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Date Oct. 11, 1988
ABSTRACT

This thesis compares policy instruments in the American and Canadian oil sectors from 1973 to 1977, the years immediately following the Arab oil embargo. Public policy has traditionally emphasized objectives over instruments even though instruments are at the heart of the policy making process. This case study helps to address this deficiency in the policy literature. It begins by providing a review of the instrument choice literature. Doern and Phidd’s typology, which arranges instruments in terms of degrees of coercion, subsequently forms the basis for Chapter Two.

Chapter Two’s analysis of American and Canadian oil policy reveals that both countries agreed upon the security of supply objective. Furthermore, both deployed many similar instruments including suasion, direct expenditures, loans and guarantees, taxation, and regulation to reach the objective. However, one very important difference in instrument choice was made. While Canada deployed the most coercive policy instrument (public enterprise), the United States did not. Chapter Three offers three explanations for this specific difference. They are (1) differences in ideology, (2) market factors, and (3) differences in government institutions.

The difference in ideology is the most important explanation. American ideology is decidedly more conservative than Canadian ideology. As such, American governments are less inclined to create government corporations, like national oil companies, than are Canadian governments. Furthermore, ideology is invariably reflected in a nation’s party system, and neither of America’s mainstream parties advocated the creation of an NOC while Canada’s government party did.

Market factors are also important. Countries with formidable industrial bases, such as the United States, are less likely to create public corporations than are those with weaker industrial bases. In the particular case of oil, Canada’s oil industry was predominantly foreign-owned owing to insufficient pools of domestic capital. America’s industry was overwhelmingly domestically-owned. Hence whereas Canada’s NOC was the only oil company truly loyal to the Canadian people,
an American NOC would have had to compete with home-based multinationals making it relatively unattractive to governing elites, and unnecessary to the American public.

Finally, the differences between Canadian and American institutions are stark and important. Canada's parliamentary system of government fosters public corporations because corporations are easy to create and offer significant benefits to their political masters who can control them. The Canadian government set out to create an NOC in the mid-1970s and came across no obstacles. On the other hand, America's presidential system discourages public corporations. Not only did American Presidents and Congressmen not desire an NOC, but they were unable to legislate what comprehensive oil policy they did desire.
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Figure 1: The Instruments of Governing
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INTRODUCTION

In 1973 an Arab oil boycott threatened to completely cut off oil supplies to consuming nations. As a sufficient supply of oil was crucial to the maintenance of their politico-economic systems, all oil-consuming countries, including Canada and the United States, re-evaluated their respective energy policies. The halcyon days of relatively stable energy prices were gone forever, and every country modified its policy objectives and policy instruments consonant with the new era.

The purpose of this thesis is twofold; first, to compare American and Canadian oil policy instruments between 1973 and 1977. Chapter One provides a review of the instrument choice literature, focusing on four diverse ways of conceptualizing and examining policy instruments. Chapter Two, in turn, compares American and Canadian instruments by arranging policy instruments along a continuum starting with minimum coercion and extending to maximum coercion. Before oil became a major policy concern, these two countries' policy instruments converged: "North of Mexico - where the nationalization of oil occurred in the late 1930s - the North American continent was, from the days of John D. Rockefeller until the era of Sheik Yamani, an exclusive preserve of private oil" (Pratt 1981, 96). After 1973, Canadian and American policy makers no longer agreed on how to tackle oil policy. The biggest difference was that Canada created a government owned oil company, and the United States did not.

The second purpose of the thesis is to explain the divergence between Canadian and American instrument choice. Chapter Three offers three potential explanations for the post-embargo divergence. They include differences in ideology, market factors, and government institutions. All have been used successfully by others to explain the scope of public enterprise in various countries. However, my paper tests their ability to explain the specific policy divergence between Canada and

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1 1977 was chosen because that year marked the passage of the National Energy Plan (NEP) in the United States, and the first anniversary of the creation of a national oil company (hereafter referred to by its abbreviation, NOC) in Canada.
the United States in the oil sector. At the conclusion of my paper, ideology, market forces, and government institutions are ordered in terms of their importance.
Policy instruments are the means adopted to meet government objectives. They "are the major ways in which governments seek to ensure compliance, support and implementation of public policy" (Doern and Phidd 1983, 110). Policy instruments include direct expenditures, tax expenditures, regulation, public enterprises, loans and guarantees, mixed enterprises, and suasion/exhortation. A tax expenditure is potential revenue the government chooses not to collect when it reduces tax liability for certain designated types of income or wealth, while suasion consists of persuasion and voluntary appeals made to the electorate by the government (Stanbury 1986, 49). While policy instruments are traditionally less scrutinized than policy objectives, they are very important.

There are many diverse ways of conceptualizing and examining instruments. First, Bruce Doern, working with Vince Wilson and later with Richard Phidd, arranges policy instruments in terms of the degree of coercion they entail. The authors' conceptual framework was well illustrated by Bruce Doern and Richard Phidd in 1983:

Figure 2.1

The Instruments of Governing

Exhortation
Self-Regulation
Expenditure
Public Ownership

Regulation
(including taxation)

Minimum

DEGREES OF LEGITIMATE COERCION

Maximum

Figure 2.1 portrays the degrees of legitimate coercion involved in governing. It arranges the

---

2Doern and Phidd 1983, 111.
instruments along a continuum starting with minimum coercion and extending to maximum coercion.\textsuperscript{3}

There is practically no coercion involved with self-regulation, and very little with exhortation, which "involves an effort to ensure support and compliance through persuasion, discussion and voluntary approaches" (Doern and Phidd 1983, 111). Taxation and regulation, on the other hand, are more coercive, for they entail the imposition of government rules backed by state sanctions. Finally, public ownership is considered to be the most coercive and interventionist policy instrument available to modern government. This is particularly true when a private company is nationalized.

Arranging policy instruments systematically from least coercive to most coercive is useful for analytical purposes. The various forms and degrees of legitimate coercion are not merely means or techniques. They are ends in themselves. Thus, it is important to be able to judge how much coercion government is using to meet its policy objectives. While some policy problems require unwavering government commitment in the form of public enterprise, most do not.

Doern and Wilson took the preceding analysis one step further in 1974 by crystallizing it into a theory. They generalized about instrument use over time by concluding that "politicians (especially the collective cabinet) have a strong tendency to respond to policy issues (any issue) by moving successively from the least coercive governing instruments to the most coercive" (Doern and Wilson 1974, 339). They predicted that government would first respond to a new issue by creating a study, engaging in consultation, or uttering a broad statement of intent in a speech. Secondly, provided that the issue was still on the agenda, politicians would make distributive expenditures. Thirdly, they would implement a larger redistributive programme, leaving the regulation of the policy sector as a final option. Doern and Wilson also claimed that their theory was reinforced by the political circumstances of federalism as the least coercive instruments could be utilized with greater constitutional ease and certainty.

\textsuperscript{3}Doern et al.'s theory was inspired by Lowi's theory on the centrality of coercion in politics. See Lowi (1964) and (1972).
A decade later, Doern and Phidd themselves all but reject the theory. Too many questions cannot be empirically answered. When is a policy issue "new," for instance? Do events, decisions, and nondecisions precede the decision to spend money or regulate? And how long does it take for the hypothesized behaviour to unfold? The two authors also agree with W.T. Stanbury's analysis that "politicians too readily practise the adage that 'there ought to be a law' and easily reach for the regulatory political gun first" (Doern and Phidd 1983, 129).

The fact that a theory stressing coercion may not be capable of forecasting the pattern of instrument choice is unfortunate, but hardly fatal. While governments everywhere shifted from passive oil policies to active ones during the decade, some pursued the full force of government intervention more than others, leading to important differences worth scrutinizing. Thus comparing the different policy instruments deployed by oil-importing countries in the 1970s in terms of their coerciveness is a fruitful exercise as will be shown in Chapter Two.

The second conceptualization explored is that of Kenneth Woodside. He refutes the assumption built into the models of many policy instrument theorists that politicians and officials can choose from among the whole range of governing instruments. While the full range of policy instruments may be available for consideration and selection in the cabinet, policy initiatives usually evolve and develop in departments and agencies where instrument choice is limited by statute. For Woodside, theories and frameworks that stress the range of policy instruments tend to ignore how issues get on the agenda, the narrow choice of instruments available to many departments and agencies, and past choice which suggests certain problems should be dealt with through the use of a specific policy instrument. Political and economic realities such as international and domestic crises or concerns about the budgetary implications of adopting certain policy instruments must also be emphasized lest an unrealistic sense of choice distort instrument choice analysis.

Woodside also re-examines Doern and Phidd's assertion that differentiating policy instruments in terms of coercion is analytically useful. In a partial refinement of their typology, Woodside argues that differentiating policy instruments in this way fails to take into account that each
policy instrument itself can be used in a wide range of ways that involve differing degrees of coercion. The way that a particular policy instrument, coercive or uncoercive, will eventually be used after adoption will depend on its unique constituency or client. Furthermore, governments readily adapt the use of an instrument when the political power of the clientele or constituency of a policy shifts, or when a policy area changes over time. In sum, the political power of the clientele of a policy not only helps determine whether a "coercive" or "uncoercive" instrument will be chosen by government, but also the particular way in which any one policy instrument will be structured.

Woodside is correct that careful attention ought to be paid to the specific form an instrument takes. However, the fact that public enterprise is generally much more coercive than suasion must, under no circumstances, be lost in the shuffle of detailed case studies. Governments that rely heavily on public enterprise are generally more coercive than those that do not. Therefore, Doern and Phidd's concept is more useful than Woodside suggests.

Thirdly, Trebilcock writing on his own and with Hartle, Prichard and Dewees shifts the focus of analysis. He is a public choice theorist, and the basic tenet of public choice is that decision makers are utility maximizers whose behaviour is best explained in terms of the pursuit of their self-interest. Working within the constraints of the polity, decision makers choose whatever policy instrument furthers their own goals. While the vote-maximizing goal of the politician is implicit in Doern and Wilson's hypothesis - governments eschew unnecessarily coercive policies in order to maximize their popularity - Trebilcock et al. make the goal the cornerstone of their hypothesis (Woodside 1986, 781). In their analysis, political decision-makers "have only one ultimate objective in all policy decisions - promoting their prospects of election or re-election (vote maximization) and both the choice of interests or values to be advanced and the choice of instrument by which they are to be advanced will be evaluated by them against this benchmark" (Prichard 1983, 16).

The primary goal of Trebilcock et al. is to explain what instrument will be chosen in a particular context. They cite three key sets of variables. First, instrument choice is limited by
legal or constitutional constraint. Second, to the maximum extent possible, political decision-makers adopt instruments that confer benefits on marginal voters, and impose costs on infra-marginal, or particularly committed, voters. Third, rational decision-makers take into consideration voter ignorance and deploy policy instruments that magnify the benefits of marginal voters, even exaggerating their size, while depreciating the pains borne by other voters (Trebilcock, Hartle, Prichard et al. 1981, I-4). By tying the calculus of instrument choice unwaveringly to electoral considerations, Trebilcock et al.'s theory shows consistency. It certainly has the potential to contribute to the discipline's explanation of Canadian oil policy. However, their approach is problematic in that it "lacks a sufficient breadth of appreciation about the broader relations among institutions and among ideas, structures and processes" (Doern and Phidd 1983, 145).

The final instrument choice theory to be assessed is that of R. Kent Weaver, who has applied his theory to a comparative analysis of Canadian and American railway policy. Weaver cites three factors which influence the choice of a particular instrument: (1) the economic attributes of the instruments, (2) the political attributes of the instruments, and (3) the constraints derived from the broader political system. First, while conceding that the different economic circumstances that countries face help account for instrument choice divergence among nations, Weaver states that economic attributes, in general, are an insufficient explanation of instrument choice. He contends that governments can always choose among several policy instruments whatever the circumstances, and that economic circumstances are more likely to determine whether a government will intervene than how it will intervene (Weaver 1985, 75).

Political attributes and constraints - past choice, ideology, costs and benefits, and government institutions - are afforded much more prominence in the theory. They may influence whether the economic advantages and disadvantages generally linked to an instrument apply in a particular case. For instance, are public corporations controlled equally as well by all countries? Political

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attributes may also determine what instrument attributes are considered legitimate to government and non-governmental decision makers, and the ability of opponents of a particular instrument to block its adoption (Weaver 1985, 77-78). The explanatory capability of Weaver’s theory is impressive.

In fact, all of the theories and typologies examined in this chapter shed light on the policy instruments phenomenon. While Doern and Phidd focus on coercion, and Trebilcock et al., electoral calculus, one thread runs through them all. All of them emphasize the importance of differences in policy instruments - "differences both in terms of the political process they engender, in the incidence of the benefits they confer, in the level of coercion they imply and in their visibility to the general public" (Woodside 1986, 785). The existence of such differences is precisely why studying policy instruments is so important. No two instruments are exactly the same, and when policy makers choose one over another, they usually do so for a specific reason, making the choice between instruments a political decision. Why else would privatization be inciting inflammatory debate in so many parts of the industrialized world?

Doern and Phidd’s typology forms the basis for Chapter Two because of the essential difference between Canadian and American oil policies. In order to meet similar security of supply objectives, Canada deployed the most coercive policy instrument while the United States deployed less coercive policy instruments. The two authors' typology picks out this difference immediately. Theories will play a more important role in the thesis when explanations are discussed in Chapter Three.
Chapter 2

AMERICAN AND CANADIAN OIL POLICY INSTRUMENTS, 1973-77

The 1973 Arab oil embargo caused the emergence of an energy policy explosion in all oil-importing countries. Five central policy objectives - secure supplies, reasonable prices, increased domestic production, efficient use, and fair allocation - preoccupied all of the 130-odd countries which imported oil. While each country did not give the exact same priority to each objective, a survey of energy policies of International Energy Agency (IEA) countries indicates that security of supply was the prime objective of all nations. The United Kingdom's energy objectives were "the provision of adequate and secure supplies of energy, the efficient use of available supplies and the attainment of these aims at the lowest practicable cost to the nation" (IEA 1977, 161), while the overall objective of the Danish energy policy in 1977 was to "reduce the high degree of dependence on imported energy, especially imported oil, which accounted in 1973 for 91% of total primary energy requirements" (ibid., 76). Since the most striking commonality among oil-importing governments was their intense drive to improve short and medium term security of supply, the discussion of American and Canadian instrument choice which follows focuses on instruments adopted to meet this objective.

All of the industrialized importers, apart from the United States, agreed on the broad parameters of government involvement. Table 1 shows that in almost all of these countries, including Japan, West Germany, France, Italy, Canada, Sweden, Benelux, and Britain, the political system considers state enterprise as a legitimate public policy tool. Most of these countries' policy instruments subsequently ranged from suasion to public enterprise. Even West Germany, a country inclined to use market instruments whenever possible, created a state-backed group, VEBA, in the mid-1970s in order to retain a minimum 25 per cent oil market share under direct national control (Kemezis and Wilson 1984, 50).

5International Energy Agency (1977). New surveys are released each year.
### Table 1

**Public Enterprise Shares of Selected Western Economies**

<table>
<thead>
<tr>
<th>Country</th>
<th>Percent of gross fixed capital formation</th>
<th>Employment as percent of labor force</th>
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<tbody>
<tr>
<td>Austria</td>
<td>19.2</td>
<td>13.7</td>
</tr>
<tr>
<td>Belgium</td>
<td>13.1</td>
<td>5.2</td>
</tr>
<tr>
<td>Canada</td>
<td>14.8</td>
<td>3.0</td>
</tr>
<tr>
<td>Denmark</td>
<td>8.3</td>
<td>3.4</td>
</tr>
<tr>
<td>France</td>
<td>14.0</td>
<td>7.3</td>
</tr>
<tr>
<td>Germany, Federal Republic of</td>
<td>10.8</td>
<td>7.2</td>
</tr>
<tr>
<td>Ireland</td>
<td>11.8</td>
<td>7.3</td>
</tr>
<tr>
<td>Italy</td>
<td>15.2</td>
<td>6.6</td>
</tr>
<tr>
<td>Japan</td>
<td>11.2</td>
<td>2.8</td>
</tr>
<tr>
<td>Netherlands</td>
<td>12.6</td>
<td>3.6</td>
</tr>
<tr>
<td>Spain</td>
<td>15.6</td>
<td>2.9</td>
</tr>
<tr>
<td>Sweden</td>
<td>15.3</td>
<td>8.2</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>16.8</td>
<td>8.1</td>
</tr>
<tr>
<td>United States</td>
<td>4.4</td>
<td>1.5</td>
</tr>
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The unique country in the developed world, which "bucked" the trend of intervening in the oil sector with coercive instruments, was the United States. The principal means of control left to the Americans was regulation, and even forms of it were restricted. Hence while both Canada and the U.S. adopted many similar policy instruments to manage the oil crisis, including suasion, direct expenditures, loans and guarantees, tax expenditures, and regulation, Canada adopted the most coercive form of policy instrument while the United States did not. This is the "big fact." It is necessary to describe all of the oil policy instruments deployed by each country in order to fully appreciate the significance of this difference.

**Oil Policy Instruments Chosen by U.S.**

American oil policy lacked consistency throughout the 1970s. Three administrations governed the United States during the crisis. A Republican, Richard Nixon, was president until 1974. He was succeeded by another Republican, Gerald Ford, who led the country until 1976 when Jimmy Carter won the presidency for the Democrats. Not only were there three presidents, but the two
Republican presidents faced a Democratic Congress which disagreed with many of their energy policy initiatives. America's fragmented system of government simply made coherent energy policy very difficult to implement, allowing energy problems to drift. When Ford signed an energy bill in December, 1975, "it was much watered down, it compromised the issues and it did not show any cohesive energy plan" (Ghosh 1983, 173). Even Carter, who faced a "friendly" partisan Congress, had difficulty pushing through his energy program. Eighteen months after being sent to Congress, only half of his program became legislation in November 1978 (Goodwin 1981, 584). This was discouraging for many Washington policy makers who had worked tirelessly for years in search of a comprehensive energy policy:

Shortages, dependence on insecure foreign sources, and startling increases in price convinced the majority of Americans that government should intervene in a comprehensive manner to direct the behavior of energy producers and consumers. With few exceptions after 1970, politicians, consumers, and business leaders shared a consensus that the United States needed a coherent national energy policy (Vietor 1984, 313).

