwide consumption in 2001 was approximately 75.2 million barrels per day.⁷ If no new reserves are added to the overall world supply of conventional crude oil, at current rates of consumption known reserves of conventional oil will be exhausted sometime around 2040. Proved reserves of oil and natural gas are taken to be those quantities of geological information indicates with reasonable certainty can be recovered at current prices with known technology. These figures do not include reserves of non-conventional reserves such as bitumen and heavy oil.

⁶Energy and Utilities Board, *2001 North American Oil Reserves* (Calgary: Alberta Energy and Utilities Board, 2002).

⁷ BP Amoco, *BP statistical review of world energy* (London: BP Amoco, June 2002), 9.

The oil and gas industry are essential to Canada's economic prosperity. Although 2000-2001 was an exception year in terms of the price for oil and gas, non-renewable resources accounted for almost \$20 billion. Royalties from the oil and gas sector rose from \$5.3 billion (Cdn) in 1999 to \$11.9 billion in 2000.⁸

Canada's petroleum production is sufficient for domestic needs but is small by comparison to that of Saudi Arabia, Russia and other major producers. Although Canadian oil and gas are very important in the North American context, they are not major factors in the world petroleum industry. Canada is the second largest foreign supplier of oil to the United States and the largest supplier of natural gas imports. Since the release in May 2001 of the Bush Administration National Energy Policy, American attention has focused on Canadian reserves of oil and gas as a secure and accessible source of energy. Canada provided 12 per cent of U.S. natural gas supplies and approximately 11 per cent of its oil imports in 2000.⁹ As conventional supplies of oil decrease, the tar sands will become more important to energy supply in Canada and the United States. The Bush Administration describes the continued development of this non-conventional source of oil resource as a "pillar of sustained North American energy and economic security."¹⁰

There are approximately 215,000 individuals directly employed in the Canadian petroleum industry. Canada-wide about 231,000 additional jobs have been created to provide goods and services for the industry. This total includes both service sector and manufacturing employment. The Canadian oil and gas industry also contributes to Canada's trade surplus. Although exports of petroleum products – mainly to the United States – are partly offset by crude oil imports into the eastern provinces, Canada still produces more oil and gas than it consumes. Natural gas is the largest component of Canada's energy exports. In 2001 it accounted for 67 per cent of net energy exports or \$24.6 billion (Cdn). Crude oil, natural gas liquids, and petroleum products account for 24 per cent or \$8.7 billion (Cdn) in 2001.¹¹

⁸ Peter Tertzakian and Kara Baynton, *Canadian Oil and Gas Industry Competitiveness and Financial Performance*, Calgary: ARC Financial Corporation, 2002.

⁹ Alberta, *Alberta Oil & Gas* (Edmonton: Government of Alberta, n.d).

¹⁰ National Energy Policy Development Group, *National Energy Policy, Reliable, Affordable, and Environmentally Sound Energy for America's Future* (Washington, D.C.: U.S. Government Printing Office, 2001), x-xi, 8-8.

¹¹ National Energy Board, *Annual Report to Parliament* (Calgary: National Energy Board, 2002), 10.

Non-conventional reserves, the Atlantic Offshore and the North are the focus of energy planning in Canada. Although Canada's conventional reserves of oil and natural gas in the Western Sedimentary basin are in decline and are expected to be depleted within 40 years, heavy oil and the tar sands will allow the oilpatch to maintain and expand current levels of production, investment and employment. Supply projections indicate that conventional crude oil reserves will be substantially depleted by 2025. Since 1994, light crude production has increased in British Columbia and Saskatchewan, remained constant in Manitoba and decline by approximately 4 per cent a year in Alberta. Because Alberta accounts for 75 per cent of total production of light crude the combined effect on the Western Sedimentary basin has been a decrease in production of about 3 per cent a year.

The other major reserves of oil and gas include the Northern Frontier, the Scotian Shelf and the East Coast Frontier. The Northern Frontier includes the Mackenzie/ Beaufort and Arctic Islands. Estimates for natural gas in the Mackenzie/ Beaufort are 9 tcf of discovered resources and 55 tcf of undiscovered potential in natural gas and 161 million cubic metres (m³). The Arctic islands and other areas are estimated to contain 15 tcf of discovered and 90 of undiscovered resources of natural gas and 65 (m³). The Scotian Shelf (Sable Island) has estimated reserves of 3 tcf and discovered reserves of 2 tcf of natural gas and 11 (m³) in oil. The East Coast Frontier of the Grand Banks and Labrador contain 9 tcf of natural gas and 251 (m³) in oil reserves.¹²

The Bush National Energy Policy has stimulated American interest in Alberta's tar sands as a safe and secure source for oil and other petroleum products. The continuing integration of the North American energy markets especially in the oil and gas sector is an important factor in the future viability of Alberta's tar sands and heavy oil development. Simply put, Canada's oil and gas industry depends on increasing production of non-conventional sources of oil and natural gas and access to U.S. markets.

3. A History of the Canadian Oil and Gas Industry

The oil and gas industry likes to think of itself as national in scope. The theme of the Canadian Association of Petroleum Producers (CAPP) 2002 Annual General Meeting was the Canadian Industry. Three premiers attended the meeting/dinner, Stephen Kakfwi of the Northwest Territories, Gordon Campbell of British Columbia, and Ralph Klein of Alberta. Premier John

¹² National Energy Board, *Canadian Energy. Supply and Demand to 2025* (Calgary: National Energy Board, 1999), 62-64.

Hamm of Nova Scotia sent a video message. Each speaker described the oil and gas industry in Canada-wide terms. Nevertheless, the fact that the CAPP meeting was held in Calgary indicates the importance of Calgary and Alberta to the oil and gas industry in Canada. Despite an increase in production in the East Coast Offshore, Saskatchewan, British Columbia, and the north, Alberta still dominates the industry.

The history of Canada's oil and gas industry reveals a struggle between competing levels of government for control of the provincial petroleum industry. Under section 109 of the *Constitution Act 1867*, the provinces have jurisdictional authority over natural resources. But the Constitution also assigns jurisdiction over interprovincial and international trade as well as other powers to the federal government and Ottawa has used its authority to play a significant role in the oilpatch. The best known example of federal involvement in the oil and gas sector was the 1980 National Energy Program. Although Ottawa continued to play a significant role in the oilpatch through its regulatory agency, the National Energy Board, deregulation in the mid 1980s diminished its presence in the oilpatch. The announcement that the Kyoto Protocol will be ratified and implemented, however, signaled a renewed federal presence in the Alberta petroleum industry. Ottawa's efforts to re-regulate the oil and gas industry through an international environmental treaty has caused a federal-provincial debate over jurisdiction of natural resources and the federal government's international treaty obligations. This time, however, Ottawa has pursued a type of horizontal environmental regulation as opposed to the more traditional sectoral regulation. While the effects of this type of rule making authority remain uncertain, it is clear that federal-provincial conflict will continue.¹³

The history of the industry can be divided in four different phases: the semi-colonial period of 1867-1930; the era of multinational domination, 1930-1969; the withdrawal of the multinationals and the Canadianization of the industry, 1969-1985; and a fourth era in the evolution of Canada's oil and natural gas industry beginning with the switch to non-conventional oil recovery, the rise of natural gas as the dominant segment of the industry and the Canada-U.S. Free Trade Agreement which guaranteed a reliable market for Canada's oil and natural gas. The re-entry of the federal government into the provincial oil and gas industry through the Kyoto Protocol has challenged the free-market continentalism that has dominated the Canadian oilpatch

¹³ For a discussion of the differences between sectoral and horizontal regulation and the emerging role of the National Energy Board, see G. Bruce Doern, "Moved Out and Moving On: The National Energy Board as a Reinvented Regulatory Agency," in G. Bruce Doern, Margaret M. Hill, Michael J. Prince, and Richard J. Shultz, *Changing the Rule. Canadian regulatory Regimes and Institutions* (Toronto: University of Toronto Press, 1999), 82-97.

since the mid 1980s and the beginning of a new phase of environmental regulation in the industry.

