CANADIAN–AMERICAN TRADE IN ENERGY RESOURCES

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As events since October 1973 have again underscored, security of supply and price of energy resources have enormous strategic and economic implications for any industrialized country. Nevertheless, trade in energy resources between Canada and the United States has not always been closely managed by the central governments that are responsible for national security and economic development. In fact, the energy trade involves a wide variety of actors that continually seek transnational contacts and alliances of opportunity to further their own self-interest almost as if the national border did not exist.

In Canada this trade has become an important part of the national economy. For many years after the discovery of significant oil and gas reserves in Canada, the strong government commitment to the development of the fledgling industry led to a commonality of interest between Ottawa, industry, and the producing provinces. Ottawa was sometimes content to let others take the lead in this development but frequently became an active promoter itself. To the extent that this development required exports to the United States, Ottawa sought to provide the opportunities. More recently Ottawa has often seemed merely to react to or struggle against the initiatives and preferences of the provinces and private industry.

In the United States, where the economic impact is less, Canadian-American energy trade has tended to be buried in the press of more visible public issues unless world events or the urging of interested parties brings it to the fore. Now that all matters pertaining to energy, both domestic and international, have become politicized in both countries, the degree of central government involvement in and management of energy policy is rising. While the independence of transnational (and perhaps even transgovernmental) actors in the Canadian-American context will probably decrease as a result, the importance of transnational interactions will almost certainly remain

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high. In Canada, moreover, the importance of transnational actors in domestic disputes over energy policy is likely to increase.

Since the very existence of trade in energy resources is dependent on the active participation of the oil, gas, and electrical industry (including public utilities, regulated pipeline companies, multinational oil companies, independent entrepreneurs, and multifirm consortia formed to accomplish a particular purpose), these firms have traditionally been the most important transnational actors. They provide technical and managerial talent, organize the supply and marketing networks, and mobilize capital. In carrying out these functions, individual firms must deal with other firms, regulatory bodies, states and provinces, and the federal government on both sides of the border. More often than not in recent years, the transnational interactions have been initiated by American firms seeking access to Canadian resources or the advantages of Canadian industrial incentives and by Canadian firms seeking access to American markets and American capital. But prior to the completion of the Trans-Mountain and Interprovincial oil pipelines, much of Canada bought its oil from the United States. The Ontario Hydro-Electric Power Commission still buys coal from mines in Appalachia, and the oil and gas industry of Montana is attracting an increasing amount of capital and skilled labor from Alberta.[1]

North American geography, disparate patterns of economic development, the uneven distribution of natural resources, and, particularly in Canada, problems arising from the constitutional allocation of authority over these resources have led to wide variations in regional interests within each country. Each region has a unique stake in the bilateral trade in energy. A producing region like Alberta seeks high prices while consuming regions like Ontario and the American Midwest prefer low prices and must compete for supplies. While regions do pursue their desired ends through the conduit of their own federal governments, they also engage in direct cross-border contact, both with other governments and with industry. Such contacts provide leverage to influence their central governments, create faits accomplis, or, in the case of some provinces, occasionally serve almost as instruments of an independent foreign policy.

Subunits of the federal governments exert their primary influence on energy policy and energy trade by participating in the debates and consensus-building process within each government. There are exceptions, however. Since there is frequent cross-border contact between subunits that share similar functional responsibilities and

[1] "Montana Attracting Oilmen from Alberta," *Globe and Mail* (Toronto), 16 November 1973, p. B5.

since central control over the bureaucracy is difficult to maintain, there is ample opportunity to form alliances across the border in support of particular policy preferences. Federal regulatory agencies also play a transgovernmental role if they are sufficiently independent of political decision makers to pursue their own policy or when, on a particular issue of bilateral importance, interested firms exert political pressure on such agencies. Since they have the legal responsibility to issue permits and licenses, regulatory boards hear presentations from both sides of the border and frequently have veto power over the establishment of new trading patterns.

The environmental interest groups form another set of transnational actors that have become increasingly important in recent years. These groups can influence bilateral relations directly through contacts and alliances with like-minded groups across the border and by coordinating political lobbying on both sides. But actions taken only in one country or the other can also have indirect influence, such as encouraging industry to site new plants across the border rather than at home where environmental constraints may be more stringent.

The primary focus of this article is on the impact of these transnational and transgovernmental actors on the conduct of bilateral relations between Canada and the United States in the energy field. However, because of its important implications for the future of these relations, some attention is also given to the impact of these actors on questions of sovereignty and regional development in Canada. Finally, the question of benefits and the projected future of transnational relations in the area of energy is addressed.

THE CONDUCT OF BILATERAL RELATIONS

Since there have been few barriers to inhibit the initiation of transnational contacts whenever mutual benefit is anticipated, the bilateral relations between Canada and the United States in the energy area have been influenced in a major way by such contacts. Unless governments create artificial barriers, an Alberta oil man has no less reason to look for markets to the south than to the east, and a Maritime province premier has no particular incentive to seek development capital in Toronto rather than New York. Many such contacts exist with little or no attention from Ottawa or Washington. This is not only because the governments cannot be concerned with all issues at all times, but also because they are frequently content to leave the provinces, states, or the private sector in control. Often, however, what begins as a transaction between noncentral actors eventually receives publicity and government attention. In such cases the policy options of government may be so severely constrained that it can merely ratify existing situations. Transnational actors may even have veto power over particular aspects of national policies. In attempting to exert their own authority, Ottawa and Washington almost inevitably find themselves confronted by transnational coalitions trying to influence the policy outcome. The great influence of such coalitions is frequently demonstrated by the nature of the outcome of controversial issues. Of course, the governments themselves also join cross-border coalitions and use them as instruments of their own policy.

There are many instances of transnational activity that flourish without significant attention from the central governments. The best example is probably the trade of electric power between utilities in several provinces and their American neighbors. By exchanging surplus electricity on a seasonal or even a daily basis, operating costs are reduced and help is available in the event of equipment failure and during routine maintenance of facilities. Although regulatory boards must issue licenses under which these exchanges take place, the arrangement was begun and is maintained on the initiative of the utilities, states, and provinces involved. For many years this trade not only provided mutual benefits but also was in rough balance and involved only a small percentage of either country's electrical capacity (less than 4 percent in the case of Canada [2]). During that time it received relatively little attention from federal politicians or senior civil servants.

