ABSTRACT

While there were overtures from each country to develop a more formal accord to govern the trade of oil and natural gas at different times since 1958, Canada rejected that option in 1974 when it decided to phase out oil exports to the U.S. The main purpose of this research is to trace the development and evolution of Canada-U.S. oil and gas relations from the beginning of the informal continental relationship in 1959, through attempts to formalize a continental oil and gas agreement in the late 1960s, to the initial reversal of continentalism by Canada in 1974. This study examines and compares the changing influence of the explanatory variables of interest groups, international forces, national security, economics, ideas, and personalities on the energy decision- and policy-making processes of Canada and the U.S. between 1958 and 1974. Four key decisions or events that can be considered turning points in the Canada-U.S. oil and gas relationship are analysed and include: Canada's exemption to the American Mandatory Oil Import Program (MOIP); Canada's National Oil Policy (NOP); the near revocation of Canada's MOIP exemption; and Canada's decision to phase out oil exports. These events and relationships are situated in the larger context of interdependence, intergovernmental and transgovernmental relations, and the altered bureaucratic structures of governments in both countries over this period of time. Although decisions concerning Canada-U.S. oil and gas relations, and the pursuit and reversal of continentalist policies, were influenced by concerns regarding the pressure of various interest groups, international forces, national security, and changing economic and ideological circumstances; in the period examined here, the personalities of and personal relationships between Presidents and Prime Ministers, and the actions of key officials, as well as their transgovernmental networks across the border, often made the difference in determining what policy or approach was chosen when and why.
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<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ADM</td>
<td>Assistant Deputy Minister</td>
</tr>
<tr>
<td>BOB</td>
<td>Bureau of the Budget</td>
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<tr>
<td>CDA</td>
<td>Canada</td>
</tr>
<tr>
<td>CEA</td>
<td>Council of Economic Advisors</td>
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<tr>
<td>CFEP</td>
<td>Council on Foreign Economic Policy</td>
</tr>
<tr>
<td>DDEL</td>
<td>Dwight D. Eisenhower Library</td>
</tr>
<tr>
<td>DDP</td>
<td>Department of Defence Production</td>
</tr>
<tr>
<td>DM</td>
<td>Deputy Minister</td>
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<tr>
<td>DOE</td>
<td>Department of Energy</td>
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<tr>
<td>DOI</td>
<td>Department of Interior</td>
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<tr>
<td>EMR</td>
<td>Energy, Mines and Resources</td>
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<tr>
<td>ESB</td>
<td>Energy Studies Board</td>
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<tr>
<td>FPC</td>
<td>Federal Power Commission</td>
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<tr>
<td>FRUS</td>
<td>Foreign Relations of the United States</td>
</tr>
<tr>
<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
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<tr>
<td>GRFL</td>
<td>Gerald R. Ford Library</td>
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<tr>
<td>IOCC</td>
<td>Interstate Oil Compact Commission</td>
</tr>
<tr>
<td>IPAA</td>
<td>Independent Petroleum Association of America</td>
</tr>
<tr>
<td>JCTEA</td>
<td>Joint Committee on Trade and Economic Affairs (Canada-U.S.)</td>
</tr>
<tr>
<td>JECL</td>
<td>James Earl Carter Library</td>
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<tr>
<td>JFKL</td>
<td>John F. Kennedy Library</td>
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<tr>
<td>LBKL</td>
<td>Lyndon Baines Johnson Library</td>
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<tr>
<td>MemCon</td>
<td>Memorandum of Conversation</td>
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<tr>
<td>MOIP</td>
<td>Mandatory Oil Import Program</td>
</tr>
<tr>
<td>NAC</td>
<td>National Archives (Canada)</td>
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<tr>
<td>NARA</td>
<td>National Archives and Records Administration (U.S.)</td>
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<tr>
<td>NATO</td>
<td>North Atlantic Treaty Organization</td>
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<td>NEB</td>
<td>National Energy Board</td>
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<td>NEP</td>
<td>National Energy Program</td>
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<td>NOP</td>
<td>National Oil Policy</td>
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<tr>
<td>NP</td>
<td>Richard R. Nixon Project</td>
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<td>NPC</td>
<td>National Petroleum Council</td>
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<td>NSC</td>
<td>National Security Council</td>
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<td>NSF</td>
<td>National Security Files</td>
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<tr>
<td>OCDM</td>
<td>Office of Civil and Defense Mobilization</td>
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<tr>
<td>ODM</td>
<td>Office of Defense Mobilization</td>
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<tr>
<td>OEP</td>
<td>Office of Emergency Planning (Kennedy); Office of Emergency Preparedness (Nixon)</td>
</tr>
<tr>
<td>OIA</td>
<td>Oil Import Administration</td>
</tr>
<tr>
<td>OOG</td>
<td>Office of Oil and Gas</td>
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<tr>
<td>OPEC</td>
<td>Organization of Petroleum Exporting Countries</td>
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<td>PSC</td>
<td>Petroleum Study Committee</td>
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<td>RRL</td>
<td>Ronald Reagan Library</td>
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<tr>
<td>SPR</td>
<td>Strategic Petroleum Reserve</td>
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<tr>
<td>Acronym</td>
<td>Full Form</td>
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<tr>
<td>TEA</td>
<td>Trade Extension Act</td>
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<tr>
<td>Telcon</td>
<td>Telephone Conversation</td>
</tr>
<tr>
<td>TIPRO</td>
<td>Texas Independent Producers and Royalty Owners</td>
</tr>
<tr>
<td>TRC</td>
<td>Texas Railroad Commission</td>
</tr>
<tr>
<td>UN</td>
<td>United Nations</td>
</tr>
<tr>
<td>USNA</td>
<td>United States National Archives</td>
</tr>
<tr>
<td>VOIP</td>
<td>Voluntary Oil Import Program</td>
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<tr>
<td>WHCF</td>
<td>White House Central Files</td>
</tr>
<tr>
<td>WHSF</td>
<td>White House Staff Files</td>
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</table>
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INTRODUCTION

Whoso writes the history of his own time must expect to be attacked for everything he has said, and for everything he has not said: but those little drawbacks should not discourage a man who loves truth and liberty, expects nothing, fears nothing, asks nothing, and limits his ambition to the cultivation of letters.

Voltaire, Letter to M. Bertin de Rocheret

Thirty plus years after the first energy crisis, the world is again faced with a record rise in oil prices. In 2005, after a series of hurricanes ravaged the American east coast, along with production uncertainties in the Middle East because of the second Iraq War, increased demand in China, and low refinery inventories around the world, oil prices surged to record highs from approximately $45 per barrel to a peak of around $70 per barrel for West Texas Intermediate crude oil. With a sense of déjà vu, the President of the United States (U.S.) announced in two separate State of the Union addresses, four years apart, that America’s priority was to become less dependent on overseas oil by replacing 75 percent of Middle East oil imports by 2025.\(^1\) American policy-makers look to Canada as a safe and secure supplier of oil and natural gas to help reduce dependence on overseas oil. Concurrently, echoing sentiments from the 1970s, consumers in Canada bemoan high fuel prices; regional envy motivates Ontario and Quebec politicians at various levels to advocate forcible wealth redistribution from the main oil producing province of Alberta to the rest of Canada; and other federal politicians suggest that Canada should drastically cut exports of oil and natural gas to the U.S. in order to preserve Canada’s resources for itself, or at least reduce domestic prices of oil and gas while charging

world prices for exports. Yet, despite these ominous rumblings, Canada’s policy options with respect to the bilateral trade of oil and natural gas are constrained by its obligations in the Canada-U.S. Free Trade Agreement (FTA), now the North American Free Trade Agreement (NAFTA).

A half-century earlier, in the 1950s and 1960s, the situation was reversed and low oil prices threatened the viability of the Canadian and American oil and gas industries. Consequently, Canada and the U.S. entered into an informal continental arrangement for trade in oil. But by the late 1960s this informal relationship began to break down, and, despite numerous discussions through 1972, a more formal sectoral agreement failed to emerge. Then in the 1970s increased oil prices sharpened the politicization of oil and gas issues, and Canada embarked upon a course that thwarted and reversed the pursuit of a continental oil agreement by making the dramatic decision to phase out all oil exports to the U.S.

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While there had been overtures from each country to develop a more formal accord to govern the trade of oil and natural gas at different times since 1958, Canada rejected that option in 1974 when it decided to phase out oil exports to the U.S. How and why did Canada and the U.S. initiate closer continental co-operation in the trade of oil and gas in the 1950s and 1960s? Why did a formal continental oil agreement not come to fruition in the late 1960s/early 1970s? Why did Canada reverse the trend of closer continental co-operation by deciding to phase out oil exports to the U.S.? Although decisions concerning Canada-U.S. oil and gas relations, in particular the pursuit and rejection of continentalist policies, were influenced by concerns regarding national security, the pressure of various interest groups, international forces, and changing ideological and economic circumstances; in the period examined here, the personalities of and personal relationships between Presidents and Prime Ministers, and the actions of key officials, as well as their transgovernmental networks across the border, was more important than has been recognized in determining what policy or approach was chosen when and why.

The main purpose of this research is to trace the development and evolution of Canada-U.S. oil and gas relations from the beginning of the informal continental relationship in 1959, through attempts to formalize a continental oil and gas agreement in the late 1960s/early 1970s, to the initial reversal of continentalism by Canada in 1974. Four key decisions are examined in detail in order to understand how and why continentalism was accepted and then rejected, with a brief discussion of events before and between the decisions. These decisions include: the American decision to exempt Canada from its American Mandatory Oil Import Program (MOIP)

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3 While it might seem logical to extend the analysis and discussion to the creation of Canada’s controversial National Energy Program in 1980 and the decision to include the energy chapter in the Canada-U.S. Free Trade Agreement in 1988, as the former is a firm rejection of continentalism and the latter comprised a formal continental oil and gas agreement, it was decided that there were not enough primary documents declassified and available, nor the time and financial resources to conduct extensive interviews with the people involved in those two events, to do a history dissertation justice. Therefore, the analysis is limited to developments up until 1974.
in 1959; the Canadian decision to create the National Oil Policy (NOP) in 1961; the near
decision by President John F. Kennedy to revoke Canada’s MOIP exemption in 1962/63; and
Canada’s decision to phase out oil exports in 1974. In addition, the discussion of the
development and evolution of Canada-U.S. oil and gas relations is set within the larger context
of interdependence, transgovernmental relations, and the increased bureaucratization of
governments in both countries over this period of time.  

Significantly, the documentary evidence uncovered during the research for this project
reveals that the roles and interactions of the country leaders and the varying levels of government
officials—how they worked together, their personal attributes, and how and why they generated,
welcomed, or discarded certain ideas—often made the difference not only in the development
and implementation of national policies, but also in the type of bilateral oil and gas policies that
were embraced or rejected. In brief, the examination of the internal actions and interactions of
the people within both governments, and the role and impact of personal dynamics particularly,
matters because they were critical factors that shaped oil and gas policy within the Canada-U.S.
relationship. In order to understand why a continental oil and gas policy was tentatively
approached and then rejected, it is necessary to explore how each country developed their
respective oil and gas policies during this time period, and examine the importance and influence
of key people on the process, institutions, and policies that emerged. The oil and gas policy-
making process that evolved in each country reflected broader trends in how each country
perceived its role as a federal state, and the growing bureaucratization of government. It can also

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4 I employ Transgovernmental in the manner of Keohane and Nye: “direct interaction between agencies
(governmental and subunits) of different governments where those agencies act relatively autonomously from
Interdependence.” International Organization, Vol. 28, Issue 4, Canada and the United States: Transnational and
Transgovernmental Relations (Autumn 1974): 596.
be seen as a microcosm of Canadian-American interdependence and the larger long-term trend of economic competitiveness within the global community. Indeed, both domestic and international factors affected how oil and gas policy was developed, considered, implemented, and evaluated.

I. Literature Review

This investigation differs in two significant ways from previous studies of this period: first, the focus is on both countries: how Canadian and American policy processes and decisions influenced each other and changed over a thirty-year period of time. This is in contrast to the single country approach that some scholars, such as Canadians John N. McDougall, Bruce Doern and Glen Toner, and American Richard Vietor have taken. The single country approach has its benefits. It enables the researcher to focus on specific actions, problems and policies of one state. For example, McDougall argues in *Fuels and the National Policy*, that, contrary to popular belief, the promotion and provision of national self-sufficiency in fuels so that the entire Canadian fuel market would be served exclusively from Canadian fuel sources, has been with us since Confederation. Further, in the case of a national fuels policy there continues to be a fundamental tension within the Canadian public, and among policy makers, between the pull of continentalism and the push of nationalist impulses (national unity and national independence). These ideas are addressed by McDougall through the examination of the major issues and debates between 1867 and 1981 which compelled policy-makers to consider a National Fuel Policy at various times and for various reasons. Although McDougall briefly mentions the importance of the United States as a market for Canadian fuels, his primary concern is with Canadian policy, and the U.S. is considered only in the background. A major weakness in his

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approach is that he relies mostly on secondary and published primary sources such as Royal Commissions and House of Commons debates.

One of the better overviews of recent Canadian energy policy developments is Doern and Toner's *The Politics of Energy*. Although this book is largely about the development of the National Energy Program (NEP) of 1980, Doern and Toner spend the first part of the work explaining the Pre-NEP context and how Canada came to a position where such an interventionist and controversial policy was perceived to be desirable. The main strength in *Politics of Energy* is the discussion of public policy and the policy-making process and its intersection with politics. The book was written in 1984-1985, soon after the NEP was implemented. Therefore, given the immediacy of the issue, several hundred interviews were undertaken with industry and government officials in order to gain as clear a picture as possible of how the policy was developed and implemented. The major weakness of the book is in the lack of access to unpublished government records. Doern and Toner apparently tried to gain access to as many unpublished records as possible, but the recorded details of how the federal policy-making and decision-making took place were sealed, and are only now being made accessible to researchers.

American Richard Vietor's *Energy Policy in America Since 1945* provides an excellent overview of developments in American energy policy since the end of World War Two. He is interested in the relationship between business and government in developing and implementing policies. Ultimately, he argues that since 1945 America has suffered through ineffective government intervention in the energy sector, especially the restrictive and misguided oil import  

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programme, because government institutions relied upon politics rather than economics to
develop solutions to energy problems. Part of the problem for business was that there were
competing interests. The American owned multi-national companies preferred one policy while
the American independent producers and refiners desired another. Given the context of the Cold
War and the perceived need to keep American independents in business for National Security
reasons, policy steps were taken that favoured the independents at the expense of the multi-
nationals. The focus of this work is the U.S., and even though these policies were driven in part
by continental dynamics, Canada is only briefly mentioned.

All three of the above works focus on one country or the other and employ few archival
sources. Most references are secondary or published primary sources like Royal Commissions or
Congressional studies. This type of approach is absolutely necessary for the larger field of
energy policy analyses in each country. But, given the acknowledged controversial dimension
and importance of energy in the Canadian-American relationship, a bilateral study that utilizes
archival materials as well as secondary sources would add a much needed dimension to energy
policy studies in each country.

The second significant way that this study differs from previous research on this period,
is that it combines an examination of the internal archival documentation of the Canadian and
American federal and provincial/state governments that has only recently become available, with
published records. While some very good histories exist which examine archival and published
records and include interviews of industry and government personnel, such as the work of
historians Stephen Randall, David Breen, and David Painter, they are mostly of the period
immediately preceding the period under examination here, and they focus mainly on one country
or the other.
For example, Randall’s United States Foreign Oil Policy 1919 to 1948 is a thoroughly researched account of American foreign oil policy in the interwar and World War Two period. His main argument is that business did not control government nor did government control business; rather, it was an associational relationship. The U.S. government pursued a policy based on national security, while the companies worked with government in order to enhance their market strength. The state promoted and coordinated the activities of American oil companies internationally in order to enhance security, while the companies cooperated with the state in order to secure access and profits. Randall’s book is useful because it provides an important context for developments that would take place after World War Two. Although Randall’s book examines America’s oil policy with reference to other countries around the world, Canada is only mentioned peripherally. This is because large oil deposits were not discovered in Canada until after 1947, and therefore, Canada was of minor significance in this earlier period.

An excellent study from the Canadian perspective is David Breen’s Alberta’s Petroleum Industry and the Conservation Board. This is a very thorough study of developments in the Alberta oil and gas industry and government management of resources between 1908 and 1959. Breen examines the emergence of the petroleum industry in Western Canada and the struggle to achieve efficient production in the face of limited and unstable markets dominated by the priorities of the U.S. oil and gas sector. The role of Board chairmen, what legislation defined the Board’s role, the process of policy- and decision making, and some of the important issues the Board addressed over this period are discussed in light of the above context. Breen’s analysis

provides insight into how the province of Alberta managed its oil and gas resources, and it also reveals facets of Alberta's relationship with the industry as well as the growing hostility towards the federal government that is extremely important for understanding later developments. In this study, petroleum development and energy policy are examined against the backdrop of the U.S., and ends where this study begins, as does David Painter's work.

David Painter's *Oil and the American Century: The Political Economy of U.S. Foreign Oil Policy*, 1941-54, is a solid account of America's war time and immediate post war oil policy. Painter takes a corporatist approach in his examination of America's foreign oil policy in this period. He examines the complex relationship between the American government, assorted oil industry firms, and other countries like Venezuela, Mexico, and Saudi Arabia. Similar to Randall, Painter argues that the government and oil firms used each other to further their interests. Where conflict arose between the government and industry it concerned how best to pursue a policy of establishing a secure oil supply for the U.S. Painter's discussion is useful for its examination of the immediate post-war period and how the government-industry relationship was beginning to evolve after the war. He uses a good mix of sources, and is particularly strong in his application of archival records.

Again, like most works in this field, even those that utilize archival and interview material, the focus tends to be from the perspective of one country or province. In contrast, this study begins where the Randall, Breen, and Painter accounts leave off chronologically, and it reorients the focus to an explicit comparative examination of Canadian-American federal oil and

David Painter, *Oil and the American Century: The Political Economy of U.S. Foreign Policy*, 1941-54 (Baltimore: Johns Hopkins University Press, 1986). An interesting aspect of this research is the unique environment of World War Two. The entire nation became mobilized for the war effort, and petroleum was one of the most vital strategic resources necessary to fuel the war machine. As Painter implies, it is hardly surprising that government and industry should work so closely together during a war-time situation, especially given the American preference to avoid state owned corporations unless absolutely necessary.
gas relations instead of solely upon American foreign oil policy or Canadian provincial policy. In addition, although international factors such as the rise of the Organization of Petroleum Exporting Countries (OPEC), the Organization of Arab Petroleum Exporting Countries (OAPEC), and America’s relations with Middle Eastern oil producing nations are considered, they are not the primary focus. Rather, they are examined as one of six primary variables, to be identified later, that influenced the creation of a continental oil and gas arrangement.

Furthermore, this comparative approach addresses an obvious deficiency – that policies in both countries, and especially Canada, were shaped by what was happening in the other, therefore only a comparative study offers an in depth understanding of the evolution of continental oil and gas policy.

By taking a comparative approach, examining archival documentary evidence, and utilizing a wide range of secondary studies, this study will provide a clearer indication of the important internal and personal dynamics that affected the direction policy took within and between Canada and the U.S. The benefit of this approach is that it takes the hitherto separately considered spheres of Canadian and American oil and gas policy, combines them, and provides an analysis from a comparative continental perspective. Yet, there is literature from other disciplines besides history that can be drawn upon to create a more comprehensive understanding of continental oil and gas issues.

One such body of literature that informs this study is that of public policy and public administration. Scholars in these fields, on both sides of the border, have a different set of methods and concerns that inform this dissertation, but does not comprise the focus. These concerns are usually structural in nature and the typical objective is in work toward building models of action and behaviour that can be applied consistently to most parts of the type of
government investigated. Some of the theories and ideas about the government which will be quite useful are those concerning agenda setting, preferences, and organization and decision-making theory to name a few. For example, Bruce Doern and Richard Phidd in *Canadian Public Policy: Ideas, Structure and Process*, provide a detailed analysis of how the Canadian bureaucratic system functions by describing the larger structure and then zeroing in upon specific examples of the system in operation.\(^\text{11}\) James Desveaux’s recent work *Designing Bureaucracies*, along with his earlier collaboration with Evert A. Lindquist and Glen Toner, address the idea of the ability or capacity of the bureaucracy to develop innovative ideas and policy solutions.\(^\text{12}\) They argue convincingly that limitations in the policy process may have more to do with organizational limitations than with political or policy problems. Conversely, as this study will show, in the case of oil and gas in Canada, the early 1970s represented the first phase of a major organizational shift within Energy, Mines and Resources (EMR). Subsequently, though not discussed in this study, a second phase of reorganization in the late 1970s enabled EMR to secure knowledgeable, highly motivated and relatively autonomous officials throughout its ranks, which then translated into a significant policy innovation, the National Energy Program.

On the other side of the border, James Q. Wilson provides a detailed examination of how government agencies in the United States operate, and he resists the tendency to search for a comprehensive theory that will explain everything about why bureaucracies behave the way they do.\(^\text{13}\) Particularly useful is the outline he provides on how different sections of the bureaucracy

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operate. John W. Kingdon provides valuable insight into the general policy process within the American government based upon substantial interviews within different departments and varying levels of officials.¹⁴

There are several other theoretical approaches that span the public policy, international relations, and political science disciplines, which could be used to help frame the discussion of Canadian-American oil and gas relations and continental policies. They deserve mention only to demonstrate why they are not part of the theoretical framework that informs this study. One approach that received a great deal of attention throughout the 1970s and 1980s is the core-periphery or dependency theory. In dependency theory, the core nations - large, industrial countries such as the United States, exploit the resources and labour of much smaller and less developed periphery countries. Although periphery countries are usually considered to be developing nations, Canadian scholars such as James Laxer, Heather-Jo Hammer, and Kari Levitt, argue that despite Canada's economic strength, it is the periphery of the American core.¹⁵

The disparity in size and influence creates an unequal power relationship, which, according to this theory, always puts Canada at a disadvantage in dealings with the U.S. Thus, in order to


make the theory fit Canada's apparently unique situation, it was modified and relabelled as
“mature dependency,” which enabled the theory's supporters to argue that Canada was both a
core country as well as part of the periphery. The useful aspect of this theory is that Canada is a
smaller nation than the U.S., and it is important to keep in mind the power differences between
the nations. The drawback to this theory is that, though it might work from an abstract point of
view, it is narrow and limiting. Political Scientists Kal Holsti and Thomas Levy argue that the
relationships between Canadian and American bureaucracies and industry representatives is so
extensive, on a formal and informal level, that to merely view it from the core-periphery
perspective is to neglect the nuances and complexity of the Canadian-American relationship.16

Similar to the core-periphery theory is World Systems theory. This theory, developed by
Immanuel Wallerstein, and elaborated upon by many, posits that a capitalist world economy has
existed since 1500 and has transnational business organizations as its chief actors.17 There are
three successive zones of interaction: the core (first world countries), the semi-periphery (second
world countries), and the periphery (third world countries). The relationship between the three
different zones is unequal, with the core exploiting the resources and manpower of the periphery
and semi-periphery. Central to the World Systems theory is economic relationships; political
and military power is a subordinate extension of economic power, thus, national state actors play
a back up role to the capitalist world economy. The useful aspect of this theory is its
comprehensive nature. The broad view reminds one of the interconnectedness of the world and
can help situate Canada-U.S. relations in a global perspective. The less helpful side of this

16See Immanuel Wallerstein, The Capitalist World Economy (Cambridge: Cambridge University Press,
1979) for a good outline of dependency theory and the relationship between core and periphery states. Kal J. Holsti
and Thomas Allen Levy, “Bilateral Institutions and Transgovernmental Relations Between Canada and the U.S.”
International Organization, Vol. 28, Issue 4, Canada and the United States: Transnational and Transgovernmental
Relations (Autumn 1974): 875-901.
125-132.
theory is that it is too broad for this particular study, and its emphasis on economics devalues human involvement in the processes and activities that shape our lives, and shaped Canada-U.S. oil and gas relations.

In the 1970s, political scientists began to focus on the transnational element of the World Systems theory within a tighter time period.\textsuperscript{18} At first, as in the work of Samuel P. Huntington, the transnational organizations examined were a mix of large institutions like the World Bank and the Catholic Church, as well as multinational corporations like the Chase Manhattan Bank and Unilever.\textsuperscript{19} Huntington argued that internationalism was dead, and the future lay with the transnational organizations and how they interacted with nation states. Soon after, multinational corporations became the focus, and in light of the first oil crisis of 1973, large integrated multinational oil companies became targets of inquiry.\textsuperscript{20} Given the complex nature of Canada-U.S. oil and gas relations, and the obvious limitations of focusing only upon the multinational companies and their inter-relationships with the Canadian and American governments, multinational oil and gas companies are discussed in this study but are not the primary focus.

As companies began to have more and more interaction across borders, theories developed to explain the expansion of Canada-U.S. trade in terms of integration and transnationalism: transnational corporations were seen to be driving integration, not nation-states. A more nuanced approach for North America emerged in the 1990s that argued transnational and nation-state elites formed a consensus toward further integration, and pushed

\textsuperscript{18} An entire issue of International Organization was dedicated to transnationalism in 1971. See, International Organization, 25:3, Transnational Relations and World Politics. (Summer, 1971): 329-758.
\textsuperscript{20} See for example, Louis Turner, “The Oil Majors in World Politics,” International Affairs (RIIA), 52:3 (July 1976): 368-380. One of the most cited books outlining the rise and decline of the power and influence of the companies is Anthony Sampson’s The Seven Sisters: The Great Oil Companies and the World They Shared (New York: Viking Press, 1975). Although popular and well cited, it is a journalist’s depiction of events surrounding the major multinational oil companies, and is not within the theoretical purview of the transnational scholars.
integration forward in spite of significant objections by large portions of each country's populace. In these works, external and internal influences on trends are utilised within a larger framework based on economics. Although this approach provides an interesting broad conceptual framework, it ignores the important role played by individuals within the larger system.

Another obvious dimension of any study of continental oil and gas policy is Canadian-American relations. The scholarly literature on Canadian-American relations is relatively diverse and general in nature. Although there are a few studies that examine energy policy in the context of Canadian-American relations, such as Helmut Frank and John J. Schanz, Jr.'s work *U.S.-Canadian Energy Trade: A Study of Changing Relationships* (1978), David Leyton-Brown's *Weathering the Storm: Canadian-U.S. Relations, 1980-1983* (1985), and Dino Radocchia's *Windows of Opportunity in Canadian-American Energy Relations* (1987), they were written during the energy crises of the 1970s and 1980s and approach the topic from a political science or public policy perspective. The limitations apparent with this kind of approach are that such studies are highly technical and do not utilize archival resources - mainly because the relevant archival materials were closed to access. They are useful, however, in the sense of providing a foundation to the debate that took place among scholars during the period of

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energy crises. There are no recent detailed studies of the Canadian-American energy relationship for the 1958 to 1980 period that take an historical approach and utilize archival as well as published records.

Although these many different scholarly works provide guidance and ideas about how bureaucracies are structured, and how government's develop policies in general, they are of limited value for two reasons: first, most are only concerned with the mechanics of governments which can be modelled to develop a verifiable theory; and second, the sources upon which such analyses are based are usually comprised of published government policies and statements and interviews.

Another way to help organize and explain the relationships within and across the Canada-U.S. border, and the one that proved to be the most effective, is Robert O. Keohane and Joseph S. Nye's idea of transgovernmental and transnational relations within their more general theory of complex interdependence. What makes the Canadian-American energy relationship unique, particularly in the period under investigation, is that there is a significant amount of cross border cooperation between different government officials, and between industry representatives. An obvious question arises: how did this web of mutual concerns, ties, and cooperation withstand the energy crises of the 1970s and 1980s? Some, like Doern and Toner and Desveaux, would suggest that they did not and had to be reconstructed when Brian Mulroney and Progressive Conservatives came to power in 1984. Perhaps this is one reason why Canada and the U.S.

