THE MYTH AND REALITY OF OFFSHORE OIL AND GAS DEVELOPMENT:
A CRITICAL ENQUIRY INTO THE POLITICAL ECONOMY OF HYDROCARBON RESOURCE DEVELOPMENT IN THE OFFSHORE REGIONS OF NEWFOUNDLAND AND NOVA SCOTIA

by

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B.A., Memorial University, 1974

A Thesis submitted by Brian O'Neill in partial fulfillment of the Requirements for the Degree of Masters of Arts in Atlantic Canada Studies at Saint Mary's University

APRIL 1988

THESIS APPROVED BY:

Henry Veltmeyer
Supervisor

Colin Howell
Atlantic Canada Studies

James Sacouman
External Examiner
Petroleum is the most valuable commodity, let alone natural resource, which is traded in the world economy. From at least the early 1960s, it was determined that the quite extensive sedimentary basin off the East Coast of Canada contained accumulations of crude oil and natural gas. The two provinces adjacent to the continental shelf, Newfoundland and Nova Scotia, have economies which can be described in the Canadian context as dependent and underdeveloped. They experience high levels of unemployment and, while taxation rates are among the heaviest in the country, provincial government revenues are comparatively small. Consequently, public services are below national standards. If any provinces needed a bonanza to rectify their long-standing economic difficulties, Newfoundland and Nova Scotia were prime candidates.

The presence of hydrocarbons in the offshore sediments around these provinces and the economic potential inherent in their exploitation were highlighted by the escalation in crude oil prices in the early 1970s. By the end of the decade oil and gas were seen by political and business leaders in the region as the economic fuel to lift both provinces out of the financial mire. The argument advanced in this thesis, however, is that this is -- and always was -- unlikely to happen for a couple of reasons.
First of all, the very structure of the capitalist economy, in which these provinces find themselves situated as dependent, marginalized entities, creates spatial and social imbalances. Just as previous and current resource developments in the region have not remedied economic maladies, there is no reason to expect that the capitalist exploitation of offshore oil and gas will alter this pattern.

Secondly, there are a number of physical obstacles to the attainment of provincial economic self-sufficiency via offshore petroleum development. In global -- even national -- terms, the resource off Nova Scotia is meagre and prohibitively costly to recover and transport to markets. Although present in greater quantities off Newfoundland, the current and future margin between costs and revenues from petroleum development and production is such that the provincial treasury will not be significantly enhanced. At the same time, the offshore petroleum industry is highly capital-intensive, providing comparatively little in the way of employment and entrepreneurial benefits for local residents.

Furthermore, integrated into much of the content of this thesis is the argument that ostensibly different provincial government agendas for offshore development, inasmuch as they essentially conform to the imperatives of a mixed capitalist economy, are inconsequential to the overall dynamic of resource exploitation and capital accumulation. Political will married either to principle or to opportunism at this level matters little. The relationship between the federal state and the corporate developers who have to be accommodated is paramount.
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NOTE ON CONFIDENTIALITY

For the purposes of obtaining both expert information and government and industry perspectives on offshore oil and gas activities, many interviews were conducted with officials from both of these sectors. In most cases these people have asked not to be quoted. Consequently, this thesis reflects the not-for-attribution basis of a minority of informed opinions on various details of the offshore. In some instances pertaining to specific technical matters, there is not even the suggestion that "an official" expressed a certain point of view. This degree of confidentiality is warranted because there are few people in the region who have access to the information and opinion supplied. Otherwise, identification might be determined through a process of elimination.
CHAPTER 1
THE QUEST FOR CONTROL

Like tens of thousands of Newfoundlanders and Nova Scotians, I have had some work experience with the offshore petroleum industry. In 1981 I worked for a few months as a researcher on the Hibernia environmental impact statement. More memorable, however, was my first job with a French geophysical company twelve years earlier. Working along the coasts of northern Newfoundland and Labrador in the summer of 1969, I developed some lasting impressions of the offshore oil industry which I find remarkably germane to describing and analyzing it almost 20 years later.

Above all is the image of Poussé coming out of the bank with $5,000 in his hand. He was the party chief for Paris-based CGT, which was conducting seismic surveys on the continental shelf for a group of oil companies in order to determine where exploratory drilling might be worthwhile. We were in the small town of St. Anthony in northern Newfoundland to pick up supplies before going to isolated transmitting stations on the edge of the coast. Rousse was laughing and shaking his head as he passed out $1,000 in small bills to the four French technicians responsible for looking after the transmitters. I understood enough French to know that Poussé was joking with the others about his having withdrawn most of the bank's cash. This did not surprise me. $5,000 was a lot of money in those days. Neither I nor the three other Newfoundlanders in our party had ever seen anything like that pile of bills. To the Frenchmen, this expense account money represented merely a replenishable means of buying the best meal
wherever we stopped and of stocking up on the whatever delicacies could be found for our stays at the transmitter stations. They did not even fill out expense account forms, the rationale being that the comparatively limited possibilities for spending money in this part of the world did not warrant bothering the company accountants.

Lesson Number 1: oil means money.

While most of our time was spent on the land-based stations, when we moved from Groais Island southeast of St. Anthony to Labrador we travelled on the company's survey ship. Taking some pains not to look too much like wide-eyed provincials, we Newfoundlanders were nevertheless impressed by the technology employed on board the Andromede and how this was integrated into the overall operations of the offshore oil industry, from exploration to production. The ship's seismic equipment could furnish information on the nature of the sedimentation thousands feet below the surface of the Labrador Shelf and help to pinpoint where structural traps might contain hydrocarbons. The idea that wells could be drilled and oil or gas possibly extracted under tremendous pressures and in the turbulent waters of the Labrador Sea seemed quite fantastic.

Lesson Number 2: in pursuit of a very lucrative resource the international offshore oil industry has developed remarkable technologies.

Most of my time that summer was spent on Groais Island and on Independence Island off Cartwright, Labrador. Like each of my fellow Newfoundlanders, I was an assistant to a French technician who looked after the installation and maintenance of the generator-run transmitters. We locals did not understand very much about the technology of
the operation; like most everything else it was foreign to us. All we knew was that the signal transmitted from each station, whose locational bearing had been established with some precision, provided a constant reference for the bearing of the Andromède as it conducted its seismic mapping operations on the continental shelf. I helped with assembling and lifting the equipment whenever it was required. Mostly, though, I served as chief cook and bottle-washer for the two of us in our wind-blown tent by the sea.

Lesson Number 3: expertise and control over East Coast offshore oil and gas activities tend to be based outside the region.

The continuity in these themes -- particularly the last -- pervades this study. The issue of offshore control and the degree of passion which it has generated since the late 1960s relate, in turn, to the focal point of the first observation of the 1969 work experience: money. Very simply put, it seems that this region has always been comparatively short of it. In terms of social and economic well-being as revealed by a couple of indices such as unemployment rates and income per capita, Nova Scotia and Newfoundland are the second-class citizens of Canadian confederation. As Chapter Three points out in some detail, however, it is not satisfactory just to describe both of these provinces as being "poor". For one thing, there are tremendous pockets of wealth in the Atlantic Region. According to FORTUNE magazine, the journalistic bible of capitalism, the richest man in Canada is New Brunswick's K. C. Irving. He controls an empire worth $6.6 billion (U.S.). Three other Maritime families, the Jodreys, the Sobeys and the McCains, are among the 30 richest in the country.
With the exception of the agriculture-based McCain business and Irving's forestry operations, however, most of this wealth derives from the service sector and finance: retailing goods which are produced outside the region and operating financial institutions which direct investments mainly to external enterprises. The point here is that most of the wealth is gathered both from the consumption of other people's products and from investments in non-resident labour. Even among the prosperous, therefore, there exists a structure of dependency on the central marketplace and the forces which influence it.

The Atlantic Provinces are not poor in terms of natural resources. A form of dependency emerges once again, however, in the sense that, outside of a significant degree of indigenous investment in the fishery, most of the resource industries are owned by outside interests. In this sense, regional labour is used to create profits and surplus capital for others.

There are many other social and economic aspects to the historical development and current circumstances of dependency in Newfoundland and Nova Scotia, as well as the two other Maritime Provinces. What this phenomenon speaks to, above all, is the lack of community, provincial and regional control over economic development. Some might say that this lack of control is symptomatic of the universal progress of capitalism in the sense that modern commerce and trade have made the world, particularly the so-called developed countries, economically inter-dependent. The problem for Atlantic Canada, however, is the inequality that exists within this relationship which, as Chapter Three shows, is comparable to the circumstances experienced by many
other regions and countries. There are economic disparities within Canada, and people in Atlantic Canada are fully aware that in general they suffer the disadvantages created by the system. Of course, the same kind of unequal relationships exist within the region itself along racial, class and urban/rural lines, although scant formal attention to these disparities is acknowledged by public figures here.

The prospect of oil and gas developments off the East Coast offered Newfoundland and Nova Scotia a rare opportunity -- the "last chance," according to Newfoundland Premier Brian Peckford -- to reverse this pattern of dependency. In the thinking of Peckford and senior officials of his province from the mid-1970s, control over offshore mineral resource exploitation would diminish and hopefully eradicate financial reliance on the federal government. It would allow for the development of an industrial infrastructure which would be compatible with the demographic and cultural character of Newfoundland society. As well, the province would obtain revenues from oil and gas production which could be applied to improving social services and enhancing the economic well-being of people, communities and businesses in the province.

This is not to say that there was a uniform conception among the provinces as to the merits of gaining offshore control as a means of generating wealth. A Newfoundland-type blueprint for offshore development, predicated on provincial control, was laid out by the Nova Scotia government in 1980. But for reasons which are outlined in Chapter Six, the Buchanan administration chose not to pursue this course. Certainly, offshore economic opportunities and prospects were
heralded by politicians and the media, in fact, to a greater extent than in Newfoundland. Boosterism aside, the assumption within Nova Scotia government circles during the heyday of the offshore, 1982 to 1984, was that the issue of control was mostly irrelevant to the province's being able to relinquish its "have-not" status within Confederation. Industrial benefits and offshore resource revenues would, more or less, make Nova Scotia economically self-sufficient.

In analyzing the complexity of issues related to provincial social and economic aspirations tied to the offshore, one faces a number of problems. Some of these are definitional. For example, what is dependency? What is meant by provincial control over offshore development in the context of its being exerted by governments which are avowedly supportive of "free enterprise"? These, in turn, lead to a couple of other questions. Within the framework mentioned above, does provincial control necessarily translate into the maximization of offshore revenues for government and petroleum-related benefits for business? Finally, to complete the cycle, can a revenue-rich province cast off the mantle of dependency and assert a true sense of economic self-sufficiency?

The issue of dependency is addressed both theoretically and in some historical detail in Chapter Three. Looking closely at Newfoundland and Nova Scotia, it is pointed out that there is a general spatial aspect to the development of dependency in these provinces in accordance with the concentration and centralization of capital, which accelerated at the turn of the century. The provinces have fallen under the control of external political and financial structures which serve to perpetuate both the local consumption of goods produced
elsewhere and the exploitation of resources here for the benefit of others. This system of unequal exchange is but one part of the overall dynamic of the capital accumulation process, however. Even at the spatial level there are profound intra-regional disparities. The totality of the capitalist dynamic creates conflicts between city and rural dwellers, aboriginal and European peoples, and working people and their employers in Newfoundland and Nova Scotia. And looming over the region’s labour force as a whole are the demands of centralized capital which, according to the historical cycles of expansion and contraction, has availed itself of the pool of surplus labour here.

One feature of the dependency phenomenon has been co-opted by mainstream politicians and their supporters in the two provinces. From Nova Scotia Premier William Fielding in the 1880s to Newfoundland Premier Brian Peckford in the 1980s, the system of unequal exchange -- albeit defined mostly in political terms -- between central Canada and the Atlantic Provinces has been the source of much grievance. On the political battlefield framed by a geographical "them and us", the visceral character of capital accumulation has been mostly ignored by public figures in the quest for regional retribution against the perceived pernicious forces operating from Quebec and Ontario. Officially-sanctioned secessionist threats have emerged twice in Nova Scotia since confederation in 1867. For the past 60 years, however, various economic and political sops from Ottawa have tempered the fervour of provincial assertiveness. In Newfoundland there has not been a formal separatist movement since confederation in 1949. As a 1982 public opinion poll revealed, however, the level of popular
support for separation was quite strong. Although nationalist in sentiment, the government of Brian Peckford has never publicly expressed support for secession from Canada as a means of redressing the social and economic ills of the province. This does not stem from any passionate commitment to Canada; perversely, it probably has much to do with the economic reality of Newfoundland's need for Ottawa's transfer payments, the potential of offshore revenues notwithstanding.

It is within this framework that the strategy for provincial control over offshore mineral resource management is defined. According to Doug House, a sociologist at Memorial University who has studied the policies of the Peckford government vis-a-vis oil and gas development, the province's approach has been less radical than might have been popularly assumed:

It is important to realize that the Peckford administration's philosophy is not to exert direct government control over resource development. Rather, it aims to operate indirectly by establishing a regulatory regime within which private enterprise operates. Hence, although it attempts to be progressive..., the government is still conservative in its reliance upon private enterprise, both foreign and local, in attempting to meet its policy objectives. Government does not decide directly where exploration should take place, which fields should be developed, where service bases and support facilities should be established, or even how research and development funds should be spent. Rather, through its regulations and agencies, government sets the context for the decisions to be made by the oil and drilling companies, and local service, supply and manufacturing companies. In other words, whereas under (former Premier Joey) Smallwood, industry both proposed and disposed, under Peckford, industry proposes and government disposes, at least in principle.(4)

What is striking about the concept of control here is that it relates more to a system of regulating resource development than organizing
it. Yet so much passion was expressed in striving to be the regulator. Chapter Six reveals in some detail that, based on Newfoundland's claim to ownership of the mineral resources on the continental shelf, the provincial government waged a sometimes ferocious political war against Ottawa for over a decade in order to gain the right to manage development there. The Peckford government's hostility towards the federal Liberal government is reflected in the level of invective employed by Newfoundland philosophy professor Lin Jackson following the 1984 Supreme Court of Canada ruling in favour of federal ownership of the offshore:

Mr. Trudeau and those around him, who pose as "good Canadians", are in fact perpetrating a constitutional atrocity at our expense. They propose to strip this oldest of provinces of every means of making progress, and to leave it fiscally naked and impotent. A rape by any other name is still a rape. (5)

The picture which really emerges here is the bitter edge of a psychic struggle against alienation. And on just the same level, the Peckford government allowed itself to feel that it had prevailed in its quest for some kind of self-determination when the ATLANTIC ACCORD was signed between Ottawa and Newfoundland in February 1985. The notion of control then as now, however, is illusory.

Taking a broader look at the question of control over offshore oil and gas developments, international petroleum consultant and author Michael Tanzer describes three approaches which have been followed by underdeveloped countries:

At one extreme there are the countries where the state is essentially a passive tax collector, turning over the risk of oil exploration and full control of such exploration and development to private foreign companies, in exchange for a share
of the profits from the sale of the oil, which remains in the control of the foreign companies (the "state tax-collector role"). In the middle are the countries where the state essentially becomes a partner with private foreign companies on the basis of the companies putting up the funds for exploration, and if oil is found the production is shared on some basis between the company and the government... (the "state production-sharing role"). Finally, at the other extreme there are the cases where the state itself bears the risk of exploration, retains full control over exploration and development, and gets 100 per cent of any oil found (the "100 per cent state-control role").

With reference to this analysis, the position which Newfoundland had staked out prior to the signing of the ATLANTIC ACCORD was the "state production-sharing role". The government vehicle in this arrangement, described in Chapter Six, was to be the Newfoundland and Labrador Petroleum Corporation (NLPC). Although it never existed in any form other than on paper, it was to assume primary importance for the province's interests in the offshore once oil and gas fields were in production. With the crown corporation having been virtually emasculated in the legislation pertaining to the ATLANTIC ACCORD because of corporate influence, Newfoundland now finds itself in the passive role as the "state tax-collector". Ironically, for reasons which relate mostly to the Buchanan government's having taken advantage of the federal Liberal government's NATIONAL ENERGY PROGRAM, the Nova Scotia government's crown corporation, Nova Scotia Resources Ltd. (NSRL), has interests ranging from 10 to 25 per cent in a number of oil and gas fields on the Scotian Shelf. In rolling with the federal punches for political control dished out by Liberal Ottawa, Buchanan had claimed that provincial jurisdiction over the offshore was not important. Now the provincial government finds itself on the above
control-determination grid as being mostly under the first category, but its small active interest falls partially within the definition of the other two. This could well turn out to be a Pyrrhic victory, however, since poor geology and low energy prices have conspired to place any offshore development in the deep freeze while NSRL's debts mount to almost unaffordable proportions for a province already billions of dollars in the red.

Tanzer's perspective, of course, applies to states which are autonomous or politically self-determining with regard to petroleum development. Proper regulation, which would allow for optimum local benefits from resource exploitation, is implicit in his considerations. The point here, though, is, that this is a marginal phenomenon, not nearly as important as the exerting of genuine control over when, where, and under what state-determined social and economic conditions the peoples' oil and gas resources will be developed. What happened with regard to the East Coast offshore was that the seemingly interminable federal-provincial contest over regulatory jurisdiction masked the considerable influence of the multinational oil industry in offshore petroleum activities. Particularly with regard to the Newfoundland-Ottawa dispute, control was seen as something which, following political legal resolution, would ultimately rest with one level of government or the other. Nothing could be further from the truth, as an historical analysis of the industry's involvement in the East Coast offshore reveals. This is not to say that, at certain times and in certain ways, both the provincial governments and, more especially, Ottawa have exerted some influence over the conduct of offshore exploration, but this has to be seen in the context of an initial
Throughout the chapters in this study dealing with federal energy policy, the oil industry and the history of offshore exploration, the point is made that, at least until the mid-1970s, the Canadian petroleum industry was dominated by foreign companies and influenced by another government -- the United States -- more so than any other major oil-producing country in the world. Consistent with this feature was the entry of the multinational oil companies, mostly American, into the East Coast offshore exploration play. Under perhaps the most generous and lenient regulatory terms offered anywhere in the world, the companies could hold permits on potential petroleum-producing properties for decades while conducting minimal exploration work there. When the 1973/74 oil crisis shook the Canadian government into taking some comparatively mild policy initiatives, the industry balked. Some, like Mobil Oil, the largest landholder off the East Coast, took off elsewhere and used Canadian profits to develop its properties in other parts of the world. Enticed by extravagant drilling incentives, which, as Chapter Two reveals, provided companies with more than 100 per cent of their drilling costs in some instances, the multinationals returned to the East Coast by the late 1970s.

The announcement of the Liberal government's NATIONAL ENERGY PROGRAM (NEP) in October 1980 was regarded by the multinational oil industry as tantamount to a declaration of war. However, Chapters Four and Five make it clear in some detail that, at least during the exploration phase of offshore petroleum exploitation, the big oil companies did not suffer. It is true that they did not qualify for
the same level of grants as did their smaller Canadian counterparts; still, they only had to pay an average of 37 cents for every dollar spent on exploration. They also had to relinquish up to half of their former permit areas, but they were allowed to keep the best prospects, which should have been fairly clear to them after 15 years in the region. The two main objects of the multinationals' scorn which would have applied had any offshore fields come into production, the crown share provision and the Petroleum and Gas Revenue Tax, evaporated as the federal Tories totally dismantled the NEP in 1985.

In the realm of control dealing with the level and direction of offshore exploration and especially with actual development, the provincial governments have been little more than passive players. In the case of the proposed Venture natural gas project near Sable Island, Chapter Six shows how the Buchanan government worked its way into the most embarrassing political contortions in order to get this development underway, but to no avail. Following the signing of the ATLANTIC ACCORD Newfoundland Premier Brian Peckford talked confidently of a start on construction for the Hibernia oil project in early 1986. It might begin three years later, based on the tentative agreement reached with the Mobil-led consortium in July 1988. Assuming that the deal will be binding, Hibernia is being developed only because two related conditions have been met: the companies have been granted unprecedented financial concessions, including federal grants and loan guarantees which comprise more than 50 per cent of the $5.2-billion capital cost of the project; and the federal Conservatives have concluded that these concessions will be offset by increased votes for them in the next federal election.
Now it might be argued that this discussion of control is being conducted without paying due regard to the influence of a factor beyond anybody's control: viz., the price of crude oil. The fact that the price of this resource would fluctuate, however, has to be seen as a given. Moreover, considering that this study is dealing with Newfoundland and Nova Scotia, whose resource-based economies have had to endure the vagaries of international markets on innumerable occasions, price adjustments should have figured implicitly in any government planning for the future. If, as Chapter Six suggests, Brian Peckford relied in 1982 on ever-increasing oil prices, that was his mistake. By that time a prudent perspective dictated that the fifty-year price high for crude oil (relative to real composite costs and incomes in the economy as a whole) was not going to last.

At the same time, while Newfoundland and Nova Scotia might have suffered in terms of offshore development opportunities delayed or lost in the aftermath of stagnant and falling oil and gas prices, such has not been the fate of the multinational petroleum industry. Once again, the matter of underlying control emerges. The September 1984 election of the federal Conservatives was an unheralded triumph for big oil. Within a year-and-a-half, virtually in accordance with a policy paper put out by the Canadian Petroleum Association in the spring of 1984, every petroleum tax was eliminated. As Chapter Five reveals, the companies could now make just as much profit on $15-per-barrel oil as they could when it was double that price. The Canadian environment for the industry is now much like it was before the mid-1970s, albeit with greater regulation.
Having dealt at some length with situating the issue of offshore control in a context which is broader than the customary jurisdictional treatment of it in Nova Scotia and Newfoundland, we can turn briefly to the question of the relationship between provincial regulatory control and the maximization of economic and industrial benefits. Clearly, this constitutes a sub-category of the overall concept of control. Although less significant than the matter of government contemplating the actual organizing of offshore resource development, there are a number of considerations which have obtained for the provinces involved. First of all, given the historical conflict between the provinces and the federal government over the questions both of management and of the sharing of the "government take" from total offshore revenues, the inherent potential always existed for a trade-off between both features in reaching any settlement. This indeed happened with the signing of the CANADA-NOVA SCOTIA OFFSHORE AGREEMENT in 1982. Yet, it would be a futile exercise to compare the provincial revenue provisions in this agreement with, for example, the Ottawa-Newfoundland ATLANTIC ACCORD of 1985 or the similar Ottawa-Nova Scotia agreement of 1986 whereby the provinces achieved joint management responsibility with the federal government. There was no offshore production nor was any development even started. More importantly, by 1985 there was a new political and corporate mentality in place. Decreased federal taxes combined with the strengthening of a laissez faire approach to corporate resource development meant that, in an overall sense, both provincial control and opportunities for revenue collection were reduced.

The second level of this question deals with the relationship
between the income which the provincial governments might realize from offshore developments and the employment and industrial benefits which might derive from the cycle of offshore resource exploitation activities. Norwegian offshore petroleum analyst Oystein Noreng points out that government leverage is automatically restricted by private resource development:

The basic strategy problem for governments is that, to the extent that the resource extraction is not organized directly by governments, the delegation of operational tasks to private interests implies a certain degree of de-nationalization of the resources. This means that the operation has to be made financially attractive to the private energy industry, leading to a certain renunciation of economic rent control... Furthermore, the use of private capital implies that the government, explicitly or implicitly, accepts a given rate of return on the activity, which eventually can restrict the government's freedom of action. (7)

Under these terms a price has to be paid if there are to be affirmative action policies in support of local businesses and labour:

There is clearly a complex inter-relationship between the aim of getting some part of the financial gains and the aim of control. Control can be a method of supervision that secures a given part of the revenue for the government. On the other hand, control can imply that the maximum potential share of the financial gains is not realized. The more complex the context of the economic activity is for the government, the more important are other considerations in relation to the realization of the maximum share of the financial gains, and the more control is a separate aim, distinct from the aim of income realization. (8)

Obviously in Norway, where the full cycle of offshore petroleum activities -- exploration, development and production -- have been in place for over a decade, and in the context of government equity participation through the government-owned Statoil, a sound rationale
exists for the trade-off between revenues and industrial considerations. With a much smaller industrial infrastructure and such tenta-
tivity surrounding offshore development for Nova Scotia and Newfoundland, however, it would appear that the only basis for exchanging revenues for economic activity would be political. Of course, in a general sense, this has already happened with regard to the East Coast offshore: An analysis of offshore exploration expenditures in Chapter Two reveals that roughly 80 per cent of the more than $8 billion spent since 1966 has come from federal government coffers. While the achievement of national energy goals has been a genuine motivation behind much of this effort, partisan political tinkering has had, and still maintains, a significant degree of influence over the course of offshore affairs. In any event, there is little residual offshore industrial presence to show for this tremendous level of what otherwise is regarded as an investment in resource development.

Just as international industrial expertise in this highly competitive and technical business has not been established in the region in the basis of drilling more than 250 offshore wells, it is not about to ensue with the development of one or two offshore petroleum fields. Moreover, even in the short term relatively few jobs are created given the expenditures involved. This offshore petroleum industry is very capital intensive. By way of personal example, the few onshore jobs that used to be involved in seismic operations were made redundant in the early 1970s by the use of satellite transmissions for locational bearing purposes. All things considered, it would certainly appear that, whatever control the provincial governments can exert over the offshore industry's procurement practices -- and Chapter Six makes it
clear that this is marginal — the admittedly minor revenue expectations from offshore production would be better applied to programs outside the petroleum industry.

The final issue in this discussion of offshore control relates back to the problem of dependency: could a profusion of offshore resource exploitation activity ultimately eliminate the dependency status of Newfoundland and Nova Scotia? This question is academic on a number of levels. First of all, a reading of Chapter Two indicates that the hydrocarbon resource potential of Nova Scotia is miniscule in relation to even the proven oil and gas reserves of petroleum-bearing regions such as Alberta or the North Sea. The picture is somewhat brighter off Newfoundland, mostly because of the presence of oil in the sediments. Still, proven volumes are comparatively small.

Secondly, in order to justify economically the extraction of these resources on any significant scale, let alone to allow for the accumulation of significant government revenues, crude oil prices would have to increase substantially. This is unlikely. While it is beyond the purview of this study to delve into the multiplicity of elements influencing energy prices, a composite analysis provided by a few credible sources suggests that the average price of crude oil around the end of this century should be in the realm of $25 (U.S.) per barrel in 1988 dollars. While this compares favourably with the average 1988 price of $16, it approximates the break-even point for recovering crude oil from the Grand Banks. By way of example, under the terms of the July 1988 "Statement of Principles" concerning Hibernia, royalty payments to the Newfoundland government will be reduced
if the price of the oil recovered is less than $30 in 1987 dollars.

Thirdly, even if an unforeseen offshore bounty were to be reaped by either province, there is an array of economic and political structures which would severely hinder Newfoundland and Nova Scotia in each of their efforts to achieve a mature, developed economic status. The theoretical underpinnings of this argument are laid out in Chapter Three. At the same time, there are numerous practical examples to support the contention that the presence of hydrocarbon resources provides no guarantee that the surrounding economy will be developed, diversified, and employ fully the local labour force. In the case of Alberta, that province has had forty years' opportunity to broaden its economy based on tens of billions of dollars in resource income. When the recession hit in the early 1980s, and again when oil prices fell during the winter of 1985/86, the economy slipped further and faster than that of any other province. With unemployment rates rising above 10 per cent on both occasions, the presence of approximately $15 billion in the province's Heritage Trust Fund did not offer much solace to many laid-off workers. Looking at the economic situation in 1984, Alberta industrial economist Joyha Sen commented: "From how you define development, the Alberta economy wouldn't even qualify as developed because manufacturing is so low." In the political context obtaining in both Newfoundland and Nova Scotia, there is no reason to expect that things would be any different if the mythical offshore dream were ever to materialize.
ENDNOTES

1. Halifax MAIL-STAR, September 21, 1987


4. J. D. House. THE CHALLENGE OF OIL: NEWFOUNDLAND'S QUEST FOR CONTROLLED DEVELOPMENT (St. John's: Institute of Social and Economic Research, Memorial University of Newfoundland, 1985), pp. 50, 51


8. Ibid.

9. This is based on the use of three sources: Peter Odell, Arlon Tussing and Connie Barlow, and the Economic Council of Canada. Odell, director of the Centre for International Energy Studies at Rotterdam's Erasmus University, has written extensively on the subject of crude oil supply, demand and pricing, including the co-authoring of the 1983 publication THE FUTURE OF WORLD OIL. He was one of the first observers to de-bunk the myth of impending oil shortages in the early 1980s. Speaking to an international oil and gas markets conference in Calgary in September 1984, Odell projected a long-term decline in oil prices to $24 per barrel in 1984 dollars by the end of the decade (the fact that there was a precipitous drop a year later only underscores his opinion that abundant supplies would force the price down) and less than $20 dollars per barrel by the year 2000. (GLOBE AND MAIL, September 25, 1984)

Writing in 1983, Tussing and Barlow argued that the increasing ability for large energy users to substitute one form of fossil fuel for another, combined with an abundance of such resources, particularly coal, would tend to keep oil prices within a certain low range: "The band of plausibly sustainable prices is nevertheless a broad one, ranging from about $12 to $20 per barrel...in 1983 prices." (Arlon R. Tussing and Connie C. Barlow, THE NATURAL GAS INDUSTRY: EVOLUTION, STRUCTURE, AND ECONOMICS (Cambridge, Mass.: Ballinger Publishing Co., 1984), p. 189)

A less authoritative source, yet one which reflects some long-
term thought in its 1985 publication, CONNEXIONS, is the Economic Council of Canada:

The only reasonable basis for oil price forecasting...is to consider both upward and downward shocks or trends, relative to a middle case of constant real prices. (Economic Council of Canada. CONNEXIONS: AN ENERGY STRATEGY FOR THE FUTURE [Ottawa: Minister of Supply and Services Canada, 1985], p. 21)

10. GLOBE AND MAIL, May 3, 1984
CHAPTER 2

THE EXPLORATION IMPULSE OFF THE EAST COAST

For thousands of years humanity has been preoccupied with finding dependable sources of energy -- at least for heat, light and cooking fuel. This quest dates back to even before the dawn of the agricultural revolution. But it was with the rise of industrial societies within the past two hundred years that the universal concern with securing energy supplies really grew. During the second half of the twentieth century the energy requirements of advanced capitalist economies have placed, at times, severe stresses on global capabilities to meet this demand. This has occurred despite technological developments in this field and the diversification of energy inputs into the industrial system. As might be expected, therefore, short-term scarcity, as well as the perception of shortages, have fuelled the investment of massive amounts of money in the development of both traditional and alternate sources of energy.

During the 1970s energy prices rose to historic highs. This caused tremendous upheavals to both developed and underdeveloped economies and provoked the formulation of energy policies at the government level in energy-producing and energy-consuming nations alike. The commodity which has occupied center-stage in the policy debate is crude oil, the core fuel for the industrial state. While cost and pricing considerations framed the structure of energy policies, concerns about control and security of supply prompted government intervention at unprecedented levels in the petroleum resource sector, particularly in Canada. Nowhere in the country was this demonstrated
more vividly than off the coasts of Newfoundland and Nova Scotia. The continental shelf became the proving ground for federal energy policy. But more has been involved than simply the search for oil and natural gas. An examination of the course of East Coast offshore exploration provides some insights into the subordination of economic concerns not only to public policy but also to sheer political expedience. Meanwhile, the weighty constancy of the corporate presence has been mostly forgotten, amidst the political hype and inter-governmental acrimony over oil and gas affairs. The momentum and detail behind the involvement of the industry and the federal and provincial governments are described in Chapters Four, Five and Six. What follows here is a necessary outlining of how offshore exploration became, in terms of capital outlay, the most significant "industry" which has ever existed in Atlantic Canada.

The Emerging Focus on the East Coast Offshore

The search for petroleum off the shores of Nova Scotia and Newfoundland has always had a certain regional character in the minds of residents of the two provinces. From the outset, however, it has been grounded firmly in the international sphere. Today, as in earlier times, the level of exploration activity everywhere in the world has much to do with the demand for petroleum and the price it can fetch on the world market. Up to the nineteenth century petroleum played a negligible role in energy supply. Yet its use has a much longer history than is ordinarily understood. The first known oil well was completed on the island of Zante in the eastern Mediterranean Sea about 400 B.C. Petroleum from this well, like that from the few other primitive wells
developed in various parts of the world over the next 2200 years, was used in unprocessed form in lamps. The use of oil for lamplight expanded rapidly from the middle of the eighteenth century due to the proliferation of whale oil. But by the middle of the nineteenth century whale oil was becoming scarce and expensive as a result of the near elimination of the whale population.

The search for a substitute ended with the development of a new method of illumination. Working out of Cornwallis, Nova Scotia, Dr. Abraham Gesner, an avid amateur geologist and self-taught chemist, introduced mineral oil retorted from the albite (shale) deposits of New Brunswick in 1849. Gesner moved shortly afterwards to the United States and produced and marketed "kerosene" from coal extraction. Based on Gesner's techniques, crude oil was successfully substituted for coal in the production process for kerosene in 1857. There was an abundance of oil available for this purpose, and its distillation was cheaper and cleaner than the reduction of coal to kerosene. Two years later the discovery of the Drake well in Pennsylvania set off the world's first "oil rush".

At this time crude oil had almost no value in terms of energy production. Even by the end of the nineteenth century kerosene was the only marketable product obtained from refining this mineral resource. The remaining products, fuel oil and gasoline, were considered dangerous nuisances and were often dumped. Until the 1850s the primary source of combustible energy in the world was wood. It then quickly became replaced by coal for industrial uses, home heating, and for the production of coal gas which was used in lighting in many parts of Europe. However, at the turn of the century the advent of
the automobile, as well as other vehicles which consume oil distillates for their internal combustion engines, radically expanded the market for crude oil products. By the 1920s, gasoline consumption was five times as great as that for kerosene.

The century-long expansion in energy demands for liquid and gaseous hydrocarbons has motivated the search for oil and natural gas over virtually the total land mass of the world. In recent decades, technological developments have enabled this quest to be pursued in water depths of hundreds of metres off many coastlines, including those of Nova Scotia and Newfoundland. But exploration in the Atlantic Region for oil and its hydrocarbon sibling natural gas actually dates back more than one hundred years. Natural gas was reported to be in the area of Lake Ainslie in Cape Breton Island from the 1820s. Fifty years later a prospecting party from John D. Rockefeller's Standard Oil Trust conducted a search for oil around the lake, causing what was probably the Region's first oil-induced inflation of land prices. Newfoundland's first oil discovery occurred in 1867, and a small amount of oil was being produced from a number of wells around Parson's Pond on the west coast of Newfoundland by the early 1900s. This prompted the sort of optimism from Prime Minister Edward Morris which has seen thematic embellishments from his successors in recent years:

We may, I think, look forward with confidence to the development of oil-bearing regions, such as we have in Newfoundland, and even to the time when we will be given an object lesson in the shape of a few tank steamers calling at our ports to convey this rich mineral product to different parts of the Empire. (4)
By the middle of this century, relatively modest amounts of crude oil and natural gas had been recovered from Western Newfoundland and the Stoney Creek area around Moncton, New Brunswick (Stoney Creek was still producing 25 barrels of oil per day in 1983.)

After the Second World War Shell Canada field-mapped New Brunswick, Nova Scotia and Quebec and drilled five wells on land, but nothing significant was found and the program was terminated. While there has been some onshore exploration drilling in northern Nova Scotia and on Prince Edward Island over the past couple of decades, most attention has been focused on the continental shelf off the coasts of Nova Scotia, Newfoundland and Labrador. The start-up of exploration in these offshore regions coincided with a number of external factors which affected the industry's decision to move here.

As is pointed out in Chapter Four, by the end of the 1950s control over the international petroleum market by the so-called "Seven Sisters" -- Exxon, Mobil, Chevron, Gulf, Texaco, Shell, and British Petroleum -- was starting to slip. A number of independent oil companies had become involved in North Africa and had begun to expand the output of oil. Meanwhile, there were mounting grievances on the part of underdeveloped oil-producing countries. They had seen the bulk of the resource rents from oil extraction fall into the coffers of the multinational companies. The companies' plan to decrease the price of oil by $.10 per barrel in 1960 (oil sold for less than $2 per barrel at that time) finally led to an organized response on the part of producing nations. Faced with the prospect of lower revenues, Iran, Iraq, Saudi Arabia, Kuwait, and Venezuela convened the first meeting of the Organization of Petroleum Exporting.
Countries (OPEC) in Baghdad in September, 1960. These developments effectively weakened the functioning of the corporate cartel which had collectively dominated the production and marketing of petroleum since 1928. (The background to this will be discussed in some detail in Chapter Four.)

At the same time as the Seven Sisters' control over production -- and therefore pricing -- was being threatened in its traditional turf, global usage of oil and natural gas was constantly accelerating. The rising demand trend for petroleum was seemingly limitless. The rate of growth was strongest during the 1960s, and, as Table 2-1 demonstrates, by 1970 oil had replaced coal as the primary source of the world's energy.

Table 2-1

<table>
<thead>
<tr>
<th>Year</th>
<th>Solid fuels (coal, wood, etc.)</th>
<th>Liquid petroleum fuels</th>
<th>Natural gas</th>
<th>Hydroelectric, nuclear power</th>
</tr>
</thead>
<tbody>
<tr>
<td>1925</td>
<td>82.9</td>
<td>13.3</td>
<td>3.2</td>
<td>.7</td>
</tr>
<tr>
<td>1938</td>
<td>72.2</td>
<td>21.0</td>
<td>5.6</td>
<td>1.3</td>
</tr>
<tr>
<td>1950</td>
<td>61.0</td>
<td>27.7</td>
<td>9.7</td>
<td>1.7</td>
</tr>
<tr>
<td>1960</td>
<td>47.6</td>
<td>35.7</td>
<td>14.6</td>
<td>2.0</td>
</tr>
<tr>
<td>1965</td>
<td>41.8</td>
<td>39.4</td>
<td>16.7</td>
<td>2.1</td>
</tr>
<tr>
<td>1970</td>
<td>35.2</td>
<td>42.7</td>
<td>20.0</td>
<td>2.1</td>
</tr>
<tr>
<td>1975</td>
<td>32.2</td>
<td>45.1</td>
<td>19.8</td>
<td>2.9</td>
</tr>
</tbody>
</table>

Source: Van Meurs & Associates, INTRODUCTION TO THE PETROLEUM INDUSTRY, Table 23-1

Although the international oil industry had expressed little or no concern over the matter of the ultimate size of the world's oil resources until the early 1970s, corporate access to these resources was always a concern. As long as the multinationals had reliable
supplies to draw upon, their hegemony over refining and marketing could ensure the profitability of their operations. According to a senior Exxon executive, the changing international circumstances affecting production relationships in the 1960s led the oil majors to embark on an expanding world exploration program. With the knowledge that this would be only a partial solution, we have concentrated on the offshore basins and the remote Arctic areas of the world where the possibility of great oil reserves still exists.

Thus the Seven Sisters and some of the smaller multinational oil companies turned their attention to, among other areas, the continental shelves in the North Sea and off the East Coast of Canada in the early 1960s. The latter held an obvious attraction for the multinationals. Whereas the onshore regions of Eastern Canada are, for the most part, underlain by igneous and metamorphic rock, 80 per cent of the offshore is floored with sedimentary rocks, most of which have potential for containing oil and gas. The East Coast continental shelf is also quite large, comprising approximately 350 million acres. This favourable geological setting was complemented by the presence of a comparatively stable political environment. Moreover, there were virtually no federal or provincial petroleum regulations to impede the entry or restrict the operations of the companies in this region.

Circumstances Affecting East Coast Offshore Exploration to 1980

To present an account of where and when exploration wells were drilled in the East Coast offshore without incorporating a brief rationale underlying the ebb and flow of this activity would amount to — at the very least — bland ingenuousness, if not simply the omis-
sion of requisite information. Corporate and government policies and machinations have been integral to the course of offshore exploration. Even the apparently demand-driven, laissez-faire character of the first 15 years of seismic and drilling operations was complemented by a consciously unrestrictive regulatory regime. As was mentioned earlier, the intricate details vis-à-vis government and industry involvement in the offshore will be elaborated upon later in this study. In this focus on offshore exploration per se, however, the motivations of, and the dialectic between, the big players—the multinationals and the Canadian state—are condensed as they explain what has happened on the East Coast continental shelf. The salient point here, of course, is that events, entities and people external to the region have always controlled the offshore exploration enterprise. Thirty years of regional experience with this industry has done almost nothing to alter this fact.

Indications of petroleum prospects under the continental shelf emerged in 1959 when airborne geophysical surveys confirmed the presence of large sedimentary basins. The following year Mobil conducted the first seismic surveys in the region, on and around Sable Island. Corporate interest in the offshore coincided with the formation of Canada's first policy affecting petroleum exploration, production and distribution. In 1961 the Diefenbaker government announced its National Oil Policy (NOP). Under the rubric of the NOP Ottawa established the Canadian Oil and Gas Lands Regulations, which applied to exploration and development activities in Northern lands and the offshore. While these regulations did contain some minor Canadianization provisions in the event that production licences might some day
be issued, Doern and Toner note that this had no impact on the exploratory operations of the multinationals:

In practice this meant very little, however, as there were very few restrictions on who could hold exploration permits. On the frontiers, both in the 1960s and for many years to come, it was the exploration, and not the production stage that was important.

When the first extensive series of East Coast offshore exploration permits were issued from 1963 to 1965, they were granted under a "free-entry" system: Ottawa exercised no influence over the areas to be explored; there were no federal requirements concerning national or provincial industrial and employment content of the exploration work; and there were no restrictions placed on the acquisition of exploration permits by foreign companies. The first East Coast exploration well was drilled by Amoco Petroleum on the Grand banks in 1966. A year later Mobil Oil sunk the first hole off Nova Scotia on Sable Island. The fact that both of these companies were foreign-owned and -controlled was symptomatic of the non-discriminatory character of the 1961 National Oil Policy. In fact, with the exception of two unsuccessful wells drilled by Hudson's Bay Oil and Gas in the Gulf of St. Lawrence in 1970, there were no Canadian companies involved in the drilling of the more than 100 offshore wells up to 1975. As will be discussed in Chapters Four and Five, the 1960 - 73 period was marked by both the deepening of the multinational corporations' penetration into the Canadian petroleum industry and the increase of their influence over Canadian energy policy.

The compliance of successive Canadian governments to the interests of the mainly-multinational oil industry -- including the 1980 --
The Trudeau administration has a thread of unmistakable continuity which will be elaborated on throughout this thesis. In specific terms vis-a-vis the offshore, this began with the granting of exploration acreage in 1960. The work and financial obligations associated with holding exploratory permits were minimal. The companies were required to spend only $0.20 per acre on their properties for the first six years of the license. This approach can be contrasted with that of the government of Norway, a country with less than one-fifth Canada's population, which issued its first offshore licenses in 1965. Charges and requirements for drilling companies in the Norwegian offshore totalled $9.00 per acre for a similar six-year period. Moreover, Martin points out that there were no physical reasons for favouring a more concessionary licensing policy for the Canadian offshore:

It should be stressed that in 1965 there was little geological encouragement for drilling on the Norwegian continental shelf, and that conditions in the Northern North Sea are as severe as anything on the Canadian Continental Shelf outside the iceberg zone. (14)

By the end of 1976, the year that Petro-Canada entered the East Coast offshore play, 120 wells had been drilled at a total cost of $500 million. Some deposits of oil had been discovered on the Grand Banks and in the Sable Island area. Natural gas was also found there as well as in significant quantities at a number of wells off Labrador. However, no discovery of a potentially-commercial nature had been made. These results contrasted with what had been a generally high level of optimism about the prospectivity of the hydrocarbon-bearing sediments off the East Coast. In the federal Department of Energy's 1973 report, the Geological Survey of Canada (GSC) placed the
ultimate recoverable reserves for this region at 32.8 barrels of oil and 215.8 trillion cubic feet of natural gas. These figures represented almost twice the estimate for oil and more than two-and-a-half times the estimate for natural gas in the Prairies.

But this gap between hope and reality in the offshore involved more than bad luck. The issue at hand in petroleum affairs by the mid-1970s focused increasingly on which entity -- corporate or government -- should control the agenda. In the complex relationship which had evolved up to that time it was clear who set the course for offshore exploration. For the most part, as energy minister Donald MacDonald admitted in 1974, Ottawa simply did not have the required expertise to run the show:

One of the difficulties facing the Canadian government is that it is virtually dependent on major international oil companies for its sources of information. (17)

The corporations could decide if, where and at what rate they would proceed with offshore exploration. While prospectivity was obviously important, this was tied in with financial factors such as the price they received for oil and gas production and the federal taxation policies which affected net exploration costs as well as profits. Of course, as will be shown throughout this thesis, the multinationals have always been able to weigh these considerations against opportunities for investment elsewhere in the world. Finally, because of their virtual monopoly over petroleum expertise in Canada until after the 1973/74 oil crisis, the oil majors were able to influence both the public and the political perceptions of the availability of domestic oil and gas supplies. With reference to the 1973 GSC estimates for
the East Coast offshore, these figures were based on in-house calculations using a crude volumetric modelling of the potential hydrocarbon-bearing sediments. Data from seismic surveys and exploration drilling were supplied by the companies. It was more than mere coincidence, then, that the government estimates differed little from the optimistic figures presented by the Canada Petroleum Association in 1969. Overall, there was a discernible correlation between corporate self-interest and the information propagated by both the industry and government concerning petroleum resources.

1971 marked the first time that annual exports of Canadian oil to the United States outstripped domestic consumption. That was the year that, based on industry-supplied information, Canada's energy minister Joe Greene tried to convince Americans to import more Canadian oil and gas, "because Canada had 923 years of oil and 392 years of natural gas in the ground." One of the main corporate promoters of continued Canadian exports of oil to the United States, Imperial Oil, included this comment in its annual report which was released in March 1973:

In the current debate, the export of Canada's energy resources is being questioned; in effect we are being urged to bank our petroleum resources. Canada is not in any way deficient in energy resources. Our present energy reserves, using present technology, are sufficient for our requirements for several hundred years. (20)

The world price of oil rose rapidly from the autumn of 1973, the time of the first global oil crisis. The corporate perspective on Canada's petroleum resources shifted noticeably. The ominous tone of the annual report which Imperial issued in 1974 was in sharp contrast to the upbeat tidings about Canada's bountiful petroleum resources pre-
Within the next ten years, production rates from existing reserves in Western Canada will be inadequate to supply markets now being served, and new sources of supply must be ready to start delivering energy when this decline begins.\(^{(21)}\)

Now strictly speaking there is a different usage of expressions between the two annual reports. "Energy resources" in the former can be regarded as potential reserves while "existing reserves" refers unequivocally to proven recoverable resources. But while there is no formal contradiction here -- large corporations employ lawyers to ensure the absence of misstatements -- there is no doubt about the volte-face in the thrust of the corporate message in just one year. Imperial did not mind using potential resources to back up its argument for increased exports of Canadian oil to the United States. But because the Canadian government decided to cushion consumers from the large increase in world oil prices after the winter of 1973/74, Imperial employed a different frame of reference to preach a sermon of scarcity. The message was quite clear: if the Canadian government would be willing to raise oil prices to the world level and/or reduce taxes, the companies could get on with the urgent job of investing capital in the exploration and development of new sources of oil and gas, such as in the East Coast offshore.

Just as earlier estimates of Canada's petroleum resources coincided with the industry's interest, it was not surprising that this correlation was perpetuated after the oil crisis. When the GSC published its second report on energy issues in 1976, the estimates for Canada's oil and gas potential were reduced by 60 percent from three years earlier. Figures for the continental slopes and rises were
eliminated, thereby accounting for some of the variance. While this
made sense on technological and economic grounds, it's interesting to
note that the same reasoning was not applied in the earlier report.
As far as the rest of the reduction in the estimates is concerned,
James Latzer concludes that, once again, corporate-supplied information
was critical:

The key variable...obviously concerned the drilling results over the period after 1973. Again it
was the information provided by the petroleum companies that was of decisive importance. The report
implied that lack of information had been a serious problem for the Canadian government in dealing with
the oil industry. (22)

Major exploration incentives and oil price hikes to world levels
were not immediately forthcoming after 1973. In the context of the
political realization that petroleum was no longer just another re-
source but a necessary fuel for the maintenance of the Canadian econo-
my, Ottawa took some time to play catch-up in oil and gas affairs.
There was a minor transition in the relationship between Ottawa and
the petroleum industry as the federal government began to formulate,
for the first time, the outline of an oil policy which reflected a
concern for the public interest in an energy-finite world. The cor-
porations, particularly the multinationals, obviously disliked the
lack of complete government compliance to which they had become accus-
tomed. In November 1975, Mobil Oil Canada, one of the prime acreage
holders off Newfoundland and Labrador, announced that it was suspend-
ing drilling in these areas. According to the company's president,
Canada had now "become a less desirable place for oil and gas invest-
ment than other parts of the world."
This period was also marked by the growing assertiveness of the Newfoundland and Nova Scotia governments, especially the former, in claiming ownership and the right to control development in their respective offshore areas. Yet, as is pointed out in Chapter Six, the provinces' interventions never had a substantial diminishing effect on the pace of offshore drilling. Newfoundland's offshore jurisdictional dispute with Ottawa, which had developed shortly after the election of Frank Moores' Progressive Conservatives in the early 1970s, matured with the province's issuance of THE NEWFOUNDLAND AND LABRADOR PETROLEUM REGULATIONS in draft form in late 1976. The oil companies baulked at these rules, notably those related to preferential treatment for Newfoundlanders in the hiring of workers and the involvement of supply and service businesses. Without satisfactory federal financial assistance for offshore exploration ventures, the companies felt little reluctance in virtually abandoning the Newfoundland offshore by 1978.

Nevertheless, it clearly emerged in 1979 that the main thrust behind offshore drilling was government aid. Newfoundland's legislation and the federal-provincial jurisdictional dispute notwithstanding. The rigs returned that year to spud seven holes off Newfoundland and Labrador. The drill bits began turning in response to the federal government's new "super-depletion" allowance taxation scheme, a tax credit whereby companies could write off two-thirds of their offshore exploration costs from taxes owing to the federal government. When combined with other tax deductions, this meant that more than 90 percent of offshore drilling costs were paid from the public purse. Because it applied only to holes costing more than $5 million and it was a deduction against taxable income, this incentive could only be
used by large companies. Consequently, outside of the multinationals, there were only two Canadian corporate beneficiaries of this incentive arrangement: Dome Petroleum and Petro-Canada.

It was within this financial framework, supplemented by farm-out agreements whereby Mobil paid virtually no drilling costs in return for allowing other companies an interest in Mobil acreage, that the two most significant discoveries to date were made off the East Coast in 1979. Drilling the last hole of a seven-well exploration program funded by Petro-Canada, Mobil struck large quantities of natural gas at Venture D-23 off the eastern end of Sable Island. On the Grand Banks, Chevron Standard, on another farm-out from Mobil, discovered oil and natural gas on the Hibernia structure 164 miles southeast of St. John's. According to a report in the CALGARY HERALD, Chevron probably contributed about $8.3 million of the $38-million cost of the discovery well. However, because of the super-depletion allowance, it may have avoided paying Canadian taxes of $8.6 million.

After this incentive was removed in April 1980, Chevron vice-president L. R. Seaker commented: "Everyone knows that super-depletion was too generous." For its part, Mobil spent only $3 million on exploration off Newfoundland until oil was found at Hibernia. This was because it had farmed out interests on all or part of the 13 million acres.

A farm-out is a sharing of oil exploration activities and costs whereby a company with exploration rights will invite others to drill on that acreage in return for a share of whatever oil or gas is found. As payment for a stake in a potential discovery, a simple farm-out arrangement might be based on a "2 for 1" concept: the farm-in company pays 100 percent of the costs of drilling and acquires a 50 percent interest in the particular well or group of agreed wells.
had acquired on the Grand Banks in 1965. Despite the farm-outs on both the Venture and Hibernia properties, Mobil was still able to retain the major corporate interest in both fields at the time of their discoveries: 42 per cent in Venture and 20 per cent in Hibernia.

As the new decade began there was a high degree of momentum for increasing the rate of offshore drilling. And for the first time in many years it was based squarely on geological criteria. A July 1980 report by the investment firm Merrill Lynch Royal Securities described the East Coast as "the No. One offshore oil and gas exploration play in the world." But while the oil companies were keen to delineate the Hibernia field in particular in order to determine its actual size and put it into production, there were the traditional corporate cautions over oil-pricing policy and taxation regimes. Speaking at a conference of petroleum geologists in Calgary in October 1980, Chevron vice-president Gerry Henderson described Hibernia as a "truly giant oil field," the largest in Canada. But he warned that "Hibernia would be totally uneconomic at today's domestic well-head price of around $16.75 a barrel." Even at the world price of about $38 per barrel for imported oil at Montreal, Henderson said that Hibernia oil would provide a profit of little more than 10 percent under proposed royalty and taxation regimes.

Offshore Exploration Under the NATIONAL ENERGY PROGRAM

It is interesting to note that while the federal government was working out a new energy policy and an offshore incentives exploration scheme following the expiry of the super-depletion taxation system in April 1980, ten wells were spudded off Newfoundland and Labrador that
year. Despite the Venture discovery only one well was drilled off Nova Scotia. This differential pattern continued the following year after the introduction of the NATIONAL ENERGY PROGRAM (NEP). While the companies reduced the number of operating rigs to 6 from a planned 11 or 12 off Newfoundland and Labrador in 1981 because of their objections to the NEP, they still drilled eight wells there compared to spudding only two wells on the Scotian Shelf. It seems, therefore, that the industry favoured the Newfoundland offshore over the Scotian Shelf on its geological merits.

Apparently, the federal government also recognized the better prospectivity of the former. During the protracted offshore jurisdictional negotiations with both provincial governments in the winter of 1981-82, federal energy minister Marc Lalonde told a conference in Halifax that he expected 25 wells to be drilled off Nova Scotia and 80 wells to be drilled off Newfoundland and Labrador by 1986. In actuality, as Table 2-2 indicates, 48 wells were drilled off Nova Scotia between 1982 and 1986, while 42 were spudded in the Newfoundland and Labrador offshore during this period. Now the down-scaling of exploration in the latter can be attributed partially to the changing economics of petroleum developments globally, whereby falling oil prices militated against continued drilling off Labrador. This region appeared to be primarily gas-prone, and the costs of developing and recovering the resource would be exorbitant. But the profound shift from what had been projected was due mostly to the fact that Nova Scotia signed away its claim to offshore jurisdiction and control to Ottawa in March 1982, a step which the Peckford government -- predictably -- was unwilling to take. This matter is dealt with in some
Table 2-2

EAST COAST DRILLING SUMMARY, 1981 - 1986

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<thead>
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<th></th>
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<td>GRAND BANKS AND LABRADOR SEA:</td>
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<tr>
<td>Wells Spudded</td>
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<td>5</td>
<td>7</td>
<td>12</td>
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<td>7</td>
</tr>
<tr>
<td>Wells Terminated</td>
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<td>4</td>
<td>10</td>
<td>10</td>
<td>13</td>
<td>8</td>
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<td>Exploration Agreements Concluded</td>
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<td>13</td>
<td>0</td>
<td>9</td>
</tr>
<tr>
<td>Money Spent ($M)</td>
<td>352</td>
<td>282</td>
<td>494</td>
<td>514</td>
<td>657</td>
<td>351</td>
</tr>
<tr>
<td>NOVA SCOTIA OFFSHORE:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wells Spudded</td>
<td>2</td>
<td>6</td>
<td>12</td>
<td>14</td>
<td>10</td>
<td>6</td>
</tr>
<tr>
<td>Wells Terminated</td>
<td>1</td>
<td>5</td>
<td>11</td>
<td>13</td>
<td>14</td>
<td>8</td>
</tr>
<tr>
<td>Exploration Agreements Concluded</td>
<td>0</td>
<td>20</td>
<td>5</td>
<td>15</td>
<td>2</td>
<td>13</td>
</tr>
<tr>
<td>Money Spent ($M)</td>
<td>91</td>
<td>264</td>
<td>630</td>
<td>618</td>
<td>481</td>
<td>178</td>
</tr>
</tbody>
</table>

Source: Canada Oil and Gas Lands Administration, ANNUAL REPORT 1986

Under the terms of the NEP the oil companies still retained control over where exploratory wells would be drilled in the offshore. But the federal government now exerted indirect control over these activities in the sense of being able to influence the overall geographical setting of the offshore play, and, in fact, exploration in Canada as a whole. The main lever for achieving this was the Petroleum Incentives Program (PIP), whereby Ottawa paid up to 93 percent of exploration costs through a system of grants and tax deductions. With
the PIP allowances skewed in their favour, Canadian companies were
teniced to the offshore and encouraged to farm-in on multinational
properties, particularly on the Scotian Shelf. In the eight months
following the signing of the CANADA-NOVA SCOTIA OFFSHORE AGREEMENT in
March, 1982, 20 exploration agreements were negotiated between the
federal government and the oil companies. These involved commitments
to drill up to 29 wells at a total estimated cost of $1.5 billion.
Thus, as can be seen from Table 2-2, the focus of East Coast offshore
exploration shifted away from Newfoundland after 1982, only to return
there in 1985 following the completion of most of the drilling pro­
grams which had been announced for the Scotian Shelf in 1982. Argu­
ably, the locational thrust of this drilling record speaks to the primacy of political considerations over economic and geological factors in
the determination of East Coast offshore exploration activity, espe­
cially in the early period of the application of the NEP.

No exploration agreements under the terms of the NEP were nego­
tiated for the Newfoundland offshore until February 1983. This fol­
lowed the breakdown of a second major round of negotiations on off­
shore jurisdiction between the Newfoundland and the federal energy
ministers. 32 drilling programs were announced for offshore Newfound­
land and Labrador during 1983, comprising a total drilling commitment
of 38 wells. In other words, the fact that there was no offshore
agreement between the Newfoundland and federal governments did not
prevent the resumption of a heavy drilling program off Newfoundland
from the middle of 1983. In Chapter Five it is shown that, by this
time, Ottawa's big stick strategy towards Newfoundland had to be
subordinated to other political and economic priorities on the na­
As Table 2-2 reveals, large sums of money were spent on these offshore drilling programs from 1983 to 1985, the year which marked the termination of the NEP under the new energy policy direction of the Mulroney government. These expenditures are quite substantial when they are considered in the context of the regional economy, considering that roughly four-fifths net of the total amount originated with the federal government. A number of questions readily arise with this level of financial commitment coming out of the public purse. In composite form one might simply ask, has it been worth it? In a sense there are a host of complicated political and economic factors which must be incorporated into a reasoned response. That is why this study is necessarily lengthy. Yet, just as an analysis of this issue in its full breadth points to a negative response, a simple "no" is the answer when the query is limited to geological and related economic criteria.

East Coast Offshore Resources in Context

As a starting point, it is important to relate the financial breadth of East Coast exploration ventures to the potential volumes of oil and natural gas which might be recovered in the offshore regions of Newfoundland and Nova Scotia. These estimates are contained in Table 2-3. By themselves, the numbers do not explain much about the significance of these hydrocarbon resources. Various factors have to be taken into account in order to put a perspective on their value. For instance, it helps to compare these estimates with those of other petroleum-bearing regions. Extending this comparative element, the
costs involved in ultimately marketing East Coast oil and gas have to be reconciled with the prices that the market will bear, particularly at the end of the twentieth century when the world is still awash with an abundance of energy which is inexpensive to produce.

Table 2-3

<table>
<thead>
<tr>
<th>POTENTIAL RECOVERABLE RESOURCES OF OIL AND NATURAL GAS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil (billions of barrels)</td>
</tr>
<tr>
<td>----------------------------</td>
</tr>
<tr>
<td>Nfld. &amp; Labrador Offshore</td>
</tr>
<tr>
<td>Nova Scotia Offshore</td>
</tr>
</tbody>
</table>

*This composite figure is based on an equivalence of 1 barrel of oil to 6,000 cubic feet of natural gas.

Source: Geological Survey of Canada, OIL AND NATURAL GAS RESOURCES OF CANADA 1983, Table X

The first step in reaching a practical appraisal of the economic value of offshore hydrocarbons is to reduce the potential feature of their presence to what is probable as far as actual recovery and marketing is concerned. The most vulnerable area in this regard is the Labrador Shelf, the location of most of the potential gas resources in the Newfoundland and Labrador offshore. The impediments to developing the deposits there seem almost insurmountable at this juncture. The gas would have to be recovered from the ice-infested waters of the Labrador Sea and transported either by pipeline both under the sea and over considerable distances on land or by tanker following a liquefaction process. The technological capabilities for

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all of these operations might exist now, but the costs will not justify development until the global price of energy takes a quantum leap upwards, which is not likely to occur for many decades to come, if at all.

Despite this exclusion, Nova Scotia's hydrocarbon endowment appears to be substantially less bountiful than that of Newfoundland. Even Nova Scotia's oil potential has to be qualified by a couple of serious geological and political factors. Over two-thirds of the estimate for the province's offshore oil resources in Table 2-3 is based on Georges Bank's deposits. No drilling has taken place on the Canadian side of the Bank yet. Although exploration rights were issued a couple of decades ago, the Canada - United States maritime boundary covering this area was in dispute until the World Court ruled in Canada's favour in 1984. Hence, a drilling moratorium prevailed. But because of a forced political response to pressures from fishing communities on the southwest coast of Nova Scotia, a drilling ban has been placed on this environmentally-sensitive area until at least the end of the century. Community opposition to drilling has also been mounted in the New England states. For a while there was considerable interest in the American portion of this sedimentary basin. Prompted by United States Geological Survey estimates of up to 530 million barrels of oil and 31 trillion cubic feet of natural gas, 31 American oil companies spent more than $800 million in exploration permits at the beginning of the decade. After drilling eight dry holes in 1981 and 1982, however, the industry abandoned the area, at least for the time being.

Now it has been suggested by corporate and some Canadian govern-
ment officials that the results of the U. S. exploration do not have much bearing on the potential of the Canadian side of the Bank since there are geological differences between both areas. The jury might be out on this question for a long time, however, because of the drilling ban. The prime holder of exploration rights off southwest Nova Scotia, Texaco Canada, plugged the merits of exploration and development for a couple of years before the ban was announced in April 1988. Despite the company's references to "two Hibernias" and promotion of the potential existence of two billion barrels of oil in the basin, social pressures and political legislation have effectively eliminated this part of the Nova Scotia offshore from any practical accounting of the province's oil and gas reserves.