Several other studies of the oil and gas industry have examined the history of Canada's oil and gas industry in terms of its historical evolution but always by criteria outside the industry. For example, several assessments of Alberta's oil and gas sector have looked at the industry through the perspective of federal-provincial relations,¹⁴ while others have viewed the industry as a battle between competing elites for control of the industry or as an appendage to the federal energy regulatory regime.¹⁵ None have examined the industry as a distinct political-economic entity that both influences and is influenced by indigenous and exogenous factors in a near traditional pattern of staples production inherent in the evolution of Canada.

3.1 The Colonial Period

The first registered oil company in North America was established in Woodstock, Ontario in 1850. Earth oil as petroleum was then called, was used as an illuminate. By the 1870s there were approximately 18 refineries in Ontario. With the rise of the internal combustion engine – especially the decision of the Royal Navy to switch from coal to oil – the demand for petroleum in Canada increased dramatically.

In the early 20th century Canada relied on imported oil for more than 90 percent of its needs. This dependency on imported oil led to a number of discoveries such as Turner Valley southwest of Calgary in 1914 and Norman Wells in the Northwest Territories in 1920. Because of the cost of bringing oil and natural gas from the Canadian west and north to market, Canadian petroleum companies continued to rely on imports.

The early days of Canada's petroleum industry are characterized by federal control and neglect. Under sections 92 and 109 of the *Constitution Act* 1867 provincial governments are given control over natural resources, but between 1869 when Canada assumed control of the Hudson Bay lands in the prairie west and 1930 – 25 years after the creation of Alberta and Saskatchewan and the formalization of Manitoba's provincial boundaries – the federal government retained control over natural resources on the prairie provinces. The introduction of the *Dominion Lands Act* in

¹⁴John Richards and Larry Pratt, *Prairie Capitalism: Power and Influence in the New West* (Toronto: McClelland and Stewart, 1979) and G. Bruce Doern and Glen Toner, *The Politics of Energy. The Development and Implementation of the NEP* (Toronto: Methuen, 1985).

¹⁵Garth Stevenson, *Unfulfilled Union* 3d ed. (Toronto: Gage, 1989).

1872 provided the legal framework for federal control of natural resources in the Northwest Territories and in the provinces of Alberta, Saskatchewan and Manitoba after 1905.¹⁶ After years of lobbying and protest over this semi-colonial status, the prairie provinces were given control over their natural resources in 1930.

While there are numerous stories of native and early European encounters with gas leaks and tar, the first producing well in Alberta was drilled at Waterton in 1902. Producing 300 barrels a day, the well inspired a boom in oil and gas exploration in Southwestern Alberta. Even a small settlement, Oil City, was established near the site. In 1912 a pipeline was built from Bow Island to Calgary to supply natural gas .

In 1914 a well in Turner Valley , southwest of Calgary, provided fuel for Calgary was 1914. Financed by A. W. Dingman, Bill Herron, Senator James Lougheed, and R.B. Bennett, Dingman No.1 set off an oil boom. As many as 500 companies were formed but only about 50 wells were drilled. While World War I put an end to the Turner Valley boom, interest was renewed in the field in 1924 when Royalite No.4 began producing large quantities of natural gas. Other wells were soon drilled and various gas distillates were extracted. Almost all the natural gas, however, was burned off. There are reports that residents of southwest Calgary were able to read by the light generated by this flaring more than fifty kilometers away.¹⁷ But Ottawa's interest in the distant oil fields of Alberta was minimal. There was no regulation of the industry and the oil was depleted in less than four years. The only rule for the dozens of small local producers was to recover as much oil as quickly as possible.

3.2 The Era of Multinational Domination

The rapid depletion of oil and gas reserves continued after jurisdiction over natural resources was transferred to the prairie provinces in 1930. In an attempt to curb the rapacious depletion of known reserves, the United Farmers of Alberta government established the Turner Valley Conservation Board in 1932. Because of fierce opposition from local producers the Turner Valley Board was disbanded within months. When the Turner Valley Royalites No.1 struck oil in

¹⁶ David H. Breen, *Alberta's Petroleum Industry and the Conservation Board* (Edmonton: University of Alberta Press and the Energy resources Conservation Board, 1993), ch.1.

¹⁷ Pratt and Richards, *Prairie Capitalism*, 46-47, and James H. Gray, Lecture, Mount Royal College, 18 March 1996.

1936 it became the largest oilfield in the British Commonwealth. Finally in 1938 at the instigation of Imperial Oil and other major producers the Social Credit government of William Aberhart created the Oil and Gas Conservation Board. Modeled after conservation commissions in Oklahoma and Texas and in keeping with the radical agrarian ideology of the early Social Credit government, the Board was an attempt to end the competition between Imperial Oil and the small local producers. Each side recognized that some form of regulation was necessary if the life of the field was to be expanded and recovery rates and profits were to be maximized.¹⁸ After the death of William Aberhart in 1943, his successor Ernest Manning encouraged multinational companies to develop Alberta's petroleum reserves as quickly as possible. At its peak during World War II, the Turner Valley well produced 30,000 barrels of oil per day. The secure and plentiful supply of gasoline from the field was one reason the Commonwealth air crews trained in the Calgary area during the Second World War. In the post-war period, however, Turner Valley was in decline and the future of Alberta's petroleum sector looked bleak. No new finds of commercial value had been discovered in several years. Imperial Oil, the Canadian subsidiary of Standard Oil of New Jersey, had decided to discontinue its exploration programme in the Western Sedimentary Basin. Then on 13 February, the legendary Imperial drill foreman, Vernon, "Dry Hole," Hunter brought in Leduc No.1. Combined with the establishment of the Oil and Gas Conservation Board, the Leduc created the conditions for the entry of multinational petroleum companies – mainly but not exclusively American, corporations – into Alberta. For the next twenty years, the Social Credit government actively encourage the development of Alberta's oil and gas reserves through the multinationals at the expense of smaller Canadian firms.

The production side of Alberta's oil and gas industry in the 1950s and 1960s was dominated by the Canadian representatives of the "Seven Sisters." The Seven Sisters were the large, vertically integrated, multi-national oil and gas companies. They included Royal Dutch/Shell, British Petroleum, Imperial/Exon, Texaco, Gulf, Standard Oil of California, and Mobil. Four of these firms operated in Canada – Shell, Imperial/Exxon, Gulf and Texaco. These Canadian Sisters were referred to as the "Big Four" multi-nationals in Canada. They dominated the Canadian oil market and had significant interests in the natural gas sector.