An example of a totally independent transnational contact is the establishment of alliances and working arrangements between Canadian and American environmental groups. Maine residents opposed to the Pittston Company's plan to build a refinery at Eastport received information and assistance from Canadian scientists at the nearby federal biological station in St. Andrews, New Brunswick. Canadian and American environmentalists were certainly in contact over the Trans-Alaska pipeline issue. Canadian groups even made a presentation during the American court proceedings.

Sometimes transnational activity continues unhampered for many years and then, either because of a change in political environment or a gradual change in the activity itself, it rapidly becomes a matter for government attention. For example, for many years prior to 1970 the National Energy Board of Canada readily granted permits for the export of gas so long as the price was right. Price was the central issue in the 1967 refusal to permit Westcoast Transmission Company, Limited, to increase its exports.[3] When a better price was accepted

[2] Canada, Department of Energy, Mines and Resources, *An Energy Policy for Canada Phase 1*, vol. 2 (Ottawa: Information Canada, 1973), p. 290.

[3] Anthony Westell, "Westcoast Refused Permission to Export Gas at FPC Price," *Globe and Mail* (Toronto), 23 December 1967.

by the Federal Power Commission, the relevant American regulatory agency, the license was granted.[4] In 1970, however, the combination of applications for record levels of exports and a growing concern for Canada's own long-term supply resulted in the Board's paring the requests.[5] Moreover, because of increasing politicization of the gas export issue, the Canadian cabinet's review of the Board's recommendations was more deliberate than in the past.[6] The following year, citing a deficiency in Canada's long-term supply, the Board denied all applications.[7] Because of the American shortage of electric-generating capacity and a Canadian surplus, the rough balance of electricity trade has been swinging toward net Canadian exports. In 1972 the export was 7,932 million kilowatt hours.[8] Export of electricity is now a political issue in Canada. Questions have been raised about the export aspects of Quebec's James Bay development project,[9] and environmentalists unsuccessfully asked the National Energy Board to refuse the Ontario Hydro-Electric Power Commission's request to increase its exports on the grounds that it would greatly increase air pollution in Ontario.[10]

Questions about oil and gas sales have been recurrent issues in the bilateral relations between Ottawa and Washington. During the 1950s and 1960s the major concerns revolved around market penetration and protection. Canadian producers of oil and gas sought access

[4] Michael Gillan, "US-Canada Compromise Clinches Westcoast Deal," *Globe and Mail* (Toronto), 17 February 1968.

[5] See Canada, National Energy Board, *Report to the Governor in Council in the Matter of the Applications under the National Energy Board Act of Alberta and Southern Gas Co. Ltd., Alberta Natural Gas Company, Canadian-Montana Pipe Line Co., Consolidated Natural Gas Ltd., Consolidated Pipe Line Co., Trans-Canada Pipe Lines Ltd. and Westcoast Transmission Co. Ltd.* (Ottawa: National Energy Board, August 1970).

[6] Ronald Anderson and Nicholas Latter, "Four of Five Gas Permits Sought Receive Export Licence Approval," *Globe and Mail* (Toronto), 30 September 1970, and "Sale of Natural Gas to United States," *International Canada* 1 (September 1970): 184-85.

[7] See Canada, National Energy Board, *Reasons for Decision in the Matter of the Applications under the National Energy Board Act of Alberta and Southern Gas Co. Ltd., Alberta Natural Gas Co., Canadian-Montana Pipe Line Company, Consolidated Natural Gas Ltd., Consolidated Pipe Lines Co. and Trans-Canada Pipe Lines Ltd.* (Ottawa: National Energy Board, November 1971).

[8] Canada, Department of Energy, Mines and Resources, *An Energy Policy for Canada Phase 1: Summary of Analysis* (Ottawa: Information Canada, 1973), p. 3.

[9] Boyce Richardson, *James Bay: The Plot to Drown the North Woods* (Toronto: Clark, Irwin and Co., 1972), pp. 150-53.

[10] "Ontario Hydro Asks Boost of One-Third in U.S. Power Sales," *Globe and Mail* (Toronto), 23 October 1973, p. 1; "Hydro Admits Pollution Potential at Hearing on Export Increases," *Globe and Mail* (Toronto), 24 October 1973, p. 8; and Terrance Wills, "Ottawa Facing a Test on Energy Export to U.S.," *Globe and Mail* (Toronto), 22 November 1973, p. 5.

to nearby American markets while the American industry sought either government protection from competition in the case of independent oil producers or the use of Canadian resources as a means of expanding their own operations in the case of many gas pipeline companies and multinational oil companies. Industry and individual entrepreneurs took the initiative during this period, putting together coalitions and rival coalitions to build and finance major Canadian pipeline projects. Since potential backers considered these proposals to be financially viable only if they included sales to the large American market, the coalitions were necessarily transnational. Governments were able to exert some leverage: rival coalitions could be manipulated to achieve government ends as they were when Minister of Trade and Commerce C. D. Howe molded the Trans-Canada pipeline project by forcing the amalgamation of two separate and rival groups.[11] But the latitude for government control was severely circumscribed. At various times throughout the frustrating years in which the Canadian government sought to create a viable, all-Canadian gas pipeline from Alberta to Quebec, the Federal Power Commission, American gas transmission companies, and the Canadian subsidiary of Gulf Oil Company all exerted enormous influence over the project's future.[12] When financing and scheduling problems left TransCanada PipeLines Ltd. no choice but to offer temporary majority ownership to American interests, the Canadian government was not happy but saw no other option, given its commitment to private ownership and rapid completion of the line.[13] Nevertheless, this transfer of ownership provided fuel for the stormy pipeline debate in 1956 and helped bring about the subsequent defeat of the Liberal government in 1957. The threat and reality of oil import quotas have always been a means by which the American government could restrain the importation of foreign oil and thereby protect American independent producers. But at least in part by nurturing allies within the American bureaucracy, Ottawa, Alberta, and the multinational companies, acting in this case in concert, repeatedly gained special exclusion for Canada. Even after the imposition of voluntary limitations in 1968, pressures from Canadian exporters and, more importantly, the shortages of oil at American refineries along the pipeline from Canada continually resulted in imports beyond the agreed level.