Yet a coherent oil policy seemed to be out of America's reach. In fact, Nixon, Ford, and Carter were influenced by different energy reports. Nixon was clearly influenced by a National Petroleum Council's multi-volume report, U.S. Energy Outlook. Months after its December 1972 release, he outlined a comprehensive national energy policy containing all but one of the Council's recommendations, the continuation of oil import quotas. Alternatively, Ford was influenced by the Federal Energy Administration's Project Independence Report published in 1974, and Carter was influenced by and helped design The National Energy Plan, a report released in April, 1977 by the Energy Policy and Planning group headed by Carter's Energy Secretary, James Schlesinger (Ibid., 314-15). American energy policy was clearly a complex matter throughout the 1970s, and many lengthy and insightful books describe the era well.6

Security of supply was the main policy objective of all three administrations. President Carter's National Energy Plan (NEP) recommended the following: Energy conservation and fuel efficiency, including a reduction in gasoline consumption by 10 per cent of its current level by

1985; the development of new energy technologies such as synfuels; and the substitution of more abundant energy resources such as coal for those in comparatively short supply such as oil. For instance, coal was to increase in production from roughly 700 million tons per year to over one billion tons per year within a decade (IEA 1977, 167). The NEP also proposed rational production and pricing policies to encourage new production and to contribute to social equity. Carter's NEP was clearly the most comprehensive and most daring energy policy ever presented to the American people.

In any event, unlike other oil-importing countries, the United States continued to rely more or less completely on regulated private oil companies to fulfill its short, medium, and long-term requirements. While the oil embargo certainly constituted a genuine emergency for the United States government, resulting in greater government involvement in the oil sector than had been the case since the Second World War, market solutions were considered to be the most promising. While Americans did not treat their oil companies as "just another chemical company," they felt that properly regulated private companies could increase domestic energy supplies by significant amounts with their impressive research, capital, and managerial resources (Kemezis and Wilson 1984, 43). As a result, the private oil industry continued to thrive in the United States.

The fact that all but two of the major oil companies operating within the United States were American-owned and controlled indicates how strong America's oil industry was. Their existence seemed assured as the federal government continued to grant them "carte blanche" exploration and production rights on federal lands and offshore tracts (ibid., 41). When public distrust of the oil companies peaked in the mid-1970s because of increasing profits at a time of shortage, the administration stood against Congress's belief that it might be necessary or useful to break up the majors (Goodwin 1981, 514). In fact, radical Conservatives pushed for more, less inhibited, private enterprise. The merits of private enterprise were simply not seriously questioned by government as they were in many other countries, although certain measures were ultimately taken to control the companies.
All three administrations agreed on a range of policy instruments to reach the security of supply objective. The following categorization shows what policy instruments were deployed by the United States from 1973 to 1977. Instruments are listed from least coercive to most coercive consistent with Doern and Phidd's typology. While a change of government did not alter the potpourri of policy instruments adopted, it did, in some cases, affect how each was ultimately deployed.

First, suasion, particularly "pure political leadership" suasion defined as involving "the use of exhortation by politicians to persuade citizens to alter their beliefs and ultimately their behaviour on the basis of emotional and/or logical appeals without any explicit or implicit inducements to do so" was deployed by the United States government (Stanbury 1986, 73). Carter's dramatic televised address to the nation on April 18, 1977 was the most vivid example of suasion during the entire energy crisis. Carter told his fellow Americans that the depletion of domestic sources of oil and gas posed an immense threat to American economic and political hegemony. He unveiled a National Energy Plan that evening which he characterized as "the moral equivalent of war" (Vietor 1984, 259). Among the NEP's many provisions were voluntary conservation measures to reduce the level of oil imports by one million barrels per day by 1985 (IEA 1977, 167).

Nixon and Ford also appealed to Americans to decrease their consumption of oil. In fact, President Nixon's 1973 speech, in which he warned that oil supplies would fall 10 per cent short of demand (Vietor 1984, 244), helped motivate 73 per cent of Americans to lower the temperatures in their homes; 62 per cent to use less electricity in their homes, 62 per cent to drive more slowly, 41 per cent use their car less, and 8 per cent to join a car pool (Gallup Poll, January 1974).

Nevertheless, Carter's oil-conservation appeal was more passionate than either Nixon's or Ford's was, particularly when he warned Americans that energy vulnerability could lead to "national catastrophe" (Vietor 1984, 259). While Carter's plea was driven home by the major psychological impact of line ups at American gas pumps, the decline in U.S. oil consumption which followed
1978’s peak of nearly 19 million barrels per day was due much more to the higher price of crude oil and recession than to administration rhetoric (Ghosh 1983, 6).

Secondly, a substantial amount of direct expenditures was allocated to the energy crisis. The Nixon administration sent several bills to Congress in April, 1973, containing provisions for everything from tax credits for oil and gas exploration to the reorganization of the government’s energy and resources agencies. However, only a bill to increase the research and development (R & D) budget received congressional support.

The United States government, from Nixon through to Carter, sought to underwrite a massive program in energy R & D (Kash and Rycroft 1984, 16). The Ford administration remained committed to the degree of federal government involvement in energy research established by its predecessor, and increased budget allocations to conservation and coal research substantially. In fact, funding for solar energy projects leapt in 1976 by a whopping 500 per cent (Goodwin 1981, 518). In addition, there was so much support for synthetic fuels in all three post-embargo administrations that policy “was not whether government should subsidize development of synfuels, but rather, how fast and in what manner” (Vietor 1984, 329). Synfuels projects would have received even more funding than was the case had Congress been as enthusiastic about them as the executive branch was, or subsequently, had the executive enjoyed the prerogative to make energy policy on its own as does the executive in Canada.

The Energy Conservation and Product Act, which passed in 1976, contained provisions for federal assistance in the weatherizing of homes. So did the National Energy Conservation Policy Act passed two years later under a different president. This latter act also provided for $100 million for solar demonstration programs in federal buildings, and grants to states for solar energy investments in schools, hospitals, and public buildings (Goodwin 1981, 585).

Finally, the greatest amount of resources was allocated to a Strategic Petroleum Reserve (SPR), established in 1975. The purpose of the stockpile was “to quell panic and, if necessary, buy the time to react” in case of an emergency (Adelman 1982, 12). Under Ford, the SPR was to
contain 500 million barrels of oil by 1982, but Carter postponed this date to the end of the 1980s and submitted plans to Congress aimed at doubling the ultimate size to one billion barrels (IEA 1977, 168). After millions of dollars had been spent on the reserve from 1975 to 1978, the Carter administration made an agreement with Saudi Arabia to stop buying oil for the stockpile in return for a promise that a high rate of output would be maintained. This policy lasted for two years until Congress overrode the president and the fill resumed.

The United States government also made loans and guarantees to individuals, organizations, and the oil companies as part of its energy program. In 1976, the Ford administration requested a special loan guarantee authority of $2 billion from Congress for synthetic fuels research. It did not get it, but a Synfuels Corporation was formed which offered loans and price guarantees to several projects (Goodwin 1981, 518).

Later, when Ford submitted a simple request in January, 1976 for an extension of the Federal Energy Administration’s life, Congress granted the necessary authorization only after securing federal assistance to encourage energy conservation on a large scale (Ibid., 540). The tactic proved successful, and guarantees of up to $2 billion were provided for industry, state, and local government, small business, and nonprofit institutions borrowing to conserve energy (Ibid.). Finally, Carter’s National Conservation Policy Act made loans available for conservation and solar energy investments in the residential sector.

Suasion, direct expenditures, and loans and guarantees were all important instruments of the oil industry. However, among the indirect policy instruments affecting oil production, tax policy was the most important by far (Kemezis and Wilson 1984, 145). This was true of all three administrations. Most subsidies for private companies were effected through the tax system. In addition, tax incentives were embraced to encourage thermal efficiency.

Tax policy was altered to increase oil production, but not to decrease oil consumption. An analysis of tax policy should not lose sight of this because tax penalties on gas and oil usage had the potential to contribute immeasurably to the security of supply objective. Unfortunately for
American policy-makers, taxation as a means of demand-management was rejected politically, and so little progress was ever made on this issue (Vietor 1984, 314).

Tax policy is complex in every free enterprise democracy, and especially where a federal system of government assigns different tax powers to different levels of government. The United States federal government imposes taxes on resource income and on the production of resources. These latter ad valorem taxes are based on the volume of the resource produced times its average sale price. The most important ad valorem tax debated during the oil crisis was the windfall profits tax imposed on the difference between the sales price of a barrel of crude and a base price established by Congress. While Nixon, Ford, and especially Carter all favoured a windfall profits tax, Congress did not pass one until 1980.

In accordance with his belief that the energy crisis would be best handled through private enterprise, Nixon sent Congress a bill providing tax credits to the oil and gas industry. While the measure offered the industry new incentives to explore and develop America's energy resources, which would have brought the country closer to its security of supply objective, Congress did not cooperate with the president. Differences between the two Republican presidents and Congress prevented the adoption of a tax policy that would have dramatically increased exploration and production.

Carter fared somewhat better. The Energy Tax Act passed by Congress in 1978 included many new taxes, tax credits, and tax expenditures, such as a graduated tax on gas-guzzlers and a substantial tax credit for home owners and businessmen who insulated their respective residential and non-residential buildings. However, the centrepiece of Carter's NEP was the crude oil equalization tax and it was killed in the Senate's Finance Committee. Had the legislation passed, it would have imposed world market prices on consumers, provided incentives for oil companies to increase production, and captured economic rents for the government.

Finally, the oil depletion allowance, a tax expenditure costing $1.7 billion in 1972 and which had served as an incentive for oil exploration for nearly half a century, was abolished for large
producers in 1975 (Ibid., 226). As Richard Vietor astutely observes, it is "perhaps ironic that after condoning the depletion allowance during decades of domestic over-supply, Congress finally abolished it in a domestic supply crisis when it might actually have served the national interest for the very first time" (Ibid., 228). Tax policy was simply not as consistent with the security of supply objective in America as it could have been, or as it was in other countries.

Regulation was the principal means of controlling the oil market in the United States. In fact, while European countries and Canada utilized their NOCs to gather information vital to the effective regulation of their oil industries, the United States relied on information disclosure for such knowledge. While this particular regulatory action was harmless, the prominence of regulation among policy instruments was not. Regulation was similar to tax policy in that it hindered efforts to secure oil supply by dampening oil exploration and development. In fact, apart from foregone production, distributional effects, and general economic inefficiencies, refiners alone might have spent over $500 million a year on regulatory matters, and fuel-oil marketers spent $200 million (Ibid., 258). Therefore, aside from a requirement under the National Energy Conservation Policy Act of 1978 that the Department of Energy set minimum efficiency standards for thirteen categories of home appliances, the regulation of the oil sector was extremely harmful.

Oil regulation was synonymous with price controls in the 1970s. In fact, the fundamental political fight in the United States was over their very existence (Ibid., 196). Nixon and Ford opposed price controls and Carter's NEP recommended relaxing them. However, important factions in the Democratic-controlled Congress supported price controls tooth and nail. Therefore, direct federal control of crude oil prices lasted from August 1971 to January 1981 (Ibid., 236). While Congress was very serious about designing a long-term energy policy before 1973, after that tumultuous year it "busied itself with finding and enacting suitable punishments for the party it identified as most culpable in the matter of shortages and the crisis, namely the major oil

7The story of oil price controls is complicated even when limited to crude-oil pricing. For a comprehensive discussion of them, see Chapter 10 "Equity versus efficiency: oil price controls" in Vietor (1984).
companies" (Goodwin 1981, 397). All bills initiating from the White House to decontrol the price of oil were defeated because, while Congress would do little to reduce the power of the multinationals, it was unwilling to allow oil companies to benefit from the oil crisis at the expense of the poor.

By promoting consumption and deterring the economic feasibility of exploring for and producing new reserves, price controls reduced the domestic supply of oil and stimulated imports. While Richard Vietor distinguishes between ten different periods of crude oil price controls between 1971 and 1980, the system essentially consisted of two tiers after August 1973: new oil (upper tier) and old oil (lower tier). Old oil was defined as the 1972 volume of production from any property producing in that year, while new oil was production above that level and oil from leases that began producing after 1972. The price of old oil was controlled (initially at the May 1973 level of $4.25 per barrel) while new oil, oil from stripper wells (producing ten barrels or less a day) and "released" oil (a volume of old oil equal to new oil from the same property) could be sold at any price. New oil was ultimately controlled after December 1975.

Both Nixon, who had initially implemented price controls in 1971 to fight inflation, and Ford opposed price controls. In fact, President Ford's energy plan hinged on price deregulation, a result of concern in the oil industry that the exploration and production costs of American crude were outrunning the escalators applied to crude prices. The situation was becoming desperate: "Not only was the lower tier price fostering well abandonment, or deterioration of stripper status, but the upper tier price was allegedly too low to justify the costs of new wildcat exploration, deep offshore drilling, or enhanced tertiary recovery" (Vietor 1984, 254). The abandonment of oil price controls was an important element in reaching America's security of supply objective. While complete abandonment never occurred, Ford's Energy Conservation and Production Act was passed in August 1976, exempting stripper-well production from price controls and modifying the requirements for escalating the composite-priced crude oil.

While Carter was not as opposed to oil price controls as Ford, his NEP espoused rational production and pricing policies. His proposals included allowing newly-discovered oil to reach 1977
world oil prices over a three year period. In April 1979, Carter announced a plan to gradually
decontrol the price of oil in a two year time period from June 15, 1979 to September 30, 1981
(Kash 1984, 193). Ronald Reagan ultimately accelerated the process.

In conclusion, the principal means of controlling the oil industry in the 1970s was regulation. This was because the United States government rejected both mixed and public enterprise as a policy instrument.

Some Americans obviously shared the view of their western allies that the creation of an NOC was appropriate government policy. The Consumer Federation of America (CFA) actively supported the possible formation of a federal oil and gas corporation as did public power, electric co-op, labour, liberal farm, and consumer constituent organizations. Consumer advocate Ralph Nader suggested that such a corporation be set up "as a TVA-like yardstick against which the performance of private oil companies could be measured" (Vietor 1984, 209). However, governing elites failed to share his enthusiasm.

Proposals in favour of an NOC were made through the usual legislative channels. Several bills were introduced in Congress, public hearings were held, and papers were published on the question (United States 1981, 1). However, no leading politician could be found to "run with" the idea. No president advocated the adoption of an NOC, and Congress, generally, showed little interest in proposals for an NOC, a federal oil-importing agency or even a system of national chartering of oil companies. Still, key Congressional figures, like the late Senate Energy Committee Chairman Henry Jackson, made American policy makers acutely aware that other western governments were moving toward direct oil purchasing. Jackson himself introduced legislation to create five independent, government-owned energy development corporations, one for each energy source. While a modified version of the bill was eventually passed, creating five corporations under the Energy Research and Development Corporation, nothing looking remotely similar to an NOC was in the offing.
The fact that neither political party advocated the creation of an NOC was critical. If any party were to have been in favour of an NOC, it would most likely have been the Democrats, and when President Ford asked the Democratic-controlled Congress to draw up an energy bill of its own after refusing to pass his, it did so without any mention of an NOC.

One thing that the United States government did was reorganize itself to better deal with the oil crisis, incorporating some of the functions delegated to NOCs in other countries. For instance, an office of Energy Data and Analysis was created in 1973 and, at Nixon's request, given additional powers to collect industry-related information from the private companies. One year later, the Energy Reorganization Act was passed, dismantling the Atomic Energy Commission, established in 1946, and creating two new agencies: the Energy Research and Development Administration (ERDA) and the Nuclear Regulatory Commission (NRC). Other major organizational modifications followed, the most important being the establishment of the Department of Energy (DOE) in 1977. DOE was given responsibility for most federal energy-related activities. Thus, while the United States government was willing to increase the stature of energy within the walls of its own bureaucracy, public enterprise was consistently rejected by one administration after the other.

In the final analysis, the United States was determined to meet its security of supply objective using as little state intervention as possible. As a consequence, its range of policy instruments marshalled to slay the energy dragon was relatively narrow. American policy makers insisted all along that a regulated, private industry was the most effective route to oil self-reliance, and they "stuck to their guns."

Oil Policy Instruments Chosen by Canada

Canadian oil policy was both more consistent and more comprehensive than American oil policy. Canadian consistency and comprehensiveness can be attributed to Canada's parliamentary system of government which is more centralized than America's presidential system, and to the fact that only one party and one leader ruled Canada throughout the mid-1970s. The overall objective
of Canadian oil policy during the 1973-77 period, as determined by this one government, was "energy self-reliance".\textsuperscript{8}

Self-reliance means reducing the vulnerability of Canadians to arbitrary changes in price or prolonged curtailments in supply. It means supplying Canadian energy requirements from domestic resources to the greatest extent practicable and taking all appropriate actions to protect Canadians against interruptions in the supply of energy we continue to import. It is not a strategy of self-sufficiency at any price, but recognises that the policies to be adopted have costs as well as benefits and that a balance that takes into account the economic, social and environmental aspirations of Canadians must be maintained (I.E.A. 1977, 67).

In accordance with this objective, the federal government's 1973 report, An Energy Policy for Canada: Phase I, recommended the encouragement of energy resource development, the export of energy supplies only under specific terms, and the acquisition of foreign energy supplies where such was economically feasible. While Canadian policy makers deployed a wider range of policy instruments than their southern counterparts to meet the security of supply objective, private enterprise remained very important. In both pre- and post-1973 eras, oil companies functioned in Canada as the predominant energy explorers, distributors, and marketers without fear of being nationalized.

The nation's energy requirements were traditionally met by private enterprise. As late as 1973, the government-held share of the oil and gas industries stood at less than one per cent (Pratt 1981, 97). In contrast to the American industry, the hundreds of firms which produced oil in Canada were foreign- and predominantly American-owned, but this made little difference to Canadian public policy prior to the crisis. Canadian capital markets were generally too weak to support a domestic industry capable of exploring for and producing oil in the amounts Canadian governments deemed necessary, so private companies of all origins were encouraged to do business in Canada.

\textsuperscript{8}Robert McRae distinguishes between two Canadian energy policy programs in the 1973-77 period: (1) The self-sufficiency policies in place from 1974 to 1976; and (2) the self-reliance policies contained in the 1976 federal government energy document. The first policy set out to achieve freedom from dependence upon foreign prices at any price. It was replaced when self-sufficiency was deemed impossible.
While the events of 1973 inspired the federal government to re-evaluate its pro-private enterprise position, the government decided not to challenge the fundamental power of the industry by nationalizing one of its members. The biggest threat to the private oil industry was the creation of Petro-Canada, and the Minister of Energy, Mines and Resources, Donald Macdonald, stated that private companies should consider the formation of an NOC as a governmental initiative favouring private enterprise (Cestre 1977, 26). After all, Petro-Canada was not created to replace private oil companies, but to add to their strengths by exploring oil in areas of the country where private companies could not afford to go on their own. In the final analysis, and "owing to the control of the private firms over the vast majority of the productive apparatus, the major sources of technological and geological information, and the major capital pools, the private oil sector retained a great deal of its power" (Doern and Toner 1985, 154-155). Despite government's intrusion into the industry, the industry was still primarily privately owned throughout the 1973-77 period (Ibid.).