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entered into a continental energy arrangement in 1988, but this idea is not explored here and
must await future study. Keohane and Nye also make a distinction between societal
interdependence and policy interdependence. The former "refers to the extent that events in one
society . . . affect events in another." Fluctuations in the stock market, or interest rates, are
examples of societal interdependence. Policy interdependence is described as "the extent to
which governments are affected by one another's policies so that they react to changes in policy
by the other side." The history of Canada-U.S. oil and gas relations falls into this latter
category. Keohane and Nye add the further distinction of power, which, in the Canadian-
American interdependent relationship, is asymmetrical. This means that the U.S. is less
dependent on Canada than Canada is dependent upon the U.S. Although this may be true in
terms of the overall Canada-U.S. relationship, it has recently become the reverse with respect to
energy. In 2006, Canada supplied approximately 14 percent of American oil imports, and close
to 100 percent of American natural gas imports. A severe disruption in Canadian supply may
not be sufficient to cripple the U.S., but it would be enough to seriously damage the American
economy and threaten its national security, particularly given its recent initiatives to reduce
dependence on overseas oil. In contrast, if the U.S. were to cut off all its exports of oil to
Canada, it would not be as debilitating because Canada could divert its exports to domestic
consumption as Canada exports far more to the U.S. than it imports from the U.S.

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27 Ibid. A more detailed analysis of power relationships and interdependence is Robert Keohane and Joseph
28 Between 2001 and 2005, the U.S. imported on average 13.778 percent of its crude oil supply from
Canada. The only other country to export more to the U.S. than Canada over the same period was Saudi Arabia at
data was generated using Product Code HS2709 - Crude Petroleum Oil & Oil Obtained from Bituminous Minerals,
Latest five years as percentage of total imports.
29 Indeed, by entering into a continental energy agreement in 1988, Canada and the U.S. essentially pledged
not to abuse their interdependence in oil and gas as it had been abused by both countries previously.
As this literature review has demonstrated, there are many single country studies, there
are some comparative studies but they tend to be too general or too technical with limited use of
primary sources, are usually from other disciplines such as public policy/public administration,
political science, economics, or international relations, and most were written in the 1970s and
1980s. Excellent historical works that employ archival documents have only been completed for
an earlier period that ends where this study begins. Unlike most of the existing scholarship on
Canadian and American energy policy, this study examines how Canada and the U.S. have
influenced one another’s oil and gas policies. Key to this investigation is the use of historical
methods, which encompass both published records and archival documents. The internal
government records convey in more detail, and perhaps with more accuracy, the development of
thought, the perceptions of events at the time (unclouded by memory), and the tensions and
skirmishes within and between officials that often are not revealed in interviews, and are not
conveyed at all in published policy documents. As this study will demonstrate, personality, as
well as structure and organization, affect the dynamics of government bureaucracy and influence
the policy- and decision-making processes.

II. Methodology

A comparative approach will be used to examine the underlying dynamics of Canadian-
American oil and gas relations. Understanding how each country came to the decision to
embrace the idea that an informal continental policy was in its best interest, and how and why a
formal continental agreement was rejected, requires that both countries’ policy- and decision-
making machineries be examined. In addition, it is important to see how two interdependent
federal states dealt with the most controversial, and arguably, the most important issue of the
1970s, because to understand the successes and failures of both countries provides “a framework
for interpreting how parallel processes of change are played out in different ways within each context.  

The “parallel processes of change” in Canada and the U.S. that this dissertation will explore are those that resulted in first an informal continental oil and gas policy in 1959 and 1961, the maintenance of the informal relationship, the failure of negotiations for a more formal agreement, and the eventual reversal of continentalism by Canada in 1974. Continentalism, for the purposes of this discussion, is defined as the extent to which either the Canadian or American federal governments encouraged or discouraged continental ties or integration in the area of oil and gas policy. What factors influenced continental oil and gas decisions? There are many different elements that could have influenced the decision- and policy-making processes of both countries, however, this study will examine and compare the changing influence of the select explanatory variables of interest groups, international forces, national security, ideas, economics, and personalities on the oil and gas policy-making processes of Canada and the U.S. between 1958 and 1974. Framing the study within the concepts of variables is an approach designed to make the research more focussed, and to more clearly organize the investigation. Although there are other variables that could be chosen, it was imperative to keep the inquiry manageable, and these six elements are clearly the most important factors that influenced oil and gas policy and decision-making. What follows then is a brief discussion of the explanatory variables.

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31 Although private economic investment by American companies in Canada can be used as an indicator of continentalism, the focus here is on the interaction of the Canadian and American federal governments and policies that affected the bilateral oil and gas trade.

32 The variables will be discussed in reverse order of importance for each chapter. They will not necessarily follow the same order for each chapter because the level of influence or importance of the different variables changed depending on the situation of a particular time.
INTEREST GROUPS
The first variable is the role and influence of interest groups. Some of the groups under investigation include the oil and gas industry in Canada and the U.S. (the majors or multinationals and the independents which often have conflicting priorities), Congress in the U.S., and consumer and producer interests of the Canadian provinces. The role of environmental groups is examined in chapters three and four. Contrary to popular belief and expectations, interest groups seem to have had far less influence on the policy process and the decisions made.

INTERNATIONAL FORCES
International forces comprise the influence of events in the Middle East and Venezuela in chapters one and two, OPEC in chapters three and four, Organization of Arab Petroleum Exporting Countries (OAPEC) in chapter four, and the International Energy Agency (IEA) in chapter four. In the early period, the U.S. was concerned about its relationship with countries in the Middle East and Venezuela. It sought to ensure that its policies with respect to Canada would not adversely affect Venezuela in particular. In the mid and later period, the potential threat of OPEC/OAPEC embargoes, which affected not only security of supply but also prices, is examined for its influence on Canadian-American oil and gas policy. OAPEC/OPEC threats also led to the formation of the IEA in 1974. Both Canada and the U.S. are founding members of the IEA and its influence on Canadian-American energy policy ought to be considered.

NATIONAL SECURITY
The U.S. was far more concerned about national security than Canada, and it had a profound effect not only on the policy-making apparatus but also on the decisions that were taken. With the Cold War figuring prominently in American planning, successive American administrations sought to ensure that there would be sufficient domestic production and external supplies to fuel a war effort if necessary. Canada employed the national security argument in its discussions with the U.S., but it was rarely considered as a serious domestic concern. Indeed,
American administrations from Kennedy's through Nixon's believed Canada did not do enough to secure its oil supplies in Eastern Canada, which was vulnerable to supply cut-offs because it was reliant upon imported oil from OAPEC/OPEC countries. This became a factor in negotiations for a more formal continental oil agreement.

**IDEAS**

The variable of ideas examines the struggle Canadian and American governments faced in deciding the appropriate role of government in the trade of oil and gas. Five sub-categories are examined as motivators of policy direction and decision-making: protectionism (U.S.), economic nationalism (Canada from 1960s), market forces, anti-Americanism (Canada), and social democracy (Canada). Some may argue that protectionism and economic nationalism are synonymous, but they are not. Where the goal of protectionism is to protect existing domestic industries through import restrictions or tariffs, economic nationalism seeks to reduce foreign ownership in select industries through government legislation, review agencies and/or crown corporations. The corresponding alternative to protectionism and economic nationalism is the idea of market forces – less government regulation and intervention, trade liberalization, and ultimately free trade.

Anti-Americanism in Canada varies over time and has proved difficult to define. In the 1950s and early 1960s, it was employed in demagogic fashion, tapping into sentiment particularly in Ontario that perceived the United States as a threat to Canadian independence. Hence, there was much talk about the levels of foreign direct investment by Americans in Canada, and how that had to be reduced. By the late 1960s and into the early 1970s, the “national mood,” spurred by Canada’s Centennial celebrations in 1967 and rising oil prices,

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supported policies that would enhance Canadian “self-determination and self-confidence.”

This “new nationalism” came to be identified most with the Committee for an Independent Canada (CIC) led by Walter Gordon and publisher Mel Hurtig. The radical socialist Waffle group of the New Democrat Party (NDP) capitalized on this new nationalism, mixing it with a virulent strain of anti-Americanism, to press for nationalization of energy resources, the creation of a state oil company, among other things. The anti-Americanism of the Waffle and NDP embodied a hostile caricature of American values, behaviours, and economic system. Mainly because of the minority government situation between 1972 and 1974, the NDP grew in influence and held the balance of power; thus, they received a great deal of coverage in the media. Their ideas regarding foreign investment and economic dependence on the U.S., appealed to some Canadians, particularly the intelligentsia (who tended to be left of centre).

They yearned for a strengthened Canadian national identity and saw the United States as a threat

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35 Ibid., 15. The newspaper, Toronto Star, published the CIC manifesto, and Maclean’s magazine editor Peter Newman also helped to publicize the cause of reducing American investment in Canada.

36 Charles Doran and James Patrick Sewell, “Anti-Americanism in Canada,” Annals of the American Academy of Political and Social Science, Vol 497 (May 1988): 106-110. See also, Andrew Coyne, “Against Identity”, Saturday Night, available from, http://www.andrewcoyne.com/Essays/Magazines/Saturday%20Night/Nationalism%20(SN)%20-%20Later%20Draft.rtfd/ TXT.html; Internet, accessed 5 July 2006. Coyne lists some of the caricatures and half-truths Canadians hold about Americans, “It is extraordinary the myths Canadians believe about themselves, usually self-serving and always with reference to the Americans: that we make higher wages than Americans, for example, with which we are supposedly more openhanded, whether philanthropically or through the state: all untrue. The same goes for the belief that Canadians are more concerned about the environment, more socially heterogeneous, closer to the land: all quantifiably false... We do have less violence, and a marginally less wasteful medical system, and our parliamentary institutions have much to recommend them. That's good, let's build on that. But the quest for identity must blind us to our faults: so all the while that people are living in tar-paper shacks on Indian reservations and rotting on welfare in the Maritimes, the most pressing thing on our nationalists' minds are the terrible quality of life in the United States -- and their own dreadful plight as artists and educators here in Canada.” A similar description of the fallacies of Canadians’ beliefs regarding the differences between themselves and Americans can be found in, Janet Ajzenstat, The Once and Future Canadian Democracy: An Essay in Political Thought (Montreal-Kingston: McGill-Queen’s University Press, 2003), 112-115.
to its development. Consequently, the idea developed that Canada is defined by what it is not—it is not American. In order to build upon this concept positively for Canadians, negative elements of the U.S. had to be identified so that their opposite could be embraced in Canada.

American involvement in Vietnam, U.S. race relations, the predominance of American popular culture, and particularly the role of American investment in the Canadian economy were the main points of controversy.

Social democracy will be discussed primarily in Chapter 4 in the context of the influence of the NDP and the ideas held by Prime Minister Trudeau. Social democracy, in the Canadian context, represents the gradual implementation of social democratic principles and goals through democracy, reform, and trade unions. Similar to socialism, these principles and goals include but are not limited to: limits to private ownership and a consequent increase in state ownership of industries; the need for coordinated state planning of the economy; and a strong centralized state in order to develop and implement the required planning. A leading authority on Canadian

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38 Ibid., Ian Lumsden, “Imperialism and Canadian Intellectuals,” 325-328. Lumsden argues, “Who can doubt, then, that the possibility of developing a saner and more humane world hinges upon the dismantling of the American economic empire, together with its perverted educational and scientific estates? We must accept the fact that the transformation of Canada, Americanized as it is, is now linked to the overthrow of the whole imperial system... To be anti-American is to recognize that it is American monopoly capitalism that buttresses the process of Americanization in Canada, and to oppose all those domestic forces that have become apologists for, and hence accomplices to, the extension of American influence both within Canada and throughout the remainder of the global capitalist system.” (325) See also, Greg Donaghy, Tolerant Allies: Canada & the United States 1963-1968 (Montreal-Kingston: McGill-Queen’s University Press, 2002), 166-168.

39 This definition comes from Walter D. Young, “Socialism”, Canadian Encyclopedia, available from, http://www.thecanadianencyclopedia.com/index.cfm?PgNm=TCE&Params=AlARTA0007532; Internet; accessed 10 August 2005; Government of Canada, “Economic Concepts”, available from, http://www.canadianeconomy.gc.ca/English/economy/capitalism_socialism.html; Internet; accessed 10 August 2005, and Alan Whitehorn, “Social Democracy,” Canadian Encyclopedia, available from, http://www.canadianencyclopedia.ca; Internet; accessed 14 January 2007. A mixed economy is one in which “both market and state play a substantial role” in the economy. Indeed, most countries today operate a mixed economy, for example, “The U.S. economic system is based more on capitalism, whereas the Chinese system is based more on socialism.” Thus how capitalist or how socialist a country’s economy is becomes a matter of degree: As one Canadian commentator points out, “people who call themselves social democrats are often former socialists who
social democracy explains that, “Unlike the communists, social democrats do not believe that wholesale nationalization of the means of production is a panacea to the ills of capitalism. Instead, they propose selected expansion of public ownership (eg, co-operatives, crown corporations and state enterprises) in a mixed economy.”

One of the defining principles of social democracy, as opposed to radical socialism, is the aim to reform rather than eradicate capitalism.

**ECONOMICS**

For economics, there are two sub-categories: the changing state of the economy for each country, and the price of oil and natural gas. The goal is to ascertain the level of influence domestic and world economic situations had on shaping decisions and policies. The price of oil and natural gas, interestingly, mattered because at times it was too low, and at other times was too high. In the period under consideration, both Canada and the U.S. struggled to stabilize prices through government intervention.

**PERSONALITIES**

Lastly, one of the most important and surprising findings that this research has uncovered is the vital role of personalities through the period under investigation. This study will demonstrate that the personality of the leaders and who their officials were mattered because it affected what direction the government took with respect to oil and gas issues and the larger context of Canada-U.S. relations. In addition, the connections or transgovernmental relations between and among leaders, Cabinet members, and government officials consistently made the difference in policy-development and decision-making. It is important to realize, however, that the level of influence of personal relations depends upon the individuals involved and their

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personalities, as it affects how they approach the relationship and how they choose to respond to the other country’s actions and policies. The President or Prime Minister sets the tone, which then filters down through Cabinet and the bureaucracy, in many cases affecting relations across the border. As U.S. Ambassador to Canada David Wilkins explained in 2007, after rocky relations during the period of successive Liberal governments since President George Bush’s election in 2000, the election of Conservative Stephen Harper in 2006 “sparked a renaissance in the Canada-U.S. partnership [because he] has struck a diplomatic harmony with the U.S. through both his policy and personal rapport with [President] Bush.” Wilkins went on to say that “The tone at the top helps and is important.”

Two former Canadian Ambassadors to the U.S., Allan Gotlieb and Charles Ritchie, concur with this assessment. Both served as Ambassadors through periods of animosity between the two countries that then improved with the advent of new leaders. This research also confirms that in the case of oil and gas policy, particularly during the period of disharmony between Prime Minister Diefenbaker and President Kennedy, when the relationship between the leaders suffered the transgovernmental networks between officials also suffered and affected policy discussions and decisions. The converse was also true, that when the relationship was harmonious and friendly, as between Prime Minister Diefenbaker and President Eisenhower, the relationship between the leaders and the transgovernmental networks were effective in asserting Canada’s concerns regarding policy decisions. The transgovernmental networks seemed to be of increased importance, however, when the personal relationship between the Prime Ministers and Presidents was neutral or the leaders were neutral.

somewhat detached from oil and gas issues. When this was the case the networks assumed more importance because officials were left to manage the oil and gas relationship, such as during the periods of Prime Minister Pearson and President Johnson, and Prime Minister Trudeau and Presidents Nixon and Ford.

III. Chapter Outlines

In order to understand why informal continentalism was accepted in the 1950s and 1960s, and why any form of continentalism was rejected in the 1970s, this study will examine the course of Canada-U.S. oil and gas relations in four chapters, divided by distinct chronological phases, with a final chapter representing the conclusion: Historical Context (1945-1957), Continental Emergence (1958-1961), Continentalism Stalled (1961-1968), Continentalism Thwarted (1968-1973), and Conclusion. The events and relationships described throughout are situated and analysed in the larger context of continentalism, interdependence, transgovernmental relations, and the increased bureaucratization of governments in both countries over this period of time.

The first chapter establishes the historical context for the analysis that follows. The goal is to provide an overview, rather than a comprehensive examination, of some of the key issues and events in the immediate post-war Canada-U.S. oil and gas relationship. Of importance is not only the legacy of cooperation that emerged from joint defence arrangements during World War Two, but also the similarities in the regulatory structure of the Canadian and American systems. One issue that came to be of great concern in Canada particularly in the 1970s and the early 1980s was the level of American investment in the Canadian oil and gas industry. How this came about will be discussed. In Canada, the issues that dominated were: how best to manage the Canadian boom in oil and gas exploration and development in the wake of the Leduc and
Redwater discoveries, the need for pipelines to transport the resources, and the need for markets. International events such as the Korean War and the Suez crisis enhanced cooperation and helped to spearhead rapid development of newly discovered large quantities of Canadian oil and gas. The issues in the U.S. were somewhat different as the American industry was in a state of mature development, in contrast to the Canadian situation. National security and the conflicting interests of competing fuels dominated policies in the immediate post-war period in the U.S. These issues will be discussed with an eye to understanding their impact on Canada-U.S. oil and gas relations.

The second chapter, Continental Emergence, explores the beginning of the informal continental oil and gas arrangement between Canada and the U.S. The policy-making apparatus of both Canada and the U.S. is outlined in order to gain a clearer context for how decisions were made. Then an analysis is made of the Eisenhower Administration’s decision to exempt Canada from its Mandatory Oil Import Program (MOIP), and Canada’s creation of the National Oil Policy (NOP) that was designed around its MOIP exemption. Though pulled by two competing factions within the State Department, one for an immediate Canadian exemption, the other for equal treatment of Canada and Venezuela, Eisenhower’s final decision was based on his relationship with Prime Minister Diefenbaker, and was supported and implemented by key officials in the State Department. Diefenbaker recognized and understood that Eisenhower had taken a personal interest in the matter and ensured that Canada would receive an exemption. This came to have profound implications for the creation of the NOP. Knowing that Eisenhower had personally pressed officials to accede to a Canadian exemption, Diefenbaker was reluctant to rebuff Eisenhower’s efforts. As a result, the decision to forego the construction of an oil pipeline to Montreal was enshrined in the NOP, and the continental trade of oil was encouraged. Also in
this initial period a more coherent relationship with respect to trade in natural gas was
established. The Federal Power Commission (FPC) in the U.S. approved on a more regular basis
natural gas imports from Canada. The newly established National Energy Board (NEB) in
Canada provided a corresponding federal entity to the FPC, which helped to expedite hearings on
natural gas exports to the U.S. All three developments set in motion a continental drift.

Throughout the 1960s, as discussed in chapter three, Continentalism Stalled, the
relationship governing the continental trade in oil stalled, while trade in natural gas increased.
The personal relationships between leaders and the roles of key officials was the most important
factor influencing Canada-US oil and gas relations in this period. The sour relationship between
Diefenbaker and John F. Kennedy jeopardised Canada's MOIP exemption, while the friendly
relationship between Prime Minister Lester Pearson and Kennedy saved it. However, the
subsequent relationship between Pearson and Lyndon B. Johnson was secondary to the
significant role of officials on both sides as Johnson removed oil policy from the White House.
Consequently, with no firm direction from the President, a power struggle evolved between a
Cabinet Secretary and a senior official, both of whom sought to put forward what they thought
best for America's oil and gas policy; Canada was caught in the middle. The Merchant-Heeney
report of the mid-1960s recommended a more formal and coordinated continental oil and gas
agreement, but neither side was very anxious to pursue such an endeavour. At the same time, in
contrast with oil, natural gas exports to U.S. increased significantly with fewer disputes, and led
to further interdependence. In the end, the tremendous efforts and strong personal links or
networks between Canadian and American officials prevented the oil and gas difficulties from
becoming major irritants.
The informal continental relationship continued into the Richard Nixon-Pierre Trudeau era. Chapter four, Continentalism Thwarted, examines the attempts, and subsequent failure, to secure a continental energy agreement, then a scaled-back continental oil agreement from 1968 to 1973, and analyses the stunning Canadian decision to phase out oil exports in 1974. In 1968, a large Alaskan oil field was discovered at Prudhoe Bay, and was seen as a threat to Canada's tenuous and continually contested access to the U.S. market. Therefore, soon after Nixon was inaugurated Canada suggested that negotiations for a more formal continental arrangement should begin. Both administrations initially approached the idea of increased continental interdependence with great vigour, but almost as quickly, the goal of a sectoral continental agreement in energy was beyond reach. Talks continued somewhat sporadically until 1973, when Canada introduced export restrictions for the first time.

The OAPEC embargo in October 1973 shocked the oil market as oil prices increased dramatically. Meanwhile, in the U.S., the mounting Watergate scandal paralysed the Nixon Administration. Both countries explored more nationalistic policies and promoted "self-sufficiency"; but Canada, directed by Prime Minister Trudeau, attempted a massive state intervention into the oil and gas industry. In a reversal of position, Canadian oil and gas policies now forced the U.S. to respond. Since Canada's policy decision had large ramifications for the U.S., it comprises the focus of this chapter. The major Canadian decision in this period was the policy in 1974 to phase out all oil exports to the U.S., and is analysed with regard to how it affected Canada-U.S. relations. Significantly, during this period, both Trudeau and Nixon altered their policy- and decision-making processes. Both initiated departmental restructuring, which fragmented the transgovernmental networks that had reduced irritants in the past, and would have profound implications in 1980. Although the personal relationship between Trudeau
and Nixon did not have a serious impact on Canada-U.S. oil and gas relations, their individual personal influence in how policy and decisions were made, and which officials they chose to implement the policies, particularly in Canada, thwarted the continentalist impulse.

The final chapter comprises the Conclusion of the study. An overview and summary of the main findings from each previous chapter is provided, along with an assessment of which variables were considered of more importance at different times. The significance of the personalities throughout the period is also discussed. How this research contributes to the existing literature is examined, and suggestions for further research in Canadian-American oil and gas policy are provided.

We cannot understand Canadian or American oil and gas policy without knowing the North American context; single country studies are insufficient for this purpose. This study provides insight into a neglected area of both Canadian-American relations and oil and gas policy, not only because of its subject and that it takes a comparative approach, but also because of the wide range of Canadian and American original archival sources, mixed with secondary source material from several different disciplines, and published government records that are used to shed light on this particular period of time. Furthermore, by examining the documentary evidence of the internal actions and interactions of the people within both governments, this study enhances our understanding of how the role and impact of personal dynamics shape policy within federal states.
CHAPTER 1
HISTORICAL CONTEXT:
Canada-U.S. Oil and Gas Relations, 1945 to 1957

The unprecedented joint effort to combat the Axis powers during World War Two left a legacy of Canada-U.S. cooperation and goodwill that lingered for some time after the war ended. Even before the war ended, both countries were concerned about, and planning for, post-war reconstruction, which required large amounts of fuel. One of the significant aspects of the post-war period was the substitution of oil and natural gas for coal as the primary fuels for industrial, consumer, and further military use. As demand for oil and natural gas increased, in part due to rising standards of living, and peace turned into a Cold War, the need for ever larger and secure supplies also increased. The large multinational companies, most of them American owned, explored the world for new sources with the largest and most profitable fields being located in the Middle East. But exploration also took place in Canada, perhaps because of geographical proximity and comparable regulatory and legal structures.

Until the 1947 Leduc oil field discovery in Alberta, it appeared that Canada would have to be dependent on American and overseas supplies. Although oil and gas had been found and developed in Canada before 1947, the quantities were not large, and were dwindling.\(^1\) Thus, where Canada’s oil and gas industry entered the early development stage with the Leduc find, the U.S. industry was in a state of mature development, which meant that Canada and the U.S. faced different domestic pressures.

The Canadian and American oil and gas industry shared many similarities. For example, the experiences of Texas and Oklahoma informed the drafting of Alberta’s conservation and

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development policies. Both industries used a system of prorationing, the regulated production from fields, with proceeds distributed proportionally to field stakeholders, in order to conserve the resources and stabilize prices.\(^2\) In the U.S. the Texas Railroad Commission had jurisdiction over half of America's oil supply through its prorationing system, while in Alberta the Petroleum and Natural Gas Conservation Board monitored and enforced oil and gas regulations, including prorationing, in order to protect the long-term interests of the province. These and other similarities were often put forward in later appeals for Canadian preference in American policies.

One issue that came to have a considerable impact on Canada-U.S. oil and gas relations from the 1960s through the 1980s was the level of American ownership and involvement in the Canadian oil and gas industry. However, in the immediate post-war period, both dominion and provincial governments actively encouraged American foreign investment. Given the devastation of Europe during the Second World War, the tendency of European-based oil companies to develop and explore sources closer to Europe, and the reluctance of Eastern Canadian capital to invest in high risk exploration and development in the prairie provinces, there was little alternative than to turn to American investment.\(^3\) In addition, the American companies were familiar with the geography, leasehold, and prorationing system, and had the experience, expertise, and access to capital that Canadian companies lacked. This is not to say


\(^3\) For example, British Petroleum (BP) did not engage in large-scale Canadian exploration until after 1953, and that was mainly due to the Iranian nationalization of BP's interests. One historian suggests that North American ventures were not enticing because of the prorationing system compared with the large concession areas companies could obtain in developing countries like in the Middle East. See, James Bamberg, \textit{British Petroleum and Global Oil, 1950-1975: The Challenge of Nationalism} (Cambridge: Cambridge University Press, 2000), 126. Commenting on the different commercial conditions between Canada and Iran, Bamberg writes, "The Canadian oil industry had developed on the pattern of the USA. Oil leases covered small blocks, not vast concession areas, and there was strong competition from a myriad of oil companies ranging from the majors to a multiplicity of independents." For the reluctance of Eastern Canadian investment, see John Richards and Larry Pratt, \textit{Prairie Capitalism: Power and Influence in the New West} (Toronto: McClelland and Stewart, 1979), 71-73 and 83-88. For Canada facing trade and investment discrimination from Europe see, Michael Hart, \textit{A Trading Nation} (Vancouver: UBC Press, 2002), 156-157.
that there were no Canadian companies involved. On the contrary, there were a great many small independent Canadian oil and gas companies; but they were dependent on the major companies, which had the large sales contracts and purchased the oil and gas from the smaller Canadian companies. Nevertheless, Alberta’s regulatory policies helped to sustain and even expand the Canadian independent companies.

Alberta saw oil and gas as an opportunity to reduce reliance on agriculture as the main contributor to its economy. Ernest Manning, the Social Credit Premier of Alberta, was dedicated to defending provincial rights with respect to resources, and emphasized cooperation with the industry in developing the resources. Although some scholars argue that Manning encouraged multinational companies to exploit and develop the resources somewhat at the expense of Canadian firms, another, more thorough, account by historian David Breen suggests otherwise. For example, soon after the Leduc discovery, the Alberta Government introduced changes to the regulations concerning oil and gas leases. In the case of a discovery, the reservation holder had to convert it into a leasehold, and no more than fifty percent of the crown rights was available. The remaining fifty percent “reverted to the government and became crown reserve.” These reserves were then auctioned through a sealed-bid process. As Breen observes, the crown reserve system “assisted small companies, or combinations of small companies, to gain access to prime oil and gas leasehold, and thereby contributed to the diversity of ownership characteristic of most of Alberta’s oil and gas pools.” This demonstrates that the Alberta

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4 Although Saskatchewan and British Columbia have some oil and gas resources, Alberta has by far the largest amount. Therefore, the discussion will be limited to the Alberta experience.
5 See for example, Gerald Friesen, The Canadian Prairies (Toronto: University of Toronto Press, 1987), 443; and Richards and Pratt, Prairie Capitalism.
6 Breen, Alberta’s Petroleum Industry and Conservation Board, 255.
7 Ibid., 255. “The 50% reversion principle . . . greatly expanded the opportunity of access for other companies, and thereby checked the threatened dominance of the handful of companies that by midwinter 1947 had established a reservation stranglehold on the most promising exploration lands in central Alberta.” (262)
Government actively tried to balance the competing interests of the multinational and independent companies, and sought to prevent monopolies from developing.