At the beginning of the 1950s Canadian oil and gas producers were lobbying the federal government to protect them from low priced foreign imports. The Diefenbaker government appointed Henry Borden to examine Canada's energy situation. The Borden Inquiry discovered a

¹⁸ Breen, *Alberta's Petroleum Industry and the Conservation Board*, 125 and Pratt and Richards, *Prairie Capitalism*, 55-58.

conflict between the multinational oil companies – the so-called seven sisters represented in Canada by Shell, Imperial/Exxon, Gulf and Texaco – and local producers. The Canadian subsidiaries of the big four were the biggest producers of Canadian oil and gas, but they had little interest in shipping Alberta crude to central and eastern Canada. Through their multi-national parents, the big four provided their refineries in the Montreal area with cheap imported oil. There was very little incentive to sell expensive Alberta oil to consumers in Ontario and Quebec.

Alberta producers want secure markets. Because various restrictions kept them out of the United States, their alternative was central and eastern Canada. The local companies wanted a more efficient pipeline than the existing Interprovincial line to Ontario and they wanted a tariff on imported oil. What the Alberta producers got was a compromise. The federal government erected an oil barrier at the Ottawa Valley line. Markets west of the line were reserved for Alberta oil while those east of Ottawa river would continue to rely on inexpensive imported oil and gas. The National Oil Policy was introduced in 1960 at the same time as the Organization of Petroleum Exporting Countries (OPEC) was established in order to prevent the seven sisters from driving oil and gas prices any lower.¹⁹

Other developments were occurring at the same time in Canada's oil and gas industry in the 1950s and 1960s. The major issue of the multinational period was the transportation of oil and gas to markets. While geology blessed Alberta with petroleum resources, geography cursed it. Alberta is far from markets for its products. This has been reflected in debates over freight rates but this geographical fact is also represented in debates over petroleum pipelines. Toronto is 3,400km to the east, there are no large American cities within 1,000km of Calgary. At 1,000km Vancouver is the nearest metropolitan centre to Alberta. As a result of its isolation the Alberta and Northern oil and gas sector must spend considerable sums shipping its product to markets.

By the mid 1950s it was determined that Alberta's reserves of natural gas were sufficient to supply markets on the west coast and in central Canada. Three major pipelines were constructed in this period to ship these reserves to market. The largest is Trans Canada Pipelines (TCPL). Created by the federal government in the late 1950s, TCPL was designed to bring Alberta gas to markets in Central Canada. Although subsidized and partially constructed by the federal government, TCPL was a privately held corporation. Incorporation of TCPL indicated an interest by the federal government in Alberta's stock of natural gas and oil. This was the first major

¹⁹ Peter Foster, *The Blue-Eyed Sheiks. The Canadian Oil Establishment* (Don Mills: Collins Publishers, 1979), 27-31.

federal incursion into the oilpatch since it had ceded control over natural resources to the prairie provinces in 1930.

The Alberta Gas Trunk Line (AGTL) was incorporated by the province in 1954 to act as a common carrier for natural gas. Its purpose was to stabilize the price of natural gas and assure consumers of voting shares in the new provincial enterprise were distributed among the Alberta's utilities, the gas processors, export interests, and the government, while non-voting shares were made available to Alberta residents. Although AGTL was funded by the province control was vested in the hands of the natural gas processors and the utilities. While the public-private partnership reflected Ernest Manning's aversion to Crown corporations and his faith in the private sector, it allowed the province a window into the industry as well as an advantage over the federal government's renewed interest in Alberta's petroleum reserves.²⁰

The third major pipeline built in the 1950s was Frank McMahon's Westcoast Transmission. Designed to transport natural gas to the pacific coast of British Columbia and eventually to U.S. markets, the Westcoast project met with federal, provincial and American resistance. The Liberal government of Louis St. Laurent insisted on a minimum five year reserve of supply and that Canadian demands must be met before exports would be permitted. For its part, the Alberta Conservation Board had granted McMahon a permit to export natural gas but with the provision that at the end of five years the exports would be reviewed. American producers argued before the U.S. Federal Power Commission (FPC) that this five-year review did not constitute security of supply set out in the contract McMahon had signed with Northwest U.S. gas companies. Under pressure from McMahon, the provincial cabinet refused to change the regulations requiring a five year review of the contract. The FPC ruled in favour of an American company, Pacific Northwest. The issue, however, was still not resolved. Although Pacific Northwest had U.S. regulatory approval it did not have sufficient gas to supply its market. On the other hand, Westcoast had the gas and regulatory approval from both the provincial and federal governments but lacked entry into its largest market the American Pacific Northwest. McMahon needed an American partner to circumvent U.S. import controls on both oil and gas. Eventually an agreement was reached between Westcoast and Pacific Northwest where the Canadian company would deliver Alberta gas to the British Columbia-Washington State boundary. Pacific

²⁰ Breen, *Alberta's Petroleum Industry and the Conservation Board*, 403-407 and Francois Bregha, *Bob Blair's Pipeline. The Business and Politics of Northern Energy Development Projects*, (Toronto: James Lorimer & Company, 1979).

Northwest “would buy the gas at the border for distribution through the region.”²¹ In November 1995 American regulatory approval was given to the scheme.

By the late 1960s conventional reserves were declining. The Big Four were looking to areas outside the province for new reserves. With the enormous find of Prudhoe on the Alaskan north slope in 1968, many in Alberta’s oilpatch believed Canada’s oil and gas future would be found in the Arctic region – the Mackenzie Delta, the Beaufort Sea and the Arctic Islands. The oil and gas companies began to focus their resources on these frontier regions. As a consequence, wildcat drilling in Alberta – exploration away from known reserves – dropped by 40 percent between 1969-71. In the same period, Alberta’s share of exploration dropped from three quarters of the Canadian total to just over half. By the early 1970s the Big Four had pulled out of Alberta. They had come to the conclusion that there were no more large deposits of oil or gas – what the industry calls elephants – to be found in Alberta. Their focus was now on the frontier areas of the Arctic and overseas.

3.3 The Nationalization of Oil and Gas

In the late 1960s and early 1970s a number of circumstances combined to alter the structure of Canada’s oil and gas industry. After the Big Four had decided to abandon the province for other locations, the exploration side of the business was left to the smaller multi-nationals as well as to a number of emerging Canadian-owned companies. Although there had always been Canadian companies in the Alberta oilpatch, their numbers had size had been small. As the 1960s ended 98 per cent of the provincial oil and gas industry was foreign – mainly American – controlled. This was the result of several factors. The first was that the foreign firms had the capital and the expertise to develop the oil and gas reserves found in Canada. Second, the Alberta Social Credit government actively encouraged foreign multinationals. Not only did Manning believe that the multi-nationals provided the easiest and quickest way to develop the province’s petroleum reserves, there was still a residual populist resentment against central Canada within the ruling Social Credit party. As a result, Manning actively discouraged Canadian corporations based in Ontario and Quebec while encouraging foreign owned capital to invest. The result had been a domination of the industry by a few large multi-national oil and gas companies. There was little room left for small Canadian firms to get a start in the industry. That is, until the multi-nationals began to pull back their operations in the 1960s.

²¹ Breen, *Alberta’s Petroleum Industry and the Conservation Board*, 391.