Perhaps what was most remarkable about the public attention which political leaders and the media focused on the Nova Scotia offshore in the first half of the 1980s was the virtual absence of any discussion dealing with the size and characteristics of the hydrocarbon resource there. The sedimentary basin in question is the Scotian Shelf. Geological and geophysical problems in this area had been identified by the mid-1970s. Speaking at an offshore conference at Dalhousie University in February 1977, Mobil Oil Canada president Arne Nielson said that, while the presence of salt domes was encouraging, much of the rock had the disadvantage of being severely faulted or fractured.

Although there is a proliferation of hydrocarbons throughout much of the Scotian Shelf where structural traps exist, the phenomenon of fractured rock has resulted in the presence of a widely disseminated resource in small pools. This is why the economics of recovering the
gas from these dispersed accumulations has been the main stumbling block for development for almost a decade. At the same time, the total volume of estimated recoverable reserves has not increased noticeably since the mid-1970s. Fifty exploratory wells had been drilled on the Scotian Shelf by the end of 1974, producing, according to industry estimates, approximately 1.7 trillion cubic feet (tcf) of known natural gas reserves. Twelve years later, with an additional 13 wells having been drilled at a cost of over $2 billion, most of it taxpayers' money, the total discovered natural gas reserves off Nova Scotia was set by the Canada Oil and Gas Lands Administration (COGLA) at 5.3 tcf, dispersed among 15 fields.

While heavy fracturing is also a geophysical characteristic of the Grand Banks area east of Newfoundland, it appears that the structures there have a higher density of hydrocarbons than is the case with the Scotian Shelf. Moreover, of crucial significance is the fact that the Grand Banks' deposits contain large concentrations of crude oil. There are many advantages to oil over natural gas as a source of energy; perhaps the major one is that it can be transported more easily. As a clear indication of this critical difference, the natural gas in the Hibernia field, which is present in greater volumes than in Venture, will not be recovered for marketing purposes because of prohibitive transportation costs. Instead, it will be re-injected into the Hibernia reservoirs in order to enhance the recovery of the crude oil. At the same time, there is a very low probability that Grand Banks' natural gas will be exploited for many decades to come. While not quite as severe as in the case of Labrador Shelf gas, the development of Newfoundland offshore gas faces the same kinds of costly
difficulties.

In the heyday of the East Coast offshore exploration boom -- roughly from 1980 to 1985 -- proponents frequently made upbeat comparisons between the incipient oil-and-gas-producing provinces of Newfoundland and Nova Scotia and petroleum-producing regions such as the North Sea and Alberta. For the most part, emphasis was placed on the potential for economic development based on industrial activities and anticipated revenues tied to the exploration, construction of facilities and production of oil and gas. There appeared to be an underlying assumption that these economic prospects derived from the presence of a plentiful resource. However, an examination of the latter reveals a gaping chasm between promise and probability. There is little basis for comparing Canada's East Coast offshore with the other two areas, save some social and environmental similarities and the fact that they all contain varying amounts of oil and gas. Table 2-4 shows that, even when combined, the proven hydrocarbon resource endowments off the coasts of Newfoundland and Nova Scotia are but mere fractions of what is known to be in the ground and has already been recovered in both the North Sea and Alberta.

Considering even the "potential" recoverable reserves indicated for the Nova Scotia offshore in Table 2-3, there still remains the most tenuous of present or projected economic parallels to the two petroleum-producing regions. Nevertheless, it has often been claimed by offshore boosters such as former Nova Scotia energy minister Joel Matheson and sometimes by observers like Roger Voyer that the discovery rate for natural gas on the Scotian Shelf, or for oil and gas
throughout the whole of the East Coast offshore, is far superior to that of the North Sea. As this seemingly represents one of the few bright features in an otherwise gloomy picture of the East Coast offshore, this issue requires some clarification and perspective.

Table 2-4

<table>
<thead>
<tr>
<th></th>
<th>Oil (billions of barrels)</th>
<th>Gas (trillions of cubic feet)</th>
<th>Billions of barrels of oil equivalent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nova Scotia</td>
<td>1.1</td>
<td>5.3</td>
<td>1.0</td>
</tr>
<tr>
<td>Nfld. &amp; Labrador</td>
<td>111</td>
<td>5.2</td>
<td>2.0</td>
</tr>
<tr>
<td>Alberta</td>
<td>16.7</td>
<td>117.0</td>
<td>36.2</td>
</tr>
<tr>
<td>North Sea</td>
<td>26.2</td>
<td>104.0</td>
<td>43.5</td>
</tr>
</tbody>
</table>

The figures for Alberta's oil and natural gas reserves are calculated at 90% of the National Energy Board's estimates for the Western Sedimentary Basin.


It is true that the offshore sedimentary basins from Georges Bank to north of Cape Chidley in Labrador comprise three times the area of the North Sea. On a proportional basis, so far the East Coast has experienced less than 10 percent of the exploratory drilling of the North Sea. Right away, however, it should be remembered that the gas-prone Labrador Shelf can be practically ruled out for hydrocarbon development and production because of the aforementioned technical and
financial obstacles. As far as drilling success ratios are concerned, although 250 exploratory wells had been drilled in the North Sea -- approximately the same number as have now been drilled off the East Coast -- before the three-billion-barrel Forties oil field was discovered in 1970, 11 of the 104 exploratory wells sunk in the British sector between 1964 and 1968 produced significant oil and gas finds. Many of the wells sunk in the Nova Scotia offshore do indeed contain some natural gas and/or oil, but there has been a consistent record of these discoveries proving to be relatively small and dispersed. The same is generally true of drilling results off Newfoundland. The fact that the Hibernia oil field required nine delineation wells in order to determine its size -- normally three or four such wells are sufficient for this purpose -- reinforces the negative implications for potential hydrocarbon recovery from these faulted basins.

Of the wells drilled off the East Coast there is no doubt that some were sunk in areas of demonstrably poor prospectivity -- the proverbial "moose pasture" of oil patch parlance. This applies to perhaps ten or fifteen holes and resulted from abuses of the NATIONAL ENERGY PROGRAM, an issue which will be dealt with in Chapters Four and Five. On the other hand, seismic reflection technology has improved since the early 1970s as has the understanding of the particular geophysical and geological characteristics of the sedimentary basins. When this is combined with the broad "need-to-know" mandate of COGLA under the NEP whereby exploratory drilling was consciously directed over large areas of the offshore frontiers, a more realistic projection of reserve potential emerges than the imbalance in the explora-
tion ratio between the North Sea and the East Coast might otherwise suggest. As Table 2-3 demonstrates, while the Newfoundland offshore might have some resource promise (although at considerable development and production costs as will be detailed later), the Scotian Shelf is a veritable runt among even the minor oil and gas plays of the world. At the same time, despite the completion of 105 exploration and delineation wells off the East Coast from 1981 to 1986, the volume of discovered hydrocarbon resources has not increased appreciably over that period.

Table 2-5

| DISCOVERED OIL AND GAS RESOURCES IN EAST COAST OFFSHORE |
|---------|---------|---------|---------|
|         | 1981    | 1986    |         |
| Oil     | Gas     | Oil     | Gas     |
| (billions of barrels) | (tcf) | (billions of barrels) | (tcf) |
| Nfld. and Labrador | 1.45 | 4.63 | 1.11 | 5.18 |
| Nova Scotia   | 0.05 | 2.25 | 0.14 | 5.31 |

Source: COGLA ANNUAL REPORTS, 1985 and 1986

In fact, notwithstanding oil discoveries at a number of small fields on the Grand Banks in the mid-1980s, Table 2-5 shows that the established volume of oil off Newfoundland has actually decreased. This can be attributed to the reduced estimate for Hibernia's reserves, which came about as delineation drilling revealed the complexities of the oil-bearing sandstone formations there.

On the Scotian Shelf, not only is there a small volume of discovered hydrocarbons, but the sediments there also appear to contain very limited quantities of the more important and valuable energy
commodity, crude oil. Federal geologist Don Sherwin, who has studied and commented on East Coast petroleum geology for the past decade, explains why:

Despite some industry predictions to the contrary, the Sable Island area appears to be gas prone, due to the land-derived nature of the organic material that ended up as hydrocarbons. This type is often incapable of generating much oil because it is made up of plant debris and woody material carried into the basins by rivers draining off the continent. (41)

In the early part of 1986 the expiring Nova Scotia offshore was seemingly resuscitated by the "discovery" of oil at the Cohasset site west of Sable Island. This is not an anomaly for the area, which, while determined to be gas prone, has revealed other minor crude oil deposits, including those in the Sable Island and Primrose structures. If anything is anomalous about the Cohasset field it is that there is very little gas associated with it, which probably means that the oil migrated up out of the basin into a small trap. Moreover, Cohasset was not a 1986 discovery. Mobil Oil Canada found oil in the structure in 1973. A delineation well was drilled in 1978 and came up dry. The Cohasset A-52 hole was sunk after Petro-Canada farmed in on the property from Mobil. Significantly, Mobil, which has spent a considerable amount of money drilling in the Nova Scotia offshore without obtaining any financial returns to date, passed up an option to buy back into the hole after test results were announced. Subsequent drilling in the adjacent Panuke structure in 1987 confirmed that, while oil is present in both fields, the quantity is minimal. According to Petro-Canada chairman Bill Hopper, the economics of recovering oil from Cohasset and Panuke depends on trying to get the oil out in a
"short period of time such as three or four years." The average productive life of oil and gas fields is 15 to 20 years.

To complete the picture of possibilities for the Nova Scotia offshore, both the Nova Scotia government and some petroleum industry officials have promoted the potential of the Scotian Slope as an oil-bearing zone. However, four exploratory wells drilled on that acreage by Shell Resources between 1981 and 1984 came up dry. In June 1986 Shell relinquished four leases in the area, thereby terminating its involvement on the Slope. The primary obstacle to development in this area is the water depth, which is as much as 2,000 metres. Even if substantial deposits of oil were eventually discovered there, "the potential costs of development are horrendous -- in the billions of dollars -- and it's very much in the future," according to Ian Kilgour, Shell's former chief engineer in Halifax.

While the Grand Banks -- or technically speaking the East Newfoundland Shelf -- possesses the same general geophysical characteristics related to faulting which pose impediments to efficient and economic recovery of hydrocarbons on the Scotian Shelf, the one significant mitigating difference there relates to the presence of relatively large concentrations of crude oil. This can be attributed to the nature of the source rocks. Whereas they are terrestrially-based on the Scotian Shelf and yield, for the most part, natural gas and natural gas condensate, the rocks off Newfoundland contain marine organisms and yield primarily oil. And, relatively speaking, there appears to be significantly greater quantities of hydrocarbons there than off Nova Scotia.

The figures in Tables 2-3 and 2-4 show that there is a large gap
between the potential and the proven oil resources off Newfoundland and Labrador. Based on exploration activities to date and the short-to medium-term prospects for oil prices, it could be a long time before this gap is narrowed, if ever. (In compiling the potential recoverable petroleum resources, the Geological Survey of Canada does not consider the economics of recovery.) In the context of slightly rising oil prices to about $20 to $25 (U.S.) per barrel by the beginning of the next century, Labrador Shelf resources can be ruled out for many decades. This also applies to the potential 1.7 billion barrels of oil estimated by the Geological Survey of Canada to lie in the deep waters of the East Newfoundland Basin, north of the Hibernia area.

Within the East Newfoundland Shelf, which contains all of the discovered oil deposits in the island's offshore to date, it is likely that the Hibernia field in the Jeanne d'Arc sub-basin contains the largest accumulation of crude oil there. This projection is based ultimately on the statistical manner in which petroleum geologists and reservoir engineers determine how oil pool sizes occur in a basin, which is according to a log-normal distribution. The most likely scenario establishes that the largest pool is significantly larger than the next in size, while at the lower end of the distribution curve there might be many discoveries of small fields. The necessary foundation of this estimate comes from the seismic surveys, of which there have been many in the area since the early 1980s, and information from exploratory drilling. When this data is combined with the modelling for the East Newfoundland Shelf, and assuming Hibernia
contains one billion barrels of recoverable crude oil, it suggests that there would have to be a structure containing in the order of three billion barrels in order for Hibernia to be the second-largest field. (Mobil and its partners use a figure of 525 barrels for Hibernia's recoverable reserves, but that has to be seen as a conservative, lowest-common-denominator estimate.) According to geophysical information, it seems that there is not a structure on the Shelf large enough to accommodate oil accumulations of that magnitude.

While it is not impossible that Hibernia might have a similarly-sized or larger sibling on the Grand Banks, the probable situation is one which combines exploration results to date with empirical modelling; viz., Hibernia as the largest field, perhaps undiscovered second- and third-largest fields, and many smaller fields such as Terra Nova, West Ben Nevis, Whiterose, North Ben Nevis and Hebron, which may contain between 75 million and 200 million barrels of recoverable crude oil each. If this distribution is the case, the medium-term outlook (five to ten years) for exploration activity and beneficial development is not very promising, given the economics of recovering oil from most of those fields. For example, while some fields are less faulted than others, Husky-Bow Valley reckons that at least seven delineation wells will be required on the Whiterose structure before a firm estimate of the field's reserves can be made. The Terra Nova field, estimated to contain 130 million barrels of crude oil, had seven wells sunk on the structure by mid-1988.

After almost 30 years of exploration, then, comprising over 250 drill-holes and hundreds of thousands of kilometres of seismic surveying, the East Coast offshore score-card is anything but impressive.
Starkly put, the exploration enterprise can be seen as a failure when the results of East Coast offshore drilling as presented in Table 2-5 are juxtaposed with the spending shown in Table 2-2. Of course, as has been indicated to some extent here and will be elaborated on in Chapter Five, the success of frontier drilling should not be judged solely on a correlation between moneys spent and oil and gas resources discovered. Still, for the most part it should. Looking at the East Coast and northern Canada areas as a whole, offshore analyst Ian Doig notes that from 1980 to mid-1986 $8.6 billion was spent to find one-third of the total frontier oil reserves. Little more than half that amount was spent in the previous 15 years to discover two-thirds of proven frontier oil. Off Newfoundland and Nova Scotia, Table 2-5 makes it clear that, even excluding the approximate 400-million-barrel down-sizing of Hibernia's reserves, post-1980 exploration results have not matched those of the previous period.

Before the drop in crude oil prices in the winter of 1985-86 and the concomitant projections of relatively low prices into the 1990s, Hibernia was the only field development which could perhaps have been regarded as commercially feasible. The results of subsequent drilling on the Terra Nova structure have determined that the economics of developing this smaller field might be more favourable than putting Hibernia oil on stream. Regardless, in order for either project to get underway, significant government subsidies are required. By mid-1988, six years after Mobil's Jim Sneed told the Cape Breton Offshore Trade Association that the Venture field natural gas reserves had surpassed the threshold of commercial viability, the Venture
project was still on hold because insufficient quantities of gas had been proven in the Venture and adjacent structures. Falling oil prices have now doomed the project at least until the next century -- that is, unless massive government subsidies spur its revival. The same is true for all of the other natural gas “discoveries” on the Scotian Shelf, such as Shell’s Glenelg, Alma and North Triumph fields and Husky-Bow Valley’s Chebucto deposit. Petro-Canada and Nova Scotia Resources might proceed with developing the small Cohasset and Panuke oil reserves, but the marginally-feasible character of this potential project means that it will have a virtually negligible impact even on the small and fragile economy of Nova Scotia.

Since the demise of the NATIONAL ENERGY PROGRAM in 1985 and with it the phasing out of the Petroleum Incentives Program, the oil companies have been faced with judging the East Coast offshore exploration play more on its economic and geological merits than has been the case for a decade. Clearly, they rate the area quite low. Six parcels of offshore territory were put on auction for exploration rights in the spring of 1986 under the terms of the 1985 CANADA-NEWFOUNDLAND ATLANTIC ACCORD. Only three of the parcels received sufficient bids to qualify for exploration agreements under the new federal policy which awards land to companies on the basis of spending commitments. A total of $4.8 million, roughly one-tenth the cost of drilling a single well, was allocated by five companies to be spent over the next five years. The three tracts ignored included acreage near the Hibernia structure. “The East Coast can only be considered very high risk at the best of times,” commented Ian Smyth of the Canadian Petroleum Association. Reflecting the maturation in knowledge of the Newfound-
land offshore, Calgary analyst Bob Price noted that, with the best prospects already taken, the locations would not have generated much interest even in a time of higher oil prices.

The industry is undoubtedly even less interested in the Scotian Shelf. At the beginning of March 1986 the Canada - Nova Scotia Offshore Oil and Gas Board invited companies to nominate parcels of the offshore on which they would like to conduct exploration programs. Four proposals were received, although it seems that only one bid was serious enough to warrant consideration. In October exploration rights were issued to a Petro-Canada-led consortium for a single parcel of land. The attraction here was the aforementioned area around the Cohasset field. The only other drilling activity has been undertaken by Mobil and its Venture partners. In accordance with previous requirements to relinquish land on which no "significant" or "commercial" discoveries had been made, Mobil had to surrender large portions of land around Sable Island at the end of 1985. This included an unexplored area between the Venture and Thébaud fields, two of the component structures in the overall Venture project. Consequently, the Mobil consortium renewed its rights to this land in 1986 with the idea of trying to increase Sable gas reserves. The deadline for drilling two wells there was set for September 1988. Otherwise, the companies would have to forfeit the land along with a commitment fee. With the deadline fast approaching in March 1988, Mobil announced that drilling would start by the end of the month. Offshore analyst Ian Doig commented, "It goes without saying they'll drill them because it would cost too much to give them up." As it turned out,
drilling results on the first well, South Sable B-44, were "very disappointing," according to Mobil spokesman Tom Cooney. He added that this probably means the end of any chances for Mobil to expand its drilling on the Scotian Shelf for the foreseeable future.

It would be a cause of some public concern that any industrial effort of the historical magnitude of East Coast exploration had produced such questionable results. However, considering that over the years about 80 per cent of offshore exploration expenditures have been borne by the federal government through direct grants and the forsaking of taxation revenues, there has always been a need for critical analysis of this activity. Except for industry and federal Conservative criticism during the NEP -- although most of this derived from financial and political self-interest -- such scrutiny has been absent. What has been at stake here is the application of massive amounts of primarily-public capital for development purposes in a region of Canada which has suffered from both a history of capital drain and inadequate financial resources to provide public services comparable to national standards. At the same time, it should be emphasized that critical questioning of the costly offshore enterprise does not reflect the privilege of hindsight: reservations about the spending of hundreds of millions of dollars in the offshore -- particularly off Nova Scotia -- have been justified since the mid-1970s.

This theme regarding the mis-allocation of taxpayers' funds will be examined in various political and economic contexts throughout this study. Perhaps at this juncture, because numerical and economic scales have been used to describe the overall exploration picture off the East Coast, it would be appropriate to look at gross capital
expenditures in the offshore. These can be compared with the capital costs of major development projects which have occurred or are anticipated in the Atlantic Region since the inception of such enterprises, including offshore exploration, in the 1960s. Table 2-6 shows that, applying 1986 constant dollars to all projects, East Coast exploration

Table 2-6
CAPITAL EXPENDITURES ON ATLANTIC REGION MEGA-PROJECTS AND OFFSHORE EXPLORATION

<table>
<thead>
<tr>
<th>Project/Offshore Exploration</th>
<th>Period</th>
<th>Cost ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bay D'Espoir Hydro Development</td>
<td>1965-70</td>
<td>871</td>
</tr>
<tr>
<td>Point Tupper Oil Refinery</td>
<td>1968-71</td>
<td>444</td>
</tr>
<tr>
<td>Lingan Thermal-Electric Generator</td>
<td>1976-84</td>
<td>563</td>
</tr>
<tr>
<td>Come By Chance Oil Refinery</td>
<td>1969-74</td>
<td>682</td>
</tr>
<tr>
<td>Point Lepreau Nuclear Generator</td>
<td>1974-83</td>
<td>2,382</td>
</tr>
<tr>
<td>Churchill Falls Hydro Development</td>
<td>1967-74</td>
<td>3,388</td>
</tr>
<tr>
<td>Venture Development Project (est.)</td>
<td></td>
<td>3,139</td>
</tr>
<tr>
<td>Hibernia Development Project (est.)</td>
<td></td>
<td>5,196</td>
</tr>
<tr>
<td>East Coast Offshore Exploration</td>
<td>1966-86</td>
<td>8,318</td>
</tr>
</tbody>
</table>

* Actual and estimated capital costs for construction projects are adjusted to 1986 dollars using the non-residential construction index. Actual exploration expenditures are adjusted to 1986 dollars using the consumer price index.

Sources: Michael Gardner, COMPARISON OF MAJOR CONSTRUCTION PROJECTS AND OFFSHORE HYDROCARBON DEVELOPMENTS IN ATLANTIC CANADA, (Halifax: Environmental Studies Revolving Funds, 1985), Table 1; COGLA, ANNUAL REPORT 1986. In addition to COGLA estimates, figures for offshore expenditures were also supplied by the Canadian Petroleum Association and Petro-Canada.
activities have cost more than twice as much money as any of the mega-projects. From a provincial perspective, given the fact that almost similar numbers of wells have been drilled off Nova Scotia and Newfoundland, one can conclude that more capital has been invested in each of the provincial offshore regions than on any of the completed major development projects. Two other points need to be stressed here. First of all, with approximately four-fifths of total offshore expenditures -- over $6.6 billion -- coming out of the public purse, it is difficult to discern any lasting benefit accruing to the economies of either province (the question of industrial benefits will be addressed in Chapter Seven). Secondly, exploration activity represents only the initial phase of any potential development. As can be seen in the Table above, the costs of developing Hibernia and Venture are additional to the exploration expenditures. These should be contrasted with the total costs of the other mega-projects, all of which include initial feasibility and planning expenses.

In conclusion, corporate demands for subsidies for the costly Hibernia development -- as well as for any of the other smaller projects -- reinforce the likelihood that the federal government will not recover any of the public's billions of dollars which have been invested in exploration ventures off the East Coast.

ENDNOTES


2. Ibid.


5. In its heyday from 1909 to 1939, the Stoney Creek site produced about 17 billion cubic feet of natural gas and 240,000 barrels of oil (Hartlen, op. cit.). By comparison, the offshore Venture field is estimated to contain approximately 1.5 trillion cubic feet of recoverable natural gas and the Hibernia field has officially-estimated recoverable reserves of about 525 million barrels of oil.

6. It has been calculated that from 1901 to 1960 the oil majors shipped out $14.6 billion in profits from the Middle East, while re-investing only $1.7 billion (Michael Tanzer. THE ENERGY CRISIS [New York: Monthly Review Press, 1974], p. 58)


10. Seismic surveys are the most important method of searching for buried geological structures and pinch-outs that might contain oil or gas, and to pinpoint such targets for later drilling. The operation involves a ship towing an acoustic device and a string of detectors called hydrophones. Sound waves are bounced off subsurface formations and profiles are thereby obtained of these formations. It is the analysis of seismic reflection profiles which provides a means of identifying and mapping prospective hydrocarbon traps. Based on the mapping, sites are selected for exploration drilling. Furthermore, once oil has been discovered in a reservoir, seismic data are essential to any evaluation of its size and shape and consequent estimate of recoverable reserves.


13. Martin, op. cit., pp. 46, 47
14. Ibid., p. 46

15. This figure was quoted by Stanley Pearson, vice-president of Gulf Canada, in a presentation to a conference on offshore oil and gas at Dalhousie University in February 1977 (St. John's EVENING TELEGRAM, February 28, 1977).


17. Doern and Toner, op. cit., p. 91

18. Crane, op. cit., p. 156

19. Doern and Toner, op. cit., p. 85

20. GATT-FLY. POWER TO CHOOSE: CANADA'S ENERGY OPTIONS (Toronto: Between the Lines, 1981), pp. 29, 30

21. Ibid., p. 30


23. Crane, op. cit., p. 126

24. Ibid., p. 163

25. St. John's EVENING TELEGRAM, September 13, 1980


27. EVENING TELEGRAM, July 17, 1980


30. GLOBE AND MAIL, February 19, 1982


32. CHRONICLE-HERALD, March 27, 1982

33. GLOBE AND MAIL, December 10, 1986

34. FINANCIAL POST, September 14, 1987

35. EVENING TELEGRAM, February 27, 1977. See also Ralph Surette,

Two months before the signing of the CANADA - NOVA SCOTIA OFF-SHORE AGREEMENT, offshore consultant Michael Gardner quoted federal geologists in commenting that "there probably isn't all that much gas off Sable" (CHRONICLE-HERALD, January 11, 1982). Such references to the petroleum geology of the Scotian Shelf have been infrequent in the literature and media dealing with the Nova Scotia offshore, but they are invariably consistent.

36. ATLANTIC ENERGY NEWS, July 1984

37. Canada Oil And Gas Lands Administration. ANNUAL REPORT 1986, p. 36. The "reference to 15 fields was made by COGLA officials during testimony to the House of Commons energy committee in January 1985 (CHRONICLE-HERALD, January 30, 1985).

38. Mobil Oil Canada, Ltd. HIBERNIA DEVELOPMENT PROJECT: ENVIRONMENTAL IMPACT STATEMENT, Volume I, Summary (St. John's: 1985), p. 9

39. Speaking to the annual meeting of the Petroleum Society of Nova Scotia in September 1984, Matheson said the success rate of wells off Nova Scotia in the previous two years was nearly 40 per cent, far ahead of the industry average (MAIL-STAR, September 25, 1984). Voyer claimed that over 250 exploration wells had been drilled in the North Sea before the first commercial oil discovery, while some 150 wells had been drilled off the East Coast by the end of 1981. Among these were the Venture natural gas and the Hibernia oil discoveries (Roger Voyer, OFFSHORE_OIL: Opportunities for Industrial Development and Job Creation, [Toronto: James Lorimer & Company, Publishers, 1983], p. 1). With regard to the Newfoundland offshore specifically, much the same view has been presented. Writing in the April 1985 issue of ATLANTIC BUSINESS, Mark King noted that "the ratio of discovery to wildcat remains at about one in four. With 17 oil and/or natural gas discoveries to date, the best record of petroleum exploration in the world at present."


41. Don Sherwin, op. cit., p. 32

42. MAIL-STAR, August 12, 1987

43. MAIL-STAR, December 7, 1982; CHRONICLE-HERALD, October 20, 1983

44. CHRONICLE-HERALD, June 13, 1985

45. R. M. Procter, G. C. Taylor and J. A. Wade. OIL AND NATURAL GAS RESOURCES OF CANADA 1983, (Ottawa: Department of Energy, Mines and Resources, 1983), p. 33, Table X. As with other estimates which have been used in this chapter, this figure constitutes the "Average Expectation" versus the lower "High Confidence" quantity
and the higher "Speculative Estimate" figure.

46. GLOBE AND MAIL, December 13, 1985
47. GLOBE AND MAIL, March 8, 1988
48. GLOBE AND MAIL, June 18, 1986. This report was based on an article in DDIG'S DIGEST.
49. David Hatter. "Terra Nova May Steal Thunder of Hibernia Giant", FINANCIAL POST, May 9, 1988
50. EVENING TELEGRAM, April 9, 1986
51. CHRONICLE-HERALD, March 25, 1988
52. CHRONICLE-HERALD, July 22, 1988
53. For obvious reasons, it is difficult to arrive at an exact percentage for the taxpayers' contributions to offshore exploration. Yet, there are some indicators which certainly narrow the parameters. As was noted earlier in this chapter, more than 90 percent of offshore drilling costs were borne by the federal government from 1977 to April 1980 under the super-depletion allowance scheme. The terms of the Petroleum Incentives Program (PIP) required after-grant, after-tax expenditures of approximately 9 percent of the costs of offshore wells by Canadian companies and 34 percent of these costs by foreign-owned firms (Doern and Toner, op. cit., p. 380). While most of the valuable acreage off the East Coast has been held by the multinational companies, the majority of drilling expenditures have been covered by Canadian companies through farm-in arrangements. Petro-Canada itself, for instance, paid 50 percent of all industry expenditures off the East Coast from 1976 to 1982, and as much as 70 percent on the Scotian Shelf (Voyer, op. cit., p. 29; Nova Scotia, INDUSTRIAL BENEFITS: OFFSHORE OIL AND GAS, (Halifax: Department of Development, August 1983), Enclosed charts). In 1985, Petro-Canada had a stake in 29 of 33 wells drilled off Newfoundland and Nova Scotia (MAIL-STAR, March 11, 1986). Given the fact that Husky-Bow Valley was also one of the most active operators from the early to mid 1980s, it is reasonable to conclude that at least 50 per cent of the offshore wells drilled under the terms of the PIP qualified for the maximum benefits, meaning that government-sourced funds have covered about 80 per cent of the total exploration costs. More than four-fifths of all offshore expenditures have been made under the fiscal terms of the NEP and the super-depletion allowance.

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“It’s oil!” screamed the headline on the front page of the Halifax CHRONICLE-HERALD on October 5, 1971. Mobil Oil Canada had struck a supposedly "vast" oilfield on Sable Island. Within a couple of years large natural gas deposits were found off Labrador. These discoveries led to the creation of unprecedented expectations of economic well-being on the part of Nova Scotians and Newfoundlanders. In a 1977 government publication, Premier Frank Moores of Newfoundland suggested that

Never in the history of Newfoundland and Labrador have we had an opportunity such as that posed by the development of our offshore oil and gas resources. Grasped quickly and guided properly, offshore oil and gas could catapult Newfoundland into the forefront of Confederation and permit us to become a contributor to the Canadian nation beyond our most optimistic dreams.

Six years later, the throne speech to the Nova Scotia legislature claimed that “offshore revenues will lay the base for economic growth into the next century.”

Now as Chapter Six reveals, the political content of these statements should not be discounted. But visions of prosperity have not been restricted to the self-serving domain of government. At times the business and financial communities have contributed to the activation and reinforcement of popular expectations. It did not go unnoticed in the region in June 1980, for instance, when the investment firm Merrill Lynch described the East Coast as “the No. One offshore oil and gas exploration play in the world.” Enthusiasm was bolstered a couple of months later by William Bradford, executive vice-
president of the Bank of Montreal. Speaking to the St. John's Rotary Club, he said: "Recent developments in the energy front have made Newfoundland the new focal point for the world financial markets."

Despite much popular cynicism, a feeling has been generated that, particularly in the case of Newfoundland, the development of offshore hydrocarbon deposits has come to represent a "last chance" for any kind of economic prosperity. This leads directly to the question: why have people's hopes been pinned on an ill-defined resource which is subject to so many political and economic vicissitudes? This reliance on a solitary engine of development seems to speak quite clearly to the fact that economic conditions in the region are unsatisfactory. Why is this the case? Have there not been and are there not at the present time other resources -- some renewable ones at that -- which should have ensured ongoing economic benefit to residents of Newfoundland and Nova Scotia? Is there not the desire, energy and ability among the people here to establish and maintain a sufficient level of income for themselves and their communities? These questions demand a necessary understanding of why Nova Scotia and Newfoundland are often said to have dependent and underdeveloped economies. By looking at the historical factors which have created this situation, then, a helpful context can be provided in which to view the possibilities for achieving social and economic self-determination through offshore oil and gas developments. This examination is also directly relevant to understanding how and why certain strategies have been adopted by government and business in the two provinces with respect to the offshore, issues which will be explored below and in Chapter
Six. Finally, such a review and analysis should indicate if there are political and economic structures regionally, nationally and internationally that would inhibit Nova Scotia and Newfoundland from taking an independent path in developing their resources.

**Brief Profiles of Current Dependency in the Provincial Economies**

The point of departure for dealing with these issues is to first place the economies of Nova Scotia and Newfoundland in a definable context by presenting some relevant statistics. While a method of quantification is certainly not a complete tool in analyzing the overall well-being of both provincial societies, it helps to provide a comparative assessment of economic health in both historical and national terms. And some of these indices, particularly unemployment, provide some measure of the social health of a people, notwithstanding the indigenous cultural vitality that might appear to transcend the numbers. It's true that the definition of wage-earning "employment" might not have too much bearing on the work which some people undertake at various times of the year in parts of rural Nova Scotia and Newfoundland. But the increasing integration of all parts of these societies into a capitalist market economy tends to validate such a methodology now more than than might have been the case in the past.

As Table 3-1 indicates, the unemployment rates in Nova Scotia and especially in Newfoundland are significantly higher than the national average. By themselves, though, these percentages do not reveal the full extent of the problem. Newfoundland has the lowest participation rate in the labour force in Canada, with 53 per cent of the population over 15 years of age counted among those who are working or officially
defined as looking for work. At 58.8 per cent, Nova Scotia's rate is third lowest -- slightly ahead of New Brunswick's -- but substantially below the national average of 65.2 per cent and Ontario's 68 per cent. In other words, there is a high degree of "hidden" unemployment in Newfoundland and Nova Scotia, comprising people who have either given up looking for work or who have not tried to find a job.

Table 3-1

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (millions)</td>
<td>0.579</td>
<td>0.872</td>
<td>8.947</td>
<td>25.123</td>
</tr>
<tr>
<td>Unemployment Rate (%)</td>
<td>21.3%</td>
<td>13.8%</td>
<td>8.0%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Income ($1,000)</td>
<td>$9,702</td>
<td>$11,693</td>
<td>$15,841</td>
<td>$14,412</td>
</tr>
<tr>
<td>Gov't. Debt ($)</td>
<td>$3,439</td>
<td>$2,463</td>
<td>$1,736</td>
<td>$400</td>
</tr>
</tbody>
</table>

Sources: Statistics Canada, PROVINCIAL GOVERNMENT FINANCE, 68-209; NATIONAL INCOME AND EXPENDITURE ACCOUNTS, 13-201; THE LABOUR FORCE, 71-001

simply because there are no opportunities for salaried employment in the vicinity of their homes. Quite clearly, when all of these social and economic indicators are combined, they reveal that, although there are differences within the Atlantic Region (a matter which will be dealt with later in the chapter), the average economic lot of Nova Scotians and Newfoundlanders -- particularly the latter -- is significantly worse than that of Ontario residents and indeed other Canadians in general.

Behind these figures lies the stark reality of Atlantic provincial economies in profound decline, with a high degree of dependence
In 1980, the Economic Council of Canada noted that governments, primarily the federal, were the original source of fully 80 per cent of the Newfoundland economy's spending; the comparable figure for Canada as a whole was 44 per cent. By 1986 nearly one-quarter of families and 45 per cent of single people in the province were determined to have poverty-level incomes. While the economic indices are not as severe for Nova Scotia, the structural weakness and external dependence of the economy is similar.

Table 3-2

<table>
<thead>
<tr>
<th>Sector</th>
<th>Newfoundland</th>
<th>Nova Scotia</th>
<th>Ontario</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>12.3%</td>
<td>7.1%</td>
<td>3.3%</td>
</tr>
<tr>
<td>Secondary</td>
<td>18.9%</td>
<td>18.1%</td>
<td>31.2%</td>
</tr>
<tr>
<td>Tertiary</td>
<td>68.8%</td>
<td>74.8%</td>
<td>65.5%</td>
</tr>
</tbody>
</table>

The historical profiles of most national and regional economies in advanced capitalist societies show a pronounced shift in activity towards the tertiary, or service, sector from the beginning of twentieth century. Still, a substantial level of manufacturing is generally regarded as defining a mature economy. In this vein, Table 3-2 highlights the fact that, proportionally, the secondary sector of the
Ontario economy is two-thirds greater than those of Newfoundland and Nova Scotia. Moreover, in both of these Atlantic provinces much of the small manufacturing industry is based on limited processing tied to fishing and forestry. Two-thirds of the secondary sector of the Nova Scotia economy involves manufacturing while the remainder is taken up with construction activity. In 1982 the percentages of value added in manufacturing were 36.1 for pulp and paper and 22.2 for fish products. In Newfoundland fish processing is relatively more important, constituting more than one-half of the manufacturing labour force. Most of this activity, however, involves the limited preparation of cod fillets which are frozen into 16-lb. blocks for export to the United States. There the fish is thawed and processed further for the consumer market. Meanwhile, in both the primary and secondary sectors of the fishing industry, there is a high degree of dependence on imported equipment and machinery.

The picture which emerges here is of weak regional economies where the dominant activity is the provision of services. The overwhelming role of the federal state in this sector and the reasons behind this will be examined later in the chapter. With regard to the fishing industry, which was the raison d'être for the initial settlement of much of Atlantic Canada and which still represents the social and economic backbone of Newfoundland and Nova Scotia, federal subsidies have become essential to its maintenance. This applies to virtually all branches, from unemployment insurance benefits to inshore fishermen to massive grants to the offshore and processing parts of the industry. Indeed, the restructuring of the corporate sphere in 1983 and 1984 into an oligopoly of two dominant companies, Fishery
Products International in Newfoundland and National Sea Products in Nova Scotia, involved government cash infusions and debt conversions of $255 million for the former and almost $150 million for the latter. The only private investment in either deal came primarily from the Jodrey and Sobey family empires in the Maritimes. For less than $15 million, they obtained control of National Sea.

The areas of the provincial economies which are not dominated directly or indirectly by the federal government are heavily influenced by foreign capital. In 1980, 71.1 per cent of total capital expenditures in Nova Scotia originated with foreign firms. Looking at capital expenditures in 1983 for the centres of economic activity in the two provinces, St. John's and Halifax, foreign investment represented 64.4 per cent in the former and 90 per cent in the latter. In fact, the dominance of multinational capital in non-governmental areas of the Nova Scotia economy is overwhelming. The three pulp and paper companies are foreign-owned and the other major manufacturing employer, Michelin Tire, is based in France.

Simply expressed, the economies of Newfoundland and Nova Scotia are dependent upon external sources of capital for both maintenance of the social economy and new investment. In order of importance, these sources are the federal state, multinational corporations and Canadian companies. With this financial dependence comes a corresponding lack of indigenous control over political and social institutions. While there are particularities which certainly distinguish the marginalization of the Atlantic Canadian economy vis-a-vis that of the financial metropolis in central Canada and the United States, the process in-
volved is little different from that which has occurred to virtually all third world countries. It is tied up with, on the one hand, the centralization and concentration of capital and, on the other hand, the outward penetration of capitalist enterprises into peripheral regions of the world. This has created "dependency", defined by Dos Santos as

a situation in which the economy of certain countries is conditioned by the development and expansion of another economy to which the former is subjected. The relation of interdependence between two or more economies, and between these and world trade, assumes the form of dependence when some countries (the dominant ones) can expand and be self-starting, while other countries (the dependent ones) can do this only as a reflection of that expansion, which can have either a positive or a negative effect on their immediate development. (14)

Historical Development of Underdevelopment in Atlantic Canada

Before dealing with the theoretical underpinnings of the dependency process as it applies to the Atlantic Region, attention should first be focused on the historical development, or "underdevelopment", of the area. Over the past one hundred years, the economies of both Newfoundland and Nova Scotia have maintained roughly similar profiles in terms of sectoral distribution of labour and generation of income. Their historical economic and political relationships with central Canadian, or metropolitan, capital, however, have been different. The fact that the evolution of regional, national and international economic systems have produced similar disadvantaged structures in these two places in recent decades suggests some uniformity in the dynamic of capital accumulation as this process affects peripheral regions.
For four hundred years following the early-sixteenth-century arrival of fishing vessels from the southwest counties of England, the fishery totally dominated the economy of Newfoundland. While it was perhaps as important to Nova Scotia in the early centuries of European settlement, by the early nineteenth century the economy was becoming more diversified. Much of the stimulus for this had to do with American independence and the consequent assumption by the Maritimes of New England's role in the British West Indies trade. By the 1860s, the Maritimes exhibited the characteristics of a mature staples economy, producing and exporting timber, lumber products, fish and ships. At the time of Confederation in 1867, the Maritimes was relatively prosperous compared with the rest of the new dominion. Consequently, as Alexander notes, the union of the British North American colonies provoked both fear and optimism in the Maritimes — fear that the provinces would be reduced to colonies of Upper Canada, and optimism that they would develop into the workshop of the dominion. (16)

Independent of the new political arrangement in British North America, the British market for Maritimes' lumber and ships declined rapidly in the early 1870s. The instituting of import tariffs under the aegis of the National Policy in 1879, however, led to a brief and intensified period of industrialization in parts of the Maritimes. In fact, between 1881 and 1891 the industrial growth rate of the Nova Scotia economy outstripped that of Ontario, Quebec and New-Brunswick. However, the world-wide recession which had developed in the 1870s began to seriously affect most sectors of the Canadian economy by the mid-1880s. The Maritimes was not spared. What occurred in the face of this prolonged recession was the consolidation of capital.
While this has been replicated during the downturn in every business cycle since, its magnitude in this instance marked a specific transition in the historical development of capitalism.

By this time Maritime manufactories had already developed a dependence on central Canadian -- primarily Montreal -- interests for the wholesaling of their extra-regional exports and for the regulation of industrial production in accordance with perceptions of market demand for Maritime products. During this period of market weakness, therefore, it was inevitable that the increasingly dependent business operations in the Maritimes would be absorbed by the stronger centre of capital. Accordingly, Montreal entrepreneurial interests took over much of the region's manufacturing industry in the early 1890s. This centralization of the industrial sector was followed by the absorption of the financial sphere shortly afterwards. By the second decade of the twentieth century the shifting of the Maritimes' major banks from Halifax to Montreal was completed. Throughout this whole period, with some temporal and intra-regional exceptions, the strength of the regional economy declined markedly compared with that of the rest of the country.

While the Maritimes had opted for -- or were coerced into -- Confederation, Newfoundland had chosen to reject this political alternative. In reviewing the economic histories of both regions, which were operating within different formal political structures from the first confederation era, it is difficult to discern how their growing dependency could have been altered if one or both had chosen the opposite political route. The major structural difference between the
economies of Newfoundland and the Maritimes in the 1880s lay in their varying reliance on the fishing industry. In 1884 some 67 per cent of goods production in Newfoundland was accounted for by fish products, compared with only 13 per cent in the Maritimes. By this time, the fishery in Newfoundland was anything but dynamic and growing. Much of this had to do with the archaic structure of the industry and the reinforced attitude of Newfoundland merchant capitalists towards it in terms of possible investment. Overton suggests that merchants had little desire to take over, organize and directly regulate production. For these merchants, the fishery was not a food industry in which capital investment led to production. Rather cod served them as a form of bullion, something they took in exchange for imported commodities because the people had no money to pay for them. Merchants considered selling goods their main business, not producing cod. (21)

Thus while cod remained the mainstay of the economy, overall it generated only a modest amount of surplus capital. This was due to the maintenance of the truck system, where under typically-monopolistic conditions, merchants set prices so low that most of the economic surplus was appropriated by them. Because most of the time fishermen were indebted to local merchants for fishing gear and provisions received at the beginning of the fishing season, they rarely had much cash at the end of the season, given the low prices which they received for their product. Consequently, consumer demand for both locally manufactured and imported goods was relatively low, which in turn contributed to keeping the economy at a low level of growth.

There was a desperate need to diversify the economy. By the end of the century Prime Minister Edward Morris summarized the development alternatives under the following headings: starvation, emigration,
confederation, or opening up the country. The country’s merchant class was loathe to be — or incapable of being — the catalyst in establishing any significant departures for the economy. While at the turn of the century they did set up some manufacturing operations, primarily in St. John’s, these were linked to the local consumer market. Otherwise, the capital which was accumulated by Newfoundland entrepreneurs was directed to the wholesale and retail trade and overseas securities. The Amulree Royal Commission on the country’s economy reported in 1933 that

In Newfoundland, never have those with capital large or small shown any marked desire to invest it within the confines of their own country, whether by the purchase of government securities or otherwise. (24)

In fact, the transition from economic stagnation arose at the beginning of the twentieth century with foreign investment in the pulp and paper and mining industries. Total goods production per capita in Newfoundland increased by 51 per cent from 1911 to 1939, mostly as a result of the production associated with the two British-owned paper mills in Grand Falls and Corner Brook. By comparison, growth in the Maritimes economy during this period constricted to about 6 per cent.

Although Newfoundland’s saltfish industry did revive during World War I, it entered a disastrous decline from the early 1920s. Improved transportation systems expanded the North American market for fresh fish, and technological innovations had enabled the development of a more mechanized industry internationally, with frozen fish now beginning to displace the salted variety. Overton points out that
The fishery in Newfoundland could have been 'revolutionized', but it was not. The small fishermen could not do it for lack of the necessary capital. The local merchant-usurers kept their capital in commerce and were not interested in directly controlling fish production. Nor were the banks, which after the crash of 1894 (in Newfoundland) were simply branches of the major Canadian banks, interested in lending money directly for fish production. Their loans were short-term and geared towards commerce. In addition, as Naylor points out, they had an explicit policy of draining deposited funds out of areas such as the Maritimes and West Indies to be loaned in Central Canada and the West where rates of interest were higher. (26)

The decline in export prices for salt cod and the growing government debt emanating from the provision of infrastructure for industrial development, particularly the construction of the Newfoundland railway, produced ongoing crises in the economy throughout the 1920s. With 60 per cent of state revenues devoted to servicing the debt, the government desperately sought any means of generating revenues, including the imposition of customs duties on vital household commodities such as sugar, flour, and salt. Directly and indirectly these taxes contributed to increasing the costs of fish production and diminished the already meagre disposable income of the rural fishing population. Finally, in 1933, faced with having to default on its debt payments, the Newfoundland legislature was forced to relinquish responsible government and submit to direct rule from Westminster, the British government having insisted that debts to international finance capital had to be honoured.

Interestingly, although the Newfoundland economy had, to all intents and purposes, been grinding inexorably into bankruptcy from the end of the first world war, over the long haul it still showed more growth than that of the Maritimes. Between 1869 and 1935, New-
foundland goods and production increased at an annual average of 1.0 per cent. The comparable figure for the Maritimes from 1871 to 1941 was 0.55 per cent, while the Canadian economy as a whole grew at 1.64 per cent per annum. The fall from relative prosperity obviously did not sit well with Nova Scotians and the rest of Maritimers. There was a political sense that the region had become an unimportant appendage to central Canadian interests. In 1886 the Nova Scotia Liberal Party was elected on an outright secessionist platform, although nothing eventually came of it. Forty years later, separatist demands fuelled the growth of the Maritime Rights movement, the outcome of which was the reinstatement of some rail transportation subsidies and the instituting in the 1930s of the country's first regional development programs.

The stagnation of the Maritimes' economy over this period and the growing dependency on central Canadian and foreign capital prompted then, and still does, the notion that political union with Upper Canada sealed the fate of Maritimes society and its economy in a negative way. Although it is probably true to some extent, as Michael Clow argues, that "the options for Maritime development were narrowed and channelled by the political fact of Maritime absorption by the Canadas," it is little more than a leap of faith to suggest that

Under alternative constitutional arrangements — whether continued separate colonial existence, Maritime Union, or economic association with the United States — the developmental problems and opportunities open to Maritimers would have been quite different from those that faced the people of the region in Confederation. *(28)*

American markets were no longer freely accessible for Maritime products, and, as was pointed out above, British demand for ships and
lumber declined dramatically in the 1870s. Given the global effect of the recession which lasted roughly from 1873 to 1896, it is difficult to see how the Maritimes could have maintained its industrial and commercial independence in any political configuration. Although Newfoundland played a somewhat different role from the Maritimes in the North Atlantic economy and a strict comparison of what ensued in both places is not fully applicable, still there is nothing to suggest that Newfoundland's political independence had any positive bearing on its grim economic experience during this period. Despite the fact, for instance, that Newfoundland was not part of the new Dominion, its banks were still taken over by the Montreal financial establishment.

There is little doubt that central Canadian political influence militated against Maritime interests before and after the turn of the century. Generally, in a parliamentary democracy, areas with the greatest population density and concentration of constituencies hold sway over inter-regional conflicts. Furthermore, there is invariably a fundamental compatibility of interest between the political and economic elites, although, as will be argued later in this chapter, it is inappropriate to view federal political decisions which are not in the interest of Atlantic Canadians as a conscious conspiracy of both groups. Given these qualifying influences, however, the development of regional dependency which was fully articulated by the early decades of this century has to be seen primarily in the dynamics of capital accumulation on a global scale. What happened in Newfoundland and the Maritimes characterized how weaker, peripheral capitals were absorbed into metropolitan capital as it entered its monopoly phase.

In assigning cause for the inability of Maritimers to maintain
control over their economy during this period, T. W. Acheson asserts that it "was partly a result of geography and partly a failure of entrepreneurial leadership," although he adds that "the question of entrepreneurial failure is more difficult to document" than geographical limitations. The argument for the latter cause, which was confidently advanced by B. S. Keirstead at the end of World War II, came under exacting scrutiny from Roy George in 1970. He concluded that no factor cost comparisons -- labour, materials, fuel, electricity, capital, transportation, or taxation -- could carry the burden of explanation for the retarded state of Maritimes manufacturing. Instead, George posits the poor quality of entrepreneurial talent in the region, tracing this to such things as the family-dominated nature of business and "ethnic stagnation." Overall, the failed-entrepreneurial-leadership argument is perhaps the most recurring theme in conventional analyses of regional economic stagnation. Although Acheson acknowledges the drive and innovation of many Maritime entrepreneurs in the decades before and after the turn of century, he attributes the eventual external domination of the region's economy to the failure of its entrepreneurs to maintain control of any significant element in the industrial section of the regional economy. Central to this experience was the failure of a viable regional metropolis to arise to provide the financial leadership and market alternative. With its powerful mercantile interests and its impressive banking institutions, Halifax could most easily have adapted to this role, but its merchants preferred, like their Boston counterparts, to invest their large fortunes in banks and American railroad stocks than to venture them on building a new order.

It is no mere coincidence that, as Barrett notes, writers such as David Alexander and Cato Wadel who have dealt with historical problems
of the Newfoundland economy blame the commercial elite for stagnation in the fishing industry. Although Alexander rationalizes to some extent the behaviour of Newfoundland entrepreneurs because of limitations which they faced in investment opportunities and borrowing capacities, there remains the inherent criticism that their decision-making was not compatible with the public interest. Among other things, this type of analysis seems to ignore one of the basic tenets of successful capitalism, that of the necessary opportunity for the unfettered mobility of capital. It might be the case that, in the short term, regional and entrepreneurial interests logically coincide. More often than not in the long term, however, in order for a regional entrepreneur to succeed, he needs to invest elsewhere where his capital will provide the greatest return. In general, investments are drawn to financial and population centres where capital and capital-producing infrastructure are located.

Also crucial to this discussion are the particular social structures in which different capitals evolve. The perpetuation of a non-dynamic mercantile capitalist order in Newfoundland into the twentieth century was based on the preservation of an unchanging social and economic order. Barrett points out that

Often regional and sectoral conditions which are characterized by surplus labour, poverty, and political conservatism engender complacency, stagnation and archaic forms of production. It is not that these are not rational — from a capitalist point of view — but that they are the most profitable forms of organization under certain conditions in the short run. The implication of this theory for Newfoundland is that it is not primarily poor markets, and the like which account for backwardness in the fishing industry and low labour productivity, but Newfoundland's social structure which historic
ally conditioned particular forms of exploitation based on low wages and long hours. As long as the social structure and power relations remain unchanged it is utopian to think that the entrepreneurial class will be the harbinger of progress. (35)

The fact that Newfoundland mercantile capitalists placed much of their surplus capital in external portfolio investment, therefore, cannot be separated from the social and economic milieu in which this form of capitalism grew and operated. What they did in this regard was similar to, but perhaps on a proportionately larger scale (because of a more retarded development of indigenous capitalism), the practice of their Halifax counterparts who, as was noted above, invested much of their profits in banks and foreign railroads. Moreover, there were structural limitations on the growth of regionally-based business enterprises because of the centralizing thrust of capitalism, a phenomenon which was clearly manifested from the end of the last century. It was not that there was any inherent weakness in the potential stock of entrepreneurial talent in the region. In addition to the acknowledged innovators mentioned in Acheson's work, the Maritimes also produced internationally-renowned capitalists such as Samuel Cunard and Max Aitken (subsequently Lord Beaverbrook), who, having reached the apogee of capital accumulation from a Maritimes base, moved to national and international centres of commerce and industry. (Even in this era, there are entrepreneurs in the region who are making waves nationally. In a December 1986 feature report in the FINANCIAL POST, business journalist John DeMont observed that many of the best performing stocks in Canada were based in this region. The article was subtitled: "Some of Our Best Managers Are Down East").

The seeming surrender of control over the economy of the Atlantic
Region to central Canadian and foreign interests was simply a regional reflection of the global rationalization of capital movement. The competitive struggle between capitals results in the destruction of many small capitals and their centralization into much larger enterprises controlled by a small number of corporate owners and managers. The effect of this in Canada could be seen during the first few decades of this century. By 1917 the number of manufacturing establishments had been reduced from 75,000 in 1890 to 21,000. At the same time the number of people employed in these businesses increased by over 60 per cent. While there were 33 chartered banks in 1867, only 22 remained by 1914. The five largest accounted for 50 per cent of the assets of all commercial banks in the country. In the United States monopolies came to dominate all aspects of finance and industry. This was no less true with respect to oil production, distribution and marketing. After only 18 years in the business, John D. Rockefeller's Standard Oil Trust had, by 1883, come to totally dominate the industry through controlling the refining of the product and the instituting of monopolistic deals with railway companies.

This process of centralization and concentration of capital has to be seen as complementary to and the result of the accumulation of capital. But while in a certain geographic sense one can see the growth of centres of capitalism, or metropolitan capitalism, and its associated decline in peripheral areas, there is in reverse a selective penetration of decapitalized regions or countries by various enterprises in search of profits, larger markets, and raw materials necessary for production. The periphery, or hinterland, thus becomes
the location for

accelerating the value augmentation process for both individual capitals and capital in general. At no point can capitalism be separated from this intrinsic tendency towards outward expansion. It is axiomatic that capital knows no barriers other than those which it creates for itself. (39)

This intervention of metropolitan capital invariably results in the undermining of the social and political autonomy of peripheral regions and countries throughout the world. Globally, it creates and perpetuates uneven development. John Foster paraphrases Andre Gunder Frank's argument that

the centralization of capital has its counterpart in uneven development. This can be conceived, Frank argues, in terms of the "polarization into metropolitan center and peripheral satellites." "Economic development and underdevelopment are the opposite faces of the same coin." The dialectic of development and underdevelopment is a single, structurally interrelated process. Extraction of economic surplus from the periphery generates accelerating development in the centre and reinforces underdevelopment in the periphery. This global dialectic of development is mirrored within each society. Yet, while the 'world metropolis' manages to develop in the true sense, the 'metropole' of underdeveloped states remain dependent and are unable to generate snowballing growth....

From a class standpoint, it is virtually impossible, Frank argues, for underdeveloped states to develop an autonomous national bourgeoisie. In fact, for Frank, the bourgeoisie in these countries is little more than a 'lumpen bourgeoisie' -- a class whose interests are directly or indirectly, actively or passively, identified with the interests of foreign capital. (40)

There are a couple of points in Frank's all-encompassing definition of the "underdevelopment" phenomenon as part of the international capitalist impulse which are inappropriate, if not inaccurate, to the discussion of regional dependency in a developed capitalist society. Nevertheless, the structural elements of his argument are quite ger-
mane to explaining both the external and internal dynamics of how Nova Scotia and Newfoundland came to be dominated by outside interests.

Looking at the issue of inter-capitalist relationships, Frank's characterization of the role of the lumpen bourgeoisie in underdeveloped countries is applied to the dependent regions of Canada by Wallace Clement. He labels them "compradors" and argues that, as agents of outside interests, they have a pivotal role in the entrenchment of dependency in any region. Acting as if by theoretical prescription, the Newfoundland business community has historically facilitated the interests of external capital. An appropriate illustration of how these merchants ensured profits for both themselves and their foreign partners is provided by the following description of the operations of Imperial Oil in Newfoundland in the 1920s and 1930s.

Imperial Oil of Canada had acquired the Newfoundland operations of Standard Oil of New York in 1921, giving it a profitable monopoly on the island. Profits for the company were quite high, despite the growing crisis in the Newfoundland economy. Even during the early 1930s the company earned a return of about 25 per cent on its investment. The Newfoundland government increased taxes to cut into Imperial's high profit margins, but the company decided not to react to government pressure to reduce the prices of its wholesale product. One reason for this was that, since the distribution and retailing of petroleum products was in the hands of local merchants, Imperial felt that these operators would maintain the same retail price levels and pocket the difference between the current wholesale price and whatever cut Imperial would make. Victor Ross, Imperial's public affairs
director, wrote to a senior company executive that Newfoundland "has a ruling class which is admittedly corrupt."

Meanwhile, in an effort to stave off bankruptcy for the country, the British treasury recommended that, if there was to be a profitable monopoly in providing oil to Newfoundland, it should be in the hands of the government. This suggestion scared Imperial and even Standard Oil in New York because of the precedent it would set and the snowball effect it might create elsewhere, particularly in Quebec and the Prairie Provinces. Imperial lobbied Ottawa and the banks, and the company persuaded the St. John's business community, whose profits were threatened, to campaign hard as well. The effort worked, and Imperial retained its monopoly until Newfoundland joined Canada in 1949.

The behaviour of the Newfoundland mercantile capitalist class should not be seen as an isolated phenomenon peculiar to the former British colony, but as a generally representative example of how a small and stagnant financial elite within a rigid social structure acts in relation to external capital. There is a universality to this phenomenon. Writing about the pre- and post-colonial period in Nigerian economic development, Terisa Turner describes how indigenous intermediaries organized access for foreign traders and multinational corporations both to the local market and to resource exploitation, principally petroleum. The only difference in this case was that, after independence in the 1960s, the comprador class comprised, in addition to traditional mercantile middlemen, the state bureaucracy.

In addition to the dependency relationship between a metropolis and a hinterland region affecting both the draining of capital from
the latter and the compromising of the indigenous capitalist elite, it also has a profound effect on the composition and residency of the workforce in the dependent region. This has certainly been true of the Maritimes and Newfoundland. The decline of trade and the bankruptcy of regional businesses before and after the turn of the century, which tied in with the consolidation of industrial and finance capital in central Canada and international metropolitan centres, led to a recurring characteristic of the region's social economy, that of out-migration. Affecting initially thousands of Newfoundlanders in the 1880s, this phenomenon became endemic throughout the Atlantic Region after 1900. Over 300,000 Maritimers emigrated in the first three decades of the century, nearly half of them leaving during the 1920s. It appears that at least three-quarters of these people moved to the United States. Veltmeyer argues that this exodus corresponds to the expansion of economic activity at the "centre". When the central Canadian economy was expanding again in the 1960s, roughly half of the 150,000 new emigrants from Atlantic Canada found their way to Ontario.

Looking at the constituent elements of regional dependency over the past one hundred years, particularly those related to the labour force, Veltmeyer suggests that

the structure of these conditions can best be analyzed in terms of Marx's concept of an 'industrial reserve army', a relative surplus population that is both required for and a product of capital accumulation. (47)

According to this framework, dependency and underdevelopment in the region which is caused by the concentration of capital at the centre
creates a regional pool of labour which can be drawn upon when the central economy expands and returned to the region when there is contraction. This latter characteristic -- particularly related to the slump in the Alberta oil industry in the early 1980s -- had much to do with the rare phenomenon of net in-migration to Nova Scotia in the second quarter of the decade. Highlighted by the province's finance minister as one of the positive trends signalling "a confidence on the part of Nova Scotians and, indeed, of Canadians in the opportunities developing in our province," it really was related to economic difficulties elsewhere. Furthermore, the official unemployment rate in Nova Scotia actually increased from around 10 per cent at the beginning of the decade to 13 per cent or more after 1981.

The Entrenchment of Dependency on the Federal State

While there has been a profound historical link between labour mobility to and from this region in accordance with fluctuations in the central economy, the scale of the relationship has diminished somewhat as a couple of other related factors come into play. It has to be recognized at the outset that capitalist economies, internationally, are faced with intermittent manifestations of an ongoing crisis which has revealed no tendency to disappear. In 1981/82, the world economy suffered the most severe recession since the Great Depression of the 1930s. The recovery which ensued for the world's largest economy, that of the United States, can be largely attributed to massive military spending, which now accounts for fully one-third of government expenditures. In other words, the assertively free-enterprise Reagan administration has propped up the American economy on the
basis of military Keynesianism and the incurring of unprecedented deficits in the process. While the official U.S. unemployment rate dipped below six per cent by 1988, many of the jobs created since the recession are so-called "Macjobs" in the service sector, paying at or below the minimum wage. In the 24-member Organization for Economic Co-operation and Development (OECD), comprising the world's richest capitalist economies, the average overall unemployment rate for 1987/88 was 8 per cent. No credible economist of any ideological persuasion posits a possible return to the former full-employment standard in either the United States or Canada, which had always been defined as a four-per-cent unemployment level. This is partly due to the fact that competition between centres of capital has put increasing pressure on the need to develop labour-saving technologies.

In order to fill the void created by diminishing private demands for labour, Western governments of varying political stripes have been steadily increasing public spending, so that it now accounts for a larger proportion of national expenditures on goods and services than ever before. If such spending -- whether for guided missile systems or unemployment insurance benefits -- did not occur, current economic difficulties would quickly reach a critical stage. Among other things, the demand for consumer goods, on the production of which capitalist economies survive, would plummet.

In Atlantic Canada a process of gradual transferral of economic dependence from multinational capital to the federal state has been underway since the early 1930s. At that time the Royal Commission on Dominion-Provincial Relations documented the specific economic difficulties of the Maritimes. These were seen as reflecting "the general
problem of metropolitan Canada and 'the regions'." Starting with the Prairie Farm Rehabilitation Act in 1935, federal governments over the past fifty years have embarked on many different schemes to alleviate "regional disparities". The effort became particularly pronounced from 1961 with the formulation of the Agricultural Rehabilitation and Development Act (ARDA). Since that time the acronyms have changed -- FRED, DREE, DRIE -- but little else, save the deepening of dependency.