For reasons having little to do with Canadian-American relations, the official government positions on oil and gas trade gradually

[11] William Kilbourn, *Pipeline* (Toronto: Clark, Irwin and Co., 1970), pp. ix-xiii and 42-44.

[12] Ibid., chapters 5, 6, 7, 8.

[13] Ibid., pp. 93-97.

became exactly reversed. Shortages of domestic oil and gas in the United States and rising world oil prices have caused an increased American demand for Canadian crude and calls by both American legislators and administration officials for a continental energy policy (the latter albeit with decreasing frequency). At the same time the combination of declining conventional reserves, disappointing results in frontier exploration, and rising Canadian nationalism has led to a Canadian rethinking of long-term strategy for oil and gas exports. In the short term Ottawa has taken measures to prevent both American shortages and price escalation from spreading to Canada. Exports have been curtailed, and by means of an adjustable export charge and a subsidy in the east, the price of crude in Canada has been decoupled from the price in the United States.

The oil-producing provinces and the oil industry strongly object to these federal controls. They prefer free access to the American market, if only as a means of forcing up domestic prices. Industry really has little recourse in Ottawa except to argue its case that higher prices are required if new and more expensive reserves are to be found and developed. Consequently, the oil companies tend to rely on the goodwill of the provinces as the latter undertake their own political battles with Ottawa. Alberta takes a view compatible with that of the oil industry since successive governments have seen the industry's health as essential to the well-being and economic growth of the province. The present Progressive Conservative government has acted to tie its royalty receipts to the price of oil, to take them in oil rather than in cash, and to form an oil-marketing board as a means of recovering the ability to set prices.[14] Nevertheless, it has also guaranteed that industry would benefit handsomely from a rise in prices. The New Democratic government of Saskatchewan also acted to recapture price control from Ottawa, seeking to freeze the wholesale price and thereby reserve all the economic rent for itself.[15] The extent to which these provinces will be successful in extending their influence in these areas is still unclear at this writing. The independence and therefore the transnational importance of the industry will be weakened whatever the outcome of the federal-provincial disputes.

Beyond the short-term questions of oil and gas exports, other energy-related matters have not, as yet, attracted the same political attention, permitting greater independence on the part of the transnational actors. In the future allocation of Arctic gas, for example,

[14] Thomas Kennedy, "Alberta Sets Up Petroleum Marketing Body," *Globe and Mail* (Toronto), 7 December 1973, p. B1.

[15] "New Saskatchewan Tax Plan Proposed Oil Profit Controls," *Globe and Mail* (Toronto), 11 December 1973, p. B5.

industry has already taken preemptory action that may constrain Canadian government options. The need for large amounts of capital for northern exploration and the desire of American gas companies to assure themselves of future supplies have led to the early commitment of approximately 30 trillion cubic feet of Canadian Arctic gas to American buyers or their Canadian intermediaries.[16] This commitment will fuel the inevitable criticism by Canadian nationalists that building a gas pipeline down the Mackenzie River valley will guarantee the wholesale export of Canadian resources to the United States. Indeed, it will also exert strong pressure on the National Energy Board and the cabinet when the decision is ultimately made whether and how much Arctic gas to export.

Even when American projects impinge on Canadian interests, the initiative in opposing them is not always taken by Ottawa. When the Seattle Municipal Light and Power System decided to exercise an option of many years' standing to raise the level of Ross Dam on the Skagit River and flood about 5,000 acres of the Canadian valley upstream, it was the outcry of the local environmentalists that forced the matter to the attention of the two central governments. Similarly, local interests were the first to raise alarms about the dangers of a tanker route through Canadian waters to the proposed refinery at Eastport, Maine.

In matters relating to regional development the provinces have considerable independence. In the past few years, for example, two American-controlled oil companies have made commitments to build new refining capacity of 680,000 barrels per day in the Maritime provinces. Some of these refineries have been subsidized by the provinces,[17] and they are still looking for more.[18] The provinces expect that the availability of deepwater ports and subsidies together with the relative lack of public opposition will provide sufficient inducement. Unless oil becomes available as a result of exploration on the continental shelf, these refineries will have to rely on imported crude. Moreover, their primary markets are expected to be the American East Coast, where a refinery shortage exists, and Europe. This arrangement by which refineries in Canada use foreign crude to produce refined products for export is likely to create problems for Canada

[16] Thomas Kennedy, "Millions Paid for Gas Not Yet Found," *Globe and Mail* (Toronto), 1 September 1973, p. B2.

[17] John O'Brien, "Premier Indicates Firm Refinery Commitments," *Halifax Chronicle-Herald,* 7 February 1973; and Lyndon Watkins, "Newfoundland, N.S. Put Up $143.5 Million in Loans for Oil Refineries," *Globe and Mail* (Toronto), 2 August 1973, p. B5.

[18] Lyndon Watkins, "N.S. Premier Confirms Refinery Talks with Middle East," *Globe and Mail* (Toronto), 27 April 1973, p. B1; and "Dock, Refinery Urged at N.B. Thermal Plant," *Globe and Mail* (Toronto), 12 October 1973, p. B4.

in future years if government export restrictions remain. The new refineries will almost certainly seek to be treated differently from refineries using domestic crude, but, despite support for this proposition from Premier Hatfield of New Brunswick,[19] Ottawa will probably find it politically difficult to do so. Despite this potential for future conflict, Ottawa is not trying to inhibit the expansion of Maritime refining capacity: its growth is an important component of Maritime development strategy, and the politics of regional disparities in Canada require Ottawa's cooperation. In fact, Ottawa is paying for the construction of the dock facilities for use by the refineries in Newfoundland.[20]

Environmentalists have offered relatively little resistance to these new refineries in the Maritimes. When the Newfoundland fishermen heard about the dispute over supertankers in the Bay of Fundy, they did begin to question the future of the fishing industry in Placentia Bay, at the head of which two new refineries will be located,[21] but the opposition has been far weaker than the recent outcries over refinery siting in the United States. Canadians who do oppose these refineries on environmental grounds can expect no support from their American colleagues. American environmentalists are partially responsible for driving such oil refineries out of the United States and into Canada.