Two Alberta-based oil and gas companies came to prominence in the late 1960s and early 1970s. Alberta Gas Trunk Line and Dome were the flagship Canadian oil and gas companies of an emerging domestic industry. They reflected a shift in policies both at the provincial and federal level that emphasized security supplies of oil and gas and a Canadian controlled industry. As a private-public corporation created by the province, AGTL, under the leadership of Bob Blair, increased its role in the pipeline business and became an active participant in the exploration and production side of the oil and gas industry. Guided by Jack Gallagher and Robert Wright, Dome began as a small start-up dependent on the majors for its survival to play a significant role in frontier exploration and in conventional oil and gas production in Alberta. Because of its interest in the Beaufort Sea, Dome's agenda complimented the federal government's efforts to increase domestic supplies of oil and gas while at the same time increasing Canadian control of the industry.

The withdrawal of the multinational oil and gas companies from Alberta in the late 1960s paved the way for a political change in Alberta. In August 1971 the Progressive Conservative led by Peter Lougheed defeated the 36-year-old Social Credit government. One of the reasons for the Social Credit defeat was concern that Alberta was not receiving its fair share of oil and gas revenues. Manning and his successor Harry Strom had allowed the multinationals to exploit reserves as quickly as possible for a maximum return. The Social Credit government placed minimum controls on the multinationals. Royalty rates were reviewed only once every ten year, the multi-nationals were consulted on any change to government policy, and Canadian investment was actively discouraged. Manning saw his role as providing a stable political environment for the foreign-based industry. Lougheed, on the other hand, did not trust the big oil companies. He understood that the interests of the multinationals did not necessarily coincide with those of the province. While he was willing to offer incentives to smaller Canadian companies, he did not advocate a policy of rapid depletion of conventional reserves by the large foreign-based oil and gas companies. Lougheed's campaign focused on the problem of what do when the oil and gas ran out.²²

After negotiating a royalty increase on oil and price increases for natural gas, Lougheed asserted Alberta's position as the centre of Canada's petroleum industry. In 1972, the federal government began to exhibit a new interest in western Canadian petroleum. The price of a barrel of oil increased \$.40U.S. in 1972 from \$3U.S. Although this was an insignificant increase from a low price on current prices, it was enough to startle the federal Liberal government of Pierre Trudeau. With world prices for oil and natural gas increasing, the federal government realized that it could

²² Foster, *The Blue-Eyed Sheiks*, 38-41.

keep down the price of Alberta crude much easier than it could imported oil from South America and the Middle East. Lougheed resisted any incursion by the federal government into what he argued was exclusive provincial jurisdiction over natural resources.

The debate between the Alberta and federal governments over energy pricing had a sudden shift in October 1973 with OPEC oil embargo. A response to Western, especially United States, support for Israel in the Yom Kippur War, OPEC cut-off shipments of crude oil to the West. Suddenly the price of a barrel of crude oil shot up from approximately \$3U.S. per barrel WTI to over \$12 per barrel WTI. The OPEC oil shock of 1973 sent the multi-nationals scrambling to find secure supplies of crude and natural gas. Once obvious location was Alberta. The price jump in oil was an incentive for the return of the multinationals to the Alberta oilpatch.

In 1974 the federal government, feeling it needed a better window on the oil and gas sector, and inspired by Canadian nationalists, created a state-owned oil company, Petro-Canada. Petro-Can was resented by both oilpatch veterans and the provincial government. The oilpatch had a self-image of rugged individualism and any state incursion was resented as an unnecessary impediment on their God-given right to drill, produce and market oil and natural gas.²³ On the other hand, Petro-Canada was designed as a window for the federal government into the petroleum industry. Embarrassed by statements made by the minister of natural resources Joe Greene, in the House of Commons in June 1971 had stated that Canada had a 923 year supply of oil and 392 for gas²⁴ and caught by surprise by the OPEC embargo in October 1973, the federal government believed it necessary to create a national oil and gas company that would promote a variety of national goals. These goals included increased domestic ownership of the industry, development of reserves not located in the western provinces, that is to say, the promotion of the Canada Lands, better information about the petroleum industry, security of supply, decrease dependence on the large multi-national oil corporations, especially the Big Four, and increase revenues flowing to the federal treasury from the oil and gas sector.²⁵ These goals were very

²³ J.D. House, *The Last of the Free Enterprisers. The Oilmen of Calgary* (Toronto: Macmillan of Canada, 1980).

²⁴ Foster, *The Blue-Eyed Sheiks*, 51.

²⁵ There are several major examinations of Petro-Canada. A very good recent scholarly treatment of this statist impulse is, John Erik Fossum, *Oil, the State, and Federalism. The Rise and Demise of Petro-Canada as a Statist Impulse* (Toronto: University of Toronto Press, 1997).

similar to those of state-owned corporations in other countries but they were controversial in Canada.²⁶

Federal incursions into the oil and gas sector were resented by the Alberta government. Lougheed had committed his government to economic diversification through increased oil and gas revenues. Any attempt to decrease these revenues or interfere in any way with Alberta's efforts to create a viable post-oil and gas economy were strongly resented. As a result, Canadian and Alberta energy policy lack a coherence found in other jurisdiction. Instead, of working toward maximization of revenues and recovery, the two levels of government were in a continuous conflict over the direction and control of the oil and gas industry.²⁷

A second oil shock came with the 1979 Iranian Revolution. Although the overthrow of the Shah of Iran was widely welcomed by the Iranian people, the revolution was soon overtaken by Islamist fundamentalist who hatred of the West was profound. The Iranian revolutionaries simply stopped oil exports to the west. After the seizure of the United States Embassy and the taking of American hostages by state-sponsored protestors in Tehran in 1979, the U.S. imposed economic sanctions, froze Iranian assets in the United States, and prohibited the import of Iranian oil into the U.S. Oil and gas prices increased dramatically rising from just under \$20U.S. a barrel to \$40U.S. There was the expectation that petroleum prices would go much higher.

The response of the federal government to the shock was to increase state involvement in the provision of energy. As part of a National Energy Program (NEP), the federal government offered incentives for drilling in the Canada lands, increased export taxes on oil and gas, and offered a variety of "off-oil" measures in an effort to conserve domestic oil and gas reserves while decreasing dependence on foreign energy supplies. The goals of the NEP were straightforward: the federal government wanted to alleviate the shock of recent dramatic increase in the cost of oil and natural gas by keeping prices below world levels, increase its share of revenues from the petroleum industry, continue to promote the Canadianization of the sector, and to have a so-called national voice in energy affairs. Although a number of domestic companies benefitted from the federal initiatives, the NEP was strongly resented by the oilpatch and the oil producing provinces.

²⁶ Olav Fjell, President of the Norwegian state oil company, Statoil, news conference, World Petroleum Congress, Calgary, 14 June 2000.

²⁷ John Erik Fossum, *Oil, the State, and Federalism*, 10.

A long history of disputes between Alberta and the federal government set the context for the debate over the National Energy Program. The distrust between the two levels of government was profound. Premier Lougheed went on the air and threatened a series of production reductions if Alberta's demands for a dismantling of the NEP were not met. The federal-provincial crisis was exacerbated by concurrent negotiations over a federal proposal to amend the Canadian constitution and a dramatic and sudden decrease in the price of a barrel of oil. While investment in the Alberta oilpatch may have declined as a result of artificially lower prices mandated by the NEP, the falling price of oil was certainly a key factor in a major downturn in exploration and production in Alberta.