Once it became clear after the Leduc discovery in Alberta that Canada had significant oil and gas resources, the number one issue was development and how to manage it properly. Geography played an important role, in this respect, because the resources were located in landlocked areas of Western Canada and far from the consuming areas of Eastern Canada. Pipelines were therefore required to transport the resources to larger markets, and to reach Ontario and Quebec they had to traverse the troublesome Canadian Shield. Jurisdictionally, the provinces had authority over resources within their borders, but the dominion government had authority over inter-provincial and international trade. At this time, however, a consensus prevailed between the provinces and Ottawa that development was important; the type of conflict that marred dominion-provincial relations in the 1970s was thus relatively absent in the 1950s.8

The dominion minister who took an immediate interest in Canadian oil and gas development after the Leduc discovery was Minister of Trade and Commerce Clarence Decatur (C.D.) Howe. During the war Howe “had presided over Canada’s war production and, consequently, its power supply.”9 He understood and appreciated the need to have secure and stable supplies, the better if they came from within Canada. Thus, he supported the building of pipelines so that the newly discovered plentiful supplies of Western Canadian oil and gas could

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8 This is not to say that there were no disagreements between Ottawa and Alberta, they were just not as acrimonious as they came to be in the 1970s. One example is the pipeline issue. Despite the need for pipelines and some form of regulation to govern them, Manning feared that the dominion incorporated pipelines were designed to extend dominion jurisdiction into the province and exert control over Alberta’s resources. Thus, in 1954, after various other attempts, the Manning government formed the Alberta Gas Trunk Line Company that was partially owned by the provincial government. Essentially, it was a provincial monopoly over gas gathering within the province of Alberta that would then distribute the gas to transmission/pipeline companies. See, Breen, Alberta’s Petroleum Industry and Conservation Board, 301; John N. McDougall, Fuels and the National Policy (Toronto: Butterworth and Company, 1982), 59-61; Richards and Pratt, Prairie Capitalism 64-68.

be brought to market where the demand was in populous Eastern Canada. In government since 1935, and after presiding over Canada's war munitions industry as Minister of Munitions and Supply, Howe saw the oil and gas pipeline projects as his final legacy for Canada - "a last great battle."\(^{10}\)

In 1949, Ottawa passed the Pipelines Act, introduced by Howe, which affirmed dominion control over interprovincial oil and gas pipelines. It also stipulated that interprovincial pipeline companies had to be incorporated through an act of Parliament. Almost immediately, five pipeline companies received parliamentary approval, including Interprovincial Pipe Line Co. This pipeline was constructed to carry oil from Edmonton to Regina. Some debate occurred, however, when plans were introduced to extend it: should it take an all-Canadian route to Sarnia, Ontario? Or, should it bypass the Canadian Shield and save 120 miles (and $10 million) by going through the U.S. to Superior, Wisconsin?\(^{11}\) Despite the criticism of the Progressive Conservative opposition, the Liberals chose the latter route, and the pipeline was later extended to Sarnia. In order to justify the decision and to make clear the dominion government's position on oil markets and pipelines, C.D. Howe made a statement on 4 October 1949 to the House of Commons:

> The sensible way to market international commodities such as petroleum is to move them to markets nearest the source of supply. It is in the interests of users of petroleum to get that commodity from the cheapest sources. For eastern Canada and perhaps in the Montreal area the cheapest source is still the Caribbean or the gulf ports of the U.S. The best market for Alberta oil is that which could be made available nearest to the source of supply, and part of that market eventually may be in the United States.\(^{12}\)


\(^{11}\) Earle Gray, Forty Years in the Public Interest (Vancouver: Douglas & McIntyre, 2000), 4-5. Until the pipeline was extended to Sarnia, tankers transported the oil from Superior to Sarnia across the Great Lakes.

Economies of scale took precedence for oil because sources of supply were more varied, prices were more competitive, and it was more easily transportable than natural gas. In addition, oil exports to the U.S., it was argued, would provide a higher price for Alberta’s oil.\textsuperscript{13}

With the start of the Korean War in 1950, the U.S., led by the administration of Democrat Harry Truman, was keen to accelerate Canadian oil and gas production and distribution. In order to expedite matters, the two governments signed the 1950 “Statement of Principles for Economic Cooperation.”\textsuperscript{14} Recognizing the cooperation during the previous war, the exchange of notes set out a series of principles ranging from more coordination of the production, development, and distribution of goods for the common defence, to reducing trade barriers of essential defence goods. Under these auspices, the American Federal Power Commission (FPC) approved a rare quick permit to import Canadian natural gas to the Anaconda Copper Mining Company in Montana; and the steel required to complete the Trans Mountain pipeline in 1954, that transported oil from Edmonton to Vancouver and the Puget Sound area refineries, was secured with the aid of the American Government at a time of steel shortages.\textsuperscript{15} As indicated in Table 1 on the following page, two years later when the Suez crisis gripped the world, Alberta became an important emergency oil supplier to the U.S, particularly for the Mid-West (District 2) and Pacific coast (District 5).

\textsuperscript{13} Earle Gray, Wildcatters: The Story of Pacific Petroleums and Westcoast Transmission (Toronto: McClelland and Stewart, 1982), 120.


\textsuperscript{15} Gray, Forty Years in the Public Interest. 4. For details on the debate this created within the Alberta Legislature see Breen, Alberta’s Petroleum Industry and Conservation Board, 363-367.
Table 1 Canadian Crude Oil Production and Trade 1945-1958
(thousands of barrels)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>PRODUCTION</th>
<th>IMPORTS</th>
<th>EXPORTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1945</td>
<td>8,438</td>
<td>56,806</td>
<td>0</td>
</tr>
<tr>
<td>1946</td>
<td>7,586</td>
<td>63,407</td>
<td>0</td>
</tr>
<tr>
<td>1947</td>
<td>7,692</td>
<td>68,447</td>
<td>0</td>
</tr>
<tr>
<td>1948</td>
<td>12,287</td>
<td>75,559</td>
<td>1</td>
</tr>
<tr>
<td>1949</td>
<td>21,305</td>
<td>73,947</td>
<td>0</td>
</tr>
<tr>
<td>1950</td>
<td>29,044</td>
<td>78,660</td>
<td>0</td>
</tr>
<tr>
<td>1951</td>
<td>47,616</td>
<td>83,284</td>
<td>342</td>
</tr>
<tr>
<td>1952</td>
<td>61,237</td>
<td>81,200</td>
<td>1,424</td>
</tr>
<tr>
<td>1953</td>
<td>80,810</td>
<td>79,478</td>
<td>2,507</td>
</tr>
<tr>
<td>1954</td>
<td>96,080</td>
<td>78,772</td>
<td>2,345</td>
</tr>
<tr>
<td>1955</td>
<td>129,440</td>
<td>86,678</td>
<td>14,834</td>
</tr>
<tr>
<td>1956</td>
<td>171,981</td>
<td>106,470</td>
<td>42,907</td>
</tr>
<tr>
<td>1957</td>
<td>181,848</td>
<td>111,905</td>
<td>55,674</td>
</tr>
<tr>
<td>1958</td>
<td>165,496</td>
<td>104,039</td>
<td>31,679</td>
</tr>
</tbody>
</table>

Source: Statistics Canada, Historical Statistics, Series Q19-25

Despite the massive increase in natural gas supplies during the 1950s, gas exports did not follow automatically. In order for gas to leave the province of Alberta, which possessed most of the supply, approval had to be obtained from the Alberta Petroleum and Natural Gas Conservation Board after extensive hearings, and a permit obtained from the dominion Department of Trade and Commerce. For gas to enter the U.S., pipeline companies had to receive approval from the FPC. Moreover, the producing provinces and consumers did not want to allow exports unless the domestic requirements were assured for many years in advance. As Doern and Toner reflect, “the long term availability at stable prices was the objective.”

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16 Doern and Toner, Politics of Energy, 76. Ontario was in desperate need of a secure natural gas supply as it “experienced an acute shortage of gas in the winter of 1947-48 because of the production decline in its small fields in the southwest part of the province. For a short time some industrial plants using natural gas were closed because of the shortage.” (1948-2) Furthermore, proposals to import natural gas from the U.S. into Ontario were rejected.
point, C.D. Howe and the dominion government decided that an oil and gas policy statement needed to be made. Consistent with the previous oil policy statement of 1949, on 13 March 1953 Howe announced in the House of Commons that oil should be transported to “refineries within economic distance in the cheapest possible way [and] to arrange for markets for that portion of Canadian output that cannot be economically used in Canadian refineries in the market that offers the highest return to the producer.” The policy for natural gas was that new export permits would only be granted if “there can be no economic use, present or future, for that gas within Canada.” This was also in line with Alberta’s policy, and affected proposals to build pipelines to transport the natural gas from Alberta to consumers in Eastern Canada and potentially the U.S.  

One group, Trans-Canada Pipelines, proposed to build a large gas pipeline from Alberta to Montreal, which would also serve the markets of Saskatchewan, Manitoba, and Ontario. Another group, Western Pipe Lines, proposed two phases: first, natural gas would be transported from Edmonton to Manitoba and then to the U.S; the second phase would extend the pipeline to Toronto and Montreal. After lengthy debate within Alberta, and consultation with dominion officials, Manning and the PNGRB recommended that the two groups combine their efforts. The result was a forced merger brokered by C.D. Howe, which kept the name Trans-Canada Pipeline Company; but the debate did not end there. 

Once the merger was finalized, it became clear that the new entity would require some financial support. It was having difficulty financing the all-Canadian portion of the route from because of delays and uncertainty regarding Federal Power Commission (FPC) approvals and long-term contracts, particularly if shortages developed in the U.S. Toombs, *Canadian Energy Chronology*, 1948-2. See also, Bothwell and Kilbourn, *C.D. Howe*, 287-290. 


18 Breen, *Alberta’s Petroleum Industry and Conservation Board*, 399-401. Gray in *Wildcaters* points out that it would have made more economic sense to subsidize the natural gas pipeline rather than the oil pipeline through exports to the U.S.: “the cheapest route is more crucial to a gas pipeline than an oil pipeline; measured by the energy content, it costs three times as much to ship gas through a pipeline than oil.” (120).
Alberta through Ontario and into Quebec. The Canadian Liberal government decided to advance a loan to cover up to 90 percent of the $80 million cost of the Western portion of the pipeline (from Winnipeg to Sudbury); but such an expenditure had to pass through parliament. Perhaps this would not have normally created controversy, but the merged company was half-owned by American interests. The parliamentary debate that took place through May and June 1956 was heated. The opposition Conservatives, eager to score political points, accused the Liberal government of selling out to the Americans. The Liberals might have been able to deflect such criticism, but, in an unprecedented move, with a construction deadline looming, they began the debate with a closure motion. The Conservatives, led by George Drew, were outraged, and argued that the use of closure made a mockery of democracy. Nevertheless, the bill to help finance the company was passed, pipeline construction continued, the loan was repaid by 1958, and by 1963 Canadian ownership increased to ninety per cent. The great “Pipeline Debate”, as it came to be called, polarized public opinion against what appeared to be an arrogant Liberal party too long in power, and in a surprising turn, Canadians, in the general election held on 10

19 Denis Smith, Rogue Tory: The Life and Legend of John G. Diefenbaker (Toronto: Macfarlane, Walter & Ross, 1995), 201-203. In the parliamentary process, closure is one of the processes to limit or close debate when confronted by obstructions in the House of Commons. However, as one political scientist notes, “a government forced to use [closure] is admitting its inability to carry the House by reasoned argument.” (286) J. R. Mallory, The Structure of Canadian Government, Revised Edition, (Toronto: Gage Publishing, 1984). In his memoirs, former Prime Minister Lester B. Pearson, the Secretary of State for External Affairs at the time, reflected on the events and the issue of the construction deadline, “Mr. Howe then began to talk about getting the bill through Parliament at once since otherwise we would lose an entire year of construction. In retrospect, to lose a year would not have been catastrophic, but at the time I remember there was a general belief that he was right.” Lester B. Pearson, Mike: The Memoirs of the Right Honourable Lester B. Pearson, ed. John A. Munro and Alex I. Inglis, Volume 3 1957-1968 (London: Victor Gollancz Ltd., 1975), 6.

20 Smith, Rogue Tory, 202. Drew was supported by Davie Fulton and Donald Fleming. The Co-operative Commonwealth Federation and Social Credit members were also outraged and supported the Progressive Conservatives (PCs) in challenging the Liberals. Future leader of the PCs and Prime Minister John G. Diefenbaker participated in the debates but was not at the forefront. See, John G. Diefenbaker, One Canada: Memoirs of the Right Honourable John G. Diefenbaker Volume 1: The Crusading Years, 1895 to 1956 (Toronto: Macmillan of Canada, 1975), 246. Drew resigned as leader in late September 1956 for health reasons, and was replaced by Diefenbaker who won the leadership convention in December 1956.

21 Gray, Forty Years in the Public Interest, 7.
June 1957, swung to the Progressive Conservatives led by the newly chosen John G. Diefenbaker.

Subsequently, in an effort to depoliticise energy issues, the minority Diefenbaker government appointed a Royal Commission in October 1957 to look into the state of the oil and gas industry of Canada. The Royal Commission on Energy, headed by Henry Borden, produced two reports. The first report made several recommendations concerning natural gas and proposals for a National Energy Board (NEB) that would act as an independent agency to monitor the entire petroleum industry—natural gas and oil exports and transportation. The second report on oil, presented in 1959, stated that Canada had ample oil reserves to meet national requirements, and therefore it was acceptable to increase oil exports. Preserving the exemption Canada had received to the U.S. Mandatory Oil Import Program, it also recommended that the oil pipeline not extend east of the Ottawa River; that part of the country was to continue to import foreign, especially Venezuelan, oil. Reaffirming the 1953 policy statement, oil exports to the United States were to be increased to compensate Western producers for the loss of the Montreal market. This became the central tenet of the National Oil Policy announced by the Diefenbaker government in 1961, which will be discussed in more detail in the next chapter.

Since the U.S. oil and gas industry was in a state of mature development, the primary concern was national security and maintaining the health of the domestic industry. The conversion from coal to oil and natural gas increased significantly after the war, and required more supplies to meet rapidly growing demand. It appeared that conventional discoveries in the continental U.S. were slowing down. There also seemed to be exciting development opportunities in places like the Middle East, and Canada. Thus, the American companies

22 Ibid., 14. Borden was not only a noted Tory fundraiser but had also been a wartime associate and was a close friend of C.D. Howe.
expanded exploration and development in foreign lands, encouraged by favourable income tax provisions that permitted them to write off foreign exploration costs.23

In the aftermath of the Leduc discovery, American oil and gas companies invested heavily in the exploration and development of Canada's oil and gas resources. By the mid-1950s concerns regarding foreign investment led to the creation of a Royal Commission on Canada's Economic Prospects chaired by Walter Gordon. The report outlined the competitive advantages of the large multinational firms that stunted the growth of Canadian-owned firms. Gordon made a number of recommendations such as a minimum level of Canadian ownership of those companies operating in Canada; an increase in the use of Canadian personnel by foreign firms; the creation of a national energy board, "the appointment of more Canadians to senior management positions; . . . more Canadian sourcing of supplies, materials, and equipment; and the requirement of Canadian participation in future oil and gas exploration permits and leases."24

At this time, however, there was little interest among Canadian politicians and officials in implementing requirements that could discourage additional exploration and development, particularly when there was a substantial oil glut in the world market and the potential for war with the Soviet Union or its proxies.

Concurrently, the onset of the Cold War and the conflict in Korea reinforced to American policy-makers the need for mobilization planning, and secure oil and gas supplies. During World War Two, the U.S. Petroleum Administration for War, in conjunction with the Bureau of Mines in the Department of Interior, divided the U.S. into five districts in order to aid the


allocation of oil. These Petroleum Administration for Defense Districts (PADD), as illustrated in Map 1, were kept after the war to monitor the disposition of supply and demand in the different regions.

Map 1 U.S. Petroleum Administration for Defence Districts

The concern for security of supply divided American oil companies as oil imports to the U.S. increased from 1948 onward. Prefiguring the debates on oil imports during Eisenhower’s administration, the coal industry and American domestic oil producers argued that U.S. dependence on oil imports reduced research, exploration, and development, and put America at

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26 By the 1960s, the PADD were often referred to as “Tiers” within the internal documentation and discussions. The market for Canadian oil and gas was mainly Districts 2, 4, and 5.
risk as “supplies could be cut off at any time.” In what would become a familiar strategy, the Truman administration delayed action, and appointed the President’s Materials Policy Commission chaired by William S. Paley (known as the Paley Commission), in order to investigate energy and fuels “with respect to domestic and foreign resources, technology, and security.” The final report was submitted to the President on 10 December 1952, but by then Truman had been defeated at the polls by Republican Dwight D. Eisenhower. The Paley Report cautioned that America was at a crossroads regarding cheap energy, and would have to take steps to address the situation.

Thus, as soon as Eisenhower took office, he was pressured by American independent producers, the coal industry, and Congress to take action on the oil import problem. After some pressure, in the summer of 1954 Eisenhower established a Cabinet committee to review coal, petroleum, and natural gas resources with the proviso that they were not to recommend higher tariffs or import quotas. Not surprisingly, the study’s recommendations were ambivalent: for coal and natural gas it recommended competition and market forces, but for oil it recommended controls to “override a market solution.” The reason behind the difference in recommendations lies with the source of competition for each commodity. Natural gas and coal were domestic industries competing with each other for market share, and so they preferred to let market forces prevail because it would not be a national security risk as the source was still domestic. However, with respect to oil, the competition was foreign, and therefore posed a national security risk if it pushed out the higher cost domestic producers and the U.S. became dependent on competing foreign sources.

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28 Ibid., 53.
The Canadian desire to export natural gas to the U.S. encountered some difficulty as a result of the internal American concerns. Once Canadian approval for gas exports was secured, American approval from the FPC had to be obtained. Westcoast Transmission, a Canadian company, applied to the FPC to export natural gas from Edmonton through Vancouver to the PADD District 5.30 After lengthy and somewhat acrimonious hearings, on 18 June 1954, the FPC initially ruled that secure supplies “were essential for the protection of U.S. consumers.”31 Since the natural gas was from Canada—a foreign country—and “without some intergovernment agreement assuring the continued adequacy of the supply,” American consumers would be at the mercy of the foreign government, thus the application was denied and approved instead for Westcoast’s competitor.32 Yet, the following year, on 25 November 1955, after Westcoast merged with its competitor, the FPC handed down a positive decision. Historian David Breen argues that the reason for the change of heart concerning imports from a foreign country, were the changes the Alberta government made to the emergency clause in its Gas Resources Preservation Act, in the wake of the FPC ruling. The original clause stipulated that in an emergency the Conservation Board could divert “all or any portion of the gas” of a permit holder accordingly. The amendment altered the phrasing to “any gas intended for industrial use,”33 thus protecting residential consumers. As Breen suggests, this can be interpreted as evidence of the willingness of Canadian governments to alter their regulatory frameworks in order to be more acceptable to the U.S.

30 For a detailed examination of the history of Westcoast Transmission and its founder Frank McMahon, see Gray, Wildcatters. For the initial 1954 FPC ruling and the hearings that led to it, see Chapter 10 of Wildcatters. 31 Breen, Alberta’s Petroleum Industry and Conservation Board, 390. Westcoast’s competitor was Pacific Northwest Pipeline Corporation. 32 Ibid. 33 Ibid., 391.
Canadian oil also fell prey to domestic American policy concerns. As mentioned above, the American domestic producing industry was concerned that oil imports from the Middle East were flooding the American market, depressing prices, and reducing domestic exploration and development; all of which, they argued, jeopardized American national security. If the Cold War were to escalate into a hot war, then the need for supplies would be immediate. Consequently, if the domestic industry was reduced considerably because of reliance on imports, and those imports were cut off from the foreign sources, then America’s security would be at risk. Although Eisenhower delayed as long as possible, he succumbed to the pressures of the independents and their Congressional supporters and enacted a Voluntary Oil Import Program (VOIP). The first phase of the VOIP exempted Canada and Venezuela for defence reasons as both Canada and Venezuela had been reliable suppliers during World War Two and the Korean War. However, when the first phase unravelled because some companies chose not to comply, the VOIP was altered and no exemptions were granted.

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34 In 1955, Canadian policy-makers were concerned about potential limitations to Canadian oil exports to the U.S. through some kind of voluntary oil import program, and C.D. Howe raised the issue at the Joint Committee on Trade and Economic Affairs (JCTEA) meeting of 26 September 1955. At the meeting Howe argued that Canadian oil “could be considered a part of the strategic reserves of North America and hoped that US imports of Canadian oil could be set apart if restrictions were applied.” The United States Government response was that “under the security clause [of the proposed Customs Simplification Bill] the North American Continent was considered by US planners as a strategic unit….” The Canadians were further reassured by Secretary of Commerce Weeks “that Canada need have no fear that the President would look to the security clause to the exclusion of basic economic issues when passing the Escape Clause applications.” Although this was the case during the first phase of the VOIP, by the second phase Canada was no longer granted special status. United States Department of State, Foreign Relations of the United States (FRUS) 1955-1957, Vol. XXVII, Western Europe and Canada (Washington, D.C.: Government Printing Office (GPO), 1992), Document (Doc.) 348, Memorandum of the meeting of the JCTEA, Government House, Ottawa, September 26, 1955, 858-859.

35 For developments concerning the VOIP see, Department of State, FRUS, 1955-1957, Vol. X: Foreign Aid and Economic Defence Policy (Washington, D.C.: GPO, 1989), Doc. 248, Memorandum for the Files, by M. Robert Rutherford of the Fuels Division, Office of International Trade and Resources, 11 April 1957, Subject: April 9 Meeting of Advisory Committee to Consider Oil Imports; Doc. 254, Memorandum for the Files, by M. Robert Rutherford of the Fuels Division, Office of International Trade and Resources, 3 May 1957, Subject: Meeting of Working Group with Mr. Gray, Director of the Office of Defence Mobilization, on Subject of Oil Imports, 3 May 1957; Doc. 259, Memorandum for Deputy Assistant Secretary of State for Economic Affairs (Kaliwaji) to Secretary of State, 26 June 1957, Subject: Crude Oil Imports in Relation to National Security, Summary and Conclusions; Doc. 263, Memorandum of Conversation, Department of State, 19 July 1957, Subject: Meeting of Cabinet.
controls were introduced, and again neither country was initially exempted. Canada and Venezuela vigorously protested their lack of exemption. To them, it made no sense to justify a policy for reasons of defence or national security, when both had proven their reliability in the past. As will be discussed in the next chapter, only Canada succeeded in eventually securing an exemption to the mandatory programme.

Committee on Limitation of Oil Imports; Doc. 264, Memorandum of 4th Meeting of Special Committee to Investigate Crude Oil Imports, 22 July 1957; and Doc. 269, Memorandum of Conversation Between Canadian Ambassador (Robertson) and Acting Assistant Secretary of State for Economic Affairs (Armstrong), Ambassador’s Residence, 24 July 1957, Subject: Cabinet Committee Report on Crude Oil Imports.
CHAPTER 2
CONTINENTAL EMERGENCE, 1958 TO 1961

INTRODUCTION
In the post-war period, the conventional American approach to trade with Canada was to be open to closer continental economic integration. However, senior State Department and Administration officials, alert to Canadian sensitivities, operated on the principle that initiation of any type of continental trading arrangement – comprehensive or otherwise – had to originate with the Canadians.¹ Concerned about American influence on the Canadian economy, the accepted Canadian approach to trade with the U.S., in this period, was a form of informal continentalism. The general strategy involved two stages: first, an exemption was secured from American policies that would normally apply to foreign countries; then when the exemption began to fail, more formal sectoral or commodity agreements, with entrenched benefits for Canada, were negotiated, like the Defence Production Sharing Agreement or the Agreement Governing Trade in Automotive Products (Autopact). Canada-U.S. oil policy followed this pattern, except that it failed to complete the second stage.

Between 1958 and 1961, the trade of crude oil between Canada and the United States evolved into an informal arrangement that rationalized its trade on a continental or North-South basis. This informal continental oil relationship began in 1959 when the U.S. exempted Canada from its Mandatory Oil Import Program (MOIP), and was reinforced two years later when

¹ Eisenhower's Chairman of the Council on Foreign Economic Policy, Clarence B. Randall, was the most vocal proponent of a comprehensive free trade agreement with Canada. He attempted, on several occasions, to have the Administration initiate exploratory talks on the issue, but was repeatedly rebuffed by John Foster Dulles and the State Department. See for example, Dwight D. Eisenhower Library (DDEL), C.B. Randall Journals, 1953-61, Box 4, File CFEP, 1957, Vol. IV [Apr 3-May 6, 1957], April 14, 1957, 2; DDEL, U.S. Council on Foreign Economic Policy (CFEP) Records, 1954-61, Chronological File, Box 4, Chron File – April 1957 (2), Letter to Christian Herter from Clarence B. Randall, 16 April 1957; DDEL, U.S. CFEP Records, 1954-61, Randall Series, Subject Sub-Series, Box 2, File Canada (5), Special Paper No. 72, United States-Canadian Economic Integration, 15 July 1957; DDEL, Dwight D. Eisenhower Papers (DDEP), Papers as President of the United States (PPUS) 1953-61, Ann Whitman File (AWF), Dulles-Herter Series, Box 10, File Dulles, John Foster May 1958, Letter to President Eisenhower from John Foster Dulles, 14 May 1958. Dulles concludes, "that any suggestion of free trade between Canada and the United States would produce a violent negative reaction on the part of our Canadian friends."

47
Canada announced a National Oil Policy (NOP) that was designed around its MOIP exemption. The MOIP limited the amount of imported oil into the U.S. by using an elaborate refinery, rather than country, quota system. However, a month and a half after the initial policy was announced, Republican President Dwight D. Eisenhower, despite significant concerns regarding Venezuela and other countries, amended the proclamation to exclude oil arriving “overland” – by pipeline, truck, or rail. Since almost all of Canadian oil arrived in the U.S. by overland means, the amendment was meant to specifically exempt Canadian oil from the policy without explicitly stating the preferential treatment for Canada. The significance of the exemption for Canada was that it provided access to a large market for Western Canadian oil that had a rapidly growing surplus production capacity and was in need of larger markets for further development to take place. The other alternatives to the American market for the Canadian oil would have been either to restrict production even further, or increase its access to Eastern Canadian markets.

After the MOIP exemption was granted, the pressure on the Canadian government to aid the marketing of Western oil subsided, but Progressive Conservative Prime Minister John G. Diefenbaker realised that a more stable framework and commitment from the dominion government was still required. After much deliberation, the National Oil Policy was announced on 1 February 1961. Designed to preserve Canada’s MOIP exemption, a central component of the NOP was that an oil pipeline from Alberta would not extend east of the Ottawa River. While

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3 Given the surplus of cheap oil from the Middle East, and the high cost of Canadian oil production and transportation, European or other foreign markets were not interested in purchasing from Canada.
Ontario would have its foreign supplies replaced by slightly more expensive Canadian oil from Alberta, the eastern part of Canada, particularly the important refining area of Montreal, was to continue importing foreign oil, which was mainly from Standard Oil production in Venezuela. Oil exports to the United States were also to be increased to compensate Western producers for the loss of the Montreal market. The significance of this policy is that instead of embarking upon a policy of national self-sufficiency in oil, it was a commitment by what is generally seen as a nationalistic Canadian government, to sanction the emergence of a continental oil relationship.

Why would the U.S. jeopardise its relationship with Venezuela and other countries by granting Canada an exemption? Why would a Canadian government believed to be ardently nationalist, consolidate any continental arrangement in the trade of oil? This chapter examines the origins of Canada’s continental oil and gas relationship with the United States, and outlines how this informal continentalism was significant because it affected all other policies and approaches to Canada-U.S. oil and gas trade until the 1970s. In order to explain the emergence of this informal continental arrangement, the explanatory variables of interest group pressures (independent oil industry, multinational oil industry, Congress), economics (state of the American economy and oil prices), ideas (market forces and protectionism), international forces (American involvement in the Middle East and its relationship with Venezuela), national security concerns, and personalities (President-Prime Minister relationship and support of key officials) will be examined within the context of the decision- and policy-making processes. Although interest groups, economics, ideas, international forces, and national security all had varying levels of influence on the decisions taken by both countries, without the strength of the personal relationship between President Eisenhower and Prime Minister Diefenbaker, and the support of
key officials on both sides of the border, the informal continental arrangement for the trade in oil would not have happened. Although continental trade in natural gas commenced in this initial period, it did not receive the same high level consideration that trade in oil received; mainly because oil is a strategic commodity whereas natural gas, though vital, is regulated as a utility. The two regulatory boards, the Federal Power Commission (FPC) and the National Energy Board (NEB), handled the details of cross-border trade, and there was little involvement in the process by the President, Prime Minister, or Cabinet members. Consequently, the discussion on continental natural gas relations will be brief. What follows, then, in this chapter is the discussion of three issues. The first issue to be analysed will be the American decision to exempt Canada from its Mandatory Oil Import Program (MOIP). Second, a brief discussion of natural gas exports to the U.S. will be examined. Third, the Canadian decision to create a National Oil Policy (NOP) around its exemption to the MOIP will be explored. The chapter will conclude with a discussion of how these events comprise the emergence of an informal continental oil and gas arrangement. But first, a brief comment on the decision- and policy-making processes in Canada and the U.S.