Between 1950 and 1970 in Nova Scotia and the rest of the Maritimes, the region was transformed from a predominantly rural economy of marginal but productive farms to a rural society of non-productive farms, the inhabitants of which derived their livelihood from a combination of government benefits, wages from urban service occupations, and seasonal income from the woods industries. (50)

According to Acheson, the political power structure of the Maritime region also changed, as the role of the federal state became more pervasive during this period:

Another side of the federal intervention was the creation of a new bourgeoisie elite (sic), composed of professional civil servants, medical doctors, and academics who joined the traditional lawyer-politician-businessman leadership of the community and gave it a distinctly professional flavour. Indeed, with its emphasis upon place and sinecures, and with the patron-client relationship which the monopolistic hierarchies of provincial governments and institutions of higher learning encouraged, Maritime society began to more closely resemble an eighteenth-than a nineteenth-century society ... But it was a captive elite largely dependent for opportunity, position, and status on federal resources and ultimately subject to the will of the federal government. (51)

By now, this dependence on the federal government has become an
ingrained part of the political mosaic of Nova Scotia, evidence of which will be revealed repeatedly throughout this study. And linked with this subservient provincial political mentality has been the perpetuation of the traditional dependence on multinational capital. When Premier John Buchanan told the first ministers' conference in February 1965 that "I'd like to see all foreign investment review just null and void -- gone," he was maintaining the customary attitude of previous Nova Scotia governments. His sycophantic welcoming to the province of Mobil, Shell, and the rest of the petroleum industry during the 1980s was consistent with that of former administrations over the past two decades. Under the pretext that government aid and foreign investment will create jobs and somehow redress the province's historical slide into its disadvantaged position vis-à-vis central Canada, political leaders in Nova Scotia have eagerly sought foreign capital as a solution to this problem.

In reviewing some of the industries which were encouraged by both levels of government to establish operations in Nova Scotia, Gene Barrett concludes that

Branch plant operations such as those of Gulf, Michelin, Volvo, General Electric, Aerovox, and General Instruments do not provide the "spread effects" which they are supposed to. Outside of initial flashes in the construction industry, few linkages emerge. Production is geared to an export market: raw materials and components are imported; investment is a gift from the state rather than a reward for risk; and, in many cases, production is a direct threat to the local environment and other industries. (53)

In all of these cases there is the appearance of the comprador phenomenon, but here it is on the political level only. There is no evi-
dence of political leaders obtaining financial gain by facilitating the multinational corporate exploitation of provincial resources and labour. Yet, throughout this period there emerges the distinct pattern of politicians willingly embracing a servile position to both the federal state and foreign capital for the sake of retaining power. This argument will be more fully developed in Chapter Six with respect to the Buchanan government's relationships with the federal government and the petroleum industry over offshore oil and gas activities.

This conformity to deferring to outside capital and authority is revealed in various attempts by successive provincial governments to develop the economy. The introduction of the Michelin Tire company to Nova Scotia and the construction of the Gulf Oil refinery are two representative cases.

In setting up its two plants at Granton and Bridgewater in the early 1970s, Michelin received approximately two-thirds of the total investment of $125 million in the form of grants or subsidized loans from one level or other of government. Furthermore, the multinational tire company's avowedly anti-union disposition was accommodated, first of all by the Nova Scotia Liberal government of Gerald Regan in 1973, and in the second instance by the Progressive Conservative government of John Buchanan in 1980, through the passage of legislation specifically designed to prevent the unionization of workers at the company's plants. In fact, it appeared that the former general manager at Granton, Jean Gorce, might have been involved in the actual drafting of the second piece of legislation.

In the case of Gulf Oil, the company wanted to construct a refinery in an area close to its main U.S. markets, but away from the
environmental opposition present along the U.S. East Coast. Consequently, Gulf set up its heavy fuel refinery at Point Tupper in the Strait of Canso. The reason for this was straightforward, as explained in 1971 by Rawleigh Warner, then chairman of the American Petroleum Institute, and until 1986 the chairman of Mobil Corporation:

A few years ago, it took two-and-a-half years to acquire the land, design a refinery, build it and get it operating. Now it takes at least four if we can find a community that will let us in. Oil companies are doubtless aware no such hostile sentiment exists in the provincial governments of some eastern provinces. (56)

Gulf Oil, whose 1973 profits totalled almost $1 billion, was provided with government grants which amounted to $200,000 for each of the 123 jobs created at the refinery. However, just nine years after it was constructed, the refinery was mothballed because the market for its product, residual fuel oil, had disappeared. Like many Caribbean refineries, the Gulf facility at Point Tupper was designed to serve primarily the U.S. market, where up to 90 per cent of its product was shipped in the first years of its operation. But this dependence on multinational corporations and foreign markets led to the demise of refineries both in Point Tupper and in the Caribbean. In 1978, the United States government instituted a series of conservation-related energy policies which included the switching of electricity-generating plants from using residual fuel oil and natural gas to using coal.

With the disappearance of the U.S. market, the Point Tupper refinery closed in the summer of 1980 because there was insufficient demand for its product in Eastern Canada. Commenting on the similar fate of a number of Caribbean refineries, Trinidad economist Trevor Farrell
points out that:

As a result of U.S. energy policies, the Caribbean refining system has simply become obsolete. It was created by the American oil companies in response to their needs and the needs of the U.S. markets. It no longer serves those needs. The result is that it is being discarded. (61)

The growth in the Newfoundland economy's structural dependency has paralleled the dual political and corporate pattern briefly outlined for Nova Scotia above, if not more intensively so. But the evolution of this dependency has not been tranquil. While acquiescence to external domination has been the general rule of popular behaviour in Nova Scotia over the past thirty years or so (there are exceptions, such as successful oppositions which were mounted against aerial spraying of the forests and uranium exploration), Newfoundland underwent a significant attitudinal transition in this regard during the 1970s.

A useful starting point for understanding the differences in recent political culture between the two provinces relates to Confederation with Canada. By the time Newfoundland joined Canada in 1949 (as in Nova Scotia's case more than eighty years earlier, it was not a popular decision), Nova Scotia had experienced many grievances against the central government. As was mentioned above, at least two strong secessionist movements had grown during this period, but they had not been pursued to fruition by political leaders. Given the constancy of federal policies which tended to discriminate against marginalized provinces, over the years Ottawa had developed some sophistication at taking the sting out of its centralist bias, the establishment of regional development programs being one example. Although tradition-
ally wary of "the Canadian wolf", Newfoundlanders did not have this first-hand experience with another, much larger level of government in a federated state until recently.

By the end of the 1930s Newfoundland was firmly under the rule of Westminster and most of its residents were enduring abysmal conditions of poverty. Hundreds of people were dying of starvation and diseases related to malnutrition. The average annual income per capita was $150, and many outport families had to manage on relief payments which totalled $21.90 annually for each person. This situation was radically changed within the first three years of World War II. Many young men joined the forces. More importantly, because of Newfoundland's strategic position, the American, Canadian, and British governments constructed military bases at five locations in the country: St. John's, Argentia, Gander, Stephenville and Goose Bay. Whereas one-third of the labour force could not find work on the eve of the war, by 1942 virtually everyone who wanted a job could get one. Employment related to the construction and operations of the bases accounted for at least 20 per cent of all jobs in Newfoundland at the time.

Following the end of the war, operations at the bases were reduced. It became clear that Newfoundland's economic problems were unresolved and as serious as ever. The unemployment rate in 1949 was 12.4 per cent and the fishery, which was the mainstay of the outport economy, was still operating under archaic production relations. As late as 1953, the average annual income for an inshore crewman on a small boat was only $250. People's appetites had been whetted by the cash economy and the relative prosperity of the war years, and the
promise of old age pensions and family allowance benefits. (Newfoundland had one of the highest birth rates of any region in North America, a population factor consistent with that of other underdeveloped parts of the world) tipped the balance in Newfoundlanders' marginal decision to become part of Canada.

With Confederation Newfoundland Premier J. R. Smallwood endeavored to employ the new consumer dollars provided by federal transfer payments in the development of local goods industries. Factories were established for the production of cement, cardboard, rubber, chocolate, batteries, shoes, knitted goods, etc. They survived for a while with government assistance, but most of them closed during the recession of 1957-58, plagued by the problems of small markets and high production costs. This effort at import industrialization substitution, which had been tried at the turn of the century and which was to be applied on a massive scale in Latin America in the 1960s, failed in Newfoundland in this period as it had before -- and as it has everywhere else where it has been tried.

The next phase of attempted economic development in the province involved resource exploitation. This seemed to be a logical choice for the government because, with Confederation, Newfoundland had lost much of its ability to generate revenue directly, especially through protectionist measures such as the placing of tariffs on imported goods. Overton notes that with the exception of offshore resources, control over resources lies in provincial hands, and it has been by encouraging resource exploitation that the provinces have attempted to establish independent financial power for themselves. Federal funds have been used to aid such a strategy, as well as massive borrowing and enticing multinational corporate
investment. The resulting provincial revenues have been used to support the state, to encourage local industry, and to bribe secondary industry to locate in the province by means of infrastructure investment that creates the 'right climate for investment'.

The Smallwood government -- containing very much the imprint of the Premier himself -- embraced this strategy in a very big way. Iron ore deposits in western Labrador were opened up to primarily-American industrialists. A high-energy-consuming phosphorous-reduction plant, owned by the British multinational corporation Albright and Wilson, was attracted to Placentia Bay with the guarantee of subsidized electricity. This helped to spur the development of a hydro-electric facility in Bay D'Espoir on Newfoundland's South Coast. A deep water port and millions of dollars in provincial and federal government aid was used to entice New York developer John Shaheen to start construction of an oil refinery at Come-by-Chance. Through the promotional efforts of Smallwood crony (and subsequent fugitive from both American and Canadian courts) John C. Doyle, a linerboard mill was begun at Stephenville on the West Coast. Because over 60 per cent of the productive forest land on the Island was already in the hands of the two pulp and paper companies in Grand Falls and Corner Brook, the Stephenville operation was to use Labrador lumber, a costly source of raw material. Finally, the centre-piece of Smallwood's development package was the $1-billion hydro-electric development of Churchill Falls, the largest project of its kind in the world when it was started in 1967.

In tandem with this mega-project strategy for development emerged a plan -- provincial at the outset but then jointly provincial and
federal — to resettle residents from many isolated outport communities in Newfoundland into "growth centres". Supposedly this would provide able-bodied people with more lucrative employment than the stagnant inshore fishery while affording them health and educational services both more readily and at less expense. By 1975, when the Resettlement Program was terminated, more than 28,000 people had been relocated and 200 communities had disappeared.

Newfoundland In Defiance of Dependency

The dust began to settle from all of this activity shortly after the Smallwood government era ended in early 1972. Very quickly a negative reaction set in against not only the poor results provided by the attempted industrialization process but also the style which was characteristic of Smallwood and his strategy. Most of the jobs created were in construction and consequently of short-term duration. The province's unemployment rate rose steadily from 5.8 per cent in 1966 to 14.0 per cent in 1975. Moreover, many of the projects turned out to be white elephants. The exponential increase in oil — and hence all energy — prices in the early 1970s converted the Atlantic Region's largest mega-project ever into a gigantic financial fiasco for Newfoundland. Because no energy price escalator clause had been included in the sales agreement, the Newfoundland government was receiving only $15 million annually by 1978 from the sale of Upper Churchill hydro power to Hydro Quebec instead of $400 million net. Similarly, because of the subsidized stable price of Bay D'Espoir hydro power, it would have been cheaper for the government to cut the electricity to the ERCO phosphorous plant and to have paid all workers.
to stay home. At least that would have prevented the severe pollution which affected the fishery on the east side of Placentia Bay for many years. The linerboard mill, in which $100 million of Newfoundland government money had been invested, operated at a sizeable loss for some years before it was transformed into a pulp and paper mill, this time with $200 million in federal aid. And in 1976, after only three years of spasmodic operation, the Come-By-Chance oil refinery went bankrupt, leaving Newfoundland at least $40 million out of pocket.

Ten years later Cumberland Farms of the United States bought the mothballed refinery for $1, with no obligation to repay either local businesses the $2 million they are owed or the government loan.

The collective frustration with this course of events was amplified by the emergence of a general hostility, although mainly urban based, towards both the cap-in-hand approach associated with Smallwood’s dealings with "Uncle Ottawa" (Smallwood’s expression) and the blank-cheque strategy for attracting foreign corporations. It was this kind of political demeanour, along with the sense of indigenous failure represented by the government-sponsored resettlement of fishing communities, which helped to produce by the late 1960s what perhaps was as profound a sense of inferiority among Newfoundlanders as had existed in the country’s history. Out of this arose a strong neo-nationalist sentiment during the following decade. In many ways this replicated the onset of Quebec’s Quiet Revolution in the aftermath of Duplessis, an autocrat much like Smallwood.

While cultural assertiveness took the form of anything from the establishment of a vibrant theatre community in St. John’s, to the refurbishing of Newfoundland accents, a strong expression of economic
nationalism emerged. "Outside" interests were blamed for much of Newfoundland's economic ills. By 1976 even John Crosbie, a pedigreed member of the traditional St. John's mercantile elite and the province's finance minister at that time, had caught the nationalist bug. Reviewing the history of exploitation by ASARCO, the New York-based operator of a lead and zinc mine in Buchans, Crosbie railed in the Newfoundland legislature:

It would turn your stomach to see what American Smelting [ASARCO] took out of Buchans in the years they have operated there, and Price [Company], without paying to this province hardly anything in taxes and employing people there at miserable wages and miserable conditions in a company town with miserable housing. [It] would really cause you to become a savage — you know, Marxist. (71)

Notwithstanding the fact that this was a Progressive Conservative government led by former entrepreneur and federal Tory party president Frank Moores, various government ministers issued veiled threats of separatism. Finance Minister John CollinS put together the political and economic antagonism to outside forces in his 1978 budget address:

"We're going to be masters in our own house." Interestingly, this is a verbatim translation of the Québécois assertion in the early 1960s that they were determined to be "maitres chez nous."

Premier Peckford and the Limits to Populism

Nationalist sentiment reached maturity in 1979 when Brian Peckford replaced Frank Moores as Tory leader and Premier. With this came a full-blown critical perspective on the Smallwood era, incorporating a denunciation of dependency. Just as Smallwood had used populist politics to support Confederation and his grandiose development
schemes, Peckford now employed the same means to excoriate his Liberal predecessor. In fact, former generations of Newfoundland's leaders all shared some blame for the creation and present state of the province's sorry economy. What the new Premier and his academic supporters presented for public consumption was a "famous-man and sell-out theory of history." In Peckford's words, the problem was that previous political leaders in Newfoundland had not been good stewards of the bountiful resource endowment:

Throughout our turbulent history we seem to have had our share of chances to build a firm economic foundation and to create a higher standard of living for our people. The fishery, the forestry, hydro developments, and even farming; if they had been properly managed, could now be providing a standard of living equal to, if not surpassing, that of most Canadians. This is not the dream of a romantic idealist, but the judgment of a Newfoundlander who has seen how people elsewhere have developed and prospered and who has seen, by comparison, how we have mismanaged our resources and let opportunities slip through our fingers. (74)

The determination with which the Peckford government was going to right old wrongs and carry out a uniquely-Newfoundland brand of economic development was reflected in the composition and energy of the senior level of civil servants in many departments and agencies of the provincial government, particularly the Petroleum Directorate. A sense was created that the cultural awakening and nationalist assertiveness among many people in the province could be translated into an economic transformation. Whereas, according to one commentator, "one of Newfoundland's problems is that it has always lacked leverage,"

Outside of spending a year at the end of high school in Toronto, Peckford has spent only brief periods of time outside of Newfoundland, mostly at either federal-provincial meetings or U.S. Superbowl football games.
economic failures were "due to deficiencies of will as much as of power." With the beginning of a new decade, Premier Peckford made it clear that there was nothing lacking with his will:

I am like the ocean. I will keep coming. I am relentless. Wave after wave, just like the ocean. I have a dream to realize and I think I can advance Newfoundland society to be something it might not have been had I not been this way. (77)

What obtained here was a development matrix containing opposing positive and negative factors. Good management and strong political will were countered on one side of the matrix by poor organization and timidity. On the other side the struggle was between self-determination and dependency. Premier Peckford and his colleagues were clearly opting for the positive element on each side, to which there was a logical link: conscientious stewardship over resource development would lead to true social and economic independence for Newfoundland. The new role for government, therefore, was not to "facilitate development and hope for benefits, but to control development and demand benefits." Peckford began to borrow parts of the terminology and elements of dependency analysis. His government was committed to a "long run strategy which will attack the root causes and not just the symptoms of Newfoundland's 'have-not, dependency status'."

Political will can certainly affect the development process, and the Peckford government has some accomplishments to show for its efforts, among them the renegotiating of the electricity subsidy to the ERCO phosphorous plant. There was also the implementation of preferential hiring and business policies for offshore exploration. However, the actual quantifiable benefits accruing to Newfoundlanders...
from these initiatives are quite minor given the scope of the province's economic difficulties. What stands out at the end of the 1980s is that an energetic and determined government, aided by intelligent and committed public servants and actively backed for some time by the population in its quest for economic justice, fell far short of its objectives. In many ways the experience of the Peckford government provides some insights into how national and global political and economic structures can thwart the aspirations of any disadvantaged society, no matter how hard the people there try to improve their lot.

At the same time, tied in with the level of expectations which the government of a marginalized people might establish for society is the analytical framework which informs policy- and decision-making. In this regard, Peckford and many of his academic supporters and policy-makers imposed limitations on themselves from the outset. The informal dependency model popularized in Newfoundland focused exclusively on the spatial elements of Newfoundland's economic malady, and even then on only one aspect of this dimension, that of unequal exchange. Simply expressed, the Peckford perspective goes this way: external domination of the economy had produced a bounty for others and piecemeal benefits combined with federal hand-outs for Newfoundlanders. This form of co-opting of dependency theory, i.e., relating to simple geographic factors while purging the more radical consideration of the comprehensive internal and external social ingredients of this problem -- has been promoted by national bourgeoisie and sympathetic scholars in other parts of the world as an explanation for underdevelopment. Indeed, institutions such as the World Bank have taken this line. In essence, the problem here is that dependency is generally
reduced to a geographical "them" and "us".

While there has always been an acknowledgement — often hostile — of the direct political influence exerted by the federal state in Newfoundland's affairs, the attitude towards foreign capital has been ambivalent. Because of past experiences, multinational corporations are treated with suspicion and judged according to their individual behavioural merits. But there has always been a failure to come to grips with how international capital interacts with an advanced, but subordinate, federal state and how a peripheral region relates, socially and economically to this structure. Finally, the Peckford government's populist approach to Newfoundland's problems ignored fundamental cleavages between urban and rural areas and class interests which are inherent in the creation of dependency.

In order to relate the failure of the economic promise to the limitations of the analytical framework inherent in the Peckford government's development strategy, some discussion of development projects will be provided here. Provincial policies affecting offshore oil and gas activities will be dealt with, for the most part, in Chapter Six. In bringing up non-petroleum development issues for examination, an appropriate area of the province to begin with is resource-rich Labrador. Indeed, a review of Newfoundland government development strategies concerning Labrador sheds a truly perverse light on the "them-and-us" perspective.

A decades-old, if not centuries-old, exploitation mentality has existed in Newfoundland vis-à-vis Labrador. Starting with the fishery on the Labrador coast in the last century, Newfoundlanders, particu-
 larly their political leaders, have always looked and headed North for resource wealth. In the modern era this reached its apogee under Joey Smallwood. In fact, in reaction to Quebec claims to Labrador, the former premier changed the official name of the province in May 1964 to 'Newfoundland and Labrador'. "We want the world to know," he said, "that Labrador belongs to us." What was at stake, of course, was not the welfare of the people of Labrador but the resources of the region, specifically the hydro-electric potential of Churchill Falls at that juncture. Alienation among Labradorians became so severe by the end of the decade that one of their two members elected to the provincial legislature in 1971 represented a Labrador separatist party. Despite years of Newfoundland nationalist sabre-rattling against Ottawa, never has anyone from the island been elected to either the provincial or the federal parliament on a platform of separating from Canada.

Under the government of Brian Peckford, Labradorians were promised they would have a real say in resource development. The first test came shortly after Peckford became Premier. In the late 1970s, Brinco, then a subsidiary of the British multinational Rio Tinto Zinc Corporation, was interested in developing a uranium deposit on the coast of Labrador. In accepting an environmental panel's decision to reject the development plan, Premier Peckford claimed: "That shows the kind of sensitivity we have towards the control of both the environment and development." According to Newfoundland sociologist Doug House, this decision suggested that "Peckford's words are not simply rhetorical." The truth of the matter however, was that changing market circumstances dating from the beginning of the public hearings
into the development clearly pointed to the fact that the company would never have started up the project anyway. It is a small deposit and the price of the mineral, which had just peaked at $43 per ounce, was starting to fall and projected to continue doing so (it is currently around $15 per ounce). Moreover, the indigenous peoples of Labrador had mounted an unprecedented campaign of united opposition to the proposed development.

In fact, the Peckford government's publicized rejection of the project could be seen as a mitigating gesture to offset potential objections to a much larger proposal: the construction of an aluminum smelter on the shores of Lake Melville in south-central Labrador. The government tried to attract an aluminum production company to Labrador in order to justify the hydro-electric development of the Lower Churchill. Not surprisingly, this idea was hatched by Joey Smallwood 20 years earlier. The Peckford government spent hundreds of thousands of dollars in the early 1980s working out a strategy whereby bauxite would be shipped from equatorial suppliers in ice-resistant vessels to the plant on Lake Melville, which is frozen for six months of the year. Utilizing plentiful and cheap electricity for processing, the company would then have shipped the aluminum product to distant markets in the same vessels. This problem was shelved by 1983 for a number of reasons, including falling energy prices.

There is no doubt that fostering appropriate development in Labrador is difficult. It has two-and-a-half times the land mass of the island of Newfoundland but it is populated by only 35,000 people. Moreover, the ethnic composition of the residents is quite diverse:
along with a white population in the industrial hinterland, it in-
cludes small Inuit and Innu communities along the Coast. Throughout
the 1980s the Peckford government's development philosophy for this
demanding social and physical environment, though, has not revealed an
enlightened departure from the past. Recurrent plans regarding hydro-
electric and mineral developments seem quite consistent with the
description of Labrador which Brian Peckford presented on CBC Radio's
"Morningside" program shortly after becoming Premier in March 1979.
"Let's not forget," he said, "that Labrador is our storehouse of
wealth." Three years later Peckford railed sardonically against the
same attitude being displayed by Ottawa towards Newfoundland:

Small, and large societies in this country are not
being treated equally. Small is weak and large is
all-powerful and in control...

We are the treasurehouse of resources which must
and will be used to feed the strong and powerful.84

The people who are on the bottom rung of the social hierarchy in
Labrador -- indeed in the whole province -- are the aboriginal peo-
pies. They are few in number compared with white residents, but
proportionately almost comparable with Newfoundland's portion of the
Canadian population, 2.2 per cent. Their defiance towards the St.
John's conception of Labrador was aptly summarized by Innu spokesman
Penote Michel at the Labrador uranium hearings in 1980: "We refuse to
regard this land as a frontier to be developed according to a philoso-
phy of colonial exploitation." In recent years the provincial
government has expressed strong support for the establishment of a
NATO base in Labrador whose purpose is the conducting of low-level
combat-jet training courses over the interior and the testing of
weapons. The Innu, whose land claims have not been settled, are
vehemently opposed to this program. Meanwhile, the social conditions and poverty experienced by Labrador native peoples have been described by the Newfoundland Royal Commission on Employment and Unemployment as "a provincial and a national disgrace."

What the Labrador situation demonstrates, among other things, is both the restricted vision of the Peckford government and the erratic, if not bizarrely-desperate, directions in which the search for "development" can lead. Looking at the relationship between the provincial capital and Labrador from a theoretical point of view, it can be seen that a region's or province's dependent economic structure is not a uniform product of the activities of multinational capital. The creation of intra-regional and provincial dependency is also a function of this process. In other words, imbalances and disparities in economic strength and activity are exhibited at every level of spatial configuration. This is not to say that specific efforts to counteract this tendency cannot succeed. Such efforts, however, at least demand a thorough understanding of exactly how countries, regions, and sub-regions are marginalized. On this level the Peckford government has been lacking. Perhaps the best example of the philosophical poverty of the government's analysis and policy relates to the transferal of ownership of the pulp and paper mill in Corner Brook.

When the Peckford government came to power in 1979, a major difficulty it faced was that most of the province's resources were owned or controlled by external political and corporate interests. The fishery was in Ottawa's hands, and the mineral and forestry resources were developed and operated by Canadian and multinational
corporations. Only offshore petroleum offered the potential to be
developed according to the Newfoundland government's vision, but even
there control was far from assured because of the federal Liberal
government's claim. Nevertheless, the economic policy of the new
administration rested squarely on "resource-led development." Ex­
cept for tactical differences, this focus differed little from what
Smallwood had put into practice in the 1960s, or indeed what had been
tried by virtually all past Newfoundland governments. It was in this
context that a rare opportunity for the government arose.

One of Brian Peckford's laments was that almost all of Newfound­
land's resources had been given away at entirely unacceptable terms.
In the case of the forests, "the Corner Brook mill arrangement was
even worse than the Grand Falls deal in terms of timber given away
under a 99-year lease." Given this situation (more restrictive
measures were placed on the pulp and paper companies in the mid-
1970s), a rare chance to turn the whole giveaway phenomenon around
came in 1983 when Bowater, a British-based multinational corporation,
decided to leave Corner Brook. Although the company had made profits
of $79 million from 1978 to 1981, it decided to close its Corner Brook
operations because market prospects for the next few years were not
too bright and new investment was required to modernize the plant.
A particularly galling feature of the situation for many Newfoundlanders
was that $33.4 million in dividends were paid out to shareholders
shortly before the announcement of the closure of a main part of the
mill's facilities.

The government tried to find a buyer for the mill and finally
struck a deal with Kruger Inc. of Montreal in late 1984. However,
before Kruger agreed to purchase the facility, the company demanded that certain labour legislation pertaining to lay-off notices be changed, which would thereby relieve them of financial obligations to their potential employees. Accordingly, the government introduced Bill 37 to the legislature. This involved proposed amendments to the Labour Standards Act which would apply retroactively to 1970, six years earlier. Predictably, the labour movement was angered. But when the Premier made public a letter from Kruger president Stuart Hermon explaining that the company would not buy the mill without the required changes in the Act, anger turned to rage. The legislation passed after closure was invoked. As distasteful as this action was in the specific instance, its broader symbolism did not escape Newfoundlanders who had supported Premier Peckford because, like him, they were "fed up with failures, hand-outs, rip-offs, and putdowns."

Thus Ray Goulding, president of the Newfoundland Teachers Association, observed:

"This legislation is the last message that has finally convinced people that Peckford has lost his vision for the common man and has succumbed to the interests of the traditional power brokers in Newfoundland -- the large corporations."

Kruger took over the mill in early 1985 after paying Bowater an estimated $60 to $70 million. The provincial and federal governments agreed to pay for 20 per cent of the cost of a $200-million modernization plan over the succeeding five years. In addition, the province granted the company another $14 million through absolving it of sales taxes. All of this was conceded to the company despite its refusal to implement better forestry management practices. As well, pollution
from the Kruger-owned mill has adversely affected the health of Corner Brook residents with respiratory ailments.

In total, the arrangements surrounding the Kruger deal look not much different from the Nova Scotia experience with Michelin. They both speak to classic circumstances of capital penetration into marginalized economies, involving political and economic concessions. Successive Nova Scotia governments can be roundly criticized for "selling the shop" with no strings attached, an approach which the Peckford government had appeared to revile. But while the economic-nationalist ambition of the latter has been comparatively admirable in its philosophical expression, its actions have belied its words. The Newfoundland government has asserted the need for the province to control economic development; however, it has been anything but enthusiastic over the issue of directing or actually taking control. Rather, government activity has not ventured beyond the realm of regulation. While this may be an improvement over conditions during the Smallwood era, it does little to address the structural causes and perpetuation of dependency.

A final brief example of the limitations of this approach involves the fishery. Even in the heyday of optimistic projections over the bounty from offshore oil, Peckford said that he considered himself a "fishing premier, not an oil premier." As was mentioned earlier in this chapter, the federal and provincial governments bailed out the Newfoundland fishing industry during the recession of the early 1980s. By the middle of the decade, however, the industry had rebounded, and the corporate highliner in Newfoundland, Fishery Products International (FPI), was starting to amass significant profits. When the company
became privatized through a share issue in the spring of 1907, the Newfoundland government sold its 26 per cent share for $47.2 million, thereby losing almost $20 million on its earlier investment. At the same time, with most of the shares being purchased outside the province, control was effectively transferred elsewhere. The Bank of Nova Scotia decided to keep its 11.2 per cent holding, recognizing, as did virtually all of the Canadian investment community, the "very strong demand" for the FPI shares. Even discounting the critical social and economic ramifications of this sale for the province, the relinquishing of government's involvement did not seem to make much business sense, according to Bruce Little of the GLOBE AND MAIL:

The biggest criticism that might be levelled against both governments for the sale of FPI is that they are getting out just when dividends on profits might have returned a bigger chunk of the money that was put in. (97)

As a fitting conclusion to this critical perspective on Peckford populism, one should turn to the writings of the Newfoundland Premier. While the conduct of his administration has not emanated solely from his ideas, there is no denying his personal imprint on government. And, as Michael Harris wrote in the GLOBE AND MAIL in February 1983, there is a precedent for this kind of hegemony:

Securely wrapped in the provincial flag, Mr. Peckford rules his caucus with an iron hand and the House of Assembly with an iron tongue, much as Joey Smallwood did in his political prime. (98)

In THE PAST IN THE PRESENT, Peckford roundly criticizes the economic decisions of former Newfoundland governments. Like most amateur writers of history, he fails to consider the context of the times both domestically and internationally. While the past is banished to the
dustbin of mismanagement, the Peikfordian future offers prosperity:

The Province has before it a fantastic opportunity. We have around our own shores a rich, renewable, fish resource. On land we have tremendous water power. Our trees, minerals, agriculture, can all make important contributions to our future well-being. (99)

Where is the money to come from for these developments? Even if such capital is available, how can it be guaranteed that those who own and control it will use it in the best interests of all Newfoundlanders?

The St. John's business establishment certainly cannot be relied on to satisfy these social and economic needs. In fact, Peckford has held a long sense of grievance against this community and has mostly eschewed them in his economic policy-making. In this sense, his attitude differs little from J. R. Smallwood, who held a rather contemptuous opinion of the mercantile elite:

It was useless to turn to the businessmen of Newfoundland. Most of them were scrambling around, like henhawks eyeing a chicken coop, for their share of the millions of family allowances and other cash pouring in from Ottawa. Wholesale jobbing, retail shops, they were stocking up to the bursting point, telegraphing and telephoning urgently to the mainland for more supplies, and scouring Canada for new agencies. I didn't dare venture my life in that mob of single-minded traders. It would be useless to talk to them about investing in new industries so I would have to search outside, and I did. (101)

This option is not discussed by Peckford, although force of circumstances has pointed him in this direction, as has been demonstrated by the above examples. In fact, outside of "more revenues from the Upper Churchill" (now almost impossible by virtue of a 1988 federal Supreme Court ruling which upheld the terms of the original contract), there is the solitary reliance for capital on potential offshore
resource rents, although there is not even a brief description as to how and by whom they would be applied to economic development in general:

If we can manage the phenomenal oil and gas resource in such a way as to buttress these renewable resources to which our way of life is so intimately related, we can as a people look forward, despite past mistakes, to a bright and prosperous future. (103)

Ultimately, the vision is constricted by the intersection of the line which avowedly supports private enterprise with that which demands controlled and appropriate development but avoids public initiative in this direction.

After almost a decade of assertive government bent on correcting the mistakes of the past, Brian Peckford has little, if anything, to show for his efforts. Many traditional Newfoundland business establishments have gone bankrupt and the unemployment rate is five percent higher than it was in 1980. The point here, of course, is that most of this has happened irrespective of provincial government policy. The severe 1981/82 recession, for instance, caused a declining demand and lower prices for the staples of the Newfoundland export economy: fish, mineral resources and forestry products. Even the subsequent centralized recovery has taken a long time to spread any benefits around Newfoundland. In the political sphere, provincial determination not to concede offshore control to the federal Liberal government resulted in delayed federal funding for offshore exploration and a consequent diminished level of drilling activity (see Chapter Two.) Furthermore, as Chapters Five and Six show, the advent of corporate-inspired federal Conservative energy policies in 1985
resulted in the province acquiescing to the elimination of provincial offshore statutes which it had formerly held dear. In other words, as in the past, external economic and political structures and forces have overwhelmingly determined Newfoundland's economic experience during this period. In the chastened view of one observer who formerly believed in the Peckford government's ability to exert significant change in Newfoundland,

[while] Peckford is not just a piece of flotsam washed along by the tide of history,' there can be no denying the severe externally imposed constraints upon Newfoundland society and its ambitious provincial government.(105)

Ottawa's Dominance Over the Regional Economy

For its part, the Nova Scotia government clearly sees foreign investment as the only option for development. "If you look around," Premier Buchanan said at the first ministers' conference in Regina in 1985, "you'll see that most of the long-term viable private employment (in Nova Scotia) is from foreign investment -- it creates jobs." Otherwise, if it can be said that there is any strategy for economic development in Nova Scotia, it was outlined in a government white paper entitled BUILDING COMPETITIVENESS, released by the Department of Development in 1984. The thrust behind this document is that private industry in the province, if it is competitive, can be the leading edge in economic growth. This would appear to represent little more than boosterism, however, in much the same vein as government promotion of the offshore, as will be detailed in Chapters 6 and 7. The fact of the matter is that the region's business community itself demands "massive direct aid for new industries and tax incentives for
The irony and confusion of the entrepreneurial strategy came clearly into focus at a regional conference on the economy in September 1986 when Richard Debrisay, chairman of the Atlantic Provinces Chamber of Commerce, acknowledged that "we're grant junkies," but then suggested a $50 million dollar grant to help regional businesses become less dependent on government support.

Indeed, virtually all sectors of the Atlantic regional economy are hopelessly dependent, directly or indirectly, on the federal state. In 1982, the federal government spent $7.2 billion in the Atlantic Region more than all other forms of revenues. This has occurred despite previous expensive efforts on the part of the central government to wean the region from the federal teat through providing federal grants to businesses. There is abundant evidence that, with perhaps a few specific exceptions, the programs of ARDA, FRED, DREE, and DRIE have failed. A vaunted remedy for this economic misfortune was proclaimed in the spring of 1987. The Atlantic Canada Opportunities Agency (ACOA) was supposed to be different from its predecessors, according to the federal Conservative government, in that significant decision-making ability over program approval would remain in the Atlantic Region. A year later the enabling legislation for the agency still had not been passed. Moreover, Newfoundland's representative in the federal cabinet, John Crosbie, made it clear that political imperatives dictated that Ottawa would have ultimate control over ACOA funding:

One of the issues, of course, about program delivery is who gets credit for it. We want to be sure that the federal government is going to get credit for the programs involving 100 per cent federal
money or 75 per cent federal money. (112)

Ottawa stoked the publicity engines to maximum thrust in announcing its commitment of $1 billion to ACOA over five years. Conversely, buried in the entwists of bureaucratic reports was information indicating that a greater sum of money has been removed from the regional economy since 1984 through reductions in equalization payments, DRIE grants and other regional development programs. At the same time, DRIE spending in Ontario and Quebec increased significantly. This prompted a weary lament in the 1987 budget address of Newfoundland finance minister John Collins:

We've given the Tory government in Ottawa a chance. But the feds are still spending less money per capita here than anywhere else. That's got to change. (114)

Provincial funding agencies, such as Nova Scotia's Industrial Estates Ltd. (IEL), have been no more successful than their federal counterparts. Over 90 per cent of IEL grants have gone to non-Nova Scotia companies, mostly multinationals. Not surprisingly, few linkages to the local economy have been established through the operations of these companies (those which have not folded and left the province) since most multinational companies rely on traditional international suppliers. Even the one supposed success story, Michelin Tire, is tarnished. Dalhousie economist Roy George comments:

Even if Michelin meets all its commitments, IEL will not even cover the cost of the money it borrowed for the purpose from the provincial government, let alone contribute to its own operating costs; and, of course, it cannot retrieve the grants it made to the company. Financially, the venture from IEL's point of view was a losing one from the outset. (116)

The combined result of the century-long process of centralization
### Table 3-3

**ANALYSIS OF INCOME PER CAPITA, CANADA AND SELECTED PROVINCES, 1969**

<table>
<thead>
<tr>
<th>Province</th>
<th>Market Income (Primarily Earned Income from Wages, Salaries, and Supplementary Income)</th>
<th>Transfers to Persons: Federal</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Proportion of $ Income Canada</td>
<td>$ Income Canada</td>
</tr>
<tr>
<td>Newfoundland</td>
<td>4,405</td>
<td>53</td>
</tr>
<tr>
<td>Nova Scotia</td>
<td>1,973</td>
<td>97</td>
</tr>
<tr>
<td>Ontario</td>
<td>1,486</td>
<td>106</td>
</tr>
<tr>
<td>Total</td>
<td>190</td>
<td>168</td>
</tr>
<tr>
<td>Local</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>Total Personal Income</td>
<td>1,981</td>
<td>118</td>
</tr>
</tbody>
</table>


### Table 3-4

**ANALYSIS OF INCOME PER CAPITA, CANADA AND SELECTED PROVINCES, 1984**

<table>
<thead>
<tr>
<th>Province</th>
<th>Market Income (Primarily Earned Income from Wages, Salaries, and Supplementary Income)</th>
<th>Transfers to Persons: Federal</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Proportion of $ Income Canada</td>
<td>$ Income Canada</td>
</tr>
<tr>
<td>Newfoundland</td>
<td>4,749</td>
<td>55</td>
</tr>
<tr>
<td>Nova Scotia</td>
<td>4,774</td>
<td>71</td>
</tr>
<tr>
<td>Ontario</td>
<td>2,677</td>
<td>124</td>
</tr>
<tr>
<td>Total</td>
<td>1,179</td>
<td>167</td>
</tr>
<tr>
<td>Local</td>
<td>44</td>
<td>70</td>
</tr>
<tr>
<td>Total Personal Income</td>
<td>9,292</td>
<td>110</td>
</tr>
</tbody>
</table>

of capital and half a century of regional development programs is --
with the exception of the Irving empire in New Brunswick -- a weak
indigenous capitalist sector in the region. In this climate of a
failed regional capitalism, the role of the state, particularly at the
federal level, has become paramount. The unemployment crisis, which
has been exacerbated by the decline and mechanization of traditional
industries, has been mitigated to some extent by the broadening of
the Unemployment Insurance program in the 1950s to include inshore
fishermen; the expansion of other transfer payments; and employment in
various public services. In 1982 total government current expenditure
comprised 81 per cent of the Atlantic Region's Gross Domestic Product,
compared to an average of 52 per cent for all Canadian provinces.

Translated into employment statistics, 27 per cent of all salaried
labour in Nova Scotia in 1981 was in government jobs and the military.
The average for the rest of Canada was eight per cent. When this
level of government employment is considered along with transfer
payments to individuals in the region (see Tables 3-3 and 3-4), it is
clear that state intervention has largely accounted for the two per
cent improvement on a national basis in per capita incomes for people
in Nova Scotia and Newfoundland over the past two decades. In fact,
particularly in Newfoundland's case, as Table 3-5 demonstrates, a
significant proportion of average individual income is now derived
from Unemployment Insurance benefits. Overall, 30 per cent of the
provincial per capita income now comes from transfer payments, versus
15 per cent for Canada as a whole and only 11 per cent for Ontario.
Still, Newfoundland's per capita income level is only three-fifths of
Ontario's. Looking at transfers on a governmental level, equalization payments to Nova Scotia in 1986/87 were $650 million, comprising 22.4 per cent of all provincial government revenues. The Newfoundland government received 30.7 per cent of its revenues, or $698 million, from federal equalization entitlements.

Table 3-5

<table>
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<tbody>
<tr>
<td>Wild.</td>
<td>79</td>
<td>70</td>
<td>87</td>
<td>81</td>
<td>92</td>
</tr>
<tr>
<td>Nova Scotia</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ontario</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Statistics Canada, PROVINCIAL ECONOMIC ACCOUNTS, 1969-84, 13-213, Tables 8 and 101

Two points about federal involvement emerge from a composite analysis of the employment and income figures presented in this chapter. First of all, regional development programs have failed to stem the increasing level of dependency of the regional economy on both multinational capital and the federal state, particularly the latter. While these "strictly-defined" strategies for economic development have neither reversed the pattern of dependency nor improved living standards in the region, "broadly-defined" measures comprising various transfers to individuals and provincial governments have at least resulted in a small increase in the standard of living compared with
the national average. Secondly, and related to the previous point, the prodigious amounts of capital which the federal state has put into the region have not been applied directly to generate further capital in an entrepreneurial sense. Instead, the minority of funding has been used -- mostly ineffectively -- to assist business ventures, while the bulk of expenditures are devoted to providing services and performing a welfare function. One of the legacies of this federal role is the characteristic "ten-week-syndrome" throughout many rural parts of the Atlantic Provinces, whereby workers who manage to gain insurable employment for this period are entitled to Unemployment Insurance benefits for most of the rest of the year. There are various scams which have evolved over time -- some of which are practised by provincial governments in order to get people off welfare roles -- that have become institutionalized in the rural way of life. Consequently, the typical patterns of out- and in-migration of regional workers, in accordance with the demands of central capital have been ameliorated somewhat. This is not to deny that the structure of mobility is still very much determined by the contractions and expansions of capital at the centre. But the dominance of the federal state in the regional economy has diminished the magnitude of this pattern. A change in the Nova Scotia situation was noted earlier in this chapter, and there has been an overall decline in out-migration from Newfoundland since the 1960s, despite ever-increasing levels of unemployment.

The question which obviously arises is: why does the federal government maintain social subsidies to the Atlantic region on such a
massive scale? One argument revolves around the exigencies of capital accumulation on a national and international level. It was pointed out earlier that capitalist enterprises at the centre constantly enter peripheral countries and regions in order to extract wealth from resources and labour while selling manufactured goods to residents of these areas. In the Canadian context, the federal government can be seen to be assisting in this process by, on the one hand, issuing grants to corporations for their regional endeavours while, on the other hand, providing sufficient transfer payments to maintain a captive labour force and a ready market for central Canadian consumer products. In other words, the system of resource and labour exploitation is legitimized to the populace in this way. While there is no denying that there is much truth to this perspective -- which also admits to inherent contradictions in that the state's role is ultimately a net burden on capital -- it is unduly deterministic. It is inappropriate to view the activities of the state as reflecting either a conscious conspiracy of the national and international financial ruling class or the functional requirements of capital to replenish itself. There is a complex dialectic of interactions that affect state operations, much of which Stevenson aptly describes:

The state in a capitalist society is clearly a pro-capitalist state, but it is part and parcel of a political-economic structure which establishes certain limitations and reflects certain political-economic forces and interests. Such a state accommodates and mediates between and among social classes, ethnic groups, racial groups, genders, regions, and the conflicting interests of various fractions of the bourgeoisie... It is important not to fall into the error of seeing the state as simply an instrument of one class or the fraction of the one class.
For instance, successive federal governments often choose to favour one part of the country or another with financial largesse based simply on the perception that such endowments will result in re-election to office. In the Atlantic Region in recent decades, federal paternalism has been championed by cabinet ministers such as Don Jamieson, Allan MacEachen and John Crosbie. Vote-getting, of course, is a standard motivation. But this system also partially derives from the regional political mosaic of Canada whereby such ministers are expected to "deliver the goods." The federal government's willingness to finance 50 per cent of the $5.2-billion Hibernia project through grants and loan guarantees to the corporate developers is the quintessence of this phenomenon. Moreover, Canada's de-centralized political culture makes the prospect of applying a wholesale neo-classical economic solution to dependent regions, such as that implemented by the Thatcher government to the detriment of the British North, highly unlikely. Tory Ottawa's 1987 rejection of the Forget Commission's recommendations for the overhauling of the Unemployment Insurance Act provides ample evidence of this. In a sense, the political aspect of legitimation through transfer payments, as well as corporate bail-outs and outright patronage, can be seen as an ongoing sop to defuse the intermittent anti-centralist movements which arise in different parts of the country and sometimes, as in the cases of both Newfoundland and Nova Scotia, threaten secession. This is not to deny that federal political decisions favour the central, more populous provinces of the country. Such a situation obtained at the end of the nineteenth century when the Maritimes' economy started its decline. And it continues today. On the one hand there are the federal Conservative
cutbacks in transfers and development funds mentioned earlier. On the other hand, there is the contradictory situation whereby Ottawa, in accordance with the free trade deal, is willing to remove all barriers for the export of energy to the United States but will not uphold Canadian regulations -- because of Quebec's objections -- in asserting that Newfoundland can transmit electricity from the proposed Lower Churchill hydro development through Quebec to Canadian and American markets.

Notwithstanding the credible work of Clement, Panitch and others who clearly show the links between the political and bureaucratic elites and the Canadian bourgeoisie, a lack of total congruence between the pro-capitalist state and both the national and the international capitalist classes can be seen in many instances of the government's actions and behaviour. For example, the maintenance of many of the structures and institutions of the welfare state, especially by a Tory government, does not sit well with the capitalist mainstream when the annual government deficit is still around $30 billion. On the international level, although the NATIONAL ENERGY PROGRAM was not as injurious to the powerful multinational oil companies as they tried to demonstrate (details of which will be provided in Chapters Four and Five), unquestionably it antagonized them. And in Canada there were divisions among sectors of this important industry over this policy.

Within this somewhat pluralistic context of how capital and the federal state operate so as to perpetuate regional dependency, therefore, a concluding description of what the current reality of this
dependency really means in Newfoundland and Nova Scotia is in order. As was noted above in the relationship between St. John's and Labrador, the creation of dependency on a national or regional level can also have its counterpart on a sub-regional or sub-provincial level. It is within this structural framework of dependency that a clearer idea emerges of what might constitute underdevelopment in a peripheral region of an advanced capitalist society. On a global scale, economic underdevelopment can be broadly defined as the effect produced by capitalist development in any peripheral region or country, comprising: hyper-exploitation of labour; a massive capital drain that withdraws surplus value; distortion of the structure of production; the limiting of the internal market; and the generation of chronic unemployment and marginality of a surplus population. In a wealthy country such as Canada, however, some prudence must be exercised in applying this description indiscriminately to dependent regions.

The developmental difference between the Atlantic Provinces and third world countries is that many of the latter still suffer from underdevelopment in the sense that the social and economic conditions of the majority of the populations there are worsened by international capital penetration. The former generally experience a subordinate but real development. Overall, the Atlantic Region, as an integrated part of the political and economic structures of Canada and the industrial world, can be seen as participating in a process of "uneven combined development." While economic growth here often lags behind that of the country as a whole (the only reason why Nova Scotia surpassed the national average in 1983 and 1984 was because of federal spending on offshore exploration), personal incomes have risen, as
Tables 3-3 and 3-4 indicated. Most of this increase, however, has been due to higher levels of economic involvement by Ottawa. Thus "development" in this sense can be seen as a product of greater dependency. From this perspective, the regional economy can best be characterized, not as underdeveloped, but as "dependent developed." This abridgement of the dependency perspective is based on a recognition of the fact that dependency does not preclude economic growth, which can actually result in a sort of quasi-development while at the same time it intensifies many of the fundamental characteristics of dependency. This situation was true of the economic circumstances produced by the introduction of the foreign-owned paper mills in Newfoundland in the early part of this century. It also applies to Michelin's operations in Nova Scotia. But the role of foreign capital in promoting dependent development, however, has been superceded by that of the state. Of course, the impacts of the underdevelopment or dependent development processes spread beyond the economic sphere. Much of this study is concerned with the degradation of regional and provincial political self-determination in the face of resource development. Social and cultural viability are also adversely affected by external decisions over the use of capital.

Perhaps there is no better illustration of state-sponsored dependent development in a marginalized region than that provided by the economic profile of Halifax. In the early 1970s the Department of Regional Economic Expansion (DREE) promoted the Halifax-Dartmouth metropolitan area as the Maritimes' major regional growth centre for industrial development. Federal grants encouraged population and
economic growth, most of which occurred at the expense of the North-
eastern region of Nova Scotia. Despite the best efforts of federal
and regional planners, though, Halifax has not become a manufacturing
centre. This sector accounted for only 7.8 per cent of the city's
employment in 1981, compared, for example, with 24 per cent for Toron-
to and 32 per cent for Hamilton. In fact, Halifax's sectoral
employment profile bears a strong similarity with those of Ottawa and
Victoria, both of which are primarily public service centres. A
review of national urban unemployment and labour participation rates
for the decade indicates that the former has generally been lower and
the latter has been higher than the national urban averages.

Not only are jobs more plentiful in Halifax, but the level of
income is comparatively high. In 1983, personal disposable incomes in
the city averaged 37 per cent higher than for the Atlantic Provinces
as a whole; in fact, it was slightly above the national average.

Because of the inherent stability of an urban economy dominated by
government-related services, Halifax does not have to endure the
shocks and upheavals which, in times of recession, can severely affect
both one-industry towns and large industrial cities. In other words,
as Table 3-6 shows, Halifax's hyper-dependent status shielded it from
the social and economic calamities of the early 1980s recession which
profoundly affected many large and small communities across Canada,
from Calgary and Sudbury to Labrador City and Pictou. As a final
indication of how diverse -- and perverse -- intra-regional differen-
tces in a dependent economy can be, Halifax imports and consumes a
disproportionate level of goods and services from outside the Atlantic
Region compared to its consumption of regional products, thereby pro-
ducing beneficial economic impacts to areas external to the region.

Table 3-6
UNEMPLOYMENT RATES, FOR SELECTED CITIES, 1980 - 85

<table>
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<tbody>
<tr>
<td>Halifax</td>
<td>8.4</td>
<td>8.2</td>
<td>10.7</td>
<td>10.5</td>
<td>10.5</td>
<td>9.6</td>
</tr>
<tr>
<td>St. John's</td>
<td>11.2</td>
<td>10.9</td>
<td>12.6</td>
<td>13.3</td>
<td>15.0</td>
<td>15.0</td>
</tr>
<tr>
<td>Ottawa</td>
<td>7.7</td>
<td>7.1</td>
<td>8.3</td>
<td>8.4</td>
<td>8.7</td>
<td>8.3</td>
</tr>
<tr>
<td>Hamilton</td>
<td>6.4</td>
<td>6.0</td>
<td>11.7</td>
<td>11.9</td>
<td>9.8</td>
<td>8.8</td>
</tr>
<tr>
<td>Calgary</td>
<td>3.6</td>
<td>3.9</td>
<td>8.3</td>
<td>12.2</td>
<td>12.3</td>
<td>10.3</td>
</tr>
<tr>
<td>Vancouver</td>
<td>5.3</td>
<td>4.9</td>
<td>9.8</td>
<td>12.3</td>
<td>13.5</td>
<td>13.3</td>
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Source: Statistics Canada, LABOUR FORCE ANNUAL AVERAGES, 1980 - 1985

While Halifax is the supreme example of a dependent developed sub-regional economy, there are other parts of the region -- primarily urban centres -- that reflect, and benefit economically from, this kind of structure. At the same time, many rural areas can almost, in the global sense described above, be regarded as underdeveloped because the level of economic paternalism from the state cannot match the privation which has emanated from haphazard external development.

Given both the historical and theoretical perspectives outlined in this chapter, it is understandable, therefore, that offshore oil and gas exploration activities have only intensified the spatial and social differences within Nova Scotia and Newfoundland.

Certainly, St. John's is a logical choice geographically for servicing operations on the Grand Banks. But the area of concentrated exploration activity on the Scotian Shelf has been closer to many
ports other than Halifax. Yet, except for Petro-Canada’s earlier use of the Strait of Canso at the behest of former Liberal cabinet minister Allan MacEachen, all of the Nova Scotia offshore operators have been based in Halifax. The possible development of Hibernia would indeed result in generating employment outside St. John’s, but most of it would be concentrated in one small community, Come By Chance. There is every likelihood that social conflicts would ensue between residents and construction workers, just as occurred in the Strait of Canso during the late 1960s and early 1970s when four major construction projects were underway. Moreover, the local inshore fishery is bound to suffer. Site-specific offshore-related activities do no more in their development and construction phases than repeat the boom and bust cycles felt previously in the region. In the production phases, they either reinforce urban favouritism or add up to isolated, smaller examples of what one sees at Michelin’s Granton, Bridgewater, and Waterville plants.

All areas considered, Newfoundland and Nova Scotia possess almost as much economic diversity in their dependency as Canada as a whole. The enduring dependent character of the Atlantic Region’s economy answers both political and financial imperatives, which, more often than not, are complementary. The prospects for reversing the course of regional dependency are minimal, particularly within the combined context of political-economic hegemony at the centre and philosophical poverty in Nova Scotia as well as in Newfoundland. Dependency theorists such as Cardoso, Galtung, Dos Santos and Sunkel note that local entrepreneurs frequently owe their positions to their ties with out-
side economic interests. Cardoso contends that as a result they are likely to advocate policies which result in increased dependency. The practical experience of Newfoundland and Nova Scotia indicates nothing to the contrary here. Cardoso's further contention that the increasingly important middle class and industrial working class are also likely to believe their interests are best served by dependent versus independent development might be debatable with regard to Newfoundland. However, unless there is a radically different political vision and determination which seeks to initiate and direct development, there is no alternative to continued dependency.

ENDNOTES


2. MAIL-STAR, February 25, 1983


4. EVENING TELEGRAM, August 29, 1980


6. Statistics Canada. THE LABOUR FORCE, 1985, 71-001, Table 64, p. 98


8. GLOBE AND MAIL, October 7, 1986

10. Ibid., p. 44

11. FINANCIAL POST, September 20, 1986

12. Bulcă, op. cit., p. 50

13. Ibid., p. 175


16. Ibid., pp. 51-52


18. Ibid., p. 3

19. Ibid., p. 19

20. Alexander, op. cit., p. 66


22. Ibid., p. 108

23. Ibid., p. 109


25. Alexander, "Economic Growth in the Atlantic Region", op. cit., derived from Tables 3 and 4, pp. 58, 59

26. Overton, op. cit., p. 109

27. Alexander, op. cit., p. 54


29. Acheson, op. cit., p. 19
30. According to Alexander, op. cit., p. 53, B. S. Keirstead argued that the increasing size of firms at the turn of the century favoured growth in Ontario and western Quebec, with its large population, excellent communications, and agglomerations of labour skills, capital, and inter-industry linkages. The decline of the Maritimes, located on the fringe of the tariff-protected Canadian market, was inevitable, as was the relocation of its financial institutions.


32. Ibid., p. 274.


35. Ibid., p. 277.


40. Ibid., pp. 107-108.


42. This account is based on an unpublished study of Imperial Oil by John Ewing as related by David Crane in his book CONTROLLING INTEREST, (Toronto: McClelland and Stewart, 1982), p. 258.


45. Henry Veltmeyer, "The Underdevelopment of Atlantic Canada", in THE
46. Ibid., p. 98

47. Ibid., p. 101

48. From the text of Finance Minister Greg Kerr's budget address to the Nova Scotia Legislature, MAIL-STAR, April 20, 1985

49. Alexander, op. cit., p. 52

50. T. W. Acheson, "The Maritimes and 'Empire' Canada", op. cit., p. 104

51. Ibid., p. 104

52. MAIL-STAR, February 15, 1985

53. Gene, Barrett, op. cit., p. 278


57. Ibid., p. 6

58. Ibid., p. 2


60. EVENING TELEGRAM, September 19, 1980

61. Farrell, op. cit., p. 38

62. Economic Council of Canada, op. cit., p. 5

63. Ibid., p. 5

64. Overton, op. cit., p. 109

65. See, for example, John Foster, op. cit., pp. 123 and 124, for a brief discussion and critique of the import substitution industrialization model adopted by the Economic Commission for Latin
America (ECLA). Gabriel Palma, in "Dependency Theory and Its Implications for Contemporary Development Strategy", WORLD DEVELOPMENT 6 (July-August, 1978), p. 908, points out many of the problems which this strategy created, including insufficient demand because of low wages, rural-urban migration, invariable concentration on the production of consumer goods for the elites, and the failure to produce the 'ripple-effect' on the rest of the economy. For a comment on the Nigerian experiment with import substitution, which was characteristic of the West African experience upon the assumption of independence by the former colonies, see Terisa Turner, op. cit., pp. 202 - 205.

66. Overton, op. cit., p. 111
67. Economic Council of Canada, op. cit., p. 14
68. Ibid., p. 121
69. EVENING TELEGRAM, May 14, 1977
70. Overton, op. cit., p. 111
71. FINANCIAL POST, June 12, 1976
74. Peckford, op. cit., pp. v, vi
76. Johnstone, op. cit., p. 10
77. MACLEAN'S, November 3, 1980
78. Johnstone, op. cit., p. 10
op. cit., p. 10


82. CANADIAN PETROLEUM, October 1980

83. J. D. House, "Big Oil and Small Communities in Coastal Labrador: The Local Dynamics of Dependency" (St. John's: Memorial University of Newfoundland, Department of Sociology, 1980), p. 8

84. Press statement by Premier Brian Peckford, June 4, 1982. This was precipitated by the Supreme Court of Canada's refusal to postpone the hearing of the federal government's claim to the ownership of the Hibernia oil field until after the Newfoundland Supreme Court had ruled on a similar motion, one which had been submitted by the provincial government.

85. Overton and O'Neill, op. cit., p. 17

86. GLOBE AND MAIL, October 8, 1986

87. Bulca, op. cit., p. 21


89. Peckford, THE PAST IN THE PRESENT, op. cit., p. 44

90. GLOBE AND MAIL, December 2, 6, 1982

91. Ibid.

92. Johnstone, op. cit., p. 8

93. GLOBE AND MAIL, December 27, 1984

94. FINANCIAL POST, January 12, 1985


96. GLOBE AND MAIL, March 25, 1987


98. Michael Harris, "The Politics of Outrage Runs Aground", GLOBE AND
MAIL, February 25, 1983

99. Peckford, op. cit., p. 104


101. Matthews, op. cit., p. 189

102. Peckford, op. cit., p. 104

103. Ibid., p. 105

104. J. D. House, "The Don Quixote", op. cit., p. 21

105. Ibid., p. 25

106. MAIL-STAR, February 15, 1985

107. FINANCIAL POST, May 4, 1985

108. MAIL-STAR, March 23, 1985. This is a quote from, and represents the thrust of, an address to a federal conference on the economy delivered by David Gagong, chairman of the Atlantic Provinces' Economic Council.

109. GLOBE AND MAIL, September 3, 1986


111. For a detailed analysis of the ineffectiveness of these programs, see Bulica, op. cit. See also Michael Bradfield, "Evaluation of Federal Regional Programs", (Halifax: Institute of Public Affairs, Dalhousie University, 1981); Tim O'Neill, "Canadian Initiatives Aimed at Maintaining Community Viability/Vitality", a paper presented at the Four Nations Conference, University of Aberdeen (August 1984); and Ralph Matthews, op. cit., pp. 104 - 117

112. GLOBE AND MAIL, March 2, 1988

113. MAIL-STAR, April 14, 1987

114. FINANCIAL POST, April 6, 1987

115. Tim O'Neill, op. cit., p. 22
116. Bradfield, op. cit., p. 66
117. Williams, op. cit., p. 8
118. Ibid., p. 7
119. Bulca, op. cit., p. 75
120. GLOBE AND MAIL, October 7, 1986. This information is based on a report of the findings of the Newfoundland Royal Commission on Employment and Unemployment.
121. Newfoundland and Labrador. BUILDING ON OUR STRENGTHS: REPORT OF THE ROYAL COMMISSION ON EMPLOYMENT AND UNEMPLOYMENT (St. John's: Government of Newfoundland and Labrador, 1986), p. 101, Figure 4.8
123. Williams, op. cit., pp. 3, 4
124. Stevenson, op. cit., p. 108
125. Ibid., pp. 111 - 115
126. Veltmeyer, "The Underdevelopment of Atlantic Canada", op. cit., p. 95
127. Ibid., p. 96
128. Ibid., p. 96
129. Foster, op. cit., p. 111
131. Censuses Canada 1981
132. FINANCIAL POST, CANADIAN MARKETS 1984, p. 285; Statistics Canada, 71-001, 63-224
133. Coffey et al., pp. 25, 28
135. Matthews, op. cit., p. 74
Petroleum is the most valuable commodity traded in the world. It follows, therefore, that there are enormous fortunes to be made from dealing in oil and natural gas. In fact there is a striking, century-long continuum in the efforts to profit from this mineral. The concerns of producers and traders in the 1980s differ little conceptually from those of the entrepreneurs who developed and sold the initial supplies of oil in the United States in the 1860s. What determines the profitability of any project to extract hydrocarbons from the earth, whether under the Grand Banks or the sands of Saudi Arabia, is the price which the resource will fetch in the marketplace. That price, in turn, is totally dependent upon the real or perceived capability of producers and traders to meet the requirements of consumers. Consequently, it has always been in the interests of those who seek to profit from petroleum exploitation and marketing to control -- meaning, for the most part, to restrain -- supply. Just as the failure to do so has caused financial turmoil in parts of the world in the 1980s, so it did on a much smaller scale 120 years ago. The problem at the present time is that there is no truly effective mechanism to dominate, or monopolize, the international supply of crude oil and its products. The petroleum-dependent economies of various regions and countries are suffering, and even some of the major oil companies, particularly those heavily involved in the production end of the business, have felt a pinch on their profits. This was also the case at the inception of the industry.
From the Rockefeller Monopoly to the Rise of OPEC

The chaos of an uncontrolled market revealed itself within the first few years after the 1859 discovery of the Drake well in Pennsylvania and the subsequent "oil rush." In 1860 the price of oil was $20 per barrel. A year later it was 10 cents a barrel, and sometimes a barrel of oil was literally cheaper than water. A sharp young bookkeeper by the name of John D. Rockefeller observed the volatility of the oil market and endeavored to figure out a way to control it. He realized quickly that the means of dominating the industry was not by producing oil, but by refining and distributing it. Hence his company, the Standard Oil Trust (actually a group of companies), instituted monopolistic deals with the railway companies and effectively eliminated its rivals.