After a series of negotiations between the producing provinces and the federal government an agreement was reached concerning pricing and taxation. As well, Alberta and the other producing provinces were able to secure an amendment to the existing constitutional division of powers which strengthened provincial control over natural resources. But the constitutional amendments and negotiations with the federal government maintained the basic structure of the NEP.

During the NEP exploration and drilling in the Northwest Territories and the Atlantic Offshore met with some success. There were discoveries of natural gas in the Beaufort Sea and in the Arctic Islands. But high development costs and the distance from markets combined with concerns over Aboriginal land claims and the effect of development on the indigenous population have delayed exploitation of the northern reserves.

Exploration activity in the Mackenzie Delta and the Beaufort Sea resumed in the late 1990s. Extensive geophysical and well-drilling programs have been in place since 2000. As well, exploration and production activities began in the 2001 in the southern Northwest Territories near Fort Laird. The economic feasibility of these Northern projects is assured by an expanding pipeline system in northern Alberta and a projected shortage of natural gas in the North American markets.

Several producers groups have announced feasibility studies on a major natural gas pipeline from the Mackenzie Delta. Unlike the earlier attempt to construct a northern pipeline this proposal has the support of the Northwest territories government and the Aboriginal community. A consortium of oil and gas companies with interests in the Alaskan north slope have announced a proposal to bring natural gas to North American markets through a pipeline along the arctic coast – the North Slope – of Alaska and a third group has proposed a natural gas pipeline along the

Alaska Highway. The Bush administration and the U.S. Congress have proposed loan guarantees and other non-cash measure worth \$20(US) billion as incentives for the construction of Arctic shore and the Alaska Highway lines.²⁸

With the approval of the federal government, the Atlantic Offshore began with the first deep well off Prince Edward Island in 1943. Mobil was given a licence to drill off Sable Island in 1959 and began seismic testing in 1960. Natural gas and oil were found in the Nova Scotia Offshore in the 1970s. These finds included the Panuke-Cohasset fields which were put into production in 1992 and the Sable Island natural gas field came into production in 1999. In the late 1970s oil was discovered in the Newfoundland Offshore in 1979 in the Hibernia field and in 1984 in the Terra Nova field. Hibernia began producing large volumes of oil in 1997 while Terra Nova started producing commercial quantities of oil in 2000. The Atlantic Offshore has estimated reserves of 159,634 mm³ of crude oil and 67,083 million cubic metres of natural gas.²⁹

During the 1970s and 1980s the Trudeau government faced pressure to transfer the Offshore to the provinces. The federal government compromised by offering to pool revenues until the provinces no longer qualified for equalization payments. In 1982 Nova Scotia agreed to this arrangement. Newfoundland held out for better terms and challenged federal Offshore jurisdiction in court. References were made to both the Newfoundland Court of Appeal and the Supreme Court. The Supreme Court ruled that Newfoundland had no right to exploit the Offshore resources or to make laws affecting them.

After years of negotiations between the federal government and the Atlantic provinces, the Mulroney government in Ottawa signed the Atlantic Accord in 1985. The Atlantic Accord allowed Newfoundland and the Maritime provinces responsibility in the development of the Offshore and a share in the revenues. In 1988 two joint federal provincial administrative mechanisms were established for the management of the Atlantic Offshore – the Canada-Newfoundland-Canada Offshore Petroleum Board and the Nova Scotia - Canada Offshore Petroleum Board. While these two administrative tribunals have been successful in promoting the development and regulation of the Atlantic Offshore, they have not been as successful in settling disputes between the Atlantic producing provinces and the federal government or

²⁸ Patrick Brethour, “Deal on pipeline near for Mackenzie: Ottawa,” *Globe and Mail*, 26 April 2003, B7 and Scott Hagggett, “Nault won’t oppose U.S. subsidies for Alaska pipeline,” *Calgary Herald*, 22 May 2003, D2.

²⁹ Canadian Association of Petroleum Producers, *Annual Survey 2000*.

between the provinces. There has been, for example, an Offshore boundary dispute between Nova Scotia and Newfoundland as well as numerous complaints that the provinces have been subject to unfair penalties in their revenue sharing agreements with the federal government. Under existing royalty sharing agreements, the federal government has deducted equalization payments from the two provinces in proportion to the Offshore petroleum royalties collected. Through its "Campaign for Fairness," Nova Scotia has waged a consistent battle with the federal government to have petroleum royalties excluded from the calculation of equalization payments. So far, the federal government has resisted Nova Scotia's request.

3.4 The Era of Benign Neglect

Two events in the mid-1980s greatly affected the Canadian oil and gas industry. First, the election of a Progressive Conservative government under the leadership of Brian Mulroney in September 1984 altered the political situation. With a strong western and Atlantic contingent in the caucus and cabinet, the new Mulroney government was sympathetic to the demands of the western and Atlantic oil and gas producing provinces to dismantle the NEP and to allow some provincial control over the Offshore to Newfoundland and Nova Scotia. While retaining ownership of the Offshore, the federal government reached an agreement with Newfoundland in 1985 over Hibernia and other Offshore fields while the Canada-Newfoundland Offshore Petroleum Board was established in 1988 to administer the Hibernia and Terra Nova fields.

Although the federal government had refused to negotiate constitutional amendments that would cede Offshore resources to the provinces during the 1980-82 constitutional negotiations, a compromise was reached in 1982 with Nova Scotia that gave the province a stream of revenue from the Offshore without relinquishing federal control. In 1988 the Canada-Nova Scotia Offshore Petroleum Board was established.

In April 1985 the Western Accord was signed which effectively dismantled the National Energy Program. But the end of the NEP failed to revive the Canadian oil and gas industry. World energy prices collapsed in 1986. Oil sold for approximately \$12U.S. per barrel and natural gas fell to \$1U.S.(mcf). In the Alberta oilpatch thousands of workers were laid-off, northern frontier exploration was halted and the Atlantic Offshore was curtailed. The federal government's response to the decline in oil and gas prices was one of benign neglect. During the negotiations to end the NEP the Lougheed government had contemplated an arrangement where the federal government would guarantee a minimum price for both oil and gas. This proposal was taken off

the table by Alberta in favour of establishing a market price for oil and gas.³⁰ After Lougheed's retirement in the fall of 1985, the new Progressive Conservative premier, Donald Getty – a former provincial minister of energy and intergovernmental relations in the Lougheed governments of 1971-79 as well as an executive in the oilpatch – faced a major crisis. Getty had to manage a very sudden and dramatic downturn in the price of oil and gas. Provincial revenues shrunk and Alberta faced a series of budget deficits. Moreover, thousands of workers were dismissed as oil and gas companies tried to manage with less revenues in a very competitive market. Investment in Alberta's oil and gas industry had come to a halt.

While the Western Accord ended the federal government's active involvement in the petroleum industry, the Foreign Investment Review Agency (FIRA) – a product of the 1972-74 Trudeau government's efforts to protect domestic industry from foreign control – was dismantled and Canada was declared “open for business.” The questions of Canadian ownership and maintaining security of supply were no longer a concern of federal energy policy. Instead, Ottawa relied on low prices and the unfettered market to supply Canadian demand for inexpensive oil and gas. With the signing of the Canada-U.S. Free Trade Agreement (FTA) in 1988 and its implementation in 1989, restrictions were put in place on state intervention in the oil and gas sector. Simply put, under the terms of the FTA Canada could no longer give preference to Canadians. U.S. markets and businesses were to be treated the same as domestic consumers and companies. The subsidized price and other benefits given to Canadian producers and consumers through the NEP ended. This arrangement fit the ideological predisposition of the Mulroney government in Ottawa and the producing provinces.