I. Decision- and Policy-Making Processes

Despite the institutional differences between the governments of the U.S. and Canada, they followed a similar decision-making process for oil policy at this time. Essentially, the process between 1958 and 1961 was as follows for both:

1. Appeals were made to protect and expand the domestic oil industry by the independent companies (U.S. and Canada), producing states (U.S.), provinces (Canada), and Congress (U.S.).
2. Once the appeals gained recognition as deserving action, a separate investigating apparatus was established to study the particular issues; in the U.S., it was a Cabinet level special committee; in Canada, it was a Royal Commission. 4

3. After recommendations from these bodies were received, more committees and organisations were instructed to investigate matters further. In the U.S., the Oil Import Administration (OIA) was created to monitor the import program and conduct hearings. The National Security Council (NSC) and Council on Foreign Economic Policy (CFEP) were also told to continue monitoring the program, and investigate further utilising the OIA information among other sources. In Canada, an ad hoc Cabinet Committee on Oil Policy, and later the National Energy Board (NEB), were created and told to investigate the Canadian oil marketing situation.

4. All of the different bodies issued reports, which were debated within Cabinet. The final decision, though debated in full Cabinet, was made by the respective country leader. 5

In this period, the decision-making process of each country took place within an organisational framework that lacked separate departments to consider energy issues. The American organisational framework, though more formalised, was also more compartmentalized or fragmented than its Canadian counterpart, due in large part to the much smaller size of the Canadian industry and government as compared with the U.S.

Although the domestic management of oil and gas, and their potential mobilization in an emergency, took precedence in the U.S., the development and administration of oil and gas policy was quite fragmented. The Office of Oil and Gas (OOG) in the Department of Interior (DOI) had general responsibility for American oil and gas issues, while the Oil Import

4The U.S. had a formalised structure to handle appeals with respect to oil imports. In 1955, with the Section 7 amendment to the Trade Agreements Act, the procedure was codified as follows. If the Administrator of the ODM/OCMD thought imports of any article threatened national security, he would advise the President who would cause an immediate investigation. This worked in practice through a formal complaint process whereby those concerned would petition the Director of the ODM/OCMD, and he would undertake an investigation. During the investigation, hearings would be held and submissions accepted from affected parties such as refiners, producer organisations, individual producers, other countries, competing resource industries like coal producers, and so on. The Director would then write a report and submit it to the President.

5For a brief description of the differences in Cabinet structure in the U.S. and Canada, see Donald J. Savoie, Governing from the Centre (Toronto: University of Toronto Press, 1999), 51-63. Savoie depicts the Eisenhower Cabinet "as an instrument of collective policy making," discussing all major issues with the goal of arriving at a consensus. (53) For Diefenbaker, Savoie argues that the focus was on Cabinet as a whole. The process for decisions was that an issue would be submitted to Cabinet, then it would be referred to a Cabinet Committee for study that would be created on an ad hoc basis as issues arose. After being analysed by the Committee, the issue would be brought back to full Cabinet for a final decision. (63)
Administration (of the OOG) was responsible for monitoring the effectiveness of the oil import programs. The Federal Power Commission (FPC) was responsible for administering natural gas policy, and the Office of Defense Mobilization (ODM) considered the national security and emergency aspects of oil and gas until 1958 when it delegated the responsibility “for ensuring adequate supplies of oil and gas in a major crisis” to the OOG.\(^6\) In order to take into consideration potential international problems with American oil and gas policy, the State Department also had a fuels division which liaised with the international division of the OOG. Most importantly, however, the White House took a direct interest in oil policy, and to a lesser extent, natural gas issues. In contrast, as will be shown in Chapter Three, without direction from the White House, the policy- and decision-making processes became rudderless, and bureaucratic competition over the power for direction resulted in incremental change, if there was any change in policy at all.

Canada, in contrast, had a tighter organisational framework. Highlighting the main concern of the dominion government in the trade of oil and gas, the Energy Studies Branch (ESB) of the Department of Trade and Commerce was the dominion body with responsibility for oil and gas related issues until the NEB was created in 1959.\(^7\) The NEB then took over the

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\(^6\)Joseph A. Pratt, William H. Becker and William M. McClenahan, Jr., Voice of the Marketplace: A History of the National Petroleum Council (College Station: Texas A&M University Press, 2002), 42. The ODM became the Office of Civil and Defense Mobilization (OCDM) in mid-1958. To be precise, responsibility was delegated to the Secretary of Interior, who in turn delegated authority to the OOG to draft a plan “for the petroleum and gas industries during a national emergency.” (42)

\(^7\)The Department of Mines and Technical Surveys sometimes lent technical assistance during talks with the U.S., and in interdepartmental discussions in Ottawa, as did the Department of Defence Production (DDP). Norman Chappell, who had an extensive network of contacts in Washington, was the DDP’s representative at the Canadian Embassy in Washington, and became the Embassy’s Energy Counsellor in July 1960. See, National Archives of Canada (NAC), MG-31 E28, Vol. 1, File 1-6 Correspondence 1959-60, Letter to the Chairman from Douglas M. Fraser, Re: Energy Counsellor, Washington—N.R. Chappell, 16 December 1959; see also United States National Archives (USNA), RG 434, Interior Department, Oil Import Administration, Box 100, File Oil Import Administration, Canada (Gen. Correspondence With Companies, See File Dept. of Defense Production), Press Release from Trade Publicity Branch, Department of Trade and Commerce, 8 August 1960, N.R. Chappell Appointed Counsellor (Energy), Washington, D.C. The press release stated that Chappell’s new appointment took effect on 15 July 1960.
responsibility of providing policy advice on oil and gas matters to the Cabinet, and administering policy decisions that were made by Cabinet. The ESB and then the NEB also consulted with officials from other affected departments such as Finance and External Affairs based on an informal ad hoc interdepartmental committee structure.\(^8\) Whereas responsibility for administering oil and gas policies in the U.S. was split between the OIA and the FPC, the NEB in this period became the centralized Canadian counterpart to those separate bodies. As one historian observes, “During the first decade the Board was, in effect, the federal department of energy. . . .”\(^9\) Prime Minister Diefenbaker and key members of his Cabinet had a direct interest in oil, and to a much lesser extent natural gas, policy. Indeed, the Cabinet Committee on Oil and Gas included twelve Cabinet members, more than half of Diefenbaker’s Cabinet, as well as senior officials and members of the newly created NEB.\(^10\) Once the National Oil Policy was decided upon, Diefenbaker and his successors were content to have the NEB manage its implementation. Nevertheless, all major NEB decisions had to be passed by order-in-council, meaning that part of the Cabinet was still involved, albeit in the final stages of the process.\(^11\)

Regardless of the fragmentation of policy responsibility in the U.S. and Canada, there were small core groups of people in each country who considered policy issues and were very familiar, and in contact, with officials in interested provinces/states, industries, departments, and

\(^8\) There was no permanent interdepartmental committee on oil or gas policy; it would only be activated on an issue-by-issue basis.


\(^10\) The members of the Cabinet committee were: Alvin Hamilton (Minister of Northern Affairs and Natural Resources/Agriculture), Gordon Churchill (Minister of Trade and Commerce/Veteran Affairs), Donald Fleming (Minister of Finance), George Hees (Minister of Transport/Trade and Commerce), Doug Harkness (Minister of Agriculture/National Defence), Howard Green (External Affairs), Paul Comtois (Mines and Technical Surveys), Davie Fulton (Justice and Attorney General), David Walker (Public Works), Pierre Sevigny (Associate Minister of National Defence), W. Hamilton (Postmaster General), and George Nowlan (Minister of National Revenue).

\(^11\) Cabinet participation is qualified because it does not require the entire Cabinet for an Order in Council. Three or four ministers would be acceptable to pass an Order in Council.
with their counterparts across the border. Perhaps what is most significant is this intricate transgovernmental network of contact and relationships between Canadian and American officials and senior politicians.\(^{12}\) The documentary evidence, which will be discussed in this chapter, reveals that Canadian and American officials met on several occasions, formally and informally, to try to work out solutions to oil and gas problems. Embassy officials from both countries were tapped into social and political networks of the other country that enabled them to obtain information, or assert the efficacy of their country’s position, on oil and gas issues. In addition, Cabinet members from both countries discussed trade and economic issues, of which oil was one of the main items in this period, through the venue of the Canada-U.S. Joint Committee on Trade and Economic Affairs (JCTEA) that usually met once a year. While the JCTEA eventually devolved into a well-publicized venue for “an exchange of speeches,” until the late 1960s, as evidenced by the content of the memoranda of conversation, it served as a valuable forum for Canadian and American Cabinet members to discuss and work out ways to overcome trade irritants.\(^{13}\) In both countries, these tight groups of people contacted their counterparts across the border both informally and formally, considered and weighed the issues and possible impacts of their decisions, and made recommendations to the Cabinets of their respective countries.\(^{14}\) The President and Prime Minister discussed pressing issues like oil when


\(^{13}\) University of Toronto Archives (UTA), Robert Bothwell Papers, File B1984-0024/014, Discussion with Mitchell Sharp by Robert Bothwell, 23 November 1979, 1. The JCTEA was established in co-operation with the newly elected Republican President Dwight D. Eisenhower and the Liberal government of Prime Minister Louis St. Laurent. In later years, Mitchell Sharp reflected on the efficacy of the JCTEA in a discussion with historian Robert Bothwell, “The spectre of ministers working together was strange and unnerving to officials, but eventually they worked it out. Why did the Canadian-US committee fail? Perhaps it was because the meetings were well-publicized and the press expected too much. . . . Eventually the committee became just an exchange of speeches, and there is now no singular, simple focus, no place where Canadian-American relations can be discussed as a whole.” (1-2)

\(^{14}\) The question of how these transgovernmental social and political networks were created is an interesting
they met on occasion at international gatherings like NATO meetings or on state visits, but they also talked to each other rather frequently on the telephone. After extensive consultation with his Cabinet, the President and Prime Minister then made the ultimate decision. What follows is a close examination of two decisions: the American exemption of Canada from its MOIP, and Canada’s creation of its National Oil Policy.

II. American MOIP and the Canadian Exemption

The main American objective in its oil policy in the cold war period was to have quick and secure access to oil in an emergency. Post-war American production of oil was in a state of mature development, where the gap between production and domestic demand continued to widen. The dilemma was whether to maximize American production, which would drain America first but be safe and dependable, or to offset it with cheap foreign imports, which would prolong American reserves but make it more reliant on unstable sources from places like the Middle East. Policy-makers also felt a responsibility towards allies and pro-Western developing countries that needed markets for their commodities. Canada was in a unique situation as it fit into both categories.

Almost from the moment they took office in 1953, Dwight D. Eisenhower and his Republican Administration came under intense pressure from American independent producers, and their supporters in Congress, to enact mandatory controls on the import of crude oil into the
United States. The Eisenhower Administration sought to balance the competing interests of national security, domestic producers, allies, and developing countries in its oil import policy. Contrary to some accounts, Eisenhower delayed action for as long as possible. But, in 1955, an informal voluntary import program was established, which was then followed in July of 1957 with a more formal arrangement known as the Voluntary Oil Import Program (VOIP). Canada and Venezuela were exempt from the former, but not from the latter. Canadian officials, while protesting any import restrictions, made strong arguments for an exemption to the VOIP. At that time, however, the U.S. said that an exemption would cause irreparable harm to its relations with Venezuela; nevertheless, Canada persisted in pressing the U.S. Administration for some type of preferential treatment. Although Canada was not granted an exemption when the MOIP was first enacted on 10 March 1959, the proclamation was amended on 30 April 1959 to include an exemption for imports entering the U.S. via overland transportation routes. This was an

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16 Some scholars such as Theodore Binnema in “Making Way for Canadian Oil: United States Policy, 1947-1959,” Alberta History, Summer 1997, 17, argue that Eisenhower was keen to curb oil imports because he was “elected with considerable support from the oil-rich states of Texas and Louisiana.” This interpretation fails to take into account the members of Congress from those same states who were Democrats and pushed hard for oil import controls to aid the domestic independent producers, as will be discussed in the sub-section below Congress. Binnema also does not distinguish between the domestic independent producers and the integrated multi-national companies, but rather combines them in the phrase “powerful oil industry lobby.” A similar argument is made by Shaffer in The Oil Import Program of the United States. Neither author used archival evidence; though in the latter case, the documents had not yet been declassified.

17 The Oil Import Administration (OIA) was created to administer the program and was headed by Captain Matthew V. Carson, Jr.

18 See for example, NAC, RG 25, Vol. 3175, File Oil and Gas (2) 1958-1972, Importance to Canada of Form of United States Import Limitations on Petroleum, no author, 12 March 1958. The briefing note states, “While deploiring the necessity for import restrictions... if such restrictions must exist... the objectives sought would best be secured by a system... of preference to Canadian oil.” This fits in with J.L. Granatstein and R.D. Cuff’s description of Canada’s policy of “exemptionalism.” “Canada and the Perils of ‘Exemptionalism’.” Queen’s Quarterly 79:4 (Winter 1972): 473-481. The authors criticize Canada’s quest for American special treatment because, in their view, the consequence was to jeopardise Canadian independence by binding “the country ever more firmly into lockstep with American policy.” (479) Indeed, using the vocabulary of sickness, the authors refer to Canada’s policy of “exemptionalism” as a “syndrome.” (475) Although they acknowledge that there would have been grave economic costs to not gain exemptions from American policies, the authors suggest that Canada would have been better off being poorer but more independent. A comprehensive study of an alternative viewpoint, supporting Canada’s policy of “exemptionalism” as realistic given the options available at the time, see Michael Hart, A Trading Nation (Vancouver: UBC Press, 2002).
effective, though unnamed, exemption for Canada that happened to have an added benefit for Mexico. Discussed below, the possible explanations for granting Canada an exemption include, in reverse order of importance, interest groups, economics, ideas, international forces, national security, and personalities.

INTEREST GROUPS
Before beginning the discussion on interest groups, it is important to point out a striking absence of the National Petroleum Council (NPC) in the entire oil import program debate. In order to extend industry-government cooperation after the war, President Truman created this organisation on 26 September 1946 as an “advisory committee to advise, inform, and make recommendations to the DOI on petroleum-related issues.”19 The organisation was self-financing, independent from government, with members drawn from all branches of the petroleum industry. However, in 1955, the entire issue of advisory boards became a hot Congressional issue, and legislation was introduced in 1957 that would have fundamentally altered the organisational structure of the NPC to make it more of a government body.

Negotiations between the Justice Department, DOI, and NPC leaders continued throughout 1958. Thus, while the NPC’s status was in question, the group did not meet until January 1959, and then it was only to vote on proposed organisational changes and not discuss substantive issues like the impending MOIP.20 One can speculate that if the NPC had been able to work on an oil import study, it might have been able to find a better compromise between the competing interests of the domestic independent producers and the major integrated companies.

20 Ibid., 20-22.
American Independent Oil Producers

The domestic producers of the American independent oil industry effectively lobbied members of Congress to pressure the Eisenhower Administration to implement oil import controls.\(^{21}\) Two major organizations that were most representative of the independents were the Independent Petroleum Association of America (IPAA), and the Texas Independent Producers and Royalty Owners (TIPRO); both gave tentative support to the idea of Canadian preference in import controls.\(^{22}\) The IPAA was early to acknowledge the special position of Canadian oil in the defence considerations of the U.S., and recognised that “the most accessible markets for oil produced in Western Canada are the Pacific Northwest area and the U.S. Great Lakes-Mid Continent area.”\(^{23}\) They did have reservations, however, regarding the Eastern Canadian market. The IPAA argued that they would not protest if the U.S. increased its imports of Canadian oil, or gave it preferential treatment within the oil import programme, but would object if Eastern Canada then increased its imports of Middle East and Venezuelan oil. In their view, this could actually undermine national security, as Canada would be increasingly dependent on foreign oil, which would in turn make the Hemisphere less secure.

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\(^{22}\) The petroleum industry is comprised of a diverse set of interested parties ranging from workers to producers to refiners. I have chosen here to focus upon the two domestic producer organisations under the umbrella of the “independent” oil industry mainly because of space constraints, and also that they were effective voices for the independent producing industry at this time. The National Oil Jobbers were an important group that protested any oil imports. Several independent refiners lobbied the ODM directly or through Congressional representatives, which will be discussed under the sub-heading of *Congress*. Also left out are the American independent (non-multinational) oil companies, like Tidewater Oil, that were involved in foreign oil production and were against the import restrictions.

\(^{23}\) United States, Department of Energy (DOE), Job Number 1002, Box 9, Folder 26 Independent Association of America, 1956, Statement on the Relationship of U.S. Oil Imports to Domestic Oil Production, Submitted to the Advisory Cabinet Committee on Energy Supplies and Resources Policy, 13 August 1956, 36-37. The Kennedy Administration would make this same argument as a justification to reduce Canadian imports.
TIPRO was sympathetic toward the Canadian independent industry, as they were in a similar predicament. They recognised that Canadian producers, like the American industry, were high cost compared to the Middle East producers. Thus, in an excellent example of transnational networks, W.E. Turner of TIPRO wrote a letter to R.A. Brown of the Calgary based Home Oil Company, the leading proponent for an oil pipeline to Montreal, offering to help in any way he and the organisation could. One suggestion made was to organize a conference with Canadian independent companies, and perhaps visit Canadian government officials. The letter concluded by saying, “we are anxious to cooperate with the government and industry of Canada.” It is unclear if Brown acted upon the offer. Interestingly, TIPRO, in its submissions to the oil import committees did not recommend restricting Canadian oil, but nor did it fully support a Canadian exemption.

An argument could be made that since the independents had considerable influence in having the U.S. control oil imports, the reason Canadian oil was exempted from the MOIP was because the independents did not forcibly protest such an action. The evidence indicates, however, that the views of the independents on Canadian preference were not given a great deal of weight past the level of the ODM or the OIA. In fact, there is no mention of the independents’ views on Canada in the Cabinet discussions or the State Department meetings on the subject of a Canadian exemption. One can conclude, therefore, that though the independents had considerable influence in the creation of the MOIP, and though their view would have been taken

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25 In contrast, the independents objected to increased Venezuelan imports, particularly imports into the West Coast. See for example, DDEL, F.A. Seaton Papers, 1946-1972, Interior Department Series, Oil, Gas & Mines Subseries, Box 1, File Middle East Emergency Committee (1), Memorandum to the Secretary [Fred A. Seaton] from Assistant to the Secretary, Subject: Telephone Conversation with Senator O’Mahoney, 12 February 1957, 1.
into account, they had little overt influence in the decision to exempt Canada from the programme.

**Multinational Oil Companies**

Like the independent producers, and other affected branches of the oil industry, the large integrated multinational companies such as the Texas Company, Shell, and Standard Oil expressed their views concerning the oil import programmes through letters and submissions to the various hearings held by the OCDM and in Congress. As much as they disagreed with any import restrictions, as they wanted a market for their oil from the Middle East and Venezuela, "with the exception of the Texas Company, the international majors indicated that they were prepared to comply with the new recommendations [for the VOIP]." These changes to the VOIP did not provide for an exemption for Canadian or Venezuelan oil. As will be discussed in more detail below, Prime Minister Diefenbaker, and various Canadian officials, pressed hard for special treatment. As a result, Secretary of the Treasury Anderson contacted Shell and Socony Vacuum and had them promise "that they would continue to take Canadian crude at the current barrels-daily rate.... These companies would cut back on overseas imports rather than on those from Canada. All this meant that the practical effect of the voluntary program on Canadian imports would be nil." The Canadians were notified of the American action, and were

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26 Barber, "Eisenhower Energy Policy," 232. They were less than sanguine about the second phase of the VOIP that increased the number of smaller independent companies that could participate in importing oil. (Ibid., 242-243.

27 USNA, RG 59, Alpha-Numeric Files Relating to Canadian Affairs, 1957 to 1963, Box 3, File Oil Quotas, 1957-1961, Memorandum of Conversation, Subject: Canadian representations regarding extension to West Coast of voluntary import restrictions on crude oil, 23 December 1957. Participants at the meeting were Deputy Under Secretary of State Mr. Murphy, Assistant Secretary of State, Mr. Elbrick, Legal Adviser Mr. Becker, BNA Mr. Moline and OR Mr. Armstrong. The Texaco Company refused to make any commitments but led Anderson to believe "that it would continue as before." The Canadian Ambassador at the time, Norman Robertson, "expressed great satisfaction with the fact that no practical limitation on Canadian oil was being proposed." United States Department of State, Foreign Relations of the United States (FRUS), 1955-1957, Vol. X: Foreign Aid and Economic
reminded on occasion, such as during technical talks between Canadian and American officials in March 1958 and by Secretary of State Dulles during the President’s visit to Canada in July 1958, as evidence of the Administration’s goodwill towards Canada. But this had little to do with the influence of the industry on the Administration and an exemption for Canada from the U.S. policy.

Although the multinational companies were not indifferent to the Canadian desire to increase exports to the U.S., there is little evidence that a concerted effort was made by the majors to encourage the Eisenhower Administration to exempt Canada from its oil import restrictions. The only exception was Imperial Oil Canada; though not a major, it was a subsidiary of Standard Oil New Jersey, and was the largest importer of Venezuelan oil (through a sister subsidiary company, Creole Petroleum) in the Montreal refining area.\(^{28}\) Imperial made repeated efforts to secure a Canadian exemption through letters to the Oil Import Administrator Captain Carson, and meetings with officials from the State Department, among others.\(^{29}\) For the latter, Imperial Director J.A. Cogan sounded out the ESB on the efficacy of giving “its opinion on the effects of any proposed import program of the U.S. Government.”\(^{30}\) The ESB must have approved or at least not discouraged such an overture, as a few weeks later Cogan met with senior State Department Officials of the Economic Affairs branch. He was told, “that any preferential exceptions for Canadian oil would require, at least, the tacit approval of

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\(^{28}\) Breen, Alberta’s Petroleum Industry and Conservation Board, 438.

\(^{29}\) See the following examples: USNA, RG 434, Box 100, File Oil Import Administration, Canada (Gen. Corres. w/Companies), Letter to Captain Carson from J.A. Cogan (Director) Imperial Oil, 19 November 1957; Letter to Captain Carson from J.A. Cogan, 8 January 1958; Letter to Captain Carson from J.R. White (President) Imperial Oil, 29 September 1958.

Venezuela. Subsequently, J.R. White, the President of Imperial, asked Norman Robertson, Canadian Ambassador to the U.S. and soon to be under secretary for External Affairs, if the Canadian government would object if White met with the Venezuelan Ambassador to Canada to discuss the Montreal pipeline and the matter of a Canadian exemption to the U.S. oil import programme. Robertson told White that he personally had no objection, but that he should ask Douglas Fraser, Director of the ESB. Fraser told White that he “would welcome such a private initiative.” He went on to say,

So far as I am aware, Venezuelans here [in Ottawa] have never put their views to any officials and I have heard nothing of them approaching Ministers. They should be disabused of any impression [that] the Montreal market is settled, or will be settled by [the] Borden reports. They should also be told it would be desirable to make their views and any suggestions known in advance of Government decision. Officials here can not [sic] of course take [the] initiative, but would prefer to have prior consultation rather than await recriminations or protests following decision to restrict Montreal market if such a decision were to be made.32

White’s overtures to the Venezuelans were unsuccessful in obtaining tacit approval for a Canadian exemption, not necessarily because he was unpersuasive but due to political instability within Venezuela itself, as is discussed in more detail in the section below. Still, though Imperial lobbied for a Canadian exemption, those efforts did not get beyond a certain level within the administration and were taken in stride along with all of the appeals made by other interested groups.

Given that Canada did, in the end, receive an exemption, what role did the majors play in influencing that outcome? The evidence as described above indicates that the Administration noted the position of the various companies, brought pressure to bear on occasion in order to

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31 Ibid., [Imperial Oil notes of meeting] Notes Concerning Discussions of Proposed United States Import Program Revision, 2.
32 NAC, MG 31 E28, Vol. 1, File 1-5 Correspondence 1958, Priority Telegram to Mr. N.R. Chappell, Canadian Dept. of Defence Production, Canadian Embassy Washington D.C., from Douglas M. Fraser, Director Energy Studies Branch, 3 October 1958.
alleviate strain on the Canadian industry, and, at one point, even chastised the Canadian majors for acting un-Canadian, but aside from that, the companies were never mentioned during any of the high level discussions that led to the final exemption.\textsuperscript{33}

\textit{Congress}

Between 1957 and 1959, representatives from producing states such as Texas, and states that benefited from Canadian oil like Minnesota and Oklahoma, made it clear that they did not view Canadian oil as a threat.\textsuperscript{34} In 1957, the Texas legislature put forward a resolution that called upon Texas Senator Lyndon Johnson [Democrat], to follow its recommendations. They recommended that Canadian oil should be rolled in with domestic oil, and not considered at all within an oil import program, but if that was not possible then Canada should be exempted.\textsuperscript{35}

The Texas resolution contradicts historian Robert Bothwell’s contention that Eisenhower "harkened to Texas oilmen and placed insecure Canadian oil under quota, for national security reasons."\textsuperscript{36}

The following year, Senator Monroney made a case for the importance of Canadian and Western Hemisphere oil in national security. He encouraged the Administration to exempt

\textsuperscript{33} On accusing the Canadian majors of not acting "as 'Canadian' companies but as pawns for their international affiliates," see NAC, RG 25, Vol. 3175, File Oil and Gas (2), 1958-1972, Telegram to Mr. A.E. Ritchie from N.R. Chappell, 26 February 1959. Ivan White, Livingston Merchant's assistant, called a meeting with the presidents of Imperial, Shell, and British American, and "expressed his views in strong terms."

\textsuperscript{34} Another influential Senator from Minnesota who pressed for a Canadian exemption was Democrat Hubert H. Humphrey. See for example, USNA, RG 59, Alpha-Numeric Files Relating to Canadian Affairs, 1957 to 1963, Box 3, File Oil Quotas, 1957-1961, Memorandum of Conversation, Subject: Imports of Canadian oil into the United States, 27 June 1957. Humphrey went on to become Vice-President of the U.S. under Lyndon B. Johnson. Senators from the producing states who communicated that Canada was not viewed as a threat included Senator Edward J. Thye (Republican) from Minnesota, and Senator A. S. Mike Monroney (Democrat) from Oklahoma.


Canada or Western Hemisphere sources from any import programme. Senator Thye went further and argued that Canada should either be exempted completely from oil import controls, or that small refiners, which were completely reliant upon Canadian oil, be exempted from the programme. The small refiners also appealed to the Director of the OCDM, advocating special treatment for Canadian oil. Interestingly, the refiners came to feature prominently in a very undiplomatic Aide Memoire from the Venezuelan government (through its Embassy in Washington) of 23 April 1959. In perhaps an unprecedented move, the Venezuelans cited a rumour as evidence that one particular refiner, Northwestern, had conspired with the U.S. and Canadian governments to draft sections of the MOIP regulations in order to favour Canadian imports. The Aide Memoire stated the following:

There exists the general impression that Section 12 of the Regulations was written specially to favor Canadian imports to the prejudice of Venezuelan crude oil and to the prejudice of Gulf Coast refiners. It is even rumoured that prior to the promulgation of the Executive Proclamation and the corresponding oil Imports Regulations, Mr. Marlin Sandlin, President of Woodley Petroleum Co. (Houston, Texas), which company has a large interest in the Northwestern Refinery of Saint Paul, Minnesota, was called to Washington in order to draft the sections of the presidential Proclamation upon which Section 12 of the Regulations is based. According to said rumor, Mr. Sandlin, after drafting this Section, went to Canada and obtained the approval of the Canadian Government as to the language to be used.

The controversial and accusatory Aide Memoire was withdrawn the next day and replaced by a more detailed and subdued Memorandum from the Venezuelan Embassy. There is no evidence to support Venezuela’s claims in the archival record in Canada or the U.S. It is true that as a

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37 DDEL, T.C. Mann Papers, 1950-1961, Box 1, File Chronological File Jan-March 1959 (2), Letter to Senator Monroney from Under-Secretary for Economic Affairs [C. Douglas Dillon], 20 February 1959. Dillon replied, “For your confidential information, we would like to exempt Canada from the controls and we have already had extensive discussions on the subject with both the Canadians and the Venezuelans. The difficulty at this moment is that Venezuela will not agree to a Canadian exemption and would consider it discriminatory.”