The real story of Canadian instrument choice, however, concerns the increased reliance on regulation and tax policy to meet policy objectives, and the concomitant use of public enterprise after Petro-Canada was created in 1975. These three policy instruments were used extensively by the Canadian government. Suasion, direct expenditures, loans and guarantees, and equity ownership were deployed by the government as well, but to a lesser extent. Canada was clearly eager to take advantage of every policy instrument available to it to meet its objectives as was the case of many other countries during the turbulent era. A categorization of policy instruments similar to that appearing in the previous section follows.

First, the Government of Canada deployed suasion. As in the United States, a type of suasion used particularly often was "pure political leadership" suasion. In February, 1975, the federal government announced an energy conservation program designed to lower the rate of growth in consumption. The program included voluntarism in the industrial sector to decrease energy use by 12 per cent (I.E.A. 1977, 70), and was supported by an intensive public information program.
The federal government deployed a more targeted form of suasion by issuing "New Principles for International Business," a set of voluntary guidelines for foreign subsidiaries. The guidelines stressed the need for the multinationals to undertake more research and development in Canada, to publish pertinent financial information regularly, and to give Canadians the opportunity to buy shares in Canadian subsidiaries (Doern and Toner 1985, 500). A final example of the use of suasion concerns the maintenance of friendly relations with the oil producers. The federal government went to great lengths to try to persuade the oil companies to preserve Canada's historic share of the companies' worldwide pool of oil. Suasion was subsequently used in many different ways.

Fewer direct expenditures in the form of grants and subsidies were made than might have been the case had Petro-Canada not been formed. The Canadian government chose to fund domestic drilling primarily through general operating subsidies paid to Petro-Canada and through tax expenditures. Regardless, several programs were financed directly by the federal government. These included $1.4 billion in grants over seven years for the insulation of existing buildings (I.E.A. 1977, 70) and money for research and development of alternative energy resources such as $40 million for R & D on the oil sands (Doern and Toner 1985, 498) and "sizable subsidies" to operate a synthetic oil (syncrude) plant in Alberta (Helliwell, Verleger, Mitchell et al. 1982, 22). Finally, the CHIP program of home insulation provided up to $1,000 in grants for residential energy savings (Kemezis and Wilson 1984, 204).

Loans and guarantees were also sparse. In fact, the government made its biggest loan guarantee - $1 billion - to its own oil company, Petro-Canada. The policy instrument was not entirely neglected as a way to alter the behaviour of private enterprise, however. For example, in January 1974, Ottawa announced that it would provide private companies with loans covering 50 per cent of the construction costs to build energy interconnections between regions. Nevertheless, the use of loans paled in comparison to other instruments, such as the use of tax expenditures, as a way to meet Canada's security of supply objective.
The tax system was significantly modified after 1973. Under the assumption that government as owner of the resource had a right to a portion of the new wealth being generated by oil price hikes, the tax system administering the oil industry was "intensified" (ibid., 145). In November 1974, the Minister of Finance, John Turner, announced that provincial royalties on natural resources would no longer be deductible expenses under the federal corporation income tax. In addition, a variable export tax on crude oil and product was levied to insure that lower Canadian prices would not induce special demand for Canadian oil in the United States.

Tax expenditures became an important instrument of the government. Corporate income tax expenditures hovered well over 10 per cent as a proportion of total budgetary expenditures throughout the 1970s, owing in part to selective tax measures in the oil and gas industries (Stanbury 1986, 55). The government implemented an oil depletion allowance for companies exploring for oil and gas in lands outside provincial boundaries, namely in the Arctic regions and off the east coast. "Super depletion" enabled companies to immediately write off 200 per cent of exploratory expenditures over $5 million per well against resource income (Helliwell, Verleger, Mitchell et al. 1982, 23). This single tax write-off cost the government hundreds of millions of dollars each year in lost revenue, including $765 million in 1979, making it an important instrument of government in terms of financial commitment (Stanbury 1986, 56). As it happened, many of the inducements to exploration provided for in the tax system were offset by regulation.

The proliferation of regulations on both levels of government transferred the energy sector into one of the most heavily regulated in Canada (Cestre 1977, 14). The pre-1973 era stands in stark contrast. According to Thompson and Crommelin, the Canada Oil and Gas Land Regulations of 1961, which existed until the 1970s, gave the oil industry "carte blanche" as oil companies were allowed to write the regulations themselves (Thompson and Crommelin, 22). The regulatory framework that was ultimately adopted resulted in "a resource 'give-away' unparalleled in any

9 A 25 per cent federal "resource allowance" reduced corporate taxes by a roughly corresponding amount just one year later (Helliwell, Verleger, Mitchell et al. 1982, 22).
country in modern times" (Ibid.). Regulations actually encouraged the companies to sit on their long-term permits and wait for rises in the price of oil to start drilling at a time when oil prices were rising less than inflation. After 1973, the regulatory web facing oil companies thickened substantially, causing further disincentives to exploration when prices would normally have sent exploratory budgets skyrocketing.

The oil export tax was useful because it redirected Canada’s dwindling energy supplies to domestic markets. More importantly, it was necessary because the government froze the Canadian wellhead price for conventional oil in mid-1973 in order to fight inflation. McRae labels the 1973-80 period as “an age of protecting oil and gas consumers, as the Canadian oil price went from being higher to being lower than the world price” (McRae 1985, 50). This was the most significant change made to Canada’s regulatory system, and perhaps the most harmful, for it had the unintended consequence of slowing exploratory activity and production at a time when such activity was vital. Canada’s prices were kept at 70 per cent of world levels (Kemezis and Wilson 1984, 122). In another regulatory move which slowed exploration, the federal government tightened oil exploration provisions for foreign investors. This action caused several to redirect their assets to less regulated countries such as Brazil (Ibid., 122).

While regulation, on balance, was inconsistent with the security of supply objectives, the imposition of efficiency standards was not. The federal government cooperated with the provincial governments in implementing a comprehensive program of energy conservation with the hope of reducing the growth of energy use to 2 per cent each year until approximately 1990 (I.E.A. 1977, 70). If the program were able to concentrate on oil, the government predicted that Canada could ultimately be a small net exporter of oil instead of a fairly substantial importer. In February 1976, the federal government announced its intention to impose efficiency standards for automobiles,

10The government did not actually impose price controls in 1973, but forewarned oil companies that price increases would lead to inquiries under the Combines Investigation Act. In April 1975, the Petroleum Administration Act was adopted, giving the federal cabinet the ultimate authority over oil and gas pricing that it had been seeking (Doern 1975, 500).
appliances, and buildings thus making regulation a tool of enhancing security of supply as well as a hindrance.

The section on American oil policy effectively stopped at regulation because the two most coercive policy instruments - mixed and public enterprise - were not deployed. In contrast, these two instruments, particularly the latter, became vital components of Canadian oil policy in the 1970s. The Canadian government felt that the oil crisis, in general, and the security of supply objective, in particular, necessitated unwavering government commitment in the form of full intervention into the marketplace.

**Mixed enterprise** is considered to be a legitimate tool of government intervention in Canada. The fact that the federal government had an equity interest in 126 mixed enterprises in 1983 illustrates this well (Stanbury 1986, 69). The government's first equity ownership in the oil industry came in 1967 when it gained 45 per cent of the common equity stock and controlling interest in Panarctic Oil. Panarctic was originally formed by small Canadian independent companies to undertake risky gas and oil exploration in the high Arctic, a task which could only continue with the financial backing of the Canadian government. By the mid-1970s Ottawa was participating in the oil industry through a majority interest in the Canadian Development Corporation and minority interests in frontier exploration, tar sands, and heavy crude projects (Goodermote and Mancke 1983, 75). In addition, a Syncrude package was renegotiated with Imperial Oil, Canada-Cities Service, and Gulf Canada in 1974, which made the federal government an equity partner and rescued the Syncrude oil sands project from underinvestment (Doern and Toner 1985, 499). The mixed enterprise clearly became a valuable means for government to influence the direction and performance of the oil industry. However, the government's equity interests in oil companies were assumed under Petro-Canada after 1976, rendering mixed enterprise an important policy instrument, but one more precisely categorized under the rubric of public enterprise.

**Public enterprise** is a traditional instrument of Canadian policy makers to meet objectives, and in 1977, one year after Canada's NOC started operations, the federal government owned and
controlled 366 corporations (Stanbury 1986, 61). Public enterprise is the most coercive policy instrument available to government. Consequently, Petro-Canada's mandate was far broader than any other undertaking discussed in this chapter. Canada's Minister of Energy, Mines and Resources, Donald Macdonald, explained its importance in the House of Commons in March, 1975:

Bill C-8, to establish a national petroleum company... is a most important element in the Government's long-term planning to secure adequate supplies of energy to meet our national needs. It is firmly rooted in the basic objectives of our energy and resources policies which are, to insure for Canadians adequate and reliable supplies at reasonable prices, as well as a direct share in the wealth which development of our resources generates... We are convinced that the national interests now require a significant degree of Federal public enterprise in the oil and natural gas area... The Government does not feel assured that the private sector can be relied upon to mobilize all of the enormous amounts of capital which will be required to secure energy development consonant with Canadian needs over the longer term (Cestre 1977, 1).

The company was to become fully integrated, "perhaps multinational in its operations, with the right to enter into a large variety of energy-related activities, financial arrangements, and other corporate agreements" (Goodermote and Mancke 1983, 75). Its mandate included three social objectives.

First, policy makers felt that Canada could not rely solely upon private industry to achieve country-wide self-reliance in oil, and so formed Petro-Canada to increase domestic supplies of oil and gas. Shortly after its inception, Petro-Canada became one of the most active companies to explore in the frontiers and nonconventional areas, supplementing private companies which had shied away from investing in certain areas despite tax incentives. While Petro-Canada was not prevented by law from pursuing downstream operations such as refining and distribution, more than 90 per cent of its capital expenditures were devoted to frontier exploration and Syncrude development in 1976 (Halpern, Plourde, and Waverman 1988, 16).

Petro-Canada's second objective was to increase Canadian participation in the oil and gas industry. The company was to enhance Canadian ownership by undertaking joint ventures with small Canadian-controlled companies. After spending roughly $4 billion of the taxpayers' money to acquire foreign-controlled companies between 1975 and 1983, foreign ownership of the Canadian oil industry was reduced from 90 per cent to less than 65 per cent (Goodermote and Mancke 1983, 77).
Petro-Canada's third objective was to provide the government with a "window on the industry." According to the Department of Energy, Mines and Resources, an NOC could provide "more accurate and timely information (than private industry) with regard to the extent and costs of the Canadian resource base" (Canada 1976, 27). The Canadian government was anxious to ascertain the nature of its frontier resources in order to improve policies aimed at the oil sector. Although it served a valuable service for several years, Petro-Canada's use as a window on the industry was made redundant when another policy instrument was adopted under 1980s National Energy Program, the Petroleum Monitoring Agency.

Overall, an NOC was created in 1975 to add to the oil industry's "capacity of discovering and producing the country's oil and gas reserves, thus enabling Canada to become self-sufficient in oil earlier and for a longer period than would otherwise be the case" (Halpern, Plourde, and Waverman 1988, 11). Petro-Canada was clearly the heart of Canada's post-embargo oil policy, and offered Canadians symbolic assurance that the federal government was solving the nation's oil supply problems to the best of its ability. Its creation extended the range of policy instruments deployed by the Canadian government from the least coercive to the most coercive. While private enterprise remained the main actor in the oil industry, the scope and breadth of public enterprise was impressive.
<table>
<thead>
<tr>
<th>Instrument</th>
<th>United States</th>
<th>Canada</th>
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<tr>
<td>Suasion (A)</td>
<td>Carter characterized NEP as &quot;moral equivalent to war.&quot; Exhortations to</td>
<td>Used in a number of ways, including an intensive public information</td>
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<td></td>
<td>conserve energy under Carter were as frequent as those to reject drugs under</td>
<td>campaign advocating energy conservation, and a set of voluntary</td>
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<td></td>
<td>Reagan.</td>
<td>guidelines for foreign subsidiaries.</td>
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<td>Direct Expenditures (A)</td>
<td>The U.S. government, from Nixon to Carter, sought to underwrite a massive</td>
<td>$1.4 billion in grants over seven years was allocated for the</td>
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<tr>
<td></td>
<td>program in energy R &amp; D. Also, hundreds of millions of dollars were allocated to a Strategic Petroleum Reserve.</td>
<td>insulation of existing buildings, as were millions of dollars for R &amp; D.</td>
</tr>
<tr>
<td>Loans &amp; Guarantees (A)</td>
<td>Up to $2 billion in loans were provided to groups to conserve energy.</td>
<td>Negligible.</td>
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<tr>
<td>Tax Policy (C)</td>
<td>Among the indirect policy instruments affecting oil production, tax policy</td>
<td>Significant tax expenditures were made, including an oil depletion</td>
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<td>was the most important by far. Most subsidies for private companies were</td>
<td>allowance which cost the government hundreds of millions of dollars in</td>
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<td></td>
<td>effected through the tax system. In addition, the oil depletion allowance</td>
<td>lost revenue each year. At the same time, the tax system</td>
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<td></td>
<td>was abolished for large producers in 1975.</td>
<td>administering the oil industry was intensified.</td>
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<tr>
<td>Regulation (C)</td>
<td>Direct federal control of crude oil prices lasted throughout the decade.</td>
<td>The energy sector became one of the most heavily regulated after 1973.</td>
</tr>
<tr>
<td></td>
<td>This reduced the domestic supply of oil and stimulated imports by promoting consumption and deterring the economic feasibility of exploring for new reserves.</td>
<td>Most importantly, Ottawa froze the Canadian wellhead price for</td>
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<td>conventional oil in mid-1973, keeping prices at 70 per cent of world</td>
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<td>levels.</td>
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<tr>
<td>Mixed Enterprise (B)</td>
<td>None.</td>
<td>Petro-Canada assumed the government's equity interests in oil</td>
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<td>companies in 1976, rendering mixed enterprise an important policy</td>
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<tr>
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<td>instrument, but one more precisely categorized under public enterprise.</td>
</tr>
<tr>
<td>Public Enterprise (B)</td>
<td>None. No president and no political party advocated the adoption of an NOC,</td>
<td>Petro-Canada, established in 1975, was the heart of Canada's post-embargo</td>
</tr>
<tr>
<td></td>
<td>and Congress showed little interest in proposals for an NOC, a federal oil-importing agency, or even a system of national chartering of oil companies.</td>
<td>oil policy. It had three mandates: to increase domestic supplies of oil and gas, to increase Canadian participation in the oil industry, and to provide government with a &quot;window on the industry.&quot;</td>
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**Key**

A = More important in U.S.
B = More important in Canada
C = Equally important in both countries
0 = Non-existent
1 = Not important
2 = Important
3 = Very Important
Chapter 3

REASONS FOR POLICY INSTRUMENT DIVERGENCE

The overriding difference between Canadian and American oil policy instruments was that Canada created a national oil company (Petro-Canada) while America continued to rely on private companies to reach similar goals. Three factors help to explain, to varying degrees, this specific difference, as well as the difference between the scope of public enterprise in the two countries. They are (1) differences in ideology, (2) market factors, and (3) differences in government institutions. The remainder of the thesis is devoted to examining each factor in detail.

Before proceeding, however, it should be noted that the ideological and government structure explanations are best described as core explanations, or ones which help explain all government policy. In fact, both are commonly used to explain the divergence in the overall scope between American and Canadian public enterprise. While it would be impossible to explain the divergence between Canadian and American oil policy without examining their ideologies and political institutions, it is critical when analyzing a particular economic sector in a particular area to focus on short-term and sector-specific factors. This is what the economic argument does.

Part I: Differences in Ideology/Political Culture

Introduction

Energy policy is not insulated from a nation's ideology. According to Ian Barbour et al. who wrote Energy and American Values, "a review of the policy debates [in the United States] will show that ideological considerations play at least as important a role as... other factors in shaping and constraining policy decisions" (Barbour 1982, 58). Furthermore, "National attitudes about the proper role of government in energy development, and the fundamental issue of whether energy should be considered a public good or an object of private exploitation vary greatly from country to country" (Kemezis and Wilson 1984, 37). Canada is similar to many other countries in believing that there is
a role for the state to play in the production and distribution of oil resources. The United States
is bent by a different ideological disposition.

The Difference in Ideology Between Canada and the United States

Ideology is always a factor in major pieces of legislation for public policy is never made in a
vacuum. Many academics, including Gabriel Almond, suggest that the political process is
"embedded" in the political culture/ideology, with the result that "attitudes and beliefs individuals
hold regarding government and politics will at every step influence the interaction that takes place
among the elements of the political process" (Dickerson and Flanagan 1982, 190). No two countries
share the exact same political culture. The fact, then, that Canadians and Americans view the role
of the state differently is neither surprising nor unusual.

Philosophers have debated the role of the state for centuries, conservatives generally
agreeing with what Adam Smith said two hundred years ago:

According to the system of natural liberty the sovereign has only three duties to attend to; three
duties of great importance, indeed, but plain and intelligible to common
understanding: first, the duty of protecting the society from the violence and invasion of
other independent societies; secondly, the duty of protecting, as far as possible, every
member of the society from the injustice or oppression of other members of it, or the duty
of establishing an exact administration of justice; and, thirdly, the duty of erecting and
maintaining certain public works and certain public institutions (quoted in Leichter and
Rodgers 1984, 12).

Small "c" conservatives believe that government's role in the economy should be limited to
providing conditions for an effective and free economy. They are against most cases of public
enterprise because public enterprise means that government becomes more than just a referee
overseeing economic activity. Liberals, on the other hand, view government as an indispensable
force for achieving the "good society." According to Arthur M. Schlesinger, Jr., "The history of
governmental intervention has been the history of the growing ineffectiveness of the private

\[\text{11} \] Conservatism used here and elsewhere refers to classical liberalism.
conscience as a means of social control. The only alternative is the growth of the public conscience, whose natural expression is the democratic government" (Ibid., 15).

Given this analysis, the more conservative a country is, the more likely it will reject public enterprise as a policy instrument of the state. If it can, then, be proven that Americans are more conservative than Canadians, one could partially explain the differences in instrument choice of the two countries.