In the case of Quebec, Ottawa's apparent reluctance to interfere with any plan to which the nonseparatist provincial government is strongly committed continues to guarantee its autonomy. In September 1973, for example, after reopening the possibility of extending the crude oil pipeline to Montreal, federal Minister of Energy, Mines and Resources Donald Macdonald was quick to reassure Quebec that this would not jeopardize its hopes of building a supertanker port on the lower St. Lawrence River.[22] Similarly, although the federal government has provided financial support to the Indians and Eskimos who are engaged in a legal battle against the James Bay hydroelectric project, it has remained relatively quiet about the project's faults despite substantial environmental risks and economic uncertainties.[23]

There have been occasions in the past when domestic actors on both sides have exerted transnational influence by exercising veto power over government policy on energy matters. The Province of

[19] "Forsees Fight," *Globe and Mail* (Toronto), 30 November 1973, p. B2.

[20] Lyndon Watkins, "Newfoundland, N.S. Put Up $143.5 Million in Loans for Oil Refineries," *Globe and Mail* (Toronto), 2 August 1973, p. B5.

[21] Bren Walsh, "Fishermen Have Doubts About Route of Tankers," *Globe and Mail* (Toronto), 12 May 1973, p. 8.

[22] "Projects Compatible," *Globe and Mail* (Toronto), 15 September 1973, p. 2.

[23] For a critical evaluation of the James Bay project, see Richardson.

Alberta's conservation board refused to permit the export of gas in 1951 and thereby delayed the initiation of pipeline construction for export.[24] Once Alberta's permission was granted, the Federal Power Commission delayed the construction of the Westcoast Transmission Company pipeline by refusing to grant import permits.[25] In 1955 efforts to finance TransCanada PipeLines Ltd. fell through when the Bank of Canada tied its support to government control and Gulf Oil Canada Limited refused to sell to a government-controlled firm.[26] In the case of the negotiations over the Columbia River power projects, British Columbia's participation and constitutional authority over natural resources permitted it to influence materially the final outcome.[27]

An important means by which transnational and transgovernmental actors try to influence the policy of central governments is by the formation of alliances. Such alliances can be made with several specific purposes in mind. An actor can seek allies across the border in an attempt to change the policy of its own government. In 1953 during Ottawa's early promotion of the Trans-Canada pipeline, the city of Toronto and Consumers' Gas Company, both of which wanted a gas supply before the pipeline would be in operation, allied with the Tennessee Gas Transmission Company in an effort to bring American gas into Ontario near Niagara Falls, a plan that was thought to be a serious impediment to Trans-Canada.[28] In another instance the state of New York, because of its interest in the electric power aspects of the St. Lawrence Seaway, supported the efforts of Ottawa and the White House to win congressional approval of American participation in building the Seaway.[29] Alliances can also be made with the purpose of influencing the other government. In the state of Maine's efforts to safeguard its Canadian oil supplies during the Arab oil boycott, Maine sought assistance from New Brunswick and the Midwest refineries gained support from the Canadian oil producers and the producing provinces.[30] At other times both governments must be con-

[24] Kilbourn, pp. 17-19.
[25] Ibid., p. 21.
[26] Ibid., chapter 6.
[27] For a discussion of these negotiations, see Donald Waterfield, *Continental Waterboy: The Columbia River Controversy* (Toronto: Clark, Irwin and Co., 1970).
[28] Kilbourn, pp. 38-42 and passim.
[29] On the history of the St. Lawrence Seaway, see William R. Willoughby, *The St. Lawrence Seaway: A Study in Politics and Diplomacy* (Madison, Wis.: The University of Wisconsin Press, 1961).
[30] "May Have Right to Cut Oil Flow to Montreal, Maine Leader Says," *Globe and Mail* (Toronto), 18 December 1973, p. 3; "Maritimes' Oil Outlook Worsens Following Embargo Information," *Globe and Mail* (Toronto), 21 December 1973, p. B2; Terrance Wills, "National Energy Board Eases Controls, Will Permit Oil to Flow to Maine Mills," *Globe and Mail* (Toronto), 22 December 1973, p. 10; and "Production Cut," *Globe and Mail* (Toronto), 1 December 1973, p. B1.

vinced together of the wisdom and feasibility of a particular project. Just as a large consortium of American and Canadian companies was assembled to create the Trans-Canada pipeline in the 1950s, another one, the Canadian Arctic Gas Study Ltd., has been put together in recent years to mobilize support in both capitals for the proposed Mackenzie River valley gas pipeline. On the other hand, an alliance like that developing between the New England states and the Maritime provinces (and particularly Maine and New Brunswick) can cut across issue areas and encompass a wide range of contacts and matters of mutual interest.[31] This particular alliance includes tourism, environment, and forestry as well as energy matters, such as electricity sharing and the distribution of refined oil.

The Trans-Alaska pipeline (TAP) debate provides an interesting example of a potential cross-border coalition that was never formed. American environmentalists opposed the pipeline because of the risk to the environment within the state of Alaska and managed to delay it for years through court action. In general they preferred a pipeline through the Mackenzie River valley as a safer alternative. Senators and congressmen from the Midwest also preferred the Mackenzie route primarily because it would bring Alaskan oil to their area. The major oil companies favored the Alaska route because it could be built faster than the alternative, because they had invested a great deal of money and effort in it, and because it obviated the necessity of dealing with native rights and domestic control issues in Canada. Moreover, as Canadian oil and gas export policy appeared to become more nationalistic over the years that TAP was in abeyance, the willingness to permit Canada to have potential control over the Alaska supply line decreased. The Nixon administration gave its strong support to TAP as did Senator Henry Jackson (Democrat from the state of Washington), who, through his chairmanship of the Senate Committee on Interior and Insular Affairs, was able to exert great influence on the matter.