Standard's operations expanded rapidly. By 1883 the distribution of oil by rail in the United States had been mostly replaced by Standard's own network of pipelines. At the same time, Standard began to emerge as one of the first modern multinational corporations, with 70 per cent of its business in 1885 transacted overseas. By the turn of the century, however, its monopoly position was being challenged on two fronts. Internationally, the merger of Royal Dutch Petroleum with Shell Transport and Trading in 1907 provided formidable competition against Rockefeller's operations. This was intensified by the time of the outbreak of World War I by Anglo-Persian (subsequently called British Petroleum), a company formed in the early 1900s to operate a

# The 42-gallon (U.S.) barrel (35 Imperial gallons) measurement for oil had its origins in the wooden barrels first used for oil in Pennsylvania.

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British oil concession in Iran. Domestically, the 1901 discovery of the Spindletop field in Texas and subsequent discoveries of other reserves there spawned the formations of Gulf Oil Corporation and Texaco. The corporate oil pie was further divided in 1911 when Standard Oil, because it still was large enough in the United States to act in a monopolistic fashion in setting oil prices, was broken up by the U.S. government into 38 different companies. The three most important companies evolving from this split were: Standard Oil of New Jersey, now Exxon; Standard Oil of New York, now Mobil; and Standard Oil of California, now Socal or Chevron. Together these companies--five American, one British and one Dutch/British--comprised the "Seven Sisters."

Despite the break-up of the Standard Oil Trust, Rockefeller and his associates still managed to effectively control all 38 of the corporate progeny. The price of oil in the United States actually increased following the "trust-busting." On the international level, however, competition ruled for most of the first three decades of the century. Hence control at the level of production was once again a major concern of the Rockefellers, since they could not monopolize the global refining, distribution and marketing of petroleum. A series of fierce struggles for markets and profits ensued, primarily between Standard Oil of New Jersey and Royal Dutch Shell. Access was contended for corporate entry into rich oilfields from Iraq and the Soviet Union to Mexico. Every conceivable tactic was used, including price wars, bribery and violence. By the middle of the 1920s the companies came to realize that the opportunities for greater profitability
afforded by the boom, not only in automobile manufacture but also in ships, airplanes and military vehicles, were not being met. They decided to do something about it. Consequently, as Michael Tanzer puts it,

The international "oil war" ended just like World War I, with a formal armistice agreement, negotiated at Achnacarry Castle in Scotland, by the heads of Standard Oil of New Jersey, Royal Dutch Shell, and British Petroleum. (b)

This secret covenant, which came to be known as the Achnacarry, or "As Is" Agreement, began by explaining that "excessive competition has resulted in the tremendous over-production of today." It sought to put an end to competition by ruling out new production facilities until the old ones were being used at capacity and by fixing market shares of the Big Three (Standard, Shell and British Petroleum) at the 1928 level. In addition, the companies demarcated geographical areas of corporate activity in the oil-rich Middle East. The As Is Agreement was implicitly understood in such a way as to accommodate the other two Standard Oil companies, Mobil and Socony, as well as Gulf and Texaco. While this inter-corporate pact was never fully implemented, its principles and intentions related to price-fixing and export arrangements ensured a comparatively high degree of stability for the industry for most of the next thirty years. Thus, Rockefeller's monopoly of the 1880s had, through the impact of competition, given way to a corporate oligopoly which created and operated a cartel.

The economic strength of the Seven Sisters expanded considerably during the 1930s and 1940s. By 1949 they controlled 69 per cent of the oil reserves in the non-communist world and 57 per cent of refining capacity. Economic power on this scale understandably begets
political power and influence. What evolved in the United States after the first World War, therefore, was a symbiotic relationship between the five American oil majors and their home government. On the one hand there was the political impulse to ensure the corporations' success. After all, as Tanzer points out,

While the oil companies seek profits all over the world, their governments also want to assure reliable supplies of oil for their military machines and for their industries, as well as for popular consumption. Each of these aims can be furthered by government support for the expansion efforts of the oil companies. And if in the process of expansion the oil companies bring in huge profits from abroad which help the home country's balance of payments, this too gives the government a stake in the companies' operations. (10)

On the other hand, because of the power, experience and global reach of these corporations, the United States became somewhat dependent upon them in the international political sphere. In the 1950s the State Department's proclaimed policy was that "American oil operations should be the instruments of foreign policy in the Middle East."

Among other things, this was reflected in the breadth of the contacts and appointments between the industry and the State Department, beginning with the Secretary of State in the Eisenhower administration, John Foster Dulles, a senior member of Jersey Standard's law firm. (The connections continue today. In 1987 Alan Greenspan left the board of directors of Mobil Corp. upon being appointed chairman of the Federal Reserve Board, the most important economic portfolio in the U. S. government.) In fact, Ed Shaffer argues that, based on the multiplicity of links between the major American oil companies and successive United States governments, the petroleum-inspired conduct of
American foreign affairs directed at times towards one region of the world or another has evolved into an informal generalized policy:

Over the years U.S. foreign policy has developed into an oil foreign policy, a policy designed to protect American oil interests throughout the world. (13)

The profundity of this relationship cannot be exaggerated. In a 1988 study of declassified U.S. government documents, author Daniel Axelrod discovered that successive administrations have threatened to make a first strike with nuclear weapons on 12 occasions since the Second World War. The first such instance came in 1946 when President Harry Truman gave the Soviet Union 48 hours notice to withdraw its troops from the Iran border in order to open the way for U.S. oil rights. (14)

Activities emanating from the political and economic conjuncture of the world's most powerful corporations and state have left a legacy of underdevelopment and dependency virtually all of the non-industrialized countries where the oil majors have ventured. Doug House summarizes the companies' behaviour and impact succinctly:

They received generous concessions from the host nations, which were uncritically eager to attract industrial development of whatever kind; they bought off the appropriate sheik or government official as was needed; they brought the political and military might of the home government to bear upon any Third World government that attempted to step out of line; and they acted as sovereign powers within the host nations. A classic pattern of underdevelopment emerged, with the oil companies setting up separate enclave operations under expatriate American and European supervision, employing locals only in the less-skilled lower-paying jobs, paying low royalties and taxes to the host governments, and shipping out the crude oil in an unprocessed form at cheap prices for refining and marketing in Western Europe. (15)
In some instances when the oil majors saw their interests greatly threatened, they participated in the overthrow of governments. The most striking example of this was the removal of the Mossadeq government in Iran in 1953 and the installation of Shah Mohammad Reza Pahlavi on the country's throne. The coup d'état was engineered by the U. S. Central Intelligence Agency (CIA) and was actively supported by the corporate cartel and both the British and American governments. The motivating factor for this action was the Iranian parliament's decision in 1951 to nationalize British Petroleum's oil holdings in the country. Arguably, the political instability, repression and bloody conflicts which have befallen the Persian Gulf region since at least the mid-1970s can be linked to some extent to this coup. Iraq, with whom Iran was at war from 1980 to 1988, was itself the victim of a CIA-organized coup in 1963. Once again, a new regime favourable to both American and petroleum industry interests was installed. As the official historian of Standard Oil observed, "For its unsavory reputation, the world petroleum industry could only blame its leaders."

The grievances of all of the oil producers, however, could not be suppressed forever. Despite the threat and the subsequent imposition of an international boycott of its product by the United States and the oil companies, Mexico nationalized its petroleum industry in 1938. Venezuela took gradualist steps in this direction over the following two decades and was an instrumental participant in the formation of the Organization of Petroleum Exporting Countries (OPEC) in 1960.

There were other corporate and political developments taking place in the 1950s and 1960s which also contributed to the restructuring of production and marketing relationships in international petro-
leum affairs. As was pointed out in Chapter Two, some growing, mainly-American, independent oil companies were gaining production concessions in North Africa. European state oil companies such as Italy's E.N.I. were becoming influential actors in bidding for production rights, and the Soviet Union began to increase its exports to the West. All of these factors led to a reduction in the control exercised by the Seven Sisters over oil production and a resulting fall in the price of crude oil.

The post-War boom in oil consumption noted in Chapter Two compensated partly for the companies' falling profit rates from their foreign operations. Still, from a very lucrative 30 per cent in 1955, they fell to 14.7 per cent in 1963, and reached an all-time low of 11.1 per cent in 1969. Consequently the oil majors sought and received help from their home governments. In the United States, the domestic operations of the multinationals were protected from the mid-1950s to the early 1970s by the placing of import restrictions on less expensive foreign crude oil. Conservative economist Milton Friedman commented in 1969 that: "The political power of the oil industry, not national security, is the reason for the present subsidies to the oil industry."

By the early 1970s the oil majors wanted to raise their prices, but they knew that if they did this on their own there would be a harsh reaction in the West. The Nixon administration also wanted higher prices since it was facing pressures to implement a steadily declining tariff on oil imports. A satisfactory diplomatic solution to the price conundrum evolved as prices did begin to rise from 1971.
Now the common perception was that this was solely the initiative of OPEC. The fact is that the Seven Sisters accepted the increasing nationalization of oil by the exporting nations in return for higher prices and a guaranteed stable business environment. While the oil price shock and embargo of 1973/74 obviously went too far in Washington's view, the new production and pricing arrangements were the logical outcomes of preceding events and negotiations, and they were generally desired by the producers, the oil companies, and the United States government. Higher prices obviously benefited OPEC and the corporations, and they also enabled the United States economy to reassert its dominance over those of Germany and Japan, which depended more heavily than the United States on imported oil.

Since the mid-1970s the role of the oil majors has diminished at the "upstream", or production, end of the industry's activities. Whereas the Seven Sisters owned 81 per cent of non-communist oil production in 1970, their share had shrunk to only 25 per cent by 1979. By this time, according to Dirk de Bruyne, managing director of Royal Dutch Shell, the original corporate logic of vertical integration of all aspects of the oil industry had been forced to change "as more and more countries seek their own particular set of energy solutions," most involving some degree of nationalization.

Big Oil and the Canadian Government

Until the beginning of this decade, Canada was well behind almost all of the world's oil producers in terms of asserting a national role over the industry. The aim of the Liberal government's 1980 NATIONAL ENERGY PROGRAM for Canadian companies to control 50 per cent of domes-
tic production by 1990 was comparatively modest. By 1975, all OPEC members except for Gabon owned more than 50 per cent of their oil production. Most owned 100 per cent. Canada's weak position in this respect fitted, to some extent, within the traditional character of foreign-corporate domination of much of Canadian industry. But it also reflected the pervasive links between the American oil majors and their home government, and their combined influence on successive governments in Ottawa.

Among the industry's leading companies at the time of the landmark Leduc oil discovery north of Edmonton in 1947 were Texaco and Imperial Oil, both of which had gained their positions through acquisitions of Canadian firms by their American parents. The takeover route was also followed by Gulf in 1956, when it purchased British American Oil, and by Shell, when it expanded its Canadian operations by acquiring North Star Oil in 1960 and Canadian Oil in 1962. These companies were vertically-integrated, in the sense that they were involved in exploration, production, transportation, refining, distribution and marketing of petroleum and its products. The fact that resource ownership and management was deemed constitutionally to be a provincial concern meant that energy policy and related revenue matters would largely reflect the outcomes of negotiations between the producing provinces and the industry. There was no real national thrust to establish petroleum-related legislation until the appointment of the Royal Commission on Energy in 1957, chaired by Toronto industrialist Henry Borden. Ironically, it seems that the policy adopted four years later was conceived so as to enable greater penetration of the industry by both American political and corporate
It was mainly on the advice of oil consultant Walter Levy, one of the more important personal links between government and the oil industry in the United States, that Canada adopted the National Oil Policy (NOP) in 1961. The NOP led to "one of the biggest takeover splurges in Canadian oil and gas history," a process whereby multinational companies such as Shell significantly increased their holdings in the industry. This extended corporate concentration within the petroleum industry which, by the 1970s, was greater in Canada than in the United States. By then Imperial, Shell, Gulf and Texaco held 35 per cent of the Canadian crude oil production sector, compared with a 27 per cent share held by the four largest producers in the United States. Moreover, this Canadian concentration was not in Canadian hands. This led to the intensifying of monopolistic practices on the part of the multinationals, particularly with regard to artificial selling and buying transactions between the foreign oil majors and their Canadian subsidiaries. In all, it is estimated in 1980 dollars that Canadian consumers paid $12.1 billion to the oil companies from 1958 to 1973 over and above what they should have paid.

The political and economic restructuring of the petroleum matrix which occurred in the international sphere in the early 1970s produced related impacts in Canada. As was noted in Chapter Two, the industry's perspective on domestic petroleum supplies seemed to change in accordance with the rise in the international price of oil. There was still a sizeable vacuum in federal understanding of petroleum matters at this time; James Laxer argues that the oil companies were willing
to take advantage of this situation:

One highly placed employee of Imperial Oil admitted, in a personal conversation, that the oil companies had available to them a very wide range of estimates of oil and natural gas reserves and that they used those which were convenient to their interests in lobbying governments. Sometimes this meant they used their high estimates; sometimes their low ones. (29)

Naturally, the oil companies sought to receive the world price for their Canadian oil and lobbied hard with both the federal and Alberta governments for such an arrangement. With the latter there was no problem. The Liberal government in Ottawa, however, balked since such an increase, though of benefit to both the industry and Alberta, would penalize Canadian consumers and offer only marginal revenues to the federal treasury. The argument for higher prices and lower taxes was summarized by Imperial Oil chairman Jack Armstrong in 1977:

We badly need to create a climate for the resource industries in Canada — a climate far more encouraging to investment than we have at present. We do not have in this country a set of policies to make resource investment attractive to either the corporate or the individual investor. (30)

He might have noted that, because of the poor climate, Imperial's parent Exxon, which held a 70 per cent interest in its Canadian subsidiary, did not contribute any capital to Imperial since 1951, while it received substantial dividend and industrial benefits during that period.

The fact is that between 1973 and 1978 the price of oil and natural gas in Canada did rise fairly quickly. By mid-1978 Canadian crude oil was selling at 80 per cent of the world price. At the same time, even if one excludes the very generous super-depletion tax deduction for offshore exploration (described in Chapter Two), some
tax economists argued that other advantages enjoyed by the resource industry could not be justified on economic grounds. These included accelerated write-offs on exploration and development expenditures and earned depletion allowances. What it meant in real terms was that in the second half of the 1970s the effective taxation rate for resource companies was 10 per cent, less than one-third the nominal rate of 36 per cent.

The gradualist Canadian ownership thrust of the National Energy Program (NEP) can be seen as a policy of necessary redress in an industry in which, by 1980, 72 per cent of the companies were foreign-owned and 82 per cent of the revenues generated were foreign-controlled. This constituted a level of external control without parallel among the world's major petroleum producers. Over the period 1971 to 1980, the multinational oil companies paid out a significantly higher percentage of their net income to shareholders in the form of dividends and equity reductions than did Canadian firms, and they reinvested much less of their cash flow in petroleum-related activities. Part of the reason the majors' level of investment was proportionately lower was because their very scale of operations and resource incomes enabled them to gain more incentives from, and pay less taxes to, the federal government, the system being skewed in this manner.

It will be shown both later in this chapter and in Chapter Five that the NEP was not unduly harsh towards the multinational oil companies; but, as David Crane notes, the response to this policy by the United States government on their behalf was immediate and shrill.
Official Washington reacted with one of the most extraordinary communications ever sent by the State Department to a Canadian government...Challenging almost every aspect of the National Energy Program, it read as though it had been dictated by the oil moguls themselves. (36)

Washington's note to Ottawa urged the Canadian government to "carefully consider the impact of the PGRT [Petroleum and Gas Revenue Tax] on its investment climate and production potential," and in effect threatened economic retaliation:

The Canadian policy, if strictly enforced, could have serious adverse effects on the U.S., especially on exports of energy-related goods to Canada, which in 1979 totalled $452 million... Should the balance of concessions be disturbed, the United States would be obliged to consider how a new balance might be achieved. (37)

Subsequently, there were changes to the NEP, and its demise led to the elimination of the PGRT as well as the infamous "back-in" provision of the program. The period of the NEP and its aftermath following the election of the federal Progressive Conservative government in September 1984 will be examined in detail in Chapter Five.

Given both the focus of this chapter on the industry and the overall concentration on the East Coast offshore, it is perhaps judicious at this juncture to turn to corporate involvement in the region's oil and gas play. Even considering overall Canadian petroleum matters from the industry perspective, it is not inappropriate to look at the offshore in some detail for the period encompassing the NEP. Its inception marked a change in the direction of federal attention from being almost totally oriented towards the Western provinces to focusing increasingly on the "frontier" regions in Canada's North and under the waters off the East Coast. This new orientation was in turn accompan-
ied by prodigious expenditures on exploration, as was outlined in Chapter Two. Most of this money came from the federal treasury and was funnelled through the oil companies.

The Corporate Character of Mobil Oil

Under the aegis of the NEP the most prevalent actor in the offshore play was Petro-Canada, the corporate protege of Liberal policy-makers. In Chapter Five its role will be examined in the context of the evolution of Canadian energy policy. Most of the remainder of this chapter will deal with the operations of the offshore’s biggest multinational player historically -- and by far the most important corporation there, domestic or foreign -- Mobil Oil. Through reviewing its activities on both the global and Canadian stages, an understanding is provided of the character and influence of this corporation which otherwise, in Nova Scotia and Newfoundland, may on occasion appear to be a parochial business concern. This overall scrutiny of Mobil facilitates a broader examination of corporate strategies, including ill-conceived ventures, that center on the offshore but relate to the industry generally in Canada and to some extent around the world.

Mobil’s presence on the East Coast warrants particular attention because, though it is representative in many ways of the oligopoly of very powerful oil majors, it retains its own individual agenda and "personality". At the outset, it is useful to understand the formal relationship between the Canadian offspring and the American parent. When Mobil’s public affairs co-ordinator in Newfoundland was asked in a 1982 CBC Radio interview, "How big is Mobil Oil?", she replied: "Oh
it's not very big; it's about the size of Newfoundland Telephone."

Literally this is true. Incorporated in Canada as Mobil Oil Canada Ltd., it has about 1650 employees in this country. But it is a wholly-owned subsidiary of Mobil Oil Co. of New York, which in turn is a subsidiary of Mobil Corp. Unless specified, there is no distinction made here between parent and offspring, reflecting the fact that Mobil Oil Canada, like Amoco Petroleum and Chevron, decides nothing of consequence without clearance from "head office": "Their big decisions come by telex or telephone out of New York, San Francisco, or Chicago."

Joining these companies on the short American leash is, Texaco Canada Inc. Although 22 per cent of its shares are held by Canadians, Texaco is closely identified with the "100 percenters" or "red phone" operations and has a reputation for being tightly controlled by its U.S. parent. This group can be distinguished from the other two main multinationals now operating in Canada, Imperial and Shell, which have 28 and 25 per cent Canadian ownership respectively and function with a degree of relative autonomy from their respective headquarters. Gulf Canada was part of this latter group before being purchased by Chevron Standard (U.S.) in 1984 and, in turn, sold to the Reichmann Brother's Toronto-based Olympia and York Investments in 1985.

One of the indicators which can contribute to an understanding of the breadth and power of the multinational oil majors such as Mobil is the placing of its financial operations in the national and regional context. As Table 4-1 illustrates, Mobil's 1987 revenues were almost equal to those of the government of Canada and represent 25 to 35 times the total income of the Nova Scotia and Newfoundland governments respectively. In other words, the sheer financial scale of Mobil's
operations, which represents roughly the average size of the remaining six 'Sisters', suggests a certain solid measure of power, something which has almost always gone unnoticed amidst the regional din of offshore politics.

Table 4-1

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<th>SELECTED GOVERNMENT AND CORPORATION REVENUES FOR 1987 (Canadian $)</th>
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<tr>
<td>Mobil Corp.</td>
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<td>Government of Canada</td>
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<td>Government of Nova Scotia</td>
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<td>Government of Newfoundland</td>
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<td>Petro-Canada</td>
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(a) This is based on an exchange rate of U.S. $1.00 = Cdn. $1.25
(b) These figures do not include government borrowing.


There are both similarities and differences among the multinational oil companies in terms of their behaviour. But while the specific characters of these corporations might leave a distinctive imprint wherever they operate — especially in the less public political and corporate arenas — their scales of operations and experiences suggest a uniform formula for the successful accumulation of capital. For example, although Mobil has been drilling on the Scotian Shelf since 1966 and on the Grand Banks off Newfoundland since 1972, the company has never actually purchased or constructed a drilling rig of its own. This is a consistent feature of how all of the multinationals have operated off the East Coast and elsewhere in the world. Most of the exploration work is contracted out to firms which specialize in
everything from geophysical services to drilling (by rig owners such as Sedco and Zapata) to diving, and well-testing. As House notes, there are a number of benefits to the majors by operating in this manner:

This allows them to maintain overall control of the business, while enjoying the flexibility of gearing up for or phasing out of new activities rapidly without having to hire or fire company staff. Contracting acts as a kind of buffer that protects the big companies from market or politically induced slowdowns in the industry and also leaves most of the 'dirty' work, such as dealing with oil-field workers and unions, to their contractees. (40)

What this has meant in terms of corporate representation by the multinationals on the East Coast is, given the expenditures involved, relatively small scale of operation. On any drilling rig for which Mobil has been in charge of the exploration program, no more than roughly five per cent of the workers are actually employed by Mobil. Excluding people working with the task forces for the Hibernia and Venture projects, the regional offices of the multinationals in Halifax and St. John's have employed a maximum of about 50 people at times of peak offshore activity.

In the early 1980s it might have been considered prudent to have changed certain aspects of this contracting-out policy, particularly with regard to owning versus leasing drilling rigs. At that time there was a global shortage and rental rates for rigs were quite high, averaging $107,000 per day off the East Coast in 1981. Although Mobil did not foresee the long-term downturn in oil prices, the wisdom of maintaining the conservative hands-off practice concerning direct operations can be seen in the depressed market for high-cost rigs in the mid-1980s. It is interesting to contrast this operational strate-
gy with that of Bow Valley Industries of Calgary, one of the Canadian companies that decided to take the plunge into the East Coast offshore primarily because of the generous incentives of the NEP's Petroleum Incentives Program. Bow Valley Resource Services (BVRS), 78 per cent owned by Bow Valley Industries, played an accommodating role to the parent company's East Coast exploration partnership with Husky Oil. In 1981 the subsidiary acquired the semi-submersible drilling rig Bow Drill ONE and ordered the construction of Bow Drill 2 and Bow Drill 3. The cost of these rigs was in the vicinity of $100 million each. These purchases have to be seen in the comparative context of corporate magnitude in the petroleum industry, wherein Bow Valley Industries' annual revenues have been less than one per cent of Mobil's. With the decline in offshore drilling and hence the demand for marine drilling vessels, BVRS began to lose money. The main cause of falling income in 1985 derived from the Bow Drill ONE being idle for more than four months. It was sold at a loss in 1986. With the leasing contracts for the other two rigs due to expire in 1988, Bow Valley Industries decided to reduce its stake in money-losing BVRS, which by early 1988 stood at 35 per cent. The parent company itself effectively forsook Canadian control over its operations as a result of British Gas' purchase of 51 per cent of the company's equity in the spring of 1988.

Another common characteristic of the multinationals is their adaptability to different social circumstances. Described by Anthony Sampson as "the most aggressive, and in many ways the most sophisticated, of the American sisters," Mobil Corp. has brought to the East Coast its experience in operating in over 100 countries. One indica-
tion of its shrewdness has been in the public relations and social impact field. This has been particularly challenging in Newfoundland, with its recent history of suspicion of multinational corporations. Minor conflicts have occurred between Mobil and various community groups, but, for the most part, they have been managed with minimal fallout for the company. In large measure this has been due to the work of Susan Sherk, Mobil’s public affairs chief. The company was astute in hiring her for this delicate position. A graduate of a prestigious New England college, Sherk spent two years doing anthropological work among Labrador native peoples. This was followed by a five-year stint as editor of Memorial University Extension Service’s DECKS AWASH, a monthly journal produced in a popular format dealing with rural issues in Newfoundland. Sherk has presided over innumerable social impact consultations with every variety of community and professional organization in Newfoundland, as well as to some extent in Nova Scotia. At one such gathering in St. John’s in 1981 she claimed that, whereas in the past Mobil might have been primarily motivated by profit, the corporation was in Newfoundland to develop Hibernia for the benefit of Newfoundlanders as much as for its own financial well-being. In 1987 Sherk was promoted to Mobil’s head office in New York.

Mobil has been solicitous to Newfoundland businesses and workers. The nature and degree of its involvement with certain sectors of the local community constitute what House calls the “incorporation process.” This has been particularly noticeable in the relationships between Mobil and the upper stratum of local society and business. In addition to describing the “middleman” function of local lawyers,
House further observes:

Some local companies, notably Crosbies and Harveys, have also played this broker role, acting as both a labour and property exchange. Initially Mobil worked particularly closely with Crosbies, who found them office space at Atlantic Place [in downtown St. John's] and bought a lot of houses, which they leased to Mobil. In this way, the local company made money and the oil company set up its Newfoundland operations smoothly.(45)

All of this fits into the characterization of the traditional compradors in a dependent region, described in Chapter Three, who facilitate the entry of multinational capital into the local economy. The point here is that the crux of the market and corruption of the 1920s are replaced in the 1980s by a discernible -- and necessary -- level of sophistication in the conduct of these affairs.

Mobil's efforts in the social sphere contributed to the minimal amount of criticism directed towards the company in the aftermath of the 1982 sinking of the Ocean Ranger, which was under contract to Mobil and its partners. The company conducted itself with as much corporate sensitivity as one could expect, and its behaviour contrasted sharply with that of the rig's owner, Ddeco of New Orleans. In Nova Scotia Mobil has unquestionably been more involved than the Buchanan government in initiating public discussions regarding the social and economic impacts of offshore developments.

Mobil's apparent gentility on Canada's East Coast is, of course, a reflection of the ability of a very large multinational corporation to adapt to the overt requirements of local social decorum without too much difficulty. Notwithstanding the company's public relations claims about fostering local economic benefits from petroleum develop-
ment, the magnitude of Mobil's operations testifies overwhelmingly to its success in accumulating capital for itself. It has done this by any means at its disposal in accordance with either what has been legally tolerated or what it has been able to get away with wherever it has operated throughout the world. Like all multinational corporations, it is an amoral entity, effectively divorced from the attitudes and ethics of almost all of the people who work for the company, whether economic consultants in St. John's or roughnecks in Indonesia. And so there was nothing inconsistent within this corporate context for Mobil, while maintaining a low-key, inoffensive profile in the Atlantic Region during the 1970s, to be playing a much different private game at both the corporate and political level in Canada and internationally. Like its successful siblings, Mobil is a corporate chameleon.

Returning briefly to the international sphere, Mobil's laundry is as soiled as that of any of the other Seven Sisters in terms of its historical participation in the political and economic underdevelopment of third world countries. Just as corporate complicity ensured the downfall of the Iranian government in 1953, so the oil majors guaranteed the existence of the illegal racist regime of Ian Smith in Rhodesia (now Zimbabwe) from 1966 to 1980 through supplying oil from South Africa. The lion's share of responsibility for keeping Rhodesia afloat could be attributed to Mobil. In addition to supplying most of the gasoline and diesel fuel, it provided Avtur aviation fuel, which was used by Rhodesia's air force in fighting against the liberation movement. The fact that this sanctions-breaking activity violated both United Nations and United States laws did not appear to
bother Mobil unduly. When news of the conspiracy broke in 1976, Mobil acted in two direct ways. On the one hand, corporation chairman Rawleigh Warner dismissed the allegations by simply labelling the church group presenting the information as "far left." On the other hand, Mobil, with its immense financial resources, aggressively began legal action against the group, seemingly as an act of intimidation. Ultimately, the corporation managed to avoid conviction for its illegal oil-transportation operations, without the assurance of which, according to Ian Smith, his government would never have broken from Britain in 1965.

The "Ugly American" in the Canadian Oil Patch

Corporate personality differences become apparent when the history of Mobil's Canadian operations is examined. Mobil's involvement off the East Coast, which started with aerial seismic surveys around Sable Island in 1960, preceded its actual incorporation as a Canadian company in 1962. The commencement of its active exploration program off Newfoundland and especially Nova Scotia in the early 1970s can be related to the nationalization of oil production by OPEC members and the perceived instability of dependence on this source of crude oil supply. As was noted earlier, the Seven Sisters had become resigned to this changing relationship between producers and themselves and were focusing increasingly on the downstream activities of the industry. But they still needed assured sources of crude oil in order to keep their refineries and distribution systems operating at optimum capacity. Among the majors at the time, Mobil was known to be "crude short"; by 1979 only 30 per cent of its refineries' needs were being
supplied by its own oil production. Moreover, 80 per cent of its supplies originated in OPEC countries. It was logical, therefore, that the company would search for oil and gas in the two emerging frontier areas that were politically safe, the North Sea and Canada's East Coast. In both areas, if the size of discoveries is regarded as the measure of success, Mobil has beaten the competition to date in finding the largest fields of hydrocarbon deposits. However, while its efforts in the North Sea have resulted in the production of oil from the Statfjord field, it will be at least five years before any oil is recovered from Hibernia on the Newfoundland Grand Banks. Mobil's Venture field might never be developed.

As was pointed out in Chapter Two, a major impediment to the development of oil and gas reserves off the East Coast has been the geological and geophysical nature of the hydrocarbon-bearing structures. Given the decline in oil prices during the 1980s, these physical characteristics have militated against economically-viable resource exploitation. Throughout this period as well political factors concerning matters such as offshore jurisdictional disputes and policy formation have contributed to delays in development. The political angle was introduced in Chapter Two and will be elaborated on in Chapter Five, especially in relation to the NATIONAL ENERGY PROGRAM.

The all-important third element in this formula, however, is the behaviour of the primary corporate operator in the area, Mobil itself.

In the supposedly private sphere of relationships among large corporations, and between them and governments at the national level, Mobil maintains a pugnacious image. In the words of one former head
office executive as told to the WALL STREET JOURNAL, the mandarins in New York are "smart people who are alley fighters." One of Mobil's problems in Canada is that their brand of hardball has become a public spectacle at times. During the 1980 federal election campaign Pierre Trudeau claimed, with Mobil and Chevron in mind, that "several multinationals operating in Canada have profits so large that they're shifting hefty sums out of the country." Later that year, GLOBE AND MAIL columnist James Rusk wrote:

Companies with considerable Canadian content and a commitment to the country such as Imperial, Shell and Gulf...can get access to [energy minister] Lalonde when they want to. Another group of multinationals is not trusted at all. Texaco, Amoco, Mobil and Chevron are regarded in Ottawa as quintessentially bad corporate citizens, ugly Americans intent on taking Canadians for all they can get with no regard to Canadian interests.

The basis for this opinion was that during the 1970s, the latter group of multinationals were remitting most of their profits derived from higher oil prices to their U. S. owners and investing comparatively little in exploration and development in Canada. This was particularly the case with Mobil Oil Canada, whose American parent was milking the company of working capital through the exporting of Mobil's Canadian crude oil to its American refineries for which the parent corporation "owed" the subsidiary money. This capital was then used to support Mobil's operations in the North Sea and the Far East.

At the same time as the financial independence of Mobil Oil Canada was being severely compromised, its overall integrity as a Canadian company with nationally-based plans was virtually eliminated in the mid-1970s. A December 1975 internal memo from Alex Massad,
president of Mobil Exploration and Production in New York, defined the working relationship between head office and the Canadian subsidiary in these terms:

As stated frequently, my three-part guideline is:

1. Maintain the image of Mobil Oil Canada as one company, under one head, to anyone viewing it from the outside. 2. Within Mobil Oil, understand certain segments of the affiliate will be the responsibility of and receive directives from managers outside MOCAN (Mobil Oil Canada). 3. Minimize personnel assignments and cost of staff services to effect #1 and #2 above.

As part of the corporation's global agenda, New York decided, without prior consultation with its Canadian subsidiary, to transfer responsibility for Mobil's frontier holdings off the East Coast to Dallas. Meanwhile, a group of geologists and geophysicists on Mobil Canada's staff were to report directly to Dallas for supervision. According to Mobil Canada's Arne Nielsen, it was only for appearances' sake that Massad chose, after visiting the Calgary office, not to include the Scotian Shelf in the transfer of offshore holdings to the United States:

Mr. Massad decided that the Scotian Shelf would be left with Mobil Canada and that was because we were negotiating a farm-out with Petro-Canada. Mr. Massad could see that we were going to have a problem negotiating a deal with the federal government if the lands were going to be run and operated out of Dallas, so he made the decision right there on the spot that we would keep the Nova Scotia, the Shelf, but we had to make up for it by giving up something else instead. So he picked the Arctic Islands, which is just about as far away from Dallas as you can get.

Apparent for political reasons, jurisdiction over all frontier lands was returned to the Canadian company in 1978. This American centralization of corporate operations and the consequent scaling down of East
Coast offshore exploration activity had a definite impact in the region. Some Mobil Canada executives, and others in Gulf Canada, the company's only partner in its Grand Banks acreage at that time, wanted to drill on the Hibernia block in 1976, but Mobil New York refused to go along. It seems that headquarters was more interested in pursuing other plays, in Indonesia and West Africa. A three-year advance in the discovery of Hibernia might well have had a profound effect on economic and political developments, not only in Newfoundland but in the country as a whole.

The 1979 discoveries of Venture and Hibernia changed the corporate and political complexion of things considerably. Mobil had been clever enough to retain significant interests in the most prospective frontier holdings off the East Coast. Drilling operations on these properties after the mid-1970s were paid for almost entirely by the federal government, through its super-depletion taxation allowance scheme, and by other oil companies, primarily those which had "farmed in" on the Mobil acreage. Mobil was now more actively interested in these plays, but Ottawa and the provincial governments were too. In the context of rapidly rising oil prices at the turn of the decade, the main stake was the size and share of the economic rents from the projected developments of these oil and natural gas reserves.

It was predictable, therefore, that the introduction of the NEP in October 1980 was bound to intensify the antagonisms between the federal government and Mobil. The foremost object of Mobil's criticism of the NEP -- and the legislation associated with the policy, the Canada Oil and Gas Act (1982) -- was the so-called "back-in" provision.
whereby Ottawa reserved a 25 per cent interest in any oil and gas discoveries on Canada Lands, i.e., the frontier areas in the East Coast offshore and the Canadian North. This applied to pre-NEP discoveries as well as those after October 1980 and involved obligations on the part of Ottawa to pay for this 25 per cent share of the costs of developing oil and gas fields. The multinational oil companies saw this as a form of confiscation, and their presentations to the federal government highlighted their displeasure with this issue. The most vigorous objections from the majors came from Mobil. In May 1981 the Canadian government responded to the pressure and made some concessions to the Reagan administration and the multinational oil companies. Ex gratia payments were offered for the back-in rights and industrial benefits legislation was amended to ensure competitive conditions for foreign suppliers.

What emerges here once again is the connection between the American multinationals and their government and the combined influence brought to bear on Canadian energy -- and industrial -- policy. The point needs re-emphasizing that the NEP, for all of its perceived or real faults (the positive and negative sides of the program, particularly as they affected the offshore, will be analyzed in some detail in Chapter 5), was conceived to address a number of critical problems in the Canadian petroleum industry, not the least of which was the still-increasing domination of the multinationals. In 1979 the top four American oil corporations controlled 64 per cent of Canadian refining capacity compared with a four-largest-firm share of only 31 per cent in the United States. In Canada the same leading four had 56 per cent of the retail outlets in 1980, while in 1975 the top four
companies in the United States controlled only 30 per cent of sales. The Canadian government was looking for a means to loosen the formidable grip which the most powerful corporate oligopoly in the world had on Canada's most vital industry. Thus while the argument that the 25 per cent back-in was retroactively confiscatory might have been correct in a formal sense, the national economic rationale behind it, combined with the agreed ex gratia payments for the Crown share of the original exploration costs, established a balance to the dispute which quite properly took it out of the pure ownership-of-property sphere. Moreover, the country's oil and natural gas resources are owned by the people of Canada. Coincidentally, as has been noted, between 90 and 100 per cent of the costs involved in discovering both the Venture and Hibernia fields were covered by the Canadian government through its tax-credit and deduction exploration incentives. The fact is that Ottawa was much more interested in pursuing the development of Canada's oil and gas resources in 1979 than was globally-focused Mobil in New York.

As expected, the back-in was removed by the Progressive Conservative government shortly after the September 1984 election. But it is rather interesting to note that even before that election the multinational oil companies maintained a good deal of control over the conduct of petroleum affairs within the context of a supposedly anti-American energy policy. Some of the changes to the NEP were noted above. And while the multinationals got their way in a formal sense regarding the eventual removal of the back-in clause, they were probably never legally bound by it anyway. Neither Mobil nor the other
foreign-owned companies actually signed any of the exploration agreements because they felt that this might have implied acceptance of Ottawa's right to a stake in all Canada Lands discoveries. Of the approximately 160 exploration agreements established under the terms of the NEP since 1982, only 15 were ever signed, presumably by all-Canadian drilling consortia. It should be noted that corporate defiance in this instance had nothing to do with retroactivity; the refusal to sign the agreements constituted a rejection by foreign concerns of the Canadian government's legislated provision for a 25 per cent Crown share in the development of future oil and gas discoveries.

Nevertheless, the federal government still provided the multinationals with hundreds of millions of dollars in Petroleum Incentive Program grants and allowed them to organize and operate exploration programs. The procedure followed was that, in lieu of signing the agreements, the federal energy minister or Maurice Taschereau, the Director-General of the Canada Oil and Gas Lands Administration (COGLA), sent letters to the companies indicating the terms and obligations of the exploration agreements. The solution, therefore, to this government-industry dispute was "one in which Ottawa and the oil companies quietly agree to disagree."

This is one of the more significant examples revealing that the government's perceived bark at the oil majors through the NEP was rarely and barely followed by a bite. What must be remembered is that the multinationals were in a very privileged position in Canada, and any effort, no matter how reasonable, to undercut their primacy in the highly-profitable petroleum industry was bound to generate hostility from these companies and their supporters.
The Mobil Factor in Offshore Developments

Corporate influence over Canadian energy policy issues is brought into specific relief in the case of Mobil's involvement in the East Coast offshore oil and gas play. Here one can witness the degree of foreign multinational control over the pace of exploration and the terms and timing of potential development, particularly with regard to the Venture and Hibernia fields. This is not to say that Mobil has exerted total hegemony over the course of events in the offshore. With regard to Hibernia and Venture for instance, it has to be realized that, while Mobil has been designated the operator by the other companies in each of the respective consortia and is the major shareholder in both, Mobil has not been able to proceed solely according to its own agenda in these situations. (The partners in the Hibernia field are: Mobil Oil Canada - 28 per cent; Petro-Canada - 25 per cent; Chevron Standard - 16 per cent; Gulf Canada - 25 per cent; and Columbia Gas - 6 per cent. The Venture consortium consists of Mobil Oil Canada - 44 per cent; Petro-Canada - 30 per cent; Texaco - 14 per cent; Nova Scotia Resources Ltd. - 10 per cent; and Canterra Energy Ltd. - 1 per cent.) Still, the primacy of Mobil's position among the corporations involved here combined with its size, global experience and technical expertise in all aspects of petroleum development underscores its influence. Moreover, Mobil's perspective on the merits of proceeding with East Coast offshore development is undoubtedly quite similar to those of the other two Seven Sisters with interests in Hibernia and Venture, Chevron and Texaco respectively. To be sure, the federal government has exerted some influence over offshore oil
and gas activities, but this has derived mostly from its willingness to provide money for the companies to spend there. The issues related to this debate over control are, of course, dealt with in various contexts throughout this study. What most of this boils down to, though, is one evident fact related to the disposition of the Canadian peoples' East Coast petroleum resources: Mobil Oil has never been prevented by government from proceeding with exploration and development activities off Newfoundland and Nova Scotia, but the federal and the two provincial governments have been frustrated on countless occasions by Mobil's recalcitrance. A brief examination of Mobil's handling of the Hibernia and Venture projects shows not only that the company has controlled much of the course of events in both cases, but it also reveals that a huge multinational corporation like Mobil can make errors.

Looking first at Hibernia, there was always a widespread assumption that the jurisdictional dispute between the Newfoundland and federal governments delayed the reaching of a development agreement with the companies and hence the start of construction of facilities for recovering the oil from the Grand Banks. It is unlikely, however, that the dispute really was an influential factor in putting off the development. Shortly after the 1979 discovery of Hibernia, Mobil thought that delineation drilling on the Hibernia structure would have been completed by the end of the following year, but the timetable was revised in September 1980. Mobil Oil Canada's president Dorey Little said then that they hoped to finish the work in mid-1981. The company contracted studies for the Hibernia Environmental Impact Statement (EIS), the approval of which was required prior to starting.
the development, but these were suspended in the spring of 1982. This happened to coincide with the breakdown in the first major round of negotiations between Newfoundland and Ottawa. From Mobil's point of view, the jurisdictional dispute was undoubtedly an aggravation. In fact, little had threatened in 1981 to initiate legal action in federal courts in order to resolve the impasse. The major obstacle to development, however, seems to have been related to the problems in delineating Hibernia. As was pointed out in Chapter Two, an average of three appraisal wells in addition to the exploratory hole are ordinarily sufficient for delineating a field's reservoir. With Hibernia it took nine. The jurisdictional dispute might have delayed the Hibernia development had the typical number of appraisal wells been sufficient. In that case, the Hibernia partners would have been faced not only with the difficulty in determining who controlled and directed the regulatory framework for this massive undertaking, but also with the crucial division of the shares of economic rent among both levels of government and the companies.

Moreover, as was pointed out earlier, Mobil was crude-short. Even after the failure of negotiations between St. John's and Ottawa, Mobil still established 1987 as the likely date for oil to start flowing from Hibernia's reservoirs. There was also a great deal of motivation on the part of the federal government to get things moving on Hibernia following the demise of the proposed Al-Sands project at the end of April 1982. In the context of perceived national and global shortages of oil in the near future, Canadian self-sufficiency in crude oil production by 1990 was a cornerstone of the NEP.
one of Mobil's partners, Gulf, publicly estimating Hibernia's reserves at 1.8 billion barrels, more than twice the size of Canada's largest oil discovery up to that time, it was understandable that energy minister Marc Lalonde turned to the Beaufort Sea and especially Hibernia to meet the production deadline contained in the NEP. Unfortunately for the plans of the federal Liberals, by the time the ninth delineation well was completed in mid-1984 they were on the verge of being voted out of office.

Engineering studies and related impact assessments were updated during 1984, and the EIS was submitted to the provincial and federal governments in May of the following year. As the decade was proceeding, however, there was a growing realization that, while the international price of crude oil might not have been expected to have dropped as precipitously as it did in late 1985, there was an increasing likelihood that, in terms of gradually rising prices over the next decade for most commodities, the value of oil would tend to fall. At the annual meeting of the American Petroleum Association in November 1984, Mobil and its big industry cohorts acknowledged the prospect of flat or falling prices. In the words of George Keller, chairman of Chevron Corp., which has a 16 per cent interest in Hibernia, even in the late 1990s oil "will still be a remarkably low price." The fact that negotiations over a fiscal regime for the Hibernia development took from the time the project was approved in December 1985 until the reaching of a tentative agreement in July 1988 is precisely because Mobil et al perceived that the difference between the cost of producing Hibernia oil and the projected market price for crude oil would not allow for a sufficient return on their investment. It will be
elaborated on shortly as well as in Chapters Five and Six that Mobil successfully conveyed the impression to both the Newfoundland and federal governments that the corporation did not need Hibernia nearly as badly as they did. Mobil would move on the project only when government concessions reached a satisfactory level.

This historical perspective on Hibernia is rather uncomplicated in comparison with the unfolding of events related to the proposed Venture project. The reserves of natural gas around Sable Island, while difficult to appraise accurately, were always realized to be large in Canadian terms. But the costs of recovering this resource and finding a market sufficiently large and eager to pay a premium price to justify the very expensive transportation infrastructure presented a problem. As will be pointed out later in this study, concerns about costs and competition for Venture gas surfaced at least as early as the time of the signing of the CANADA-NOVA SCOTIA OFFSHORE AGREEMENT in March 1982. Mobil had good reason, therefore, to be cautious and discreet in promoting this project.

In fact it was quite easy to leave boosterism to the political arena, where it was always eagerly ingested by most of the provincial news media and regurgitated with optimistic embellishment. The federal government was interested in initiating any energy mega-project as a psychological as well as an economic means of lifting parts of the country from the mire of the recession. It also wanted to weaken the resolve of Newfoundlanders and their government in their offshore jurisdictional dispute with Ottawa through creating enviable industrial activity in Nova Scotia. But public awareness in Nova Scotia of
the federal drive paled amidst the torrents of verbal euphoria emanating from Province House in Halifax. The Buchanan government was promising Nova Scotians “a great future in oil and gas,” based on which there would be no more unemployment. Regardless of whether Buchanan actually believed this, Mobil found itself in a very good bargaining position. The government, in endeavouring to lure the petroleum industry away from Newfoundland, rolled out a welcome mat with no strings attached. Provincialy- legislated offshore regulations were consciously not enacted. Government-created expectations for economic well-being placed the onus on Buchanan and his ministers, not the oil companies, to deliver. A multinational oil company could not have been served a better recipe for wringing still greater concessions from a dependent government.

It was rather surprising therefore that, based on very little delineation drilling, Mobil Oil’s East Coast production manager James Sneed announced in a speech to the Cape Breton Offshore Trade Association in June 1982 that the Venture structure contained enough natural gas to justify development. As expected, Sneed cautioned that this depended upon the selling price for the gas and the fiscal regime of taxes and royalties. Still, in the words of a Mobil official, Sneed had made a “dumb mistake.” It was not long before he was transferred out of the region. But if Sneed could have been seen to have “blown it” in June, Mobil itself soon erred in estimating the size of the reserves and compounded the problem by publicly backing its apparently incorrect figures. In an August 1982 submission to the National Energy Board, Mobil’s president Bill Mason estimated “potential” reserves of 2.31 trillion cubic feet (tcf) at Venture, below the three
tcf level that had previously been established as the threshold of viability. Venture development could still proceed on its own, said Mason; even with poor drilling results from nearby fields as long as production from the Sable area was treated by the federal government as a special case. Even if the use of these estimates could perhaps have been rationalized to some extent as being a helpful factor for the Venture consortium in applying pressure for government financial concessions, it got Mobil embroiled in public controversy, something which it had always sought to avoid. The corporation learned a lesson from this experience and never released an estimate on Hibernia reserves until it appeared in the EIS in 1985.

While it was clearly in the interests of both the federal and the provincial governments to have the Venture field delineated as quickly as possible, this was not necessarily the most pressing item on Mobil's agenda. Although Mobil was, of course, in a partnership with other companies in the Venture play, it was -- and still is -- the operator. Considering this and the fact that its share of the interest (44 per cent) represented almost a majority, Mobil was able to exercise a certain amount of autonomy in determining the course and timing of events related to Venture. By July 1982 Wilbert Hopper, president of Petro-Canada, was complaining to the press that Mobil was "dragging their heels" with regard to drilling in the Sable Island area, thus delaying both an accurate assessment of size of the natural gas deposits and their potential development. Two months later at a conference in Halifax, Petro-Canada vice-president Joel Bell reiterated this opinion of Mobil, but in an unusually hostile manner for a
public forum. While Doern and Toner suggest that, in some respects, it might have been in Mobil's interest to proceed quickly with delineation drilling, they note:

'It must be remembered that Mobil's corporate strategy was not confined to the Venture project only. It was the major player in the Hibernia project as well. Thus its political and economic calculus was informed by the larger Ottawa-Newfoundland deadlock and by its own view of what pace of total development best met its corporate interest and that of its shareholders. (72)

Despite its anxiety to get development going in the Nova Scotia offshore, the federal government did not use its practical levers--Petro-Canada and COGFA--either to impose a drilling schedule on Mobil, or to replace Mobil with Petro-Canada as the operator of the Venture project. Given the already acrimonious political climate ensnaring Ottawa on the one hand and the American government and the oil majors on the other because of the NEP, there was an obvious reluctance to exacerbate the situation. Moreover, there is probably some truth in Doern and Toner's suggestion that Petro-Canada was in no position at that time to move any faster itself, having taken on a very ambitious drilling program in every part of the East Coast offshore while still a relative novice in this complicated business.

Meanwhile, the government of Nova Scotia, having relinquished its claim to offshore jurisdiction to Ottawa, was an impotent, though anxious and frustrated, bystander in this political and corporate drama. Since 1980 they had had in their hands a report prepared by EPI-Resources of Halifax recommending the intensive joint development of the Venture field and the Thebaud structure, 50 kilometres southwest of Venture. One source close to the provincial government and the
offshore industry later remarked: "I think it is fair to say that Mobil went slow on this."

With Mobil at the helm, it was only in early 1983 that the Venture B-52 delineation well was started, a year-and-a-half after the spudding of the second delineation well, B-43. A fourth delineation well was begun six months later. Relatively poor results were announced from both in early 1984. In general, Mobil could not be faulted for inactivity on the Scotian Shelf as a whole during this period. Perhaps because the company was developing a deeper awareness of the geophysical complexities of the Scotian Shelf (as was mentioned in Chapter Two, Mobil's Arne Nielsen noted in 1977 that severe faulting was an obstacle to finding large accumulations of hydrocarbons), it was decided to extend the search for gas to adjacent structures. Accordingly, four wildcat wells were drilled near the Venture field in the period between the completions of the second and third Venture delineation wells. There was a brief hiatus in Mobil's exploration program off Nova Scotia after these wildcat and delineation wells were completed in early 1984, despite pressure from both the provincial and federal governments for the company to begin further drilling. By this time, according to a federal government report, OIL AND NATURAL GAS RESOURCES OF CANADA, estimates of proven natural gas reserves on the Scotian Shelf were being scaled down to 1.5 tcf. Mobil was becoming increasingly taciturn in discussing the question of viability, save for a terse comment by Mobil's Bill Mason at the end of 1984 that: "The Venture field's economics looks pretty damn lousy."

The process of clarifying the confusion and conflicts in the 1982-84 period surrounding the proposed Venture development starts
with the realization that Mobil Oil Canada, as always, was more accountable to New York than Ottawa. A major corporate consideration was the fiscal regime for the development and production of Sable gas. Mobil's anticipated return on investment for this project had to be balanced against the profitability of developing the company's oil and gas discoveries elsewhere in the world. As far as multinational companies' costs for exploration in the East Coast offshore were concerned, Canadian taxation and benefits structures were quite generous. Their problem under the NEP was at the production end of the cycle. There was never any doubt that a federal Conservative government would dismantle the NEP and restore, more or less, pre-1980 resource taxation structures which automatically favour the large, and therefore mainly-multinational companies, especially in costly offshore projects. Consequently, Mobil never negotiated a revenue-sharing contract for the Venture development with the federal Liberals. Moreover, the establishment of new regulations by the U.S. government ensured that any such contract would not contain the 25 per cent back-in Crown interest, which was to be shared jointly by Ottawa and Nova Scotia. In February 1984 the U.S. Economic Regulatory Administration issued a report that established new guidelines for the regulation of imported natural gas. There was a definite thrust against government intervention in production and marketing. It would not be unreasonable to assume that Mobil might have had some influence with the Reagan administration in the drafting of this policy because, as Doerg and Toner point out, the accessibility of Venture gas to its only market, the northeastern U.S., was implicated.
These [new guidelines] could easily be interpreted to read that the United States would look unfavourably on import proposals when the source of the gas involved investment discrimination. Such a field would be the Venture project, to which the NEP’s 25 per cent Crown interest would apply. (78)

By this time Mobil was being squeezed by two other, increasingly important factors. It appeared that the geological characteristics of the Sable gas structures were truly problematic. While Doern and Toner question how much geological information remains proprietary to the operator, federal requirements as contained in the CANADA OIL AND GAS DRILLING REGULATIONS (1980) made it quite clear that COGAL had the same access to all of the drill-hole data as any of the companies involved. (It should be remembered that the consortium operator -- in this case Mobil -- does not perform the well drilling and testing; this is conducted by different contractors specializing in each aspect of exploration.) It would seem only reasonable, therefore, that the operating company’s partners would be able to obtain the same level of information as the government. Indeed, discussions with industry representatives indicate clearly that all data from well-sites is shared among members of each consortium. Differences in interpretation might arise, based on the amount of experience in a particular region and the sophistication of analytical technology. As one indication of the uniformity in the pessimistic interpretation of Sable drilling results, by 1984 Petro-Canada was issuing no public criticisms on Mobil’s conduct over Venture operations.

The other factor squeezing Mobil and its partners was the continuation of the international oil glut and its impact on all energy prices, including that of natural gas. In its projection of oil and
Gas prices as contained in the February 1983 Venture EIS, Mobil assumed an almost steady increase through to the end of the century. Granted, this estimate was formulated at the end of 1982. But even then, a broad range of information and analysis contradicting this projection was available. Whether Mobil actually believed its own figures is debatable. Perhaps it wanted to err on the optimistic side in order to inflate projected government revenues. — Nova Scotia was to receive $13.5 billion over the 18-year life of the Venture project and keep the political momentum going. But the fact remains that this notably conservative company mistakenly used a high-energy-price estimate, something which might have informed its overall strategy in Scotian Shelf gas developments. Even though big corporations, like big governments, have virtually inexhaustible analytical resources at their disposal, there invariably remains a tendency to favour the outlook which enhances organizational self-interest.

By the time of the federal Progressive Conservative election victory in September 1984, the plan to recover and export Sable gas was looking quite shaky. In early 1985 Shell Canada president William Daniel told the Montreal Chamber of Commerce that the probable recoverable reserves of natural gas discovered to date by both his company, and Mobil in numerous fields around Sable Island totaled approximately 2.5 tcf. It appeared that the only likely development scenario —
if one were to materialize at all — involved the incorporation of Venture and other nearby fields under permit to Mobil with reserves from Shell’s acreage 50 kilometres southeast of Venture.

The phased elimination of the Petroleum and Natural Gas Revenue Tax (PGRT) announced in the Western Accord in March 1985, followed later in the year by the eradication of the NEP’s back-in provision, removed the two major financial irritants for development which had been cited by Mobil since 1981. And there was now a federal government in power which was indisputably supportive of the multinational oil industry. But the bad geology on the Scotian Shelf warranted even greater financial concessions on the part of government in order for the Venture project to go ahead. Attending the annual meeting in Halifax of the Washington-based National Ocean Industries Association in July 1985, Jim Kelly, Mobil Canada’s vice-president of exploration, warned: “The project is not viable under the current income taxation scheme.” Nevertheless, Kelly said that he was confident that government would make the necessary compromises to ensure Venture’s viability. Federal deputy energy minister Paul Tellier, who also spoke at the conference, agreed that Ottawa would be willing to be flexible on taxation policy. Such a concession was seemingly quite consistent with Tory policy on a number of counts, because, as Tellier pointed out,

The newly-elected government believes the oil and gas industry is capable of serving as the engine of economic growth. We have singled out the oil and gas industry to prime the economy. (82)

Even before the plunge in world oil prices later in the year, the level of corporate and consumer subsidization that would have been
required in order to satisfy the profitability requirements of Mobil and its Venture partners would have been phenomenal. Because of the likely stagnation of these prices for the next couple of decades, even a government wedded to the multinational petroleum industry could not bear the costs of backing the Venture project. In April 1986 Mobil broke up task force in Halifax which had been working on the Venture development.

After more than 25 years involved with the the East Coast offshore, therefore, Mobil is left with only one major development possibility, Hibernia, and a few minor ones, including Terra Nova and White Rose. All require substantial subsidies in order for them to proceed. If it were not for the fact that the petroleum industry in Alberta has been severely affected by the decline in crude oil prices over the past few years, Mobil and its partners would probably have had less difficulty in obtaining the $3.2 billion in grants, loan interest assistance, and temporary financing that comprised the $9.2 billion tentative agreement, or "Statement of Principles", for the Hibernia development which was signed in July 1986. For political purposes, "government largesse" directed towards the East Coast has to be matched with a willingness to fund energy mega-projects in Alberta.

But even with the unprecedented subsidies offered to the Hibernia project partners, potential corporate profits do not look all that lucrative. All in all, it would seem that the "bottom line" from the East Coast offshore experience should not evoke much satisfaction from the executives at Mobil's headquarters in New York. It is not that they, like the chiefs of the other multinationals, have not been able
to operate in Canada largely according to their own agenda, even under the terms of the NEP. In fact, although they had to relinquish 50 per cent of their offshore acreage to the Crown when the NEP was implemented, it was recognized from the outset that they would be able to retain control over the areas where there was a known high potential for hydrocarbon discoveries. By the time that regime ended in 1985, Mobil and Shell still held the best properties on the Scotian Shelf, and Texaco has the rights to the Georges Bank. On the Grand Banks, Mobil unquestionably holds the most valuable acreage. Moreover, the company has the largest share in every oil discovery there.

Indeed, it can be argued that the NEP provided a better overall financial structure within which the multinationals could explore in the offshore than that established afterwards by the Progressive Conservative government. For foreign corporations under the NEP, net exploration costs (after tax deductions and grants) of an average 36 cents out of every dollar differ little from the 37.5 per cent required under the new rules. However, because the NEP enabled Canadian companies to receive up to 93 cents on the dollar in tax deductions and grants from the federal treasury, many of these companies were willing to farm in on the multinationals' permit areas. In other words, if a particular multinational had to fulfill overall drilling obligations according to the terms of exploration agreements (which, of course, they did not sign anyway) but felt that the prospectivity was not all that good, drilling expenses and responsibilities could be handed over to the green Canadians in exchange for, ordinarily, a 50 per cent reduction in the multinational's interest in the field.

One good example of this situation involves Husky/Bow Valley's
initiation into the Newfoundland offshore. Expressing their keen interest in drilling on "promising oil tracts off Newfoundland," in November 1983, this consortium assumed Mobil's 56 per cent of exploration costs on lands east of Hibernia in exchange for a 28 per cent share in the property (other companies hold the remaining 44 per cent). The first three wells which they drilled, Iove, Voyager and Archer, were duds, known in the business as "moose pasture." The qualified successes which they did experience later on undoubtedly did not displease Mobil, which still retained 28 per cent interest in these ventures while paying no costs. It was perhaps with an understanding of just how well the foreign oil companies were taking such advantages of the NEP that COGLA chief Maurice Taschereau commented wryly, when testifying to the Senate energy committee on multinational complaints about the energy policy in May 1984, that: "Our impression is that nobody's run back south of the border yet."

Corporate Strategies and Development at the End of the 1980s

Speaking to a mining and metallurgy conference in November 1986, Mobil Oil Canada chairman Arne Nielsen said that the company had spent $1.9 billion to date exploring for oil and natural gas on the East Coast offshore without any return on its investment. This figure should be taken with more than a grain of salt in that it includes, among other inflating factors, expenditures by Mobil's exploration partners and federal PIP grants. Still, the company has probably spent, in net 1986 dollars, around $400 million in the offshore.

While this might not seem to be excessive for a corporation with annual revenues of more than $70 billion, net income in recent years
been less than $2 billion (Cdn.). Moreover, Mobil, which "has been run by accountants, lawyers, and smooth-talking Ivy League businessmen rather than the typical refinery-educated oilmen who run other oil companies," is noted to be particularly frugal wherever it operates. Commenting on its East Coast operations, one Mobil official stressed that it was "one of the leanest companies around," running "on a shoestring." This might be an exaggeration, but there is no doubt that, in comparison with other players such as Petro-Canada and Husky/Bow Valley during the heyday of offshore exploration, Mobil's office facilities and staffing complement were noticeably austere. Its reputation throughout the Canadian oil patch is somewhat notorious in this respect; Peter Foster notes that at one time in the 1970s New York headquarters actually went to the trouble of restricting the number of corporate memberships which the subsidiary took out to the Petroleum Club in Calgary.

This particular facet of the corporation's character has to be viewed in the broader context of how Mobil's presence on the East Coast fit into the corporate plan originally and how that plan has been revised to cope with both changing international circumstances affecting the price and supply of crude oil and questionable drilling results off Newfoundland and Nova Scotia. In 1980 and 1981, as offshore analyst Ian Doig has observed, "the share price of Mobil Corp. was controlled by events on the East Coast of Canada." Seemingly hedging its bets with regard to Hibernia, Mobil purchased Superior Oil in 1984 for $5.7 billion (U.S.). This "substantially increased North American producing capacity and reserves, major corporate goals."
At the same time, given the continuing oil glut and the debt incurred in acquiring Superior, Mobil embarked on a process of divesting itself of its least profitable and competitive subsidiaries. From 1984 to 1986 it sold $3 billion in assets, contributing to an overall decrease of $3.8 billion in the corporation's debt in a two-year period. As an indication of Mobil's prolonged thrust to divest itself of non-petroleum holdings and improve its financial performance, gross corporate revenues declined from $64.1 billion (U.S.) in 1982 to $56.7 billion in 1985. The number of employees has been cut by more than one-third from its 1980 level of 214,000, "even though many parts of our company now handle more business." Most significant in this regard is Mobil's reduction in capital and exploration expenditures: they have dropped constantly since 1982, from $4.7 billion to $2.9 billion in 1987. When inflation is taken into account, this means that these expenditures have been more than halved in six years.

With this corporate trimming of fat and scaling down of capital spending, it would seem that Mobil would be intent on recovering its Canadian offshore expenditures one way or another. The company has made some costly mistakes on the East Coast, particularly on the Scotian Shelf. In hindsight, corporate executives might perhaps wish that Mobil had not been involved in the Venture project. Multinational companies are not necessarily the models of efficiency that they are often thought to be, a feature to which Mobil's poor management of the Statfjord development in the North Sea testifies. Writing about this in 1980, Norwegian oil analyst Oystein Noreng concluded that

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"The Statfjord cost escalation has now reached pro-"
portions which could make it a major industrial scandal in Norway. There is a growing suspicion that the cost escalation contains at least an element of hidden transfer of economic rent. (98)

This matter of cost recovery provides an fitting conclusion to this chapter. It is highly doubtful that, even with the most generous support from the federal government, the Sable gas fields will be developed before the next century. In all likelihood, therefore, Mobil and its partners, particularly Petro-Canada which can no longer rely on federal government largesse, will endeavour to recover as much of their cumulative exploration expenditures off both Newfoundland and Nova Scotia through a profit-assured, revenue-sharing regime from the production of Hibernia oil. As part of this effort, the Hibernia partners now use an estimate of 525 million barrels for recoverable reserves from the field, down 100 million from their minimum figure set out in the 1985 EIS. While no official government estimates have been expressed, both COGLA and the Newfoundland Petroleum Directorate consistently project greater production capacities from the various field components in the structure. Privately, regulatory officials who have access to all of the raw data consider 1 billion barrels to more realistic. If projected profitability rates are based on the conservative figure, corporate returns will be enhanced through higher levels of production.