Both Canada and the United States share federal systems of government, affluent economies existing within the common economic framework of modern capitalism, and vast geographic expanses. Yet, Americans have embraced free enterprise liberalism much more consistently than Canadians, or any other nation for that matter. American society is distinguishable from all others by its stress on the individual: "The American attachment to Locke is 'absolutist and irrational.' Democratic capitalism is the American way of life; to oppose it is to be un-American" (Horowitz 1966, 155). The ideology is pervasive throughout the policy-making arena, and is one reason why the United States employs the least amount of public enterprise of any western, industrialised country. Public enterprise accounts for 4.4 per cent of gross fixed capital formation in the U.S. compared with an average of 13.1 per cent in western nations. The figure for Canada is 14.8 per cent (Weaver 1985, 71).

Ideological content in Canada is clearly more diverse. While free enterprise liberalism may be the most valued belief system, toryism and socialism are important forces which have contributed to Canadian political culture since its founding. Hartzian analysis, which argues that the key to understanding the ideological development of the Canadian and American societies is each society's point of departure from Europe in the preceding centuries, suggests that while "the United States is the perfect bourgeois fragment, the 'archetype' of monolithic liberalism unsullied by tory or socialist deviations, English Canada is a bourgeois fragment marred by non-liberal 'imperfections' -
a tory 'touch,' and therefore a socialist 'touch'" (Horowitz 1966, 148). Therefore, the ideological climate in Canada is more conducive to the creation of public enterprise than that found in America.

**Ideology and Oil Policy**

While the Canadian oil industry was privately owned until 1973, the possibility of state intervention was always present. Stephen Bailey’s observation that "the birth of a public policy is... the result of the impact of seminal ideas on strategic persons at propitious times" is astute (Bailey 1950, 38). The emergence of an NOC was propitious after 1973 for several reasons, including the fact that it was consistent with public opinion. Public attitude is a leading indicator of political culture.

In May 1973, when the oil crisis was in its infancy, a Gallup Poll revealed that Canadians were concerned that U.S. energy shortages might affect demand for Canadian supplies. Forty-eight per cent believed that the time had come for the nationalization of the country’s oil and gas resources, compared with 36 per cent who thought that private enterprise should continue to control these resources (Gallup Poll, May 16, 1973). Ten months later, two polls indicated that Canadians clearly favoured the creation of an NOC. When asked whether they approved or disapproved of the idea, 62 per cent said they approved, 15 per cent disapproved, and 23 per cent did not know (Gallup Poll, February 13, 1974). The proportion of Canadians approving of such a formation is impressive, and would not have been so high had public enterprise been less acceptable/palatable to the Canadian psyche. Canadians also approved of other interventionist elements of former prime minister Trudeau’s December, 1973 fuel policy, including an extension of a freeze on oil and gas prices until the end of the 1974 heating season (75 per cent), the extension of the oil pipeline to Montreal (75 per cent), and a large federal capital expenditure for research and development of alternative energy resources (74 per cent) (Gallup Poll, February 13, 1974).

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12H.D. Forbes pinpoints several weaknesses in the Hartz-Horowitz interpretation of Canadian ideology which are worth exploring. See Forbes (1987).
The ideological core of the nation was not so "left," however, that Canadian policy makers would seriously consider nationalizing the entire industry. In 1975 when asked about his government's intention to create an NOC, the Minister of Energy, Mines and Resources, Donald Macdonald stated that the Liberals did not intend to follow a socialist path that would favour the nationalization of the private sector. He subsequently suggested to private companies that they consider the NOC's creation as a governmental initiative favouring private enterprise (Cestre 1977, 26).

American policy makers faced a different ideological environment. In the same way that European nations may never move to a predominantly private sector, the United States, barring an unlikely shift in ideological persuasion, may never be capable of setting up an NOC. No political consensus exists which encourages government involvement in the oil business. According to Kemezis and Wilson who recently completed an in-depth comparative analysis of policy in oil-importing countries, America's uniqueness lies:

...in the way that energy is owned in the United States and the way the political system handles it. Virtually nowhere else in the world can a citizen who finds oil, coal, or natural gas on his property take immediate possession of the resource as he sees fit or lease it to an energy company with only minimal interference by the government. In almost all other countries subsoil resources are automatically considered state property (Kemezis and Wilson 1984, 40).

The United States government imposes taxes on resource income, thereby directly benefitting from the exploration for and development of resources on American soil. Yet the difference in ownership laws (which were molded by ideology themselves) has created a unique way of looking at the oil industry. As such, there is little doubt that the country will continue to depend on the free enterprise system for its energy supply indefinitely. In fact, the only successful attempts by American governments to create national oil, gas, or coal companies have been during wartime or in conjunction with military-related actions (ibid., 41). Oil production continues to be "a touchstone of the free enterprise ideology," and suggestions by liberal democrats and trade unions in the 1970s to disrupt the market system at a time when its strengths were felt to be needed most were met by strong opposition.
The nationalization of oil never even became an issue with the American public. Polls are an excellent indicator of what does (and does not) constitute a political issue, and while Canadians were asked whether they approved or disapproved of the creation of an NOC by leading pollsters (62 per cent in favour, 15 per cent against), Americans were not. Nevertheless, views on business and economics were solicited from college students in 1975, including whether they favoured or opposed government ownership in various industries. Forty-eight per cent favoured government ownership in the oil industry, 50 per cent were opposed, and 2 per cent had no opinion. In contrast, 34 per cent favoured government ownership in the telephone industry, 30 per cent in banking, and only 18 per cent in the automobile industry (Gallup 1978, 495).

In any case, the operations of the private oil companies did not go unquestioned, and Americans did not absolve from blame for the oil crisis. A February, 1974 poll revealed that 25 per cent of Americans thought that the oil companies were responsible for the energy crisis, compared with 23 per cent who blamed the Nixon administration, and 15 per cent who felt consumers were to blame (The Gallup Poll Index, February 1974, 4). In a similar poll conducted in Canada in August, 1973, 36 per cent of Canadians said that oil company management policies were to blame for gas and oil shortages in the U.S. (Gallup Poll, August 22, 1973). Yet proposals to nationalize the industry or break the power of the giant energy companies made little headway in America. This was "because it was not obvious that they would have any positive effect on the immediate problem, but also because they cut against the grain of conventional ideological conviction" (Barbour 1982, 59).

**Ideology and Political Parties**

The influence of ideology on the policy-making process is particularly significant when one takes into account ideology's impact on political parties. Parties are molded by the electorate they serve. Consequently, American political parties, in aggregate, are more conservative than their Canadian counterparts. As a result of the dominance of classical liberalism in the United States, and the diversity of ideological content in Canada, "Canada has, and the United States lacks, a
viable socialist tradition and party and a popular belief that the state must play an active role in society in addition to an arbitrating one" (Weaver 1985, 79).

Different parties articulate different policy preferences whether they be slight differences or those of a more fundamental nature. Hence unless a country's electorate is extremely homogeneous in its views, parties ought to make a difference in the type of policy enacted.

Several studies undertaken in the last ten to fifteen years demonstrate that, holding everything else constant, socialist governments tend to create more public corporations than liberal or conservative governments in industrialized nations. David Cameron is one of many analysts to conclude that "whether a nation's government was generally controlled by Social Democrats (and their leftist allies), or by non-leftist parties, provides a strong clue to the relative degree of change in the scope of the public economy" (Cameron 1978, 1252). An excellent way to test the linkage between socialist governments and public enterprise is to compare the role of public enterprise in Canadian provinces. Provinces constitute distinct political arenas enabling one to compare policy patterns across several political systems. Furthermore, four out of ten provinces to date have been governed by socialist governments - Quebec, Manitoba, Saskatchewan, and British Columbia - making ideological comparison possible.

A recent study by Statistics Canada ranked each of the ten provinces by their rate of employment by government enterprises relative to total employment and found that government employment levels are highest in Saskatchewan, B.C., and Manitoba, with figures of 3.4, 2.6, and 2.4 per cent respectively (Economic Council of Canada 1986, 10). These statistics are especially useful in that they account for differences in size, and therefore impact, on the economy of crown corporations across provinces. They suggest that the linkage between ideology and public enterprise is strong, something which Marsha A. Chandler confirms in her article, "State Enterprise and Partisanship in Provincial Politics."
Using a party-politics model, Chandler systematically compares the instrument choice pattern of provincial governments controlled by non-left parties. Chandler's category of left-wing parties includes the New Democratic Party and the Parti Quebecois. Non-left parties are all others that compete in provincial elections (Liberal, Progressive Conservative, Union Nationale, and Social Credit). How much, then, does the model explain?

Chandler first documents the number of crown corporations created by both leftist and non-leftist governments between 1920 and 1979. The results are particularly impressive when one takes into account the number of years left-wing parties have formed provincial governments relative to non-left parties. For instance, sixteen of twenty-six crown corporations in British Columbia were created by the province's sole left-wing government, whose tenure in office lasted only three and one half years. Twenty-four of twenty-seven crown corporations in Saskatchewan were created by that province's leftist party (note that most were created in the 1940s and '50s, leaving little for non-left parties to create in later years), and most of Manitoba's crown corporations were created by the CCF-NDP - seven of twelve (Chandler 1982, 720). Hence while non-left governments have created three quarters of all provincial crown corporations, "in each of the three provinces in which there has been a CCF or NDP government, the left have created more crown corporations than all other parties combined. This record of the CCF-NDP is even more striking when we consider that regardless of how long they were in power, they always created more public enterprises than the rest of the parties" (Ibid., 719). The leftist Parti Quebecois in Quebec has been the only anomaly. Yet every government in Quebec has been driven by nationalistic goals to use state intervention, and once economic and nationalistic dimensions are separated from public

13The party-politics model "is based on the premise that political parties have an independent effect on policy choice. It assumes that divergent policy priorities of political parties result in divergent policy outputs. These different policy priorities are based on ideological distinctions among parties or differences in each party's constituent group. For even if parties fail to espouse different policies, it is assumed that their actions as governments will reflect differences in their sources of support" (Chandler 1982, 715).
ownership there is evidence that the PQ has acted consistently with other left governments (Ibid., 721).

In order to ensure that the relationship between ideology and the growth of public enterprise is not spurious, Chandler determines whether or not left-wing governments have risen to power in times that were relatively more conducive to create crown corporations. Her conclusion is negative. Statistics clearly indicate that left-wing governments have created a disproportionately high fraction of crown corporations in both the 1940s, when times were not conducive to such development, and in the 1970s, when times were conducive (Ibid., 722).

Ideology is clearly a factor. Nothing makes this fact clearer than where Chandler computes the rate of establishment of crown corporations for each province between 1961 and 1979. The rate of establishment by non-left governments is higher in only one province, Quebec, but here there is less than a ten per cent difference. On the other hand, several of the other nine provinces show a striking difference between the two categories. In B.C., left governments have created, on average, 5.3 crown corporations per year, compared to the .44 rate of their non-left counterparts, and the respective figures for Saskatchewan are 1.14 and .14 (Ibid., 720). These figures, which show "that the left-of-centre parties [in Canada] have created crown corporations at a rate that is almost treble that of the combined non-left parties," supports my general conclusion that ideology plays a very real role in the formation of public enterprise (Ibid., 721). If socialist parties were as great an electoral force in the United States as they are in Canada, the party-politics model would predict the role of public enterprise in both countries to be more similar than is presently the case.

A final comment on the current trend to "privatize" public enterprises should be made, for privatization, too, indicates the strength of both ideology and party politics in predicting public policy. Given the preceding argument, one would expect governments who sell off government corporations to be distinctly non-left. As it happens, the most conservative government in the Western world at present, the Conservative Government of Great Britain, has already reduced the
size of Britain's publicly owned commercial sector by about 40 per cent since coming to power in 1979 (U.K. 1987, 1). In fact, Laux and Molot single out ideology as Thatcher's prime motivational force in privatization (Laux and Molot 1988, 175). In addition, the most conservative provincial government in Canada at present is the Social Credit Government of British Columbia, and it announced "a sweeping privatization program" in October, 1987 (Vancouver Sun 1987, A1). Opposition to "privatization" from "the left" has been striking in both Britain and B.C., suggesting that a government's decision to "privatize" is as much a matter of ideology as is its decision to "go into business."

Oil Policy and Party Politics

Oil policy should not be anomalous. Like most public policy, it should be shaped by party politics. The Republican Party was in power in the United States during the oil crisis, as was the Liberal Party in Canada. Did they make a difference to the decision to continue relying on private enterprise or to create an NOC? Had their rivals been in power - the Democratic and Progressive Conservative Parties respectively - would national policy have been any different?

The initial decision to create Petro-Canada in 1973 was more embroiled in the partisan battles of the day than usual. The Liberal Party, Canada's centrist party, had formed a minority government in 1972 with the support of the New Democratic Party (NDP), Canada's leftist party. Both parties had a history of creating public corporations, and the support of an NOC would not have run against the grain of either party's ideological position. However, the NDP's influence on events in December 1973 insured that the formation of an NOC was a Liberal priority.

The NDP threatened to withdraw its support from the minority Liberal government if its demands to pursue a more nationalistic energy policy, including the creation of an NOC, were not met. When the Conservative Party tabled a no-confidence motion scheduled for a vote by the House of Commons on December 10, 1973, the government was forced to capitulate to NDP demands.

14 In *State Capitalism: Public Enterprise in Canada*, Laux and Molot argue that some countries are motivated by ideology to privatize, such as Britain, Germany, and Holland, while others are obligated by fiscal constraints to do so, such as Italy, Sweden and Spain.
or face a general election the following February. On December 6, Prime Minister Trudeau outlined proposals for a new national energy policy to be introduced in the next parliamentary session. The proposal provided for the establishment of an NOC. The no-confidence motion was defeated.

While the NDP often takes credit for Petro-Canada's existence, the party influenced only the timing of the decision to create an NOC. The threat of parliamentary defeat, at most, reinforced a decision already taken by the Liberals, and the Liberals did not hesitate to adopt the nationalist energy policy after obtaining a parliamentary majority in 1974 (Pratt 1981, 108). While individual members of the NDP distinguished themselves from the Liberals by advocating the nationalization of a major subsidiary like Imperial Oil, distinctions between the NDP's "Fabian-oriented philosophy of government planning and public ownership and the neo-Keynesian interventionism of the governing Liberals became increasingly academic" after 1973 (ibid., 98).

The main rivals to Liberal power, in any case, were the Conservatives, and they opposed the decision. Had the Conservatives governed throughout the 1970s - they lost the 1972 election to the Liberals by two seats - Petro-Canada would not have been created:

The Conservatives... strongly opposed Petro-Canada's creation, arguing that it was an unnecessary and inefficient intrusion of the state into the economy. The Conservatives mounted a filibuster at the committee stage during the parliamentary passage of the Petro-Canada Act. Their intense dislike of Petro-Canada must not be underestimated, as four years later they would ignore the strong public support Petro-Canada had developed and make its "privatization" the centerpiece of a short-lived campaign to reduce state involvement in the economy (Doern and Toner 1985, 140).

Even though the Conservatives have traditionally accepted state enterprise in other sectors of the economy, their position on the creation of an NOC in the mid-1970s was unequivocally negative. Thus, the creation of Petro-Canada cannot be adequately explained without reference to party politics and the fact that the Liberals governed during the oil crisis.

Party politics was also a factor in shaping American oil policy. Yet neither the Republican nor Democratic Party advocated the creation of an NOC. Furthermore, no NOC was created even though the two major parties controlled the presidency in the 1970s. While the Liberals and Conservatives distinguished themselves by their stance on the formation of an NOC, the debate
between Republicans and Democrats focused on the role of government regulation. Presidents Nixon and Ford pushed for deregulation in areas of oil policy, while their Democratic successor, Jimmy Carter, strengthened some aspects of regulation in the oil industry. Hence, the fact that Canada adopted an NOC while the United States did not was really more a result of basic ideology than its offshoot, electoral politics.

The broad political consensus which exists in America limits the range of policy options open to parties who hope to acquire or maintain power. While Democrats draw disproportionately from labour, and Republicans draw disproportionately from business interests and professionals, Democratic identifiers are only slightly more "left" than Republicans (Dye and Zeigler 1981, 232). The thrust of party ideology subsequently differs hardly at all. Therefore, it is not surprising that the creation of an NOC failed to reach the agenda of either party.

In any case, Republicans have a less sanguine view of the role of the state. A study published in 1974 found that partisan variables such as the strength of the liberal wing of the Democrats in Congress and Democratic control of the presidency clearly influences the growth of American government (Cameron 1978, 1248). President Nixon continued the Republican tradition of favouring private enterprise over government intervention when in response to the 1973 oil crisis he proposed to terminate a 14-year-old oil import quota system. The president also asked Congress to extend tax credit provisions to the oil and gas industry to provide it with new incentives to explore and develop America's oil and gas resources (Evans 1976, 30). The president's policies reflected the fact that the Republicans could court business and industrial interests among their constituency, and were hence the "real" advocates of free enterprise liberalism.

By the end of February 1975, another Republican president, Gerald Ford, and a Democratic Congress could not agree upon an energy policy. The Democrats were asked to draw up a bill of their own. They did so without any mention of an NOC. While the Democrats wanted to impose an excess profits tax on large oil companies, and sought greater government control over oil prices
and oil companies, their approval of the market system, and hence the general parameters of Republican policy, was clear.

In sum, Presidents Nixon and Ford were determined to let the oil companies produce and distribute oil free of substantial government regulation following the Arab oil shock of 1973. By and large they were successful. While regulation increased somewhat when a Democratic president was elected in 1976, the Democrats had no intention of creating an NOC as their ideological Canadian cousin had done in June, 1975. While the differences between Republican and Democratic oil policies were not negligible and ought to be recognized, party politics did not determine whether or not an NOC would be created because both parties were against the idea. As such, parties clearly mattered more above than below the forty-ninth parallel.

**Summary**

There may be no country in the world that resembles America more closely in mind and spirit than Canada. Yet the two countries' ideologies are sufficiently different to cause divergence in public policy. While free enterprise liberalism is pervasive through the American policy-making arena, it is accompanied by two others in Canada - toryism and socialism. Consequently, when security of oil supply emerged as a salient issue in the 1970s, the Canadian political system was much more receptive to the idea of an NOC than its American counterpart was.

The fact that the formation of an NOC was not espoused by either of the major political parties in the United States, yet it was adopted by what the eminent political scientist, Reginald Whitaker, refers to as "the Government Party" in Canada, is paramount. While ideology may not be a sufficient explanation for the difference between Canadian and American oil policies, owing to the existence of other causal factors, it is a necessary one.
Part II Economic/Market Factors

Introduction

Many economic historians are of the view that the difference in policy instruments chosen by Canada and the United States can be explained primarily through differences in economic circumstances. Canada has chosen public enterprise as a policy instrument because its national market is relatively small, and because private capital has been inadequate to meet the demands of Canadians. The United States, on the other hand, owing to its industrial strength, has been able to rely on private enterprise to do practically everything. Hence the difference.