In Canada there was almost universal opposition to TAP because of the fear that the tanker route from Valdez to the refineries on the American West Coast would result in major damage to the British Columbia coastline. Of primary concern was the plan to route tankers through the Juan de Fuca Strait to bring Alaskan crude to four refineries in northwestern Washington. Although the tidal currents in the area are such that the Canadian islands and shoreline would be very vulnerable to an oil spill, the route itself could be entirely within American waters. Canada, therefore, had no authority to prevent its

[31] "N.B., Maine Sign Agreement," *Globe and Mail* (Toronto), 29 June 1973, p. B2.

use. During much of the critical period of the TAP debate in the United States, the implications of the Mackenzie route were unclear in Canada, and not until late in 1972 were extensive studies of the matter completed. Although most government officials did not take irrevocable positions on the subject, preferences did develop. The Department of Energy, Mines and Resources tended to share the oil industry's hope that a Mackenzie oil pipeline would provide a means to bring south oil that may be found in the Canadian Arctic. In fact, as ongoing exploration in the Mackenzie River delta failed to reveal large quantities of oil, it became increasingly likely that whatever was found would be exploited only if a pipeline built for another purpose were readily available. On the other hand it was realized that an oil pipeline down the Mackenzie would mean a delay in building the proposed gas pipeline. They could not be built at the same time.[32] Canadian environmentalists were in a dilemma. Most of them liked the Mackenzie route little better than TAP, seeing insufficient benefit to Canada to balance the risk to its northern environment. The federal minister of the environment did, however, prefer the Mackenzie route.[33] The Department of Finance was generally opposed because of the potentially adverse economic impact. The Department of Indian Affairs and Northern Development that has jurisdiction over the area was split, reflecting its internal divisions between development-oriented and conservation-oriented sections. Canadian nationalists, including important elements of the New Democratic party on which the Liberals were relying to stay in power, saw a Mackenzie oil pipeline as a step toward continental integration of energy resources and therefore did not favor it.

The official position of the Canadian government on the Mackenzie River valley route was that a request for a permit would be welcomed.[34] Even though the major oil companies as early as 1971 told the ministers of the Departments of Energy, Mines and Resources and of Indian Affairs and Northern Development that they had no intention of making an application to build the Mackenzie pipeline, the government did little to promote the project. It refused to enter into negotiations with the United States, thereby creating the impression that it was not really interested in the Mackenzie route.[35] Although

[32] "Canada Feels Oil Pipeline Would Delay Gas Line," *Globe and Mail* (Toronto), 7 July 1973, p. B2.

[33] Peter Ward, "Alaska Oil Pipeline Could Cost Canada $850,000 a Day," *Toronto Telegram*, 21 January 1971.

[34] Bogdan Kipling, "Why Ottawa is Pushing for the Mackenzie Valley Route," *Financial Times* (Montreal), 1 May 1972.

[35] "State Department Says Canada Barred Oil Pipeline Talks," *New York Times*, 24 July 1973, p. 13; Ross H. Munro, "Reluctance of Ottawa to Discuss Pipeline Reason for Alaska Route, U.S. Official Says," *Globe and Mail* (Toronto), 24

the National Energy Board's authority to rule on pipeline proposals prevented formal cabinet endorsement unless and until the Board had accepted an actual application, much could have been done informally. There was no lack of potential American allies, including environmentalists, much of the press, and the midwestern legislators. Nonetheless, the Canadian government made no attempt to form alliances. This may be explained in part by its reluctance to interfere in a decision before the American Congress and in part by its continuing hope that either Congress or the courts would stop TAP or at least delay it until the advantages of the Mackenzie route were fully appreciated.[36] More important, however, was the lack of consensus within the government that prevented decisive action.

Ottawa did have a fallback that it kept in reserve. It offered to supply the Washington refineries with Canadian crude and thereby obviate the necessity for tankers to enter the Juan de Fuca Strait. If this idea had been suggested early in the debate, coupled with official rejection of the Mackenzie route, it may have been accepted by the administration as a means of undermining TAP opponents (although that is by no means certain). By the time the suggestion was in fact made, shortly before the crucial congressional votes, it was too late. Since the administration no longer felt on the defensive over TAP, it had no incentive to accept the offer. Moreover, it was clear that a guaranteed supply to Washington, which could readily receive oil by tanker, would eventually lead to a cutback in the supply to the Midwest, where Canadian crude is badly needed.[37] For this reason both the midwestern legislators and the administration strongly opposed the plan.[38] Canada's potential allies therefore became its opponents when the fallback proposal was made.

Ottawa was in the enviable position of being able to pursue its objective of protecting the coastline either by joining the proponents of the Mackenzie River valley pipeline or by abandoning them and seeking a deal with the pro-TAP faction. However, in the absence of a clear decision either for or against the Mackenzie route, both opportunities were foregone. Both the Mackenzie oil pipeline and the possibility of eliminating the risk to the coastline were lost.

Several years ago, before it became clear that Canada would not find enough frontier gas and oil to become a major supplier of Ameri-

July 1973, p. 1; and Iain Hunter, "Sharp Admits Canada Rebuffed U.S. in Mackenzie Pipeline Talk Offers," *Ottawa Journal*, 24 July 1973.

[36] George Russell, "Prospects Felt Good," *Globe and Mail* (Toronto), 12 May 1972.

[37] Ross H. Munro, "Oil Guarantee Plan Against U.S. Interests," *Globe and Mail* (Toronto), 1 August 1973, p. B2.

[38] Ross H. Munro, "U.S. Rejects Deal for Overland Delivery of Oil," *Globe and Mail* (Toronto), 19 September 1973, p. B2.

can needs, the future seemed to hold a greater potential for conflict over energy policy than it does at present.[39] With the disappointing results of drilling in the north and on the Atlantic shelf, no informed observer still expects that Canadian energy resources can be a major remedy for the United States energy shortage. Americans realize they must look elsewhere to supplement their own supplies. Canada's contribution must be rather small. With this lowering of expectations came an associated reduction in the risks of serious conflict. The low-key manner in which the administration expressed its opposition to Canada's export controls and export tax[40] is probably indicative of American willingness to accept rather stoically the growing Canadian reluctance to send its energy resources south.