38 USNA, RG 59, Subject Files Relating to Venezuela, 1958-1959, Box 1, File Venezuela 43.3c Oil Imports Program, April-June 1959, Aide Memoire from Venezuelan Embassy, 22 April 1959, 1. A note at the bottom of the document states that Pérez de la Cóva left it with the State Department’s Fuels Division on 23 April 1959. By this time, the Venezuelans’ had heard that Canada was going to receive an exemption to the MOIP, and they were extremely displeased. Idem, Memorandum from Venezuelan Embassy, 24 April 1959.
courtesy, the U.S. showed the Canadians, as well as the Venezuelans, drafts of the proclamations and regulations, but neither party made substantive changes. Ultimately, the support of the Texas legislature, Senators from areas that received Canadian oil, and Senators from producing areas like Oklahoma, helped to ease the acceptance of a Canadian exemption within key sections of Congress, however it was not a main factor in Eisenhower’s or the Cabinet’s decision.

ECONOMICS

State of the Economy

In the mid-1950s, there was a minor recession in the American economy that translated into lower demand for oil and oil products. With the decrease in demand came a consequent decrease in production that was compounded by increased oil imports. By 1958, production in Texas had decreased to such a considerable extent that the health of the domestic oil industry came into question. Some government officials argued that this helped to conserve American resources, while others argued that the viability of the independent companies was in doubt, and they needed to be viable in order to keep exploring and developing new sources within the U.S. Eisenhower’s position was that a careful balance had to be struck between all of the competing interests. The state of the economy and the viability of the American domestic oil industry were significant in the MOIP decision. However, in discussing the possible exemption of

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39DDEL, JFDP, 1951-1959, Telephone Calls Series, Box 8, File Memo of Telephone Conversations, General Jan 2-Mar 3 1958 (1), Telephone Call to Mr. [Loftus] Becker from Secretary of State Dulles, 21 March 1958. The concern at this time was that Texas was down to an average production of eight days a month, and there was “strong pressure to do something” about the situation. See also, United States Department of State, FRUS, 1958-1960, Vol. IV, Foreign Economic Policy (Washington, D.C.: GPO, 1992), Doc. 273, Memorandum for the Files by President’s Deputy Assistant (Morgan), 3 March 1958; and for a copy of the telephone call between Becker and Dulles see ibid., Doc. 278, Memorandum of Telephone Conversation Between Secretary of State Dulles and Legal Advisor (Becker), 21 March 1958. Canada requested that announcement of the changes to the VOIP be delayed until after the Canadian election, but the President felt that he had to move quickly because of the reduction in Texas production.

40DDEL, DDEP, PPUS 1953-1961, AWF, Cabinet Series, Box 13, File Cabinet Meeting March 6, 1959, Minutes of Cabinet Meeting 6 March 1959, 4.
Canada to the MOIP, there was agreement that Canadian oil would be of little threat to the state of the American economy.

**Prices**

The decrease in domestic production and increase in oil imports put considerable strain on the American prorationing system.\footnote{The American prorationing system was established in 1927 in Oklahoma and Texas, with most other oil producing states following soon after with the exception of California and Illinois. See, Bradley, *Oil, Gas, and Government* Vol. I, 87-95. Prorationing is the regulated production from fields, with proceeds distributed proportionally to field stakeholders. The following is a definition from the American Gas Association: “The specified sharing of oil and/or gas production among the wells in a particular area. Dividing of consumption into parts and billing each at a different rate; generally, proportioning according to some calculable factor for billing period.” Available from [http://www.aga.org/Content/Navigat0nMenu/About_Natural_Gas/Natural_Gas_Glossary/Natural_Gas_Glossary (P).html#P](http://www.aga.org/Content/Navigat0nMenu/About_Natural_Gas/Natural_Gas_Glossary/Natural_Gas_Glossary (P).html#P); Internet; accessed 15 July 2005.} Prorationing not only helped to conserve resources by preventing the ‘drain the field as fast as possible’ activity, but it also served to stabilize prices. State regulatory agencies like the Texas Railroad Commission, could control production to prevent surpluses that would depress prices.\footnote{Barber, “Eisenhower Energy Policy,” 220. The Texas Railroad Commission was the most important American body in prorationing because it had jurisdiction over almost half of the U.S. domestic crude supply.} Some officials within Eisenhower’s administration, as well as Canadian officials, believed that the oil import programs were designed specifically to keep a stable domestic price structure by impeding price competition with the cheaper offshore oil imports.\footnote{DDEL, DDEP, PPUS 1953-1961, AWF, Cabinet Series, Box 13, File Cabinet Meeting March 6, 1959, Minutes of Cabinet Meeting 6 March 1959, 3-4. See also NAC, RG 99, Vol. 97, File 80, Memorandum to Dr. Howland from J.F. Parkinson, Subject: The United States Crude Oil Import Problem, 17 March 1958. This memo includes a memorandum of conversation of discussions between Canadian and American officials that took place on 10 March 1958. See page 3 for American comments about importance of price structure. The Canadians came away from the meeting with the impression that “The main point brought out in the presentation of the American point of view on oil imports during these exploratory discussions was that the matter of price protection is paramount.” (6) [emphasis in the original].}

One might ask, why was offshore oil, particularly Middle East oil, so much cheaper than North American oil? The reason lies in the nature of the Middle Eastern fields – they are huge (called ‘elephants’), near the surface, have low production costs, and, on average, produce more...
oil per well. One analyst writing in 1959 pointed out, “The average well in the Middle East now produces about 5,000 barrels a day. . . . Even in new source areas, such as Alberta, where the oil pools are relatively large . . . a production rate of 200 barrels a day is the exception rather than the rule.”44 By protecting the American market from cheaper competition, the prices of the higher cost American oil could be protected. This too influenced the MOIP decision. One could argue that Canada was granted an exemption to the MOIP because its oil shared similar production costs to American oil, and therefore it was not a threat to the American price structure being protected. Although the Canadians and knowledgeable American officials submitted this argument on occasion, it was not employed during the higher-level discussions or in the final decision-making process.

IDEAS

Market Forces

Eisenhower’s view of government’s role in the economy was that markets should be free to operate within certain limits established by government, and trade liberalisation should be a foundation for expanding the economy.45 As one scholar observes of Eisenhower’s administration, “freer markets were regarded as the primary carriers of progress.”46 Although the MOIP went against this fundamental principle, it is clear from the evidence available that Eisenhower delayed intervention as long as possible. The decision to exempt Canada from the

45 Barber, “Eisenhower Energy Policy, 208-209. Barber succinctly describes what this meant for the Eisenhower administration, “In short, the allocative functions of markets should be reinforced, while direct government participation in the economy should be retrenched. This was not, however, a doctrine of uninhibited laissez-faire. A responsibility of the federal government for dampening cyclical disturbances and for correcting market failures was accepted and reaffirmed.”
46 Ibid., 213.
MOIP, however, had less to do with trying to preserve a remnant of liberalised trade with Canada than with Eisenhower's personal desire to remove an irritant in the Canada-U.S. relationship.

Eisenhower's diary entries, and notes of the Cabinet discussions, reveal that he and his administration were conflicted and concerned about government intervention in the economy. Eisenhower, and most of his closest advisors and Cabinet members, preferred not to intervene in the oil industry to limit oil imports; they reluctantly agreed to oil import restrictions because the pressure from the independent oil producers and Congress to 'do something' about oil imports was overwhelming.

Eisenhower reflected on the situation in his diary entry of 3 March 1959, a week before he proclaimed the MOIP:

... any time we restrict imports we make it more difficult for us to export the products from our industry because we deny other people [the opportunity] to earn the dollars they need with which to purchase our goods. This makes for an unhappy, lowered, level of mutual trade and, eventually a general decline in economic activity, including our own. It likewise has the result of driving more of our friends into other channels of trade, an increased percentage of which will be with the Communist bloc.

All this is bad. Yet there seems to be no possibility of giving to the oil and coal producers of our own country some kind of assurance that they are not to be eliminated as productive industries. This we cannot afford to do if for no other reason than in the event of an emergency we shall need their facilities operating at an increasing tempo.47

Three days later at the Cabinet meeting that decided on the MOIP, Eisenhower shared the above sentiments. It is clear that the President was concerned about “the tendencies of special interests in the United States to press almost irresistibly for special programs like this ... in conflict with the basic requirement on the United States to promote increased trade in the world.”48 One observer at the meeting described Eisenhower as “approving the program because

48 DDEL, DDEP, PPUS 1953-1961, AWF, Cabinet Series, Box 13, File Cabinet Meeting March 6, 1959, Minutes of Cabinet Meeting, 6 March 1959, 5. See also, Department of State, FRUS, 1958-1960, Vol. IV: Foreign Economic Policy, Doc. 292, Minutes of Cabinet Meeting, 6 March 1959, Oil Import Program.
he could see no escape." Hand-written notes of the Cabinet meeting quote Eisenhower as saying, "[we] really get in trouble when [we are] involved in controlling [the] economy."

Despite delaying as long as he could, Eisenhower signed the MOIP on 10 March 1959.

But how much influence did Eisenhower's support of trade liberalisation have on his decision to exempt Canada from the MOIP? One could argue that since Canada's exemption would permit the "natural" market forces to prevail in the Canada-U.S. oil trade, it was one last conscious effort to salvage a principle out of the protectionist policy. Some evidence to support this position might be the summary of discussions with the President that granted Canada its exemption. In the brief document, the words 'liberalize' and 'liberalization' were used repeatedly. However, by using those key words, the writer's of the document may have been trying to emphasise that the policy was a directive from the President, and within the President's policy preference for trade liberalisation. In line with this, it could also have served to make the controversial exemption more palatable to those within the administration who did not want to give Canada special treatment unless Venezuela was treated the same.

In addition, Eisenhower, during the Cabinet discussion on the MOIP, "stated his interest in the unity of the American continent, and wished it were possible to act in unity with Canada on this particular item." This may be interpreted as a desire to see the Canada-U.S. oil trade

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50DDEL, WHO, OSS, Cabinet Series, Box 5, File March 6, 1959, Hand-written notes of Cabinet Meeting, 6 March 1959, 8.
51The following is an example: "We have been pressed by the Canadians for this liberalization; failure to liberalize might be an added inducement for the Canadians to build an uneconomic pipeline . . . . The President agreed with the proposed liberalization." DDEP, PPUS 1953-1961, AWF, DDEDS, Box 40, File Staff Notes—April 1959 (1), Memorandum for Mrs. Whitman from Don Paarlberg, Oil Imports, 27 April 1959. A copy of this can also be found in Department of State, FRUS. 1958-1960, Vol. IV: Foreign Economic Policy, Doc. 297, Memorandum from the President's Special Assistant (Paarlberg) to President's Personal Secretary (Mrs. Whitman), Oil Imports, 27 April 1959.
52DDEL, DDEP, PPUS 1953-1961, AWF, Cabinet Series, Box 13, File Cabinet Meeting March 6, 1959, Minutes of Cabinet Meeting, 6 March 1959, 5.
operating in a unified manner – continentally – in line with market forces, but this is unlikely.

Three days after the Cabinet meeting, the President spoke to Assistant Secretary of Commerce Mueller and "asked if there wasn't something we could do to make this oil move look better to our neighbors to the north."53 It is evident that the meaning behind the President's words had more to do with smoothing relations with Canada and Diefenbaker than with an ideological commitment to trade liberalisation.

*Protectionism*

One of the difficulties in setting American oil policy for President Eisenhower was an influential and deeply rooted protectionist element. Protectionists, like the domestic independent oil producers, made the national security argument for protecting their interests: free trade in oil would jeopardise national security because it would weaken their industry that was vital to America's defence.54 Key members of Congress, with Lyndon B. Johnson being the most influential, supported them.55 Although protectionism had a profound influence on Eisenhower's final decision to implement the MOIP, there is little evidence that it influenced his decision to

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53 DDEL, D.A. Quarles Papers, Box 3, File Daily Diaries 1/2/59-5/17/59c3, Diary Donald A. Quarles, Monday, 9 March 1959, 2. Fifteen minutes after Quarles' phone call with Mueller regarding the President's wishes on the Canadian exemption, Quarles phoned Mr. Loftus Becker from the State Department and arranged an immediate meeting to discuss the matter. Three days later, after a conversation with General Goodpaster, a close advisor to Eisenhower, Acting Secretary of State Herter talked with Deputy Under Secretary of State of Political Affairs Murphy about State and Defense studying "ways of easing the oil import question for the Canadians." Murphy replied that he would take the matter up with Thomas Mann. Department of State, FRUS. 1958-1960, Vol. IV: Foreign Economic Policy, Doc. 293, Memorandum of Telephone Conversation Between Acting Secretary of State Herter and the Deputy Under Secretary of Political Affairs (Murphy), 12 March 1959.

54 Barber, "Eisenhower Energy Policy, 213.

55 See for example the exchange of letters between Lyndon Johnson and President Eisenhower. DDEL, WHCF, Official File, Box 794, File 149-B-2 Oil and Petroleum (4), Letter to President Eisenhower from Lyndon B. Johnson, 6 March 1958, and Letter to Lyndon B. Johnson from President Eisenhower, 15 March 1958. For a more colourful perspective, see Clarence Randall diary entries. DDEL, C.B. Randall Journals, 1953-1961, Box 5, File CFEP 1958-1959, Vol. X [Dec 26/58-Feb 3/59]; Diary entries 26 December 1958, 1; 7 January 1959, 8-9; 19 January 1959, 4. In the 19 January 1959 entry, Randall states: "There is not the slightest doubt in his [Don Paarlberg] mind or mine but that the move to establish mandatory quotas on oil imports is a political pay-off to Lyndon Johnson and Sam Rayburn for their support of the Reciprocal Trade Agreements Act."
exempt Canada from the policy. The only evidence that protectionism was employed in Canada-U.S. oil relations at this time is the use of the protectionist threat by the Americans to encourage the Canadians to tone down their displeasure of the oil import controls.

For example, during a technical meeting between Canadian and American officials, Willis Armstrong (Director, Office of International Resources in the State Department), “passed a note to Dr. C.M Isbister, the leader of the Canadian group, which said that Senator Lyndon Johnson had transmitted a letter to [the] President asking for a 20 percent cut in imports on a mandatory basis.” The significance is that the changes to the VOIP, being discussed at this meeting, included an import level of 12 percent of domestic production, rather than the across the board larger cuts recommended by Johnson. Thomas Mann told the Canadians that though the restrictions might appear bad for Canada,

when the formula was devised it was so designed as to minimize the effect on Canadian oil. This fact had been kept under cover because of hard feelings which might be engendered with Venezuela, particularly in view of the fact that Venezuela had supplied the United States east coast during past emergency periods.

In the summary of the discussion, the Canadians concluded that the import program was going to become even more restrictive, regardless of whether it came from the President or Congress. Perhaps that is why the American tactic was unsuccessful, and Canada protested vigorously at the VOIP changes and the subsequent mandatory controls. Undoubtedly, the decision to create

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57 Ibid., The United States Crude Oil Import Problem: Report on a meeting held in Washington, D.C: March 10th, to discuss matters relative to the current crude oil imports situation in the United States, 12 March 1958, 5. 
58 Ibid., 4, 7. See also A.E. Ritchie’s account of the discussion and Mann’s comment which is a little different. NAC, RG 99, Vol. 97, File 80, Despatch 418 to Secretary of State for External Affairs from Canadian Embassy Washington [A.E. Ritchie], Subject: U.S. Petroleum Imports Policy, Meeting in State Department, March 10th, 1958, 6.
59 The argument about Congressional action being worse than Presidential action, in order to elicit a more subdued Canadian reaction, was voiced at the 6 January 1959 JCTEA meeting in Ottawa by Secretary of the
the MOIP was heavily influenced by protectionism, but the decision to exempt Canada from the program was not.

INTERNATIONAL FORCES

Middle East

The 1950s were a time of great upheaval in the Middle East. As discussed in the introduction, growing Communist influence and nationalism in the region contributed to the Iranian nationalisation crisis of 1951 to 1953, and the Suez crisis of 1956/57. The two crises confirmed the decline of British power and influence as the U.S. increased its involvement in the Middle East to help settle the issues of conflict. Given the strategic and economic importance of the large oil reserves located in the Middle East, and the growing activity of American companies in the region (encouraged, especially in the case of Iran, by the U.S. government), it is not surprising that the U.S. had an interest in trying to maintain stability in the region. By the mid- to late-1950s, the world market seemed awash in low-priced oil. Despite the increased

Treasuty Robert B. Anderson. He stressed to the Canadians, “If the Executive Branch should lose its control over the situation, and be forced to administer some rigid formula, the situation for Canada would be much worse than it is now...” DDEL, DDE Records as President, WHCF, Confidential File 1953-1961, Subject Series, Box 77, File State, Department of (Jan-Aug 1959) (3), Joint Canada-United States Committee on Trade and Economic Affairs, Meeting January 506, 1959, Ottawa, US Record of Ottawa Talks, 21 January 1959, 16. Eisenhower was very concerned that if he did not take action, Congress would and he would then have little control over the nature of the program. See, Department of State, FRUS. 1958-1960. Vol. IV: Foreign Economic Policy, Doc. 285, Telegram from Secretary of State Dulles to Department of State, 10 November 1958, Subject: Re Oil Imports.

For an account of the Iranian nationalization crisis see, Yergin, The Prize. 452-470. The main figure in the crisis was Dr. Muhammad Musaddiq (also spelled Mohammed Mossadegh). Musaddiq was Premier of Iran from 1951-1953 and pressed forward with the bill to nationalize Anglo-Iranian (now known as British Petroleum). Anglo-Iranian shut down the Abadan refinery and, with the support of other Western countries, boycotted Iranian oil. The boycott, among other things, reduced Iranian revenues and sent its economy into a tailspin. By 1953, Britain and the United States had worked out a plan to remove Musaddiq from power in what Yergin calls a “counter-coup” that restored the Shah and his supporters to power and saw Musaddiq arrested. Yergin portrays Musaddiq as being “fiercely nationalistic, antiforeigner, and obsessed by his opposition to the British.” (456) Historian James Bamberg in British Petroleum and Global Oil, 1950-1975 The Challenge of Nationalism (Cambridge: Cambridge University Press, 2000), describes Musaddiq, as a “fervent nationalist and virulent opponent of the Company.” (20) President Eisenhower in his memoirs reflected that Musaddiq “carried on a fanatical campaign, with tears and fainting fits and street mobs of followers, to throw the British out of Iran, come what might. ‘It is better to be independent and produce only one ton of oil a year,’ he said, ‘than to produce 32 million tons and be a slave to Britain.’” Dwight D. Eisenhower, The White House Years: Mandate for Change 1953-1956 (London: William Heinemann Ltd., 1963), 159-160.
economic activity in Europe and Japan from post-war reconstruction efforts, supply exceeded
demand and oil producing countries looked to the large U.S. economy as the Holy Grail of
markets. Eisenhower understood that countries in the Middle East like Iran, Iraq, and Saudi
Arabia needed markets for their oil. The dilemma for the U.S. was how it could ensure an
American market for Middle East oil while maintaining a strong enough domestic industry so
that national security would not be impaired.

What complicated matters for Eisenhower during the consideration for a MOIP, is that
he, and several of his top advisors, wanted to keep Canadian oil exempt from any controls, but
the U.S. could not appear to show any particular preference for one country over another. The
U.S. had a number of agreements with Middle and Near Eastern countries, as well as Venezuela,
which gave them “Most Favoured Nation” status with respect to trade in oil. To single out
specific countries could cause irreparable harm in areas of the world that were prone to growing
animosity towards the U.S. During numerous and extensive discussions, Canadian officials
promoted the idea that if it were not granted an exemption from the MOIP, it would definitely
build an oil pipeline to Montreal, which would shut Venezuelan oil out of the Canadian market
and the U.S. would be blamed. U.S. officials wrestled with the intricacies of the situation; the

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61 See for example, Barber, “Eisenhower Energy Policy,” 228, for Eisenhower’s expression of this dilemma in 1955.
62 DDEL, DDEP, PPUS, AWF, Cabinet Series, Box 13, File Cabinet Meeting March 6, 1959, “Minutes of Cabinet Meeting, March 6, 1959”, 5. At earlier meetings concerning changes to the VOIP in 1957, it was decided that even though preferential treatment for Canada was “widely supported”, Eisenhower and his officials believed that an exemption “could seriously hamper the implementation of the President’s Middle East Policy.” Department of State, FRUS, 1955-1957, Vol. X: Foreign Aid and Economic Defence Policy, Doc. 259, Memorandum for Deputy Assistant Secretary of State for Economic Affairs (Kailijayi) to Secretary of State, 26 June 1957, Subject: Crude Oil Imports in Relation to National Security, Summary and Conclusions.
63 DDEL, C.B. Randall Journals, 1953-61, Box 5, File CFEP, 1958. Vol. X [Sept. 17-Dec. 23, 1958] “Tuesday, December 16th, Executive Office.” Eisenhower had his Council on Foreign Economic Policy (CFEP), headed by Clarence Randall, determine whether a Western Hemisphere preference or a Canadian exemption would be preferable in the MOIP. The CFEP recommended that preferential treatment for Canadian and Western Hemisphere oil would not impair national security concerns, and that “it is of such importance to the foreign economic policy of the United States that it should be justified personally to representatives of affected countries and
State Department was divided, with some like Livingston Merchant favouring Canada and others like Thomas Mann supporting Venezuela, while others worried about the ramifications in the Middle East of giving one country preference over all others.64

A turning point in the role of the Middle East in the MOIP decision, and a possible Canadian exemption to it, was reached at the 23 December 1958 meeting of the National
Security Council (NSC). A document outlining key aspects of U.S. relations with Canada was the sole topic of the meeting, and the first item of discussion was oil. Eisenhower commented during the discussion that "if we tried to give preference in oil imports to Canada and Venezuela, we would find ourselves in trouble in the Middle East, and in addition we would be violating a fundamental principle of U.S. foreign relations." While suggesting that it was possible to give "preference to Venezuela without violating our principles," C. Douglas Dillon (Under-Secretary of State for Economic Affairs) also acknowledged, "that Canada would have to be a special exception with respect to oil imports." A more forceful counter argument in support of Canada was made immediately by Donald Quarles (Acting Secretary of Defense), who emphatically stated, "Canada is more important than Venezuela in the defense of the U.S." At the end of this discussion, the President approved a policy statement that gave preference to Canada and other Western Hemisphere countries in any import program, and "directed that it be taken into account by the President's Special Committee to Investigate Crude Oil Imports and by other appropriate Executive Departments and Agencies of the U.S. Government." After this point, though the situation in the Middle East was occasionally mentioned in discussions with the Canadians, it was no longer the main obstacle to a Canadian exemption.

Since the President's directive mentioned "other Western Hemisphere countries" officials led by Thomas Mann in the State Department interpreted this as meaning that Canada could only

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65 DDEL, PPUS 1953-61, AWF, NSC Series, Box 10, File 392nd Meeting of NSC, December 23, 1958, Memorandum, Subject: Discussion at 392nd Meeting of the National Security Council, Tuesday, December 23, 1958, 2.
66 Ibid., 2-3. Donald Quarles' normal position was Deputy Secretary of Defense.
67 Ibid., 4. This directive was finalised for distribution to affected departments and agencies on 30 December 1958.
68 Interestingly, in the State Department's Telegram circular to its embassies abroad regarding the MOIP, embassies in Tehran and Caracas were given instructions that were basically meant to prepare Iran and Venezuela for a future Canadian exemption. See, NARA, RG59, Subject Files Relating to Venezuela 1958 to 1959, Box 1, File 43.2 Oil Imports Program Jan-March 1959, Draft Telegram Circular, Relation of Petroleum Import Restrictions to International Commitments, 10 March 1959.
be exempted if Venezuela received the same treatment, and in February 1959 utilised the Middle East argument mainly to persuade the Canadians to be patient. However, by early April 1959, the Middle East argument was no longer employed in discussions with Canada, as other factors took precedence for Eisenhower.

Eisenhower's reluctance to initiate policies that could destabilise the Middle East helps to explain why he delayed acceptance of the oil import programs—particularly a mandatory one; why Canada was not exempted from the VOIP or the initial MOIP announcement; and why the phrasing of the exemption was general—"pipeline, motor carrier or rail," rather than country specific. However, it fails to adequately explain why Canada was eventually exempted from the MOIP at the end of April 1959.

Venezuela

The main obstacle for a Canadian exemption to the MOIP was Venezuela. Since the 1920s, Venezuela had been a constant and important supplier of oil to the United States and the world, especially in times of war or crisis. As Venezuela reminded the U.S. throughout the VOIP and MOIP discussions, during World War Two, the Korean War, and the Suez crisis, she had demonstrated her reliability by increasing production to alleviate supply problems. She

69 Mann told the Canadians in February 1959 that "the system would probably include no specific exemption for CDA, but that hope might be held out for later modifications in the scheme to take care of some of the special problems of particular countries after further negotiations or discussions over the next two or three months." The Canadians did not consider strained relations in the Middle East as a real threat. Canadian officials in discussions with senior State Department officials argued that the U.S. "might have exaggerated the importance which those countries [in the Middle East] would attach to such an exemption for CDA." NAC, RG25, Vol. 7990, File 14405-v4 (1.1), Telegram 421 to External from WashDC [A.E. Ritchie], Subject: Oil Restrictions, 19 February 1959, 1. Thomas Mann, the American official to whom this remark was made, responded that though the countries were bound to react negatively to the MOIP as a whole, "he thought that such a system with open discrimination in favour of CDA would be received much more unfavourably." (2)

70 USNA, RG 59, Records of the Bureau of Inter-American Affairs, Subject Files Relating to Venezuela, 1958-1959, Box 1, File Venezuela 43.3c Oil Imports Program April-June 1959, Memorandum from Embassy of Venezuela, 24 April 1959; Idem., Memorandum to Mr. Dillon from W.T.M. Beale, Subject: Your Meeting with the Venezuelan Ambassador, April 27, 1959 at 5:30 p.m., 27 April 1959.
had proven herself vital to American national security when it mattered, therefore, how could she not be included in any exemption that purported to be about national security? An argument could be made that the only reason Canada managed to secure an exemption was that Venezuela had given tacit approval to it in exchange for the Montreal market remaining open to Venezuelan oil. Although this was indeed the strategy pursued by both Canada and the U.S.—to obtain informal approval from Venezuela for Canadian preference—and it appeared to have been granted in February 1958, by the fall of 1958 whatever approval had been given seems to have been withdrawn as Venezuela’s inherent political instability complicated matters.

On 18 October 1945, a Revolutionary Junta led by Rómulo Betancourt of the Democratic Action Party, came to power, and instituted various democratic reforms. The first democratic elections in Venezuelan history were held in 1946 and Rómulo Gallegos was elected President. A military coup the next year removed the democratically elected government, and the leadership changed hands several times before Colonel Marcos Pérez Jiménez was designated President in 1952. Pérez Jiménez turned out to be a ruthless dictator, who repressed opposition and siphoned off oil revenues to enrich his cronies and increase his own personal wealth. The Democratic Action Party was outlawed, and the leaders who did not immediately flee into exile were tortured then exiled, some murdered. The future Minister of Mines and Hydrocarbons who helped to establish OPEC, Juan Pablo Pérez Alfonso, was one of the leaders who was tortured by Pérez Jiménez.

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71 The Spanish name of the party is Acción Democrática (AD).
72 Daniel Yergin in The Prize: The Epic Quest for Oil, Money & Power (New York: Simon & Schuster, 1991) comments on how the U.S. Ambassador to Venezuela in Caracas warned the leadership of the Democratic Action Party in 1948 that “a coup was in motion,” and offered to shelter them at the embassy. (511)
73 Ibid. Pérez Alfonso lived in exile in the U.S. for some time, and then moved to Mexico because he feared his children were becoming too Americanized to return to Venezuela in the future. For consistency with other sources such as the Canadian and American documents and other books like Yergin, The Prize, reference to Juan Pablo Pérez Alfonso shall be shortened to Pérez Alfonso.
Although the oil companies and the American government would have preferred to have a democratically-inclined government in Venezuela, they co-operated with Pérez Jiménez mainly because he did not threaten the oil companies with nationalization, encouraged American foreign investment, and repressed the Communists (along with all other opposition). But, the repressive policies of Pérez Jiménez took their toll on the people of Venezuela and he was ousted in a military coup on 23 January 1958. A five-man Military Junta took power and promised to hold democratic elections within a year. The United States recognized the Junta as Venezuela's provisional government on 26 January 1958. The Democratic Action Party was reconstituted and its leaders returned from exile—including Rómulo Betancourt. The first democratic election since 1946 was held on 7 December 1958; Betancourt and his Democratic Action Party were elected. He was inaugurated as President of Venezuela in February of 1959, and supported a very different approach to Venezuelan oil policy than the preceding Junta.