The Alberta oilpatch was undergoing another type of change. The multinational oil and gas corporations who had returned to Alberta in the early 1970s after the oil shock of 1973-74, began to shift their focus in the mid 1980s from conventional petroleum reserves to the tar sands and heavy oil deposits in northern and central Alberta. Royal Dutch/Shell, Mobil, and several other multinationals announced huge investments in production capacity of non-conventional reserves of oil.

In the fall of 1992 Alberta underwent a political transformation. Faced with a series of budget deficits and an economic slowdown due primarily to low oil and gas prices, the Getty government had become increasingly unpopular. One poll in the fall of 1992 placed Progressive Conservative support at 18% of decided voters. On a trip through New England in September 1992, Getty decided to leave political life. In the bitter leadership race that followed the

³⁰ Peter Lougheed, lecture, Queen's University, Kingston, Ontario, March 1987.

Lougheed-Getty era came to an end with the selection of former Calgary mayor and provincial minister of the environment, Ralph Klein as Progressive Conservative leader and premier. It was a historic shift.

Klein's focus as premier was the elimination of the provincial budget deficit and debt. In a series of spending decreases through the mid-1990s the Conservative government decreased provincial spending by an average of 20 percent through all departments. Despite the massive reductions in provincial spending, the provincial government gave the oil and gas industry a royalty holiday of \$250 million in late 1992. The new federal Liberal government's ratification of the North American Free Trade Agreement (NAFTA) in November 1993, further restricted the ability of the federal and provincial governments to determine pricing and secure the supply of oil and gas for domestic markets.

The oil and gas industry in Canada was now integrated into the North American markets. The post-NAFTA era in the Canadian petroleum industry reflected fluctuations in the price of oil and natural gas. Attempts to insulate the Canadian industry from the vagaries of market forces had been abandoned. Federal government price controls had been removed from oil pricing and provincial efforts to diversify the economy through various market interventions had come to an end. Always subject to the boom-and-bust cycle, the [producing provinces and territories were now even more dependent on international markets. When prices for oil and gas rose, the provincial and territorial economies surged; when prices declined, oil and gas companies cut back on exploration and production with provincial and territorial revenues following the downward trend. In Alberta, the Klein government continued the policy of royalty holidays and various tax expenditures to encourage further exploration and production especially in the tar sands. Designed to encourage exploration and production, the royalty structure in the Atlantic Offshore was very generous to the various petroleum companies. Nevertheless, the provincial and federal governments had removed any impediments to the full integration of Canada's oil and gas industry into the North American and world markets.

4. The New NEP and Kyoto

In October 1997, the Government of Canada signed a Kyoto Protocol. The Kyoto Accord mandates the reduction of greenhouse gas emissions (GHGs) to below levels found in 1990. GHGs are primarily carbon dioxide emissions (CO₂), methane and nitrous oxide. These gases are generally agreed to be a major contributor to global warming. Greenhouse gases are caused by the burning of carbon based fuels such as oil, natural gas, and coal. Once it is ratified the Kyoto Protocol binds Canada to a 6 per cent reduction of 1990 emissions between 2008-12. The Protocol "stipulates that progress in achieving this reduction commitment will be measured

through the use of a set of internationally agreed-to emissions and removals inventory methodologies and reporting guidelines.”³¹ Kyoto enters into force when 55 signatories to the Convention accounting for a total of 55 per cent of GHGs have agreed to ratification. In November 2002 Parliament ratified the Protocol. The implementation strategy was released the same month.³²

Canadian greenhouse gases emitted to the atmosphere were approximately 726 megatonnes carbon dioxide equivalent (Mt) in 2000. This was a 19.6 per cent increase over 1990 totals. The electricity and petroleum industries contributed 264 Mt or 36 per cent of total national emissions in 2000. . “electricity related emissions accounted for 48 per cent and petroleum related emissions for 52 per cent of greenhouse gases in 2000. Since 1990 emissions have grown almost 38 per cent in the electricity and petroleum sector. The petroleum industries’ emissions increased 40 per cent in this period. The rise was due largely to increased production of oil and gas for export. At 179 (Mt) the transportation sector accounted for 24.7 per cent of total emissions in 2000. Emission increased 23 per cent between 1990 and 2000. On-road transportation contributed 72.7 per cent of GHGs in this sector. Almost all emission growth in the transportation sector can be attributed to sport utility vehicles and minivans. The other sectors of the economy – industry, residential, commercial and institutional and agriculture -- increased their emissions by 1 to 3 per cent. These low increases were in contrast to growth in Gross Domestic Product of 33 per cent during the same period.

Alberta’s energy industry contributed 223,000 kilo tonnes of GHG emissions in 2000. This was 30.7 per cent of the national total. Ontario, on the other hand, with three times the population of Alberta contributed 207 (Mt) or 29 per cent of Canadian GHGs. It is clear that any effort to reduce GHGs would have a major impact on Alberta and specifically on the province’s oil and gas industry and the urban cowboys of Calgary who insist on driving oversized urban assault vehicles commonly know as SUVs.

The Kyoto Protocol is the most significant issue facing Canada’s oil and gas industry. Through the Alberta, Newfoundland, and Nova Scotia governments and several industry organizations,

³¹ Ken Olsen et al. *Canada’s Greenhouse Gas Inventory 1990-2000* (Ottawa: Environment Canada, 2002), iii.

³² Canada, *Climate Change Plan for Canada. Climate Change. Achieving Our Commitments Together* (Ottawa: n.d.)

the Canadian oil and gas industry has expressed its dislike of the agreement.³³ In September 2002, the Alberta government launched a \$1.5 million advertising campaign designed to weaken public support for the Kyoto Protocol. New polling data indicate that the apocalyptic provincial advertising with its warning that thousands of jobs may be lost and living standards lowered has been successful. A majority of Albertans now oppose the ratification and implementation of the Kyoto Protocol.³⁴

The producing provinces, the various industry groups and the federal government had all agreed that Kyoto could not be implemented in its present form. Moreover, the U.S. administration of George W. Bush had stated it would not ratify or implement the Protocol. Any effort to require Canadian industry to reduce greenhouse gas emissions without the active participation of the United States would put Canada at a comparative economic disadvantage with its largest trading partner. The domestic oil and gas industry believed it would suffer a disproportionate burden of the Kyoto effort to reduce greenhouse gases (GHGs). Alberta was particularly concerned with the possible effects of the Kyoto Protocol. While Alberta's conventional production of oil and natural gas would be affected by the implementation of the Kyoto Protocol, the non-conventional oil reserves found in the tar sands and in heavy oil would suffer the greatest blow. The costs associated with reducing GHGs would fall disproportionately on the non-conventional supplies of oil raising recovery costs by as much as \$6US per barrel based on the industry standard of West Texas Intermediate (WTI) oil from the current \$18US. With Middle Eastern oil averaging a recovery cost of \$6 per barrel WTI, the costs of Kyoto would price Alberta non-conventional reserves out of the North American and world markets. Billions of dollars in planned investment could be lost and Alberta's future economic prosperity threatened. In Alberta's oilpatch comparisons with widely unpopular National Energy Program of 1980 abound.