There are, nevertheless, bound to be recurrent disagreements in the future over transportation methods for Arctic oil and gas, Canadian sales of oil and gas (and possibly electricity and uranium), environmental issues related to energy-resource mining, transformation, transportation, and use, and the effects on the bilateral trade balance of high oil and gas prices. The proposal of El Paso Natural Gas Company to build a trans-Alaska gas pipeline and liquefaction plant and to bring north slope gas to the United States by tanker will be in direct competition with the Mackenzie valley gas pipeline. Those American regions relying heavily on Canadian imports will be unhappy about cutbacks that may come as a result of increased Canadian demand for Canadian energy resources. The Midwest refineries, for example, can probably expect a decreased supply of Canadian crude when the pipeline to Montreal is built. Failure to renew some of the short-term electricity sales contracts or to permit exportation of all the Arctic gas in which American pipeline companies have already invested would certainly lead to substantial animosity if alternative sources are unavailable. On the other hand, the decrease of direct electricity sales by Canadian utilities to American firms should make it easier to repatriate electricity than it has sometimes been in the past. Electric power utilities, unlike most firms, have the ability to build substitute electric-generating capacity. The same is not true in the case of gas exports, since much of Alberta's supply is committed to individual American firms.[41]

[39] For a different view of the potential for conflict over energy resources, see Richard Rohmer, *Ultimatum* (Toronto: Clark, Irwin and Co., 1973).

[40] Ross H. Munro, "Washington Shows No Surprise," *Globe and Mail* (Toronto), 6 September 1973, p. B1; Ross H. Munro, "U.S. Angry with Ottawa for Increase in Oil Price," *Globe and Mail* (Toronto), 15 September 1973, p. 1; and Ross H. Munro, "U.S. Not Surprised by Higher Tax," *Globe and Mail* (Toronto), 3 November 1973, p. 3.

[41] I am indebted to Larratt T. Higgins for alerting me to the distinction between sales to individual firms and sales to utilities and for emphasizing its importance.

Since Canada is the supplier of oil, gas, and electricity, there is little the United States can do directly either to increase Canadian exports or to prevent their reduction. One option in an emergency situation may be to retaliate by cutting off the export of coal to Ontario or the flow of oil through the American section of the Interprovincial or Portland-to-Montreal pipelines. Such suggestions were heard during the winter of 1973-74,[42] but not from administration spokesmen. In the longer term, if the supply of crude to the midwestern refineries is reduced, taxing the throughput of the American section of the line may not be out of the question, especially if Canada taxes American gas that flows through a future Mackenzie gas line. It seems more likely, however, that the United States may try to create political linkages between energy and other issues, an approach to bilateral relations that Canada has traditionally opposed. It is clear that while the transnational contacts of industry will in many respects exacerbate disagreements in this area, the strong desire for long-term market stability should encourage at least the large firms to try to moderate potentially disruptive political tensions.

Various institutional frameworks can be envisaged for dealing with bilateral energy matters. These could range from joint management of North American resources or international jurisdiction modeled after the International Joint Commission's jurisdiction over boundary waters to institutionalized dispute settlement and joint planning or regular or ad hoc consultations at the political level. Implementation of either of the first two options would require much stronger commitments to close cooperation on energy matters and to mutually acceptable basic principles than seems likely to exist on either side in the foreseeable future. Because of the highly political nature of the issues involved, even institutionalized dispute settlement and joint planning will be possible only if the process is controlled and overseen by high-level officials on both sides.

REGIONAL DEVELOPMENT AND SOVEREIGNTY IN CANADA

As with most areas of bilateral relations, a flow of energy resources that is of relatively minor importance to the United States takes on huge proportions in Canada. About half of Canada's annual production of two trillion cubic feet of gas and of its daily production of two million barrels of oil is exported to the United States where it supplies 5 percent to 6 percent of total consumption. The United States would willingly take more. At current rates of extrac-

[42] "May Have Right to Cut Oil Flow to Montreal, Maine Leader Says," *Globe and Mail* (Toronto), 18 December 1973, p. 3.

tion, Canada's proven reserves, excluding frontier areas and the tar sands, would be exhausted in about 25 years in the case of gas and in about 13 years in the case of oil. Oil reserves have actually been decreasing in recent years.[43] The large commitment of resources to the United States and the strong pressures from Alberta and industry, much of which is American controlled, to develop rapidly both northern gas and the Athabaska tar sands and to commit much of this new output to the American market are issues that help to fire the regional divisions over economic disparities and the ideological divisions over national sovereignty that exist in Canada.

For all their disagreements over taxes and royalties, Alberta and the major oil companies have continually shared a desire to extend their penetration of the American market and to receive higher prices for their oil and gas. This puts them in direct opposition to Ontario, the major Canadian consumer, which seeks low prices and a secure supply for the future. The proximity and size of the American midwestern and Pacific Coast markets provide compelling economic reasons for a predominantly north-south rather than east-west flow. Alberta's early opposition to the all-Canadian gas pipeline to Ontario reflected this preference, and the years of difficulty in financing it verify the basic economic sense of Alberta's case, at least at that time. But the strong protectionist tendencies in the United States restricted the degree of penetration into the American market. The Canadian industry grew by means of a variety of subsidies, including federal aid in financing the Trans-Canada gas pipeline and the national oil policy that prohibited the sale of cheaper imported crude west of the Ottawa River valley. For many years prices were kept stable by government regulation in the case of gas and by a worldwide surplus in the case of oil.

The situation has changed radically in recent years. The growing gas shortage in the United States caused Canadian gas, sold on long-term contracts, to be priced under its true market value. Alberta has been trying hard to exploit American scarcities to force up both domestic and export prices. While Americans are willing to pay more, Ontario has been complaining bitterly, and Ottawa has been drawn unwillingly into the middle of a difficult and divisive interprovincial fight. The price of Canadian crude oil generally followed world prices upward after the Teheran agreement of 1971 until the Canadian government imposed price controls and a variable export tax in September 1973. Since these price increases had provided substantial financial benefits to the producing provinces as well as the oil industry, it

[43] Canada, Department of Energy, Mines and Resources, *An Energy Policy for Canada, Phase 1*, vol. 1 (Ottawa: Information Canada, 1973), p. 81.

is not surprising that the federal government's actions have greatly angered Alberta and Saskatchewan.