The economic circumstances of the oil industry in the mid-1970s presents an interesting case study. The Arab oil embargo in 1973 precipitated a worldwide shift by governments from passive to active energy policies, yet each nation's oil industry was unique (Kemezis and Wilson 1984, 3). Important variables included whether the industry was government- or privately-owned, and whether it was domestically- or foreign-controlled. For instance, if foreign-based multinationals are less reliable than domestic companies in a national emergency, the reasons behind Canada's adoption and America's rejection of an NOC become more translucent.

The Economic Argument

The economic argument rests on economic determinism. It views American and Canadian politicians as decidedly pragmatic. C.D. Howe once stated that the main criterion for choosing private or public enterprise is "which can best serve the need of the public of Canada" (Musolf 1959, 24). Americans, too, have approached public enterprise pragmatically, though debate over private versus public enterprise is rarely peaceful. Both countries' general reservations about creating public corporations are captured in a statement made by former Canadian Prime Minister Louis St. Laurent: "I think we are all most happy when free enterprise does what is required to be done and public authorities do not have to intervene" (ibid.). Economic history has beckoned Canadian authorities to the call of duty far more frequently than it has beckoned their American counterparts.
The industrial strength of the United States since the mid-1800s has been well documented and need not be substantiated at any length here. America has clearly been an engine of international capitalism for over a century, affording it the luxury of a process of capital accumulation with relatively little state support. Certainly there have been instances where private enterprise could not meet the needs of American citizenry, and where an infusion of public funds was needed. The creation of the Tennessee Valley Authority (TVA) in the American south in the 1930s depression era is an excellent example. In general, however, economic circumstances have not necessitated as much state intervention in the United States as they have in Canada. The pool of private capital American capitalists could draw on, and the relatively lower risks accompanied by capital outlay due to such factors as economies of scale, have allowed America to develop without the "socialization of risk" so necessary in Canada.

Canadian economic circumstances have simply not been conducive to the free wheeling market economy enjoyed by many Americans. One example concerns the absorption of the North West Company of Montreal by the Hudson’s Bay Company in 1821. The fur trade deserted Montreal, leaving the prosperity of Canada’s largest city dependent on how effectively it could compete for the trade of hinterland with the other metropolitan centres on the Atlantic seaboard and the Gulf of Mexico. Montreal’s survival depended on the state’s willingness to construct a low-cost transport route - that is, infrastructure - allowing Montrealers to market their goods competitively. The economic history of Canada since the mid-1800s has revolved around the construction and maintenance of similar infrastructure projects which private investors were unwilling, or unable, to take on.

The most famous example of the interventionist approach adopted by Canadian governments was the building of a transcontinental railway. The Canadian government wanted a transcontinental line for nationalistic, political, and economic reasons. However, in order to compel agreement from private entrepreneurs to build one, it had to offer them generous compensation. As such, the costs
of a transcontinental railway and other forms of infrastructure were originally borne by government in Canada.

In overseeing construction of the Canadian Pacific Railway, the federal government was responding to a specific, practical problem of economic integration with what appeared to be the most practical solution. Had private entrepreneurs been willing and able to build the CPR on their own, government intervention would not have been necessary. While economic progress would not have occurred in Canada without private enterprise, "the responsibility for creating a national economy and the conditions in which it could survive lay with the state" (Easterbrook and Watkins 1967, 209). Free enterprise liberalism has always been a dominant idea in the Canadian polity, but Canadians have never had the opportunity to follow the free enterprise path as religiously as have their southern neighbours.

Three related factors explain Canada's economic reasons for public enterprise. First, the regional nature of Canada's political economy is extremely important. Canadian capital was unable to conquer Canadian geography alone, with or without making a profit. Capitalists therefore tended to ignore or avoid certain tasks which benefited the regions, such as the building of the transcontinental railroad, canals, and other types of infrastructure. While central Canada was a major beneficiary of infrastructure development because it opened up new, captive markets for its manufactured goods, the regions would have remained in isolation had the strong communication and transportation links made possible by public enterprise never been developed.

Secondly, the psychological and practical implications of sharing a border with the world's most dynamic nation have prompted successive Canadian governments to pursue collectivist projects. Only by working with private enterprise could the state ensure its politico-economic sovereignty. The overall objective of Sir John A. Macdonald's National Policy was "to prevent absorption by the United States and to build a nation state that could guide its own economic destiny, and assert its independence from both the mother country and the United States, within limits no more restrictive than those necessarily applicable to an economy dependent on staple exports for its overseas
earnings" (Ibid.). The National Policy, Canada's blueprint for a nationally-integrated economic structure, has no counterpart in the United States.

Thirdly, there are several sectors of the Canadian economy where private enterprise will never venture. Government has substantial flexibility in adopting public enterprise in such cases. This is because in areas where government does not have to compete with private enterprise, there are neither concentrated beneficiaries nor cost-bearers. Private sector competitors are noticeably absent from certain sectors of the American economy, such as urban mass transit and public housing, but the Canadian economy fares considerably worse. Without state intervention, there would probably be less aircraft manufacturing and no nuclear power plant manufacturing in Canada.

While much of the infrastructure has already been put in place, geography and a relatively sparse population ensure that the weakness of Canadian capital markets will continue to have an effect on types of policy instruments chosen. For instance, the recently installed facilities to mine and export B.C. coal, whatever their merits or shortcomings, would probably never have been built had it not been for the initiative and support of the B.C. Government. Thus Herschel Hardin's claim that Canada always has been and probably always will be a public enterprise country is a reasonable claim. In any case, it would be interesting to see how pragmatic Americans have been toward the concept of public enterprise when their capital markets were temporarily weak. The economic argument would be strengthened if it could be proven that under similar economic circumstances Americans and Canadians have opted for the same governing instrument.

The creation of the Tennessee Valley Authority (TVA) in the depths of the 1930s economic depression provides us with an excellent case study to test this hypothesis. The TVA is a public authority which was created to plan and develop the entire Tennessee river basin, one of the most impoverished regions of the American south. While many opponents of TVA, such as private power companies, disgruntled senators, and President Dwight D. Eisenhower, have branded the TVA as "creeping socialism," in terms of its mandate it has been a success, and at one point was the biggest electricity generating system in the United States (Walsh 1978, 109). The main point to
clarify is why TVA was created in the first place, and it seems that economics had a large part to play. Before and after the stock market crash which ushered in the Great Depression, TVA’s proponents based their argument on the fact that the South was in desperate need of economic development. Private enterprise was not developing the region quickly enough, especially in the 1930s when such development was deemed critical given the desperate employment situation. In describing the project to reporters in February 1933, Roosevelt explained that the authority would create 200,000 jobs in the Valley, something private initiative could never hope to achieve (Hargrove and Conkin 1983, 23).

The origins of the TVA, like those of most government projects, had political overtones. Having been asked to explain the political philosophy underlying the TVA bill, President Franklin D. Roosevelt responded, "It's neither fish nor fowl, but whatever it is, it will taste awfully good to the people of the Tennessee Valley" (Walsh 1978, 27). Government intervention was welcomed by many Americans in the "dirty thirties." Many businesses and consumers in the region supported the TVA, regardless of their unfettered allegiance to the free enterprise system. This was because the public authority reduced their power rates. Who else could bring low-priced electricity to low-density areas and to modest consumers? Public enterprise became the clear policy instrument choice of pragmatic politicians who sought to give the electorate what it wanted.

In conclusion, the failure of the market in America prompted the United States Government to re-evaluate the merits of public enterprise as its Canadian counterpart has been forced to do on a continual basis since the 1800s. There was certainly little that private entrepreneurs could do to develop the Tennessee river basin after 1929, which partly explains why the diehard opponents of public power had become a shrinking minority by the early 1930s. As Paul Conkin makes clear in his discussion of the intellectual and political roots of TVA, leasing arrangements would probably have appealed to the ideological principles of such opponents, but were unrealistic in a deepening depression (Hargrove and Conkin 1983, 21). This left public enterprise as the only viable alternative. State intervention was the only way that the desperate region would be developed,
just like Canada's transcontinental railway would never have been built without state funding. And so economic circumstances seem to have played a role in determining when and where public enterprise has appeared on the North American landscape.

**Canada's Foreign-Owned versus America's Domestically-Owned Oil Industry**

The economic argument provides considerable insight to the general question of when governments adopt public enterprise. Furthermore, a derivative of the argument helps explain why Canada did and America did not deploy public enterprise in the oil industry. Canada's capital markets have historically been unable to sustain a vibrant oil industry. Consequently, the industry has been dominated by foreign-owned firms. Thus while capital was not particularly scarce, neither was it Canadian, leading Canadian policy makers to view oil policy differently from their American counterparts.

In 1973, over 91 per cent of the industry's assets, and over 95 per cent of its sales, were accounted for by foreign-owned multinationals (Laxer 1975, 65). In contrast, foreign investment in the American energy sector remained small relative to total domestic investment and significantly less than American investment in the energy sectors of foreign countries (U.S. 1978, 3). While foreign investment in U.S. petroleum was $5.9 billion in 1976 (Ibid.), U.S. investment in the petroleum industry of foreign countries was approximately five times that number, or $30 billion (Ibid., 7). In fact, Americans were responsible for 80 per cent of foreign ownership in Canada's oil industry (Laxer 1975, 65). Conversely, only 9.5 per cent of foreign ownership in U.S. petroleum originated from Canada in 1975 (U.S. 1978, 19). The oil industry, then, represented a typical "elephant and mouse" scenario in Canadian-American relations.

Oil is not the only industry in Canada which is foreign-owned. Many industries fall under similar circumstances, and this fact has had ramifications for Canada's public sector.

Foreign capital tripled its share of control over Canadian industry between 1914 and 1960, moving from one-fifth to an astounding three-fifths of total investment (Williams 1986, 80). Furthermore, three-fifths of Canada's manufacturing and mining sectors was foreign-owned by 1968
Foreign ownership has led to the nationalization of certain sectors of the economy for two reasons. First, many Canadians have cited economic, political, and even cultural problems stemming from the lack of domestic corporate control. Secondly, Kent Weaver explains that foreign-based firms have relatively weak leverage on the Canadian political system. Public attitudes may favour patriation of a foreign firm, and domestically-owned firms rarely view the nationalization of foreign-owned firms as a precedent to be extended to them (Weaver 1985, 84).

Hence, at the same time that Canada’s weak capital markets encouraged government enterprise, the much needed flow of capital from abroad, and particularly from the United States, has ironically resulted in the same encouragement. The moderate decline in foreign investment in Canada since the late 1960s as a proportion of total investment can clearly be attributed, at least in part, to government takeovers (Williams 1986, 103).

The American oil industry was unique to the world in one important respect at the time of the Arab oil embargo: the multinationals who dominated the market were domestically-based. Hence while all the other industrialised oil-importing countries, including Canada, longed to reduce the role of the multinationals in national energy matters, the support of American elites for them was unwavering. Apart from the ideological reasons cited to back private enterprise, Americans viewed the situation pragmatically and found that they would have the most to lose of all industrialised nations if the multinationals were replaced by NOCs. “The United States, which alone had the ability to curb the power of the multinationals, was relatively well served by them,” and so did nothing to alter the basic market system (Kemezis and Wilson 1984, 11).

The U.S. multinationals had initially entered Canada with full encouragement and pecuniary incentives from both levels of government. By controlling, among other things, the purchase price of crude oil originating from the Middle East and South America, it seemed perfectly natural for the major oil companies to manage Canada’s oil industry, too (Strachan 1983/1984, 144). Times changed. By 1973, private oil companies had not only lost their hegemony over the market to OPEC, but were no longer considered by most industrialised nations as capable of securing future
energy needs. The stakes rose, and those who controlled the supply of the vital resource (private companies or NOCs apart from the oil-exporting countries themselves) were in an increasingly powerful bargaining position to dictate the terms of its future availability to oil-importing countries. Consequently, direct action by government to ensure a secure supply of oil was undertaken by all importing countries, including direct contacts and diplomatic actions to maintain friendly relations with producers, and what amounted to "diplomatic relations with the international oil companies to maintain as much as possible their share of the companies' worldwide pool of oil and force local subsidiaries of the majors to act in the national interest of the host country" (Kemezis and Wilson 1984, 62).

Many countries felt that NOCs could secure their supply of oil and, moreover, that the foreign-controlled subsidiaries could not. A February 1974 poll revealed that only 31 per cent of Canadians felt confident that the multinational oil companies would act in Canada's interest as opposed to 52 per cent who did not feel confident (Gallup Poll, February 1974). In a world of uncertainty where future cut-backs in world oil production was (and still is) a distinct possibility, Canadians would have felt much more secure had their oil industry been 100 per cent domestically-owned.

Whether the suspicions held by Canadians and their government that oil company subsidiaries lacked the autonomy and bargaining power to assure security of supply in the event of a serious shortfall in world supplies were rational is difficult to judge. However, Doern and Toner argue that Gulf Canada's "parent U.S. company totally dominated the decision-making power of its subsidiary" (Doern and Toner 1985, 130). One can assume that this was the natural relationship between all the oil companies.

Yet in an era of global markets, would "home market governments" really be able to persuade multinationals to remain faithful in times of crisis, and abandon other clients in the process? This

15For an excellent, positive assessment of the costs and benefits of creating NOCs to secure oil supplies, see Chapter 7, "An Importing Entity," in United States (1981).
scenario actually materialized in 1979 when the Iranian cutoff caused oil shortages in many countries. When one of Exxon's customers in Europe experienced a serious shortfall, the multinational instructed its Canadian subsidiary, Imperial Oil, to redirect an oil shipment headed for Canada to Europe. The Canadian government had no input into the decision.

Clearly, if Canada were ever to suffer a serious shortfall, Imperial could redirect supplies to Canada from another country. This possibility was consistent with Exxon's 1974 policy to rationalize the system in times of crisis (Strachan 1983/1984, 148). Nevertheless, the above case shows that "there is no guarantee that Canada's national interests will be primary for a foreign private company" (U.S. 1981, 41). The only way that such a diversion could have been prevented would have been had Petro-Canada been in control.

In any case, Ottawa's lack of control over the distribution policies of the multinationals, the no-arm's length arrangement between them and their Canadian subsidiaries, and the sensitivity of subsidiaries to powerful pressures from 'home market governments' greatly concerned Canadians and their policy makers (Pratt 1981, 103). Canadians perceived that the foreign nature of the oil industry was a problem, and perceptions are realities in politics. Their concern translated into pressure to create Petro-Canada. Thus, Canada's weak industrial base must bear some indirect responsibility for the creation of yet another public enterprise.

The United States' faith in the system was not so shaken. This was particularly true of American policy makers. As each nation anxiously envisioned its supertankers dodging political obstacles en route to port, Americans could at least recognize the captain. The United States simply did not have to face the real or perceived problems associated with dealing with foreign subsidiaries. The historical industrial strength of the nation had assured them of that.

Summary

The economic argument posits that the choice of instrument in a particular sector of the economy will be strongly influenced by economic variables and circumstances. A derivative of this argument helps to explain the difference in Canadian and American oil policy instruments. Canada's
weak industrial base was largely responsible for a 90 per cent foreign ownership rate in the
Canadian oil industry, while America's stronger base resulted in its oil industry being predominantly
domestically-controlled (Goodermote and Mancke 1983, 77). Most of the multinationals were based
in America. Ergo, Americans had more to lose than any other country, including Canada, by
nationalizing part or all of its oil industry. The fact that a key mandate of Petro-Canada was to
increase Canadian participation in the oil and gas industry suggests, at the very least, that
Canadian policy makers believed that the foreign nature of its industry posed a problem.

Part III Differences in Government Institutions

Introduction

Each country has its own unique set of political institutions. Even among industrialized
western nations the structure of government varies greatly, allowing some governments to pursue
policies which others cannot pursue. The rules of the game matter in politics as they do in all
types of social interaction, and Canada's parliamentary system facilitates the creation of public
corporations while America's presidential system does quite the opposite. In 1975 when Ottawa
wanted to create an NOC it was able to do so quite easily. While neither party in Washington
wanted or attempted such creation, it would have had a tough time passing the necessary
legislation if it had.

Canada's Parliamentary versus America's Presidential System of Government

The structures of government are sufficiently diverse in the two nations to help explain why
the two governments emphasize different policy instruments. The distinguishing characteristic of
the American system is decentralized power and strong checks and balances, and this has had an
enormous impact on the nation's policy-making process. The fact that the executive and legislative
branches of government are separated tends to curb the ability of political elites to pursue specific
policies. The President simply does not have as much control over the United States government,
including the bureaucracy, as do his foreign counterparts over the governments of their countries.
This fact has compelled at least three presidents - Roosevelt, Truman and Nixon - to appoint commissions to advise them on how they could strengthen their position.

Canada's system of parliamentary government places the government in a much more favourable position. The executive and legislative branches are fused together forming a single, unified government. Apart from the House of Commons there is a second legislative chamber, the Senate. However, its role has traditionally been weak, unobstructive, and relatively inconsequential. Therefore, the prime minister and his cabinet can control the government apparatus much more effectively than can their American counterparts; "the tight linkage between the cabinet and the governing party in the House of Commons, party discipline in the Commons, and dominance by a single house within the legislature allow the executive much more freedom to obtain measures it desires and block those it opposes" (Weaver 1985, 82).

**Public Enterprise and the Structure of Government**

The difference in structure of the two governments is important for two reasons. First, it is much easier for a Canadian executive to create a public corporation than for an American executive to do the same. Second, Canadian governments enjoy greater control over their public corporations once they have been created. Both points are vital. Support by government officials for public enterprise may tip the balance in favor of that instrument, and it is clearly less in the interests of American officials (Congress, the administration, and bureaucrats) than Canadian officials to support public enterprise for the two reasons given (Ibid., 82).

The proliferation of public enterprises in Canada has often been blamed on the ease with which Canadian governments are able to create them. The most obvious way that governments may create them is by seeking a special act of incorporation through Parliament, as was general practice from the Second World War to the late 1960s. Affording Parliament the opportunity to either pass or reject a bill to create a crown corporation is consistent with the view that "Ultimate control over the policy and direction of a public industry must be exercised by Parliament as representatives of the community in general" (Hanson 1962, 34). Government bills - those that are...
introduced in the House of Commons by the government - rarely have trouble passing when, as is often the case, the governing party controls a majority of House seats. That is the nature of the parliamentary system. Once the Government of Canada has decided that it wants to create public enterprise "XYZ," such creation is, for all intents and purposes, a "fait accompli."