A few weeks before Prime Minister Chretien's announcement in Johannesburg that Canada would ratify and implement the Kyoto protocol, the situation in Canada's oil and gas sector had been very different. In May 2001, the Bush administration had released its *National Energy Policy*. The Policy – written by the National Energy Policy Advisory Group and chaired by the American Vice-President and former Chief Executive Officer of Haliburton Corp. one of the largest oil and gas field service firms in the world, Dick Cheney – called for secure supplies of oil and gas for the United States through such mechanisms as enhanced recovery, increasing

³³ Stephen Rodrigues, interview with author, Calgary, 12 September 2002.

³⁴ Steve Chase and Jill Mahoney, "Albertans turn against Kyoto in poll," *Globe and Mail*, 8 October 2002, 1.

domestic supplies and global alliances.³⁵ Canada's deregulated energy sector has become the United States largest energy trading partner and leading supplier of natural gas, oil and electricity. In 2000 Canada supplied 14 percent of U.S. energy needs through an integrated network of pipelines and electricity lines. Canadian energy supplies – especially natural gas and oil – were not described as a foreign source of energy but as part of the U.S. domestic supply. American recognition of Canada's importance as a source of energy was seen as part of the evolution of an integrated North American energy sector.

Even the federal government seemed to support the Canadian oil and gas sector. After years of lingering distrust from the 1980 national Energy Program, Ottawa had made an effort to reassure the Canadian producers that they welcomed the Bush National Energy Policy and that they would do all it could to sell Canadian oil and gas in the United States.³⁶ Combined with a price for a barrel of oil of over \$25(US) WTI and gas hovering around the \$6 million cubic feet (MCF) the prospects for further investment, increased sales and expanded markets looked very good.

On 2 September 2002 all this changed. While the Iraqi war had propelled oil to the \$30 per barrel mark and natural gas moved to over \$6 (mcf), there was a general recognition within the Canadian oil and gas industry that these prices could not be sustained. The downturn in energy demand following the 11 September 2001 terrorist attacks on New York and Washington had depressed prices to below \$20 per barrel and gas to well under \$3(mcf). The prospect of taxes to reduce CO2 emissions of as much as \$50U.S. a ton threatened to drive investment out of heavy oil, the oil sands, the Offshore and north. Moreover, the prospect of inexpensive Iraqi oil flooding world markets added to uncertainty. The situation was exacerbated by the vague nature of the federal government's commitment to Kyoto. The oil and gas industry and the Alberta government lashed out at the federal Liberals for their lack of clarity surrounding the Kyoto commitments. While the Prime Minister committed Canada to meeting the standards set by the Kyoto Protocol, the federal government waited until November to offer a plan on how these targets to reduce GHGs were to be met.

There have been few studies on the impact of the Kyoto Protocol on the Canadian oil and gas sector. Because Ottawa has provided only a brief outline of its proposal to cut GHG emissions, the industry, environmental groups, and the public are left wondering exactly what effect the

³⁵ National Energy Policy Development Group, *National Energy Policy*.

³⁶ Remarks by the Rt. Hon. Jean Chretien, at the Prime Minister's Dinner, Calgary, 18 June 2001.

implementation of Kyoto will have. Combined with the continentalization of North American markets, the uncertainty created by the Kyoto Protocols may have a deleterious effect on investment in the Canadian oil and gas industry

Moreover, the ratification of the Kyoto Protocol signals a re-regulation of the oil and gas industry by the Federal government. Unlike the 1980 National Energy Plan, Ottawa is not seeking to Canadianize the industry, secure oil and gas for domestic consumption and industrial advantage, or even share in the profits generated by the oilpatch. Instead, the federal government has begun a process of horizontal environmental regulation – regulatory stacking – that combined with U.S. efforts to secure a safe and reliable source of oil and natural gas has left Canada's oil and gas industry in a very uncertain situation. The oil and gas sector is once again caught in the classic tug-of-war between the multilateralist or centralizing policies of the federal government and the continentalizing impulses of the United States under the auspices of Bush's new-sovereignty unilateralism. It is within this uneasy balance between the two competing forces that the Canadian petroleum industry finds itself.

5. Conclusions

The Canadian oil and gas industry is in a period of change. But what kind of change has not been determined. The industry is pulled between two competing and contradictory priorities. On one side is the Bush Administration's efforts to secure a safe and plentiful supply of inexpensive energy. The continentalist initiative is supported by the provincial governments of the producing provinces and the oil and gas industry. Until recently the federal Liberal government of Jean Chretien had pledged its support to help the oil and gas industry sell its oil and natural gas in the American market. But all this changed when the Prime Minister announced that Canada would ratify and implement the Kyoto Protocol on reducing greenhouse gas emissions. The multilateralist inclinations of the Chretien government and its support for the Kyoto Protocol on reducing greenhouse gases have created a classic nationalist-continentalist debate in Canada. Abandoning its interventionist policies of the 1970s and 1980s, Ottawa has replaced these nationalist inclinations with an international agreement to reduce global warming. The multilateralism of federal environmental policy stands in contrast to the efforts of the U.S. both to secure reliable sources of natural gas and oil and its refusal to ratify the Kyoto Protocol. The oil and gas industry has evolved in four distinct historical phases each identified by the relationship between the provinces and the federal government. The first period was the colonial phase between 1869 and 1930. Although the petroleum producing region of southern Ontario was under provincial jurisdiction, it was during this time that the federal government had jurisdiction over the oil and natural gas reserves of the western sedimentary basin. When the

prairie provinces obtained control over natural resources in 1930 a second phase began. This era saw the provincial governments – especially Alberta – focus their efforts on attracting and placating large, mainly American, oil companies. The Social Credit government of Ernest Manning, for example, had a deliberate policy of discouraging domestic investment and encouraging multinational oil companies – the Big Four as they came to be known – to exploit Alberta’s oil and gas reserves as quickly as possible. The Manning government refused to impose any restrictions on the multinationals. There were no requirements to use Canadian labour, management, or services or goods.

The third phase in the history of Alberta’s oil and gas sector began with the election of Peter Lougheed’s Progressive Conservative government in 1971. Lougheed demanded concessions – however minimal – from the foreign based energy companies. With the oil shocks of the 1970s, the western provinces were distracted from the goal of maximizing returns from a non-renewable resource and instead focused their attention on thwarting the efforts of the federal government to nationalize and manage the oil and gas industry. Federal intervention in the western oilpatch ended officially in 1985 with the signing of the Western Accord. The Western Accord effectively ended the federal Liberal’s National Energy Programme and replaced it with a system of supply and distribution based on free market principles. The official end of the NEP did not mean that several of its goals had not been achieved. For example, the Canadian oil and gas industry – within a few percentage points up or down -- is now more than 50 per cent domestically owned and controlled.³⁷ As well, the federal government remained a key partner in the development of the Atlantic Offshore and the custodian of the northern reserves.