For its part, Mobil Corp. seems to have broadened the scope of its efforts to compensate for the capital sunk thus far in offshore wells. Rather than concentrate only on obtaining a return from Hibernia, Mobil apparently decided to capitalize on the overall profitability of its Canadian subsidiary in order to enhance its cash flow and
profitability status at its center in the United States. As was men-
tioned above, Mobil acquired Houston-based Superior Oil in 1984, for
$5.7 billion (U.S.). Just as Mobil Oil Canada Ltd. is wholly-owned by
Mobil Corp., so was Canadian Superior by its foreign parent. In
November 1986 Mobil Corp. sold Canadian Superior to Mobil Oil, Canada
for $2.2 billion (U.S.), or $3 billion (Canadian). The question
automatically arises as to why Mobil Corp. would, in effect, sell one
part of its operations to another, both of which it totally owns. The
answer, it seems, has much to do with maximizing the opportunities for
transferring capital from Canada to United States corporate headquar-
ters, representing a return to the classic period of capital repatria-
tion by the foreign oil majors.

When Mobil Corp. purchased Superior Oil in 1984, investment
analysts indicated that Canadian Superior was worth between $1.5
billion and $2 billion (Cdn.), or from one-half to two-thirds of the
ultimate selling price. There was an overall decline in the valua-
tion of oil and gas stocks in the next two years, during which time
the oil glut intensified, thus contributing to the major drop in oil
prices. To reinforce the validity of the 1984 valuation still further
-- or to even suggest its reduction -- there is the matter of the
divesting of Canadian Superior's mineral holdings. These were in-
cluded in Mobil Corp.'s acquisition of Superior Oil. Since 1984, Mobil
has sold $500 million (U.S.) in these assets, including Canadian
Superior's 24 percent share in Falconbridge Ltd.

To sum up, in acquiring Canadian Superior Oil, Mobil Oil Canada
paid its American owner at least double the real value of this asset.
Why did this highly-inflated internal transaction taken place, espe-

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cially when it incurred the paying of $220 million in U.S. federal taxes? Because almost $1.1 billion (Cdn.) was paid in cash by Mobil Oil Canada, there was the benefit to the parent not only of the transfer of capital but also of a substantial increase in cash flow, which is a very important factor in the operations of energy and resource companies. As well, despite the size of its net expenditures in the offshore, Mobil Oil Canada has been a highly profitable operation. But the very fact that it has been successful -- reflected, for instance, in its 1985 before-tax return on invested capital of 36 percent, the fourth highest among the largest 100 corporations in Canada -- meant that the company undoubtedly had a higher tax burden than the parent corporation liked. Because more than $1.9 billion of the purchase price was financed through bank loans, Mobil Oil Canada's taxable base should be reduced substantially through the deduction of interest payments on these borrowings.

The sale of Canadian Superior Oil to Mobil Oil Canada for at least $1.5 billion more than its fair market value provides some clear winners and losers. The American parent corporation has increased its cash flow on a massive scale and succeeded in the quick transfer of capital from Canada to New York without any public outcry or disruption. This undoubtedly could not have happened at the time of the original sale in March of 1984 because, as Paul Taylor of the GLOBE AND MAIL wrote at the time, Mobil Oil Canada would have to obtain the approval of the federal Cabinet and the Foreign Investment Review Agency (FIRA). In the past, FIRA has insisted on some benefit to Canada before permitting such takeovers to proceed.
In the context of the Mulroney government's free trade initiative, however, it was important for the Canadian government to be perceived as not interfering in this intra-corporate transaction, despite the negative financial implications. In fact, Canada loses taxation dollars while the American treasury benefits from the sale of Canadian resources. As well, the timing of the intra-corporate transaction shows clearly that Mobil Oil Canada was being used by its parent to accommodate the effect of the new U.S. Tax Reform Act.

All of this contributes to the re-ascendancy of American corporate and political institutions over the Canadian petroleum industry and energy policy. At the same time, it does not bode well for public revenue potential from the proposed Hibernia project. When the petroleum assets of Mobil Oil Canada are combined with those of its wholly-owned subsidiary, Canadian Superior Oil, this constitutes the second-largest company in Canada in terms of oil reserves. At the same time, Mobil is taking a greater interest in western oil sands development. Speaking in Halifax in November 1986, Mobil's Arne Nielsen stressed that:

The future of Canada belongs to the oil sands. Canada is blessed with a great abundance of heavy-oil reserves...and every large company has its oar in these waters. There's no question in the long term, as conventional oil reserves decline, this is where our replacement reserves will come from. (108)

In the previous month Mobil had announced that it would be working on a heavy oil experimental project near Cold Lake, Alberta.

These circumstances, combined with the fact that Mobil Corp. in New York has seemingly found a way to get its Canadian pound of flesh through intra-corporate manipulations, has made Mobil less willing to
compromise in striking a bargain with the federal government over the development of the Hibernia field. In other words, despite that fact that almost all of the publicity surrounding offshore oil and gas issues since at least 1979 has been in the political sphere, and the parameters outlining control and development were seemingly a matter of contention only between the provincial capitals and Ottawa -- especially in the case of petroleum resources on the Grand Banks -- the profound underlying influence of the multinational oil industry can be convincingly felt now that the political dust has settled.

ENDNOTES

2. Ibid.
3. Ibid., p. 31.
4. Ibid., p. 38.
7. Sampson, op. cit., p. 87.
8. Ibid., pp. 88-92.
10. Ibid., p. 39.
13. Ibid., p. 275

14. TORONTO STAR, June 12, 1988. This is based on a recently-published book, co-authored by Daniel Axelrod, TO WIN A NUCLEAR WAR: THE PENTAGON'S SECRET WAR PLANS.


16. Tanzer, op. cit., p. 25


19. Tanzer, op. cit., p. 122

20. Nore, op. cit., p. 73


22. Nore, op. cit., p. 73

23. GLOBE AND MAIL, November 30, 1981


25. Shaifer, op. cit., p. 272


28. Ibid., pp. 8, 9

29. Laxer, op. cit., pp. 46, 47

30. Crane, op. cit., p. 196


33. Canada, Department of Energy; Mines and Resources. THE NATIONAL ENERGY PROGRAM, (Ottawa: Supply and Services, October 1980), p. 18

34. GATT-Fly. POWER TO CHOOSE (Toronto: Between the Lines, 1981), p. 21


36. Crané, op. cit., p. 25

37. Ibid., p. 26


39. Doern and Toner, op. cit., p. 209

40. House, THE CHALLENGE OF OIL, op. cit., p. 117


42. Bow Valley Resource Services Ltd. ANNUAL REPORT 1985, p. 16

43. Sampson, op. cit., p. 231

44. House, THE CHALLENGE OF OIL, op. cit., p. 124

45. Ibid., p. 125

46. VILLAGE VOICE, New York, May 6-12, 1981, p. 11

47. The Mobil end of this was carried out by employing a very elaborate 'paper chase' between Mobil's operations in South Africa and Rhodesia. Intricate details of exactly how this was done is described in a publication by the Center for Social Action of the United Church of Christ entitled "The Oil Conspiracy: An Investigation Into How Multinational Oil Companies Provide Rhodesia's Oil Needs", (New York: Center for Social Action, 1976).

48. VILLAGE VOICE, op. cit., p. 11

49. Ibid.

50. "Mobil's Successful Exploration", BUSINESS WEEK, October 13, 1980

51. Milton Moskowitz, Michael Katz and Robert Levering (eds.) EVERYBO-
52. Ibid., p. 516
53. Crane, op. cit., p. 13
54. GLOBE AND MAIL, October 27, 1980
55. Foster, op. cit., p. 109
56. Crane, op. cit., p. 80
57. Ibid., p. 83. This information was revealed during the 1978/79 court proceedings of an unsuccessful suit by Mobil Oil Canada against Canadian Superior Oil and its new president Arne Nielsen. He had resigned that same position with Mobil Oil Canada and was being sued for breach of contract. Ironically, Canadian Superior was acquired by Mobil in 1986 and Nielsen is now chairman of Mobil Oil Canada.
58. "Mobil's Successful Exploration", BUSINESS WEEK, October 13, 1980
59. Doern and Toner, op. cit., p. 52
60. Bertrand, op. cit., p. 4
61. GLOBE AND MAIL, August 29, 1983
63. EVENING TELEGRAM, September 19, 1980
64. MAIL-STAR, March 5, 1982
65. CHRONICLE-HERALD, February 13, 1982
66. GLOBE AND MAIL, May 1, 1982
67. WALL STREET JOURNAL, November 13, 1984
68. CHRONICLE-HERALD, January 23, 1982
69. GLOBE AND MAIL, June 26, 1982
70. GLOBE AND MAIL, September 17, 1982
71. GLOBE AND MAIL, July 30, 1982
72. Doern and Toner, op. cit., p. 427
73. Ibid., p. 424
88. Among other factors, this figure is based on:
- an average after-tax/grant exploration cost of 36 cents for every dollar spent by a foreign firm during the NEP;
- eleven wells drilled by Mobil and its partners on the Sable gas fields between 1981 and 1986, in which the average Mobil share of costs was 44 per cent;
- fourteen wells drilled by Mobil and its partners on the Grand Banks in the same period, in which the average Mobil share of costs is estimated to be 28 per cent;
- an average cost per well of $60 million (1986 $);
- an assumed net expenditure of $150 million (1986 $) for Mobil's share of drilling on the Scotian Shelf in the 1970s;
- information supplied by Mobil Oil Canada Ltd on its East Coast expenditures from 1980 to 1985

89. According to Mobil Corp.'s annual reports, net income since 1982 in millions of U.S. dollars is as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Income (million US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982</td>
<td>1,213</td>
</tr>
<tr>
<td>1983</td>
<td>1,503</td>
</tr>
<tr>
<td>1984</td>
<td>1,268</td>
</tr>
<tr>
<td>1985</td>
<td>1,040</td>
</tr>
<tr>
<td>1986</td>
<td>1,407</td>
</tr>
<tr>
<td>1987</td>
<td>1,258</td>
</tr>
</tbody>
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90. Moskowitz et al., op. cit., p. 516
91. Foster, op. cit., p. 111
93. Mobil ANNUAL REPORT 1984, p. 2
94. Mobil ANNUAL REPORT 1986, p. 2
95. Ibid.
96. Ibid.
98. As quoted in Doug House, THE CHALLENGE OF OIL, op. cit., p. 110
99. Canada-Newfoundland Offshore Petroleum Board. DECISION 86.01: HIBERNIA BENEFITS PLAN AND HIBERNIA DEVELOPMENT PLAN, (St. John's: June 1986), Table 7, p. 55
100. GLOBE AND MAIL, March 13, 1984; MAIL-STAR, March 15, 1984
101. While the oil and gas index on the Toronto Stock Exchange increased by 10.3 per cent in 1985, it slipped by about 15 per cent in 1986. (THE FINANCIAL POST 500, Summer 1986, p. 153; FINANCIAL POST, December 29, 1986)
102. GLOBE AND MAIL, November 21, 1986. While it is difficult to estimate the selling price, Falconbridge's assets as of the end of 1985 were $1.35 billion (Cdn.) (THE FINANCIAL POST 500, Summer 1986, pp. 74, 75). 24 per cent of its net worth (assets minus liabilities), therefore, could be in the range of $200 to $250 million.
103. Ibid., p. 76
104. THE FINANCIAL POST 500, Summer 1986, pp. 68 - 73
105. GLOBE AND MAIL, November 25, 1986
106. GLOBE AND MAIL, March 13, 1984
107. GLOBE AND MAIL, November 25, 1986
108. GLOBE AND MAIL, November 22, 1986
CHAPTER 5

CANADIAN ENERGY POLICY

Anybody passing by the waterfronts of St. John's and Halifax during the first half of the 1980s became accustomed to seeing the loading of offshore supply boats and the servicing of drilling rigs. At least one major feature concerning this routine in the cycle of resource development, however, distinguished it from all others which have occurred in the region. It really had more to do with the application of certain human resources in government towers in Ottawa than the presence of mineral resources in the sediments off the East Coast. Energy policy and the public purse fuelled corporate coffers, prompting the drill bits to turn.

At the same time, federal politics associated with the National Energy Program (NEP) set off a chain reaction of unprecedented proportions within certain provinces. Separatist movements were born or revitalized in the East and the West. Elections were called and won in Alberta, Nova Scotia and Newfoundland on the basis of opposition to Ottawa's initiatives in the oil and gas sector. Politically and economically, offshore issues dominated the media and, as much as any such matter can, occupied the public psyche in Newfoundland and Nova Scotia during this period, particularly in the former.

It is ironic in one sense that when the political benefactors of the offshore fleet were booted from federal office in September 1984, most Newfoundlanders who had any interest in the offshore greeted this change with unbridled joy. After all, the offshore largesse attached to the NEP was slated to be removed, and shortly afterwards it was.
But it was the anticipation of a solution to years of federal-provincial strife over offshore jurisdiction that generated popular enthusiasm. And so it was that tears streamed down the faces of many of the 500 people who attended the euphoric ceremony for the signing of the ATLANTIC ACCORD offshore oil and gas agreement between the federal and Newfoundland governments on February 11, 1985. In the presence of Prime Minister Brian Mulroney and top officials from the Canadian petroleum industry, Premier Brian Peckford claimed: "Today marks a watershed in the development of Newfoundland. It signals a dramatic turning point in the economic history of this place."

Obvious energy policy matters. For over ten years the Newfoundland and federal governments had been at loggerheads over policy and politics concerning the offshore. Yet, more than three years after this allegedly apocalyptic event, no offshore oil development has begun and the Newfoundland economy is as dependent and impoverished, relative to the rest of Canada, as it has been at any time since Confederation. The point here is that national energy policy, while greatly influencing the course of regional oil and gas programs, ultimately -- in a pro-capitalist state -- is a subordinate agent to both international energy economics and the operations of multinational capital. In order to understand the breadth of the influences affecting the East Coast oil play, it certainly is necessary to look historically at the changing roles and directions of federal energy policy. But it is not possible to isolate the offshore as a resource issue that concerns one part of the national state's apparatus. The establishment and application of federal energy policies have to be seen as representing responses to a complex hierarchy of intervening
political and economic forces.

Forces in the Energy Policy Cycle

Given the shrillness of the debate over energy matters during the past fifteen years, it might seem surprising to realize that policy questions related to what is now recognized to be a vital national interest did not seriously arise before the end of the 1950s. Perhaps the starting point for explaining the lack of public concern in this regard is the fact that the terms of Confederation establish provincial jurisdiction over land-based resources. As such, oil and natural gas were treated historically by the Canadian government in much the same way as other resource-extractive industries such as coal or iron ore. Indeed, prior to the first global perception of limited energy supplies in the early 1970s, this attitude was common among most industrialized countries, including the emerging North Sea producers, Britain and Norway, who first negotiated major exploration leases with the industry in the 1960s.

It is not that energy policy -- or, more specifically, petroleum policy -- did not exist within advanced capitalist countries during the lengthy period of abundance. As was explained in Chapter Four, there always have been policy concerns among the large multinational oil companies. In the international sphere the home government of five of the traditional Seven Sisters, the United States, has, where appropriate and applicable, tailored its foreign policy in a manner consistent with the interests of both parties. Domestically, American governments have always worked with the oil majors to ensure their growth and profitability. For instance, when increasing productive
capacities arising from new discoveries caused prices to fall in 1926, the government implemented a scheme to restrict output through what is referred to as a market prorationing scheme. Similarly, the availability of cheap foreign oil in the mid-1950s prompted the Eisenhower administration to respond to corporate influence by restricting non-North American imports into the United States market, thereby ensuring a higher price for domestically-produced petroleum. Simply expressed, American government petroleum policies have adhered to the implicit dictum that whatever is good for the major oil companies is good for the United States.

Significantly, most Canadian governments, with or without explicit policies governing the petroleum industry, have allowed -- or indeed supported -- the application of this corporate trust in Canada. But while this was more or less taken for granted 30 years ago when there was a policy vacuum, the current federal program incorporates virtually all the documented recommendations of the multinational sector of the industry. Just as the pre-energy-policy period was one of unbounded latitude for the oil majors, the phasing out of many of the provisions of the NATIONAL ENERGY PROGRAM through the signing of the federal-provincial Western Accord in March 1985 marked, in the words of GLOBE AND MAIL columnist Jeffrey Simpson, "an unqualified victory for the multinationals."

Following its liquidation of the NEP seven months later, the federal Tory government presented new energy legislation in the form of the Canada Petroleum Resources Act. There was a predictably favourable response from south of the border. A December 1985 report from a
major U.S. investment bank, Morgan Stanley and Co. Inc., conveyed a sense of deja vu, hearkening back to the days before the appointment of the Borden Royal Commission on Energy in 1957. Noting that there was probably no other country in which oil companies benefited more from recent government policy changes, Morgan Stanley suggested that Canada has possibly the most favourable economic environment in the world for oil company operations.

It would appear, therefore, that federal attitudes towards the petroleum industry have come full circle over a 30-year cycle. This is not to deny that along with a greater degree of regulation there have been some other noteworthy changes, including a decrease in the level of foreign ownership over the Canadian industry. In 1957, the Royal Commission on Canada's Economic Prospects led by Walter Gordon found that roughly 80 per cent of the country's oil and gas companies were foreign-owned. By the end of 1985, according to the federal Petroleum Monitoring Agency, foreign control over the petroleum industry, based on upstream and downstream revenues, had fallen to 57.3 per cent of the industry total. (This was an 8 per cent drop from the 1984 foreign-ownership level, caused by the Canadianization of Gulf Canada's holdings.) It was clear, though, that this ostensible benefit to the national interest would soon be jeopardized by the unregulated foreign investment provisions of the federal free trade initiative. In both 1986 and 1987 Canadian control declined, leaving 62.6 per cent of the industry in the hands of foreign companies. With the takeover of Dome Petroleum by Amoco, the partial purchase of Bow Valley Industries by British Gas and the acquisition of Canterra Energy by Husky Oil, foreign control of the Canadian petroleum industr-
try is expected to rise to 66 per cent by the end of 1988.

But did the intervening regime of the NEP really represent a significant reversal of foreign influence over and profitability from the development and production of Canadian oil and natural gas? It was pointed out in Chapters Two and Four that, after the spending of billions of dollars of mostly taxpayers' money on offshore exploration over 25 years -- particularly during the 1981-85 NEP era -- the multinational oil companies, led by Mobil Oil, hold the main stakes in every major oil and gas find off the East Coast (the Cohasset field southwest of Sable Island is not considered a major discovery). And in the aftermath of the NEP, just as during its tenure, the oil majors balked at starting up the development of any offshore fields until they received what they regard as satisfactory financial concessions from governments.

The Roots of Federal Energy Policy

In order both to unravel the energy policy thread and to demystify some popular assumptions about the philosophies and practices of recent Canadian governments in the energy field, particularly as they have affected the East Coast offshore, one should start with the background to the formation of the Borden Royal Commission on Energy in 1957. At that time recent discoveries of oil and natural gas in the western sedimentary basin, combined with low international prices for crude oil, had produced a growing surplus of western petroleum. By 1958 Canadian crude oil production had dropped to only 47 per cent of capacity. The effort to find a means of utilizing this surplus, crystallized in the Trans-Canada pipeline debates of the mid-1950s,
created the demand for a national policy on energy matters. It resulted in the establishment of a quasi-independent agency to supervise the activities of the petroleum industry, the National Energy Board, in 1959 and the development of the National Oil Policy (NOP) two years later.

The overall thrust of the NOP was to mirror the U.S. policy of protecting national markets -- and hence the interests of the oil majors -- for domestic oil. It was possible to deliver Middle East crude to Edmonton at a price which was less than the cost of extracting Alberta crude in the vicinity of the local market. Thus, while the American government protected its petroleum industry through the imposition of import tariffs, the Canadian government ensured the protection of its U.S.-dominated industry through the establishment of higher prices for consumers west of Ottawa. "In effect," according to James Baxter, "Ottawa had Canadianized the U.S. policy." (The Alberta government and many western oil industry representatives have complained ceaselessly about the indirect subsidization by Alberta of the Canadian economy while domestic oil prices were maintained at below world levels from 1974 to 1984. But former chairman of the special senate committee on energy, Senator Earl Hastings, noted a few years ago that he did not hear much lobbying from the companies during the previous 13 years when oil prices in Canada were "50 per cent higher" than world levels.)

The lack of indigenous direction over petroleum policy was understandable given the virtual absence of any knowledge in government concerning oil and gas affairs. As late as 1974, according to Petro-
Canada chairman Hilbert Hopper, who was then the Assistant Deputy Minister of the federal Department of Energy, Mines and Resources, could (have) put the people in Energy, Mines and Resources who knew anything about oil and gas in the corner of Imperial's Corporate Economic Department. (12)

It was as if there was no reason not to trust the American companies and their government, notwithstanding the decades of increasing dissatisfaction with both parties by most of the world's oil producers. In fact,

during much of the pre-1973 period, Canadian oil supply and prices were benignly "managed" by the Texas Railway Commission, an arrangement thought to be politically quite secure. (13)

In summarizing the outcome of Canada's first petroleum policy, Doern and Toner concede that the oil-producing provinces benefited from the economics of increased production. But as they clearly point out, there is no question that the NOPE satisfied the multinationals and the U.S. government and served to enhance continental integration of the Canadian and U.S. oil markets... Specifically, western Canadian oil was ensured its 'natural' market for expansion, the midwestern United States, and was safeguarded against competition from cheaper oil - where such competition could have hurt, namely in the Ontario market. (14)

This brief review of some of the broad national and international contexts of the NOPE is germane to an understanding not only of the roots of the petroleum industry's activities off the East Coast but also to much of the present reality of what is or is not happening there. For despite the high profile of the political debate over offshore control which ended in 1985 after at least a decade of argument and acrimony, it is the mainly-multinational corporations who are the real decision-makers in determining whether oil and natural gas...
are to be recovered from the continental shelf. And these corpora-
tions were allowed to situate themselves in this pivotal position
because of the provisions of the 1961 NOP.

The contents of the frontier adjunct of the policy, the Canada
Oil and Gas Lands (COGL) Regulations, were certainly a matter of
interest for the oil majors. Chapters Two and Four dealt with the
international backdrop to the shifting focus of the Seven Sisters:
around this time away from the Middle East and other Third World areas
to unexplored frontier regions, particularly where the political en-
vironments would be compatible with corporate agendas. The East Coast
offshore became a logical target for multinational exploration pur-
suits. Given the concessions embodied in the COGL regime, some of
which were outlined in Chapter Two, Cabot Martin argued in a 1975
publication that

from 1961 to 1970 anyone who suspected the presence
of oil in areas off eastern Canada could have
acquired very valuable petroleum rights... These
terms are so attractive that federal permits have
been issued which purport to grant rights to nearly
the whole east coast continental margin. While the
major oil companies acquired much of the acreage, a
grab-bag of small-time operators and speculators
also acquired permits covering millions of acres.
Almost anyone could raise the twenty cents per-acre
needed to conduct a seismic program to meet the
first six years work commitment.(15)

At the end of the 1960s there was virtually no Canadian content among
the companies holding exploration permits to 300 million acres of the
East Coast offshore. Given the minimal work requirements and the
unique provision for no relinquishment of land, University of Alberta
law professor Andrew Thompson told the Commons Committee on Indian
Affairs and Northern Development in 1968 that these incentives were
"substantially more generous than those offered in any other Canadian legislation, and more generous than those offered in many other parts of the world." 

The multinational oil companies apparently put much promise in the hydrocarbon potential of the Canadian frontiers. As was noted in Chapter Two their umbrella organization, the Canadian Petroleum Association, published optimistic estimates for reserves in these areas in 1969. The industry leader, Imperial, had prepared contingency plans for governmental restrictions on imports in the event of major discoveries in the Arctic or off the East Coast. If these new sources were to be solely in the hands of one or some of the Seven Sisters, it was realized that there would be little difficulty in co-ordinating production, pricing, and markets. If this control could not be assured, however, the government would be required to legitimize a system of prorationing in order to deflect attention away from ostensible corporate monopolistic practices:

"Certainly governments will have to be involved if any such arrangements are required, to avoid the appearance of an operating combine or cartel" (emphasis added). (18)

This scenario was one of the ingredients in the overall multinational policy matrix. National borders were obviously an impediment to finding and producing oil from the Canadian frontiers if there were to be restrictions on its export into the United States market. Continentalism, therefore, was a hallmark of the majors' modus operandi. An internal Imperial Oil document from 1969 succinctly expresses the corporate basis for expanding the continental integration of oil markets already indicated in the NOP:
What is it (the Continental Oil Policy)? Basically it is a scheme under the guise of 'protecting the citizen's interests' to increase the production and hence profits of Canadian producers, (19)

The Need for National Direction

What was strikingly conveyed by the documented paternalism of the oil majors, represented as well in the overall thrust of the NOP, is the sense that foreign interests could determine with impunity major policies affecting resource and regional development in Canada. Yet, the conventional view of the public interest at that time probably would not have perceived any inherent risk in the increased production and export of oil. Energy prices for consumers had declined by 20 per cent in real terms from 1961 to 1970. There was no public or governmental perception of possible shortages arising from either political hostilities or global constraints on productive capacity. Still, the very fact that the oil majors themselves had re-focused their attention on western industrialized countries in anticipation of eventual shortages might have precipitated political action on this front. From an economic point of view, the Gordon Royal Commission in 1957 had pointedly addressed the issue of foreign ownership. It emphasized the vulnerability of the Canadian economy to this situation and recommended numerous steps to attempt to redress the negative impact of foreign direct investment.

This is not to say that nothing was done. Growing concern had led to the formation of the Department of Energy, Mines and Resources in 1966. At the same time, as an indication of the government's desire to find out more about petroleum resources, particularly in the frontiers, Ottawa purchased 45 per cent of Panarctic Oils, which

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constituted controlling interest in the company. But it ultimately took the "oil crisis" of 1973/74 to shake the government out of its relative policy lethargy and almost total dependence on multinational oil companies for its information.

Whereas in the early 1970s the oil majors had been, telling the Canadian government that the country had abundant oil and gas reserves, by 1974 the industry warned of shortages. During this period the Canadian government had been working on the drafting of more restrictive guidelines for multinational access to Canada lands. Corporate resistance to change had prolonged this process. The embargo of Middle East crude oil in the winter of 1973/74 bluntly alerted the government to the reality that marginal tinkering with a policy which had given the industry "carte blanche" control over potential frontier oil and gas resources clearly afforded insufficient energy security for the future. Consequently, energy minister Donald MacDonald withdrew the government's proposals with a view to developing a more comprehensive petroleum policy based on the new view of diminishing supplies.

Over the next two years Ottawa took a couple of major steps in the energy field which affected frontier oil and gas affairs, now finally an area of direct federal concern. In July 1975 Petro-Canada was formed. Influenced by the New Democratic Party during the minority parliament of 1972-74, the federal Liberals had announced in December 1973 that a national oil company would be established. While this was seen as an alternative to nationalization, it reflected Ottawa's concerns about:
the vulnerability of Quebec and Atlantic Canada to interruption in world markets; Ottawa's growing frustration with its lack of control over security of supplies; the growing popularity among the producing nations of state-to-state contracts; Ottawa's recently recognized lack of solid information with respect to Canada's indigenous supplies and reserves, and the growing apprehension of being dependent on the foreign-owned industry for this information. (22)

The year after the birth of Petro-Canada federal Liberal energy minister Alastair Gillespie tabled a Green Paper on Canada Lands in the Commons. Something had to be done in the national interest to spur development on the frontiers, 90 per cent of which was under permit based on the 1961 regulations. Most of the best prospects were held by multinationals, who, as was pointed out in Chapters Two and Four, were sitting on this acreage for the most part because of the minimal work required of the permit holders. In introducing the new legislation Gillespie said that

...to institute meaningful changes in the existing system, it is necessary to amend substantially the terms and conditions of those permits, which currently contain commitments to lease and royalty conditions for periods exceeding 50 years. (23)

Included in the changes was the abolition of 21-year leases and their replacement by provisional five-year leases. "But what drew the hottest reaction," according to David Crane,

...was the decision to give Petro-Canada preferences and require 25-per-cent Canadian participation in all production leases. The new national oil and gas corporation would be allowed, for a one-year period, to take permits on areas not already taken up, and in addition, for a seven-year period, to acquire up to 25 per cent of any land surrendered to the Crown on the termination of permits or conversion to production. At the same time, when companies applied for special renewals on the expiry of their existing 12-year exploration permits, but only in areas where no discoveries had been
made, Petro-Canada was to have the option of acquiring an interest of up to 25 per cent, depending on existing Canadian participation in the permit lands. (24)

Obviously, the oil majors were upset that their almost-exclusive hold on frontier petroleum prospects would be diminished. In the context of the times, however, when western governments were growing increasingly uneasy about being "held hostage" by foreign oil producers, Ottawa was bent on finding new reserves. And the intrusion of the new federal crown corporation into the offshore oil play proved within the next few years to have been a prudent initiative.

The changes in the Canada Oil and Gas Land Regulations came into effect in August 1977. By this time, Petro-Canada had already farmed into some of Mobil's permit areas on the Scotian Shelf near Sable Island. As was pointed out in Chapter Four, Mobil had abandoned Canada's East Coast in favour of pursuing prospects elsewhere in the world. Petro-Canada agreed to absorb Mobil's drilling costs for an exploration program on the Scotian Shelf in return for a 30-per-cent interest in this property. After six dry holes were drilled, gas was struck in significant quantities on the Venture structure. Doern and Toner note that this provided an object lesson for policy makers in Ottawa:

This incident made a major impression on key bureaucrats and ministers alike, and was fresh on their minds in 1980. The moral of the story, in their view, was that just as Petro-Canada was a "window on the industry" as a whole, so also was there a need for a presence on every major project. (25)

Petro-Canada was thus Ottawa's agent in fulfilling the "need-to-know" mandate expressed in the federal government's 1976 publication, AN
ENERGY STRATEGY FOR CANADA.

The second major step taken under Gillespie's tenure as energy minister was the introduction of a major drilling incentive, the very generous super-depletion taxation allowance, described in Chapter Two. Slanted to benefit only the large, mainly-multinational oil companies, it encouraged frontier exploration through the effective payment of over 90 per cent of exploration costs by Canadian taxpayers.

Background to the NATIONAL ENERGY PROGRAM

The first phase of the Liberal government's comparatively active pursuit of frontier petroleum development had some connection with the introduction of the NATIONAL ENERGY PROGRAM in October 1980. In addition to the lesson drawn from the Venture experience, the Hibernia discovery came at a very crucial time. International oil prices jumped by their greatest historical increment in the aftermath of the 1979 Iranian revolution. By mid-1980 Hibernia was being heralded as the largest oil field ever found in Canada. In formulating a new energy policy, therefore, the newly-elected Liberal government obviously connected the projected magnitudes of Venture and Hibernia to the question of control over the future development of these and other potentially-enormous hydrocarbon plays in the frontier regions. This contributed to the Canadianization thrust of the NEP. In other words, there was an integration of interest between offshore development and the ownership and control of the petroleum industry nationwide. The battle between Ottawa and both the mainly-multinational industry and the current and potential producing provinces was bound to be fierce. Political and corporate conflict over control of the
industry was strongly affected by how the three entities would split the revenues from existing and future oil and gas production. At the heart of the NEP was the federal need to guarantee sufficient petroleum supplies for the future while ensuring that the capital accumulated from this profitable industry would remain in Canadian hands and be re-invested here. The provinces and the multinational corporations seemingly had much to lose while Ottawa felt that the national interest, influenced by the universal uncertainty over future international petroleum production as well as the foreign domination of the Canadian industry, obliged the central government to win.

During the 1970s when national, as well as foreign, crude oil prices were constantly rising, corporate profits increased enormously. Net revenues from oil and gas production were $1.2 billion in 1970; by 1979 they were $11.1 billion. Throughout this period the petroleum industry was by far the fastest-growing and most profitable non-financial sector of the Canadian economy. The oil and gas index on the Toronto Stock Exchange 300 Composite Index significantly outpaced the growth of all other industries. The ascendancy of the foreign-dominated petroleum corporations was put into clear perspective by the Petroleum Monitoring Agency in 1980:

In 1972, the petroleum industry earned $18 in net income for every $100 earned by the aggregate of all other non-financial industries (excluding petroleum). (The comparable figures for 1975 and 1980 were $24 and $42.) For the petroleum industry, the rates of return on shareholder's equity rose from 10 per cent in 1972, which mirrored the average for all non-financial industries at the time, to over 21 per cent in 1980. The 21 per cent rate of return in 1980 was well above the 15 per cent average for other non-financial industries in that year. (28)
Perhaps the major irritant for the federal Liberals with this situation was that the multinationals had not been re-investing a sufficient proportion of their surplus to find new reserves of oil and gas. Increasing amounts of the windfall profits were being sent south of the border. Dividends to foreign shareholders went from $200 million in 1973 to $600 million in 1979. Overall, the total outflow of Canadian capital generated by the oil corporations between 1975 and 1979 was approximately $3.7 billion. In order to suspend or at least diminish this flight of capital, Ottawa felt that provisions had to be introduced which would place a larger allocation of this capital in Canadian hands. Accordingly, the Liberal government decided to reserve a larger share of the surplus for the federal treasury which could then be channelled through Canadian oil and gas companies in the quest for new sources of petroleum. This impetus for the redistribution of hydrocarbon resource rents contributed directly to the federal-provincial clash over energy policy.

Throughout the 1970s Ottawa's share of income from the petroleum industry remained at about 10 per cent, while the provinces boosted their share from 27 per cent in 1972 to over 46 per cent in 1979. In other words, while the corporate sector could be seen to be enjoying an unprecedented bounty from higher oil prices, the producing provinces -- mainly Alberta -- were basking in wealth. The Alberta government was banking its share, quite literally not knowing what to do with it (a dilemma that has changed little after ten years despite a couple of significant reversals in the fortunes of oil producers). As Table 5-1 demonstrates, Alberta's resource revenues dwarfed those
Table 5-1

1977 PER CAPITA RESOURCE REVENUES, ALBERTA AND SELECTED PROVINCES

<table>
<thead>
<tr>
<th>Province</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alberta</td>
<td>$1,635</td>
</tr>
<tr>
<td>Saskatchewan</td>
<td>288</td>
</tr>
<tr>
<td>British Columbia</td>
<td>164</td>
</tr>
<tr>
<td>Ontario</td>
<td>20</td>
</tr>
<tr>
<td>Quebec</td>
<td>18</td>
</tr>
<tr>
<td>Nova Scotia</td>
<td>7</td>
</tr>
</tbody>
</table>

Source: NATIONAL ENERGY PROGRAM, p. 111

of the other provinces even in 1977, three years before the most
pronounced hike in world oil prices. In fact Ontario's total revenue
from all sources was $205 less per capita than Alberta's revenue from
oil and gas alone. Although there was roughly $10 billion in its
Heritage Trust Fund by the fall of 1980, the Alberta government was
concerned with accumulating more revenues as a means of protecting the
provincial economy upon the depletion of its oil and natural gas
resources. The province was determined to capture most of the future
incremental revenue from higher oil prices rather than share it with
the federal government.

From Ottawa's perspective, petroleum had evolved dramatically
from being just another natural resource under provincial jurisdiction
to becoming a vital national endowment. According to the conventional
wisdom of the time, as expressed by the International Energy Agency in
May 1980, total world demand for oil would be 58.9 million barrels per
day by 1985 while there would only be 56.0 million barrels available
to consumers. This projected shortfall in supply would reach 5.7
million barrels per day by 1990. It seemed that there was no alter-
native to the forging of an overall national plan for finding new oil.
so that the economy as a whole would not suffer unduly. In order for the perceived national interest to be adequately served, there had to be a revenue shift from the producing provinces to Ottawa. Among other things, a greater share of these resource rents would enable the federal government to spend its way into exerting control over the direction of exploration programs, which was regarded as a critical first step in the effort to arrive at long-term self-sufficiency in oil and gas production. Looking specifically at the proposed rearrangement of petroleum revenue-sharing, Table 5-2 illustrates that Ottawa was now intent on dipping into the anticipated surplus, much to the annoyance of the Alberta government.

Table 5-2

ESTIMATED REVENUES FROM OIL AND NATURAL GAS PRODUCTION, 1980-83 ($ billions)

<table>
<thead>
<tr>
<th></th>
<th>1980</th>
<th>1980-83</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Revenues</td>
<td>% of Total</td>
</tr>
<tr>
<td>Federal Revenues</td>
<td>2.3</td>
<td>14%</td>
</tr>
<tr>
<td>Incentive Payments</td>
<td>2.5</td>
<td>24%</td>
</tr>
<tr>
<td>Total</td>
<td>2.3</td>
<td>14%</td>
</tr>
<tr>
<td>Industry Cash Flow</td>
<td>6.1</td>
<td>39%</td>
</tr>
<tr>
<td>Incentive Payments</td>
<td>2.5</td>
<td>24%</td>
</tr>
<tr>
<td>Total</td>
<td>6.1</td>
<td>39%</td>
</tr>
<tr>
<td>Provinces</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alberta</td>
<td>6.3</td>
<td>40%</td>
</tr>
<tr>
<td>Saskatchewan</td>
<td>0.5</td>
<td>3%</td>
</tr>
<tr>
<td>British Columbia</td>
<td>0.6</td>
<td>4%</td>
</tr>
<tr>
<td>Total</td>
<td>7.4</td>
<td>47%</td>
</tr>
</tbody>
</table>

Source: NATIONAL ENERGY PROGRAM, p. 108

The overall thrust of the NEP is succinctly expressed by Larry Pratt as having been rooted in three central aims:

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i) to strengthen the national government's fiscal capacity and its control over the energy sector; ii) to lower the costs of entry by Canadian capital pools into the oil and gas industries, the fastest-growing area of accumulation, and to encourage the formation of large Canadian-owned petroleum companies; and iii) to shift the pattern of oil industry capital spending from the Western Canadian provinces to the federally-owned Canada Lands in the North and the offshore, thereby accelerating the exploitation of frontier oil and gas resources.

With regard to the structure of the petroleum industry, the NEP established three goals for greater Canadianization: at least 50 per cent Canadian ownership of production by 1990; Canadian control of a significant number of the larger oil and gas firms; and an early increase in the share of the oil and gas sector owned by the Canadian government. The proposed shift in the revenue split and the Canadianization program were all tied into the objective of producing enough Canadian oil annually by 1990 and maintaining this output to satisfy national needs well into the next century.

The reaction of all interested parties to the NEP was almost universal condemnation. The Alberta government immediately reduced oil production as a highly-visible expression of protest. The assault on the NEP by both the United States government and the multinational oil companies was described briefly in Chapter Four. They managed to effect a number of changes on the program. Along with compensating the majors for the 25 per cent Crown interest in frontier areas and the amending of industrial benefits legislation, in February 1982 Ottawa dropped plans to give Canadian-controlled firms preference on gas exports. Two months later energy minister Marc Lalonde announced that he would not proceed with legislation that would have enabled
Canadian companies to remove their foreign shareholders. While much of this was undoubtedly satisfactory to the multinationals, they were not really going to be placated until all of the new financial statutes related to oil and gas production were removed. As this represented the core of the new energy policy, without which the funds for Canadian-controlled exploration would dry up, the foreign-owned companies essentially wanted the NEP to be scrapped in its entirety.

While small independent oil companies based in Alberta contributed their share of venomous rebukes against the federal Liberal's new energy policy, there was a mixed reaction among the large Canadian companies. In principle many of the executives did not like the idea of government intervention. Yet practicality forced them to at least acquiesce to the NEP, understandably so, given Ottawa's expressed intention of favouring these firms. Marc Lalonde's defense of the need for special incentives for Canadian companies "to let them in the club" was appreciated by oilmen like Husky Oil chairman Bob Blair, who observed: "It is not all that easy to get in, when most of the prospective land has been alienated, most of it to foreign-controlled companies."

The NEP in Practice

As was noted above, there were many national and international considerations integrated into the formulation of the NEP. Because this study is concerned with the East Coast offshore, it is necessary to restrict any lengthy critical review of the NEP and the reactions it engendered to how it was implemented in this region. Still, by focusing on the offshore aspect of the NEP one can capture, on the one
hand, some of the beneficial vision represented in this policy while revealing, on the other hand, many of its practical shortcomings.

The NEP was bound to produce certain predictable impacts on politics and economics in Nova Scotia and Newfoundland. But it quickly became utilized as a visible political vehicle in the region, attached to which were prodigious carts of federal funds. While partisan political tinkering was not embodied in the spirit of this policy, it will be shown, both before and after its legislation into the Canada Oil and Gas Act (1982), that the NEP offered clear opportunities for the federal Liberals to use energy policy to its own obvious advantage. And they were taken. As Doern and Toner note, the very fact that the government had opted to use grants rather than tax incentives in order to spur offshore exploration put this activity squarely into the political realm:

The need to use grants coincided with, and mutually reinforced, the larger Liberal visibility strategy. The tax provisions were politically invisible. The new Petroleum Incentive Payments, the PIP grants, along with other grant programs, would be visible and therefore very political. The public would be aware of the industry’s favoured treatment and would question it. Canadianization was a better justification....

The shift from taxes to grants was also congruent with the desire to demonstrate openly to the oil industry that a new balance of power had to be struck in the political triad composed of Ottawa, Alberta, and the industry. Visible grants would show that the industry could no longer take Ottawa for granted. (36)

Indeed the politically-manipulated complexion of the East Coast offshore exploration program emerged in vivid detail during the first major year of NEP-induced drilling. As was pointed out in Chapter Two, in the eight months following the signing of the CANADA-NOVA
SCOTIA OFFSHORE AGREEMENT in March 1982, over $1.5 billion in drilling commitments for the Scotian Shelf were established by various oil companies and the federal government. There was really nothing in the Offshore Agreement of an enabling nature which precipitated exploration activity off Nova Scotia versus Newfoundland. When exploration agreements were finalized for drilling on the Grand Banks the following year, it was done without the supposed benefit of any resolution to the jurisdictional dispute between the Newfoundland and federal governments. By that time the federal Liberals were anxious to get some positive drilling results anywhere which could both help to justify this very expensive program and lead to a major development.

But in the period immediately following Nova Scotia's signing away of offshore control to the federal government, Ottawa wanted to make a point with Newfoundland. Employing a classic "carrot-and-stick" strategy, they wanted to demonstrate to Brian Peckford and his ministers, but more especially to the business community and the labour force in Newfoundland, the benefits which would ensue from meeting Ottawa's terms on offshore control and management. The so-called signing of the exploration agreements for the Scotian Shelf occurred on four separate occasions which were stage-managed for maximum national media attention. While presiding over the fourth such event in Halifax on November 17, 1982, energy minister Jean Chretien said that he hoped that the Newfoundland government would

* It was noted in Chapter 4 that the multinational oil companies never actually 'signed' the exploration agreements because they did not wish to potentially prejudice themselves with regard to conceding the 25 per cent Crown share in any future development.
look to the Nova Scotia experience and realize that resource develop-
ment off its coast would be spurred by a settlement with the Ottawa.

The broad utilization of the NEP for political ends was matched,
by specific interventions. One of the four exploration programs
involved a Petro-Canada-led consortium. The very drawing up of this
$500-million commitment to drill eight wells had much to do with
putting an idle Petro-Canada-leased drilling rig to work. No bids
were entertained for the acreage involved, which contrasted with the
procedures regarding seven other East Coast exploration areas where
bids had been called for in February 1982. Energy minister Marc
Lalonde granted the permits for the Erie-Abenaki block under discre-
tionary ministerial powers contained in the Canada Oil and Gas Act.
According to R. H. Carlyle, senior vice-president of Gulf Canada Ltd.
at the time, the awards were made "clearly to accommodate Petro-Canada
and the drilling rig they have available." As it turned out, the
multinationals who were complaining about this arbitrary action at the
time most likely would not have wished to drill on this acreage any-
way. After drilling two dry holes the all-Canadian consortium pulled
out of the program in August 1984. Only one-fifth of the projected
value of the program was actually spent, and almost all of that came
from the Canadian taxpayer in the form of PIP grants and tax write-offs.

This example speaks clearly to many of the problems involved in
the implementation of the NEP. In addition to the obvious political
interference which served the interests of both the federal Liberal
and the provincial Conservative governments, there was the question of
why drilling was encouraged for this particular area in the first
place. One of the partners in the second well which was drilled,
Dover, was Nova Scotia Resources Ltd. (NSRL), the provincial crown corporation. Shortly after the exploration program was terminated, NSRL president Peter Duthit commented, perhaps naively, "It's wildest country. These are areas on which very little information exists."

This is somewhat revealing, coming from a corporate participant in the program. But it was consistent with an earlier observation made about the first well drilled in the program, West Esperanto. According to offshore analyst Ian Doig, West Esperanto was "a folly hole; it should never have been drilled on the basis of the technical information which was available at the time."

At least two policy deficiencies of the NEP emerge with relation to the Erie-Abenaki drilling program. First of all, the aforementioned "need-to-know" mandate of C O G L A (the Canadian Oil and Gas Lands Administration) was spread broadly throughout all of the frontier regions. Thus there were few, if any, restraints on drilling on poorly-surveyed blocks and remote areas of the Arctic and Labrador Sea, where the costs of potential hydrocarbon extraction and transportation could have been demonstrated by 1982 as being quite prohibitive. There was some geological targeting in the Hibernia area and the Beaufort Sea where the permit blocks were smaller, but in general C O G L A supported a broad-scale, "scatter-gun" search. And even within this framework there was no control exerted over exactly where drilling would occur, despite the fact that the federal government was absorbing the lion's share of the costs.

This weakness is tied into a second flaw in the NEP, that of the application of PIP grants. These incentives were financially skewed to
benefit companies exploring on Canada Lands versus the western sedimentary basin on the prairies. This encouraged companies to shift their attention away from provincially-controlled areas to exploration and anticipated development in the frontiers where Ottawa was the landlord. As was noted in earlier chapters, PIP grants were also slanted in favour of Canadian companies. They were eligible for outright funding of 80 per cent of exploration costs, versus 25 per cent for multinationals. Including the benefits of tax deductions, Canadian companies which were partners in drilling consortia paid an average of nine cents for every dollar spent on exploration. The after-tax cost for a foreign-owned company was about 34 cents. The margin in benefits was perceived to be significant enough that it was a major ingredient in fostering Canadian takeovers in the petroleum industry. In 1981 nine Canadian firms acquired foreign companies valued at $7.2 billion. Dome Petroleum, which had minority Canadian shareholding, set up Dome Canada Ltd. as a public corporation in 1981 so as to gain maximum benefits from the PIP grants. Thus, increasing numbers of Canadian oil companies were ready to take the federal bit and run.

What happened was that the availability of federal funding, combined with requirements for the multinationals to perform work on or relinquish permit holdings, produced a flurry of drilling activity, but not necessarily in worthwhile areas. With comparatively higher net exploration costs, the foreign-owned companies stuck to maintaining their pre-NEP interests only in the areas where their experience and considerable expertise indicated the best prospects for development. Riskier blocks were farmed out to Canadian companies, which
assumed all of the multinational's shares of drilling costs in exchange for half of the multinational's interests. (The farm-in/out process is explained with examples in Chapters Two and Four.) Having to partially surrender marginal acreage was not a profound penalty, given the fact that these companies held 84 per cent of permit lands off the East Coast prior to the NEP. This way, fully-PIPed Canadian companies were eager to drill where foreign firms would probably never venture by themselves.

The involvement of the Husky-Bow Valley (HBV) consortium speaks clearly to the "spade-work" role of the new Canadian kid on the offshore block. From the time Husky Ltd. and Bow Valley Industries Ltd. formed their joint venture at the end of 1981 until the end of 1985, HBV drilled 15 wells off the East Coast, 11 of them on previously unexplored geological structures. "That's more than anyone else," boasted Husky's Bob Blair at the end of 1985. All that HBV has to show for its efforts, however, are negligible prospects for natural gas development off Nova Scotia and the possibility -- only in the long-term -- of a minority share in a couple of small oil projects off Newfoundland.

Returning to the discussion of the Petro-Canada-led Canadian program on the Erie-Abenaki block, this particular area fell into the third option for the multinationals: outright relinquishment of land in which the chances for discovering and ultimately developing hydrocarbon resources were regarded as minimal. Ironically, although the oil majors' organization, the Canadian Petroleum Association, had complained about the arbitrary manner in which the minister of energy
had allocated this area to Petro-Canada and its partners. Shell had actually surrendered acreage within the block a short while before. The point at issue here is not so much that other oil companies did not have a chance to explore the block, but that it was drilled at all. West Esperanto and Dover were among five of 25 wells drilled off Nova Scotia in the first two years under the PIP regime that analysts questioned. They were all dry holes and seismic surveys had suggested that they were not prime targets for oil or natural gas drilling in the first place.

While this excessive offshore exploration activity was due in part to ignorance, it also reflected the willingness of the private sector to excel in "grantsmanship." The availability of federal funds justified the construction, purchase and use of expensive offshore exploration equipment and tended to generate drilling activity for its own sake, particularly during the recession in 1982. Moreover, some firms reckoned that the PIP grants were so generous that they could not be expected to last, thereby fostering an initial fast pace of exploration without much consideration of where holes were actually being drilled. As Calgary oil analyst Wilf Gobert put it in the fall of 1983, "The private sector is bleeding this program for all it is worth. Don't expect it to last."

Perhaps the PIP-fuelled exploration frenzy would not have been so susceptible to criticism if the vision and application of the NEP had been different in a number of ways. A "scatter-gun" approach to exploration all over the Canada Lands might have been appropriate if international oil prices had maintained their upward spiral in the face of anticipated diminishing supplies. In that case, perpetuating
the broad "need-to-know" mandate would still have been valid in the face of the projected decline in the availability of increasingly expensive oil imports as the decade progressed. It was not inconceivable in 1980, for example, that the incredible costs involved in extracting natural gas from the ice-infested Labrador Sea and transporting it more than one thousand kilometres across sub-Arctic tundra to market would be justified by the high energy prices forecast for the mid-1990s. But by the fall of 1982 the international oil glut was already a year-and-a-half old and prices were definitely on the decline. There appeared to be no flexibility built into the NEP to accommodate itself to this change. Outside of the primary exception of responding to U.S.-government and multinational influence, the federal government was either very slow or simply intractable when it came to altering the course of its energy policy, no matter what the changing circumstances.

Another point here -- and one which is crucial to understanding that the NEP, criticized from the outset as being "socialistic", was really the policy of a pro-capitalist government -- gets back to the issue of control. Halifax geophysicist Alan Huffman, who has been involved in offshore business activities since 1972, pointed out during the heyday of PIP-financed drilling off Nova Scotia that Ottawa, through COGLA, had not established any direction over exploration programs:

The federal government has no control, they do have to approve a hole for Petroleum Incentives Payments, but in effect I don't believe the Canadian government has any control over being able to say that, "Look, that hole has a very little prospect or it has a lot of prospect." (53)
As E. W. Kulsy of Westmin Resources in Calgary noted, "The pure geology of a drilling site is well down the list of priorities."

Rather than indicating a lack of importance or an oversight, however, this hands-off practice apparently complied with the policy limits of state intervention. This is not to deny that there were some administrative gaps among bureaucracies, each with its own mandate. Federal officials who administered PIP grants admitted that they did not evaluate the geological merits of the wells. This is due in part to the manner in which the energy regulatory bureaucracy operated: COGLA was not responsible for PIP grants while the Petroleum Incentives Administration had neither control over costs nor any mandatory interest in the geological prospects of proposed wild-cat wells.

COGLA, which is on the front line of government bureaucratic involvement in the offshore, was at best an active regulator under the NEP. Doern and Toner put it this way:

The last word in COGLA, "administration," is a profound misnomer: A more accurate title might be the Canadian Oil and Gas Lands "Negotiating Chamber and Developmental Agency." This would more accurately capture the nature of COGLA as well as convey the kind of regulation it encompasses. (56)

In Norway, COGLA's counterpart is the Petroleum Directorate. But the latter has had a greater degree of autonomy and authority in directing Norway's petroleum affairs than COGLA has been permitted in Canada. While policy formation has rested with the Ministry of Oil and Energy in Norway, functions of control were consciously delegated to the Ministry's external arm, the Petroleum Directorate. This has enabled the agency to exercise control and collect industry information relatively independently from the ministry and corresponding political
influence. Of course, as has been demonstrated and will be shown later in this chapter, the application of federal energy policy became intertwined with practical political considerations during the NEP. COGLA, therefore, was influenced by the government's political agenda and restrained in exercising control by the limits of its mandate.

In order to ground COGLA's hazy role in some reality, one can turn to the example of Petro-Canada's efforts to speed up exploration in areas adjacent to Hibernia on the Grand Banks. Specifically, Petro-Canada put pressure on COGLA in 1983 to force the lease-holder, Mobil Oil Canada, to accede to farm-in offers from Petro-Canada. To the crown corporation's chairman Wilbert Hopper, delineating the properties around the previous oil discoveries at Ben Nevis and Hebron fell very much within the federal government's desire to know how much oil and gas was present in the frontiers: "I think we're in a real hot area. And we ought to be doing more stepout wells to determine what we have." Reportedly Mobil was "dragging its feet" in exploring the area because of its dissatisfaction with the NEP, particularly the 25 per cent Crown share reserved in all oil and gas discoveries. While Petro-Canada took the view that COGLA's role was to actively force the pace of exploration, COGLA refused to act. Doern and Toner attribute this refusal to various factors, including a desire to be fair to companies, especially given the then strong U.S. criticism of the NEP; greater trust in Mobil's expertise; and a desire to use the COGLA lever to keep Petro-Canada 'in its place' given that its entree into other aspects of the NEP had given it more than its share of NEP largesse. In the final analysis, senior COGLA officials saw their role as brokers rather than 'musclers' of the industry. (60)
Mobil itself relented in June 1984 and farmed the area out to Petro-Canada. By this time the Trudeau era had ended and it was clear that, irrespective of whether the Liberals or Progressive Conservative Party won the next federal election, a less interventionist energy policy would ensue, much to the liking of the multinationals such as Mobil. Notably, the infamous 25 per cent back-in was being prepared for even the Liberal chopping block. Petro-Canada started drilling at West Ben Nevis the next month and made a significant oil discovery there.

This example serves, in turn, to demonstrate the complicated — at times conflictual — roles played by different instruments of the federal government in trying to fulfill the objectives of the NEP. The fact that there was no co-ordinated effort to exert a greater degree of control over offshore exploration speaks less to vying bureaucracies, however, than to the implicit attitudes of the federal government. For a whole host of domestic and international political and economic reasons, in addition to the inherent ideological constraints on a "Liberal" government, there were certain points of encroachment upon the private sector sphere beyond which Ottawa dared not tread. For instance, although sections 45(1) and 45(3) of the Canada Oil and Gas Act empowered the minister of energy to order the drilling of up to three wells simultaneously on a "significant discovery" area, Mobil was never forced to do this on either Hibernia or Venture, despite the pressure in the early 1980s to get development of the latter project underway. Federal reluctance to antagonize the private sector was also reflected within the whole realm of "Canada benefits", or the anticipated industrial spin-offs related to frontier oil and gas activities. COGFA chief Maurice Taschereau made it clear that, while
COGTA had a role to play in seeing that Canadian content would be maximized, there would be primary reliance on the competitive bidding process.

While regulation has been tolerated in Canada's mixed economy, international political and financial forces -- originating principally in the United States -- make it very difficult for the state to actually exert direct control over any significant sector of the Canadian economy. A permissible lever of influence -- albeit reluctantly endured by most sections of the capitalist class -- is the crown corporation. Clearly, in devising the NEP the Trudeau Liberals could not have conceived of a Canadianization program or the level of exploratory drilling on the Canada Lands without the active presence of Petro-Canada. But while the company became the corporate agent of the federal Liberals under the aegis of the NEP, it had no ultimate effect in changing the direction of potential oil and gas development in the frontiers.

Petro-Canada and the Offshore

Initially, the federal Liberals intended that Petro-Canada's role in the petroleum industry would only be to act as a catalyst in increasing the rate of exploration in the frontiers and to provide the government with desperately-needed knowledge about oil and gas affairs. The farm-in options provided to Petro-Canada under the terms of the 1976 Gillespie Green Paper (later legislated in 1977) enabled the company to start an active drilling program in the offshore, particularly on the Scotian Shelf. In fact, of the 14 wells drilled off Nova Scotia from 1976 to 1979, Petro-Canada was involved in 13.
At the same time, the company was expanding rapidly through acquisitions funded by the federal government. These included the Canadian operations of Atlantic Richfield in 1976 and the $1.5 billion purchase of Pacific Petroleum in 1978. Petro-Canada was also granted the federal government’s 15 per cent equity in the Syncrude oil sands project and the 45 per cent Crown share in Panarctic Oils. By the time of the brief inter-regnum of the Clark government in 1979, Petro-Canada had already become the largest Canadian-owned petroleum company, with assets of $2.4 billion.

All of this was consistent with the vision of senior officials in the Department of Energy, Mines and Resources (EMR), who were therefore resistant to the Clark government’s intentions to privatize the crown corporation. Moreover, the fact that public — and even some industry — opinion was against this idea kept any action deferred until the forcing of the election in December 1979.

By the summer of 1980, with the corporation’s profile enhanced through its participation in the landmark discoveries at Venture and Hibernia, Petro-Canada was eager to extend its role beyond that of a catalyst. Speaking in St. John’s at a conference sponsored by the Atlantic Provinces Economic Council, Petro-Canada’s Bill Hopper railed against the oil majors. Complaining that they were proceeding at “a snail’s pace compared to what it could be and should be,” Hopper observed that “the multinational companies have accumulated excellent land positions on behalf of their shareholders, but have done precious little exploration on behalf of Canadians.” Acting every bit as the feisty protagonist, Hopper obviously knew that the federal Liberals
were upgrading the mission of his company in the soon-to-be-announced NEP. This would involve even more largesse from the federal treasury and Petro-Canada wanted to be situated to take maximum advantage of these funds. Already the company was the largest holder of frontier lands, ranking third off the East Coast after Gulf and Shell. But as was noted earlier, the best leases were held by the multinationals, mainly Mobil, and Petro-Canada's leverage as a partner in these blocks did not seem to extend beyond that of any of the other partners. In other words, while the crown corporation acted as if it had a blank cheque from the government to proceed with exploration and development, it could not get its sponsor to change the agendas of the multinationals.

The acquisitions of Petrofina and British Petroleum in 1981 and 1982 made Petro-Canada into a national, fully-integrated oil company just like the foreign-owned majors. The previous complementary relationship between the crown corporation and the bureaucrats in both EMR and COGLA became distanced, although both were accountable to the federal minister of energy. Petro-Canada was now large enough to act on its own as a peer among the multinationals, if not a favoured peer because it was the only major-sized operator on the East Coast that was fully PIPable. As well, as was noted earlier, Petro-Canada's post-1976 farm-in rights on East Coast lands had given the company preferential opportunities not open to other new-comers to the oil patch. But this was the limit to federal intervention.

In Chapter Four it was pointed out that Petro-Canada's impatience with Mobil on the Venture project in 1982 had boiled over into the public domain. Mobil had even expressed some concern that the federal
government might have granted Petro-Canada control over the project. Although federal Liberal ideology and practical concerns about U.S. reaction undoubtedly had much to do with Ottawa's unwillingness to grant this, it must be considered that Petro-Canada might not have had the corporate resources to have accelerated the development of Sable gas at that time. In fact three years later corporation spokesman Sandy Hunter said that Petro-Canada was not interested in operating the offshore part of the Venture project because it did not have the expertise in offshore development. A Mobil perspective on the gradual, dampening of the crown corporation's early verbal aggressiveness runs this way:

Back then (1982) Petro-Canada was still new. It was under pressure; it had to prove itself; it had to have a project to tie into... But you will not hear Petro-Canada saying that today.

There was an unmistakable hands-off approach by Ottawa in directing where and when offshore exploration and development would occur. Federal control over the industry existed only insofar as funds would allow Petro-Canada to fulfil the mandate of the NEP.

It was mentioned before that the establishment of Petro-Canada did not represent any effort at nationalizing the oil industry; nor did it represent the socialization of the industry into a form of state capitalism, such as had occurred in Algeria and Mexico. The company was simply a vehicle for inducing greater investment -- mostly public -- in the frontiers. In order to ensure a higher level of activity, the federal government had provided liberal funding to Petro-Canada during the late-1970s and early 1980s. Understandably
then, it acted differently from any private sector firm. In 1981 it committed 35 per cent of all capital spending and fully 60 per cent of its exploration budget to the high-risk frontier regions. By contrast, in 1980 the industry as a whole devoted only 12 per cent of its capital spending on upstream activities (exploration, development, oil sands) to exploration on the Canada Lands. While an increasing amount of funds for this program came from internally-generated capital, Petro-Canada received annual equity contributions from the federal government; e.g., $425 million in 1982; $367 million in 1983; and $460 million in 1984. In fact, from the time it was set up in 1975 until the end of 1984, the company had been given $4.2 billion in equity from Ottawa, representing 54 per cent of capital employed. This was over and above PIP grants. Of the $4.1 billion handed out in incentives to the end of 1984, Petro-Canada was the largest recipient at $953 million. Approximately 75 per cent of this was directed towards East Coast exploration.

During the early years of the decade, Petro-Canada gave every appearance of being a profligate spender. According to a representative of a company involved in an exploration consortium with the crown corporation, at meetings of the partners it was not unusual to see three or four Petrocan officials for every one member of the other partners. There were also examples of excess in the offshore. Petro-Canada pursued an active drilling program off Labrador for at least a year longer than a prudent perspective on long-term energy prices would have supported. Moreover, the company had taken long-term leases for three drill ships specifically intended for the Labrador Sea. At least one of these, the Pellerin, was idle at the end of 1983.
when the federal government decided that it would no longer pay PIP money to companies in support of the leasing costs of idle drilling rigs. That cost Petro-Canada $35 million. In order to buy out of the lease for a second ship, the Pacnorse, the crown corporation had to pay the owner $23 million.