As if this were not easy enough, Canadian legislation permits a minister to create a crown corporation without parliamentary approval under the Canada Business Corporations Act. Governments have taken advantage of this method five times (Canada 1979, 333). Furthermore, the Royal Commission Report on Financial Management and Accountability stated that there is no "automatic provision for ensuring that Parliament has an opportunity to scrutinize the letters patent in which, presumably, there is a statement of purposes, objectives, and the relationship of the Government to the corporation" (ibid.). Canadian legislation also permits a minister to establish crown corporations as subsidiaries of existing crown corporations under the statutes governing that firm. This particular piece of legislation helps to explain why over 400 nominal crown corporations existed in 1980 compared with only 54 formally listed in the schedules of the Financial Administration Act (Tupper 1981, 36). Without a system of separation of powers, the size of public enterprise has been able to grow uninhibited.

The difficulties which an American president encounters when attempting to create a public corporation, on the other hand, are significant. The American system of decentralized power and strong checks and balances, with its many veto points, offers opponents of proposed legislation many opportunities to block it. Furthermore, nationalization generally offers diffuse benefits to the populace at large, while imposing concentrated benefits on specific segments of that populace. Therefore, the latter group has much more incentive to get involved in the policy making process than the former groups, as explained by Mancur Olson's "logic of collective action":

other things being equal, the larger the number of individuals or firms that would benefit from a collective good, the smaller the share of the gains from action in the group interest that will accrue to the individual or firm that undertakes the action. Thus, in the absence of selective incentives, the incentive for group action diminishes as group size increases, so that large groups are less able to act in their common interest than small ones (Olson 1982, 31).
In fact, the distribution of costs and benefits influences where public enterprise will be adopted. The sectors of the United States economy in which public enterprise activity is concentrated are the credit and insurance sectors because the beneficiaries of such activity are well organized, and because there are no potential competitors or losers. For instance, the interests of banks are served by the Federal Deposit Insurance Corporation (FDIC), a fact which assures the banks’ depositors that the federal government, rather than some consortium of insurance companies, is insuring their deposits. A second example is provided by the Government National Mortgage Association (Ginnie Mae) whose creation in 1968 "relieved the private sector (formerly mixed ownership) Federal National Mortgage Association of much of the burden of supporting housing for low-income groups" (Weaver 1985, 82). Hence the acceptance or rejection of public enterprise will often depend on whether those interests which have a concentrated stake in instrument choice either embrace or oppose state intervention.

Pressure groups and state governments place the highest hurdles in front of a president. The power wielded by pressure groups in Washington is truly immense, much stronger than that wielded in Canada. Pressure groups usually target their lobby activity at members of Congress because they know that congressmen must pander to local concerns if they are to survive future elections. The fact that the political career of a congressman often depends on how much money he can personally raise enhances the influence of particularly wealthy lobbies, such as the oil industry.

The president also encounters state resistance, especially if a state feels that the president’s plan to nationalize a certain industry will impinge on regional jurisdiction. Federalism in the United States prevents the national government from pursuing its objectives as strongly as it might otherwise. Canada is a federal country too, but the nature of its conflict between national and subnational governments has had a different effect. Leaders at both the federal and provincial levels of government have traditionally used public enterprise to advance their own economic development at the expense of the other level of government (Ibid., 83). This has been particularly true of the energy field. Such an incentive for government ownership does not exist south of the
border where the states are more numerous, and where intergovernmental conflict is less acute. Lloyd Musolf sums up the general argument by contending that "Public enterprise is a limited instrument of U.S. national government because of... reliance on decentralised, pluralistic decisionmaking, reflecting the existence of federalism, separation of legislative and executive powers, weak political parties, and powerful interest groups" (Musolf 1984, 1). The president of the United States is unable to create as many government corporations as his counterparts abroad.

The fragmented nature of American government also limits the extent to which public officials can control public enterprises relative to their Canadian counterparts:

Canadian government leaders are more likely than U.S. leaders to feel that they can control public enterprises once they have established them. Committees in the Canadian House of Commons lack the expertise, independence, staff support, and prestige of their U.S. counterparts and are therefore incapable of issuing rival commands to the enterprise once it is in place. Because power in the U.S. federal government is highly fragmented, leaders in both the executive and legislature might fear that a public enterprise will inevitably succumb to political intervention by the other branch and to interest group claims that neither government nor the enterprise will have the autonomy to resist. Thus one of the major economic advantages of public enterprise, control, may not hold in practice (Weaver 1985, 83).

While it is perfectly clear who controls corporations in Canada - the Crown, whether it takes the form of the minister in charge or, more generally, the cabinet - it is not always clear who controls public corporations in the United States: "Because the founders never envisioned a bureaucratic government, the place of the federal bureaucracy in the constitutional scheme is ambiguous" (Nachmias and Rosenbloom 1980, 48). One thing is clear, however. The Government Corporation Control Act requires that all federal public enterprises be created by statute. This means that all acts to nationalise must be sanctioned by the legislative branch, Congress.

Corporations receive direction from both the legislative and executive branches of American government. Such direction can be frustrating for all parties concerned. A recent Amtrak (National Railroad Passenger Corporation) president claimed that "Amtrak management is, and should be, directly responsible to the Congress for carrying out its lawful responsibilities" even though the Department of Transportation thinks and acts otherwise (Musolf 1984, 1). As it happens, Congress does control most of the federal bureaucracy through its power over budget making. Congress also
governs the procedures by which agencies and corporations arrive at decisions through a process of legislative oversight.

The president's most important means of controlling the bureaucracy is his ability to make appointments to bureaucratic agencies. He has approximately 3,800 positions to fill (Nachmias and Rosenbloom 1980, 50). Yet those men and women whom he appoints may not recognize his authority. This was evident when the chairman of TVA refused to answer President Roosevelt's inquiries in 1938, insisting that he was responsible only to Congress (Musolf 1984, 6). Whatever control the United States president does have over his "bureaucratic jungle," it pales in comparison with the power wielded by the Canadian prime minister. It could be argued that the politicization of the American bureaucracy, and the neutrality of its Canadian counterpart, affords the president and his secretaries significantly more influence over the direction of the bureaucracy. However, the preceding analysis suggests that this is not the case.

Finally, what makes the question of control so frustrating for American officials is the role that lobby groups play in the running of government agencies and corporations. Daniel Patrick Moynihan quips that European observers doubt whether the United States "is really governed at all" (Wilson 1987, 36). Surely the power held by various interest groups adds to their perception, for their influence in how government corporations are run is frequently considerable. Specifically, many client groups have a powerful voice in the relevant Congressional committees and subcommittees, which weakens the control of the corporations' or agencies' creators significantly. The secretaries, undersecretaries, and assistant secretaries appointed by the president "simply do not have the political clout to dominate their agencies... Indeed, their agencies often dominate them" (ibid., 57).

In conclusion, the main incentive for a government to intervene in sectors of the economy is to influence its direction. Where the structure of government weakens the opportunity for such influence, it follows that public officials will be less anxious to create public corporations than they will otherwise be. There is empirical evidence to support this claim. The public enterprise
share of Western economies which have parliamentary governments are not only fairly consistent with one another, but are all higher than that of the United States (as is shown in Table 1). Public enterprise accounts for 4.4 per cent of gross fixed capital formation in the U.S., compared with 19.2 per cent in Austria, 13.1 per cent in Belgium, 15.3 per cent in Sweden, and 16.8 per cent in the United Kingdom. The non-U.S. country with the lowest figure is Denmark (8.3 per cent) (Weaver 1985, 71).

**Oil Policy and Government Institutions**

The theory which posits that government institutions affect public policy is consistent with a cross-national statistical survey. The structure of government clearly influences the scope of public enterprise in any given country. Yet it is not necessarily a contributory factor in the decision to create every specific public enterprise. Did it affect either Canada’s decision to create an NOC in the mid-1970s, or America’s "decision" not to?

The Liberal government had no difficulty passing legislation to create Petro-Canada on July 10, 1975 with its majority of seats in the House of Commons. After the enabling legislation received Royal Assent later that month, Petro-Canada set up corporate headquarters in Calgary to start operations on January 1, 1976. While the Conservatives had mounted a filibuster to try to halt passage of the Petro-Canada Act, and threatened to wind down Petro-Canada and sell it in whole or part should they win the next election, Liberal success in creating an NOC was never in doubt. Being at the helm of a parliamentary system allows a majority government to create practically any public corporation that it wants. If separation of powers had existed in Canada as it does in the United States, and the Conservatives had controlled either the legislative or executive branch of government, Petro-Canada would not have been created. The Conservatives may also have been able to prevent passage of a bill to create an NOC through a U.S. Senate-style filibuster which takes 60 per cent of members to override (Dye and Zeigler 1981, 382).

One reason the Liberal government was keen to establish Petro-Canada was that it knew it could control Petro-Canada in the months and years ahead. While the Canadian government may
suffer from a problem of accountability (though it is now less of a problem than it was ten years ago owing to the Financial Administration Act of 1979 and the efforts of the Auditor General’s office), cabinet has the ultimate say in the course of action followed by the corporation.

Furthermore, the idea of creating an NOC was given full support by officials in the Department of Energy, Mines and Resources (E.M.R.). They knew that they, and they alone, would control the public corporation. In addition, their unrivalled say in how Petro-Canada would be run would extend their jurisdiction into that of other departments:

In addition to extending Ottawa’s control over the energy industries, the new state company would increase E.M.R.’s authority in the vast federal territories north of the 60th parallel – an area run like a colony by a paternalistic Department of Indian Affairs and Northern Development (I.A.N.D.). Macdonald and his advisors were openly critical of the existing northern oil and gas regulations - which were administered by I.A.N.D. - and argued that as part of the overhaul of the land tenure system in the North, the new Crown oil company must be given preferential rights to federal lands. All unallocated or surrendered Crown reserves in the North and offshore could, for example, be offered to the state company for first refusal in order to accelerate exploratory work and to force the large private oil companies either to work their lands or give them up (Pratt 1981, 108).

American policy makers were decidedly less enthusiastic about creating an NOC than were their Canadian counterparts. Power is so diffuse in that country that predicting who would have had ultimate control over an NOC would have been difficult. Furthermore, power often shifts from one department to another, or from the Oval Office to Congress, over a public corporation’s lifetime. Therefore, the fact that a strong pro-NOC lobby did not materialize within government is not surprising. Had a strong movement favouring an NOC emerged, it would have faced a redoubtable opposition. By all accounts, the American oil lobby was and is an extremely influential force on Capitol Hill. They make considerable hay out of the American system of government, and have traditionally been able to rely on oil-rich states to send enough Senators to Washington to sustain a filibuster on anything that significantly threatens their industry.

Government relations with the major companies play a major role in the decision-making process of all oil-importing nations. The relationship is particularly cosy in the United States (Kemezis and Wilson 1984, 80). Only once was the creation of an NOC close to becoming an American reality, and the causal factor leading to the short life span of the Petroleum Resources
Corporation (PRC) during World War Two was the ability of the multinationals to veto the
government's initiative. Merrie Gilbert Klapp, who argues in *The Sovereign Entrepreneurs* that the
degree of government involvement in the oil industry is determined by the relative political
opposition of multinational and private domestic groups to state autonomy in oil, contends that
"whether the U.S. government should be actively involved in the international production and
distribution of oil was an issue on which U.S.-based multinationals and domestic Independents had
the final say [in 1943]" (Klapp 1987, 184).

The U.S. government was vulnerable to shortages in oil supply during the war, particularly as
its own reserves were proving inadequate to meet domestic demand (*ibid*). The U.S. feared
becoming a net importer of oil and sought direct control over new reserves in the Middle East,
particularly Saudi Arabia. In 1943 the Secretary of the Interior and petroleum administrator for
war, Harold Ickes, proposed that an NOC (the PRC) be created to buy out Standard Oil of
California's (Socal) and Texaco's entire control of Saudi oil. The two oil companies agreed to the
proposal after winning concessions from the government, paving the way for the establishment of
the PRC in 1943.

The multinationals not included in the deal were vehemently opposed to the PRC because they
sought control of reserves in the Middle East themselves. In addition, Small Independents
complained because the PRC threatened to flood the domestic market with Middle Eastern oil. Both
groups lobbied hard and effectively against the PRC, and with direct pressure from Congress and
the state of Texas, the PRC was dissolved. The efforts of the departments of State, Interior and
the Navy to be autonomous had been overwhelmed. The United States government has resigned
itself to a policy of taxation and regulation ever since.

After 1973, the oil industry was less able to convince government of the benefits of an all-
private oil industry. If prior to 1973 oil policy was "formulated and implemented by political
subsystems that more often than not promoted or generously accommodated the interests of major
energy producers," other groups representing environmentalists and consumers became increasingly
active after the Arab embargo, complicating decision-making in the process (Chubb 1983, 249). One such group, the Consumer Federation of America (CFA), actively supported the possible formation of a federal oil and gas corporation as did public power, electric co-op, labour, liberal farm, and consumer constituent organizations (McFarland 1976, 97). A CFA Energy Task Force launched before the OPEC price increase in March, 1973, concluded that while there is nothing inherently evil about the profit incentive, "where the product is as essential to national well-being and security as energy, at least part of the country's effort to provide it ought to be motivated by America's security, and the needs of the public" (Ibid., 98). Given the belief that energy shortages may exist for decades, it was felt that America needed an energy-producing organization motivated purely by national needs.

In spite of its concentrated efforts, the pro-NOC lobby was unable to out muscle the oil industry. The industry's entrenched position and high stakes in the U.S. energy system had motivated it to become one of the most effective lobby groups Capitol Hill had ever seen. Its strength was formidable as proven by the implementation of a highly favorable tax system. A depletion allowance "was a bonanza for the industry which had resulted from years of heavy lobbying and the lack of an effective anti-oil opposition" (Kemezis and Wilson 1984, 43). It lasted until 1975 when a surge in oil profits made it look too excessive even for Republican Congressmen.

Canadian oil companies also lobbied their government to spurn calls for an NOC. Despite repeated government assurances that they would benefit from the creation of Petro-Canada, "Some elements of the industry were bitterly opposed to [its arrival on the scene]... and virtually all private sector interests criticized the idea of giving Petro-Canada preferential rights" (Doern and Toner 1985, 141). The industry fought Petro-Canada tooth and nail, yet the government refused to capitulate. In contrast to their American counterparts, Canadian oil lobbyists face a structure of government which requires dynamite to penetrate once Cabinet has made up its mind. Even though there was little pro-NOC lobbying to counter on Parliament Hill (unless one counts the "quiescent
lobbying* of 62 per cent of Canadian voters who approved of the federal government's proposal to create an NOC) (Gallup Poll, February 16, 1974), the industry's efforts ended in failure.

**Summary**

The structures of government are sufficiently diverse in the two nations to help explain why the two governments adopted different oil policy instruments after 1973. The Canadian government wanted to create an NOC and was able to do so. U.S. presidents, on the other hand, were powerless throughout the 1970s to enact into law any comprehensive oil policy, with or without provisions for an NOC. The role of Congress in oil policy was equal to that of the executive in final decision-making powers from 1974 onwards. Therefore no one in American government had decisive power to push energy programs through. Unless a catastrophe had forced the government to take direct control of oil reserves and markets, it would have been extremely unlikely that Congress and the executive would have ever agreed that the creation of an NOC was either in the nation's interest, their electoral interests, or their empire-building interests.

The argument can be strengthened if one considers the following hypothetical situation. The ideological biases of the two nations are reversed. Canadians largely oppose the creation of an NOC, while Americans support it. If so, efforts by an American government to create an NOC would probably have been blocked by the oil industry, ending in failure, while a Canadian government would have succeeded in creating one. The Canadian cabinet might have suffered some electoral consequences, but a well-controlled and inherently flexible policy instrument would have been at its disposal. The impact of the structure of government on policy is clear.
CONCLUSION

Until 1973, Canadians and Americans both relied on the private sector to provide the country's oil and gas requirements from domestic and foreign sources. Aside from the Canadian federal government's role in funding the uneconomic section of the Trans-Canada natural gas pipeline in 1956, and its involvement in the exploration for hydrocarbons in the eastern Arctic Islands in the late 1960s, neither the provincial nor federal governments participated directly in oil or gas. In fact, the government-held share of these industries stood at less than one per cent as late as 1973 (Pratt 1981, 97). American federal and state governments, too, left private enterprise to make energy decisions, intervening only during an emergency or when domestic antitrust legislation was violated abroad by the oil companies (Ibid., 60). Both countries, then, chose private enterprise over other policy instruments available to them throughout the pre-embargo era.

In the mid-1970s, the energy crisis was at the top of the political agenda. Opinion polls revealed that 21 per cent of Canadians (The Gallup Poll Index, May 1974, 29), and a stunning 46 per cent of Americans (The Gallup Poll Index, February 1974, 1) felt that the energy crisis was the top problem facing their country. This fact forced both governments to respond actively to the situation and to reassess their policy options.

The first purpose of this thesis was to compare American and Canadian oil policy instruments between 1973 and 1977. After considerable debate, Ottawa announced that it would create an NOC as well as implement other nationalist measures. Washington, on the other hand, decided that the nation would continue to rely indefinitely on private enterprise, though it failed to adopt a coherent oil policy of any sort for years owing to infighting between Congress and the administration. While other industrialized countries took the Canadian route, the United States refused "to adapt to shifts in the international oil system by changing its own ways of dealing with the outside world on energy" (Kemezis and Wilson 1984, 46). It stood alone.
The difference between these two nations' policy instruments is worthy of our attention. Policy instruments are at the heart of the policy-making process. Without them, policy objectives could not be met. While policy objectives may well be a "sexier" political commodity from the politician's standpoint, the choice between instruments is critical, particularly as they range from being non-coercive to draconian in measure.

Given the significance of policy instruments, it is important to determine why, in a particular situation, one instrument is favoured over another. The question is particularly serious in the case of Canadian and American oil policy for the most coercive policy instrument available to government was only adopted by Canada. If both countries had adopted public enterprise, yet only one had taken advantage of loans and guarantees, the difference would be neither striking, nor particularly important. This one was, which justifies the second purpose of the thesis.

What explains the divergence between American and Canadian oil policy instruments between 1973 and 1977? Chapter Three presents three possible explanations: the difference in ideology, market factors, and government institutions. Each is plausible. Furthermore, each has previously been used successfully to explain the scope of public enterprise in various countries. Which, then, best explains the difference in Canadian and American oil policy instruments? In a sentence, the ideological explanation does.