On 2 September 2002 Prime Minister Jean Chretien announced that Canada would ratify and implement the Kyoto Protocol on Climate Change. The Canadian oil and gas industry was surprised by the announcement. The federal government had let the 1997 Kyoto Protocol sit on the shelf for five years. There was disagreement on the economic effects of Kyoto and little planning had been done on how to implement it. The Alberta government with support from British Columbia, Nova Scotia and Newfoundland moved to fill the void. Using the Trudeau-era NEP as a comparison, an aggressive \$1.5 million marketing campaign was launched by the Alberta Conservative government of Ralph Klein. Led by the Minister of the Environment,

³⁷ The figures for foreign control change almost weekly as foreign takeovers of domestic firms and domestic takeovers of foreign firms occur. The estimate on foreign and domestic ownership in the Canadian oilpatch are from data collected by the Canadian Association of Petroleum Producers.

Lorne Taylor, the province's anti-Kyoto crusade has been an effective tool in swinging public opinion in Alberta and other producing provinces against the agreement.

The Kyoto Protocol, however, is fundamentally different from the 1980 NEP. While the National Energy Programme was a nationalist enterprise designed to counter the continentalist pull of U.S. markets and multinational petroleum companies, Canadian ratification and implementation of the Kyoto Protocol is a multilateral approach to the problem of climate change which is global rather than regional in scope. The result is a new dynamic between the continental strategy of the Bush administration and the international agenda of the federal government.

The Canadian oil and gas industry is in a state of flux. The Iraq War, American continental energy policy, and the Prime Minister's announcement on ratification and implementation of Kyoto have contributed to a climate of uncertainty in the Canadian oilpatch that has not been seen for a generation. While the producing provinces promote a continentalist agenda, the federal government has replaced its market-oriented energy policy of the post-NEP era with a multilateral environmental accord that thrusts Ottawa back into a prominent if not determining role in the oil and gas industry. While the final outcome of this tension between the province's continentalist policies and the federal government's multilateralist approach are uncertain, the example of earlier nationalist-continentalist battles indicates that the provinces' efforts to blunt Canada's Kyoto commitments and their efforts to retain and even increase their control of the oil and gas industry will triumph. The Canadian oilpatch may be the place where the regionalism of provincial politicians and the U.S. Bush Administration triumphs over the internationalism of the federal government and the international community.

Even the provincial regulator, the Alberta Energy Resources Conservation Board (ERCB), faced cuts in funding and a massive restructuring. Long the provincial governments window on the energy sector, the Energy Resources Conservation Board and its successor the Alberta Energy and Utilities Board faced a series of crises through the 1990s and 2000s. The first crisis the provincial energy regulator faced was the nomination Ken Kowalski as chair of the ERCB. A long-time provincial cabinet minister Kowalski was fired from cabinet due to several disagreements with the Premier in the September 1994. The oil and gas industry immediately voiced its disapproval at the appointment of someone with little or no experience in the energy sector. Even the well-respected former chair of the ERCB, George Govier, intervened to declare his opposition to Kowalski's appointment. Understanding that he had made a mistake, Klein revoked the offer and Kowalski was relegated to the government's backbench.³⁸

In February 1995,, the ERCB was merged with the Public Utilities Commission (PUC) to form the Alberta Energy and Utilities Board (EUB). The funding formula of the new EUB was also different from its immediate predecessor. With an expanded jurisdiction that now included both the petroleum and electricity industry, the EUB was to be 70 per cent funded by industry and 30

³⁸ Don Martin, *King Ralph. The Political Life and Success of Ralph Klein*, Toronto: Key Porter Books, 2002, 151-152.

per cent by the province. The reorganized board faced a variety of problems. The most immediate was the blending of the two previously separate units – the Energy Resources Conservation Board and the Public Utilities Board. Both organizations had different administrative styles which were difficult to reconcile. In April 1996 the Alberta Geological Survey joined the EUB. In the transition it was the Energy Resources Conservation Board that came to dominate the new organization.³⁹

The EUB consists of six board members and a chair and vice-chair. Although the board reports to the provincial legislature through the Minister of Energy, it is an independent administrative tribunal. Its staff of 750 is located in 14 communities in the province with a main office in Calgary. Its mission is to ensure that the discovery, development, and delivery of Alberta's energy resources – petroleum products – “takes place in a manner that is fair and responsible to the public.”⁴⁰ The EUB has four core functions: adjudication and regulation of matters relating to utility rates and the development and transportation of energy resources; ensure energy resource development is in the public interest; ensure public safety and environmental protection through regulatory requirements, surveillance and enforcement; and, ensuring the availability of information to support development.⁴¹ The EUB issues licences for drilling not only on Crown land but on private property as well. It is through the licencing processes that the EUB attempts to conserve existing resources and to obtain maximum recovery from oil and gas reserves.

In 2000-2001 the EUB approved a variety of different projects. The Board gave the go-ahead for 14,473 new wells including sweet single wells, sweet multiwell pads, sour single wells, sour multiwell pads, sour wells, and critical sour wells. It also approved 8392 permits for new pipelines and modifications to existing pipeline licences, 1,650 new sweet and sour gas facilities, oil and gas batteries, pump stations, tank farms, as well as 312 sour gas flare permits. It also approved nine industrial development permits for oil sands, oil and gas. This picture of EUB activity does not include the regulation of electrical utilities, the mapping division, coal, or the various statistical services provided by the Board. Simply put, the Alberta Energy and utilities

³⁹ Neil McCrank, talk to the Institute of Public Administration of Canada, 12 April 2002, Calgary, Alberta.

⁴⁰ Alberta Energy and Utilities Board, *Regulatory Highlights 2002* (Calgary: Energy and Utilities Board, 2002), 1.

⁴¹ Alberta Ministry of Resource Development, *2000-2001 Annual Report*, (Edmonton: Alberta Resource Development, 2002), 28.

Board has regulatory authority over all aspects of energy resource development within the province.

The third crisis the EUB faced came in the form of violent actions aimed at the oil and gas industry in Northern Alberta. In the mid and late 1990s over 166 different acts of vandalism occurred in the oil and gas fields around Beaver Lodge and Hythe near Grande Prairie northeast of Edmonton. The individual at the centre of this controversy was Weibo Ludwig. Ludwig was convinced that gas flaring near his religious commune had caused the stillbirth of several children and animals. Frustrated with the lack of action on the part of the provincial Ministry of the Environment and the Energy Utilities Board to act on his complaints it was alleged that Ludwig undertook a series of sometimes violent actions to end the intrusion of oil and gas companies on his land and that adjacent to his property. Although Ludwig was convicted on several counts of vandalism and public mischief he was charged with any of the numerous bombings of natural gas installations in the Hythe region. In fact, only the RCMP and Alberta Energy Company admitted to using explosives to destroy a gas well installation as part of an elaborate scheme to implicate Ludwig in other similar incidents.⁴² While the bombings and other acts of violence should not be minimized – especially the shooting death of a local teenager, Carmen Wylis, on Ludwig's farm – the incidents at Hythe demonstrated the inability of the EUB and the Ministry of the Environment to deal with concerns over gas flaring and other issues associated with the exploration and production of natural gas.

⁴² For an overview of the rather complex and sometimes bizarre story of Weibo Ludwig's battle with the Alberta oil and gas industry see, Andrew Nikiforuk, *Saboteurs. Wiebo Ludwig's War Against Big Oil* (Toronto: Macfarlane, Walter and Ross, 2001).