Due to the transitory nature of the Junta, the Venezuelan representatives in Washington, Ottawa, and Caracas, sent mixed messages regarding a possible exemption for Canada in a revised oil import program. For example, in April 1958 the Venezuelan Ambassador to the U.S. expressed considerable alarm regarding the talk in Canada of constructing an oil pipeline to

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74 An attempted coup earlier in the month had failed.
75 However, despite immediate American support for the provisional government, many of the Venezuelan public harboured resentment of U.S. co-operation with Jimenez, and Vice President Richard Nixon was almost injured in a mob riot centred on his motorcade during a visit to the country in May 1958. CIA and State Department analyses of the incident stated it was Communist-organized, and did not necessarily reflect the real feelings of the Venezuelan public. See, USNA, RG 59, Subject Files Relating to Venezuela, 1955-1959, Box 2, File 92 Memoranda File Jan-June 1958, Memorandum to Mr. Bernbaum from Mr. Bartch, Subject: Venezuela and the Vice President's Visit, 5 June 1958. Nevertheless, the Eisenhower Administration was concerned about latent resentment of the U.S. in Venezuela, and its potential for exploitation by the Communists.
76 Information for this background paragraph was summarised from Stephen Rabe, *The Road to OPEC: United States relations with Venezuela, 1919 to 1976* (Austin: University of Texas Press, 1982); and USNA, RG 59, [State Department], Subject Files Relating to Venezuela, 1955-1959, Box 1, File Venezuela 1958-60, Political-General-Apr 1958, State Department Briefing Venezuela Political Situation.
Montreal that would displace Venezuelan oil. Hearing of Venezuela's reaction, the Canadians spoke with the Venezuelan Ambassador in Ottawa suggesting that he might wish to make a formal presentation, outlining Venezuelan concerns, to the ongoing Royal Commission on Energy. The Venezuelans initially agreed, but then backed out for undisclosed reasons. Then, during early 1958, Canadian Ambassador to Venezuela, Richard P. "Dick" Bower, was told by the Minister of Mines and Hydrocarbons, Pérez de la Cova, "that Venezuela would not object to an arrangement whereby the United States exempted Canada from oil import restrictions, provided that the Canadian market remained open to Venezuelan oil. The Canadians were optimistic about this development, but the U.S. believed the Junta was too weak and unstable to make such a policy decision, which proved true.

By September 1958, the Government of Venezuela came out with a new position: it would be politically impossible to support any kind of exemption for Canada. Indeed, by the

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79 NAC, MG 32 B9, Vol. 43, File Alberta-Montreal Pipeline, Memorandum to the Minister of Trade and Commerce from John H. English (DM), Subject: The Alberta Oil Problem, 14 April 1958, 7-8. There is also a copy of this memorandum at the Diefenbaker library: JGDL, MG01, XII, A, Volume 20, Series: Personal and Confidential, File 558 Oil and Gas Industry, 1956-1958. Although it is stamped “See by John G. Diefenbaker,” there are no notations on it, thus it is unclear if he actually read the document. See also, JGDL, MG01 VI, Vol. 482, File 724.1 Oil—Foreign Trade-Imports, Memorandum to The Minister [Finance, Donald Fleming] from A.F.W. Plumptre, Subject: U.S. Restrictions on Oil Imports: Possibility of Canada-U.S.-Venezuela Agreement. (1) For Venezuela's receptiveness to Bower's suggestions see, NAC, RG 25, Vol. 3175, File Oil and Gas (2), 1958-1972, Draft Memorandum to Ministers, Proposed Talks between U.S. and Canadian Officials on U.S. Oil Import Restrictions, 15 December 1958, 3.
81 NAC, RG 99, Vol. 8, File 46, The Montreal Crude Oil Pipe Line Proposal: A Reference Paper by the Energy Studies Branch, Department of Trade and Commerce, September 1958, 28-29. Rumours were also circulating that Venezuela believed Canada was certainly going to build a pipeline to Montreal, therefore they were going to "write off" that market. See, NAC, MG 31 E28, Vol. 1, File 1-5 Correspondence 1958, Priority Telegram to N.R. Chappell, Canadian Embassy Washington, D.C. from Douglas M. Fraser, Director Energy Studies Branch, 3 October 1958.
end of November 1958, the Venezuelan Minister of Mines and Hydrocarbons was replaced "because of [his] alleged failure to deal effectively with the USA in the matter of a more favourable position for Venezuela's oil exports." The Canadians, usually represented by A.E. Ritchie (Charge d'Affaires), Norman Chappell (Energy Counsellor) and Doug Fraser (Director, ESB), were told by American officials, represented by Thomas Mann (Assistant Secretary of State for Economic Affairs) and Earl Beckner (Director, State Department Fuels Division), throughout 1958 that the only way the American government could approve of preference for Canadian oil in any new program would be if Venezuela gave tacit, if unofficial, approval to a Canadian exemption. The unstable nature of the Junta made it difficult for Venezuela to give Canada the firm approval she wanted and needed, and the Venezuelan election in December 1958 further altered the situation.

Fearful of having a negative effect on the Venezuelan election, Eisenhower delayed acting on changes to the VOIP. But time was of the essence; the VOIP expired at the end of December, and the newly elected Congress threatened to introduce its own import program.

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82 NAC, MG 31 E28, Vol. 17, File 17-21 Crude Oil Policies Can-USA Relations (3) 1958-1960, Telegram 2870 from WashDC to External, Subject: USA Oil Import Restrictions, 24 November 1958. (1) Another account suggests he was replaced because he objected to the Junta provisional government's proposed changes to the tax structure, which would alter the petroleum revenue share between companies and the state from 50/50 to 60/40 in favour of the government. See, RG 25, [External Affairs] Vol. 7990, File 14405-v4 (1.1), Despatch 166, From Ambassador to Argentina, Richard Bower to Secretary of State for External Affairs, Subject: United States Oil Import Policy, 11 May 1959, 2. Perhaps of significance is that Diefenbaker was the temporary SSEA from 19 March to 3 June 1959 – the period in which Canada received its exemption.

83 Depending on the level of talks, other officials might participate. For Canada the representatives were A.F.W. Plumpire (ADM, Finance), D.V. LePan (Assistant Under-Secretary of State for External Affairs), C.M. Isbister (ADM, Trade and Commerce), and Ralph Toombs (Department of Mine and Technical Surveys); for the U.S. other officials included L. Becker (Legal Division, State Department), Captain M.V. Carson (Administrator, VOIP), E.G. Moline (British Commonwealth & Overseas Affairs, State Department), C. Rubottom (Assistant Secretary of State for Latin American Affairs), and Willis C. Armstrong (State Department).

84 For the request to delay announcement see, DDEP, PPUS 1953-1961, AWF, Dulles-Herter Series, Box 10, File Dulles, John Foster November 1958, Letter to Secretary Lewis Strauss (Secretary of Commerce) from Christian A. Herter (Acting Secretary of State), 21 November 1958. For confirmation that announcement will be postponed see, USNA, RG 59, Subject Files Relating to Venezuela, 1955-1958, Box 2, File Venezuela 1958, 92 Memoranda File Nov-Dec chronological, Memorandum to Mr. Rubottom from Mr. Devine, Subject: Postponed Announcement of Revised Oil Import Restrictions, 26 November 1958.
VOIP ended up being extended for three months, and as mentioned above, the Cabinet decided at the end of December that Canada and other Western Hemisphere sources of oil were to be given preference in any oil import program. Therefore, soon after the new government was elected in Venezuela, overtures were made to reopen talks on a potential hemispheric or tripartite agreement between Canada-U.S.-Venezuela on oil.\(^{85}\)

At the request of the Americans, the Canadians impressed upon the Venezuelans the urgency of the situation, and separate exploratory talks took place at the end of January 1959.\(^{86}\) The Canadians hoped that since the former Minister of Mines and Hydrocarbons, Pérez de la Cova, was assigned to be the petroleum attaché to the Venezuelan embassy in Washington, that the new government would sanction a Canadian exemption to the U.S. oil import program. These hopes were soon dashed at the 19-20 January 1959 discussions between the Venezuelans and Canadians in Washington. The new Minister-designate of Mines and Hydrocarbons, Juan Pablo Pérez Alfonso, had much larger ambitions and made it clear that if Venezuela was not treated the same as Canada it would “appear in Venezuela to be a coalition of the United States and Canada against Venezuela.”\(^{87}\) The alternative presented to the Canadians and the Americans by Pérez Alfonso was for a Western Hemisphere quota of seventy percent of all U.S. imports; and, through export regulations, Venezuela would not permit its oil to compete with Canadian oil.

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\(^{85}\) In March 1958, the U.S. invited Canada and Venezuela to participate in separate technical talks for a hemispheric arrangement in the trade of oil, but little came of these discussions.

\(^{86}\) NAC, RG 25, Vol. 7988, File 14405-c-8-1-40 pt1, Telegram 52 from WashDC to External, Subject: USA Oil Import Policy, 2. Both Canada and the U.S. agreed that a formal tripartite agreement was undesirable, and an informal arrangement would be preferable.

\(^{87}\) [Emphasis in the original]. NAC, RG 25, Vol. 3175, File Oil and Gas (2) 1958-1972, Memorandum of Conversation, Oil Import Problem, Meeting with Venezuelans Monday, January 19\(^{th}\), 1959, 4. At this meeting in Washington, D.C., Canada was represented by A.E. Ritchie (Charge d’Affaires, Canadian Embassy), D.V. LePan (Assistant Under-Secretary of State for External Affairs), A.F.W. Plumptre (Assistant Deputy Minister of Finance), D.M. Fraser (Director, Energy Studies Branch), N.R. Chappell (Director, Department of Defence Production, Washington). Venezuela was represented by Dr. Pérez Alfonso (Minister-Designate Mines and Hydrocarbons), Falcon Briceno (Ambassador to U.S.), Febres Cordero (Ambassador to Canada), Dr. Pérez de la Cova (Petroleum Minister, Venezuelan Embassy), and Dr. Alirio Parra (Petroleum Counsellor, Venezuelan Embassy).
in areas of the U.S. considered to be Canada’s ‘natural markets.’ Pérez Alfonso and Betancourt wanted to exert greater control over the production and marketing of Venezuelan oil, and generate more revenue from the oil industry. If the U.S. agreed to Venezuela’s hemispheric quota plan, then they would have a solid justification for implementing control over production and exports. Complicating matters was the fact that the outgoing Junta had unilaterally altered the income tax regime in order to raise Venezuela’s share of oil industry profits from fifty to sixty percent, and the Betancourt government did not repeal the changes. The U.S. did not want to reward Venezuela’s behaviour, with which it disagreed, by granting it a firm quota under the new oil import program, and sought instead some kind of informal arrangement. The talks ended in an impasse.

In an interesting twist, near the end of February 1959, the Mexican Ambassador to the U.S. presented a claim to be included in any hemispheric discussions or arrangement on an exemption to the oil import restrictions. The Canadians suspected that the Mexicans were “brought into the piece by the Venezuelans in a tactical manœuvre [sic] to broaden the hemispheric concept with the thought of making it more palatable.” The U.S. officials said they did not know, but commented that “the Mexican Ambassador . . . appeared to be very well briefed and presented a strong claim.” There is no concrete evidence in the U.S. or Canadian archives to prove the assertion that Venezuela encouraged Mexico to make a claim for exemption. Nevertheless, because of the Mexican pressure, the phrasing of the amending proclamation was altered to include oil entering the U.S. by rail and motor carrier as well as by

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88 The U.S. feared that Middle Eastern countries would follow the Venezuelan actions and create further instability in the region.

pipeline. Perhaps this helps to explain why Venezuela’s criticism of the exemption focused solely on Canada and did not extend to Mexico: how could Venezuela criticize Mexico for gaining an exemption, when they had encouraged Mexico to seek one?

In the three months that followed the January talks, a few additional informal meetings were held, but an agreement was not reached between the three countries. The U.S. Oil Import Committee decided that quotas would be allotted to refineries rather than countries; therefore, the Venezuelan proposal was dead, more negotiations would be required, and a decision had to be reached quickly on the whole oil import issue. However, near the end of March 1959, some hope materialised that Venezuela might be prepared to acquiesce in favour of a Canadian exemption. This was quickly dispelled at a meeting between Mann and Pérez Alfonso in Venezuela on 31 March 1959. Pérez Alfonso insisted that even an exemption for pipeline oil would be seen as discriminatory, and told Mann that he believed Canada was bluffing about building an oil pipeline to Montreal. Mann and other State Department officials like Carl


91 A telegram to the American Embassy in Ottawa at the beginning of March suggested that the “prospect [was] now more promising for attaining Venezuelan acquiescence in exemption of Canadian oil.” USNA, RG 59, Subject Files Relating to Venezuela, 1958 to 1959, Box 1, File Venezuela 43.3c Oil Import Program, Jan-March 1959, Telegram to Amembassy Ottawa from State Department, no subject, 4 March 1959. On receptivity of Venezuelans to an agreement, see NAC, MG 31 E28, Vol. 17, File 17-20 Crude Oil Policies Can-USA Relations (2), 1958-1960, Letter to J.H. Warren from Douglas M. Fraser, 24 March 1959. Confusing matters is a Despatch from the Canadian Ambassador to Venezuela, Louis Couillard, in which he recounts a meeting with Perez Alfonso. It was Couillard’s view that Perez Alfonso expressed “an increasing readiness... to ‘accept’ an exemption for Canadian oil... provided some form of special treatment can also be granted by the United States for Venezuelan oil at roughly the same time.” NAC, RG 25, Vol. 7990, File 14405-v4 (1.1), Despatch 103 From Canadian Ambassador to Venezuela, Louis Couillard to Secretary of State for External Affairs, Subject: United States Oil Import Programme, 2 April 1959.

92 USNA, RG 59, Subject Files Relating to Venezuela, 1958-59, Box 1, File 43.2 Oil Import Program Jan-March 1959, Memorandum of Conversation, Participants: Thomas C. Mann and Dr. Juan Pablo Pérez Alfonso, Subject: Oil, 31 March 1959, 4. When the Canadians heard of Pérez Alfonso’s belief that the Montreal pipeline was a bluff, they were puzzled, and attributed the misunderstanding to cultural differences in presenting negotiating positions. They were counselled by an American official that Latin Americans saw “a concise, deliberately worded and moderate statement of the problem... reveal[s] a weak hand.” NAC, MG 31 E28, Vol. 17, File 17-17 Correspondence as Director, Energy Studies Branch, Dept. of Trade & Commerce, 1955-1959, Letter 34-4-12 to Richard Bower from Douglas M. Fraser, 10 June 1959.
Bartch and Dick Rubottom continued to press for equal treatment for Venezuela and Canada: either both received some sort of exemption, or neither. But then—something changed.

A week before the MOIP announcement, Mann informed the Canadian Ambassador Arnold Heeney that, “there was a genuine desire at the highest level (a term which he repeated several times) in the USA Administration to find a basis for working out an appropriate exemption.” Then a few weeks later, Mann told Rubottom “we are under heavy pressure to proceed rapidly to settle the Canadian exemption problem.” By the first week of April, Mann and Ivan White, Livingston Merchant’s assistant, phoned officials at the Canadian Embassy and told them “that an exemption should be granted for CDN oil.” A firm and formal assurance was given to Canada soon after, without being “subject to acceptance by Venezuela.” As the above demonstrates, contrary to what some scholars have argued, that Venezuela agreed to the Canadian exemption so that it would not lose access to the Montreal market, this was not the case. Venezuela reacted strongly to the Canadian preference: Pérez Alfonso was scheduled to

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94 DDEL, T.C. Mann Paper, 1950-61, Box 1, File Chronological File, Jan-March 1959 (1), Note to Mr. Rubottom from Tom Mann, 26 March 1959.
95 NAC, RG 25, Vol. 7990, File 14405-v4 (1.1), Telegram 836, Subject: USA oil Import Programme, 7 April 1959, 1. At this time, the U.S. offered Canada a formal assurance that “an exemption would be granted for CDN oil by the end of the month,” if Canada also delayed the introduction of the National Energy Board Bill until after the exemption was announced. The U.S. did not want to make an announcement while Perez Alfonso was in the Middle East at the Petroleum Congress, and did not want the bill being debated while Canadian oil was still being restricted. See also, Idem, Memorandum for the Prime Minister from Norman A. Robertson (signed by Douglas LeFan), Subject: Possible Exemption for Canada from United States Oil Restrictions, 9 April 1958. Ambassador Heeney also made it known to the U.S. that it would be better if the announcement were made before debate began on the bill “to let the steam out of Opposition arguments.” USNA, RG 59, [State Department], Alpha-Numeric Files Relating to Canadian Affairs, 1957-1963, Box 3, File Oil Quotas, Memorandum of Conversation, Subject: US Oil Import Restriction Program, 9 April 1958. Cabinet was informed of the U.S. offer of assurance on 9 April 1959. See NAC, RG 2, [PCO], Series A-5-a, Vol. 2744, Record of Cabinet Discussion, “Exemption of Canadian oil from United States restrictions; Introduction of National Energy Bill, 9 April 1959, 2.
96 NAC, RG 25, Vol. 7990, File 14405-v4 (1.1), Telegram 836, Subject: USA oil Import Programme, 7 April 1959, 2.
stop in at Ottawa on his return from the Arab Congress at the end of April, but without notifying the Canadians he just did not show up; Pérez Alfonso also made very strong statements to the Venezuelan press and Canadian officials in Caracas, however this was tempered by President Betancourt’s less sharp response.\(^98\) Therefore, despite repeated Venezuelan warnings that treating Canada differently would “create a difficult situation,” and despite objections from some quarters within the State Department, the U.S. exempted Canada and not Venezuela from its MOIP.

**NATIONAL SECURITY**

The public justification for the MOIP was national security. The standard or official reason for the Canadian exemption to the MOIP was that pipeline oil was more secure than tanker-borne oil therefore it aided national security. Both Canadian representatives and officials from the U.S. Department of Defense (DOD) made the case for an exemption based on defence or national security considerations. Since the entire rationale for the MOIP was national security, the arguments used by Canadian officials were based on the strong bilateral defence relationship that evolved out of World War Two co-operation. Likewise, officials from the U.S. DOD thought of Canadian oil in a continental perspective, much the way they conceived of the continental defence arrangements already in place like the early warning systems and the recently signed North American Air Defence (NORAD) agreement.\(^99\) Given the fact of Eisenhower’s military connections, and the national security arguments made for oil import

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\(^98\) See for example, NAC, RG 25, Vol. 7990, File 14405-v4 (1.1), Telegram 18 to External from Ambassador to Venezuela Couillard, Subject: Oil Exemption for Canada: Venezuelan Reaction, 8 May 1959; Telegram 20 to External from Ambassador to Venezuela Couillard, Subject: Oil Exemption for CDA: Venezuelan Reaction, 14 May 1959; NAC, MG 31 E28, [Douglas Fraser Fonds], Vol. 17, File 17-17 Correspondence as Director, Energy Studies Branch, Department of Trade and Commerce, 1955-1959, Letter to Richard Bower, Canadian Ambassador to Argentina from Douglas M. Fraser, 10 June 1959.

\(^99\) Department of State, \textit{FRUS}, 1955-1957, Vol. X: Foreign Aid and Economic Defence Policy, Doc. 264, Memorandum of 4\(^{th}\) Meeting of Special Committee to Investigate Crude Oil Imports, 22 July 1957. "Deputy Secretary Quarles said that the security question had been examined by the Joint Chiefs of Staff, and that Admiral Radford had defined the oil resources of Venezuela and Canada as related to United States National Security.”
restrictions, how much influence did the Canadian appeals regarding security and the U.S. DOD position have on Eisenhower's exemption decision?

When the U.S. decided not to exempt Canada and Venezuela from the VOIP in late 1957, the Canadian protest utilised the national security argument. Referencing the 1950 "Statement of Principles for Economic Cooperation," Prime Minister Diefenbaker, Finance Minister Donald Fleming, Canadian Ambassador to the U.S. Norman Robertson, and various lower-level Canadian officials pressed the security rationale to their American counterparts: President Eisenhower, Secretary of the Treasury Robert B. Anderson, senior State Department official Robert Murphy (Deputy Under Secretary for Political Affairs), and other lower-level officials. The Canadians argued that refineries in the state of Washington "were established with the actual encouragement of the United States defence authorities," as was the Trans-Mountain Pipeline in order to supply the Pacific North-West region. But the argument was not enough to sway the U.S. to exempt Canada at that point. Then, throughout the discussions that led to the MOIP in the spring of 1959, Canada officially relied heavily on the defence and national security argument, while promoting in private discussions the principle of the "special relationship," and warning that not exempting Canada would be a blight upon the Canada-U.S. relationship as seen by the Prime Minister. The Canadian attitude was that Canada ought to be treated differently.

100 This argument was submitted formally in a diplomatic note on 15 January 1958. Interestingly, in subsequent protests, the Canadians quietly dropped the point that the U.S. had encouraged the construction of refineries and pipelines to process and carry Canadian oil to the U.S. See, USNA, RG 59, [State Department], Alpha-Numeric Files Relating to Canadian Affairs, 1957-1963, Box 3, File Oil Quotas, Diplomatic Note No. 30 to the Secretary of State from the Canadian Embassy, 15 January 1958, 1.

101 Canadian Ambassador to the U.S. Arnold Heeney made this point repeatedly in March and April 1959. See for example, NAC, RG 25, Vol. 7988, File 14405-c8-1-40.pt.2, Telegram 499 to External from WashDC, Subject: USA Oil Import Programme, 2 March 1959. Heeney stated, "I left Merchant in no rpt no doubt about the seriousness with which the introduction of this new scheme would be regarded in CDA." (1) The subtext of this message is that this was an extremely important issue to the Prime Minister. Merchant's reply was that "those involved in the discussions here were most anxious to take account of CDA's special position and would be making an effort to work out something satisfactory from the CDN viewpoint." (1)
than any other country, not only because of defence cooperation, but also because of having a
common border, history, and culture.\textsuperscript{102} Internally, Canadian officials believed the
defence/national security argument to be weak, especially in the event of a nuclear war, and
realised that Venezuela had, in some ways, an even stronger defence claim than Canada.\textsuperscript{103} Yet,
they had allies in the U.S. administration.

The U.S. DOD position in favour of a Canadian exemption was made throughout the
discussions on the oil import restrictions. In August 1958, within weeks of the President’s visit
to Canada, he gave final approval for the NSC Planning Board to write a policy paper on Canada
that covered four areas of U.S. relations with Canada, the first of which was oil.\textsuperscript{104} Of
importance is the final report, which was presented to the NSC meeting of 23 December 1958.
Significantly, the document stated that there was “a common principle which can be applied to
all” of the areas. This principle was that “with reference to continental defense and defense
mobilization it is desirable that we treat Canada more favorably than even the closest of our other
allies.”\textsuperscript{105} The section on oil went on to state that although different alternatives were
considered, and the DOD would have preferred to exempt Canada alone, the NSC as a whole

\textsuperscript{102} This argument was used in Canadian discussions with Venezuela. The tone of the comments comes
across as rather patronising, and it is unclear what the Venezuelan reaction was to the rationale. NAC, RG 25, Vol.
3175, File Oil and Gas (2) 1958-1972, Memorandum of Conversation, Oil Import Problem, Meeting with
Venezuelans Monday, January 19\textsuperscript{th}, 1959, 3.
\textsuperscript{103} NAC, MG 31 E28, Vol. 19, File 19-17, Inter-departmental meeting on Canadian Oil Marketing
Problems: Minutes, 10 April 1958, 3. The weakness of the defence argument was articulated by D.A. Golden,
Deputy Minister (DM) Department of Defence Production.
\textsuperscript{104} A draft Planning Board policy paper was recommended in February 1958. An initial study
was completed for use as a briefing paper for the President’s visit to Canada in July 1958, and it was agreed that a final
decision on whether a complete policy paper should be written or not would be made pending the outcome of the
visit to Canada. See also, United States Department of State \textit{FRUS, 1958-1960}, Vol. VII, Part 1: Western European
Discussion at the 376\textsuperscript{th} Meeting of the National Security Council, 14 August 1958.
\textsuperscript{105} DDEL, DDEP, PPUS 1953-1961, AWF, NSC Series, Box 10, File 392\textsuperscript{nd} Meeting of NSC, December 23,
1958. Revised Briefing Note for the NSC Meeting of Dec 23/58, 22 December 1958, 1.
supported preference for Canadian and Western Hemisphere oil. These recommendations were then discussed at the NSC meeting of 23 December 1958.

The record of discussion at the above meeting reveals the DOD attitude clearly: "Mr. Quarles [Deputy Secretary of Defense] said that in discussions with Canada we had recognized a community of interest with Canada and had asserted that in defense matters Canada and the U.S. should act as one country." During the discussion, as mentioned above, the President worried that giving any kind of preference to Canada or Venezuela would create a great deal of trouble for the U.S. in the Middle East. There was a brief exchange regarding the idea of preferences and then Quarles emphasised again the Defense Department's perspective. He argued that from the defense viewpoint, it was important to handle the problem of Canadian oil properly. The Canadian oil problem was even more important than the Venezuelan problem, because Canadian oil is more important to the U.S. than Venezuelan oil and because Canada is more important than Venezuela in the defense of the U.S.

Quarles was referring not just to oil but also to the various joint defence arrangements that existed between Canada and the U.S. If oil was an irritant in the relationship that could have a negative effect on Canada's participation in the broader defence of the continent, then it was important to remove the cause of strain. In addition, Canadian oil contributed to the overall oil supply of the U.S. and was considered by the DOD as a domestic strategic reserve. As such, it required access to markets in order to be developed so that it could be drawn upon during a conflict.

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106 Ibid., 2-3. The NSC Planning Board referred their proposals to the CFEP, the JCS, as well as the President's Special Committee on oil imports for comment and consideration. The wording in their paragraph on Canadian and Western Hemisphere preferences was agreed upon by all of the above named groups.

107 Ibid., 3.

The State Department disagreed with DOD and argued that Venezuelan oil was more important than Canadian oil because there was more of it, and Venezuela had proven itself as a secure supplier in times of emergency such as during World War Two and the Korean War. They argued that any form of preference ought to be hemispheric, and not solely for Canada. In the end, the NSC agreed on the recommendation that Western Hemisphere petroleum sources needed to be developed and encouraged, and therefore preference to Canadian and other Western Hemisphere countries should be given “in any system of import restrictions.” Despite his reservations about the possible impact on American-Middle East relations, Eisenhower directed that the agreed upon statement be taken into account in the technical deliberations for the new oil import program. At this point, the Defense Department argument about continental supplies was set aside in favour of a hemispheric approach, yet it appears that their viewpoint succeeded in the end. Although DOD officials participated in the subsequent Cabinet committee discussions, the State Department persisted with the view that an exemption could only be granted to Canada if and only if Venezuela were given equal treatment, and they supported the so-called hemispheric talks in order to achieve that end.

During the various discussions between the affected countries protesting the import restrictions, and later when they met to explore some kind of hemispheric arrangement, the national security argument was employed by both Canada and Venezuela. Canada, in particular, relied heavily upon the national security argument. Indeed, Thomas Mann commented to the Canadians at one point that if only they had not insisted upon the national security argument, “we might be in a better position today.” The Canadians were stunned. To them, even

109 Ibid., 4.
110 NAC, RG 25, Vol. 3175, File Oil & Gas (2), 1958-1972, Record of Conversation [no author], Second Meeting – 10a.m. Tuesday, January 20th, State Department, 3. Interestingly, A.F.W. Plumptre’s [ADM, Finance]
though they were aware that Venezuela also had a strong claim, the case of defence was the strongest possible Canadian argument. It began to dawn on senior Canadian officials that another approach had to be taken. This is best exemplified in the insight of the new Canadian Ambassador to the U.S., Arnold Heeney.