The ideological argument posits that ideology is always a factor in major pieces of legislation. Furthermore, no two countries share precisely the same political culture. America's ideology is decidedly more conservative than Canada's. In fact, "public ownership - whether in the sense of 'socialism' or in the sense of the government's setting up or taking over major industrial concerns - has never been on the American political agenda" (King 1973, 302). Hence while an NOC was ultimately adopted in Canada, it never came close to reaching the American dais. America, typically, adopted other, less coercive instruments to deal with the oil crisis.

Ideology is invariably reflected in a nation's party system. It is through parties that visionary ideology is crystallized into substantive policy. The fact that neither of America's mainstream
parties advocated the creation of an NOC, while Canada's historically formidable Liberal Party did, is proof. An NOC lay only on the fringe of the American political system in the 1970s. Furthermore, barring a calamity in the oil industry or a shift in American ideology, it will likely stay there. In sum, ideology is a necessary factor in explaining the oil policy divergence, though not a sufficient one, owing to the existence of other explanations.

The economic argument is the second of the three explanations. It posits that countries with weaker industrial bases are more likely to choose public enterprise than those with formidable industrial bases. This is because important aspects of the economy get neglected in countries where private enterprise is weak. This market failure impels, if not inspires, government to intervene, and private enterprise has traditionally been weaker in Canada than it has been in the United States.

A derivative of the economic argument helps to explain why Canada adopted an NOC in the mid-1970s when the United States did not. Canada's oil industry was predominantly foreign-owned because the amounts of investment capital needed to develop the oil industry could not be generated internally. Conversely, America's industry was overwhelmingly domestically-owned. Therefore, while an American NOC would have had to compete with home-based multinationals, Canada’s NOC was the only oil company whose prime loyalty lay with the Canadian people. Hence, a strong nationalistic presence seemed to be more necessary in Canadian oil fields than in American fields. At the very least, this was the perception of policy makers in the two countries, and perceptions are realities in politics. In sum, economic circumstances and pragmatism were important antecedents to Canada's creation of Petro-Canada in 1975, and to America's continued reliance on private enterprise.

Finally, the differences between Canadian and American government institutions is very helpful in explaining why the two countries' oil policies diverged. The general argument is that some countries' institutions foster public corporations, just as others have the opposite effect. Canada's parliamentary system is an example of the former, while America's presidential system is an example
of the latter. Two reasons explain why. First, it is much easier for a Canadian than an American executive to create a public corporation. Secondly, Canadian officials enjoy greater control over their public corporations once they have been created, which gives them incentive to initially create them.

It is difficult to test the strength of this argument because no one of stature in Washington's labyrinth actively pushed for an NOC. Still, the Canadian government set out to create an NOC after December 1973, and came across no obstacles. On the other hand, United States presidents and congressmen were unable to legislate comprehensive oil policy throughout the 1970s. Presumably, had there been substantial support for an NOC in Washington, passing enacting legislation would have been very difficult, perhaps impossible, to achieve, particularly in light of the formidable opposition of the oil industry. Energy policy drifted in America throughout the 1970s even though legislation for something as radical as the creation of an NOC was never introduced.

In conclusion, the ideological argument is a necessary, though insufficient, explanation for the divergence in Canadian and American instrument choice. The fact that Canadians and Americans view the role of government differently mattered greatly. Economic circumstances and government institutions helped determine oil policy instruments too; policy making is certainly a pragmatic business. However, ideas are absolutely central to the policy making process.

Canadian and American public policy diverges on everything from the environment to cigarette smoking. Some variations are more important than others. While gun control is the legendary example in which policy differs substantially in the two countries, there are many others. For reasons of ideology, market factors, and government institutions, oil policy is one of them.
BIBLIOGRAPHY


An Act to establish a national petroleum company

1. This Act may be cited as the Petro-Canada Act. 1974-75-76, c. 61, s. 1.

2. In this Act, “Board” means the Board of Directors of the Corporation;

“Corporation” means Petro-Canada established by section 4;

“Minister” means such member of the Queen’s Privy Council for Canada as is designated by the Governor in Council as the Minister for the purposes of this Act. 1974-75-76, c. 61, s. 2.

3. The purpose of this Act is to establish within the energy industries in Canada a Crown owned company with authority to explore for hydrocarbon deposits, to negotiate for and acquire petroleum and petroleum products from abroad to assure a continuity of supply for the needs of Canada, to develop and exploit deposits of hydrocarbons within and outside Canada in the interests of Canada, to carry out research and development projects in relation to hydrocarbons and other fuels, and to engage in exploration for, and the production, distribution, refining and marketing of, fuels. 1974-75-76, c. 61, s. 3.
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INCORPORATION

4. There is hereby established a corporation, to be known as Petro-Canada, consisting of those persons who, from time to time, compose the Board. 1974-75-76, c. 61, s. 4.

CAPITAL

5. (1) Subject to sections 22, 24 and 26,
(a) the authorized capital of the Corporation shall not exceed five billion, five hundred million dollars;
(b) the common shares of the Corporation shall each have a par value equal to one hundred thousand dollars; and
(c) six thousand common shares of the Corporation shall be deemed to have been issued and paid for on June 29, 1982.

(2) The Minister shall subscribe for the common shares of the Corporation and the amount of each subscription shall be paid out of the Consolidated Revenue Fund at such times as the Corporation may require and the Minister of Finance may approve.

(3) In subscribing for any share under subsection (2), the Minister may pay out of the Consolidated Revenue Fund such amount in addition to the par value thereof as the Governor in Council may from time to time prescribe in respect of the share.

(4) The aggregate of amounts paid under subsections (2) and (3) shall not exceed four billion, nine hundred million dollars.

(5) The common shares of the Corporation are not transferable and shall be registered in the books of the Corporation in the name of the Minister and held by him in trust for Her Majesty in right of Canada. 1974-75-76, c. 61, s. 5; 1980-81-82-83, c. 105, s. 1.

OBJECTS, POWERS AND DUTIES

6. The objects of the Corporation are
(a) to engage in exploration for and the development of hydrocarbons and other types of fuel or energy;
(b) to engage in research and development projects relating to fuel and energy resources;

Petro-Canada

CONSTITUTION

4. Est constituée une personne morale, désignée sous le nom de Petro-Canada et composée des personnes qui en forment le Conseil. 1974-75-76, ch. 61, art. 4.

CAPITAL

5. (1) Sous réserve des articles 22, 24 et 26 :
(a) le capital autorisé de la Société ne doit pas dépasser cinq milliards cinq cents millions de dollars;
(b) les actions ordinaires de la Société doivent avoir chacune une valeur au pair égale à cent mille dollars;
(c) six mille actions ordinaires de la Société sont réputées avoir été émises et libérées le 29 juin 1982.

(2) Le ministre souscrit les actions ordinaires de la Société. Le montant de chaque souscription est payé sur le Trésor aux dates qu’approuve le ministre des Finances à la demande de la Société.

(3) Le ministre peut payer sur le Trésor, en sus de la valeur au pair des actions qu’il souscrit, la somme additionnelle que le gouverneur en conseil prescrit à cet égard.

(4) Le montant global versé au titre de la souscription visée aux paragraphes (2) et (3) ne doit pas dépasser quatre milliards neuf cents millions de dollars.

(5) Les actions ordinaires de la Société sont inaliénables. Elles sont inscrites dans les livres de la Société au nom du ministre, qui en est fiduciaire pour le compte de Sa Majesté du chef du Canada. 1974-75-76, ch. 61, art. 5; 1980-81-82-83, ch. 105, art. 1.

OBJECTS, POUVOIRS ET FONCTIONS

6. La Société a pour objet :
(a) de faire de la prospection pour rechercher et mettre en valeur des sources de combustible ou d’énergie, et notamment d’hydrocarbures;
(b) d’effectuer des travaux de recherche et de développement concernant les ressources en combustibles et en énergie;
(c) to import, produce, transport, distribute, refine and market hydrocarbons of all descriptions;
(d) to produce, distribute, transport and market other fuels and energy; and
(e) to engage or invest in ventures or enterprises related to the exploration, production, importation, distribution, refining and marketing of fuel, energy and related resources.

1974-75-76, c. 61, s. 6.

7. The Corporation may do such things as it deems expedient for or conducive to the furtherance of the objects of the Corporation, within and outside Canada, and, without restricting the generality of the foregoing, the Corporation may

(a) carry on any other business that may seem to the Corporation capable of being conveniently carried on in connection with its business or calculated directly or indirectly to enhance the value of or render profitable any of the property or rights of the Corporation;
(b) acquire and undertake all or any of the assets, business, property, privileges, contracts, rights, obligations and liabilities of any other person who is carrying on any business that the Corporation is authorized to carry on, or who possesses property suitable for the purposes of the Corporation;
(c) apply for or acquire any patents, patent rights, copyrights, trade-marks, formulae, licences, concessions and the like, conferring any right to use, or any secret or other information as to, any invention that seems capable of being used for any of the purposes of the Corporation, or the acquisition of which seems calculated directly or indirectly to benefit the Corporation, and use, exercise, develop or grant licences in respect of, or otherwise turn to account, the property, rights or information so acquired;
(d) enter into partnership or into any arrangement for sharing of profits, union of interests, cooperation, joint adventure, reciprocal concession or otherwise, with any other person carrying on or engaged in or about to carry on or engage in any business or transaction that the Corporation is authorized to carry on or engage in, or any business or

e) d'importer, de produire, de transporter, de distribuer, de raffiner et de commercialiser les hydrocarbures de toutes sortes;
(d) de produire, de distribuer, de transporter et de commercialiser d'autres combustibles et d'autres sources d'énergie;
(e) de s'engager ou d'investir dans des opérations ou des entreprises ayant un rapport avec l'exploration, la production, l'importation, la distribution, le raffinage et la commercialisation de combustibles, d'énergie et de ressources connexes. 1974-75-76, ch. 61, art. 6.

7. La Société peut faire, au Canada et à l'étranger, ce qu'elle juge utile à la réalisation de ses objets. Elle peut, notamment :

a) exploiter toute entreprise qui lui semble compatible avec la sienne ou de nature à accroître directement ou indirectement la valeur de tout ou partie de ses biens ou droits ou à les rendre profitables;
b) acquérir et prendre à sa charge la totalité ou une partie de l'actif, de l'entreprise, des biens, privilèges, contrats, droits, obligations et passif de toute autre personne exploitant une entreprise que la Société a l'autorisation d'exploiter, ou possédant des biens appropriés aux fins de la Société;
c) demander, acquérir des brevets d'invention, droits de brevets, droits d'auteur, marques de fabrique ou de commerce, formulæ, licences, concessions et autres choses de même nature, conférant quelque droit d'utilisation ou livrant des secrets ou autres renseignements au sujet d'une invention qu'il semble possible d'utiliser pour l'une quelconque de ses fins, ou dont l'acquisition paraît de nature à lui profiter directement ou indirectement, et utiliser, exercer, mettre en valeur ou faire valoir autrement les biens, droits ou renseignements ainsi acquis, ou accorder des licences à cet égard;
d) s'associer ou conclure des conventions, notamment des conventions de partage des bénéfices, de fusion d'intérêts, de coopération, de participation, de concessions réciproques, avec toute autre personne qui fût ou est sur le point de faire soit des affaires ou une opération que la Société a l'autorisation de faire, soit des affaires ou une opération qui peuvent être faites de façon à profiter directement ou indirectement à la Société; et préter des fonds à une telle personne, en
transaction capable of being conducted so as directly or indirectly to benefit the Corporation, and lend money to, guarantee the contracts of, or otherwise assist any such person;

(e) acquire and hold shares, debentures or other securities of any other corporation having objects altogether or in part similar to those of the Corporation, or carrying on any business capable of being conducted so as directly or indirectly to benefit the Corporation, and sell or otherwise deal with the same;

(f) enter into any arrangements with any government or authority that seem conducive to the attainment of the objects of the Corporation and obtain from any such government or authority any rights, privileges and concessions, and carry out, exercise and comply with any such arrangements, rights, privileges and concessions;

(g) establish and support, or aid in the establishment and support of, associations calculated to benefit employees or former employees of the Corporation, or the dependants or connections of those persons, and make payments towards insurance in respect of those persons;

(h) subscribe or guarantee money for charitable or benevolent objects, or for any exhibition or for any public, general or useful object;

(i) promote any corporation for the purpose of acquiring or taking over any part of the property and liabilities of the Corporation, for any other purpose that seems directly or indirectly calculated to benefit the Corporation;

(j) acquire, hold, sell, lease, exchange or otherwise deal with any real and personal property and any rights or privileges that the Corporation thinks necessary or convenient for the purposes of its business;

(k) construct, improve, maintain, work, manage, carry out or control any works and conveniences that seem calculated directly or indirectly to advance the interests of the Corporation, and contribute to, subsidize or otherwise assist or take part in the construction, improvement, maintenance, working, management, carrying out or control thereof;

(l) lend money to persons having dealings with the Corporation, or with whom the Corporation proposes to have dealings, or to any
other corporation any of whose shares are held by the Corporation;

(m) draw, make, accept, endorse, discount, execute and issue promissory notes, bills of exchange, bills of lading, warrants and other negotiable or transferable instruments;

(n) sell or dispose of any part of the undertaking of the Corporation for such consideration as the Corporation thinks fit;

(o) apply for, secure, or acquire by grant, legislative enactment, assignment, transfer, purchase or otherwise and exercise, carry out and enjoy any charter, licence, power, authority, franchise, concession, right or privilege that any government or authority or any corporation or other public body may be empowered to grant, and pay for, aid in and contribute toward carrying the same into effect, and appropriate any of the Corporation's debentures and assets to defray the necessary costs, charges and expenses thereof;

(p) procure the registration and recognition of the Corporation in any foreign country or place, and designate persons therein according to the laws of such foreign country or place to represent the Corporation and to accept service for and on behalf of the Corporation of any process or suit;

(q) remunerate any other person for services rendered, or to be rendered, in placing or assisting to place, or guaranteeing the placing of, any debentures or other securities of the Corporation;

(r) raise and assist in raising money for, and aid by way of bonus, promise, endorsement, guarantee or otherwise, any other corporation with which the Corporation may have business relations or any of whose shares, debentures or other securities are held by the Corporation, and guarantee the performance or fulfilment of any contracts or obligations of any such corporation or of any other person with whom the Corporation may have business relations, and in particular guarantee the payment of the principal of and interest on debentures or other securities, mortgages and liabilities of any such corporation;

(s) adopt such means of making known the products of the Corporation as seem expedient;

(t) distribute to the shareholders of the Corporation in kind, specie or otherwise, any

m) tirer, faire, accepter, endosser, escompter, exécuter et émettre des billets à ordre, lettres de change, connaissances, warrants et autres effets négociables ou transférables;

n) vendre ou aliéner une partie de son entreprise pour la contrepartie qu'elle juge adéquate;

o) demander, obtenir ou acquérir par octroi, disposition législative, cession, transfert, achat ou autrement, et utiliser toute charte, permis, licence, pouvoir, autorisation, franchise, concession, droit ou privilège, qu'un gouvernement, une autorité, une personne morale ou quelque autre organisme public peut accorder, ainsi qu'effectuer des versements, fournir de l'aide ou des contributions en vue de leur donner effet, et affecter une partie de ses obligations et de son actif au paiement des frais, charges et dépenses nécessaires à cet égard;

p) faire enregistrer et reconnaître la Société dans tout pays ou lieu étranger, et y désigner des personnes, en conformité avec les lois de ce pays ou lieu, pour la représenter et recevoir la signification de toute assignation ou poursuite pour elle et en son nom;

q) rémunérer une autre personne pour services rendus ou à rendre, quant au placement, à la participation au placement ou à la garantie du placement de ses obligations ou autres valeurs;

r) prélever et contribuer à prélever des fonds pour toute autre personne morale, avec laquelle elle peut avoir des relations d'affaires ou dont elle détient des actions, obligations ou autres valeurs, et l'aider au moyen de bonus, promesses, endorsements, garanties ou autrement, et garantir l'exécution des contrats ou obligations de cette personne morale, ou de toute autre personne avec laquelle elle peut avoir des relations d'affaires, et, en particulier, garantir le paiement du principal et des intérêts des obligations ou autres valeurs, des hypothèques et du passif d'une telle personne morale;

s) prendre les moyens qui paraissent appropriés pour faire connaître ses produits;

r) partager entre ses actionnaires, en nature, en espèces ou autrement, ses biens ou son actif, y compris tout produit de la vente ou de l'aliénation de l'un quelconque de ses biens et, en particulier, d'actions, obligations ou autres valeurs de toute autre personne
property or assets of the Corporation including any proceeds of the sale or disposition of any property of the Corporation, and in particular any shares, debentures or other securities of or in any other corporation belonging to the Corporation or of which it may have power to dispose, if such distribution, apart from the provisions of this paragraph, would have been lawful if made in cash;

(u) establish agencies and branches;

(v) invest and deal with the moneys of the Corporation;

(w) apply for, promote and obtain any statute, ordinance, order, regulation or other authorization or enactment that seems calculated directly or indirectly to benefit the Corporation, and oppose any proceeding or application that seems calculated directly or indirectly to prejudice the interests of the Corporation;

(x) take or hold mortgages, hypothecs, liens and charges to secure payment of the purchase price, or for any unpaid balance of the purchase price, of any part of the property of the Corporation of whatever kind sold by the Corporation or any money due to the Corporation from purchasers and others, and sell or otherwise dispose of such mortgages, hypothecs, liens and charges;

(y) carry out all or any of the objects of the Corporation and do all or any of the things set out in this section as principal, agent, contractor or otherwise, either alone or in conjunction with others; and

(z) do all such things as are incidental or conducive to the attainment of the objects and the exercise of the powers of the Corporation. 1974-75-76, c. 61, s. 7; 1984, c. 31, s. 14.

8. Where the Governor in Council, on the recommendation of the Minister, the President of the Treasury Board and the Minister of Finance, has approved a commitment by the Corporation that is a guarantee by the Corporation, the approval constitutes the authority for the commitment and all expenditures by the Corporation that arise out of the guarantee. 1980-81-82-83, c. 105, s. 2.
BOARD OF DIRECTORS

9. (1) There shall be a Board of Directors of the Corporation consisting of the Chairman of the Board, the President of the Corporation and not more than thirteen other persons.

(2) Each of the directors, other than the Chairman of the Board and the President of the Corporation, shall be appointed by the Minister, with the approval of the Governor in Council, to hold office during pleasure for such term, not exceeding three years, as will ensure, as far as possible, the expiration in any one year of the terms of office of not more than one-half of the directors.