This and other episodes serve to illustrate the indiscriminate use -- at times -- of millions of taxpayers' dollars in an effort which was conceptually well-intentioned but which often turned out to be practically wasteful, if not almost corrupt. While honest mistakes were bound to be made in the highly risky drive to secure new supplies of oil for Canadian purposes, a bolder and less expensive strategy might have been adopted by the federal government in order to achieve this goal. Of the 140 wells drilled off the East Coast of Canada between 1976, the first year of Petro-Canada's operations, and 1986, the crown corporation was involved in 116. $5.132 billion was spent on offshore exploration in the region from 1976 to 1985; $1,918 billion of this amount, or 37 percent, came from Petro-Canada. As Table 5-3 indicates, there was a remarkable difference in the levels of gross expenditures between Mobil, arguably the holder of the best properties off the East Coast, and Petro-Canada in the first half of the 1980s. Part of this difference can be explained by the fact that, in some cases, Petro-Canada farmed in on properties which Mobil had been granted under the aforementioned generous terms in the 1960s. In other words, Petro-Canada, like Husky/Bow Valley and other Canadian companies, performed much of Mobil's exploration work on its secondary prospects at no cost to the multinational, save a reduction in its
<table>
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<tr>
<th>Year</th>
<th>Industry Gross</th>
<th>Mobil Gross</th>
<th>Mobil Net</th>
<th>Petro-Canada Gross</th>
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<td>480</td>
<td>172</td>
<td>1,785</td>
<td>278</td>
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These figures represent after-PIP, after-tax costs to both companies. Mobil's annual after-PIP costs were provided by the company's Toronto office. Petro-Canada does not have a breakdown of what PIP money was provided specifically for the East Coast versus the North. Petro-Canada's estimate of the application of 75 per cent of total PIP grants for the East Coast offshore is used here. An average tax saving of 55 cents on every, after-PIP dollar spent on exploration is applied to each company. Neither company received PIP grants for 1980.

Sources: Petro-Canada, Mobil Oil Canada.

interest in the farmed-out acreage. While it can be observed from Table 5-3 that Mobil's net expenditures were relatively significant—approaching 62 per cent of those of the biggest offshore spender—it should be noted that most of Mobil's funds were devoted not to risky wild-cat exploration like the Canadian companies but to the comparatively cost-justified delineation of the discoveries at Hibernia and Venture, or to the exploration of highly-prospective adjacent structures.

According to information supplied by Petro-Canada, the company
has had a success ratio of almost 50 per cent in its exploratory drilling program off the East Coast. Such an assertion, however, has to be taken with a grain of salt. Off Nova Scotia fourteen explored geological structures have been designated by COGLA as "significant discoveries". Given the poor prospects for commercial development for most, if not all, of these, a cynical perspective on Petro-Canada's alleged success in discovering "significant" hydrocarbon resources might suggest that such a designation can be regarded as a compensating accolade in lieu of finding economically-viable deposits.

The fact is that after spending almost $2 billion, Petro-Canada does not have much to show for all of its exploration activity in the East Coast offshore. On the Grand Banks it has found oil at Terra Nova and West Ben Nevis, but both of these discoveries are quite small compared with Hibernia and barely feasible to develop even after the elimination of virtually all federal petroleum taxes and royalties. The Cohasset field southwest of Sable Island is smaller still, and as was pointed out in Chapter Two, Mobil relinquished its option to maintain its interest in that acreage even after the field's "rediscovery" in 1986.

Had the federal Liberals remained in power and implemented a revised NEP, Petro-Canada would still not have functioned as agent of national direction and control in the development of Canada's frontier hydrocarbon resources. The Liberals were unwilling to place Petro-Canada in the driver's seat at Hibernia and Venture; the Mulroney government's attitude in this respect is merely consistent with that of its predecessor. Given the Tory's privatization thrusts, Petro-
Canada has also behaved more like a private oil company since 1985. 2,000 staff -- more than 20 per cent of the corporation's workforce -- were laid off during the downturn in 1986. No more equity is being provided by the federal government, and whatever interest Petro-Canada maintains in the East Coast offshore is focused on a very limited scale of delineating existing oil and gas discoveries rather than finding new fields. With a view to entering the domain of the private sector oil industry, a now-soft-spoken Bill Hopper shows that he can change with the times:

If you want to have a 100% Crown-owned company and you want it to behave in a commercial fashion, what's the point of having it? It's only a nuisance to the government. You might as well sell it off. (24)

In the preceding chapter it was suggested that, because of Mobil's perspective of its involvement in Canadian petroleum operations as a unitary, bottom-line investment, the multinational has been less conciliatory than the Canadian companies in demanding government concessions for the development of Hibernia. This was evident after the first year of fruitless negotiating over the establishment of the fiscal regime for the project. The FINANCIAL POST's David Hather summarized the general roadblocks which Mobil had constructed:

According to industry sources, Mobil is asking for a lot more than Ottawa is prepared to give, including floor prices, loan guarantees and generous tax write-offs. Even Petro-Canada, a consortium member, apparently views Mobil's demands as excessive. (75)

It is clear that, if and when Hibernia is developed, the terms and conditions will correspond first and foremost to the wishes of multinational capital. As has been pointed out already in this study, the
federal state and, to the extent of its capabilities, the province have been more than accommodating to the foreign corporate agenda. And although it is frustrated, a chastened Petro-Canada has patiently waited for the Hibernia operator to be satisfied.

There is understandably much political chagrin in having to satisfy all of Mobil's demands but, in the context of the need for perceived "development", particularly in the depressed Atlantic Region, any kind of agreement over the fiscal regime could be presented as a success. As such, the short-term boom in construction employment associated with an externally-controlled resource development would differ little from what occurred in the past and was pilloried by the Moores and Petkford administrations. In the late 1980s, creating jobs can be as important an aspect of energy policy as finding and securing oil for the future.

Energy Policy and Regional Development

During the announcement of a new floor price for Canadian natural gas exports to the United States in November 1984, the new federal energy minister Pat Carney was asked about markets for Venture gas. She replied:

First of all, they should find the gas; after that we decide how we're going to market it. And they haven't found their gas yet. They're well below their thresholds.

Three weeks later, the minister participated at a press conference in Halifax with Nova Scotia government leaders, and the subject of Venture gas markets was the main agenda item. When asked if the necessary thresholds of natural gas had been confirmed, she answered: "We know the reserves are there. We're committed to the knowledge, that
During the intervening period Mobil had not discovered additional deposits of natural gas around Sable Island. In fact, as was noted in Chapter Four, Mobil had been reducing its figure for Venture gas reserves throughout 1984. As well, the minister's Halifax statement was at variance with the estimates and conclusions provided by her officials in COGELA to the House of Commons energy committee two months later. Despite the completion of 13 wells on the Scotian Shelf during 1984, total proven reserves of natural gas had increased only marginally. Although COGELA estimated that the total discovered natural gas reserves off Nova Scotia were estimated at 4.9 trillion cubic feet, they were dispersed among 15 fields.

What apparently had been discovered in November 1984 was not gas by the companies but the true breadth of energy policy by Ms. Carney. She learned about what was perhaps the most important feature of federal government strategy -- irrespective of the party in power -- towards the proposed Venture project since 1982; viz., that it is primarily a regional development project and not an energy development per se. Now it cannot be disputed that the energy minister was disposed politically to change her tune about Venture; her original comments were obviously quite embarrassing to the Nova Scotia government, coming as they did at the end of a provincial election campaign. But with the election over, her revisionist view was grounded much more in adhering to the policy reality of the previous three years than in repairing the garbled party line during the past three weeks. In the realm of regional mega-projects, thresholds of viability are
defined by political as well as economic criteria.

Both the regional policy thrust of the federal government and provincial lobbying for Venture development helped to keep the project proposal alive from 1982 until at least 1986. In fact the plan to extract and market Sable gas is not officially dead yet. Although it has been argued throughout this study that a non-subsidized Venture development would be impossible for some decades, there still remains a well-considered degree of corporate reliance on regional development initiatives -- i.e., government subsidies to the private sector -- for offshore gas development.

To understand the regional policy origins of Scotian Shelf hydrocarbon development, one must return to the summer of 1901. That was when the federal government released the report of the business-labour MAJOR PROJECTS TASK FORCE ON MAJOR CAPITAL PROJECTS IN CANADA TO THE YEAR 2000. It forecast "mega-projects" -- mostly in the energy sector -- in excess of $440 billion over the next 18 years and suggested ways of maximizing Canadian benefits from them. About 84 per cent of the proposals were energy-related, with 41 per cent directly linked to oil, natural gas and coal. Federal policies in the economic and energy fields thus became intertwined. As Doern and Toner note, this had not been conceived of when the Liberals returned to power in 1980:

The NEP was not couched in a larger overall "economic" view or concept... In specific terms, energy preceded economic policy issues in the Liberal policy queue of 1980. (81)

The deep recession of 1981/82 precipitated Ottawa's focus on the proposed mega-projects as a cornerstone to the resurrection of the
Canadian economy. The rationale underlying this economic development strategy was as follows:

1. Natural resources are the engine of economic growth.
2. Economic development based on resources for the first time can benefit all of Canada's regions concurrently.
3. The process and pace of resource development and the industrial restructuring that accompany it must be "managed" in order to derive the maximum economic benefits from this development.

The dissolution of the Alands consortium and the abandonment of the heavy oil recovery project in Cold Lake, Alberta in the spring of 1982 shifted federal economic and energy development momentum eastwards. Although Hibernia was a favored project because oil has always been a significantly more important national energy resource than natural gas, federal wishes were thwarted by a combination of delineation difficulties and the breakdown in offshore jurisdictional negotiations between Newfoundland and Ottawa. Singular attention, therefore, was directed towards Venture.

In Chapter Three the problems associated with the history of mega-project development in the Atlantic Region were discussed. Clearly all of the examples cited provided a great deal of evidence suggesting that this economic approach to solving the problem of uneven regional development has severe limitations. Graham Lithwick points out that reliance on capital-intensive projects as a core element of regional policy is conceptually flawed in a couple of ways:

The first is that it downgrades the very sorts of 'modern' industrial activity provinces view as the hallmark and indeed the objective of regional development policy. Secondly, resource-led development tends to be non-integrative across
regions. The strong export orientation means that inter-industry and hence inter-regional linkages will diminish in importance. (83)

But there is more to these so-called "regional development projects" than meets the eye. Turning very briefly to the forecasted economic impacts from the proposed Venture project, even a cursory analysis of Mobil Oil's 1983 Environmental Impact Statement reveals that most of the construction and fabrication work associated with the $2.5 billion development would be located in central Canada. In other words, the Venture project, like most mega-projects, can be seen as an instrument for helping the re-vitalization of the manufacturing industry in Ontario. Along with this important political factor, the level of federal financial sponsorship involved in the July 1988 tentative Hibernia agreement is intended to demonstrate Ottawa's commitment to regional development. This was the nature of the momentum behind keeping the manifestly-unviable Venture project on the federal front burner for many years.

From the middle of 1982 the Trudeau government began to count heavily on Venture development in order to give some credibility to the mega-project strategy and to show that the NEP was working. Furthermore, the Ottawa-Newfoundland offshore jurisdictional dispute contributed politically to the Venture momentum. The GLOBE AND MAIL's Jennifer Lewington noted that the federal Liberals desire to get Venture going was more than complementary to the Nova Scotia government's hunger for industrial spinoffs:

Federal energy minister Jean Chretien is a willing ally in part hoping that a go-ahead on Sable Island gas will serve as an object lesson to Newfoundland. And External Affairs Minister Allan MacEachern is a powerful friend as the federal
As part of the overall development package for Venture gas, the federal cabinet guaranteed a place for it in the northeastern United States market. In January 1983 the National Energy Board (NEB) cut the request by western Canadian producers for natural gas exports to this market by half in order to ensure a place for East Coast gas:

The board (recognizes) the possibility of Sable Island gas serving a portion of the (northeast) market by the late 1980s. (87)

This was the first time frontier gas had figured in a NEB decision, though offshore gas was not calculated as part of the national surplus.

During their first year in office, the federal Tory government played a quietly supportive role to the nervous provincial protagonist in keeping the Venture play alive. The continuity with the former Liberal government in offshore-focused regional policy was given clear expression by assistant deputy energy minister Roland Priddle at an energy policy conference in Calgary in January 1985. Noting that energy minister Pat Carney wanted to use the energy sector as "a tool for regional economic development," Priddle continued:

The best example of that is Venture. That's not to say it is all clear sailing for Venture -- it's not. But the Mulroney Government does want to see it go as expeditiously as possible. (89)

Pat Carney's education as to the broader regional economic mandate of energy policy was compatible, of course, with the thrust of Tory energy policy from at least the spring of 1984. That was when the Canadian Petroleum Association, which represents the integrated, mainly-multinational oil companies, published its own energy program.
The NEP would essentially be gutted in favour of a corporate focus for the industry which promised to create 300,000 jobs. Ultimately, the Tories adopted virtually all of this plan. In his June 1985 budget speech, Finance Minister Michael Wilson singled out the energy industry as one of three areas — along with small business and high technology — which represented "the components of economic growth most likely to result in the greatest and fastest response." The plunge in oil prices at the end of 1985, however, sent the energy "engine of growth" sputtering to a crawl. While relative stability in energy pricing was re-established by the end of 1986, the prospect of Venture gas development in a world of $20 (U.S.) per barrel of oil is quite dim. The federal purse has only so much money available for whichever one might wish to call the Venture project: regional development initiative or subsidized corporate energy development. Despite the years of planning on Venture, Hibernia has become the first major East Coast hydrocarbon project to receive federal financial favours.

As this study reveals in some detail — particularly Chapter Six — the preliminary acts in the Hibernia development drama were painfully long. Even when the anticipated climax arrived well after midnight it turned out that the script had a major flaw; the actors tried to compensate by shouting their lines. On July 18, 1988 leaders of the Newfoundland and federal governments met with the Hibernia project partners in St. John's to sign, not a final agreement on the development of the Hibernia oilfield, but a non-binding "Statement of Principles", as the preamble of ceremonial document does not disguise:

The execution of this Statement of Principles by the signatories hereto is not intended to and does not create legally enforceable rights or obliga-
tions between the signatories hereto or between any of them and any third parties. The signatories hereto will use their best efforts to finalize a definitive agreement or agreements (the "Binding Agreement") embodying this Statement of Principles as expeditiously as possible but in any event by March 31, 1989.

Although Prime Minister Brian Mulroney claimed that "Hibernia means breaking the cycle of dependency," the reality of this deal -- should it be implemented -- points to just the opposite. Included in the terms of the $3.2-billion total government outlay was a commitment for 65 per cent of the initial capital costs of the $5.2-billion project to be funded by monthly federal grant and loan guarantee payments. While the projected 10,000 person-years of construction work for Newfoundlanders is significant, ironically it is less than the 13,000 provided by the unsubsidized Upper Churchill hydro development from 1967 to 1974. As a proportion of the current Newfoundland labour force versus its size 20 years ago, its significance is smaller still. 1,100 production jobs will be created for the 18-year life of the oilfield project, but they are derived at considerable cost to the taxpayer. Although the prepared news release for the signing ceremony claimed that total provincial and federal tax and royalty revenues from Hibernia should range between $5 billion and $9.8 billion, even these comparatively modest sums seem unduly optimistic. These projections are based on government accruing revenues at prices as low as $16 per barrel for Hibernia oil. In 1986 Mobil said that it needed $21 a barrel in order for work to proceed on the project.

What this project is all about is the quintessence of what has been discussed about regional development and dependency in this and the preceding two chapters: federal legitimation of capital accumu-
tion through subsidizing multinational corporations; corporate control over resource development; regional job creation as a political sop; the reinforcement of technical and manufacturing industry in central Canada; and perhaps most importantly, the responding to and balancing of political imperatives across the country. As will be shown below, this flies in the face of all that the Conservatives represented in proclaiming their energy policy at the start of their term of office.

Ironically, one month after the Hibernia deal was announced, the federal government's Energy Options Advisory Committee presented its report to energy minister Marcel Masse which strongly backed an energy policy based on market forces. The panel was bluntly critical of the Hibernia deal: "Subsidizing megaprojects that are uneconomic under current perceptions of the market distorts the allocation of resources." Free market ideology, however, does not always guide the economic decision-making of Tory Ottawa, notwithstanding considerable practice and rhetoric in this respect. Conversely, neither do social concerns. If this were the case, federal funds earmarked for the Hibernia project would be directed either to public services or to existing renewable resource industries where they would create substantially greater long-term social and economic benefits for Newfoundlanders. Looking at the last characteristic of traditional regional development policy as is outlined above, it is no accident that the signing of the Hibernia agreement was timed to precede the calling of a federal election. Furthermore, so as not to antagonize ever-prevalent demands from Western Canada for energy industry assistance, federal largesse has been provided for both a heavy oil upgrader on
the border of Saskatchewan and Alberta and the proposed $4 billion OSLO oil sands project north of Fort McMurray. It has all fit into the game plan which a senior Ottawa bureaucrat explained upon the formation of the federal cabinet's energy mega-project committee in early 1988:

Let's face it. We're not talking critical oil supplies. We're talking jobs, regional development, a future election, and pressure to rush things so announcements can be made in time to win votes. (93)

Energy Policy After the NEP

Among the primary policy items on the agenda of the newly-elected Mulroney government in September 1984 was the dismantling of the NEP. The Prime Minister himself had railed against it on many occasions, particularly when speaking in the West. Now many shortcomings of the NEP as they applied to the offshore have been outlined in this and previous chapters. For the most part, these criticisms have focused on self-serving, political manipulation and Ottawa's timidity in the exercise of public control over a resource enterprise, the exploration for which has been funded overwhelmingly by the citizens of this country and not the petroleum industry. The tone of Conservative criticisms, however, reflected in great part those of the Alberta government and the industry, particularly the multinationals. Both of these entities suffered some losses in control and revenues because of the Liberal's energy policy.

In its drive for conciliation the Mulroney government was willing both to forego tax revenues to the petroleum industry and to invest political capital in agreements with the provinces. While it will be
argued in Chapter Six that the Newfoundland government made major concessions under the ATLANTIC ACCORD, Ottawa’s need for perceived federal-provincial harmony influenced the timetable for the signing of the deal just a few days before the opening of the ‘First Ministers’ Conference in February 1985:

So keen was the government to use an offshore deal with Newfoundland as an example of its new approach that Miss Carney pushed to get it signed on the eve of Prime Minister Brian Mulroney’s first full conference with provincial premiers in Regina. (94)

The terms of the Western Accord, reached between Ottawa and the three western oil- and gas-producing provinces a month-and-a-half later, satisfied both the provinces and the industry. The corporations’ long-sought-after goal of de-regulated Canadian oil prices was achieved. In addition, five major federal oil and gas production taxes were removed and the much-despised Petroleum and Gas Revenue Tax (in effect this was a royalty because it applied to gross revenues, not net income) was to be phased out over five years. The industry received another boost in June when Alberta’s Premier Lougheed announced a reduction in oil gas royalties that, when coupled with other drilling incentives, would cost the province $420 million annually.

These financial carrots handed out to the industry, without the attachment of any formal obligations, established a momentum back to the proven oil patch in the West. This was enhanced when the federal Conservatives set a deadline for the termination of PIP grants, the basic fuel for offshore drilling. Indeed, industry spokesmen suggested that conventional drilling was now so attractive in Alberta that Ottawa would find it difficult luring new investors to the frontiers. A replacement incentive scheme for frontier exploration was
finally presented by the federal government in the fall of 1985. As opposed to the regime under the NEP, this one clearly favoured the large -- meaning primarily multinational -- firms because it was based on the amount of taxes payable, relating, therefore, to the volume of corporate operations. This effectively put small Canadian companies out in the cold while, as was pointed out in Chapter Four, the multinationals were left with the same frontier exploration costs as applied under the NEP.

Finally, as an adjunct to the elimination of most of the federal taxes on petroleum production, the new Canadian Petroleum Resources Act established a system of royalty payments for frontier regions. While this responsibility with regard to the offshore regions of Nova Scotia and Newfoundland has been transferred to the respective provinces, a national trend to lower royalties -- and hence reduced provincial revenues -- was clearly intended by the Mulroney government:

> It is essential to send an early signal to industry regarding the government's view of an appropriate royalty regime... It is clear that the current royalty regime is not sufficiently sensitive to the high costs and long lead times involved in frontier development. (97)

For debt-ridden provincial treasuries hungry for years for offshore manna, the ideological precedent set by the federal Tory government did not create any belt-loosening expectations.

Looking at the industry's position by the end of 1985, it was clear that from the exploration stage through to production, the large oil companies had little to complain about. Neither did the western producing provinces, as they anticipated expanded drilling programs for the upcoming year. What both parties had wanted was a hands-off
federal energy policy which would return them to prosperity of the
1970s. Despite the best intentions of the Mulroney government, such
was not to happen -- at least not for the time being. Saudi Arabia
was no longer willing to shoulder primary responsibility for reducing
global supplies of crude oil in order to keep demand up. Consequently,
prices began to fall. Before long, Ottawa's acclaimed laissez-faire
energy policy began to find disfavour among some of its formerly
strongest supporters.

When the world-wide recession hit the country in 1981/82 and oil
prices began to fall, it was very convenient to blame the NEP for the
social and economic consequences in western Canada. Drilling compan-
ies that went "on strike" and left Alberta for work in the United
States soon found out, though, that the turf wasn't blacker on the
other side of the border. One American analyst noted shortly after
the Mulroney victory that the NEP had been forced to absorb an undue
portion of the blame for the condition of the Canada's petroleum
industry in the mid-1980s:

The NEP was a hell of a whipping horse... Canada
would not have been in much different shape today
if the NEP hadn't happened, in my mind. The real
problem was world oil prices.(98)

There was a ironic coincidence in the timing of the 1985 drop in
oil prices and the consequent re-emergence of recessionary economies
in Alberta and Saskatchewan in 1986. This second plunge of the decade
began a little more than a month after energy minister Carney an-
nounced proudly in the House of Commons on October 30, 1985 that she
had driven "the final nails...into the coffin of the NEP." Despite
all of the efforts of the federal Tories to accommodate the petroleum

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industry and the West, forces beyond Ottawa's control had intervened to replicate the conditions of the early 1980s. Once again blame was centred on Ottawa for not doing enough to assist the West in its time of need. And just as predictably, separatist sentiments and movements strengthened.

The obstacles to the West's long pursuit of a diversified economy, dependent unduly neither on oil and gas nor on government, can be found mainly in the economic structures that govern our society and operate world-wide. Sporadic recessions in the petroleum-dependent West have at their core the same basis as the ongoing marginalization of the Atlantic Region's economy, described in historical and theoretical detail in Chapter Three. The fact that the central Canadian economy has been booming through the mid and late 1980s while both the West and East have been enduring the social and economic consequences of capital flight and high unemployment speaks to the impact of the centralization of capital. Despite avowed political efforts from the early 1970s to diversify the Alberta economy, the province has not been able to remove itself from this boom-bust cycle, even with billions of petroleum dollars in the provincial treasury.

In response to the heat emanating from the West as 1986 wore on, the neo-classical economic purity of the new federal energy policy became tainted. In the Canadian tradition, the pragmatism of responding to regional political interests and corporate pressure produced a couple of results which seemed strangely reminiscent of the NATIONAL ENERGY PROGRAM, and not reflective of the new Canadian Petroleum Resources Act. First of all, there was a growing cry by April 1986
for government-supported oil prices. Initial support for a minimum price came from small producers. But it was also backed by people such as Bartlett Rombough, president of PanCanadian Petroleum Ltd., the oil and gas arm of Canadian Pacific Ltd. He called for the invoking of an emergency clause in the Western Accord to deal with collapsing oil prices. By the summer, according to a report in the GLOBE AND MAIL, many who had espoused the virtues of a market-oriented oil price unashamedly swallowed their principles:

Support for a levy on consumers of between 2 and 5 cents a litre, to bail out ailing oil companies and give work to nearly bankrupt drilling operations, is an abrupt about-turn in the traditionally free enterprise philosophies of the smaller oil companies and the oil service industry.

Although this position was not backed initially by the federal or provincial energy ministers, there was a change of view by early 1987. The initiative came from Alberta's Neil Webber and was prepared for presentation at the January 30 meeting of Canadian energy ministers. The plan involved new taxes on refined petroleum to be funneled back to the oil companies to encourage the dormant multi-billion-dollar tar sands and frontier oil and gas projects. In order to enhance public consumption, this was re-wrapped in the "security of supply" package first presented by the federal Liberals in the 1970s; in that context, it turned out to be the backdrop to the introduction of the NATIONAL ENERGY PROGRAM.

The energy ministers accepted the outline of Webber's plan, agreeing to "share the risk" for future energy mega-projects by guaranteeing the oil majors a predetermined price for the product. According to this concept, while governments would receive extra revenues
from the time of production if crude oil was selling for more than the
pre-set floor price, they would underwrite the difference if the cost
of production were to exceed the market price. Even before the Janu­
ary meeting, federal energy minister Marcel Masse had told a Calgary
audience that Ottawa was considering higher taxes on gasoline and
other petroleum products as a means of financing new projects.
This marked a significant departure from the policy of his predeces­
sor, Pat Carney, who had said less than a year earlier that the
imposition of a floor price on Canadian oil would be a "fundamental
mistake:"

Throughout the year-and-a-half following the dismantling of the
NEP and the drop in crude oil prices, the major companies were compar­
atively taciturn, if not coy. In the early 1980s, having learned from
commissioned public opinion polls that Canadians generally neither
liked nor trusted them, the Canadian Petroleum Association (CPA) and
some of its multinational members began to conduct lengthy advertising
campaigns on the theme of "good Canadian corporate citizenship" and
subtle opposition to the NEP. Again in July 1986 the CPA presented a
carefully-worded message in the nation's newspapers, this time to get
the point across that the government could do more to help the indus­
try in its time of need:

It is now clear that falling oil prices are not
quite the bonanza they first appeared to be. And
while the Canadian petroleum industry is in no way
suggesting a return to regulated prices, there is a
strong belief in the importance of co-operative
action by the industry and federal and provincial
governments to urgently adjust current revenue
sharing, so as to better reflect the harsh new
economic realities facing the nationally important
petroleum industry. (105)
It would, of course, have been overtly hypocritical for the strongest proponents for petroleum de-regulation to have issued a call for a floor price a year after their longstanding wish had been granted. It was the large integrated oil companies such as Shell, Texaco and Imperial which had benefitted from the de-regulating of Canadian crude oil prices because they had the biggest reserves of so-called "old oil", which was cheap to produce and whose price had been kept artificially low under the NEP. What the CPA was looking for in the summer of 1986 was a further reduction in taxes. It was noted above that, while most of the federal royalties and taxes on petroleum products had been removed in the previous year, the Petroleum and Gas Revenue Tax (PGRT) was to be phased out over five years. The CPA wanted that eliminated immediately. The federal government responded by setting October 1 as the termination date for the PGRT. This produced an estimated saving of $1.5 billion for the industry, primarily the 40 largest oil and gas producers in the country.

The bottom line resulting from the wholesale shredding of taxation and royalty policies demonstrated that the "new economic realities" were not as harsh as the CPA had led people to believe. In fact oil companies can now actually make more money on a barrel of oil than before the price collapse:

Ken Croft, a Calgary analyst with Midland Doherty Ltd., compared the profits that a company would have made in December 1985, when oil sold for $27.40 a barrel, with the profits it could have made last November (1986), when oil fetched about $14.75, and found its net profit after taxes had increased from $7.82 a barrel to $7.85.

Meanwhile, although the pronounced CPA policy is against floor prices for petroleum, its members, either individually or in project consor-
tia, have not expressed any objections to the establishment of government-supported prices for oil produced from major energy projects in which they are involved. In fact, it was mentioned earlier that Mobil Oil, prior to the January 1987 energy ministers' meeting, had insisted on a floor price for Hibernia oil as a pre-condition to start-up of that project. While the July 1988 tentative agreement does not guarantee a floor price, it is very clear that, even as energy minister Marcel Masse admitted in what could be characterized as an understatement, "The government is taking more of the risk at lower prices than the sponsoring companies."

A second shift in the federal Tory energy policy which hearthens back to the NEP and has luminous political markings occurred with the announcement of a federal $350-million grant scheme for exploratory drilling. Effective April 1, 1987, these incentives are of primary benefit to western companies. The policy was unveiled in Edmonton by energy minister Marcel Masse one week after relations between Ottawa and Alberta had become so strained that Premier Getty had "threatened to pull his provincial party out of the national Progressive Conservative organization." This grant system was greeted warmly by both politicians and most industry officials in the West. The only reservation was expressed by Douglas Stoneman, chairman of the C.P.A, who undoubtedly felt duty-bound to be consistent about his association's long-standing philosophical opposition to grants: "We think that programs that reward success are better and more long-lasting than those that just reward activity. But," he added, "we will take it and do what we can."
What clearly has happened to Tory energy policy during the party's tenure in office is that a great deal of financial accommodation has been made to both the petroleum industry and the western producing provinces. In both cases, especially with regard to the latter, entrenched Tory principles have been sacrificed at the altar of political pragmatism. While the cost of this is difficult to determine because of fluctuating oil prices, it is probably conservative to estimate that the federal treasury has forsaken up to $10 billion in revenues during the last half of the 1980s. Ironically, most of those who have benefited are the same people and interests who are ideologically disposed to the reduction of the federal debt. That this process has been retarded through their reception of federal favours does not appear to have met with their disapproval.

At the same time, the shortfall in anticipated federal revenues has been compensated for by most sections of the Canadian public. Chapter Three described the reductions both in federal transfer payments to the provinces and the reduction in regional program funding to the Atlantic Provinces. In the 1988 publication of a study commissioned by the Institute for Research on Public Policy, author Allan Maslove found that higher taxes have cost the majority of Canadian families an average of $340 annually in disposable income since the election of the Mulroney government in 1984. In an indirect sense, these Conservative fiscal policies can be characterized as a means of subsidizing the petroleum industry, particularly the multinationals. A point might be made that federal financial concessions to the petroleum industry have maintained or created some thousands of jobs in Alberta. But this could very easily have been done through the
spending of a fraction of the province’s $13-billion Heritage Trust Fund. In other words, not only is the reduction in offshore drilling a direct product of federal Tory energy policy, but Nova Scotians and Newfoundlanders have also been required indirectly to provide financial support for Canadian and foreign oil companies operating in western Canada.

Finally, despite the renewed expression of concerns in early 1987 about future security of Canadian crude oil supplies, there has been an absence of political will to actually do anything about it. In fact, according to the terms of the free trade deal, any conception of national self-sufficiency is inapplicable. Except for circumstances in which Ottawa is willing to sign and fund what are essentially cost-plus contracts for projects such as Hibernia, the development of Canadian energy resources is subject mainly to the whims and agendas of corporate interests that stretch far beyond this country. Even with government-sponsored developments, there is no assurance that the product will be refined or used in Canada, as a federal official noted about Hibernia oil: “Quite probably it will go to the American Atlantic seaboard.”

While the federal government has almost run out of carrots, it has forsaken the use of sticks. Applying the latter to effect energy development is incompatible with the open-door policy to foreign investment. As was pointed out at the beginning of this chapter, the level of foreign control over the petroleum industry is on the rise and decisions about major Canadian petroleum developments will increasingly be made elsewhere, mainly in the United States. The sale
of controlling interest in Husky Oil to Hong Kong businessman Li Ka-Shing in February 1987 was described by analysts as a clear invitation to foreign investors. Husky's troubles were mainly due to its having been over-extended financially on costly efforts to develop both heavy oil in Alberta and oil and gas prospects off Newfoundland and Nova Scotia. As with Hibernia, development decisions on these projects will now originate outside of Canada. This will also likely be the case with the properties of Dome Petroleum, one of the biggest oil and gas landholders in Canada, particularly in the North. According to former Petro-Canada executive John Ralston Saul, the sale of Dome Petroleum to Amoco Petroleum jeopardizes northern petroleum projects just as foreign oil companies halted oil sands developments in Alberta in the early 1980s. Saul made this point in a letter to energy minister Marcel Masse:

> You must know from the documents in your ministry that one of the principal restraints upon the creation of a Canada oil-sands (and) heavy-oil policy has been the control of much of the best acreage by U.S. corporations. You will also know that in the past those companies have used their control to frustrate the development of the oil sands. Their priorities lay elsewhere. (114)

The priorities will tend, once again, to reflect not only the interests of the U.S.-based multinationals but also their home government. In the late 1960s the U.S. government advanced the idea of a continental energy market. As was noted at the beginning of this chapter, this was strongly supported by Exxon, the largest oil company. Nationalist sentiments leading to the thrust for Canadian control over the country's petroleum resources and its industry precluded any overt mothing of this idea by the Americans for well over a
decade. The direction of current federal energy policy, however, has put this issue — whether or not it is expressed publicly as such — squarely on the front burner. It was understandable that, at a June 1986 conference on natural gas marketing in Washington, the vice-chairman of the U.S. Federal Energy Regulatory Commission, Charles Trabandt, said that Canada and the United States were moving rapidly towards a "common energy market...We are evolving faster than anyone '115 would have expected." Not surprisingly, this opinion was at odds with that of Trabandt's counterpart at the National Energy Board, Digby Hunt, if for no other reason than it would render the NEB virtually redundant. In the light of the free trade deal, this trend is undeniable. The concentration of markets, corporate headquarters and political influence south of the border means that the evolution towards the "common energy market" seals the devolution of Canadian energy policy into American hands.

ENDNOTES

1. St. John's EVENING TELEGRAM, February 12, 1985
5. GLOBE AND MAIL, December 3, 1985
A distinction needs to be made here between ownership and control. According to the federal Petroleum Monitoring Agency's 1985 report, Canadian control of overall revenues in the oil and gas industry had reached 42.8 per cent of the total. But Canadian ownership in the industry as measured by corporate revenues had risen to 48.3 per cent. The discrepancy arises on the basis of the size of individual shareholdings. For example, prior to its attempted takeover in April 1987, Dome Petroleum Ltd. was regarded as a Canadian-controlled company even though Canadians owned only about 40 per cent of the company's shares. The operative factor here was that the largest shareholder -- logically the most influential -- was Dome Mines Ltd., a Canadian company.

This determination, however, is not an uncomplicated matter. Canada regulations state that when between 33 and 49 per cent of a domestic firm is sold abroad, its control is assumed to have passed to foreign hands. Presumably, this involves one large purchaser, or perhaps a hierarchy of a few, one of which can exert a great deal of control. This was the case with the sale of 43 per cent of Husky Oil by Novera, an Alberta Corporation, to Hong Kong businessman Li Ka-Shing early in 1987.

8. Ibid.
9. Bertrand, op. cit., p. 182
11. CHRONICLE-HERALD, January 25, 1985
12. Doern and Toner, op. cit., p. 91
13. Ibid., p. 66
14. Ibid., p. 81
17. Bertrand, op. cit., p. 158
18. Ibid.
19. Ibid.
20. In 1974 the Minister of Energy, Mines and Resources, Donald MacDonald, admitted that "one of the difficulties facing the Canadian government is that it is virtually dependent on major
international oil companies for its sources of information."  
(Doern and Toner, op. cit., p. 91)

21. At a conference in Ottawa in 1973, the Canadian Arctic Resources Committee charged that, through the COGL regulations, the Diefenbaker government had given the petroleum industry carte blanche, telling them to write the kind of regulations that would create an incentive for northern development. As a result we have a resource 'give-away' unparalleled in any country in modern times. (Crane, op. cit., p. 159)

22. Doern and Toner, op. cit., p. 93
23. Crane, op. cit., p. 163
24. Ibid., p. 164
25. Doern and Toner, p. 52
29. NATIONAL ENERGY PROGRAM, op. cit., p. 17
30. Pratt, op. cit., p. 39
31. NATIONAL ENERGY PROGRAM, op. cit., p. 17
32. Ibid., p. 7
33. Pratt, op. cit., p. 28
34. NATIONAL ENERGY PROGRAM, op. cit., p. 49
35. Pratt, op. cit., p. 42
36. Doern and Toner, op. cit., p. 49
37. MAIL-STAR, November 28, 1982
38. GLOBE & MAIL, July 31, 1982
39. GLOBE & MAIL, August 28, 1984
41. Doern and Toner, op. cit., p. 380

42. The NATIONAL ENERGY PROGRAM document estimated that the after-tax exploration costs on Canada lands would be 7 cents on the dollar for Canadian companies and 28 cents for multinationals (p. 96). Writing in 1984, Doern and Toner (op. cit., p. 380) put the average costs at 9 cents for Canadian companies and 34 cents for foreign firms. Because, presumably, their information has an empirical base, these are the figures which serve as the benchmark for related calculations in this study.

43. Doern and Toner, op. cit., p. 380

44. GLOBE & MAIL, May 30, 1986

45. Speaking to the Nova Scotia legislative committee on the offshore in January 1983, officials from Husky Oil and Bow Valley Industries made it clear that they were desperate for more offshore acreage. "We have a commitment to significantly increase the Canadian energy supply and to play a major role in the economic development of Atlantic Canada," said Dale Beischel, Husky Oil vice-president for exploration. "These commitments are meaningless unless we acquire additional offshore exploration lands."

Pat Purcell, Husky's offshore exploration manager added, "We are wheeling and dealing all the time." He commented that, with most of the promising acreage off Nova Scotia already under lease, companies trying to enter the offshore play face a very difficult situation. This view was echoed by Petro-Canada Resources president Jim Stanford: "The availability of suitable land has been and continues to be a problem for new companies prepared to enter the offshore exploration game." (MAIL-STAR, January 19, 1983)

46. Crane, op. cit., p. 170

47. FINANCIAL POST, November 16, 1985

48. Fillmore, op. cit., p. 15

49. In fact, as late as June 1985, the FINANCIAL POST's David Hatter wrote:

Although impossible to quantify, it has been said much of the recent exploration activity has been spurred by the need to keep equipment working, rather than the geological attractions of a particular drilling location.... The discovery of oil has been of almost secondary importance. This has been particularly true for the owners of drilling rigs. Having invested upwards of $100 million in a piece of equipment, it
would be foolish to have it sitting idle in a
harbour, when it could be operating with the go-

ervernment picking up 80 per cent of the bill. (FI-
NANCIAL POST, June 15, 1983)

50. Doern and Toner, op. cit., p. 382

51. FINANCIAL POST, November 2, 1983

52. GATT-Fly. POWER TO CHOOSE: CANADA'S ENERGY OPTIONS (Toronto: Be-

minister Marc Lalonde said:
The National Energy Program, which some of our
critics have described as socialistic, will turn
out to be one of the most powerful spurs to Cana-
dian capitalist endeavours in the history of this
country.

53. Fillmore, op. cit., p. 15

54. GLOBE AND MAIL, September 17, 1983

55. Ibid.

56. Doern and Toner, op. cit., p. 404

57. Noreng, op. cit., p. 141

58. GLOBE AND MAIL, June 23, 1984

59. Ibid.

60. Doern and Toner, op. cit., p. 415

61. In a June 1st article ("Energy Politics Shift to the Right Is Accel-
erating"), GLOBE AND MAIL energy reporter Jennifer Lewington

wrote:

Both political parties are likely to get rid of the
present program's bias towards Canadian companies,
largely as a conciliatory gesture to the oil indus-
try and the U.S. government, the strongest critics
of Ottawa's energy policy since 1980. In a related
act of political goodwill, both parties are likely
to abandon the 25 per cent Crown interest, which
makes Ottawa an automatic partner on federal lands
without paying for its full share of costs until
the development stage.

62. Doern and Toner, op. cit., p. 412

63. Ibid., p. 398

64. Laxer, op. cit., p. 61

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72. A different kind of problem with leasing arrangements affected two supply boats which Petro-Canada chartered. The circumstances surrounding this deal are related in GLOBE AND MAIL articles by reporters Jock Ferguson and Lawrence Martin on February 24 and March 7, 1984.

These Spanish-built boats were bought by Walter Wolf, a friend of Brian Mulroney's, and leased for four years to Petro-Canada in 1982 for $10,890 per day each. This was $4,000 above the going rate by the end of 1983. At least two other East Coast supply companies had submitted lower bids for supply boat leases to Petro-Canada, but the lease was still granted to Wolf's company, K.D. Marine. Before Petro-Canada signed the contract with K.D. Marine, a consultant had recommended that Petro-Canada "forget about" the Spanish boats because they "seem old-fashioned and unsuitable for areas like the North Sea." In fact, two other supply companies operating in the East Coast offshore had rejected the opportunity to purchase the boats because of their unsuitability. Although the boats were allegedly refurbished after Wolf bought them, at least one of them experienced a considerable period out of service in the first year of the contract. While service improved by 1983, the contract was costing Petro-Canada $2 million more annually than current rates indicated.

In a subsequent article (April 12, 1984) by Jock Ferguson, he quoted an unnamed Halifax-based oil executive as saying: "I think both the Liberals and Conservatives are embarrassed by Mr. Wolf...They just want to see the issue die." This was shortly after both Wolf boats had again broken down in the offshore.

73. These figures were supplied by Petro-Canada. The company's expenditures are expressed in gross terms; i.e., they include PIP grants.
See Doern and Toner, op. cit., pp. 358 - 365, for a description of the history and fate of this economic policy.

Doern and Toner, op. cit., p. 359


Doern and Toner, p. 427


MAIL-STAR, January 29, 1983

Ibid.

CHRONICLE-HERALD, January 29, 1985

GLOBE AND MAIL, June 7, 1985

GLOBE AND MAIL, July 19, 1988


Bruce Little. "Carney's Overhaul of Policy Leaves a Few Loose
Ends", GLOBE AND MAIL, June 7, 1985


99. GLOBE AND MAIL, October 31, 1985

100. MAIL-STAR, April 3, 1986


102. GLOBE AND MAIL, January 28, 1987

103. GLOBE AND MAIL, February 5, 1987

104. GLOBE AND MAIL, April 2, 1986

105. MAIL-STAR, July 22, 1986

106. FINANCIAL POST, September 20, 1986


108. Marcel Masse. "Taken All Round, Hibernia's Sound", FINANCIAL POST, August 8, 1988

109. Kevin Cox and Christopher Waddel. "Ottawa Gift to Energy Firms to Cost $350 Million a Year", GLOBE AND MAIL, March 26, 1987

110. GLOBE AND MAIL, March 26, 1987

111. GLOBE AND MAIL, June 20, 1988

112. GLOBE AND MAIL, July 17, 1988

113. MAIL-STAR, February 27, 1987. In fact, a front-page story in the March 16, 1987 issue of the FINANCIAL POST was titled "Canada For Sale". It was claimed in the article that, since the Conservative election victory in 1984, about 1,400 Canadian companies had lost control to foreign buyers.

114. GLOBE AND MAIL, May 26, 1987

115. MAIL-STAR, June 7, 1986
The smell of oil and gas both titillated and convulsed the bodies politic in Nova Scotia and Newfoundland in the early 1980s. While these valuable resources lay under the offshore doorsteps of both provinces, local claims to these undersea properties were contested by a powerful, non-resident landlord and wealthy developers. With the ownership battle having been waged without resolution for some years, by now both provincial governments were faced with choosing between, at least on the surface -- opposing strategies for reaping the offshore bounty: stay the course of provincial control for the long-term benefit of local residents or capitulate to the potent outsiders in return for short-term financial gain. The pursuit of the latter option by Nova Scotia's John Buchanan in March 1982 was as predictable as the determination by Newfoundland's Brian Peckford to remain the master of his own house. What ensued could have been scripted two years earlier.

In a manner of speaking, Ottawa set up a high class offshore bordello in Halifax in which the Buchanan government offered the favours of the province to the increasingly numerous frequenters of the establishment, multinational and domestic alike. Encouraged by lavish federal discount rates -- constituting virtual months-long passes in many instances -- the patrons took many plunges into the marine delights offered by their hosts, even though these forays seldom, if ever, fulfilled their expectations. The provincial libertines, for their part, were flattered simply by presence of their
industrial guests and expressed grateful satisfaction for the tidal
trinkets left over from their exploits. Meanwhile, across the Cabot
Strait, Brian Peckford and his cohorts spurned the advances of the
federal benefactor. Virtue prevailed while they busily ran around
their drafty house trying to keep out the recessionary cold. When
guests finally became relatively numerous under the benefactor’s aus-
pices in late 1983, it was not because the integrity of the hosts was
compromised.

Moving from allegory to political practice, it was startling at
times to witness the apparently antithetical patterns of behaviour of
the Peckford and Buchanan administrations in their respective dealings
with Ottawa and the oil companies. Both, after all, were Progressive
Conservative governments. But whereas Peckford antagonized the feder-
al government and the industry by implementing affirmative industrial
and social offshore policies for Newfoundland, John Buchanan forsook
provincial control over oil and gas development in return for federal
sponsorship of exploration activity. Ostensibly, Brian Peckford emer-
ges as the principled defender of provincial rights, willing to sacri-
fice immediate financial gain for the sake of long-term economic
sustenance for his province. By contrast, Buchanan projects the image
of the consummate political opportunist, gladly selling out provincial
economic self-determination in return for a temporary industrial mini-
boom. To a large extent this can be attributed to the evolution of
divergent political cultures, a matter which was dealt with in Chap-
ters One and Three. Yet, the further one penetrates the surface of
government behaviour in both provinces and the longer the time frame
one considers, the categorical differences tend to diminish as the

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seamy side of the Peckford political cloak is revealed. In this respect, election processes provide a good test for truth and principle. Obviously, any government will try to turn beneficial political circumstances to its advantage by calling an election. So it was not unusual that the Buchanan administration exploited the offshore issue to win two provincial elections. The Peckford government also used the offshore for electoral gain—in fact, not twice but three times. But on at least one of these occasions, in 1982, there were some sordid undertones to the process. A brief examination of some of the elements of that campaign helps to establish a necessary perspective from the outset of this chapter on what otherwise might appear to be a political story of virtue in St. John's and treachery in Halifax.

A private poll commissioned by the Newfoundland Conservative party early in 1982 indicated that the governing Tories were behind the Liberals in overall popularity in the province, but that Premier Peckford was 22 points ahead on leadership, that being forged mostly on the strength of his Ottawa-bashing. He was about to call an election in mid-February on the issue of provincial rights to offshore resources when the semi-submersible drilling rig, the Ocean Ranger, sank in a winter storm on the Grand Banks. The Peckford government was surprisingly negligent with regard to the regulating of offshore health and safety standards, despite its righteous claim to being not only the legal, but also the more competent protector of Newfoundland's interests in the offshore. The government had not applied its occupational health and safety legislation to the offshore, despite urging by organized labour and even the industry since at least 1980.
Morale among the workers on the Ocean Ranger was extremely low, particularly after a serious mistake by the rig’s captain caused a severe list the week before the fatal accident. Although such incidents were supposed to be reported immediately by the drilling contractor to regulatory authorities, this was never done. The working environment had become so bad that Ray Hawco, the community relations officer for the Newfoundland Petroleum Directorate, took the unusual step of arranging a flight to the rig on the weekend of the impending disaster in order to talk with the workers. Fortunately for him, his helicopter had mechanical problems and was grounded. Looking at the regulatory regime overall, while the province had been fastidious in formulating economically-oriented policies for the offshore, it did not formally proclaim its drilling regulations governing the safety of down-hole operations until four months after the Ocean Ranger sank. All in all there were hundreds of safety deficiencies which contributed to the deaths of 84 people, 54 of them Newfoundlanders.

The Premier and some of his ministers must have felt a little apprehensive about the political fallout which could have enveloped them following this disaster. But remorse rather than critical analysis of the tragedy prevailed in the public mind, a mood which was reinforced by the provincial government’s declaration of an official day of mourning four days after the sinking. Less than a month later, with the earlier polling in mind, Peckford called an election.

“We are involved in a revolution,” he declared at a press conference on March 15. Because Ottawa was seeking total ownership of offshore resources, and “seems to be saying we have no mandate to negotiate,” he argued that he needed a clear mandate from Newfound—
landers as necessary armour in his battle against the federal government. He described the election as "another lever I feel that I have to use" in the struggle, and shrugged off reporters' suggestions that the election outcome would have little effect on Ottawa's position. As it turned out, the result had no impact whatsoever.

Remarkable as it might seem now, the Ocean Ranger disaster was totally ignored during the campaign. Perversely, the provincial government actually used the offshore health and safety issue to its own political advantage. The two other drilling rigs which had been working near the Ocean Ranger at the time of the sinking had been ordered into Marystown shipyard for inspections following the accident. Having passed federal and international certification requirements, they were delayed from returning to the Grand Banks until further inspections were carried out by the province's Petroleum Directorate. Mobil Oil, the company which had contracted the rigs and had to continue paying hundreds of thousands of dollars in leasing charges during this period, was noticeably upset. All of this attracted some media attention which appeared to serve the political interests of the Peckford government quite well: the election campaign was into its final stages and the government was seen to be tough not only with Ottawa but with the oil companies as well.

Wrapped comfortably in the Newfoundland flag, Brian Peckford established himself and his administration as the defenders of Newfoundland rights. To disagree with the government's policies was tantamount to being against Newfoundland. It followed, therefore, that opposition leaders were, as the Premier put it in the last week—
end of the election campaign, "traitors to Newfoundland." The over-
whelming size of Peckford's electoral victory on April 6 -- the Tories
won 44 out of 52 seats -- hardly represented a triumph of moral prin-
ciple.

In examining the offshore strategies and the provincial politics
behind them throughout this chapter, primary attention will be focused
on Newfoundland. In the case of the Buchanan government in Nova
Scotia, as the saying goes, what you see is what you get. The politi-
cal demeanor there with regard to the offshore has hardly altered
from the 1978 election which brought John Buchanan and his Tories to
power. Any apparent divergence in offshore tactics from one period to
another has been predictable and is consistent with the overriding
"strategy" of the government in this area, viz., opportunism.

Things have not been as simple and unchangeable within the neigh-
bouring government to the East. Just as some electoral scrutiny
uncovers a plummeting descent from piety, the Peckford government's
offshore development perspectives of the late 1980s differ substan-
tially from the dreams and policies formulated in the mid 1970s. Back
then there was an unconcealed hostility to the former practice of
development at any cost. This was a government that not only wanted
to control resource development but would control it in the future so
that economic benefits would accrue to the province over the long
term, not 'just' during the construction stage. And so in 1976/77,
three years before the discovery of any potentially-commercial petro-
leum field, officials under the direction of mines and energy minister
Brian Peckford established a thorough set of regulations governing,
among other matters, the division of the economic rents accruing from
future oil and gas developments. Even for so-called marginal fields, the province reserved the right to collect a minimum 5 per cent royalty on gross production revenues.

More than ten years later THE NEWFOUNDLAND AND LABRADOR PETROLEUM REGULATIONS have been scrapped. Their replacement, THE CANADA-NEWFOUNDLAND ATLANTIC ACCORD IMPLEMENTATION (NEWFOUNDLAND) ACT, does not contain any legislated provisions for provincial royalties. In entering the protracted negotiations with the corporate lease-holders of the Hibernia field and the federal government, the province did not bring with it any minimum royalty to be applied to the development of Hibernia or any other field. At this juncture the Peckford government is happy simply to have the Hibernia development take place, even though it is unlikely that significant economic benefits will extend beyond the construction stage. Controlled development, economic self-sufficiency—these are the buzz-words of the past. This present reality could hardly have been countenanced by the forgers of Newfoundland petroleum policy at the beginning of this decade. How it evolved speaks to the limitations of provincial political will and the dominance of external political and economic forces. At this significant level, there has been an unmistakable convergence in the setting of agendas for oil and gas activity off both Newfoundland and Nova Scotia.

Setting Divergent Courses for the Offshore

February 1, 1977 was a happy day for Nova Scotia's Gerald Regan. So much so that, according to the Liberal Premier, "The only real problem I have is wiping the smile off my face." The source of his
mirth was the signing by his government, along with those of New Brunswick and Prince Edward Island, of a memorandum of agreement with Ottawa over management and revenue-sharing of the Maritimes' potential offshore oil and natural gas resources. In exchange for a 75 per cent provincial share of offshore production royalties, the premiers surrendered administrative control over offshore developments to Ottawa. The Newfoundland government, however, refused to participate in this so-called Maritimes Agreement. It has just completed drafting its NEWFOUNDLAND AND LABRADOR PETROLEUM REGULATIONS, which were predicated on provincial control over offshore oil and gas development. Moreover, as the then energy minister Brian Peckford pointed out in a Newfoundland government publication a few months later, the actual provincial share of the combined federal and provincial "government take" from an offshore resource development under the Maritimes Agreement would amount to only 25 per cent. Ottawa would receive three times that amount through its collection of corporate taxes and the revenues accruing to its crown corporation, Petro-Canada.

The contrast in provincial attitudes towards a federally-inspired offshore deal as represented here is characteristic of the differences between Newfoundland and Nova Scotia in this regard from the early 1970s until the period following the signing of the ATLANTIC ACCORD in St. John's in 1985. There was an unmistakable determination on the part of the Newfoundland government not to surrender control over offshore mineral resources no matter what financial carrots were dangled in front of the relatively-impoveryhished province. The back-
ground to this thrust for control lay in the boom-bust and resource-give-away developments of the 1950s and 1960s. From the outset in 1972, the Conservative government of Frank Moores had resolved both to regain a measure of provincial control over existing resource-extraction industries and to set a new course for provincial management of such developments in the future.

By this time about 20 oil and gas wells had been drilled off Newfoundland and Labrador in a virtual regulatory vacuum. The oil embargo of 1973/74 and the attendant price rises it helped to generate highlighted the economic potential underlying the vast sedimentary basin off the coasts. Such a perception, combined with a cultural reawakening and the development of neo-nationalist sentiment in Newfoundland, planted the impetus for devising a comprehensive policy on offshore petroleum and, based on a claim to ownership, asserting provincial control over its management. In a process initiated under Mines and Energy minister Leo Barry until 1975 and continuing from 1976 with Brian Peckford, a small coterie of Newfoundlanders and non-resident experts in petroleum affairs established a legal, economic, and political rationale for Newfoundland's ownership and control over offshore mineral resources. The essence of this policy formation lay in the conviction that only under Newfoundland management could controlled development be assured; i.e., the pace of starting construction on production facilities -- no more than once every three years in specified location would both mitigate the boom-bust phenomenon.

While the Tories won the 1975 provincial election, Leo Barry lost his seat. He was succeeded briefly by John Crosbie in the mines and energy portfolio before Brian Peckford became minister in 1976.
while dispersing maximum economic benefits among residents of the province. In the Newfoundland government's view, Ottawa's different priorities and national mandate would preclude much consideration of these provincial concerns.

In 1976 the Moores government decided to formulate its own energy program, resulting in the production of THE NEWFOUNDLAND AND LABRADOR PETROLEUM REGULATIONS the following year. They outlined the conditions for the granting of exploration and production permits, leases and licenses and established a social and economic framework in which petroleum-related activity could take place in the province. Perhaps the most publicized features of the legislation were those requiring offshore contractors to follow a preferential policy for hiring and training Newfoundlanders and using Newfoundland businesses as suppliers.

The forging and application of these regulations represented the laying down of one more political gauntlet in the contest over jurisdictional rights. Briefly, there were two related facets to the offshore dispute between the federal government and the coastal provinces, one legal and the other political. Each of the parties claimed ownership over their respective offshore regions (for Ottawa this meant all of the East Coast offshore) to the continental margin, or roughly 200 miles from land. Now the ownership claims of either of the provinces or the federal government did not preclude the negotiating of a federal-provincial political settlement over offshore resource management, industrial benefits and revenue sharing. In any event this would have to take place before any petroleum could be extracted from the continental shelf. But the real test as to the
strength of the impulse over ownership centred on which jurisdiction
would have the major influence in the management of, or the exercising
of regulatory control over, resource development. Implicit in this
scenario, of course, was that provincial and federal agendas — exclud-
ing Nova Scotia's for a brief period after the signing of the Marit-
times Agreement — were incompatible. In the case of Newfoundland and
Ottawa in 1977, and for many years to come, there was no basis for
negotiation because both governments, for reasons explained above as
well as in Chapters Three and Five, were not willing to surrender
primary control over managing and regulating offshore petroleum devel-
opment. If either party were to take the issue to the Supreme Court
of Canada and win, this would not automatically mean that a necessary
political settlement would be easy, but it would indicate that the
winning party could bargain with the loser from the position of being
in overall control of resource management, if the winner so wished.
However, political negotiations subsequent to a legal ruling would
most likely occur only if both parties were to submit a joint refer-
ence to the Court, as a unilateral appeal to the ultimate legal arbi-
ter would indicate a virtually irreconcilable chasm in relations.
(Later in this chapter this discussion will be resumed with specific
application to the legal case between Newfoundland and Ottawa.)

The circulation of Newfoundland's draft regulations among the oil
industry in early 1977 caused a predictable stir. There had developed
a partial hiatus in East Coast offshore exploration by this juncture,
influenced by poor drilling results, multinational attention devoted
to other areas of the world and the 1976 federal requirements for the
renegotiation of exploration permits and leases. For the companies with interests off Newfoundland and Labrador, the new federal assertiveness in the offshore arena, including the imposed presence of Petro-Canada, was complicated by yet another set of regulations by a contesting political intervenor, the Newfoundland government. All of this represented a dramatic change for the industry, which previously had been able to maintain large leases for long periods of time in a largely unregulated environment while being required to fulfill only minor work commitments on these leases. Although the offshore operators obviously disliked the new regulatory system established by the Newfoundland government, it is too simplistic to attribute the absence of drilling during that year purely to the presence of the province's regulations. Along with the aforementioned factors influencing a downturn in drilling, it was generally assumed by both the provincial government and the industry that the offshore jurisdictional dispute between Newfoundland and Ottawa would be referred to the Supreme Court of Canada by the end of 1977. On top of everything else, this was enough to influence the one potential operator for that year, Total Eastcan, to postpone its drilling plans off Labrador until the jurisdictional air was cleared.

Offshore exploration diminished off Nova Scotia in the late 1970s, but it increased off Newfoundland, provincial regulations notwithstanding. Whereas geology seemed to favor the Newfoundland offshore over the Scotian Shelf in the minds of the industry, it was the federal government's super-depletion taxation allowance which really cranked the drill bits. Meanwhile, although the Mores government might not have been eager for a reference to the Supreme Court of
Canada, it had reconciled itself to a less resolution to the offshore dispute throughout 1976 and 1977 (a Newfoundland government publication on the offshore which was distributed to every household in the province in 1977 devoted more than one-half of its 25-page text to explaining "Why Court Is Necessary"). But as the decade drew to a close, there was some backing off from this position. For the offshore operators the jurisdictional impasse continued to be an irritant because they had to abide by two sets of regulations. However, both were complementary and the companies quickly came to realize that they presented few practical difficulties during the exploration phase of the petroleum extraction cycle. If a field were delineated and ready for development and production, then surely one jurisdiction would have to hold sway so that, among other things, the terms of the fiscal arrangements and the division of economic rents among the corporate developers and both levels of government could be established unambiguously. When oil was found at Hibernia the ownership issue was moved up again to the front burner.

Brian Peckford's assumption to the leadership of the Newfoundland Progressive Conservative Party, the re-election of the Tories provincially on a neo-nationalist platform, and the discovery of a huge deposit of oil at Hibernia all happened within months of each other in 1979. These factors combined to establish and maintain the offshore question as the primary political issue in the province for the next six years. At the beginning of this period, according to Doug House, policy was guided and the accompanying political agenda was set by four people:
Initially, power appeared to be concentrated in the hands of the premier, senior policy adviser (Cabot) Martin, and (Leo) Barry. All three are from rural backgrounds and had become upwardly mobile through education and professional training (Barry and Martin as lawyers). They had proved themselves on the mainland and played a central role in carving out the province's new approach to oil and gas, fiercely determined to push for Newfoundland's interests in confronting Ottawa, Quebec, Nova Scotia and outside corporations. Locally, they were referred to as "the triumvirate". The subsequent appointment of their former Mines and Energy colleague, Steve Milian, as Executive Director of the Petroleum Directorate seemed to confirm the dominant position of the group.(12)

A competent lot, there was also a great degree of feisty self-confidence among the Newfoundlanders. Martin, for instance, did not mind taking the big oil companies on. At a conference on petroleum transportation systems held in St. John's in 1981, he accused Mobil of "technological arrogance" and, almost in the same breath, "technological impotence" because of the company's rejection of the use of a pipeline for bringing Hibernia oil ashore. (The construction of such a system would create many jobs for Newfoundlanders and ensure the refining of Grand Banks crude oil in the province.) Perhaps the most ardent nationalist among senior officials in the government, he, like the Premier, was consumed with the political and economic potential which oil production offered to Newfoundlanders:

Oil will be a tremendous galvanizer. We have become used in the province to blaming our position on our circumstances. But now we have this fantastic sense that we are shaping our own future. Oil will become the flashpoint of Newfoundland's destiny... Now if we lose, we'll know it's not due to exterior forces; it's because we weren't smart enough or didn't try hard enough.(14)

But proximity to the offshore resource, knowledgeability in this sphere, and assertiveness were still insufficient to counter all of
the forces stacked against provincial self-determination over resource management. By mid-1980 the province was becoming increasingly skittish about a legal settlement, fearing, it seemed, that Newfoundland’s case was not so strong after all. Federal energy minister Marc Lalonde dismissed Premier Peckford’s ongoing jurisdictional claim as “empty rhetoric” and called the Premier’s bluff: “He has never dared to test it [in the courts] because he doesn’t have a case.” A month later Cabot Martin, an expert in marine law, scoffed at the suggestion of taking the matter to court before negotiating a deal with Ottawa. Calling it a “bizarre idea” he declared that the time to make a deal was before taking the matter to court, not afterward. Meanwhile, warnings were issued by both Premier Peckford and federal M.P. John Crosbie that if Ottawa were to seek a Supreme Court reference on the jurisdictional issue and win, the Newfoundland government would reject the finding and do everything in its constitutional power to hinder land-based operations until the province was given the dominant share of revenues and jurisdictional control. To heighten the issue even further, in the fall of 1980 Mobil Oil threatened to take court action in an effort to bring about a resolution to the dispute. Throughout this period of provincial bluster and defiance on the jurisdictional issue, it should be noted that Ottawa had always extended an open invitation to the Newfoundland government for both parties to submit a joint reference to the Supreme Court.