Despite the belated offer to return the revenue from the export tax to the producing provinces,[44] there is still a natural dispute over which level of government should control the distribution of the economic rent resulting from the increased market price of oil. Moreover, it is widely feared that suppressing industry's profit may retard or reverse the recent boom in new exploration and impede the development of the tar sands. To the producing provinces, the domestic controls on oil and gas prices appear to be subsidies for the industrialized areas of central Canada at their expense. They would rather maximize their returns from what is, after all, a nonrenewable and rapidly depleting resource and prepare for their own future by attracting industry west with the offer of cheap energy. Ontario's pleas that Alberta should put the national interest first and accept a lower price for sales in Canada is viewed from the west as rather self-serving and devoid of economic sense. At least as important as these economic issues, however, is the provinces' claim that Ottawa is interfering with their constitutionally guaranteed prerogative to control their natural resources, an authority that they see as one of the keys to their future development.

Regional disparities play just as important a role in the approach of the eastern provinces to some aspects of domestic energy policy and energy exports to the United States. The Maritime provinces have always been the poor relations of the Canadian confederation and have continually sought to catch up with the rest of the country. With the strong support and encouragement of the federal Department of Regional Economic Expansion, the Maritimes are becoming increasingly committed to taking advantage of their deepwater ports and their geographic location between the industrial centers of Europe and North America. By exploiting modern transportation technology, they hope to make their area into a major gateway to North America and a center for both bulk industry and secondary manufacturing.[45] The refineries located on the Strait of Canso, Nova Scotia, at Come-by-Chance, Newfoundland, and one that may be built at Lorneville, New Brunswick, all of which have ports with excellent deepwater harbors, are seen as the seeds for the growth of world-scale industry. Their economic viability depends, at least for some years, on the

[44] "Alberta Gets Tax Revenue," *Globe and Mail* (Toronto), 29 November 1973, p. 12; and "Federal Oil Export Tax Share Set for Energy Role," *Globe and Mail* (Toronto), 14 December 1973, p. B2.

[45] See the staff paper prepared by the Department of Regional Economic Expansion, *Atlantic Region: Economic Circumstances and Opportunities* (Ottawa: Department of Regional Economic Expansion, April 1973), pp. 28-32, 48-50, 54-55.

export of refined products to Europe and the United States.

The Province of Quebec has its own similar plans to develop a deepwater port in the lower St. Lawrence River and build on the already substantial refining, petrochemical, and manufacturing industries of the Montreal area. For both Quebec and the Maritimes the ultimate prize is increased tax revenues, more jobs, and full participation in the industrialized, high technology world economy. While the recent rises in the price of imported oil certainly dampened the spirits of the supporters of these bold schemes, the effect may be transitory. The discovery of commercial quantities of oil on the Atlantic shelf would provide an enormous impetus.

The availability of abundant electric power is also important to the industrialization of these areas. Quebec's James Bay project, the lower Churchill River project in Labrador, and the plans of New Brunswick to build both a nuclear power plant and a large fossil plant must all be seen in this light. As with the refineries, much of the electricity generated by these facilities will be exported to the United States, at least initially. Cooperation—for temporary export, for capital import, or even for increased integration of the local economies with the United States—is not seen by the eastern provinces as a sell-out of Canadian sovereignty but as both necessary and welcome assistance in improving the standard of living of the areas.

Canadian economic nationalists, especially in industrial but energy-poor Ontario, see the willingness to export Canada's resources to the United States as the height of folly. Exporting energy and minerals and importing manufactured goods from the United States has the net effect, they argue, of exporting jobs. The oil and gas industry—in extraction, transportation, and refining—is very capital-intensive and provides rather few Canadian jobs for the investment. Moreover, since the ownership of the resources and refineries is in American hands, much of the financial benefits leave the country through dividends to American shareholders and the conduit of the multinational oil companies. Much better to develop slowly, assuring Canadian ownership and responding to domestic demand. The rush to build the Mackenzie gas pipeline is seen as a means of assuring that Canadian Arctic gas is sold to the United States, of causing major labor dislocation while construction is in progress, and of either contributing to Canadian inflation if a large amount of capital is imported or depriving other sectors of the economy of investment funds if Canadian capital is used. The major beneficiary would be the United States. If Canada's cheap gas were not being exported in large quantities, it is claimed, Arctic reserves would not be needed in the domestic market for decades. The same arguments apply equally to the development of the Athabaska tar sands.

Regardless of the validity of either the continentalist or the nationalist point of view, this ideological split in Canada is politically significant, and the almost total control of Canadian refineries and oil and gas reserves by multinational oil companies exacerbates it enormously. The companies seek to reap the economic benefits that arise from marketing and planning on a continental scale and from developing and selling resources in the short term rather than leaving them in the ground for the future. Extensive exploration in the north makes no sense unless means are provided to bring out the oil and gas discovered, and the sooner the better. If this can be done only by committing large amounts of new reserves to the American market, the companies see no disadvantage to that. They see no reason to sacrifice economic benefit for the sake of xenophobic nationalism.

In large measure the multinational oil companies, both American based and European based, come under attack in Canada because they are vertically integrated networks that maximize their corporate interest on a world scale. The companies claim that a very large percentage of profits stays in Canada in the form of royalties, taxes, reinvestment, and dividends to Canadian shareholders, but that does not take account of outflows that result from transfer pricing between different parts of the corporate entity. Imperial Oil, a subsidiary of Exxon, can buy Venezuelan oil from Exxon and use Exxon tankers to transport it, both at artificially high prices; Great Canadian Oil Sands Limited or Gulf Oil Canada can sell to their American parent companies at less than market value. If they do, the reported financial position of the companies will not indicate that the Canadian subsidiaries are subsidizing the parent companies. It is clear that decisions taken at the head office are determined by interests different from those of Canada or the Canadian subsidiary. Even before the 1973 Middle East war, for example, some oil companies began diverting to their American markets refined products from their Caribbean refineries that had traditionally supplied eastern Canada.[46] Nevertheless, during the period of American oil import quotas the multinational companies served Canada's interest by helping to secure the overland exemption.