(3) Where the office of a director becomes vacant during the term of the director appointed thereto, the Governor in Council may appoint a director for the remainder of the term.

(4) A director may, on the expiration of his term of office, be re-appointed to the Board.

(5) A director shall be paid by the Corporation such remuneration as is fixed by the Governor in Council.

(6) A director shall be paid by the Corporation reasonable travel and living expenses incurred by him while absent from his ordinary place of residence in the course of his duties as a director. 1974-75-76, c. 61, s. 8; 1980-81-82-83, c. 105, s. 3; 1984, c. 31, s. 14.

CHAIRMAN OF THE BOARD

10. (1) The Chairman of the Board shall be appointed by the Governor in Council to hold office during pleasure for such term as the Governor in Council deems appropriate.

(2) The Chairman shall preside at all meetings of the Board and shall perform such other duties and exercise such powers as are imposed on or assigned to the Chairman by the by-laws of the Corporation or by resolution of the Board.

(3) Where at any meeting the Chairman is absent, one of the directors present thereat who is chosen so to act by the directors present shall preside and has the powers of the Chairman.

(4) The Chairman shall be paid by the Corporation such remuneration as may be fixed by

CONSEIL D’ADMINISTRATION


(2) Les administrateurs, sauf le président du Conseil et le président de la Société, sont nommés à titre amovible par le ministre, avec l’approbation du gouverneur en conseil, pour des mandats respectifs de trois ans au maximum, ces mandats étant, dans la mesure du possible, échelonnés de manière que leur expiration au cours d’une même année touche au plus la moitié des administrateurs.

(3) Lorsque la charge d’un administrateur devient vacante au cours de son mandat, le gouverneur en conseil peut nommer un autre administrateur pour le reste de ce mandat.

(4) Le mandat d’un administrateur est renouvelable lorsqu’il vient à expiration.

(5) La Société verse aux administrateurs la rémunération fixée par le gouverneur en conseil.

(6) La Société défraie les administrateurs des dépenses de déplacement et de séjour entrainées par l’accomplissement hors de leur lieu ordinaire de résidence, des fonctions qui leur sont confiées. 1974-75-76, ch. 61, art. 8; 1980-81-82-83, ch. 105, art. 3; 1984, ch. 31, art. 14.

PRÉSIDENT DU CONSEIL

10. (1) Le gouverneur en conseil nomme à titre amovible le président du Conseil pour le mandat qu’il estime indiqué.

(2) Le président du Conseil préside les réunions du Conseil d’administration. En outre, il exerce les autres fonctions et il dispose des pouvoirs que lui attribuent les règlements administratifs de la Société ou les résolutions du Conseil.

(3) Lorsque le président du Conseil n’assiste pas à une réunion, les administrateurs présents choisissent l’un d’entre eux pour la prédire; cet administrateur dispose alors des pouvoirs du président du Conseil.

(4) La Société verse au président du Conseil la rémunération que fixe le gouverneur en con-
President of the Corporation

11. (1) The President of the Corporation shall be appointed by the Governor in Council to hold office during pleasure for such term as the Governor in Council deems appropriate.

(2) The President shall be paid such salary by the Corporation as is fixed by the Governor in Council.

(3) The President shall perform such duties and exercise such powers as are imposed on or assigned to the President under the by-laws of the Corporation or by resolution of the Board.

The head office of the Corporation shall be at such place in Canada as may be designated by the Governor in Council.

The Board of Directors of the Corporation shall administer the affairs of the Corporation in all things and make, or cause to be made, for the Corporation any description of contract that the Corporation may by law enter into, and the Board of Directors may make by-laws for:

(a) the administration, management and control of the property and affairs of the Corporation;
(b) the functions, duties and remuneration of all officers, agents and employees of the Corporation;
(c) the appointment or disposition of any committees created for the purposes of the Corporation;
(d) the declaration and payment of dividends;
(e) the time and place for the holding of meetings of the Board, the quorum at those meetings and the procedure in all things at those meetings; and
(f) the conduct in all other particulars of the affairs of the Corporation.
BORROWING POWERS

14. (1) When authorized by by-law, the Board of Directors of the Corporation may
(a) borrow money;
(b) limit or increase the amount to be borrowed;
(c) issue debentures or other securities of the Corporation;
(d) pledge or sell such debentures or other securities for such sums and at such prices as may be deemed expedient; and
(e) notwithstanding section 100 of the Financial Administration Act, secure any such debentures, or other securities, or any other present or future borrowing or liability of the Corporation, by mortgage, hypothec, charge or pledge of all or any currently owned or subsequently acquired real and personal property of the Corporation, and the undertaking and rights of the Corporation.

(2) No debentures or other securities of the Corporation shall be issued pursuant to a by-law under this section unless the issuance of the debenture or other security has first been approved in the manner set out in the by-law.

(3) Any by-law under subsection (1) may provide for the delegation of such powers by the Board to such officers or directors of the Corporation to such extent and in such manner as may be set out in the by-law.

(4) Nothing in this section limits or restricts the borrowing of money by the Corporation on bills of exchange or promissory notes made, drawn, accepted or endorsed by or on behalf of the Corporation. 1974-75-76, c. 61, s. 13; 1980-81-82-83, c. 105, s. 4; 1984, c. 31, s. 14.

STATUS OF CORPORATION

15. (1) The Corporation is, for all purposes of this Act, an agent of Her Majesty in right of Canada.

(2) It is the duty of the Corporation in carrying out its business in any province to comply with the laws of that province relating to the conservation of natural resources and applying generally to corporations engaged in

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POUVOIRS D'EMPRUNT

14. (1) Lorsque les règlements administratifs l'y autorisent, le Conseil d'administration peut :
(a) emprunter des fonds;
(b) limiter ou augmenter le montant d'un emprunt;
(c) émettre des obligations ou d'autres valeurs mobilières de la Société;
(d) donner en gage ou vendre ces obligations ou autres valeurs mobilières pour les sommes et aux prix qu'il juge avantageux;
(e) par dérogation à l'article 100 de la Loi sur la gestion des finances publiques, garantir ces obligations ou autres valeurs mobilières ou les emprunts ou engagements actuels ou éventuels de la Société en grevant d'une hypothèque ou d'un privilège ou en nantissant des biens meubles ou immeubles entrés ou devant entrer dans le patrimoine de la Société, et garantir tout élément d'entreprise et tout droit de la Société.

(2) Les obligations ou autres valeurs mobilières de la Société ne peuvent être émises en application d'un règlement administratif pris en vertu du présent article qu'avec l'autorisation préalable prévue par ce règlement administratif.

(3) Un règlement administratif pris en vertu du paragraphe (1) peut prévoir une délégation de pouvoirs par le Conseil aux dirigeants ou administrateurs de la Société désignés par ce règlement et préciser l'étendue et les modalités de cette délégation.

(4) Le présent article n'a pas pour effet de limiter ou de restreindre la possibilité pour la Société d'emprunter au moyen de lettres de change ou de billets à ordre établis, tirés, acceptés ou endossés par elle ou pour son compte. 1974-75-76, ch. 61, art. 13; 1980-81-82-83, ch. 105, art. 4; 1984, ch. 31, art. 14.

STATUT DE LA SOCIETE

15. (1) La Société est, pour l'application de la présente loi, mandataire de Sa Majesté du chef du Canada.

(2) La Société a, dans l'exploitation de son entreprise dans une province, l'obligation de se conformer aux lois de cette province qui se rapportent à la conservation des ressources naturelles et qui s'appliquent, de façon géné-
employees similar to those in which the Corporation is engaged. 1974-75-76, c. 61, s. 14; 1984, c. 31, s. 14.

16. Where title to real property or any interest therein becomes vested in the name of the Corporation or Her Majesty pursuant to any acquisition thereof by the Corporation under this Act, the Corporation may pay to a municipality or other taxing authority a grant in an amount equivalent to the taxes that might be levied with respect to the property or interest by the taxing authority if the property or interest were not so vested. 1974-75-76, c. 61, s. 15; 1976-77, c. 10, s. 53.1; 1984, c. 31, s. 14.

17. The Corporation may enter into such agreements as may be necessary to give effect to section 16. 1974-75-76, c. 61, s. 15; 1976-77, c. 10, s. 53.1; 1984, c. 31, s. 14.

18. The Corporation may, notwithstanding any other Act, employ such officers, agents and employees as are necessary for the purposes of the Corporation and, except as provided by section 19, such officers, agents and employees shall be deemed not to be employed in the public service of Canada. 1974-75-76, c. 61, s. 17.

19. (1) The President, officers and employees of the Corporation shall be deemed to be employed in the Public Service for the purposes of the Public Service Superannuation Act and the Corporation shall be deemed to be a Public Service corporation for the purposes of section 37 of that Act.

(2) For the purposes of the Government Employees Compensation Act and any regulation made pursuant to section 9 of the Aeronautics Act, the Chairman, President, officers and employees of the Corporation shall be deemed to be employees in the public service of Canada. 1974-75-76, c. 61, s. 18.

20. Section 130 of the Financial Administration Act does not apply in respect of any surplus accumulated by the Corporation for the purpose of meeting its obligations under any debentures or other securities issued by the Corporation, aux personnes morales qui exploitent une entreprise semblable à la sienne. 1974-75-76, ch. 61, art. 14; 1984, ch. 31, art. 14.

16. Lorsque sont dévolus à la Société ou à Sa Majesté la propriété de biens immeubles ou un droit quelconque sur ces biens, à la suite de leur acquisition par la Société en vertu de la présente loi, la Société peut verser à une administration fiscale, municipale ou autre, une subvention équivalant aux impôts que cette administration fiscale pourrait lever sur ces biens ou ce droit s’ils n’étaient pas dévolus à la Société ou à Sa Majesté. 1974-75-76, ch. 61, art. 15; 1976-77, ch. 10, art. 53.1; 1984, ch. 31, art. 14.

17. La Société peut conclure les accords nécessaires pour donner suite à l’article 16. 1974-75-76, ch. 61, art. 15; 1976-77, ch. 10, art. 53.1; 1984, ch. 31, art. 14.

19. (1) Le président, les dirigeants et les employés de la Société sont réputés faire partie de la fonction publique aux fins de la Loi sur la pension de la fonction publique et la Société est réputée être un organisme de la fonction publique aux fins de l’article 37 de cette loi.

(2) Pour l’application de la Loi sur l’indemnisation des agents de l’État et des règlements pris en vertu de l’article 9 de la Loi sur l’aéronautique, les présidents du Conseil et de la Société, les dirigeants et les employés de celle-ci sont réputés faire partie de l’administration publique fédérale. 1974-75-76, ch. 61, art. 18.

20. L’article 130 de la Loi sur la gestion des finances publiques ne s’applique pas aux excédents qu’accumule la Société en vue de satisfaire les créances découlant de valeurs mobilières émises par elle, et notamment d’obligations.
DISTRIBUTIONS

21. (1) In this section, "dividend" includes bonus or any distribution to Her Majesty in right of Canada.

(2) No dividend shall be declared when the Corporation is insolvent or that renders the Corporation insolvent or, subject to subsection (4), that will impair the capital of the Corporation and in determining the solvency of the Corporation for the purposes of this subsection, no account shall be taken of any increase in the surplus or reserves of the Corporation resulting merely from the writing up of the values of the assets of the Corporation, unless the writing up was made more than five years before the date of the declaration of the dividend.

(3) For the amount of any dividend that the directors may lawfully declare payable in money, they may issue therefor shares of the Corporation as fully paid up, or they may credit the amount of the dividend on the shares of the Corporation already issued but not fully paid up, and the liability of the holder of those shares thereon is reduced by the amount of the dividend.

(4) Nothing in this Act prevents the Corporation, when at least seventy-five per cent in value of its assets are of a wasting character, from declaring or paying dividends out of its funds derived from the operations of the Corporation notwithstanding that the paid-up capital of the Corporation may be thereby reduced or impaired, if that payment does not reduce the value of its remaining assets so that they will be insufficient to meet all the liabilities of the Corporation then existing exclusive of its paid-up capital.

(5) Nothing in this section shall be deemed to impose on the directors any liability of a character specified in section 200 of the Canada Corporations Act, chapter C-32 of the Revised Statutes of Canada, 1970, by reason of a declaration or payment of any dividend permitted by subsection (4), or, if the dividend is in excess of the amount so permitted, beyond the amount of that excess.

(6) The directors may deduct from the dividends payable to Her Majesty all sums of money, they may issue therefor shares of the Corporation as fully paid up, or they may credit the amount of the dividend on the shares of the Corporation already issued but not fully paid up, and the liability of the holder of those shares thereon is reduced by the amount of the dividend.

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Corporation. 1974-75-76, c. 61, s. 19; 1984, c. 31, s. 14.

DIVIDENDES

21. (1) Au présent article, «dividende» s'entend notamment d'un boni ou de toute part de Sa Majesté du chef du Canada dans une répartition.

(2) Il ne peut être déclaré de dividende lorsque la Société est insolvable ou que ce dividende la rend insolvable ou, sous réserve du paragraphe (4), entame son capital; pour déterminer si la Société est solvable pour l'application du présent paragraphe, il ne peut être tenu compte de l'augmentation des surplus ou des réserves de la Société qui découle uniquement de l'inscription d'une plus-value de l'actif de la Société que si cette inscription a été effectuée plus de cinq ans avant la date de la déclaration du dividende.

(3) Les administrateurs peuvent émettre des actions entièrement libérées de la Société pour le montant des dividendes qu'ils pourraient légalement déclarer payables en espèces ou ils peuvent créditer de ce montant les actions de la Société déjà émises et non entièrement libérées, réduisant d'autant l'obligation y afférente des actionnaires en cause.

(4) La présente loi n'a pas pour effet d'empêcher la Société, lorsque son actif, à raison de soixante-quinze pour cent de sa valeur ou plus, est de nature défectible, de déclarer des dividendes ou de les payer sur les fonds provenant de ses opérations, même si son capital versé s'en trouve réduit ou entamé, pourvu que ce paiement ne réduise pas la valeur du reste de son actif à un niveau insuffisant pour faire face à l'ensemble de ses obligations existantes, son capital versé exclu.

(5) Le présent article n'est censé imposer aux administrateurs aucune responsabilité de la nature de celle que précise l'article 200 de la Loi sur les corporations canadiennes, chapitre C-32 des Statuts revisés du Canada de 1970, au titre de la déclaration ou du paiement d'un dividende autorisé par le paragraphe (4) ou, si ce dividende excède le montant autorisé, au-delà du montant de cet excédent.

(6) Les administrateurs peuvent déduire des dividendes payables à Sa Majesté toutes les sommes dues par les actionnaires.
money that are due from Her Majesty to the Corporation on account of calls or otherwise. 1974-75-76, c. 61, s. 20.

**Government Assistance**

22. (1) Subject to subsection (2), on the recommendation of the Minister and the Minister of Finance, the Governor in Council may, when so requested by the Corporation, authorize the Minister of Finance to advance to the Corporation, out of the Consolidated Revenue Fund, amounts

(a) by way of loans on such terms and conditions as the Governor in Council may determine; or

(b) by way of purchases of preferred shares to which may be attached such rights, restrictions, conditions or limitations as the Governor in Council may determine.

(2) The amount outstanding of loans or preferred shares under subsection (1) shall not at any time exceed one billion dollars.

(3) The authorized capital of the Corporation is increased by the amount of any preferred shares issued pursuant to this section.

(4) All preferred shares issued pursuant to this section shall be redeemable at the option of the Corporation but they need not bear any stated rate of dividends or be cumulative with respect to dividends. 1974-75-76, c. 61, s. 22; 1980-81-82-83, c. 105, s. 6.

**Aide Financière de l'État**

22. (1) Sous réserve du paragraphe (2), sur recommandation du ministre et du ministre des Finances, le gouverneur en conseil peut, lorsque la Société le demande, autoriser le ministre des Finances à consentir à la Société des avances, sur le Trésor :

a) par voie d'emprunt, selon les modalités que fixe le gouverneur en conseil;

b) par l’acquisition d’actions privilégiées assorties éventuellement des droits, restrictions, conditions ou limites que fixe le gouverneur en conseil.

(2) Le montant non remboursé au titre des emprunts ou des actions privilégiées visées au paragraphe (1) ne doit jamais dépasser la somme de un milliard de dollars.

(3) Le capital autorisé de la Société est augmenté à raison du montant des actions privilégiées émises en application du présent article.

(4) Les actions privilégiées émises en application du présent article sont rachetables à la demande de la Société. Elles peuvent, toutefois, ne comporter aucun dividende fixe et aucun effet cumulatif quant aux dividendes. 1974-75-76, ch. 61, art. 22; 1980-81-82-83, ch. 105, art. 6.

23. Additional sums required for the purposes of the undertaking of the Corporation shall be paid out of moneys appropriated by Parliament for those purposes. 1974-75-76, c. 61, s. 24; 1980-81-82-83, c. 105, s. 8.

24. (1) Lorsqu'une somme provenant du Trésor imputée au Comptes d'accroissement du taux de propriété canadienne est allouée sous le régime du crédit 5c (Énergie, Mines et Ressources) de la Loi no 4 de 1980-81 portant affectation de crédits, chapitre 51 des Statuts du Canada de 1980-81-82-83, est investie dans des actions, des obligations ou d'autres titres de créance de la Société pour lui permettre ou permettre à ses filiales d'acquérir des actions ou des biens en vue d'accroître le
(2) The authorized capital of the Corporation is increased by the amount of any common shares issued pursuant to this section. 1980-81-82-83, c. 105, s. 8.


MISCELLANEOUS

Sale of Panarctic Oils Ltd.

26. (1) The Governor in Council may sell or cause to be sold to the Corporation, at such fair and reasonable price as may be agreed on by the Governor in Council and the Corporation, the whole or any part of the capital stock of Panarctic Oils Ltd. held by the Crown, and the Corporation may, in consideration therefor, issue in the name of the Minister common shares of the Corporation taking into account, in addition to the par value of any such share, such amount as may be prescribed by the Governor in Council under subsection 5(3) in respect of any such share.

(2) Any stock sold pursuant to this section may be sold for cash, shares or securities of the Corporation, as may be approved by the Governor in Council.

(3) The authorized capital of the Corporation under subsection 5(1) is increased by the amount and by the number of shares issued under subsection (1). 1974-75-76, c. 61, s. 25; 1980-81-82-83, c. 105, s. 9; 1984, c. 31, s. 14.

Winding-up

27. No law relating to the insolvency or winding-up of any body corporate applies to the Corporation and in no case shall the affairs of the Corporation be wound up unless Parliament so provides. 1974-75-76, c. 61, s. 28.

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