While it would seem that the Peckford government should have felt beleaguered by the powerful forces of both the federal government and the multinational oil industry, it did hold the trump card as a bar-
gaining lever. As was pointed out in Chapters Four and Five, at this juncture in the political economy of world petroleum it appeared that there would be global shortages of oil by the end of the 1980s. Mobil itself was known to be "crude-short" and the federal Liberal government had just presented its NATIONAL ENERGY PROGRAM to Parliament, with one of its hallmarks being national self-sufficiency in oil production by 1990. So both the federal government and Mobil were eager to accelerate the delineation and development process for Hibernia, but no matter what the courts would decide, development was not possible without the co-operation of the Newfoundland government. With political positions firmly entrenched in both Ottawa and St. John's, the stalemate continued until September 1981. The settlement over oil-pricing and revenue-sharing between the Alberta and federal governments provided the pretext for Ottawa to sit down with each of the governments of Newfoundland and Nova Scotia to work out deals covering their respective offshore oil and gas resources.

The offshore stance of the Nova Scotia government had changed following the 1979 election of the Conservatives, led by John Buchanan. Recognizing the obvious shortcomings of the Maritimes Agreement as had been pointed out by Newfoundland officials a year earlier, Buchanan revoked his government's participation in it. In what appeared to be the taking of a leaf from the Newfoundland offshore handbook, the Buchanan administration passed legislation in the spring of 1980, which was modeled on THE NEWFOUNDLAND AND LABRADOR PETROLEUM REGULATIONS, 1977. (There were specific differences, such as the Nova Scotia government's right to reserve up to a 25 per cent working interest in commercial petroleum developments versus a 40 per cent...
reservation, adopted by the Newfoundland government.) And just as the
Moore's government had produced and circulated "Heritage of the Sea:
Our Case on Offshore Mineral Rights" to Newfoundland households in
1977, in July 1980 the Buchanan government distributed to Nova Sco-
tians "Offshore Oil and Gas: A Chance for Nova Scotians." Insisting
that "it would be folly to allow the control and management of the
province's offshore resources to slip from provincial hands," the
government established a seemingly intractable position on offshore
jurisdiction: "The commitment of the government of Nova Scotia is to
have full control of its offshore mineral resources." The following
month at the annual premier's meeting in Winnipeg, all of the provin-
ces accepted a resolution put forth by Buchanan asserting provincial
rights to control offshore resource developments.

To all appearances, Premier Peckford had a helpful ally in his
Nova Scotia counterpart. Buchanan even jousted with Prime Minister
Trudeau in May 1981 over the proposed federal legislation for the
implementation of the NATIONAL ENERGY PROGRAM, warning: "Should Par-
liament pass and proclaim this legislation, the province...will consi-
der it ultra vires and will not recognize it as valid legislation."

As was the case when energy minister Marc Lalonde responded to a
Newfoundland challenge a year earlier, Trudeau called Buchanan's
bluff, suggesting that he take the offshore ownership issue to court.
Buchanan backed off, opining that the dispute was really political
rather than legal.

In August 1981, less than three years after receiving his elec-
toral mandate, the Nova Scotia Premier called a general election,
declaring that he needed a new mandate to deal with "the challenge of offshore development." What was more to the point, however, was a recent Tory poll which showed that the party was enjoying a high level of popularity. The timing was ripe for a snap election, and Buchanan was not about to bypass such an opportunity. Framed by the theme "The Future Is Here", the Premier began campaigning by re-asserting Nova Scotia's claim to ownership and control of offshore oil and gas resources. Halfway through the campaign, however, he said that he had received a letter from Prime Minister Trudeau in late August in which the Prime Minister promised that the federal government would be willing to negotiate a deal with Nova Scotia whereby the province would receive all the revenues from offshore oil and gas production just as if these resources were on land. Because the money question was now solved, Buchanan said, the province was not insisting on ownership, describing it as an "irrelevant matter between the governments of Canada and Nova Scotia." Given the federal Liberal's entrenched position on jurisdiction, what this added up to was a clear quid pro quo: provincial revenues for federal offshore control. It was just a matter of working out the details. After what one political commentator called "the most cynical campaign in recent memory," the Tories were swept back to power with 37 out of the 52 seats in the Legislature.

The Prime Minister had made the same offer to the Newfoundland government. At the beginning of September Premier Peckford announced on province-wide radio and television that his government was willing to modify its previous ownership demands and negotiate an arrangement for offshore management and revenue-sharing. This precipitated a
cleavage in what had been a sometimes uneasy relationship between Peckford and mines and energy minister Leo Barry since early 1979 when both were contenders for the Tory leadership. Claiming that he was not being given a free enough hand in leading the upcoming negotiations with Ottawa, Barry resigned from his ministerial portfolio on September 26. While this might have been true, House suggests that Barry was not as flexible as Peckford on the question of offshore management, the key element to finding any accommodation with Ottawa.

In October and November the federal government began negotiations with Newfoundland and Nova Scotia respectively. February 1 was established by Ottawa as the target date for reaching a settlement in each case, failing which the federal government would refer the jurisdictional issue to the Supreme Court for a determination. The setting of a deadline was important for Ottawa primarily because it wanted to implement its legislation pertaining to the NATIONAL ENERGY PROGRAM, which was announced in Parliament in October 1980.

The different demeanours adopted by the Newfoundland and Nova Scotia governments during this period was striking. In the former there was a tense "wait-and-see" atmosphere. In Nova Scotia, on the other hand, with John Buchanan more or less having conceded the management issue to Ottawa, thereby almost assuring an agreement, there was the distinct appearance of the pro-corporate hustle. Tory leaders heightened their traditional appeal to foreign investors, particularly the oil companies and their contractors. Buchanan spoke to business groups at home and away of the need to dismantle the Foreign Investment Review Agency in order "to get outside companies interested in
locating in the area and participating in the (offshore) development." New York entrepreneurs were encouraged to invest in Nova Scotia, with a reminder from the Premier that he "does not believe there is such a thing as acid rain." The province's oil and gas legislation, which had been passed a year-and-a-half earlier but had not been enacted, was intentionally shelved. Instead, the provincial government, in the words of development minister Rollie Thornhill, was opting for "subtle persuasion" with the offshore industry as a means of generating local employment and business activity. "We know the oil companies," he said. "All we have to do is tell them what we want and they will co-operate." Commenting at the time on the incessant, unfettered appeal issued by Premier Buchanan and his ministers to the oil industry, GLOBE AND MAIL columnist Michael Harris wrote: "Short of presenting the oil companies with a key to the province, a brighter corporate lure couldn't be imagined."

With the offshore stage thus set, the Nova Scotia government of John Buchanan, like that of his Liberal predecessor in 1977, officially surrendered effective control over offshore developments to Ottawa on March 2, 1982 (during the negotiations the federal government had moved the deadline from February 1 to February 28). In signing the CANADA-NOVA SCOTIA OFFSHORE AGREEMENT ("Probably the best agreement," said the Premier, "that will be signed between a provincial and a

Premier Buchanan's major policy announcement at the February 1988 provincial Tory convention involved a commitment to lower acid rain emissions in the province and to combat the effects of acid rain on the environment. More likely than not, this marked less of a breakthrough in John Buchanan's education about air-borne effluent than in his realization that years of environmental neglect had made this problem one of the most pressing political issues in the province.
federal government...in the next forty years"), Buchanan pursued the same course followed by former Premier Gerald Regan. He opted for potential revenues over control (the management board would comprise three federal nominees and two provincial), although the fiscal arrangements set out in the 1982 settlement were clearly superior to those negotiated for the province in 1977.

A different outcome awaited the Newfoundland government. There was an apparent concessionary mood on the part of Premier Peckford at the start of negotiations, coinciding, it seemed, with a softening in the federal stance. Although Prime Minister Trudeau’s invitation to negotiate held the threat of legal recourse over the proposed negotiations, it also reiterated what the Prime Minister had suggested on May 5 in St. John’s; viz., "a negotiated partnership between our two governments in joint management." As bargaining proceeded through the fall and winter of 1981/82, the province moved towards accepting what appeared to be -- literally -- the federal offer. At the January 25 round of meetings provincial negotiators presented "A Proposal For Settlement". This document laid out for the first time Newfoundland's official willingness to accept shared offshore management:

The joint management agency would have an executive board consisting of seven members, three appointed by each government and a chairman appointed by mutual agreement, thus avoiding the possibility of a tie vote.(34)

Whether the federal government was willing to go along with shared control as indicated earlier by Prime Minister Trudeau is unclear. But based on the consistent thrust of every Liberal policy in this area since 1976, as well as the outcome of the Canada-Nova Scotia negotia-
tions, this is doubtful (although, it might be argued, the Buchanan government was not about to provide really strong resistance to federal insistence on control over the Nova Scotia offshore). Despite a biased perspective, there is little, if any, evidence to counter the claim in a Newfoundland government document which Premier Peckford presented at a March 16 press conference: "In every position advanced by the federal government, exclusive federal ownership was the underlying premise."

The reason why the federal government's final position on the issue of joint management at this time was never publicly established is because a seemingly peripheral matter of labour litigation jumped to centre stage during the Canada-Newfoundland offshore negotiations. The Seamen's International Union (SIU), which had been trying to organize workers on offshore supply boats for a number of years, had requested a hearing in the Federal Court of Appeal in an attempt to overturn a 1980 Canada-Labour Relations Board ruling that certain offshore workers do not fall within federal jurisdiction. Premier Peckford threatened to terminate negotiations when the hearing opened in Ottawa on February 8 unless the federal government moved to postpone the case. Obviously, there are different ways of interpreting the legal manoeuvering that went on in the federal court. Peckford claimed in an angry February 10 telex that Ottawa's willingness to proceed with the case prejudiced current negotiations and constituted a reneging on "its commitment to lay aside the ownership question."

While it is virtually impossible to determine what was expressed explicitly by both parties to each other in bargaining sessions regarding the legal jurisdictional question, it is clear that, publicly,
they had both entered negotiations with opposing positions on this question. Whereas the Peckford government had wanted both governments to "set aside their exclusive claims to ownership permanently" (the Newfoundland government had expressed its willingness to do just this in a document presented at a negotiating session in November), Ottawa had always maintained a contrary intention in this regard. It was convinced of the ultimate necessity of a legal determination over offshore jurisdiction. In the Prime Minister's aforementioned speech of May 5, 1981 in St. John's, he made it clear that a political agreement would have to be negotiated soon because legal entitlement to the offshore had to be resolved before corporations would be willing to make massive investments in resource development: "Long-term commitment will not take place in a climate of uncertainty. That's why the legal positions must be resolved soon." He had reinforced this position clearly to Premier Buchanan at the end of July:

The present divergence of views regarding ownership has introduced an element of uncertainty which would eventually impinge adversely on an orderly development of the offshore hydrocarbon potential. The issue cannot remain unresolved much longer. It is therefore the intention of the Federal Government to see the matter resolved through the legal process while Federal-Provincial discussions concentrate on the more germane aspects of administrative mechanisms and revenue-sharing. (41)

Newfoundland's fear, according to Peckford, was that any political settlement over offshore control could be subsequently altered unilaterally by the legal owner if and when a judicial decision would be made:

This is exactly what happened in Australia where the federal government renounced a 10-year joint management scheme after winning in court. No
agreement is worth anything, therefore, unless both parties are willing to set aside their exclusive claims to ownership permanently. (42)

Trudeau's response to this concern was that legal safeguards could be written into a negotiated settlement which would preclude any such unilateral abrogation. (Indeed, such a provision was established in Article 1 of the Canada-Nova Scotia Off-Shore Agreement.)

What the constant challenges and rebuttals over legal and political technicalities represented above all was a profound lack of trust between the two governments, felt particularly on the part of Newfoundland. Most of this can be attributed to the extremely high stakes involved in the offshore dispute. But attitudes, if not prejudices, certainly played a significant part. Generally speaking, there has been a traditional arrogance exhibited by federal officials towards their Newfoundland counterparts -- and most likely towards those of other small, dependent provinces -- during the constant myriad of federal-provincial negotiations which affects most departments of both governments. In part, this reflects the hierarchical mentality inherent in any traditional donor-recipient relationship. (One provincial civil servant noted that this attitude even carried over to Newfoundlanders in the employ of the federal government.) In this regard House quotes one senior official in the Newfoundland government: "They (Ottawa bureaucrats) don't give a damn about us. They treat us with contempt." The same, it seems, could be said of the federal demeanour with regard to the Premier. According to John Gray of the Globe and Mail, up to the time of the 1980 constitutional discussions, "Ministers and officials in the federal government had previously regarded Mr. Peckford with the kind of disdain usually reserved for
Some of the positions he adopted from that period, however, converted bemused derision into outright antagonism.

Disdain crystallized into hostility when Mr. Peckford suddenly clothed himself in the mantle of regional discontent. No sooner was the [1980 Quebec] referendum over than Mr. Peckford emerged to pronounce that the federal government was really, when you got right down to it, just an agent for the provinces. Having just survived the battle with Quebec separatism, Ottawa found that too much. The following September, Mr. Peckford joined in the general Trudeau-bashing at the constitutional conference and committed the sin -- unpardonable in the eyes of the Prime Minister -- of saying he was more sympathetic to Quebec Premier Rene Levesque's ideal of Canada than Mr. Trudeau's.(46)

And so with tensions ever escalating on all fronts -- personal as well as political and legal -- it was just a matter of time before some issue would precipitate a cathartic cleavage between the two parties. The seemingly insignificant SII case did just that. On February 12, after the federal government had refused a provincial ultimatum to permanently set aside its claim to ownership of offshore resources, Premier Peckford went on province-wide radio and television to announce that negotiations had broken off and that his government had referred the jurisdictional question unilaterally to the Supreme Court of Newfoundland. This was a defensive tactic, it appeared, motivated to obtain the best possible initial judgment for Newfoundland before the legal question was referred, as it ultimately would be by the loser at this level, to the Supreme Court. (Ironically, this legal defensive action turned out to be unnecessary. On March 10 the...
Federal Court of Appeal ruled that, while the federal government had jurisdiction over labour relations aboard offshore supply vessels, it would not make a judgment on the ownership of oil and gas resources under the continental shelf. A month later a provincial election was called purely on the issue of offshore jurisdiction. With the Ocean Ranger disaster occurring three days after the legal referral to the Newfoundland Supreme Court, this surely was one of the most turbulent -- and bleak -- periods in Newfoundland's political and social history since the renunciation of Responsible Government in 1934.

Heralding the Offshore Boom in Nova Scotia

When asked in 1985 about Nova Scotia's strategy for offshore development, one of the few government officials who knew anything about the subject answered rhetorically: "What strategy?" Things, it seemed, really had not changed much since Bob Geraghty of the Nova Scotia Department of Development told a symposium in St. John's in December 1980:

I think I should be quite candid in saying that Nova Scotia was behind other jurisdictions, notably Newfoundland, in its planning efforts [related to offshore petroleum activities]. (47)

Four years later Jack MacDonald, the senior petroleum geologist for the Mines and Energy Department, complained that, while "almost every company" working the Scotian Shelf gas fields had a research facility, the provincial government employed a "meagre" staff of six. Because of this they could only monitor data provided by federal government and company sources. Samples of drilling cores were regularly supplied by the companies to the provincial government, but they were
stored in a shed outside Stellarton "and never really looked at" again. Pre-1982 deficiencies in provincial technical knowledge about the offshore were supposed to have been rectified, in accordance with the CANADA-NOVA SCOTIA OFFSHORE AGREEMENT, by the establishment of the Nova Scotia Petroleum Directorate. In Newfoundland, such an agency had been set up by the provincial government in 1980 for the expressed purpose of developing an independent, indigenous capability for analysis and planning in a complex and potentially lucrative industry; by 1984 the Newfoundland Petroleum Directorate employed 63 scientists, researchers and support staff. The Buchanan government apparently decided, however, that such an institution was not required in Nova Scotia.

This is not to say that John Buchanan and his fellow Tories had not adopted some kind of approach towards the offshore. In fact, in 1981 the government established its own crown corporation, Nova Scotia Resources Ltd. (NSRL), in order to involve the government indirectly in exploiting offshore oil and gas resources. But as will be explained later in this chapter, this move itself was couched somewhat in opportunism. Moreover, if the creation of this agency were supposed to project a sense of provincial "expertise" in this area, the effort was far from convincing.

Overall, the Buchanan government's conduct concerning offshore

1 According to one Nova Scotia government official, the only provincial civil servant who had a good grasp of petroleum issues at that time was Wynne Potter, one of the two top Nova Scotians involved in negotiating the offshore deal with Ottawa. Shortly after the agreement was signed, however, he accepted a federal position as regional director of the Canada Oil and Gas Lands Administration (COGLA).
afairs more by political considerations than by specific resource development strategies. At the same time it should be noted that, compared with Newfoundland at the end of 1981, Nova Scotia did have a number of other major industrial prospects on its development agenda, including a liquefaction facility for Arctic natural gas and the construction of the Trans Quebec and Maritimes gas pipeline. In addition, coal liquefaction and thermal electric generation and Fundy tidal power development were distant possibilities, dependent on, among other factors, at least on a steady increase in the real price of energy. However, by the end of the following year, over which period the international recession had deepened and oil prices had begun to fall, the only major bright-spot on the provincial economic horizon — and to which the Buchanan government had hitched its wagon completely, as any cursory examination of the media at the time would confirm — was the offshore.

The quintessential character of the Buchanan approach manifested itself within days of the Newfoundland government's withdrawal from offshore negotiations with Ottawa. According to John Gray of the GLOBE AND MAIL, "The serious bargaining that led to an agreement with Nova Scotia did not really begin until about 10 days before the deadline at the end of February." Undoubtedly, the pressure was on the federal government to show that it could negotiate an offshore deal with at least one of the East Coast provinces. For his part, Buchanan was more than willing to take advantage of the Peckford government's refusal to compromise further on the legal and managerial aspects of the jurisdictional issue in order to maximize the revenue provisions.
for Nova Scotia in the CANADA-NOVA SCOTIA OFFSHORE AGREEMENT. At the same time, Buchanan probably was not affronted by the prospect of his province being used as a foil by Prime Minister Trudeau and energy minister Lalonde in their various efforts to establish an offshore agreement with Newfoundland on their terms.

While it is difficult to determine exactly what the Nova Scotia government would have received had the Venture field, for example, been developed by the mid-1980s (federal and provincial officials produced four conflicting estimates of the revenue division after the announcement of the agreement), Buchanan's negotiators did quite well — at least as far as economic potential was concerned. For example, in the event of offshore hydrocarbon production, a hidden feature appended to the agreement (which was not revealed until mid-1984) provided for a gradual, ratcheted reduction in federal equalization payments to Nova Scotia, a consideration which Newfoundland had always been seeking for itself. This arrangement with Nova Scotia would enable the province to collect offshore revenues while only having to forfeit ten per cent cumulatively of its equalization entitlements, starting from the first year. This was a significant concession because accepted practice at the time provided for the removal of 50 cents in federal entitlements for every new dollar of resource revenue accruing to a province. But perhaps most galling to the Peckford government was the inclusion of the "Most Favoured Province" article in the Agreement. According to this provision, if any other province were to obtain a better deal from Ottawa — and the only provincial candidate at this juncture was Newfoundland — Nova Scotia would be able to reject its own Agreement with Ottawa in favour of the
Premier Peckford observed bitterly the day after the signing of the CANADA-NOVA SCOTIA OFFSHORE AGREEMENT that: "This is a convenient way for Nova Scotia to do better on the backs of someone else who can hold out longer than them." (Other revenue aspects of the deal will be discussed later in the chapter.)

With the corporate lure having been cast continually for the previous six months and the political stage thus set, the Buchanan government eagerly anticipated the fruits of its endeavours. It did not have to wait long. Within eight months of the signing of the Agreement, the federal government announced four drilling programs on the Scotian Shelf worth $1.6 billion, with more than $1 billion of this amount to be paid directly by Ottawa to the oil companies in the form of Petroleum Incentives Program payments. There were ancillary features to the drilling programs, such as federal grants to offshore businesses operating in Nova Scotia which covered up to 60 per cent of capital costs. While exploration was gearing up, the Buchanan government bolstered the already-buoyant spirits of the province's business community by focusing on the proposed development of the Venture field. In an August 1982 interview, the then finance minister Joel Matheson did not mince words about its inevitability:

There is absolutely no question that Sable gas will be flowing ashore in Nova Scotia on or around the mid-1980s, with the strong possibility of oil as well being extracted.(54)

This was reinforced by Premier Buchanan the following month while he was attending the petroleum industry's Canadian Offshore Resources Exposition in Halifax. "Development is imminent," said the Premier, adding that "the oil boom is around the corner." Now while much of
this talk was the customary hyperbole characteristic of the Premier and some of his ministers, there is little doubt that, as will be shown shortly, they believed that a heavy dose of "business confidence" would indeed lubricate the pathway to Nova Scotia's place in the sun.

Meanwhile, the loosening of federal purse-strings over Nova Scotia was creating the desired effect for the federal government on sections of the Newfoundland public. The aforementioned capital grants to Nova Scotia roused the ire of development minister Neil Windsor. This would clearly provide an advantage for Nova Scotia in the establishment of offshore-related industries, he said, adding that it was just another example of the federal government's discriminatory attitude towards Newfoundland. At the same time the St. John's Board of Trade, which had always been cautious in supporting provincial offshore policies, now publicly requested

that the government of Newfoundland and Labrador put aside a certain degree of intransigence and do what has to be done to make developments at Hibernia and other offshore areas possible. (57)

Yet despite these pressures and the complaint by St. John's Mayor John Murphy that the people of St. John's were "green with envy" over Halifax's offshore fortunes, the Peckford government was not about to take the federal bait dangled so delectably through the Nova Scotia line. In fact the provincial resolve might even have hardened because of Nova Scotia's apparent subservience to Ottawa on all fronts. According to a senior bureaucrat in the Peckford government at that time, there were at least three occasions on which there had been an understanding between Newfoundland and Nova Scotia that they would
take a unified approach towards Ottawa regarding certain federal-provincial matters. These included offshore negotiations. In all three situations, however, when bargaining actually got underway, Nova Scotia reneged on its prior commitments. Reflecting on this behaviour, the official caustically observed that Halifax was always known as "the whoreshouse of the North Atlantic."

Oblivious to such considerations, in the fall of 1982 the Buchanan government began an organized campaign to trumpet the business prospects deriving from offshore activities. The chief emissary was Development minister Rollie Thornhill. According to his message, economic opportunity emanating from the offshore could "spread to every community in the province." Although, once again, much of this talk might be regarded as typical boosterism, there is little doubt that the Buchanan government believed that Halifax could become a major oil centre like Calgary and Aberdeen and that economic and industrial benefits could flow throughout the province. In this respect, Nova Scotia was out to get a leg up on Newfoundland, a point made by Thornhill at a conference on offshore oil and gas held at St. Francis Xavier University in March 1983. Now it is true that Nova Scotia's industrial infrastructure is greater than that of Newfoundland. On balance, comparable offshore megaprojects off each province would provide more industrial opportunities for Nova Scotia than Newfoundland. But, as an analysis of the environmental impact statements for both the Hibernia and Venture projects makes clear, the difference in indigenous industrial benefits from each of these developments to their respective provinces is marginal, especially compared
with the greater spin-offs for central Canada in both instances. Without digressing further, there are two points that those who understand the offshore petroleum industry have always made:

1. Whereas some minor industrial and administrative activities related to oil field development off Newfoundland might occur in Nova Scotia—Halifax particularly—proximity to the development is by far the key factor, militating that the bulk of any technical and construction work of a purely regional nature would occur in the city closest to that development, i.e., St. John's for Hibernia and Halifax for Venture;

2. The prediction that Halifax would become a major oil centre—the "Calgary of the future"—was little more than wishful thinking.

Ignorance of these facts was not about to deter Rollie Thornhill from his mission, because the provincial government had no alternatives to this one path to economic salvation: "This [the offshore] is the only game in town, and we are out to milk it for everything it is worth." This sense was pervasive among all Nova Scotia government leaders at the time. Even Greg Kerr, who was minister of the environment then, would not disguise the fact that his primary focus was on the economics of the offshore. During a November 4, 1982 press conference at which he announced the establishment of the offshore environmental review panels for the proposed Venture project, he was asked, as minister of the environment, what problems he foresaw with oil and gas developments off the coast. He replied: "My major worry in the whole thing is the price of gas in the market, more than this [environmental] part of it." It is little wonder that the morale among the technical staff of Kerr's department was at a very low ebb.
Premier Buchanan and his ministers could ride the crest of inflated expectations for only so long. Even by February 1983 the government was threatening to implement its offshore legislation in order to force the oil companies to purchase local goods, "subtle persuasion" apparently having been found to be wanting. Needless to say, this was not done. Predictably, neither the warm embrace nor the cold shoulder was about to change the procurement practices of the international petroleum drilling industry. A year later, a disillusioned Rollie Thornhill told the Nova Scotia legislature that he was "convinced" that provincial businesses were not reaching the 21 to 29 per cent provincial content in offshore contracts as was claimed by the federal government. By now he was decidedly less enamoured with the offshore mystique than others in the leadership of the Tory government, particularly the Premier and energy minister Joel Matheson. Despite the ongoing proliferation of political pronouncements to the contrary, by 1984 the steam was truly running out of the offshore boiler. As was explained in Chapter Four, exploratory drilling results were looking increasingly grim. This contributed to delays in the announcing of new offshore exploration agreements between the federal government and the oil companies. Moreover, when a new package was finally announced in May 1984, it turned out that three of the proposed new wells had already been drilled. With exploration on an inevitable decline, the only hope for keeping the offshore alive rested with the Venture project. For reasons expressed in Chapter Five, Ottawa was almost as keen as the Buchanan government to get this development underway. All the political will which both levels of
government could muster, however, could not dislodge some profound geological and financial obstacles. And to complicate things further, federal energy policies, which had aroused the wrath of the petroleum industry and the Tory opposition, were destined not to endure a change of government in Ottawa.

Certainly, all was not well on the natural gas front, which extended from Sable Island to Ottawa to Mobil's headquarters in New York. With CORLA privy to drill-test information as much as Mobil, it seemed that there was little basis for doubting the estimates of decreasing recoverable reserves of natural gas in the Venture and associated fields. At the same time, it cannot be discounted that Mobil was in no hurry to proceed with development because of the fiscal regimes contained in both the Canada Oil and Gas Act and the Canada-Nova Scotia Offshore Agreement. It was generally under the umbrella of the former and specifically according to the terms of the latter that the two main offshore revenue generators for Nova Scotia were established. Under the back-in provision, the provincial government was entitled to one-half of the 25 per cent Crown share in any gas development, thereby ensuring automatic access to 12.5 per cent of total corporate revenues. (The province already had an initial 10 per cent interest in the Venture field by virtue of the $52 million purchase by NSRL of the British Columbia Resources Investment Corporation's 10 per cent share in April 1982.) The other major source of revenues was to be the total proceeds from the federal Petroleum and Gas Revenue Tax (PGRT).

While Mobil had firmly but politely made its case against the application of the PGRT to Venture since August 1982, the back-in was
anathema to the corporation from its first expression in the NATIONAL ENERGY PROGRAM in October 1980. As was pointed out in Chapter Four, the fact that the U.S. Economic Regulatory Administration effectively ruled in February 1984 against the importing of oil and natural gas from Canadian developments where the back-in was a feature of the investment configuration likely reflected Mobil's influence in this regard. There was obviously a conflict here between what the provincial government wanted in terms of offshore revenues and what Mobil, by far the largest partner in the Venture consortium, was insisting to governments on both sides of the border had to be the fiscal regime before the Venture project would proceed. In the midst of this, the Buchanan government appeared to walking and talking on both sides of the fence. While, as will be shown later, it was pressing for federal passage of the legislation to implement its offshore agreement so as to protect the back-in, it was expressing support for the new U.S. natural gas policy guidelines which could clearly be interpreted as prohibiting the importing of natural gas under just such an investment regime. On a trip to Washington and the New England states in January 1984, energy minister Joel Matheson stressed Nova Scotia's support for the proposed market-oriented approach to natural gas pricing. Perhaps the minister was unaware of the negative implications for the back-in contained in the new guidelines. Nevertheless, even the pricing mechanism should have caused some concern. Based on estimates provided by one of the Venture partners in September 1983, the eventual price of Sable gas to New England consumers in 1990, including transportation and distribution
costs, could be as high as $8.90 (U.S.) per thousand cubic feet (mcf). (The average U.S. residential rate at the end of 1984 was $6.08 per mcf.) As had been the case for some years, the Buchanan government was maintaining its faith in the expectation of rapidly-rising energy prices, a prospect which prudent analysis at the time would have indicated as increasingly unlikely.

But no matter whose policies or guidelines the Buchanan government followed, the problems of getting Venture underway did not disappear. By the fall of 1984 concern over the project had turned to desperation. Pat Carney, the new federal Conservative energy minister, consented to her first and only trip to Halifax for the purpose of attending a press conference at which the provincial government announced that sales contracts with American distributors of Venture gas were "in hand." Indeed, within the next four months contracts were signed among most of the Venture partners and potential buyers in the northeastern United States, although uncertainty remained about the required reserves in the Venture and associated natural gas fields. No details about these contracts, especially the border price of Venture gas, were revealed, despite provincial energy minister Joel Matheson's December statement that the price would be known upon the signing of the contracts.

The timing of these contractual announcements and the publicity which surrounded them have to be seen in the context of political and bureaucratic necessity. The Venture partners had to have purchase agreements in place before applying to the National Energy Board (NEB) for an export license. This application was supposed to have been filed by the Venture operator, Mobil Oil, in early 1983. But a com
bination of poor delineation well results and corporate pressure for a reduced proportion of government take from the project postponed the process. Although not ordinarily embarrassed by gaffes and unfulfilled promises, the Buchanan government was obviously feeling helpless and rather awkward about this delay. Deluding the populace with false promises -- or claims made out of ignorance -- for electoral gain might be regarded by some as fair play in the world of politics. But even the most cynical of politicians do not like to risk personal credibility in front of prestigious gatherings of people in far-away places. Those attending such affairs do not care a hoot for Nova Scotia politics; moreover, they do not like to have their time wasted listening to the verbal overflow best left on the campaign trail to Bible Hill. But this is precisely what John Buchanan had become accustomed to doing outside, as well as within, Nova Scotia. For instance, speaking in February 1984 to a conference of 500 delegates representing major engineering groups throughout the western world, Buchanan's confident sales pitch over Sable gas led him to assert that "Nova Scotia is now recognized world-wide as a major energy producer." This followed a trip to London four months earlier during which, according to offshore commentator Ian Doig, Buchanan's pitch to British businessmen "made it sound like the gas would be ashore next Saturday."

When the export application for Venture gas was filed with the NEB in July 1985, the degree of political intervention behind the submission was not difficult to detect. Although the granting of an export license normally requires complete reservoir figures, the ap-
publication made it clear that current reserves from Venture and two surrounding fields were insufficient for the project’s viability. Positive well results from drilling scheduled to be completed in early 1986 would be necessary. In the meantime, it appeared that the so-called contracts, which were never made public, were little more than vague agreements, dependent upon a host of contingencies. Two of the "contracted" American purchasers did not submit their agreements to the U.S. counterpart of Canada’s N.E.B. because of the loopholes; one of them even backed out of the deal. According to an official of the federal energy department, the Venture application was being submitted to the N.E.B. "mainly to humour the Nova Scotia government."

As was to be expected if the N.E.B. were to be seen as anything but a tool of government, the Venture application for natural gas exports to the U.S. was turned down. In fact, in a letter sent to Mobil in October 1985, the N.E.B. explained that the export license was refused on the basis of 17 deficiencies, some of these being fundamental to the project, including: detailed information about markets, reservoir data, and "financial statements which demonstrate the economic viability of the project, including an indication of the fiscal terms necessary for the project to proceed." Although Nova Scotia energy minister Joel Matheson put on a brave face over the rejection of the Venture submission, the N.E.B. finding was clearly a slap in the face to the Buchanan government. In desperation it had carried the offshore sedan, festooned almost solely with political bunting, into an arena in which, while not devoid of federal government influence as Chapter Five revealed, judgment is rendered on technical and financial merit, not on the embroidery gilded by provincial politicians. If not
ending the offshore charade, this confirmed its relegation to the political cooler. In a sense, the subsequent decline in crude oil prices provided Buchanan and Matheson with an excuse for the demise of the offshore dream. Combined with the new political temperament in Ottawa and the mood among sections of the electorate in Nova Scotia, this warranted a sharp departure from the offshore course which had been charted by the Buchanan government for seven years. True to form, John Buchanan was responsive to the changing reality.

Waiting Out The Political Offshore Storm Over Newfoundland

For John Buchanan and Nova Scotia, the 1982 offshore agenda was based almost solely on political considerations, the failed negotiations between Ottawa and Newfoundland being one of the factors involved. While politics, for Brian Peckford, was inextricably linked to the offshore as he entered the anti-Ottawa provincial election campaign in March 1982, it had much to do with the actual resource lying under the Grand Banks and the perceived leverage which this conferred on the province in its jurisdictional battle with Ottawa:

From a national perspective, if they (the federal government) are serious about self-sufficiency, there's only one place they can get it: good old Hibernia!(78)

Although this might have exaggerated the national importance of Hibernia, there is no doubt that the federal Liberals wanted to see the field developed as expeditiously as possible. Firstly, with the Alsands project almost dead on the bargaining table, Hibernia represented, in the context of both the view of projected world shortages in crude oil supplies and the NATIONAL ENERGY PROGRAM's goal of self-
sufficiency in oil production by 1990, the best alternative for replacing costly imported crude as reserves of conventional oil in western Canada declined. Secondly, as was the case with the proposed Venture project, the development of Hibernia would provide a needed industrial boost to the recessionary economy in central Canada while fulfilling — or being seen to fulfill — the traditional requirements of regional development policy in the Atlantic Region.

As was explained earlier, in order for either jurisdiction to have its way in the offshore there had to be a political solution to the problem of how resource development would be managed there. There was no doubt, though, that a judicial determination as to which level of government held the legal rights over the continental shelf off Newfoundland would influence the ultimate composition of the administrative system. This prospect was not greeted enthusiastically by the Peckford government after its unilateral reference to the province's Supreme Court in February 1982. Casting a threatening legal shadow over this course of action was the 1967 decision of the Supreme Court of Canada to grant jurisdiction over resources off the coast of British Columbia to the federal government. Certainly, this ruling bore a great deal of relevance to the legal question concerning the Nova Scotia offshore, notwithstanding the Buchanan government's contention that Nova Scotia had a "strong positive legal claim for ownership" dating back to territorial grants issued to colonists in the seventeenth century. The fact was that both British Columbia and Nova Scotia had become provinces of Canada decades before there was any formal legal consideration given internationally to the extension of jurisdictional rights of coastal states beyond three miles. The case
against Newfoundland's position was not as clear-cut, however, since
Confederation had occurred in 1949.

Essentially the Newfoundland government's legal claim rested on
two premises: first of all, that prior to 1949 there existed an inter-
national doctrine of sovereign authority of coastal states over adja-
cent continental shelves; and secondly, that Newfoundland was a domin-
on within the British Commonwealth on an equal status with Canada in
the pre-Confederation period. According to the logic of the provin-
ce's argument, therefore, Newfoundland joined Canada with full author-
ity over the disposition of its continental resources, a right which
it retained after Confederation.

As was expected, the Peckford government's legal recourse to the
Supreme Court of Newfoundland was matched by the federal government.
Three months later, on May 19, 1982, Ottawa asked the Supreme Court of
Canada to decide on who owns the seabed resources in the Hibernia area
on the Grand Banks. What was not to be expected, however, was the
vehemence with which Peckford denounced this federal action. While
the Premier regarded it as a usurpation of provincial judicial author-
ity, Prime Minister Trudeau saw this as expediting the legal process
since, whatever the decision of the lower court, it would be appealed
by the loser to the ultimate arbiter, the Supreme Court of Canada.
The province's verbal assault on Ottawa was amplified by the immediate
declaration of a day of mourning. The government issued an order-in-
council, requiring the closing of all businesses, schools and govern-
ment offices. Brian Peckford became rather truculent on this occasion
and did not bear scrutiny of his political behaviour particularly
The St. John's business community had to endure his wrath after they criticized the wastefulness of the day of mourning, and the CBC was taken to task for its reporting of the offshore reference to the Supreme Court of Canada:

Federal lawyers and their supporters glowingly talked, aided and abetted by the CBC, of the great chance the Supreme Court of Canada has given the Supreme Court of Newfoundland by delaying their hearing till November rather than September. Who can be fooled by such paternalism?...Once more our collective noses must be rubbed in the ground.

After fourteen years of political machinations and bluster over the offshore, the jurisdictional question had been thrust awkwardly into the legal arena, to the satisfaction of neither claimant, especially Newfoundland. The face of government in St. John's was grim, even a little xenophobic towards central Canada. This influenced the populace to the extent that a poll conducted in the summer of 1982 indicated that 19 per cent of Newfoundlanders favoured separation from Canada if this were necessary for the province to gain control over its resources, including the offshore. Brian Peckford, even in his most acrimonious mood with Ottawa, never played the separatism card directly. However, with another round of offshore negotiations about to begin, he commented that the poll "might attract some attention federally and bring people to their senses. It just might assist us..." Peckford's hostility towards the CBC was intensified shortly afterwards as a result of the airing of a brief documentary by the CBC television affiliate in St. John's, CBHT. The program dealt with a description of the government-owned mansion in which the Premier and his family resided free of charge, and it detailed the $130,000 in furnishings and renovations which the Premier and his wife had ordered upon moving in. This was too much for the already touchy Brian Peckford and CBHT news was refused access to the Premier for a brief period.
in solving some of these outstanding disputes."

But this provided little, if any, leverage in the September 1982 negotiations. This session failed, as did a subsequent meeting between Peckford and Trudeau in October. A final effort at a political settlement was attempted by Newfoundland energy minister William Marshall and the new federal energy minister Jean Chrétien in December and January. Although it appeared for a while that a breakthrough was possible -- one which would have accommodated most of Newfoundland's wishes as expressed at the January 1982 round -- negotiations failed, once again over the issue of administrative control.

Finally, on February 17, 1983, the legal question was answered, at least at the level of the first tribunal. The Supreme Court of Newfoundland recognized that by 1949 "there were rights to the resources of the continental shelf under international law exercisable by coastal states, including Newfoundland." However, the Court ruled that the province did not own the resources on the continental shelf. This was not because Newfoundland had surrendered responsible government to Britain in 1934, but because the British government did not pass a law or an order-in-council exercising Newfoundland's right to claim ownership. A dejected Premier Peckford called the basis of the decision "a fluke of history." He and energy minister William Marshall said the judges had "erred in their decision," and served notice that the province would launch an appeal to the Supreme Court of Canada within 90 days.

The highest court in the land had already set February 22 as the start for hearings into the federal reference. At this stage it
appeared that the Peckford government held out little hope for a favourable decision in the Supreme Court of Canada. Instead, with a federal election likely in 1984, the strategy was to tread water on the offshore until there was a change of government in Ottawa. Meanwhile, in the spring of 1983 there was a campaign for the leadership of the federal Progressive Conservative Party. During an address to a local service club in St. John's early in June, Premier Peckford urged his audience to "pray for John Crosbie," the Newfoundland candidate, who had promised to give the province a good deal on offshore resource control. In fact a year earlier Crosbie had pledged that a federal Tory government would amend the constitution to give coastal provinces mineral rights on the continental shelf. This was consistent with the written commitment given to the Newfoundland government by former Conservative Prime Minister Joe Clark in 1979.

John Crosbie's failure to win the Tory leadership race was a setback to provincial aspirations for offshore ownership and control. The new Conservative leader Brian Mulroney had made it clear during the campaign that, in keeping with international convention, the offshore should remain in federal hands, thus breaking with previous Tory policy. On March 8, 1984, the ultimate judicial decision against Newfoundland's claim to resource ownership on the continental shelf reinforced the likelihood that, even under a Tory government in Ottawa, Newfoundland would never realize its long-held assertion of primary rights over adjacent offshore resources. The Supreme Court of Canada ruled that Ottawa had the right to exploit the mineral resources in the Hibernia area because any continental shelf rights available under international law before 1949 would have been held by the
United Kingdom. Regardless, international law did not recognize such rights until the Geneva Convention of 1958, nine years after Newfoundland confederated with Canada. But even if Newfoundland had held offshore territorial rights as a British colony, these would have passed to Canada upon Confederation.

While terming the Court's decision "manifestly unjust," Peckford made it clear at a press conference in Ottawa that his government was not backing down from previous demands, which had everything to do with politics, not the law: "The question of rights to the offshore is a political question, not a legal one." At the same time, with the steam released from the province's thrust for control over the offshore, the government began to shift its focus towards the revenue side of an eventual political settlement. Leading up to a cross-country speaking tour in support of Newfoundland's claims concerning the offshore, Peckford travelled around the province arguing that "oil revenues are vital to the province's future."

Contrary to the situation in Nova Scotia, the Peckford government had a well-thought-out strategy of what it wanted -- indeed, what it felt it simply had to get -- from offshore deals to be negotiated with both the federal government and the oil companies. Just after sole, or truly federal-provincial-shared, control over offshore development, the post-Smallwood administrations had always demanded that Newfoundland receive all government revenues normally accruing to a province with a land-based resource. What essentially was to be a 3-to-1 provincial-federal split in the "government take" from offshore resource rents would prevail until the Newfoundland economy reached a
stage of wealth and "fiscal maturity" comparable to those of provinces such as Ontario and Alberta. Among the criteria for defining such maturity were the unemployment rate, provincial taxation rates and the levels of government services. After this period, and assuming expansion of the Newfoundland economy from both petroleum royalties and taxes and related beneficial effects on other sectors, provincial offshore revenues would decline in relation to those directed to Ottawa.

Now it is true that, theoretically, the CANADA-NOVA SCOTIA OFFSHORE AGREEMENT provided for almost this same rate of provincial government revenues for Nova Scotia. But there are important points of distinction here in terms of what these potential offshore rents could mean to each province respectively and the process of policy formation related to anticipated oil and gas revenues. Premier Buchanan, even in his most hyperbolic oratory, could never ignore a few blunt facts about the hydrocarbons on the Scotian Shelf: they existed mainly in the form of natural gas; the size of the resource — in North Sea or Alberta terms, for example — was by no means huge; and the costs of recovering and transporting the natural gas to far-away markets relative to the total income would be substantial. The most inflated figure that John Buchanan could set for future provincial revenues from hydrocarbons in the Nova Scotia offshore, including oil as well as natural gas, was $53 billion. This came with the announcement of the CANADA-NOVA SCOTIA OFFSHORE AGREEMENT on March 2, 1982. Compare that with what Brian Peckford told his audience at an election rally in St. Alban's a few weeks later:

We have been trying to negotiate the hundreds and
hundreds -- I'm starting to talk like (former Premier) Joey Smallwood's now -- the hundreds and hundreds -- he used to talk millions; I'm going to talk billions -- the hundreds and hundreds of billions of dollars that are off our coasts in oil and gas.

Peckford's ebullience might be dismissed because he was, after all, on the campaign trail. Yet, his speculation concerning Newfoundland's potential offshore wealth was -- at the time -- perhaps more reasonable than that of his counterpart with respect to Nova Scotia. For instance, according to federal figures produced in September 1982 in association with an offer for a political settlement for the offshore, Newfoundland would receive $66 billion from Hibernia alone. That was roughly 35 times greater than the province's annual revenues at the time.

The Newfoundland government's insistence on receiving offshore petroleum revenues in the same way as land-based resource revenues accrued to Alberta was, understandably, an integral part of the province's claim to ownership of the continental shelf off its coasts. It was consistent with the logic that, since the offshore was truly part of the province of Newfoundland and Labrador, provincial fiscal regimes would apply to rent collection from the resources there. But behind this reasoning lurked the spectre of opportunities lost. Foremost in the litany has been the contract with Hydro Quebec for the sale of hydro-electricity from Churchill Falls in Labrador. It is primarily due to this experience that much of what some might call the determination and others the intransigence of the Peckford government can be attributed.

In his book *THE PAST IN THE PRESENT*, Peckford expresses what was
perhaps the representative attitude of Newfoundlanders towards the Upper Churchill contract -- but also one which both his and the Moores governments helped to frame: "Unquestionably, it is in the development of the Upper Churchill River that contemporary Newfoundlanders find the most appalling betrayal of their interests." According to the Premier's figures, by 1979 Hydro Quebec was receiving $810 million annually in revenues from the sale of Labrador hydro-electricity. This represented more than twice the level of federal equalization payments to the Newfoundland government and two-thirds of the figure for total provincial government revenues. What was seen, therefore, as a resource rightfully belonging to Newfoundland, the exploitation of which should have provided desperately needed income for Canada's poorest and most indebted province, was lost because of a poorly negotiated contract: Moreover, it was not the province which had actually worked-out the deal with Hydro Quebec; the developer, Brinco, did this on behalf of the government of Newfoundland. It was with this backdrop of the almost punitive legacy of the Upper Churchill hydro-contract that the zeal was implanted for establishing a comprehensive policy over offshore resource management and revenue collection. Ironically, however, the ever-present consciousness of the need not to repeat the mistakes of the Upper Churchill actually blinkered the Peckford government into a narrow negotiating stance which, as was the case with the Smallwood government 20 years before, did not allow for potentially significant changes to energy pricing. A brief examination of what transpired with regard to the Upper Churchill negotiations is in order because there are striking parallels and links with attitudes and events of the 1970s and 1980s surrounding the
politics and economics of developing petroleum resources in the Newfoundland offshore.

Joey Smallwood's efforts to organize the construction of a hydroelectric dam at Churchill Falls began in the early 1950s. It was to be the centerpiece of his development strategy for Labrador, which was to include mining and forestry projects. While policy considerations of the Smallwood government rarely extended beyond job creation, there was the motivation for revenues. In an address to the St. John's Rotary Club in 1964, he stressed this very point:

Within ten years from now the Minister of Finance will take in, in cash, each year out of Labrador developments, more than from all the rest of the province combined.(96)

Despite ten years of hard bargaining and political posturing, however, Smallwood's dream for Churchill Falls was becoming haunted by a couple of irritating obstacles which were frustrating the start-up of development. The nationalist Quebec government of Jean Lesage, which claimed Labrador as part of its provincial territory, was definitely not going to allow the free transmission of Churchill Falls hydroelectricity through Quebec so that it could be sold by Newfoundland to Hydro Ontario or an American utility. Canadian regulations permitted such unencumbered access across provinces for transporting energy, but the Pearson government in Ottawa was not willing to antagonize Quebec by insisting on Newfoundland's rights in this respect. This meant that, in order for the project to go ahead, the great majority of the electricity produced would have to be purchased by Hydro Quebec. By 1966 it appeared that Quebec would indeed require most of the output, but there was great concern over prices.
At this juncture nuclear electricity-generating plants were being constructed and planned all over North America. There was the confident assumption among most experts in this field that nuclear-generated energy would be extremely inexpensive to consumers. This view was also strongly held by Jacques Parizeau, economic adviser to both the Lesage government and its successor, the Union Nationale government of Daniel Johnson. Looking at energy costs as a whole during the 1960s, the average price for Canadian consumers was decreasing by 20 per cent. The price of the most important energy source, crude oil, had remained level since 1950 while the prices of other commodities, on average, doubled from 1950 to 1970. With both crude oil and nuclear energy perceived as cheap and abundant, no thought was given by economists, government officials and corporate planners to the possibility of future energy shortages and price increases.

And so it was in the context both of this universal energy supply and price matrix and the projected electricity demands for Quebec that, on October 6, 1966, Premier Daniel Johnson announced that Hydro Quebec would sign an agreement with Brinco, the Churchill Falls developer. The actual contract covering the purchase of the power was concluded on May 12, 1969. Looking briefly at its salient terms, it was to take effect from September 1, 1976 and last 65 years. Over this period the price would decline from an initial high of just under 3.0 mills per kilowatt hour to 2.0 mills for the last 25 years. In hindsight, it does seem incredibly remiss that the contract would not have provided for increases in the hydro-electricity price in accordance with some pre-determined index governing energy prices. Never-
theless, the context of the times, including Parizeau's suggestion to
Johnson that nuclear power plants might soon be able to generate
electricity for as little as 2.5 mills, 'seemed to render such a
consideration unnecessary. If anything, everybody involved in the
Upper Churchill deal felt threatened by ever-declining energy prices
which would make hydroelectric power too expensive. In this struggle
against time and falling energy prices, reaching an agreement with
Hydro Quebec in 1966 meant for Premier Smallwood that the Churchill
Falls project was "leading slightly in a race with nuclear power."
As for Daniel Johnson, there was good reason to accept at face value
his expressed trepidation over the deal: "We are entering into this
with great reluctance and with a knife at our throat."

The energy legacy of the 1970s, particularly the end of the
decade, was one of constantly rising prices. Furthermore, as was
mentioned in Chapter Five, almost universal opinion on this subject in
1980 suggested shortages in conventional oil supplies by the mid-
1980s. There was little reason to doubt, therefore, that crude oil
prices would continue to increase for at least the next decade or two.
The fact that oil prices had stabilized from the spring of 1981, which
marked the beginning of a glut in both productive capacity and petro-
leum supplies throughout the world, did not seem to seep into Brian
Peckford's consciousness until it was too late. As early as March
1982, the same month in which he boasted of the "hundreds and hundreds
of billions of dollars in oil and gas" in the Newfoundland offshore,
the price began to fall: pressured by the glut, the British National
Oil Corporation reduced the price of its international trend-setting
North Sea crude oil from $35 (U.S.) to $31. It must be realized,
though, that Brian Peckford was among "informed" company in confidently reckoning throughout 1982 to 1984 that any current stability in world oil prices would be of short-term duration; increases were bound to occur before the end of the decade. As was noted at the end of Chapter One, there were a few analysts such as Peter Odell in the Netherlands and Arlon Tussing in the United States who had argued as early as 1982 that the long-term prospects for oil prices were much lower than the levels reached in 1980/81. But the Peckford government apparently opted for the conventional wisdom of the time, just as Smallwood had done 15 to 20 years earlier. And in just the same way, rather than leave Hibernia in the ground for a future Newfoundland government to develop when energy price forecasts might be more propitious, Brian Peckford decided in 1988 to accept a deal for the development of the Hibernia oilfield under a revenue scheme which offers little, if any, economic benefit for the province.

The economic analysis unit of the Newfoundland Petroleum Directorate was dedicated to financial modelling rather than economic analysis, and there was never any intensive capability or motivation there to generate research on price. According to one official in the agency, assumptions were based "more on intuition and reading the technical press than anything else." Had the Peckford government not accepted the wishful-thinking oil-price scenario that seemed to characterize most government, corporate and media perspectives at the time, a more modest appreciation of its bargaining position might have ensued. This possibly might have contributed to a more detached and realistic understanding of what the issue of offshore control really
meant in terms of the province's relationship with the corporate presence in the offshore, and not just the federal government. While it is futile to speculate as to what might have happened if the Peckford government had re-arranged its negotiating strategy on the basis of falling oil prices, it can be argued that the province certainly would not have been any worse off with regard to the offshore and the economy as a whole than the position in which it found itself when it signed the tentative Hibernia agreement in July 1988.

As the federal Liberal tenure in Ottawa was coming to an end in 1984, the basis for jubilation within the Peckford government and among its supporters was being eroded — although they might not have conceded it at the time — on a couple of counts. Newfoundland had lost the offshore jurisdictional battle in two courts, thereby steering an eventual political settlement over a management system away from the realization of the province's long-held claim to proprietary rights over the resources of the continental shelf. Internationally, energy economics were conspiring against the probability of the offshore bounty upon which the Peckford government and its predecessor had relied. The province's petroleum analysts had always realized that the greater economic impact from offshore development would accrue from production revenues and not from petroleum-related industrial activity. The province does not have a manufacturing infrastructure and one would not be established on the basis of the highly-technical and specialized requirements for recovering crude oil from a very demanding marine environment.

There was also another negative implication for Newfoundland offshore aspirations looming on the horizon of the Tory dawn in Otta-
As was pointed out in some detail in Chapter Five, the petroleum policy of the federal Conservatives when they were in opposition was integrated closely with that of the multinational oil industry, especially after the release of the Canadian Petroleum Association's proposals in the spring of 1984. While the Peckford government had always taken pains to voice its support for private enterprise, there was no mistaking its resolve to regulate, tax and eventually participate in corporate decision-making over offshore developments. The primary provincial vehicle for this mission was the Newfoundland and Labrador Petroleum Corporation (NLPC). Like its counterpart across the Cabot Strait, Nova Scotia Resources Ltd. (NSRL), it was the province's own "oil company". Implicit in the resurrection of a pro-multinational, laissez-faire energy policy in Tory Ottawa, however, was the incompatibility of provincial crown-corporation involvement in petroleum developments.

Provincial Offshore Crown Corporations

When the Newfoundland government produced its PETROLEUM REGULATIONS in 1977, a clearly defined role for a provincial crown corporation was included. According to a senior official in the government at the time, this provision was motivated both by economic considerations and suspicion of the multinational oil companies:

The inclusion of state petroleum agencies in the legislation of western economies was seeking to do about three things. It was to respond to a kind of royalty system which had a fixed rate, or at best, a fixed process -- some kind of a very crude sliding scale royalty -- and state participation was a revenue-collecting instrument. The second thing was that it provided a seat at the board room table for the host state in dealing with
the people who were exploiting their resources, and that was perceived to be necessary because the oil companies, characterized principally by the so-called Seven Sisters in the Middle East, were possessors of notorious reputations for riding roughshod over governments. And the third reason was that there was a belief that by such participation at the board room table that you could skew the decision-making of the corporation that was exploiting the resource in such a way that there would be some spin-off industrial activity.

The Newfoundland and Labrador Petroleum Board (NLPB) was officially defined in the Regulations at the time as the crown corporation. But in keeping with a qualified private enterprise complexion to the province’s petroleum policy, energy minister Brian Peckford stressed that the NLPB would have a far more restricted mandate than Petro-Canada:

It would not, for instance, engage in refining and distribution activities, nor would it engage in exploration operations on its own account. It would only operate in partnership with private industry in the safe, post discovery, post pay-out stage.

While enabling the NLPB to participate on the operating committees of oil and gas project consortia and thereby to influence procurement practices in support of local industry, the corporation’s projected role as a revenue-collector was paramount. The regulations provided for the transfer to the NLPB of a 40 per cent share in the production from all oil and natural gas leases. This could take the form either as a "working interest", whereby the transfer would occur one year after the start of the production lease and the crown corporation would have to pay for its share of all prior exploration and development costs, or as a "carried interest", whereby the transfer would take effect after the pre-tax net revenues accruing to the corporate
partners had exceeded three times their investment in exploration and development. In the latter instance, the NLPB would not have to pay for the 40 per cent share of the original exploration and development costs.

Although not unfamiliar among the various revenue-generating methods used by governments worldwide, the devising of this particular profit-sharing mechanism was a response to Canadian federal-provincial fiscal regimes. Because the offshore was claimed by Ottawa as well as Newfoundland, corporate taxes from offshore hydrocarbon production revenues would accrue to the federal treasury. As was pointed out earlier in relation to the 1977 Maritimes Agreement, this could amount to a substantial portion of the total government take. The role of the provincial crown corporation in this respect, therefore, was to obtain revenues from offshore production before federal taxes would apply. What this meant in the case of Hibernia when federal-provincial negotiations were underway in January 1982 was that more than one-half of the total estimated income to government would come from the participation of the Newfoundland and Labrador Petroleum Corporation (NLPC, successor to the NLPB).

Of course, the projected involvement of the NLPC through a 40 per cent interest in any offshore developments conflicted directly with that of Petro-Canada. In October 1979 Newfoundland energy minister Leo Barry sent a letter to the Clark government in Ottawa expressing the intentions of the province to void Petro-Canada's 25 per cent interest in Hibernia and to terminate its land holdings off Newfoundland and Labrador. Barry argued that the 40 per cent share claimed by
the NLPB "will more than compensate for the dropping of Petro-Canada's
interest."

The crown corporation issue was a touchy one prior to the election
of the Trudeau government in February 1980, but for the most part
it lurked behind the scenes. Following the announcement of the NA-
TIONAL ENERGY PROGRAM (NEP) eight months later, it found itself cen-
tre-stage in the federal-provincial offshore drama. Looking at Hiber-
nia once again, based on the federal crown corporation's 25 per cent
farm-in prior to the 1979 discovery and the back-in provision con-
tained in the NEP, total federal participation would be 43.75 per
cent. Moreover, at the same time as the NEP was declared, the federal
energy department issued exploration rights to Petro-Canada for high-
ly-prospective land just south of the Hibernia discovery. The Peck-
ford government responded immediately by transferring 3.9 million
hectares of offshore property, including the area granted to Petro-
Canada, to the new NLPC. The formation of this offspring to the NLPB
and the appointment of an interim board of directors was another
aspect of this response.

While on the one hand this was a direct challenge by the province
to the projected authority of Ottawa, on the other hand it represented
a departure from the passive role outlined for the NLPB in the 1977
PETROLEUM REGULATIONS. Undoubtedly, this new agenda for Newfound-
land's crown corporation was set, uncharacteristically, as a knee-jerk
reaction to federal initiatives. Up to this point, petroleum policy
formation had been more advanced in Newfoundland than federally.
Indeed, Leo Barry was probably correct in stating that sections of the
new federal energy policy "were taken straight from our policies,"
Without any credit. 

Knee-jerk reaction notwithstanding, the province actually shifted its policy concerning the NLPC into a more active gear. While it seemed that the federal government was satisfied to have Petro-Canada just sit on the Terra Nova block until at least a legal resolution of the offshore dispute emerged, the province tried to find partners -- including, ironically, Petro-Canada itself -- to participate in a joint exploration venture. Nothing came of it, and it was not until late 1983, well after the Supreme Court of Newfoundland ruling, that a well was spudded in this area by a Petro-Canada-led consortium. (The Peckford government was particularly incensed over this drilling program in that Petro-Canada, having received the necessary approval from COGLA, did not seek the province's permission as well, a procedure which had been adhered to by all offshore operators up to this time.) As it turned out, the Terra Nova K-08 well was a winner. Although its estimated 130 million barrels of recoverable crude oil is only 15 to 20 per cent of that contained in Hibernia, the Terra Nova field could well be the first producer of offshore oil because of comparatively low development costs.

Just how seriously, though, the Newfoundland government was committed to pursuing an exploration program on the Terra Nova block is subject to question. The NLPC never advanced beyond the status of a paper corporation. The guiding philosophy, as expressed by a senior government official, was predicated on a conservative approach to development:

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The thing you have to ask yourself is that is it prudent for a government in setting up a state corporation -- particularly a government with little resources -- to be out in the
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highly-speculative business of looking for the resource in the first instance? The idea, you recall, in setting up the corporation, was to back in after it had been found, not out on the 20-to-1 shots.

Two points should be made about this perspective. First of all, the Peckford government was not reluctant to spend millions of dollars beginning in 1980 on the offshore monitoring and policy-implementing activities of its Petroleum Directorate: the salary bill alone for the agency's 70 employees in 1985/86 was $1.9 million. Under the terms of the federal Petroleum Incentives Program (PIP) for frontier exploration, a 20-per-cent interest, say, for a Canadian company such as the NLPC in a $50-million well would have been around $2 million. Of course, for the NLPC to have taken advantage of PIP grants for so-called federal lands such as the continental shelf would have amounted to the province's de facto recognition of Ottawa's jurisdiction over the Newfoundland offshore (smaller grants were available for drilling on provincially-controlled lands). Still, the Peckford government might have accepted its legal and concomitant political fate after the Newfoundland Supreme Court ruling of February 1983 and used the federal incentive to its own advantage. This leads to the second point. The very expertise which the government had built up in its Petroleum Directorate had led to an appreciation of the good prospectivity of the Terra Nova Block. The fact that oil was discovered there on the first well sunk was no accident. While the pursuit of an active partnership in offshore exploration would certainly have entailed the spending of millions of dollars, this should be put in the perspective of how the Newfoundland government spends its other meager financial resources. For example, it appears that Peckford and his advisers did
not deliberate, very long over the decision to spend more than $13 million in 1967 and 1968 on the Sprung greenhouse, a venture in a field of endeavour about which the government knows little, viz., hydroponic agriculture.

The Peckford government's reluctance to put some teeth, both materially and philosophically, into the NLPC proved to undermine what constituted the best mechanism for exerting any degree of genuine provincial control over offshore developments. As has been indicated in this chapter and elsewhere, the principal objection of both the multinational petroleum industry and the federal Progressive Conservative Party to the NEP was the 25 per cent back-in crown share interest in any federally-controlled production license which could be granted by Ottawa to Petro-Canada or another Canadian corporation. Had the Hibernia development proceeded under the tenure of the federal Liberal government with this policy intact, this crown share would have been applied retroactively. In the case of Newfoundland government policy, however, the 40 per cent provincial Crown share was established a couple of years before Hibernia was discovered. The fact that all of the companies drilling in the Newfoundland offshore went through the process of applying for and receiving provincial exploration licenses and permits represented a tacit agreement by the industry to this potential fiscal regime. Clearly, it could not be argued that there was anything confiscatory about the legislated provisions for the participation of the province's crown corporation in offshore oil and gas production. The new legislation under the ATLANTIC ACCORD changed all of this, however.
When the memorandum of agreement was signed in February 1985, it declared that:

The costs and benefits of any Crown share in the offshore area which may be retained by the Government of Canada will be established by the Canada/Newfoundland Atlantic Accord Implementation Act. The costs and benefits therefrom will be shared equitably by both governments. (110)

Hypothetically, this meant that the provincial interest was reduced from 40 per cent to 12.5 per cent, which represented one-half of the 25 per cent Crown reservation under the existing federal Liberal legislation. This provision was bound to go, however, and so it did with the presentation of the Canadian Petroleum Resources Act to parliament in October 1985. Consequently, when the bill dealing with the ATLANTIC ACCORD was introduced to the Newfoundland legislature that winter, it specifically abrogated the Crown share reserved in the former Canada Oil and Gas Act. Any potentially-effective role for the NLPC was now eliminated, save for an option on the part of the province to purchase at market price a share in an offshore production lease if the required 50 per cent level of Canadian participation were not otherwise realized. A provincial government official close to the scene observed that the political and legal reality which confronted Brian Peckford after the despised Liberals were driven from Ottawa was not one which was sympathetic to long-held provincial aspirations:

He did the best deal he could do, which was to protect it (the Newfoundland Crown share) if it ever became available. They had just dismantled that feature of the federal program and the legal reality is that what Newfoundland is able to do drives off what the federal government wants in that basic structure. Of course, the federal government's position here mirrors very much, in its philosophy and approach on some of these things, Margaret Thatcher's position in the United Kingdom.