The very existence and scale of operation of the American-owned oil companies raises questions for Canada about its own sovereignty and control of its domestic and international affairs. The problems are not qualitatively different from those raised in other areas of the economy that are dominated by Americans, but the strategic importance of energy resources, the uncertainties of the world supply net-

[46] Ross Henderson, "Ottawa Juggles Supplies as U.S. Diverts Fuel Oil," *Globe and Mail* (Toronto), 20 September 1973, p. 1.

works, escalating world prices, and the attention and emotion generated by American cries of an energy crisis have heightened the importance of the sovereignty issue in Canada. The policy decisions of the Trudeau government in the energy area seem increasingly to reflect a nationalist perspective. While that may in part reflect the pivotal role of the New Democratic party from 1972 to 1974, it also results from a willingness to rethink energy strategy in terms of the long-term Canadian benefit. The federal government's decision to create a national petroleum company,[47] British Columbia's establishment of the British Columbia Petroleum Corporation,[48] and Saskatchewan's efforts to control prices and move into the exploration business—all seem to suggest a trend toward a decrease in the influence of the multinationals.

CONCLUSION

How are the benefits of the Canadian-American trade in energy resources distributed and how do transnational interactions influence this distribution? The answer varies from case to case and from issue to issue and depends in part on one's position on the issues raised by the Canadian nationalists. It may be argued in the case of the Maritime refineries that because of the enthusiasm with which the provinces endorsed the projects, they offered unnecessarily advantageous terms to the Shaheen Natural Resources Company. In the cases of the tar sands development and the Mackenzie gas pipeline, the ease of establishing strong transnational advocates helped both to begin before potentially competing projects could get organized. Canadian and American nationalists will consider this head start a detriment to both countries. Those Canadians interested in economic efficiency, continental sharing, and development will consider it a great benefit for Canada, and those Americans whose major concern is finding new energy sources rapidly will consider it a great benefit to the United States. In the case of the electricity-sharing programs of neighboring electric utilities, the benefits are clearly mutual.

Those in both countries who take the continentalist viewpoint would probably say that the benefits derived by each country from the present cooperation are about equal. Canada gets jobs, tax revenues, regional development, assistance in developing its resources, and other improvements to its standard of living. American investors receive

[47] Terrance Belford, "Fuel Policy: Freeze Extended to Spring, Oil Self-Sufficiency Pledged," *Globe and Mail* (Toronto), 7 December 1973, p. 1.

[48] "B.C. Plans Near-Doubling of Price of Natural Gas," *Globe and Mail* (Toronto), 13 October 1972, p. 1.

a fair return on their capital and the United States obtains needed energy resources. Ignoring the political boundary permits economies of scale that would otherwise be impossible. Without the sale of American coal to Ontario, the cost of electric power would be higher there. Without the exports to the United States, the Canadian oil and gas industries could not have grown as fast or as efficiently. According to this view, increased interaction across the border is mutually beneficial, government interference is undesirable, and transnational transactions, to the extent that they foster greater cooperation, are welcome.

Canadian nationalists, on the other hand, see much of the cross-border trade as the selling out of Canada to the United States. To show that the United States gains and Canada loses, they point to the profits of American companies flowing out of the country, the importation of American pollution with each refinery built for the export market, American control of Canadian resources, and the prospect of importing American shortages and high energy prices. The overwhelming presence of American interests in the oil and gas industries detracts from Canadian sovereignty. The American multinationals should be shackled as much as possible; more control is needed from Ottawa to assure that Canadian resources are used for the benefit of Canadians; the Canadian energy market should be decoupled from the American.

In the United States the importance of nationalism to energy policy is taken for granted and has always exerted a strong influence. The view that dependence on oil imports weakened national security and endangered the health of the domestic oil industry contributed significantly to the policy of protectionism. While nationalists, like everyone else, are eager to obtain Canadian resources during the current period of shortage and consider them more secure than imports from most other countries, they are unwilling to rely permanently on Canadian goodwill for needed energy supplies.

These widely differing perceptions of benefits are not easily reconcilable. They depend not only on different ideologies but also on different discount rates, the assessments of the value of current benefits compared to future benefits. The discount rate of industry is high: current profits are worth much more than future profits. Resources must therefore be extracted and sold quickly. Arctic gas should come south and the tar sands be developed sooner rather than later. Environmental costs are small because they are borne primarily in the future. But to the nationalists as to the environmentalists, discount rates are low. What happens in the future is very important. The quality of life of future generations, the preservation of Canadian or American independence, and, particularly in Canada, the guarantee that future generations will be able to benefit from nonrenewable resources are central considerations.

The trend of recent years seems to point to less rather than greater cooperation on energy matters and decreasing potency of transnational interactions. Energy questions have become highly visible and politicized in both countries and are likely to remain so for many years. Central governments will become more deeply involved in making decisions and managing cross-border interactions. The trend in Canada, where the initiative can lie in this instance, seems to be toward greater independence from the United States. Whatever one thinks of the economics of the new method of oil pricing and the export tax or the propriety of how this policy was initiated, it seems to point clearly in the direction of decoupling. The same tendency is evident in the United States. To the extent that American government and industry perceive bilateral relations with Canada to be uncooperative and unpredictable, they will be unwilling to rely on Canadian sources or Canadian goodwill for their energy supply. Already in discussions of the relative merits of a Mackenzie gas pipeline versus the El Paso scheme to transport liquefied natural gas from the south coast of Alaska, the security advantages of an all-American route are playing a prominent role.[49] President Nixon's call for the United States to become self-sufficient in energy resources does not appear to make any exception for Canada.

In large measure the choices seem to be economic versus political advantage. Increasing ties and encouraging relatively free flow of transnational interactions would probably yield, as they have in the past, significant economic benefits for both sides (disproportionate benefits for the United States, the Canadian nationalists would say). Constraining those interactions and decoupling the energy policies of the two countries would serve the cause of nationalist sentiment and possibly security of supply on both sides. The choices in the two capitals are likely to be based primarily on the course of domestic politics in each country and on the prevailing sense of the larger arena of world energy markets and world politics.

[49] Ross H. Munro, "'Canadian Chauvinism' Seen Improving Chances of U.S. Tanker Plan," *Globe and Mail* (Toronto), 2 October 1973, p. B1; "Mackenzie Gas Line Hopes Wane as E1 Paso Seeks to Block Plan," *Globe and Mail* (Toronto), 3 November 1973, p. B2; and Thomas Kennedy, "Brokers Appear to be Losing Enthusiasm for Mackenzie Line," *Globe and Mail* (Toronto), 30 November 1973, p. B1.