When Heeney presented his credentials to Eisenhower on 2 March 1959, he soon realised that the national security argument could only be taken so far, "When I mentioned what seemed to me the obvious fact that, so far as security was concerned, our countries were in the same boat, [Eisenhower] agreed but observed that the ‘political boundary’ was also a fact which could not RPT not be ignored." The President also commented on "the pleasant and satisfactory conversations he had had with the Prime Minister." Heeney concluded from Eisenhower’s comments that a new tactic had to be employed to circumvent the political aspects of the issue: Through personal relationships, senior officials and the Prime Minister had to exploit the latent American attitude of goodwill toward Canada within the senior ranks of the Administration. As will be explored in the next section, despite the influence of the Defense Department’s arguments connected to continental defence, Eisenhower’s final decision to sanction an exemption for Canada alone, was based primarily on his personal relationship with Diefenbaker, and the support of key officials to carry through his directive.

PERSONALITIES

Eisenhower-Diefenbaker Relationship

Some may argue that since the President acquiesced to pressure from the Independent summary of the meeting reports the opposite of what Mann is reported as saying in the above summary. Plumptre wrote, "Mann expressed regret that Canada had not in the past committed itself more clearly and firmly to the need for a healthy industry in the Western Hemisphere for defence reasons." NAC, RG 99, Vol. 97, File 79, Summary of Meetings by A.F.W. Plumptre, Oil: Meetings with Venezuelans and Americans in Washington, 21 January 1959, 3. 111 NAC, MG 30 E144, Vol. 1, File United States Ambassador to Washington 1958, 1959 Congratulations, Correspondence, Memoranda, Telegram to External from WashDC, Subject: Presentation of Credentials to President, 2 March 1959.
industry and Congress in enacting the MOIP, his personal influence in oil and gas matters was unimportant and insignificant. The evidence just does not support such a contention. An important consideration in the American case is to be aware that the powers allotted to the President in the Reciprocal Trade Agreements Extension Act of 1955 enabled him to make the final decisions concerning oil imports. Given that the Act was slated for Congressional renewal every few years, the President had to negotiate with Congress in order to preserve his power, which Congress threatened to remove and assume for itself if more restrictive action was not taken on oil imports. The President feared that if Congress had the power to limit oil imports it would be severely protectionist and consequently damage not only American relations with countries in the Middle East and Latin America, but it would also harm the efforts to liberalise international trade in the ongoing GATT negotiations. Eisenhower was not omnipotent and had to bargain with Congress. Therefore, despite the position and influence of Eisenhower as President, the American system of government had a limiting effect on his power and policy options.

Nevertheless, even with the limitations imposed by the American system of government, the President still exercised his personal influence when it came to the matter of Canada's exemption to the MOIP. As one scholar points out, “The President’s level of involvement is the critical factor accounting for the difference in decision-making behavior. . . . [A] President can be an omnipotent player if he so desires.” The fact that Eisenhower was able to maintain his authority regarding oil imports in the face of great pressure from Congress and the independent

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112 Barber, “Eisenhower Energy Policy,” 230. “Behind the scenes it had been made clear to the White House from the earliest days of the administration that the failure of the executive branch to take steps to assure the health of the domestic oil industry would lead to congressional action to accomplish this purpose.”

113 Ibid., 237-238.


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oil producers, as well as achieve an exemption for Canada from mandatory controls despite concentrated opposition from areas of the State Department, is a testament not only to his personal role and influence in the policy and decision-making process, but also to his personal inclination to favour Canada. In short, the President, and his relationship with Prime Minister Diefenbaker, mattered.

Eisenhower was receptive to Canadian overtures and pressure for an exemption not only because Canada had built up considerable political capital with Eisenhower from World War Two and assistance during the Suez Crisis, but also because of his personal regard for Prime Minister Diefenbaker. Undoubtedly, Eisenhower formed a favourable opinion of Canada when he was Supreme Allied Commander during World War Two and commanded Canadian troops. For example, Canadian Ambassador to the U.S., Arnold Heeney recalled a meeting with Eisenhower in 1953. During their discussion, the President reminisced of his war-time encounters with Canadian General McNaugton with “humour and affection.” Eisenhower was also grateful for Canada’s assistance during the Suez Crisis in 1956. Yet, this goodwill did not bring about an exemption to the modified VOIP in 1957, and though there was definitely a base of positive inclination towards Canada it still needed to be reinforced and cultivated by the personal relationships between leaders. Indeed, Eisenhower states in his memoirs that, “For special purposes, I strongly believe that in the conduct of foreign relations, personal discussions

116 Eisenhower, The White House Years: Mandate for Change, 84. See also, J.L. Granatstein and Norman Hillmer, For Better or For Worse: Canada and the United States to the 1990s (Toronto: Copp Clark Pitman, 1991), 188; and Lawrence Martin, The Presidents and the Prime Ministers (Toronto: Doubleday Canada Ltd., 1982), 172-174. Eisenhower is quoted as saying to Prime Minister St. Laurent, “Never have I seen action on the part of a government that excited me more than the rapid way that you and your government moved into the breach. You did a magnificent job and we admire it.” (173)
between the heads of government can be helpful, even imperative." Given Eisenhower’s own belief in the efficacy of personal diplomacy between leaders to resolve issues, it is not unreasonable to believe that Diefenbaker’s personal overtures regarding the oil situation would have carried some weight with Eisenhower and influenced his decision to ensure Canada’s exemption from the MOIP. There is ample evidence in the archival/documentary record to substantiate the view that Eisenhower and Diefenbaker had a very friendly relationship that enhanced the atmosphere of co-operation for Canada and the U.S., especially in economic matters. Although several historians have acknowledged in passing the good relations between Eisenhower and Diefenbaker, the focus is inevitably on the subsequent troubled relations between President John F. Kennedy and Diefenbaker, and Diefenbaker’s turn towards an apparent anti-American stance. When attention is paid to the Eisenhower-Diefenbaker relationship, it is generally cursory, dismissive, or explained away as part of Eisenhower’s political ability to manipulate and “handle” Diefenbaker. Little is made of the potential effect the good relations had on policies.

As Kevin Gloin points out in his M.A. thesis, “while Eisenhower’s personal skills were important in fostering an association with Diefenbaker, the close relationship between the two men flourished because the leaders agreed on many issues and respected each other.”

Significantly, Eisenhower was President during four years of Diefenbaker’s nearly six-year

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Prime Ministership. Basil Robinson, Diefenbaker’s foreign policy aide, in his book on the Diefenbaker years, reflected on the warm personal relationship between Eisenhower and Diefenbaker. Robinson comments that the usual nature of discussion between the leaders was “a friendly, free-flowing exchange of impressions on the world scene and on the current agenda of bilateral issues.” In a further telling observation of the rapport shared by Eisenhower and Diefenbaker, Robinson revealed the confidential nature of their last private conversation and opined, “to have the kind of relationship which permitted the blowing off of presidential steam—that was rare.”

Even Eisenhower’s secretary commented on the cordial phone conversations. In a letter to Diefenbaker at the end of 1959, Eisenhower expressed his view of the importance of the personal relationship he had formed with Diefenbaker, “You and I have found from experience that there is no substitute for personal contact in furthering understanding and good will.”

How exactly did the “understanding and good will” between Eisenhower and Diefenbaker develop and influence oil relations? Between late 1957 and 1959, the oil import problem came to be considered by Canada as the most crucial bilateral problem between Canada and the U.S. This was made clear by Diefenbaker and others at the NATO meeting in Paris in December 1957, during Eisenhower’s state visit to Ottawa in July 1958, at the Joint Canada-U.S.

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121 Ibid., 167.
122 See for example, DDEL, DDEP, PPUS 1953-61, AWF, International Series, Box 6, File Canada (6), Telephone Calls. For examples of Ann Whitman’s comments in this file see the dates 14 July and 4 August 1958. From the Canadian perspective see also NAC, MG 31 E83, H.B. Robinson Fonds, Vol. 3, File 3-9 June-August 1960.
123 DDEL, DDEP, PPUS 1953-61, AWF, International Series, Box 6, File Canada (3), Letter to Prime Minister John G. Diefenbaker from President Dwight D. Eisenhower, 1 December 1959. Eisenhower also suggested that if Diefenbaker wanted to provide any suggestions for Eisenhower’s upcoming European tour he would “welcome a phone call from you.”
Committee on Trade and Economic Affairs (JCTEA) meeting in Washington held in January 1959, and in a diplomatic blitz from the end of February through April 1959.  

Diefenbaker protested directly to Eisenhower at the NATO meetings in Paris in December 1957 the fact that Canada would not be exempt from the VOIP. At this point, despite his appreciation of the Canadian position, Eisenhower felt that no overt exemption could be made; however, he ensured that the system would not damage Canadian interests in practice. American State Department officials, guided by a general directive from Secretary of State Dulles, attempted to minimise the effects of the new program on Canada. They obtained “an ‘undertaking’ from Shell and SOCONY that they would continue to take Canadian crude for their Washington refineries even though pricewise [sic] this was not advantageous.”

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125 DDEL, DDEP, PPUS 1953-61, White House Central Files (WHCF), Confidential File, Subject Series, Box 77, File State, Department of (Jan-Aug 1959)(3), “Joint Canada-United States Committee on Trade and Economic Affairs, U.S. Record of Talks, Meeting January 5-6, 1959, Ottawa”, 18. Finance Minister Donald Fleming stated, “nothing on the agenda is more important or urgent than oil, from Canada’s standpoint.” See also, RG2, Series A-5-a, Vol. 1893, Cabinet Discussions, 21 December 1957, 5. Interestingly, even at this stage, Canada put forward to the U.S. the idea that oil transported into the U.S. via pipeline should be exempted from restrictions. See also, MG32, B39, Vol. 128, File 13, Telegram 2506 to Washington [Ambassador N.A. Robertson] from NATO Paris [Prime Minister Diefenbaker], Subject: U.S. Petroleum Import Policy – Proposal to Extend ‘Voluntary’ Restrictions to West Coast Area, 17 December 1957; and Ibid., Telegram 2515 to Washington [Ambassador N. A. Robertson] from NATO Paris, Subject: USA Petroleum Import Policy – Proposal to Extend ‘Voluntary’ Restrictions to West Coast Area, 18 December 1957. See also, Donald M. Fleming. So Very Near. Vol. 1, The Rising Years (Toronto: McClelland and Stewart, 1985), 141-143.

126 NAC, MG32 B39, Vol. 84, File 3, Memorandum to Mr. Plumptre [and Minister Fleming] from C.W. Hooper, No Subject, 23 December 1957. For the American account of events see USNA, RG59, State Department, Alpha-Numeric Files Relating to Canadian Affairs, 1957 to 1963, Box 3, File Oil Quotas 1957-61, Memorandum of Conversation, Subject: Canadian representations regarding extension to West Coast of voluntary import restrictions on crude oil, 23 December 1957. On at least two other occasions in December, the Canadians were consulted and reassured by senior American officials that the “Canadian interest had been constantly in mind” in consideration of the VOIP changes. Secretary Dulles was informed of the conversations and approved of endeavours to minimise the impact on Canada. The American account of these events can be found in the following: Ibid., Memorandum of Conversation, Subject Oil Imports into District V, 10 December 1957; Memorandum of Conversation, Subject: Voluntary Agreement Affecting West Coast Oil Imports, 18 December 1957, and Memorandum to Secretary of State Dulles from Mr. Becker, Subject: Recent Developments re Oil Import Plan, 21 December 1957. For Dulles’ directive see, DDEL, JFDP, 1953-1961, JFD Chronological Series, Box 15, File July 1957 (1), Memorandum for Herbert Hoover, Jr. From John Foster Dulles, 18 July 1957. See also, Department of State, FRUS, 1955-1957, Vol. X: Foreign Aid and Economic Defence Policy, Doc. 248, Memorandum for the Files, by M. Robert Rutherford of the Fuels Division, Office of International Trade and Resources, 11 April 1957, Subject: April 9 Meeting of
informal and unpublicized arrangement, though of benefit to Canada, was perceived by Canadian officials to be an impermanent solution, and was not a formal guarantee that Canadian oil would have open access to the American market. Thus, Canada continued to press for an outright exemption to whatever changes were made to the oil import programme.

The Canadians had another opportunity to emphasise their concern over the U.S. oil import restrictions during Eisenhower’s state visit in the summer of 1958. Before the visit, Diefenbaker met with “the Ministers and senior officials concerned” on the specific economic issues that were to be raised during the different sessions. The reason for the meeting was to reinforce not only his own position on the various issues, but to ensure that there would be unity and complete understanding of the government position amongst the Ministers and officials.

One of the issues was the oil import question, and the Canadian position was to use the Montreal pipeline as something of a bargaining tool in which to extract assurances regarding access of Canadian oil to the American market. A mix of Cabinet Ministers and senior officials from Canada and the U.S. met on 9 July 1958. Finance Minister Donald Fleming took the lead for Canada, and “outlined the apprehensions of Canadians . . . [and] emphasize[d] the importance which Canada attached to development of oil on a continental basis.”


129 DDEL, WHO, OSS, International Trips and Meetings, Box 6, File DDE Trip to Canada Memcons, July 96.
pressures for building an oil pipeline to Montreal, which would be harmful to the U.S. and Venezuela. Canadian Agriculture Minister Douglas Harkness added that in the “oil producing part of Canada . . . more than any other one thing, oil restrictions have caused ill feeling toward the United States in Canada.” Secretary of State Dulles responded by saying that a great deal of effort had gone into managing the VOIP in order “to avoid restrictions on Canadian oil.” He posited that there were many outside factors that had an adverse effect on both the U.S. domestic and Canadian industries, but they were not caused by American import restrictions. Dulles concluded by saying, “his judgment was that Canada ought to be grateful to the United States for the efforts made to preserve an equitable Canadian share in the United States market.”

Surprisingly or unfortunately, the memorandum of conversation (written by the American side) did not report any Canadian reaction to such a statement or sentiment, and it is not mentioned in subsequent internal discussions amongst the Canadians.\textsuperscript{130} It is also unclear whether Dulles actually worded his response that way, or if it was the interpretation of what he meant by the person who wrote the notes of the meeting. Interestingly, three months earlier, Plumptre had told U.S. State Department officials, that they could never expect a Canadian government to “appear to be grateful for any special concessions” granted under a unilateral quota system that limited Canadian imports.\textsuperscript{131} This would have been a perfect opportunity for Diefenbaker to rebuff or dispel that type of American sentiment and embrace the nationalist venture of building an oil

\textsuperscript{130} Donald Fleming’s memoirs contain nothing but positive memories of the meetings. See, Fleming, \textit{So Very Near}, Vol. 1, \textit{Rising Years}, 476-477. The meetings are not even covered in Denis Smith’s detailed biography of John Diefenbaker, \textit{Rogue Tory: The Life and Legend of John G. Diefenbaker} (Toronto: Macfarlane, Walter & Ross, 1995), 296. The Cabinet discussions about the meetings also did not mention the comment.

\textsuperscript{131} NAC, MG 32 B39, Vol. 84, File 3, Memorandum for the Minister (Donald Fleming) from A.F.W. Plumptre, Subject: U.S. Restrictions on Exports of Canadian Oil, 24 March 1958, 2. The meeting at which Plumptre made this comment was held two weeks earlier.
pipeline to Montreal, but instead Canadian Ministers and officials, guided by Diefenbaker, continued to press for an exemption to the American restrictions.

The importance that Canada and Diefenbaker attached to the oil import question was again emphasised at the JCTEA meeting in January 1959. The Canadian Ministers at the JCTEA meeting impressed upon their American counterparts that nothing else on the agenda was as import as the oil import question.132 Minister of Trade and Commerce, Gordon Churchill, outlined the Canadian position that Canada deserved special consideration because oil travelled to the U.S. via pipeline, and because of the 1950 “Statement of Principles for Economic Cooperation.” Unaware of the decision taken at the December 1958 NSC meeting to give preference to Canadian and Western Hemisphere oil in any import program, Fleming added that the various joint defence arrangements differentiated the “Canadian position from that of any other country,” and that there had not been “sufficient U.S. awareness of this argument. [The] unique position of Canada [was] unassailable.”133 Under-Secretary of State for Economic Affairs C. Douglas Dillon responded that although Venezuela was not in the same defence situation as Canada, it had to be treated equally; thus, he urged that some kind of understanding be reached between Canada and Venezuela, “which would keep both happy.”134 Reporting on the meeting, Secretary of the Treasury Robert Anderson told the U.S. Cabinet that “certain actions may seem of little moment to us but are taken very seriously in Canada, and we must be on the lookout for these.”135 Livingston Merchant, who was present at the JCTEA meeting, as

134 Ibid.
135 DDEL, DDEP, PPUS 1953-61, Cabinet Series, Box 12, File Cabinet Meeting January 16, 1959, Minutes
well as at the 1958 meeting during the President’s visit to Canada, conveyed a similar sentiment about the Canadian attitude to Thomas Mann in the State Department:

At last week’s meeting in Ottawa . . . the Canadian Ministers reiterated their view that there was no more urgent and important topic on the agenda than that of US import restrictions on Canadian oil . . . This fresh insistence of Canadian Government leaders upon the importance to Canada of US action to exempt Canadian oil from US import restrictions has persuaded us that no other single action which the United States could take in relation to Canada would have a more bouyant [sic] effect upon our relations with that country. 136

The immediate effect of these observations was a commitment and sense of urgency to proceed with technical talks to explore the possibility of some type of Western Hemisphere arrangement—or at least Venezuelan acceptance of some kind of preference for Canada. As discussed in the above section International Forces – Venezuela, the discussions were inconclusive. Nevertheless, Diefenbaker persisted in pressing for an exemption, and sent a new Ambassador to Washington to convey his government’s views on the situation.

On 2 March 1959, Heeney met with Eisenhower to present his credentials, and reiterated the importance with which the Canadians viewed the oil import situation. Heeney reported back to Ottawa that, in the conversation,

the President mentioned oil . . . making it evident that he was aware of the trading difficulties which from time to time arose between our countries. He said that the USA administration, in such matters, tried to ease CDN difficulties but, as I would know, there were serious problems involved with congress and local USA interests . . . 137

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136 USNA, RG59, Alpha-Numeric Files Relating to Canadian Affairs, 1957-63, Box 3, File Oil Quotas 1957-61, Memorandum to Mr. Mann (E) from Mr. Merchant (EUR), Subject: Restrictions on Oil Imports, 16 January 1959, 1-2. See also an account of Heeney’s meeting with Eisenhower, DDEL, WHO, OSS, International Series, Box 2, File Canada (1) [May 1958-Aug 1959], Telegram 671 from Ottawa to Secretary of State, Reference Embassy Telegram 669, 10 March 1959.

Heeney also commented on how “Mr. Eisenhower referred to the pleasant and satisfactory conversations he had had with the Prime Minister.” The Canadians recognised that Eisenhower was taking a personal and active interest in the matter, and Heeney reflected this in his report back to the Prime Minister, who was appreciative of Eisenhower’s efforts.

Within days of Heeney’s meeting with the President, Eisenhower’s reluctance in supporting a sole Canadian exemption turned to a more explicit favouring of the Canadian position. At the 6 March 1959 Cabinet meeting, Eisenhower “stated his interest in the unity of the American continent, and wished it were possible to act in unity with Canada on this particular item.”

Three days later, the President reinforced this position by asking Deputy Secretary of Defence Quarles “if there wasn’t something we could do to make this oil move look better to our neighbors to the north.”

Even though the President desired to favour Canada, the State Department was split on the issue and a battle ensued between those who supported the President’s directive, like Livingston Merchant, and those, like Thomas Mann, who believed America’s interests would be better served by treating Canada and Venezuela equally.

A few days later when the MOIP was announced, U.S. Embassy officials in Ottawa reported to the Secretary of State their conversation with Diefenbaker in which he “said he knew how hard [the] President had tried to find [a] proper equilibrium in oil and how great were [the] pressures upon [the] President in this matter. [But Diefenbaker] repeatedly interjected how deeply he [was] concerned over [the] oil action in terms of overall relations.”

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138 DDEL, DDEP, PPUS 1953-1961, AWF, Cabinet Series, Box 13, File Cabinet Meeting March 6, 1959, Minutes of Cabinet Meeting, 6 March 1959, 5.
140 DDEL, White House Office, Office of the Secretary of State, International Series, Box 2, File Canada (1) [May 1958-Aug 1959], Telegram 671 to Secretary of State from Ottawa, 10 March 1959.
Department was given one last chance to arrive at some sort of Hemispheric agreement, or at least to obtain tacit approval from Venezuela for Canadian preference; as Mann said to a colleague on 26 March 1959, “We are under heavy pressure to proceed rapidly to settle the Canadian exemption problem.” This last effort at the end of March 1959 also failed. Within a week, American officials approached their Canadian counterparts with the offer of an exemption to the MOIP. After at least six revisions, the final phrasing for the exemption was worked out at a Cabinet meeting on 27 April 1959, at which point Eisenhower insisted that officials secure “an understanding with Canada to the effect that if imports should loom excessively large, or if the Venezuelans should be blocked out of Montreal, this would be dealt with as a new situation.”

Over a period of a year and a half, Eisenhower was repeatedly reminded, through the communications between him and Diefenbaker, and various levels of ministers and officials on both sides of the border, that the changes to the oil import policy were extremely important to Canada, and Prime Minister Diefenbaker in particular. After some manoeuvring within the State Department, Eisenhower’s directive to Quarles, to make the oil situation look better to the Canadians, finally came to fruition at the end of April 1959. Yet even with Eisenhower’s personal regard for Diefenbaker, and his desire to give Canada special consideration, he required the support of key officials to carry through the directive.

Role and Influence of Officials

The relationship between the President and his officials, and the ability or even capacity to exercise real power by either, is a contested field of inquiry in political science. A

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141 DDEL, T.C. Mann Papers, 1950-61, Box 1, File Chronological File: Jan-March 1959 (1), Note to Mr. Rubottom from T.C. Mann, 26 March 1959.
breakthrough study emerged in the early 1970s by Graham T. Allison.\textsuperscript{142} Political scientist J. Garry Clifford summarises Allison’s position on bureaucratic politics as follows:

There is no single ‘maker’ of foreign policy. Policy flows instead from an amalgam of large organizations and political actors who differ substantially on any particular issue and who compete to advance their own personal and organizational interests as they try to influence decisions. The President, while powerful, is not omnipotent; he is one chief among many. Even when a direct presidential decision is reached, the game does not end because decisions are often ignored or reversed.\textsuperscript{143}

However, Clifford is not entirely convinced by Allison’s assertion and insists “this perspective underestimates the extent to which the president can dominate the bureaucracy by selecting key players and setting the rules of the game.”\textsuperscript{144} In the case of Eisenhower, his leadership style was to make a decision, such as the one in late December 1958 to give preference to Canadian and Western Hemisphere oil in any import program, and delegate the authority to the selected trustworthy people around him to implement the decision. He particularly trusted the judgment of Secretary of State, John Foster Dulles, Under Secretary of Commerce Frederick “Fritz” Mueller, and Deputy Secretary of Defence, Donald A. Quarles.\textsuperscript{145}

The President was not averse to delegating authority. For example, the day before the MOIP announcement Eisenhower spoke with Quarles about wanting to do something for Canada on the oil question. Quarles “expressed his readiness to see what could be done, in cooperation with [the State] Department,”\textsuperscript{146} and then relayed the discussion to Mueller, who was “the


\textsuperscript{144} Ibid., 163.

\textsuperscript{145} However, Dulles’ lingering battle with cancer in early 1959 created some uncertainty in the State Department’s circles of power.

\textsuperscript{146} DDEL, WHCF, Office File, Box 795, File 149-B-2 Oil and Petroleum (10), Memorandum for the President from Christian A. Herter, Subject: Proposal to Exempt Canadian Oil from United States Import Restrictions, 24 April 1959.
moving spirit in the Cabinet Committee that [was] reviewing the [oil] question." Mueller suggested Quarles call Thomas Mann or Loftus Becker from the State Department. Quarles called Becker and met with him about the issue after Quarles had a meeting with Dulles' second-in-command Christian Herter. Although it is unclear what transpired from these meetings, a definite change in attitude is apparent regarding the Canadian position. More concerted action was taken to firm up support in the State Department to allow for a Canadian exemption.

As political scientists Robert Keohane and Joseph Nye point out, "to treat all actors as equal and to ignore the existence of a political hierarchy charged with 'course setting' and maintaining some hierarchy of goals is to misrepresent both constitutional and political reality." Coalitions form depending on the issue, and jockeying for power and influence ensues. Manoeuvring for a particular policy or outcome is particularly evident in the case of Canada-U.S. oil policy in the State Department, with Livingston Merchant (Assistant Secretary of State for European Affairs) outmanoeuvring Thomas Mann (Assistant Secretary of State for Economic Affairs). Also influencing the outcome was a diplomatic blitz in March and April 1959 from Canadian officials, most notably Canada's Ambassador to the U.S. Arnold Heeney. It is important to note that during World War Two Canada and the U.S. had developed extensive transgovernmental networks between officials. As historians Bothwell, Drummond and English point out, "During the war it had become increasingly common simply to pick up the phone and dial one's counterpart in the other capital." These networks continued to exist in the post-war period and were utilized by Canadian officials in their quest for an exemption to the MOIP.

149 Robert Bothwell, Ian Drummond and John English, Canada Since 1945: Power, Politics, and
From the moment the VOIP was implemented, up until the point that Canada was granted an exemption to the MOIP, some State Department officials led by Thomas Mann, worked vigorously to devise a Western Hemisphere agreement that would be acceptable to all the parties involved. Mann was the lead State Department official charged with the responsibility of attending the Inter-Cabinet meetings when Dulles could not attend, explaining the U.S. rationale for the program, and reconciling the competing claims of Canada and Venezuela.\textsuperscript{150} He was particularly sympathetic to the Venezuelan position because of his past relationship with Venezuela as U.S. Petroleum Attaché to the American Embassy in Caracas between 1947 and 1950.\textsuperscript{151} In addition, he had considerable experience in Latin American affairs having served in a number of positions on behalf of the U.S. government including Deputy Assistant Secretary for Inter-American Affairs. This led him to have a particular sensitivity for issues that could destabilise America's relationship with Latin American countries.

When the move for a mandatory programme became certain, Mann argued that, based on the President's own NSC directive, no exemption could be given to Canada unless Venezuela received the same treatment, and he persisted with this premise up until the beginning of April 1959.\textsuperscript{152} Even though it became evident that a tripartite agreement was not possible within the

\textsuperscript{150} Under-Secretary of State for Economic Affairs, C. Douglas Dillon (who was Mann's immediate superior) and Under-Secretary of State Christian Herter had "disqualified themselves [from the inter-Cabinet and inter-departmental discussions] because of certain family interests in oil companies." This meant that Dulles' deputies for the oil import question were Thomas Mann and Loftus Becker from the Legal Division. DDEL, John Foster Dulles Papers, 1951-1959, John Foster Dulles Chronological Series, Box 14, File June 1957 (2), Memorandum of Conversation, Meeting with Governor Adams, Subject: Oil Imports, 24 June 1957.


\textsuperscript{152} For Mann's position and his supporters in the State Department see for example, USNA, RG59, Alpha-Numeric Files Relating to Canadian Affairs 1957 to 1963, Box 3, File Oil Quotas 1957-61, Memorandum of Conversation, Subject: Attitude to be taken regarding Western Hemisphere preference and a Canadian exemption under the oil import program, 26 February 1959; Ibid., Memorandum to the Acting Secretary through Mr. Murphy from W.T.M. Beale, Subject: Canadian Reaction to U.S. Oil Import Program Proposed Tri-partite Oil Talks, 17
time frame before the MOIP had to be announced, Mann and his supporters in the Latin American Division insisted during interdepartmental meetings that a Canadian exemption be contingent on equal treatment for Venezuela. Ultimately, in his view, the Canadians were holding back an accord because Canada wanted an exemption only for itself. From the perspective of Canada, and some other American officials from the State Department like Livingston Merchant and Ivan White, Venezuela was the problem because of its political instability and doggedness for overt equal treatment with Canada.

Of great significance for Canada, the dynamic in the State Department altered with the return of Livingston Merchant as Assistant Secretary of State for European Affairs in October 1958. Merchant was sympathetic to the Canadian position because he had just served as U.S. Ambassador to Canada, and from that experience, understood how much Canada wanted the exemption. Merchant had vast experience with European affairs and the Cold War battle with Communism, and viewed Canada as an important American ally in NATO and the UN. He had seen first hand the growing anti-Americanism in Canada, and worried, along with Dulles, over how it might affect the larger bilateral relationship. Any irritants that could be removed that would enhance Canada’s support of the U.S. internationally were to be encouraged. At that time, the oil import question was the largest irritant. In addition, Merchant was particularly attentive to the views of the President and Dulles; given his close relationship with them, he believed that

March 1959; USNA, RG59, Subject Files Relating to Venezuela 1958-59, Box 1, File 43.2 Oil Imports Program Jan-March 1959, Memorandum to the Secretary through Mr. Becker from Thomas Mann, Subject: Restrictions on Oil Imports, 27 February 1959.