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It should be noted that there was a federal-provincial quid pro
quo dealing with one aspect of the demise of the Newfoundland Crown
share. As was expressed above, perhaps the primary function conceived
for the NLPB in 1977 was as an offshore production revenue collector,
given the inability of the province to obtain income taxes from corpo-
ations exploiting offshore resources because of the jurisdictional
limbo which applied there at the time. The federal legislation relat-
ted to the ATLANTIC ACCORD has changed this. Corporate income tax
will be "levied and collected under the Newfoundland Income Tax Act in
respect of that taxable income if the offshore area were in the Pro-
vince." It is doubtful, however, that this measure will serve
to replace fully the level of revenues which would have accrued to the
province had the former provincial Crown-share regime been perpetua-
ted. As Newfoundland government analysts well know from advice given
by their principal petroleum consultant in the 1970s; Pedro van Meurs,
oil companies are notorious for "gold-plating," i.e., "exaggerating
costs, thereby lowering reported profits which reduces the government
take from taxes applied to the profits. The probability for the
gap to be widened between working interest revenues derived from a
Crown-share and corporate tax revenues is increased in this instance
because of a number of factors. As was pointed out in Chapter Four,
Mobil Corp. of New York, the parent of Mobil Oil Canada Ltd. which is
the operator for the Hibernia field development, possesses a reputa-
tion as perhaps the most financially-oriented and cost-conscious of
the oil majors. The fact that the company has spent approximately $400
million not in the East Coast offshore without having received any
revenues whatsoever will tend to keep their number-crunchers working overtime if and when construction on the Hibernia project commences. This tendency is enhanced by the fact that oil prices are not expected to increase significantly for many years, if at all in real terms by the end of the century. Hibernia is at best a marginal economic prospect, requiring substantial subsidies to get it started. In these times the oil companies can be expected to be quite covetous of the modest revenues which the flow of crude oil will generate.

Just as there is a probable revenue fall-out from the Agreement to keep the NLPC in cold storage interminably— the company still exists on paper— the province's ambitions for technical, social and industrial benefits through the participation of the crown corporation have been derailed. Although theoretically it is possible for the Newfoundland government, with the NLPC as its agent, to demand a seat on the operating committee of the Hibernia project, this would be a radical innovation given the current political climate nationally and the financial and corporate pulse internationally; in fact, the July 1980 tentative Hibernia development agreement makes it clear that this will not happen. This removes a potential lever for influencing the use of local business and employment in the construction process. And despite commitments in the agreement for a significant amount of engineering work to be located in St. John's, there is no doubt about in whose court the ball rests when it comes to deciding how and where most of the investment dollars— the majority of which in the initial stages of construction are to come from the public purse as they did during the exploration phase— will be spent. When the Canada-Newfoundland Offshore Petroleum Board granted its approval for the
Hibernia development plan in June 1986, the Board acknowledged that it did not have the power to force the companies to comply to its views. One of its reservations concerned Mobil's proposal to have three 120,000-tonne tankers, which will shuttle from the offshore production site to refineries, built in foreign shipyards.

The virtual elimination of Newfoundland government participation in offshore development, according to offshore analyst and author Doug House, is "by far the most important weakness" of the ATLANTIC ACORD. It represents a major retreat from one of the more informed and progressive aspects of Newfoundland offshore petroleum policy. Ironically, the province's neighbour with the historically-inverted approach to offshore policy formation now finds itself -- at least theoretically -- in a better position than Newfoundland concerning the potential for maximizing offshore resource revenues and industrial benefits from oil and gas projects.

Nova Scotia Resources Ltd. (NSRL) was formed by the provincial government in 1981 and endowed with a grant of $200,000. The crown corporation was vested with three main objectives:

1. To accelerate development of Nova Scotia's energy and mineral resources.
2. To substitute Nova Scotian energy for imported oil to assure security, self-sufficiency and flexibility for industrial development.
3. To maximize benefits to Nova Scotians in the development of their resources and establish resource-related expertise in the province enabling Nova Scotians to become fully involved in these developments.

Although NSRL was given a mandate to pursue various interests, from synthetic fuel development to coal mining, the offshore was clearly its primary focus from its inception. This was reinforced by the
generous provisions of the federal Liberal government’s Petroleum Incentives Program (PIP) for Canadian companies exploring in the offshore. In May 1982, two months after the signing of the CANADA-NOVA SCOTIA OFFSHORE AGREEMENT, NSRL borrowed $52 million in order to purchase from British Columbia Resources Investment Corp. a 10 percent interest in offshore properties around Sable Island, including the Venture field. As then energy minister, Ron Barkhouse had told the Nova Scotia legislature in April, finalizing the deal hinged on Ottawa’s approval for the transfer of PIP allowances from the B.C. company to NSRL.

For the next couple of years the crown corporation received most of its overall funding from PIP grants. Like the region as a whole, it had become dependent on Ottawa. By the end of 1984 dubious results—at best—from NSRL’s participation in exploration programs, combined with anti-PIP sentiment in Tory Ottawa, cast a pall over the company’s future operations. President Peter Outhit, normally the upbeat alter ego of John Buchanan, told the Nova Scotia legislature’s public accounts committee in April 1985 that, with the threatened demise of the PIP grants, NSRL would have to “wind down any further exploration offshore.” Although Buchanan had been pressing for a replacement for PIP which would have provided similar benefits to companies operating in the offshore, particularly the province’s crown corporation, such was not to be. Under the Mulroney government’s new energy policy announced in October 1985, NSRL saw its costs of drilling increase from 20 cents to 90 cents on the dollar.

During the 1984-85 fiscal year NSRL participated in the drilling
of six exploration wells, none of which produced gas in potentially-commercial quantities. By now its debt had increased from the initial $52-million cost of the Sable Island blocks to $100 million. With very little revenue coming in -- most of it in the form of bank loans and interest on some small equity ventures out West -- Outhit and his seven employees were spending much of their time "searching for funds to keep NSRL going until investments begin to pay off." Thus one of the few elements in the Buchanan government's offshore strategy which was somewhat resource-based and not totally political was now back-firing. The NEB's rejection of the Venture gas export application was aggravated by discouraging drilling results on the Venture-related properties. In addition to phasing out the PIP, the new federal energy policy eliminated the 25 per cent crown share back-in on Venture and other potential offshore developments, half of which had been granted to NSRL under the terms of the 1982 CANADA-NOVA SCOTIA OFFSHORE AGREEMENT.

Compounding these gloomy circumstances was the attitude and behaviour of NSRL president Peter Outhit. Although he had obtained experience with oil companies in Europe in the 1970s, he has not inspired confidence in his knowledge of offshore petroleum affairs among some industry observers. While a mood of optimism is generally helpful in the normal conduct of human affairs, Outhit's enthusiasm for Nova Scotia's offshore prospects has sounded increasingly hollow since the beginning of 1986. With oil prices plunging and Venture placed firmly on the back burner, Outhit told reporters outside the public accounts committee room in May 1986 that: "We are midway towards the realization of our investment." Confronted inside the room with the
problem of NSRL’s $120-million debt, Outhit told committee members that, based on studies commissioned by the crown company, the Venture gas project would start paying dividends to the provincial treasury in the 1990s. When asked for the documents to which he was referring, Outhit responded that he would not release them because the “hypotheticals” were always changing. Being secretive over offshore issues, observed Halifax CHRONICLE-HERALD energy reporter Jim Meek, follows the well-established practice of the Buchanan government:

Mr. Outhit’s attitude is all too consistent with that of his political masters, who like to avoid difficult questions and tell us that all will be well in the end. (122)

Wishful thinking on the Venture project was replicated with regard to the Cohasset field, a Mobil reject in which NSRL had earlier obtained a 25 per cent interest. On the basis of positive drilling results in early 1986 on the previously-explored structure, Outhit predicted that up to 40 million barrels of oil could be produced from the field starting in 1988. Subsequent drilling results from two adjacent fields in 1987, however, suggested that the reserves from all three fields do not total Outhit’s earlier projection. It could be well into the 1990s before oil might be recovered from these structures; even if this were to proceed, it is unlikely that the revenues would be sufficient to eliminate all of NSRL’s current debt load.

Hired in wells of accountant’s red ink, Nova Scotia’s best hope

Based on seismic and previous drilling data, it was determined that diagonal drilling in a specific location would enhance the flow of oil recorded during testing. Of course, test results from one hole do not necessarily have any bearing on the volume of hydrocarbons which can be recovered from a structure.
for offshore revenues, expertise and industrial benefits has become a prime victim of low world energy prices and the government's flawed determination to believe in the viability of Scotian Shelf hydrocarbon development. Years before the 1985/86 plunge in oil prices there was abundant geological and economic evidence to suggest that, while the participation of a provincial crown corporation in Scotian Shelf exploration was a positive strategy, a restrained approach was definitely in order. NSRL, however, got hooked on both the political hype and the PIP, leading to exploration forays such as on the Abenaki block, which, as was argued in Chapter Five, should never have been drilled. As a sop to the offshore angst of the Buchanan government, Ottawa presented NSRL with a $25 million grant as part of the new CANADA-NOVA SCOTIA OFFSHORE PETROLEUM RESOURCES ACCORD in August 1986, but most of this had to cover the crown corporation's share of expenses for the two wells drilled near Cohasset in 1986 and 1987. If the partners in the properties around Sable Island in which NSRL has an interest wish to proceed with exploration programs in the next few years, the provincial government will have to weigh many factors before making any decision, up to and including selling the dubious assets of the company and perhaps dismantling it altogether. This latter option was suggested by Liberal leader Vince MacLean since 1986. Against this has to be weighed the remote possibility that energy prices will skyrocket by the mid to late 1990s, thereby justifying Venture development.

Looking at the status of state participation in the offshore for both Newfoundland and Nova Scotia at the end of the 1980s, there is a
pervasive irony to a number of factors related to this issue. Armed with a comprehensive economic policy since 1977 and fortified with good geological results and prospects three years later, the Newfoundland government was ultimately obliged to forfeit the financial and experiential benefits of crown participation in the development of offshore petroleum fields. There is every reason to believe that, had the original provincial policy prevailed, the NLPC would be sitting at the corporate table of the operating committees for two offshore developments by the end of the decade: Hibernia, initiated mainly for political reasons; and Terra Nova, based mostly on its' geological and economic merits. For its part, the Buchanan government was late in conceiving its corporate offspring, but there was no difficulty with foetal Hibernation as was the case with its' sister province. Born with the crown reservation in the 1982 CANADA-NOVA SCOTIA OFFSHORE AGREEMENT and showered with Venture gas, NSRL was spoiled from the outset; prolonged nurturing by PIP only served to extend its sheltered development. The problem is that it never really had a good geological leg to stand on. It finds itself in the late 1980s as a lonely delinquent with a ticket to an increasingly warped and dusty corporate table.

The Politics of the New Realism in the Offshore

Right from the signing of the CANADA-NOVA SCOTIA OFFSHORE AGREEMENT in March 1982, federal Conservatives were not too pleased by the Buchanan government's obvious acceptance of the Trudeau energy agenda. Here was a Tory provincial government eagerly availing itself of many of the provisions in the NATIONAL ENERGY PROGRAM, including the per-
ceived nemesis of the big oil companies, the crown share back-in. Proportionately speaking, there was an inordinate representation of western Conservatives in the federal caucus, many of whom were tied philosophically and politically to the fortunes of the petroleum industry. Their displeasure was intensified by Buchanan's behaviour at the end of 1983. By this time it was clear to Buchanan that the federal goose that laid the offshore eggs was heading for the electoral abattoir. Consequently, in December Buchanan pressed the federal Liberals to introduce a bill into Parliament related to the offshore agreement, citing the "growing urgency for legislation to allow each level of government back-in rights" over potential offshore petroleum developments. GLOBE AND MAIL columnist Jennifer Lewington probably understated the case when she wrote a week later that this was causing a "major headache" for Tory energy critic Pat Carney. In a reference to the back-in made shortly before this time, Tory leader Brian Mulroney had spoken of the "confiscatory and punitive provisions" of the Liberals 1980 energy policy. According to Lewington, "At the moment, the most politically awkward issue for Conservative leader Brian Mulroney is the Ottawa-Nova Scotia offshore energy pact." Ever one to please, Mulroney did not betray any frustration with his provincial colleagues when he attended the February 1984 meeting of the Nova Scotia Progressive Conservative Association in Halifax. Promising that the province would not be hurt by any changes a future government of his would make to energy arrangements with the province, Mulroney said that Nova Scotia "will never do a deal less well; it will always do a better deal" under the Conservatives.

Exactly what the composition of that deal was to be was far from
clear at that stage. Nor was it a priority. By contrast, the federal Tories had developed a fairly clear idea of how they intended to incorporate an offshore pact with Newfoundland into their national petroleum policy. They also wanted to get the most political mileage out of reaching an agreement with Newfoundland, something the federal Liberals had failed to achieve over 15 years. And so, timed to coincide with the opening of the national Liberal leadership convention in June 1984, Brian Mulroney and Brian Peckford signed an agreement in principle on offshore resource management and revenue sharing. Fine-tuned for official acceptance eight months later, the major elements of the so-called ATLANTIC ACCORD were set out even before a federal election was called. For its part, the Peckford government had exhausted its levers and its lungs in the offshore war. It accommodated itself to a regime which might have compared somewhat favourably concerning offshore management to the best offer made by the federal Liberals. Mulroney pledged a future Progressive Conservative government to a system of joint federal-provincial administration of Newfoundland offshore developments. Taxes would accrue to the province as if the resource were on land. Moreover, the province could determine the mode of development as long as this did not interfere with national needs for petroleum self-sufficiency and security of supply. A $500-million offshore development fund was established, 75 per cent of it coming as a grant from the federal government. As was pointed out above, however, the agreement diminished the potential role of the NLPc, foreshadowing the ultimate emasculation of the province's crown corporation. All in all, the deal was a far cry from what the Clark
government had promised Peckford in 1979 and what John Crosbie had described in 1982 as "the abundantly clear" commitment by the federal Conservatives that Newfoundland "should own the mineral resources of the continental margin off our coast." Adherence to this principle would obviously have conferred on Newfoundland its rights to sole management over developments and the determination of fiscal arrangements, including state participation.

Having accepted its fate at the hands of a potential Tory administration in Ottawa, the Peckford government was obviously pleased with the landslide election in September 1984. This is not to say that caution was thrown to the wind. The Premier let it be known among his cabinet and senior bureaucrats that fed-bashing was now definitely passe. Across the Cabot Strait, John Buchanan must have greeted the Tory victory with a clenched-teeth smile. With a phalanx of western Tories now looking for East Coast petroleum bear, Buchanan flew off to Ottawa to meet with the new Prime Minister immediately after the election, the first premier to do so. Likely informed of an impending shift westward in petroleum policy orientation, Buchanan called a provincial election on September 28. Although this came only three years after the last poll, it provided an opportunity to hang on to the coat-tails of the federal Conservative victory while riding the final crest of the offshore wave before it crashed.

Noticeably silent on the natural gas theme for the first couple of weeks of the campaign, Buchanan could not resist announcing yet another "substantial" offshore find at a rally in Bible Hill on October 16. He added: "It is a foregone conclusion, the experts tell us, that several more significant gas and condensate discoveries will
result from this (offshore exploration) activity." Political experts tuned into Ottawa energy policy formation, however, undoubtedly were telling the Premier something else. Among other things, Buchanan was not held in high esteem by the new federal energy minister Pat Carney. As Tory energy critic she had become engaged in a heated debate in the House of Commons back in March over offshore expenditures. In responding to Tory arguments against PIP grants, Liberal minister Jean Chretien defended federal energy policy by referring to Buchanan's push to get the CANADA-NOVA SCOTIA OFFSHORE AGREEMENT legislated:

Mr. Buchanan wants me to introduce a bill right now because he wants the back-in and he does not trust the Opposition, should they become the government. (129)

Characterized in a 1987 article in the GLOBE AND MAIL REPORT ON BUSINESS magazine as one of the eight toughest executives in Canada, Carney, it would appear, does not suffer opportunists gladly. It is true that, following Buchanan's election victory in November 1984, she flew to Halifax to participate in the media ceremony for the Venture gas export contracts. While being helpful to Buchanan as his credibility over offshore projections was sinking to new lows, this should be seen as a possible spur to a project which could reap political benefits for Tory Ottawa and economic benefits for central Canadian industry, a matter pointed out in Chapter Five. Beyond this, Buchanan and his energy minister Joel Matheson received nothing but rebuffs from Carney during her 22-month tenure in the energy portfolio.

With regard to getting a new offshore deal, Buchanan said in November 1984 that "Nova Scotia should have a new and better offshore
agreement with the federal government by the first of the year."

Of course this did not happen. What did occur, however, was the unilateral, piecemeal dismantling of the existing agreement by Carney and her colleagues in Ottawa. The so-called WESTERN ACCORD on petroleum policy, which was finalized by Carney and provincial energy ministers from the western oil-producing provinces at the end of March 1985, contained a provision for the phased elimination of the Petroleum and Gas Revenue Tax (PGRT). It was mentioned earlier that this was to be one of the two main sources of revenue for Nova Scotia from potential offshore oil and gas developments. Given both the absence of federal consultation with Nova Scotia on this decision and the virtual lack of any response from Halifax, many observers, including some officials of the federal energy department, were left somewhat bemused. "If anyone was hurt in the deal," said one, "it was Nova Scotia." On the day in April when provincial energy minister Matheson was to travel to meet with Carney about a new offshore deal for Nova Scotia, Carney abruptly postponed the meeting and left shortly afterwards for a trip to China and Japan.

More policy changes detrimental to the Nova Scotia offshore were in the cards while Carney attended to matters other than negotiations with the Buchanan government. The Premier's blunt assertion in November 1984 that the PIP "is not going to be phased out" sounded increasingly hollow after that time. There was some desperation to Buchanan's claim because he as well as Carney knew full well that the primary fuel for the drill strings offshore was federal funds. True to expectations, Carney announced in March 1985 that the PIP would be
terminated. As the exodus of offshore companies -- some of which went to Newfoundland -- began to grow from a trickle to a stream, Buchanan and Matheson then suggested publicly that a similar program favouring offshore exploration would soon replace the PIP. By August there was a tone of urgency in Buchanan's plea that the new exploration incentives policy "has got to be settled soon, I emphasize that." Meanwhile, Nova Scotia's logical ally in this appeal was adopting a disinterested stance. Speaking in Halifax at the annual meeting of the Canadian Bar Association, John Fitzgerald, executive director of the Newfoundland Petroleum Directorate, said that a special incentive for offshore exploration was not needed. While it will be noted shortly that there was some folly in this remark, it represented an opportunity for the Peckford government to gain some psychological retribution from watching Buchanan and Matheson squirm helplessly as the drilling rigs abandoned the Scotian Shelf.

The coup de grace for the Nova Scotia offshore occurred with the unveiling of the new Canada Petroleum Resources Act in Parliament at the end of October 1985. Buchanan's coveted back-in was eliminated, and the new frontier exploration incentives program was considerably less generous than the PIP. It was noted in Chapter 4 that the net cost for multinationals drilling off the East Coast would be 37.5 cents for every dollar spent, roughly the same for these companies as had been the case under the PIP. For Canadian companies, however, whose farm-ins had generated much of the drilling since the early 1980s, their favoured status was removed. The fact that their net exploration costs were now increasing from a low of 7 per cent to at least 37.5 per cent effectively spelled the end of the Canadian cor-
porate romance with the offshore.

All of these critical changes had occurred as a result of or after Ottawa’s finalizing of new petroleum agreements with Newfoundland and the western provinces in February and March respectively. Nova Scotia’s offshore hopes, tied as they were to the former Liberal government’s NATIONAL ENERGY PROGRAM, had been all but obliterated without any replacement. Still, not a whimper of complaint was heard from Province House in Halifax. Quite to the contrary, at the November 1985 First Ministers meeting in Halifax, Premier Buchanan distinguished himself by breaking ranks with the premiers’ otherwise united front against Ottawa on the question of reductions in the growth of federal transfer payments. Described by the FINANCIAL POST as "conciliatory -- even servile," this sort of behaviour might be seen as characteristic of a prodigal son who recognizes without question the need for lengthy repentance after cavorting with his father’s enemy for over two years.

The following month federal energy minister Pat Carney indicated that the door was still not about to open for a new offshore agreement with Nova Scotia. There was "no immediate pressure" she said, adding sardonically, "Nova Scotia has an agreement with another 40 odd years to run." At various times over the next eight months Buchanan typically forecast an imminent signing of an offshore pact (it was just "hours away" he told Conservatives at their annual provincial convention on February 1). Finally, when the ceremonial signing of the CANADA-NOVA SCOTIA OFFSHORE PETROLEUM RESOURCES ACCORD took place in Halifax at the end of August 1986, it qualified more as a post
mortem for offshore petroleum resource endeavours than the heralding of a new era. The recent plunge in the international price of crude oil reinforced both the decline in offshore exploration, which had previously been affected by less generous federal incentives, and ongoing doubts about the viability of extracting natural gas from the Scotian Shelf and transporting it to a distant market. On paper, the new agreement offered terms which were similar to those negotiated with Newfoundland. The same kind of joint management system for the Nova Scotia offshore would apply and the previous $200-million interest-free loan which the Liberals had included in the 1982 agreement was turned retroactively into a grant. Revenues which would have accrued to the province from the back-in were replaced by making Nova Scotia eligible to receive annual payments from Canada equivalent to the net share of profits the province would have received had it acquired a portion of the federal Crown Share in offshore projects. (137)

Although any exercise to compare one set of future offshore revenues with another is strictly academic, it is clear from previous discussions related to governments collecting offshore rents from overall revenues versus net profits that the latter procedure, which is embodied in the new Nova Scotia Accord, favours the corporations. Just how moribund the offshore had become at this juncture was indicated by how the Buchanan government decided to use the $200-million Offshore Fund. From a sewer installation in the scandal-ridden Portland Estates real estate development in Dartmouth to a $17 million highway through a game sanctuary, these expenditures, which were supposed to be for "infrastructural costs directly or indirectly relating to"
developing the offshore oil and gas industry, had much more to do with traditional political pork-barreling.

In effect, this marked what could be the last real political kick at the offshore can for some time. Obviously chastened by the failure to deliver on earlier offshore promises and mindful of the pervasive influence of the fishing industry, the Buchanan government struck a different stance on the offshore in the fall of 1986. Texaco Canada's proposal to drill two exploratory wells on the rich fishing grounds of Georges Bank met with almost universal opposition by fishermen and their communities on the South Shore of Nova Scotia. They feared that a blow-out could wreak havoc on the marine environment and jeopardize the fishery-based economy of the area. While the provincial government does not rule out possible approval for future operations by oil companies there, for the time being it wants the federal government to "exclude the bank from hydrocarbon exploration, development and production."

Since 1986 then, the Nova Scotia wagon has no longer been hitched -- politically or economically -- to the offshore. In Newfoundland, however, better offshore geological conditions and a more fragile and dependent economy have combined to maintain some reliance on activity in the offshore, particularly the development of the Hibernia field. This project was clearly in the cards at the time of the signing of the ATLANTIC ACCORD in St. John's in February 1985. With the start-up of construction forecast for 1986, Peckford welcomed the offshore agreement as a means to provide for a new economic order for Newfoundlanders:

There is no other document in existence signed by
Newfoundland that has within it the ability to see this province truly grow and prosper. (140)

The highlights of the ATLANTIC ACCORD, including a perspective on some of its limitations, were discussed briefly above. Because of stagnant, if not falling, oil prices and the new political reality embodied in the agreement, Hibernia will not be the bonanza it was once proclaimed. Still, the jurisdictional resolution and anticipated offshore development offered other opportunities for resourceful minds.

In the euphoria which was created over the signing of the ATLANTIC ACCORD, Brian Peckford’s stock among the electorate soared. Leading in the polls by 20 percentage points, he called an election in the middle of March. This campaign saw a changed Brian Peckford, however. Federal-provincial circumstances had altered, and it appeared that years of doing battle, mostly with Ottawa, had left some cynical scars on the earlier politics of moral principle. Gone was the Trudeau foil and the righteousness of the provincial cause against federal treachery. On the one hand Peckford pursued a low-key strategy of campaigning on his government’s record. On the other hand he used the ATLANTIC ACCORD and other federal-provincial agreements to promise new jobs. A classic throw-back to the old-time politics concerned Peckford’s re-locating of a meeting with Mobil Corp. executives. Originally set for New York, the venue was changed to St. John’s and occurred at the start of the election campaign. Peckford acknowledged the context to the meeting: “If you’re a dentist you practise dentistry; if you’re a politician you practise politics.” For his part, Alex Massad, Mobil’s president of exploration and pro-
duction, did not seem to mind his unwitting assistance to the government's electoral strategy: "I find myself in situations, like this, around the world all the time, so what's different?" It would appear that, at this level, Massad did not mind humouring Peckford; behind closed doors at the negotiating table, however, the shoe is on the other foot, a matter which was discussed in Chapters Four and Five and which the tentative Hibernia agreement speaks to quite clearly.

The Peckford government won the April 4 election handily, but with a reduced majority. Backed by the ATLANTIC ACCORD and a secure political future, Peckford then oversaw the environmental impact process for the Hibernia development. At least since the field had been discovered in 1979, there had been a debate between the provincial government and the oil companies, mainly Mobil, as to what production and transportation systems would be employed in the recovery of offshore oil. The province had always opted for the process which would ensure maximization of local business and employment. Specifically, it wanted a fixed concrete platform, which would have to be constructed on the island, and a subsea pipeline for transporting the crude to shore. For technical and environmental reasons, Mobil had always been against installing a pipeline. Earlier in the decade the companies had been tilting in the direction of floating production facilities.

Because of the risk posed by large icebergs, which often scour the ocean floor in the vicinity of Hibernia, a pipeline would have to be buried some eight metres below the seabed. To complicate this further, there is an 80-metre trench with steep slopes between the Hibernia field and the coast of Newfoundland. A final technical obstacle relates to the fact that the pour point of Hibernia crude, the temperature below which the oil becomes viscous, is 10 degrees centigrade, while the water temperature in that area of the Grand Banks varies between 0 and 2 degrees.
More or less like expanded semi-submersible drilling rigs, these would likely be constructed in South Korean or Japanese shipyards because of cost considerations and the fact that they can be transported from Asia to the East Coast.

In August Peckford announced that concrete platforms would be used, thereby creating "a massive increase" in jobs for Newfoundland and industrial benefits for all Canada. While he said that he would like to think that the province "played some small role" in persuading Mobil and its partners to adopt this method, a spokesperson for Mobil placed the decision squarely on the outcome of six years of technical and economic studies. The mode of development was one of the matters which had dogged offshore negotiations for years; the fact that the provincially-favoured system was now being employed was seen as a vindication for having fought for the inclusion of this provincial prerogative in the ATLANTIC ACCORD. There is little reason to doubt, however, that the companies would have chosen otherwise. The nearly $9-billion price tag was roughly similar for both systems; moreover, Mobil made it clear in a letter to the Peckford government that the possible incurring of extra costs would be considered in negotiating the fiscal regime for the development. As well, safety considerations following the sinking of the Ocean Ranger and the number of lost drilling days because of pack-ice and icebergs on the Grand Banks (floating production platforms would be just as vulnerable as semi-submersible rigs, which had lost more than two months of drilling during the past winter) undoubtedly had some bearing on Mobil's choice of a production system. Regarding the choice of a
transportation system, not only did the Hibernia partners reject the use of a pipeline, but also, as was noted above, even the tankers which will be used to shuttle the oil ashore will most likely be built outside of Canada, let alone Newfoundland.

Some elaboration of this point is being made here in order to put the issue of offshore control into a context which necessarily must be broader than the realm of federal-provincial politics. Shortly after the signing of the ATLANTIC ACCORD, Lyn Jackson, a philosophy professor, well-published commentator on Newfoundland politics and supporter of the Peckford government, wrote that the agreement was not just "a good deal," it was "an outright miracle":

"A whole resource has been placed in our hands; one we did not even have before. Nothing has been forked over to charlatans; there have been no concessions, loan guarantees -- none of that. Rather we have gained joint rights with Canada in the management of a world-class oil-field, on the same basis as if it were constitutionally our own anyway." (145)

Although it is understandable that the resolution to the 17-year political debacle would be a cause for relief and celebration, this matter has to be put in perspective. As far as the influence of the provincial government over a resource development was concerned, Newfoundland was now -- at best -- in the same position as it had been in the past when negotiating such matters with mining and forestry companies. In the latter instance affecting the sale of the pulp and paper mill in Corner Brook to Kruger Inc. in 1984, the experience of the Peckford government, tied as it has been to a regulated but pro-corporate development philosophy, was not edifying. As was shown in Chapter Three, with no other private capital options available, the
government acceded to a number of political and economic compromises which it found distasteful.

With the signing of the ATLANTIC ACCORD, the Peckford government had cleared a major hurdle on the path to offshore development. But the greater barrier, the corporate one to which little attention had been paid up to this time, still had to be overcome. Despite the apparent measure of offshore political control now vested in the province, the government could not ignore the political and corporate pulse now emanating from Tory Ottawa. As one industry official observed during the final stages of the federal-provincial negotiations, "Peckford has to be seen to be master in his own house; even if he isn't in reality." In other words, even politically Newfoundland was not on its own in the offshore. Ottawa's influence re-emerged clearly by the end of 1985.

Carrying on the ostensibly cosy relationship between Ottawa and Newfoundland during the summer of 1985, federal energy minister Pat Carney and her provincial counterpart William Marshall travelled to Britain to announce to the British government and the energy industry that a new era of political harmony had dawned over the Newfoundland offshore. Their investments would be welcomed in offshore ventures, including Hibernia, which both ministers did not think would be affected by even "the worst-case price scenarios" for crude oil. Back in St. John's a month later, Marshall, Peckford and John Crosbie, Newfoundland representative in the federal cabinet, said that construction of the first of two offshore concrete platforms for Hibernia would begin early in 1986. This was predicated, of course, on the formulation of a fiscal regime to be negotiated with the Hibernia...
corporate consortium. It was clear at this stage that, while negotiations affecting corporate income tax and royalty regimes, including possible concessions, were mostly within the province’s purview, if guarantees affecting matters such as a floor price for crude oil had to be negotiated, only the federal government had the capacity to deal with this.

At the end of January 1986 no contracts had been signed for the Hibernia development; meanwhile the price of crude oil had fallen from $32 (U.S.) to $20 a barrel. Nevertheless, according to energy minister Marshall, declining oil prices would have no effect on the development of the offshore oil field. But complacency in the face of negative international circumstances and eager compliance with federal energy initiatives that were detrimental to offshore exploration seemed to be stretching the credibility of a government which had trumpeted the success of its victory in the battle over offshore control. Three months earlier, after the federal government had introduced its new energy program which included reduced incentives for offshore exploration, Marshall had put on a bold front in supporting the policy, suggesting that it would be “much more conducive than the previous system to encouraging and fostering exploration off our shores.” Now whether the continuation of generous exploration grants to oil companies could be justified on economic and national interest grounds has -- at best -- minor relevance to this statement. Patently, Marshall, as energy minister, must have been aware of of the study conducted by his department’s Petroleum Directorate which concluded that the continuation of a reasonably active exploration pro-

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gram off the province, such as the 23 wells which were spudded in 1984 and 1985, was more valuable to the Newfoundland economy, particularly in terms of employment, than the development of Hibernia. The drive to accommodate Ottawa, however, was seemingly unshakeable, even to the extent of Marshall's backing Carney's decision to remove PIP allowances from three wells planned by Husky-Bow Valley, thereby effectively cancelling this program. (Given this provincial demeanour, on the surface it seems glaringly ironic that for many years, particularly from 1977 until the end of 1985, there was scant, if any, acknowledgement by Newfoundland officials of the economic benefits accruing to the province from the spending of a couple of billion dollars in federal incentives which were used to entice the oil companies to drill off Newfoundland.)

Because of lower world oil prices and federal energy policies, exploration off Newfoundland dropped from 11 wells in 1985 to 7 in 1986 (all of which were PIPed) and to 5 in 1987. (It should be noted that the average international crude oil price to early 1988 has been roughly similar to what it was two years earlier when Marshall was expressing confidence in the future of offshore exploration.) With regard to the start on construction for Hibernia, the province has looked increasingly impotent. Appearing to take an optimistic leaf from John Buchanan's book, Premier Peckford predicted in June 1986 that an agreement on the Hibernia development was imminent: "a week away or three or four weeks." Nevertheless, he added that, in view of low oil prices, "the companies, from a tactical and strategic point of view, are [being] more pessimistic and less realistic than really they should be."
What really was at issue by now was how much the corporations wanted and how much the federal government was willing to give. Newfoundland was a less significant third party to the negotiations. As had been the case with the Trudeau government in Ottawa, federal politics of corporate subsidization were again pivotal to the determination of when, and under what conditions, development would proceed on petroleum resources off Newfoundland. And with federal financial concessions on the agenda, a fourth -- albeit unofficial -- negotiator was brought into the determination of Newfoundland's economic future. This was the political and petroleum establishment in Alberta, a force to be reckoned with, as Chapter Five revealed. Hearing rumours that Ottawa was considering a $1-billion loan guarantee to Mobil and its partners, the Alberta-based Independent Petroleum Association of Canada, which represents the smaller Canadian oil and gas producers, launched a vociferous protest. It was obvious that federal sponsorship for an East Coast mega-project would have to be matched by comparable considerations for western Canada, and this is what has indeed happened.

By December 1986, after more than two years of patience and unprecedented acquiescence to federal policies, many of which did not serve Newfoundland's interests, Brian Peckford decided that the honeymoon with Ottawa was over. Declaring that he was about to lean hard on the federal government to make concessions to the oil companies in order to get Hibernia going, Peckford added: "Newfoundland is going to be saying clearly and unmistakably -- get on with it and fast."

Thus began the unravelling of Newfoundland-Ottawa harmony on a number
of fronts. The provincial government complained about decreasing equalization payments and criticized the federal government, including Newfoundland's cabinet representative John Crosbie, for not paying enough attention to Newfoundland. This started a long verbal tussle between Peckford and Crosbie, one which extended into the national limelight a month later when Peckford became livid over Canada's granting of fishing rights off Labrador to France.

Two years of peace and then the recurrence of verbal war with Ottawa for well over a year were ultimately inconsequential to the reaching of the deal on Hibernia in July 1988. As Chapter Five revealed, federal politics was the eventual hinge that opened the coffers wide enough to attract the tentative interest of the project partners. To complement Ottawa's grants and loan guarantees, the Peckford government has agreed to sacrifice significant potential revenues from the proposed development. The province's 12-per-cent sales tax will not apply to capital spending which takes place in Newfoundland. After the system is in production, the estimated $10 billion in operating costs over the 18-year life of the field will be subject to a reduced sales tax rate of 4 per cent. Instead of the minimum 5-per-cent royalty which was part of the province's 1977 PETROLEUM REGULATIONS, the royalty scheme for Hibernia is much the same as the evolving 1 to 5-per-cent arrangement contained in the federal Canadian Petroleum Resources Act. When Hibernia is in production, however, and if the world price of oil is less than $30 (U.S.) per barrel in 1987 dollars -- a highly likely situation -- the royalty rate will be reduced by the ratio of the current price to the $30 mark. There are other hypothetical income generators for the pro-
vince, but once again the market price for oil would have to be improbably high for them to be of any significance.

A March 1986 evaluation of the economics of the Hibernia project by the Toronto investment firm Burns Fry concluded that, even with oil prices in the range of $30 (U.S.) to $35 per barrel, the government take would not be substantial. Noting that the corporate risks inherent in proceeding with the Hibernia project would require a 20 per cent return on investment, there would be no room for corporate taxes. While there is a provision in the tentative agreement for the provincial accrual of corporate income tax, one cannot doubt that the creative efforts of corporate tax accountants, notably at Mobil, will ensure that the gap between assigned costs for Hibernia operations and revenues from oil sales will be minimal. Moreover, the terms of the deal stipulate that the province has to lower its corporate tax rate in the case of Hibernia:

Aggressively bullish on Newfoundland's offshore prospects at the turn of the decade, Premier Peckford's senior adviser Cabot Martin described the 1985 ATLANTIC ACCORD as "our second chance since Confederation to make it on our own." While convinced at the time that Newfoundland was on the brink of prosperity, he conceded that many Newfoundlanders might not share his vision. Very likely, this was true. And nothing has occurred since which would dispel that skepticism. In fact, it undoubtedly pervades the highest reaches of the provincial government by now.

When he issued his first public broadside at the Mulroney government in December 1986, Premier Peckford conceded that, although "we do
not intend, because of our perceived vulnerability, to sell out the shop, "no matter how bad it gets here," obviously we need Hibernia really badly." What the project was needed for by this time was to fulfill the same demand which had always been foremost in Joey Small-wood's mind: jobs. Even so, Peckford had conceded after the signing of the ATLANTIC ACCORD that most of the industrial work associated with construction of the offshore production platforms would go to Ontario and Quebec. With the signing of the Hibernia "Statement of Principles", the government has obviously reconciled itself to preside over -- hopefully -- a latter-day version of a 1960s "make-work" development project. No doubt, a great deal more regulatory control will be exerted than was the case with the virtual void which prevailed then. But the long-term benefits from most of those earlier projects which accrued primarily to external corporate and political interests will clearly replicated in this instance.

Thus for all its political will and planning, the Newfoundland government in the late 1980s is forced to acknowledge its dependence on the federal state and international capital in yet another realm of economic endeavour. Development on Hibernia, and perhaps the Terra Nova Field, will likely begin before 1990, but on terms no better than those governing any possible project in the Nova Scotia offshore. In fact, although any development in the latter is years away at best, the Nova Scotia government is theoretically in a better position to accumulate revenues because of the participation of its crown corporation in certain lease areas. While this does not necessarily represent the perverse triumph of opportunism over principle, it perhaps does show that the dependent, pro-corporate provincial government
which has a better appreciation of its place in the hierarchy of
governments and capital can perhaps obtain marginally more scraps from
the table.

ENDNOTES

1. Nora McCabe. "Peckford Option: Bash Feds or Lose", GLOBE AND
MAIL, April 2, 1982.

2. In its June 1980 annual submission to the Newfoundland government,
the Newfoundland and Labrador Federation of Labour recommended
that no more exploration permits be granted until the Occupation-
al Health and Safety Act was enforced in the offshore.
Speaking at a petroleum industry seminar in St. John's in Septem-
ber, M.D. Crucifix of Esso Resources Canada Ltd. said he saw a
definite need for the expansion of the province's occupational
health and safety division in order to apply its services to the
offshore. (EVENING TELEGRAM, September 11, 1980).

3. For an account of the health and safety aspects of the Ocean Ranger
disaster, see Brian O'Neill, "The Sinking of the Ocean Ranger",
in Gary Burrill and Ian McKay (eds.), PEOPLE, RESOURCES, AND PO-
WER (Halifax: Gorsebrook Research Institute, 1987)

4. CHRONICLE-HERALD, March 16, 1982

5. GLOBE AND MAIL, March 16, 1982

6. CHRONICLE-HERALD, April 5, 1982

7. Newfoundland and Labrador. THE NEWFOUNDLAND AND LABRADOR PETROLEUM
   REGULATIONS, (St. John's: 1977), Articles 92, (1), (2), and (3)

8. EVENING TELEGRAM, February 2, 1977

9. A. Brian Peckford. A WHITE PAPER RESPECTING THE ADMINISTRATION
   AND DISPOSITION OF PETROLEUM BELONGING TO HER MAJESTY IN RIGHT OF
   THE PROVINCE OF NEWFOUNDLAND, (St. John's: May 1977), p. 34

10. Writing in the EAST COAST OFFSHORE DIRECTORY '84, Mark King
    suggested that the oil companies deserted Newfoundland in
    1977 because of the new provincial regulations:
    What interest there has been in the Newfoundland
    play dies on the table as companies flee the pro-
    vince in reaction to the regulations. ("A History
    of the East Coast Offshore", p. 13)
    Similarly, Doug House elevates the importance of the NEWFOUNDLAND
AND LABRADOR PETROLEUM REGULATIONS per se without situating them in the context of geological, corporate and other legal factors obtaining at the time:

When the province introduced its Petroleum and Natural Gas Act of 1977, the companies threatened to pull out, and exploration fell from three wells in 1976 to none in 1978--actually, two wells were drilled on the Labrador Shelf in 1978. But the province successfully called the companies bluff... (J. D. House. THE CHALLENGE OF OIL: NEWFOUNDLAND'S QUEST FOR CONTROLLED DEVELOPMENT, 1st, John's: Institute for Social and Economic Research, Memorial University of Newfoundland, 1985), p. 105)

Although the companies would not want to have appeared to be bullied successfully by the Newfoundland regulations, still some credence must be given to their expressed reluctance to drill at the time because of the jurisdictional dispute. This certainly was strongly argued by Stuart Peters of the Crosbie Group of Companies in January of 1977 when he blamed 'the potential loss of drilling activity for the year on the dispute which was causing a "climate of uncertainty" in the oil industry (EVENING TELEGRAM, January 29, 1977). Eastcan raised concerns about the legitimacy of its federal exploration permits under conflicting provincial rules (EVENING TELEGRAM, February 2, 1977), and both British Petroleum and Mobil made it clear that a settlement would definitely be conducive to an increased level of offshore exploration (EVENING TELEGRAM, February 3, 1977).

11. In his WHITE PAPER of May 1977, mines and energy minister Brian Peckford described the timing of the court case over the jurisdictional question as "imminent" (Peckford, op. cit., p. 12). In fact, Peckford established as the rationale for producing provincial regulations at this time the fact that the oil companies would need to have such guidelines so that there would not be a regulatory vacuum in the event of a Newfoundland legal victory:

It was obvious that oil companies holding federal exploration and production rights but just provincial exploration rights, would be under a great deal of uncertainty as to their title to the offshore lands they were exploring and as to their right to produce any oil and gas found, given a provincial victory.

The view that a legal reference was forthcoming was also shared at the time by Stuart Peters of the Crosbie Group of Companies, perhaps the best informed of Newfoundland corporate interests in the offshore (EVENING TELEGRAM, January 29, 1977).

12. House, op. cit., p. 67

13. ATLANTIC BUSINESS, July/August, 1982, p. 25

15. EVENING TELEGRAM, August 30, 1980

16. EVENING TELEGRAM, September 30, 1980

17. At a press conference held on August 28, 1980, Premier Peckford said: "If the Supreme Court ruled against this province, we would hinder production in areas where jurisdiction is secure to get a better deal" (EVENING TELEGRAM, August 29, 1980). In December John Crosbie, a former practising lawyer, declared that, even if the Supreme Court rules on a "technical, legal, picayune" point that control belongs to Ottawa, Newfoundland would still settle for nothing less than control over offshore resources: "We don't care what the courts say. It's not a question of law; it's a question of justice, it's a question of what's right" (EVENING TELEGRAM, December 17, 1980).

18. For well over a dozen years the federal government had suggested that the two governments take the issue to the Supreme Court (John Gray, "Offshore Ownership Ruling Hinges on 1932 Mandate", GLOBE AND MAIL, March 15, 1982). Speaking at a Liberal fundraising dinner in St. John's on May 6, 1981, Prime Minister claimed that his government had offered repeatedly to refer the jurisdictional question together with Newfoundland to the courts, but that the provincial government had always refused (EVENING TELEGRAM, May 6, 1981).


20. EVENING TELEGRAM, August 3, 1980.


22. Ibid.


24. GLOBE AND MAIL, September 19, 1981

25. Harris, op. cit.

26. GLOBE AND MAIL, September 12, 1981

27. House, op. cit., pp. 69, 70

28. MAIL-STAR, February 18, 1982

29. CHRONICLE-HERALD, November 21, 1981

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Speaking at a press conference in Halifax on March 2, Premier Buchanan could not restrain his enthusiasm for the deal:

"It's probably the best agreement that will be signed between a provincial and a federal government for the people of a province and for the people of Canada that will be signed in the next forty years...

The people of Nova Scotia will be taken from a "have-not" status to a "have" status, and there's every possibility that if what we hope happens -- on the offshore -- we will be second only to Alberta in terms of fiscal capacity in this country, and that's not a bad spot to be in.

The revenue side of the agreement was the primary focus of the Premier's presentation at the press conference. He dismissed the ownership issue as "irrelevant" because the accord allowed the province to "achieve all economic benefits as if ownership were Nova Scotia's." Emphasizing that "a lot of money will come into the province because of this agreement," Premier Buchanan declared that "if the minimum feasible threshold of four trillion cubic feet of natural gas is developed, $8.2 billion will pour into provincial coffers, about $10,000 for every Nova Scotian." (CHRONICLE-HERALD, March 3, 1982)

While these figures proved to be meaningless within a few years, even at the time it was a futile exercise to nail down who would get what in the event of natural gas production on the Scotian Shelf. After the Ottawa press conference announcing the Agreement, federal and provincial officials produced four conflicting estimates of the revenue division. (John Gray, "Ottawa Wary on Offshore Dispute Since Newfoundland Election Call", GLOBE AND MAIL, March 18, 1982)

According to Premier Peckford, the federal government had asked the court in May 1981 to expand the issue to include ownership. He said Newfoundland had asked the federal government to support the province's application that the case be postponed on the grounds that it would prejudice negotiations. (GLOBE AND MAIL, February 9, 1982)
Federal energy minister Marc Lalonde denied that Ottawa had broken any promises to Newfoundland. He said the only promise made was that Ottawa would remain silent on the motion to adjourn the SIU case unless asked by the court for an opinion. The court did ask Ottawa whether it supported Newfoundland's motion and the federal lawyer said: "My instructions are not to support this motion." Lalonde noted, moreover, that a decision on the SIU case would not be made before the February 28 deadline set by the federal government for concluding the offshore negotiations. (GLOBE AND MAIL, February 11, 1982)

Interestingly, one unofficial Newfoundland adjudicator of the conflict, lawyer Christine Fagan, President of the St. John's Board of Trade at the time, agree with the federal position: It appears that the status of the SIU case is such that the federal government could not comply with the recent demands of the province even if they wanted to. ("Notes for an Address by Christine Fagan, President of the St. John's Board of Trade, to the Waterford Valley Rotary Club", February 24, 1982)

37. GLOBE AND MAIL, February 11, 1982
38. Ibid.
40. EVENING TELEGRAM, May 6, 1981
41. Doern and Toner, op. cit., p. 283
42. GLOBE AND MAIL, February 11, 1982
43. GLOBE AND MAIL, February 13, 1982
44. House, op. cit., p. 68
46. Ibid.
48. MAIL-STAR, February 13, 1985
49. "Canada-Nova Scotia Agreement on Offshore Oil and Gas Resource Management and Revenue-Sharing", p. 5. The specific designation was as follows:

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The Nova Scotia Petroleum Directorate is the agency designated by the Nova Scotia Minister of Mines and Energy to co-ordinate the participation by the Nova Scotia government in the implementation of the agreement.


51. Ibid.

52. Article 25. of the Agreement is entitled "Most Favoured Province" and states:

With respect to any comprehensive agreement on offshore oil and gas resource management and revenue sharing concluded with a province other than Nova Scotia before January 1, 1985, the Nova Scotia government may substitute the latter agreement in its entirety for the present agreement in its entirety.

53. GLOBE AND MAIL, March 4, 1982

54. MAIL-STAR, August 11, 1982

55. MAIL-STAR, September 18, 1982

56. EVENING TELEGRAM, May 26, 1982

57. EVENING TELEGRAM, Letter to the Editor by Christine Fagan, President of the St. John's Board of Trade, May 15, 1982

58. MAIL-STAR, September 16, 1982

59. CHRONICLE-HERALD, January 10, 1983

60. Jack Armstrong, the former chairman of Imperial Oil, suggested in January 1982 that the scenario was simple and straightforward: offices in St. John's would co-ordinate work off Newfoundland and offices in Halifax would co-ordinate work off Nova Scotia.

61. Nova Scotia deputy development minister Jim McNiven made this prediction in a September 1981 interview with a TORONTO STAR reporter (MAIL-STAR, October 1, 1981). Among others, Mark Shrimpton, former economic development officer for the City of St. John's and an author of many studies on the social and economic impacts of offshore development, debunked the "oil centre" myth in a 1982 interview:

People have said Halifax will become the Calgary and St. John's will become the Edmonton (i.e., a location for servicing and supplying local drilling operations). I would argue that Calgary is the Calgary, which is the headquarters of the Canadian...
oil industry, and it is possible that, to some degree, both Halifax and St. John's will become their respective "Edmontons", i.e., the local headquarters for operations.

62. Interview in the CHRONICLE-HERALD, January 18, 1983

63. This was the thrust of a speech by Rollie Thornhill to the Halifax Board of Trade. According to Thornhill, We're saying to them (local businessmen), "You have a right to compete and you are being given a chance to compete (with the implementation of the preferential business clauses)," which they are not now being given. (MAIL-STAR, February 3, 1983)

Two months later in the legislature, he complained that, "We have had to persuade, cajole, and at times speak very firmly to the oil companies" in order to get them to use local businesses. (MAIL-STAR, April 12, 1983)

64. MAIL-STAR, April 12, 1984

65. For a brief discussion of this issue, see Doern and Toner, op. cit., p. 119

66. MAIL-STAR, January 21, 24, 1984

67. GLOBE AND MAIL, September 4, 1983

68. GLOBE AND MAIL, January 8, 1985

69. MAIL-STAR, November 22, 1984

70. MAIL-STAR, December 15, 1984

71. CHRONICLE-HERALD, February 15, 1984

72. MAIL-STAR, November 1, 1984

73. GLOBE AND MAIL, July 18, 1985

74. In March 1985 Northeast Gas Markets Inc., one of the first companies to express an interest in Venture gas in 1982, withdrew its former purchase offer. According to company official Michael Lucy, this action arose from an "inability to arrange acceptable terms." The company was said by one source to be uneasy about the reception the existing type of venture contract would receive before the United States Federal Energy Regulatory Commission (MAIL-STAR, March 7, 1985). Another American buyer, NESP Supply Corporation, would not submit its contract to United States regulatory bodies because Venture partner Texaco Canada had not finalized detailed sales arrangements with NESP. (MAIL-STAR, August 24, 1985).
75. Parker Donham, "Scotian Shelf Gas Estimates Cut by Mobil", FINANCIAL POST, June 29, 1985

76. MAIL-STAR, October 23, 1985

77. The fact that the NEB requested further information on all of these matters came, according to Nova Scotia energy minister Joel Matheson, as "no surprise," it being part of the "normal hearing process. The Venture partners wanted to get the project on the record early as going ahead," he said (Ibid.).

In fact, just the opposite was the case, at least with the primary partner. "When the highly-publicized announcement of the contracts was made almost a year earlier, Mobil balked at having to come up with a sales contract with a U.S. buyer because the company said that necessary reserve thresholds in the Venture fields had not been reached. This precipitated one of the few anti-corporate outbursts ever voiced publicly by the Premier: "It appears to me and a lot of other people that Mobil may be foot-dragging here... I think Mobil had better get their act together." (MAIL-STAR, November 23, 1984)

78. EVENING TELEGRAM, March 16, 1982


80. The Prime Minister explained the federal rationale in a telex message sent to Premier Peckford (GLOBE AND MAIL, May 20, 1982). The federal reference was consistent with Ottawa’s expressed intentions in March when energy minister Jean Chrétien suggested that the Newfoundland government take the matter straight to the Supreme Court of Canada in order to ensure an "early and final disposition" (GLOBE AND MAIL, March 16, 1982). Under the banner headline "OUR TRUST MISPLACED," the Newfoundland government paid for a full-page advertisement in the May 22 issue of the EVENING TELEGRAM. Referring to the Peckford triumph in the April 6 provincial election, which somehow was supposed to have prevented the federal government from taking the offshore issue to court, the province accused Ottawa of "ignoring the will of the people." But particular vitriol was reserved for the perceived superceding of the provincial court’s role: Never before in Canadian history has a federal government ever tried to prevent a provincial Supreme Court from ruling on a matter of such vital importance to the province concerned. This act on the part of the federal government is nothing short of a unilateral attempt to change the Canadian Judicial System.

81. A’Brian Peckford. Press Statement, June 4, 1982

82. CHRONICLE-HERALD, August 3, 1982. This specific result of the poll, which was conducted by Memorial University political scientist Mark Braesser, compared with about 13 per cent support for a
similar question asked of some western Canadians and about 20 per cent support in Quebec.

83. GLOBE AND MAIL, August 6, 1982
84. GLOBE AND MAIL, February 18, 1983
85. GLOBE AND MAIL, June 8, 1983
86. EVENING-TELEGRAM, May 27, 1982
87. GLOBE AND MAIL, March 10, 1984
88. GLOBE AND MAIL, March 9, 1984
89. Ibid.
90. GLOBE AND MAIL, April 12, 1984
92. CHRONICLE-HERALD, March 3, 1982
93. GLOBE AND MAIL, September 30, 1982
95. Ibid., p. 86
97. Ibid., p. 245
99. Smith, op. cit., p. 245
101. Smith, op. cit., p. 240
102. GLOBE AND MAIL, March 3, 1982
104. A. Brian Peckford. A WHITE PAPER, op. cit., p. 27

105. Newfoundland and Labrador. THE NEWFOUNDLAND AND LABRADOR PETROLEUM REGULATIONS, (St. John's: 1977), Articles 94 to 98


107. EVENING TELEGRAM, September 4, 1980

108. EVENING TELEGRAM, October 30, 1980

109. EVENING TELEGRAM, April 7, 1986


114. GLOBE AND MAIL, June 25, 1986

115. J. D. House. THE CHALLENGE OF OIL, op. cit., p. 309


117. CHRONICLE-HERALD, April 22, 1982

118. MAIL-STAR, April 4, 1985

119. MAIL-STAR, November 30, 1985

120. Chris Wood. "Struggling to Survive in the East", MACLEAN'S, May
In fact the non-offshore application of these funds had become so widespread that in 1988 the federal auditor-general's office began an investigation into their apparent abuse by the provincial government.

This was contained in a letter sent to the federal energy minister Marcel Masse in January 1988 by his provincial counterpart Ken Streatch. When asked about the province's overall position on this matter, Premier Buchanan agreed with a suggestion that the government was not looking for a ban on drilling, but simply wants control. While the province could then enforce a ban at the present time, it could reserve the right to change this position later. (CHRONICLE-HERALD, January 29, 1988)
140. GLOBE AND MAIL, February 3, 1985


142. EVENING TELEGRAM, March 14, 1985

143. EVENING TELEGRAM, August 1, 1985

144. EVENING TELEGRAM, August 15, 1985

145. F. L. Jackson, "Tenants No More In Our Own Land", EVENING TELEGRAM, February 23, 1985


147. GLOBE AND MAIL, July 3, 1985

148. EVENING TELEGRAM, August 1, 1985

149. GLOBE AND MAIL, January 28, 1986

150. GLOBE AND MAIL, November 2, 1985


152. GLOBE AND MAIL, February 18, 1986. Marshall said that he fully supported Carney's energy policies, even if they cost the province three wells. He said he was confident that the loss of the wells would be offset by the increased exploration that will flow from positive results recently announced at Ben Nevis, White Rose and Terra Noya.

153. GLOBE AND MAIL, June 17, 1986

154. GLOBE AND MAIL, July 16, 1986

155. GLOBE AND MAIL, December 13, 1986


158. GLOBE AND MAIL, December 13, 1986

159. GLOBE AND MAIL, "Letters to the Editor", February 27, 1985
CHAPTER 7

CONCLUSION

From the early 1970s political and business leaders in Nova Scotia and Newfoundland began to herald the economic benefits which could be derived from the exploitation of the crude oil and natural gas deposits lying under the continental shelf off the coasts of both provinces. It has been shown in this thesis that this reliance on the potential wealth to be provided from the offshore was quite profound by the early 1980s, particularly in the case of Newfoundland. Self-serving political hyperbole notwithstanding, offshore hydrocarbon development and production were vaunted by provincial administrations and their supporters as offering the only possible means of redressing the legacy of dependency and underdevelopment. This study has demonstrated that such aspirations have been fundamentally divorced from a necessary understanding of how capital is generated and wealth is distributed in a mixed capitalist economy.

There is no reason for the experience of the past not to be repeated in the present if the political and economic structures and power relationships remain the same. Simply to ascribe bad management and lack of political will to the negative economic inheritance of Newfoundlanders, as Chapter Three described in relation to the Peckford government and some of its supporters, is at least short-sighted. More to the point, such a demeanour indicates ideological tunnel-vision. It was argued in Chapter Three that the consolidation of capital at the end of the nineteenth century led to the concentration of wealth at the developing centres of capitalism in western Europe.
and North America. The capital-accumulation process, whereby resources and labour in peripheral regions have been exploited for the benefit of the centralized capitalist enterprise, has affected Newfoundland and Nova Scotia in much the same way as the majority of third world countries. The major conclusion of this thesis is that there is every reason to expect that such a process can be expected to prevail in the context of offshore mineral resource development. In other words, the conditions of dependency, social inequality and mal-distribution of the economic surplus and industrial benefits will not change in the event of offshore petroleum exploitation. This is not to say that the author subscribes totally to a deterministic perspective on the development process. The only possibility for applying an alternative strategy, however, rests with governments establishing radically different political and economic agendas, which clearly has not been the case provincially or federally as Chapters One, Three, Five and Six have shown.

The Newfoundland government's longstanding, bellicose struggle for control over offshore mineral resource development was exposed as the limited effort it really represented. There was much political ado about nothing. With the Peckford administration subscribing to a private enterprise philosophy whereby resource development would have to satisfy the financial criteria of multinational capital, the only point to be made about this strategy versus what has obtained under previous governments is that a stronger regulatory framework might now be expected to prevail. The Nova Scotia government's approach towards offshore development has been shown to be opportunistic and duplicious. Yet, one can conclude that this represents a pragmatic under-
standing—although certainly not an analysis—of the intractability of the spatial characteristics of the capitalist development and dependency process.

A related conclusion of this thesis is that control over offshore development ultimately rests with multinational capital. The conventional view of energy affairs in Canada after the introduction of the NATIONAL ENERGY PROGRAM (NEP) in October 1980 held that the federal Liberal government had finally replaced the powerful multinational oil and gas industry at the helm of the petroleum juggernaut. Chapters Two, Four and Five, however, revealed that, aside from pressuring the multinationals to conduct more exploration on offshore lands which they had held for 15 years or more, Ottawa did little more than provide billions of dollars for Canadian companies to drill holes in northern Canada and on the East Coast continental shelf. Furthermore, most of the wells which held any promise were on properties in which the multinationals still retained significant interests but often paid no drilling costs due to farm-out arrangements. The only really threatening provisions of the NEP to the oil majors related to fiscal regimes at the development and production stages for offshore petroleum exploitation. While these were removed by the federal Conservatives in 1985 as part of the dismantling of the NEP, it was clear even before the September 1984 federal election that the multinationals and the U.S. government would have their way in this regard no matter whether the Liberals or the Tories were to form the new government. The primacy of the multinational petroleum agenda for the offshore is clearly evident today. As with past economic developments in the
Atlantic Region, the Hibernia project will go ahead only under federally-assured rates of capital accumulation for the corporate developers. As part of this arrangement, significant subsidies from the federal treasury are required. For all the political bluster which characterized negotiations and activities over the offshore for many years, the continuity of provincial dependency on multinational capital and the federal state is unmistakable. Plus que ca change, plus c'est la meme chose.

In addition to the two general conclusions expressed above, there are a number of other specific conclusions which have been reached in this study:

1. The volume of hydrocarbon deposits on the Scotian Shelf off Nova Scotia is insignificant when compared with oil and gas reserves in producing regions, such as Canada's western sedimentary basin and the North Sea. Moreover, the resource is dispersed and exists mostly in the form of natural gas. Both of these factors militate against the collecting of resource rents by either level of government in the event of offshore oil and gas field development.

2. While the hydrocarbon resource off the island of Newfoundland exists in the form of crude oil as well as natural gas, the volume is still below that of major producing areas and the recovery costs are very high. This diminishes opportunities for significant accrual of provincial and federal government production revenues.

3. The social and economic imbalances and inequalities which characterize inter-regional differences in Canada are replicated both on an intra-regional basis within the Atlantic Provinces and on an intra-provincial basis in Newfoundland and Nova Scotia.
certain parts of Newfoundland and Nova Scotia can be described as truly underdeveloped, the pervasive influence of the federal state in the economies of both provinces has produced a general situation of dependent development. This form of development can be expected to continue in the event of offshore petroleum exploitation, albeit with the manifestation of increased intra-regional and intra-provincial inequalities.

4. More than twice as much money has been spent on offshore exploration over the past 22 years -- approximately $6 billion in 1988 dollars -- as has been spent on any of the long-term mega-projects in the Atlantic Region. There is very little residual industrial benefit to show for this expenditure, roughly three-quarters of which originated with the federal government in the form of tax incentives and grants. The offshore oil industry is capital-intensive and relies on traditional international suppliers.

5. Drilling under the federal Liberal government's Petroleum Incentives Program was often undertaken out of federal political expediency. Costly wells were drilled in areas where either insufficient seismic information was available or the geological and geophysical data indicated questionable, if not poor, prospectivity. In many cases this served the interests of the companies involved because it kept their long-term-leased equipment operating at mostly federal expense.

6. Political machinations surrounding the offshore served to provide electoral opportunities for the governments of Brian Peckford, in Newfoundland and John Buchanan in Nova Scotia. This resulted in
three election victories for the former and two for the latter. Of
course, the outcomes of these elections merely succeeded in satis-
fy ing personal political ambitions; they had very little ultimate
influence on the course of offshore development. As such, the
"democratic process" tends to obscure the fundamental issues of
control and benefit regarding economic development.

7. If Hibernia is to be developed, the July 1988 "Statement of Princi-
ples" constitutes an unprecedented commitment on the part of both
the provincial and federal governments to legitimize the corporate
accumulation of capital under manifestly uneconomic terms. All of
the circumstances surrounding this deal speak clearly to the fact
that the activities and energies garnered to produce oil from,
Hibernia have little if anything to do with real development; viz.,
the enhancement of the social, cultural and economic well-being of
all the people for whose benefit resource exploitation should
occur.
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