153 USNA, RG59, Alpha-Numeric Files Relating to Canadian Affairs, 1957-63, Box 3, File Oil Quotas 1957-61, Memorandum of Conversation (Telephone), Subject: Oil Import Program, 6 March 1959. “The basic disagreement is on Canada’s desire to be exempted alone, Mr. Mann said.”


155 DDEL, JFDP, 1953-1961, JFD Chronological Series, Box 15, File July 1957 (1), Memorandum for Mr. Herbert Hoover, Jr. from John Foster Dulles, 18 July 1957.
they wanted to give Canada preference, and was committed to ensuring those views were implemented. Through a multifaceted strategy of persuasion, repetition, and networking Merchant brilliantly outmanoeuvred his rival Thomas Mann to achieve the Canadian exemption. He utilised his close personal and working relationships with President Eisenhower, ailing Secretary of State Dulles, Deputy Under Secretary of State for Political Affairs Robert Murphy, Under-Secretary of State for Economic Affairs C. Douglas Dillon, Under-Secretary of Commerce Fritz Mueller, Deputy Secretary of Defense Quarles and other officials to repeatedly advance the idea and sensibility of a Canadian exemption.156

Merchant’s first salvo was a 16 January 1959 memorandum to Mann, written soon after the JCTEA meeting, in which he argued that though a hemispheric agreement would be preferable, the recent Venezuelan election made its possibility remote before an announcement on the MOIP had to be made. In the meantime, Canada could be given an exemption while talks for a larger agreement with Venezuela and Canada continued. A key facet of Merchant’s argument was in his assertion that “the NSC policy guidance [did] not have to be implemented simultaneously with respect to Canada and Venezuela.”157 However, he went on to suggest that instead of giving an immediate preference to Canada in the MOIP, a bilateral agreement in the

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156 One newspaper article stated that Eisenhower and Dulles “called upon him as an expert on European affairs.” No author, “Dulles Recalls Ex-Aide to Post,” New York Times, 23 October 1958, p.15. Another journalist described the Merchant-Dulles relationship as follows: “[Merchant] has probably been closer to Secretary Dulles on more subjects than any other man in the department. He went with [Dulles] on most of his trips, was his principal aide in most negotiations, and enjoyed not only a position of great trust but even of close personal friendship with the Secretary of State.” James Reston, “How Good is the Team?”, New York Times, 16 February 1959. Reston commented that the four key people involved in political questions were, in order of importance, Christian Herter (Acting Secretary of State), Robert Murphy (Deputy Under Secretary for Political Affairs), Livingston Merchant (Assistant Secretary for European Affairs), and G. Frederick Reinhardt (State Department Counselor). Reston added that Merchant “will undoubtedly be brought into policy matters, beyond the confines of his title, especially in the Near and Middle East.” Thomas Mann was also mentioned as a capable and generally praiseworthy Assistant Secretary (of Economic Affairs). Mann’s boss was C. Douglas Dillon.

157 An example of Merchant’s position can be found at, USNA, RG59, Alpha-Numeric Files Relating to Canadian Affairs, 1957-1963, Box 3, File Oil Quotas 1957-61, Memorandum to Mr. Mann from Mr. Merchant, Subject: Restrictions on Oil Imports, 16 January 1959. A later example is, Ibid., Memorandum to Mr. Mann from Livingston T. Merchant, Subject: The Oil Import Program and Our Relations with Canada, 20 March 1959.
form of an exchange of notes based on unique defence interdependence and the link through pipelines, would have a better public relations and psychological impact. It is uncertain if Mann responded officially to Merchant’s memo. However, the Canadians were notified a few weeks later by the Deputy Director of the British Commonwealth and Northern European Affairs office of the State Department “that new avenues [were] being explored,” which might improve the chances for a Canadian exemption.158

But Mann was undaunted. A month later, he sent a memorandum to Robert Murphy (Deputy Under Secretary for Political Affairs). He reiterated the December 1958 NSC policy on hemispheric preference, suggested there could be no exemption for Canada unless Venezuela was treated equally, admitted that the geographic bureaus disagreed on the issue, and concluded that submissions should be received from each Bureau and then representatives from each Bureau should discuss what to do at a meeting in Murphy’s office.159 The meeting was held the following week on 26 February 1959. The outcome suited Mann as he had suggested more time was needed to negotiate a tripartite agreement or understanding between the U.S., Canada, and Venezuela, and Murphy agreed that one last effort should be made for a tripartite settlement. Mann was given the task of co-ordinating a Western Hemisphere arrangement, while Murphy said he would discuss the situation with the Canadian Ambassador.160 Significantly, however, Murphy had Merchant meet with Canadian Ambassador Heeney instead.

158 NAC, RG 25, Vol. 7990, File 14405-v4 (1.1), Telegram 311 to External from WashDC, Subject: USA Oil Import Restrictions, 6 February 1959, 1.
159 USNA, RG 59, Subject Files Relating to Venezuela, 1958-1959, Box 1, File 43.2 Oil Imports Program Jan-March 1959, Memorandum to Mr. Murphy from Thomas Mann, 19 February 1959.
160 USNA, RG 59, Alpha-Numeric Files Relating to Canadian Affairs, 1957 to 1963, Box 3, File Oil Quotas, 1957-1961, Memorandum of Conversation, Subject: Attitude to be taken regarding Western Hemisphere preference and a Canadian exemption under the oil import program, 26 February 1959. The meeting memcon provides an excellent example of Mann’s strong position on Venezuela in State Department discussions.
Aside from the normal pressures exerted by Canadian Embassy officials through their transgovernmental networks, Arnold Heeney, the new but veteran Canadian Ambassador to the U.S., armed with the knowledge of Diefenbaker’s and the Cabinet’s desires, engaged in a diplomatic blitz for the next two months. Heeney had been Canada’s Ambassador to the U.S. from May 1953 until May 1957 when Norman Robertson who served from April 1957 to October 1958 briefly replaced him. Before then, Heeney had patiently encouraged Mackenzie King to bring him into the public service in the late 1930s, and succeeded in becoming King’s Principal Secretary. He soon made himself indispensable. Not long after, he became Clerk of the Privy Council and reorganized how the Canadian Cabinet operated. He was one of historian Jack Granatstein’s “Ottawa Men.” Heeney was well regarded and respected in Washington, but was reluctant to return. He agreed on the understanding that his term would end when Eisenhower’s Administration ended, though Diefenbaker kept him in the position until April 1962.

Heeney was confident in his abilities, and in the personal networks he had developed during his previous time as Ambassador to the U.S., to persuade the American executive of the importance of an exemption for Canada. Also of significance is the friendship he shared with

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163 Heeney noted in his Telegram to Ottawa, “there was every appearance of warmth and friendliness in the welcome accorded me by President Eisenhower and, as I resume my mission formally, I feel confident that, whatever differences and difficulties may develop with the USA, I can count on the same good personal relations with the White House and with the Depts of govt as I encountered during my earlier appointment.” NAC, MG 30 E144, Vol. 1, File United States Ambassador to Washington 1958, 1959 Congratulations, Correspondence, Memoranda, Telegram to External from WashDC, Subject: Presentation of Credentials to President, 2 March 1959.
“Livie” Merchant. As mentioned above, Heeney stressed to Eisenhower the importance of this issue to Diefenbaker and Canada, and it was soon after this meeting when Eisenhower seemed to take a more certain stand in support of the Canadian position, and directed Donald Quarles to work on making the oil move look better to Canada. The same day of Heeney’s meeting with Eisenhower, he also met with Merchant (in place of Murphy), and then Thomas Mann to press the Canadian position in a diplomatic but forceful way.

During the Merchant-Heeney meeting on 2 March 1959, the Canadian was told that although the new mandatory programme was not going to immediately include any exemptions, the “press release would be very carefully drafted to leave the door open for such discussions and would not RPT not preclude special preferential arrangements at a later stage.” Merchant went on to assure Heeney that “from his own experience in CDA he was aware of the pressures which were building up for changes in CDN oil policies. . . . [and] that those involved in the discussions here were most anxious to take account of CDA’s special position and would be making an effort to work out something satisfactory from the CDN viewpoint.” Immediately after this meeting, Heeney met with Mann, and was told that there was an excellent chance for a Canadian exemption — but — it would depend upon Canada and Venezuela arriving at some kind of agreement. Mann stressed that there was pressure from the “highest level” to work out an exemption. Merchant was the instrument for Dulles and Eisenhower to exert pressure in the State Department.

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166 Ibid.
167 Ibid.
When Livingston Merchant worked to ensure a Canadian exemption, he marshalled a number of different arguments designed to counteract any possible opposition. On 20 March 1959, he presented a detailed and well-constructed case supporting a sole Canadian MOIP exemption. He began by outlining the defence argument to Thomas Mann, and is worth quoting at length:

I am convinced that time is of the essence in accomplishing an exemption for Canadian oil. To make this exemption contingent upon the uncertain outcome of complex and lengthy negotiations such as are contemplated with Venezuela could endanger a military-economic association with Canada which is now more than ever vital to our security in this period of growing tension over Berlin. As you know, there have already been evidences of strain in the critical area of joint U.S.-Canadian defense policy, a disturbing development for which our oil import restrictions are in no small measure responsible. In the minds of Canadians, oil is inextricably linked with joint defense mobilization, as provided for in the Statement of Principles of Economic Cooperation, and with defense-production-sharing, a field in which Canada insists upon participation as an equal partner.168

He then added that the Canadian Parliament was about to debate the National Energy Board legislation, which he characterized as being of “sweeping proportions.” The debate itself, he argued, if Canada were not granted an exemption to the MOIP, could push Canada to adopt a policy of oil self-sufficiency that meant the construction of the Montreal pipeline and oil import restrictions, which would in turn have a negative impact on Venezuela. Merchant concluded with the recommendation that ‘tripartite’ talks should be shelved, and “the more straight-forward and speedy course of bilateral negotiations with Canada,” towards a complete exemption from the MOIP, should be pursued instead.

Four days later, Mann met with A.E. Ritchie from the Canadian Embassy, and initiated a strange conversation. Mann began with the statement, “it was time to [begin] work on a Western

168 USNA, RG 59, Alpha-Numeric Files Relating to Canadian Affairs, 1957 to 1963, Box 3, File Oil Quotas 1957-1961, Memorandum to Mr. Mann [E] from Livingston T. Merchant [EUR], Subject: The Oil Import Program and Our Relations with Canada, 20 March 1959, 2.
Hemisphere exemption,” and that he was going to Caracas to try to secure an exemption for Canada. Mann then asked Ritchie “if an exemption delivered by pipeline would be agreeable to Canada.”

Perhaps it is just the way the Memorandum of Conversation was written, but Mann comes across as contradictory or conflicted. On the one hand, he was determined to maintain the principle of no exemption for Canada without approval or equal treatment for Venezuela, hence his reference to the Western Hemisphere exemption. On the other hand, he had to grudgingly ask Ritchie if an exemption for pipeline oil was ultimately acceptable. Other records show that Mann had hoped to gain a sympathetic hearing from Pérez Alfonso in Caracas, and convince him that it was in Venezuela’s best interest to accept a Canadian exemption but still leave room for negotiating a larger hemispheric arrangement in the months ahead.

As discussed above, Mann’s meeting with the Venezuelans did not go well, as they insisted upon equal treatment with Canada—a pipeline exemption would be seen as discriminatory.

Mann reported the results of the meeting to Washington, and a meeting of the Secretary of State’s staff was held to discuss options. There is no summary of what transpired of the meeting, except for a passing reference to it in another memo. Ivan White, the Deputy Secretary for European Affairs, wrote a note to Merchant recounting a meeting he had with Mann. Mann told White that, “[C. Douglas] Dillon had ‘authorized’ him to proceed with the work of granting the Canadians a pipeline exemption, such action to be taken before the introduction in the Canadian Parliament of the National Energy legislation.”

The only two provisos to the

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169 USNA, RG 59, Subject Files Relating to Canadian Affairs, 1957 to 1963, Box 3, File Oil Quotas 1957-1961, Memorandum of Conversation, Subject: Western Hemisphere Oil Exemption, 24 March 1959. This Memcon is also found in the USNA, RG 59, [State Department], Subject Files Relating to Venezuela, 1958 to 1959, Box 1, File Venezuela 43.3c, Oil Import Program, Jan-March 1959.

170 USNA, RG 59, Subject Files Relating to Venezuela, 1958-1959, Box 1, File 43.2 Oil Import Program January to March 1959, Talking Points, 26 March 1959; DDEL, T.C. Mann Papers, 1950-1961, Box 1, File Chronological File, Jan-March 1959 (1), Note to Mr. Rubottom from Thomas Mann, 26 March 1959.

171 USNA, RG59, Alpha-Numeric Files Relating to Canadian Affairs, 1957 to 63, Box 3, File Oil Quotas,
Canadian exemption were that political approval from within the State Department, and clearance from other agencies had to be obtained. White then made the significant comment to Merchant, “I don’t know what you said at the Secretary’s staff meeting yesterday morning but it was certainly effective.” Merchant must have employed his diplomatic skills, and drawn upon his relationship with Dulles and Eisenhower, to solidify support from the most senior officials, like C. Douglas Dillon and Robert Murphy who were already somewhat sympathetic to the Canadian cause. Merchant’s actions ensured that Eisenhower’s more recent personal directive to do something to “act in unity with Canada,” and to “make this oil move look better to our neighbours to the north,” actually happened. But the certainty of a Canadian exemption was still in some doubt, and other measures had to be taken to ensure the exemption actually went through.

One of these measures was the insertion of Ivan White into the dealings with the Canadians. On 7 April 1959, Mann and White phoned the Canadians and said the Administration was “convinced that an exemption should be granted for CDN oil but that it should not not be announced while Pérez Alfonso was in the Mideast or en route back to Venezuela, since in that case the Venezuelan reaction might be violent indeed.” The significance is that previously only Mann would have been the contact point for the Canadians,

1957-61, Memorandum to Mr. Merchant from Mr. White, 4 April 1959. White had been Merchant’s assistant in the American Embassy in Ottawa and was brought back to Washington when Merchant was recalled in 1958.

172 “Act in unity” - DDEL, DDEP, PPUS 1953-1961, AWF, Cabinet Series, Box 13, File Cabinet Meeting March 6, 1959, Minutes of Cabinet Meeting, 6 March 1959, 5. “Make oil move look better” - DDEL, D.A. Quarles Papers, Box 3, File Daily Diaries 1/2/59-5/17/59c3, Diary Donald A. Quarles, Monday, 9 March 1959, 2. Fifteen minutes after Quarles’ phone call with Mueller regarding the President’s wishes on the Canadian exemption, Quarles phoned Mr. Loftus Becker from the State Department and arranged an immediate meeting to discuss the matter.

173 NAC, MG 31 E28, Vol. 17, File 17-20 Crude Oil Policies Can-USA Relations (2), 1958-1960, Telegram 836 to External from WashDC, 7 April 1959, Subject: USA Oil Import Programme, 1. Mann and White asked the Canadians if a confidential formal assurance were given in a few days that an exemption would be granted by the end of April, the introduction of the NEB legislation would be withheld until after the exemption were granted.
but now White was included. Indeed, Doug Fraser was advised, at an informal lunch with Willis Armstrong of the U.S. Embassy in Ottawa, that Canadian officials should “keep as closely in touch with Ivan White, ... as we previously have with Tom Mann.” Fraser noted with interest the tone of Armstrong’s comment, “Whether by accident or otherwise, Armstrong used the past tense in speaking of Mann’s association with matters relevant to Canada’s interest in U.S. oil import restrictions.”

However, Mann was not cut out entirely, and was still involved in drafting the informal assurance to the Canadians. Perhaps that is why it was another two weeks before the Canadians received the assurance of the exemption.

During those two weeks, Heeney continued to blitz his contacts to ensure that the assurances promised for the exemption would materialise, and that it would be announced “before the debate on the National Energy Board legislation so as to let the steam out of Opposition arguments.” It should be noted that Diefenbaker delayed the introduction of the NEB legislation at the request of the U.S., with the understanding that he would speedily receive an informal written assurance of the exemption. By 24 April 1959 that assurance had still not been given. Diefenbaker and the Cabinet conveyed their uneasiness to Heeney: had they been duped by the Americans into delaying the NEB legislation for nothing while Opposition criticism mounted? Heeney frantically tried to secure a meeting or conversation with C. Douglas

174 Idem, Memorandum to J.H. Warren [Assistant Deputy Minister] from Douglas M. Fraser, 24 March 1959, 1.
175 USNA, RG 59, Alpha-Numeric Files Relating to Canadian Affairs, 1957-1963, Box 3, File Oil Quotas, Memorandum of Conversation, Subject: US Oil Import Restrictions Program, 9 April 1959. For Heeney’s continued blitz see, NAC, RG 25, Vol. 7990, File 14405-v4 (1.1), Telegram 847 to External from WashDC, Subject: Conversation with Secretary McElroy (Particularly on Commercial Policy, Oil and Production Sharing), 8 April 1959, 2-3. On 8 April 1959, Heeney met with Secretary of Defense McElroy “to emphasize how concerned CDNS were about the oil import restrictions.” McElroy replied that “there was a general desire to treat CDA differently, but they were anxious not ... to offend Venezuela and other important oil producing countries.” Heeney conveyed his impression that McElroy and the Defense Department would most likely “adopt a sympathetic attitude” towards the Canadian position in meetings with the State Department. The next day, Quarles phoned Mann to discuss the “petroleum problem.” See, DDEL, Donald A. Quarles Papers, 1952-1959, Box 3, File Daily Diaries 1/2/59-5/7/59 (1), 9 April 1959.
Dillon, but was initially unsuccessful. He then managed to secure a meeting with Merchant who commented, “[Heeney] was as excited as I have ever seen him.” The Canadian Ambassador warned Merchant, “that if our effort now fails to secure exemption for Canada the results will be far worse than if we had never made the effort.” In Heeney’s report back to Ottawa, he relayed how he and others at the Embassy “kept after various USA officials on this subject over the past week.” He also managed to speak with Secretary of the Treasury Anderson, on the same lines in which he had spoken to Merchant. The next day he spoke again with Merchant and then finally met with Dillon. Heeney underscored the necessity to act quickly on the matter: “It was hardly possible, I told him, to exaggerate the importance of action and prompt action. There should be no doubt in the minds of USA authorities of the critical importance we attach to their going ahead at once.” Dillon replied that a meeting with the President was set for a few days hence in order to obtain his approval. Good as his word, on 27 April 1959, Dillon sent a confidential Aide Memoire from the State Department, approved earlier that day by the President, to the Canadian Embassy, outlining the details of the Canadian exemption to the MOIP.

Thus, on 30 April 1959, the U.S. acceded to Canadian pressure for an exemption to the MOIP. In a clever phrasing that applied mostly to Canada, oil transported overland was spared from the import restrictions. However, in granting the exemption to Canada, the U.S. made it clear that if a pipeline to Montreal were built, the exemption would be revoked and Canada would have reduced access to the U.S. market.

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176 Ibid., Memorandum of Conversation, Subject: Exemption for Imports of Oil from Canada, 24 April 1959.
178 Ibid., Memorandum of Conversation, Subject: Canadian Oil Imports, 27 April 1959.
CONCLUSION

How Canada was considered in the Eisenhower Administration and its oil import policies reveals several important aspects of the Canada-U.S. relationship. The pressures on President Eisenhower regarding the MOIP and Canada's exemption were immense and diverse. First, there were the relentless and conflicting pressures from American domestic independent producers, the multi-national companies, and Congress. Then there was the state of the American economy and the desire to protect prices, as well as the ideological conflicts between Eisenhower's own belief in market forces and the forces of protectionism. Finally, there were concerns about American involvement in the Middle East, its troubled relationship with Venezuela, and national security concerns. Nevertheless, without the combination of the President's will and the support of key officials, the Canadian exemption to the MOIP would not have occurred. In addition, Canada's much touted "special relationship" with the U.S. was evident in the level of influence Canada's diplomatic blitz had on impressing American officials of the urgency and importance for an exemption to the MOIP. The carefully cultivated connections, or transgovernmental networks, that Canadian officials in Washington and Ottawa made with their American counterparts helped to enhance the base of support and affinity for the Canadian position, which in turn reinforced and assured that the President's directive to give preference to Canada would be carried out. It also so happened that the officials who supported Canada's position, particularly those in the State Department like Livingston Merchant, prevailed in the struggle for power and influence against those like Thomas Mann, with respect to the exemption decision. Significantly, although President Eisenhower's inclination was to be favourably disposed towards Canada, his final directive for Canadian preference emerged from his friendly relationship with Prime Minister Diefenbaker, who personally and insistently communicated the importance of the oil issue to Canada and himself. In turn, the U.S. policy,
and the personal relationships that led to it, had a profound impact on the shape that Canada's oil policy would take in the NOP.

III. Canadian Natural Gas Exports to the U.S.

Although natural gas and crude oil, are both hydrocarbons, are often found together in exploration, and are competing energy sources, there are striking differences in how policies have evolved to govern them. For one thing, as Doern and Toner point out, their markets are different. On the one hand, oil trades on the world market, and can be easily shipped around the world in tankers, train cars, trucks, or pipelines. On the other hand, natural gas is regulated as a utility, until the 1970s prices were negotiated in long-term contracts, it can be transported in ocean-borne tankers but it must be liquefied which is a very expensive process, therefore it is moved mostly through pipelines, and its markets are confined mostly to coterminous areas.\(^\text{179}\)

The different handling qualities of oil and natural gas also make the latter less subject to competition, and that much more difficult to replace if the supplier were to suddenly terminate service, or increase prices. The other major difference between oil and natural gas is in their uses. Oil is easily refined into fuel for vehicles, processed into plastics, utilised in power generation, and employed for various industrial uses. Natural gas competes with oil in power generation and industrial use because it burns more cleanly, but its most well known use is in domestic heating. For both Canada and the U.S. in this period, oil was the main resource issue because of its strategic importance, with natural gas being a secondary or background factor. Hence, the discussion of the continental emergence of trade in natural gas will be brief.

During this period, an informal continental arrangement in the trade of natural gas emerged, shaped by the active pursuit of closer transgovernmental links or networks. The main

development was the goal to have a consultative mechanism in place to troubleshoot or solve irritants, discrepancies, or concerns before they escalated into major political issues or confrontations that would require high political intervention. The first natural gas exports into the U.S. from Canada, as discussed in Chapter 1, were approved by both countries because of the needs of an American war materials plant during the Korean war. Each application for exports had to be investigated and approved by the Alberta Petroleum and Natural Gas Conservation Board, to ensure that there would be sufficient domestic supplies for the foreseeable future before exports could be allowed. Then it had to be approved by the Canadian dominion government. Once the application received Canadian approval, it then went before the American Federal Power Commission (FPC), a “quasi-legislative, quasi-judicial body, whose domestic decisions reflect its independent status.”

At one point in 1954, the FPC rejected a Canadian application on the grounds that it was not in the national interest to have U.S. communities be dependent on a foreign supplier that could arbitrarily interrupt and redirect the transmission for its own national purposes. The FPC did not want American consumers to be held hostage by a foreign government—a prescient observation given developments in the 1970s. However, after Alberta altered its regulations to remove offending clauses, as discussed in the previous chapter, the FPC began to view Canadian natural gas more positively, yet concerns remained about the security of supply from Canada.

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180 The Alberta Petroleum and Natural Gas Conservation Board changed its name in 1971 to the Alberta Energy Resources Conservation Board, at which time its mandate was expanded to include pipelines, electricity, and coal. The name changed again in 1995 to the Alberta Energy Utilities Board when the AERCB merged with the Public Utilities Board. See David H. Breen, “Energy Resources Conservation Board,” Canadian Encyclopedia, available from http://www.thecanadianencyclopedia.com/index.cfm?PgNm=TCE&Params=AIARTA0002614; Internet; accessed 1 March 2006.

One development that helped to establish the continental trade in natural gas was the creation of the Canadian National Energy Board (NEB) in mid-1959. Among its responsibilities, the NEB conducted hearings and made rulings on natural gas export applications as well as for pipeline proposals. In January 1960, the NEB began omnibus hearings on six applications that had been waiting for two years while the Borden Commission concluded its study of the Canadian oil and gas industry. All but one of the applications were approved. The chairman of the FPC in 1960 observed “that Canada and the United States will for a long time to come be irrevocably linked in a buyer-seller relationship in the energy field.” Therefore, he suggested three options to coordinate information (particularly calculation of reserve estimates) and reduce friction (pricing differences and domestic contracts): a joint commission, a treaty, or an exchange of notes.

An interdepartmental meeting was held to decide on a Canadian response. The officials rejected the idea of a formal treaty, and instead promoted the concept of informal cooperation between NEB and FPC officials. A clear statement of the informal continental principle, which will be discussed in more detail in the next section, was given to Norm Chappell. A draft telegram to Chappell, the Canadian Embassy’s Energy Counsellor, stated: “A treaty attempting to cover the many different problems which can be foreseen could tend to limit our ability to

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182 The NEB emerged out of one of the recommendations of the Borden Commission. It took over the responsibility for natural gas exports and pipelines from the Board of Transport Commissioners.

183 NAC, RG25, Vol. 7989, File 14405-c-8-1-40 pt1.2, Telex 142 from WashDC (Norm Chappell) to External, Subject: Natural Gas—International Arrangements. As early as 1958, the Eisenhower Administration supported the idea of cooperative studies or exchange of observers to help encourage cross border trade in natural gas. See for example, DOE, Job 1002, Box 19, Folder 29 Canada, 1958-59, Brief on Natural Gas Imports from Canada Prepared for Secretary Seaton for his trip to Canada, 18 December 1958.

regulate exports of energy in the national interest to a greater extent than was warranted by the benefit that might be derived therefrom.\footnote{Ibid., Draft Telegram to Washington.} Canadian officials had some support from the State Department, which was also cold to the treaty and joint commission idea, but was keen on the informal exchange of information.\footnote{NAC, RG25, Vol. 7989, File 14405-C-8-1-40 pt 1.2, Telex 142 from WashDC (Norm Chappell) to External, Subject: Natural Gas—International Arrangements, 3.}

Canadian and American Cabinet Ministers at the JCTEA meeting on 16-17 February 1960 agreed that cooperation and liaison between the NEB and the FPC should be arranged to exchange information to best preserve the interests of both countries in the trade of natural gas.\footnote{NAC, RG25, Vol. 7989, File 14405-C-8-1-40 pt. 1.2, Telegram 1063 to External from WashDC, Subject: Exchanges of Info NEB and FPC, 22 April 1960, 2-3. See also, DDEL, F.A. Seaton Papers, 1946-1072, Subject Series, Box 9, File Canada-US JCTEA, Feb 16-17, 1960, JCTEA Briefing, Natural Gas Developments Between Canada and the United States, 12 February 1960. Handwritten at the bottom of this briefing note is “U.S. agrees to early mtg experts.”} The Cabinet Ministers agreed that the best arrangement would be

for informal and non-binding continuing consultation at the staff level between the Federal Power Commission and the National Energy Board or their designees on applications, coming before either body that potentially require action by the other. The object of these staff consultations would be to foresee difficulties and to resolve them to the maximum before either body acted.\footnote{DDEL, F.A. Seaton Papers, 1946-1072, Subject Series, Box 9, File Canada-US JCTEA, Feb 16-17, 1960, JCTEA Briefing, Natural Gas Developments Between Canada and the United States, 12 February 1960. This paragraph was check-marked and underlined by Seaton with boxes around the words “informal” and “non-binding.”}

The Department of Interior agreed to be of assistance, and Under Secretary of State C. Douglas Dillon “concurred with Secretary Seaton’s and Minister Churchill’s statements regarding the desirability of exchanging information to a maximum degree.” Seaton encouraged immediate exchanges because of the pending applications, and the Canadians agreed. However, before the details could be worked out and implemented, the FPC attached provisos to a decision on an Alberta to California project that seemed to challenge Canadian sovereignty.\footnote{Diefenbaker’s advisors told him that the most obvious challenge to Canadian sovereignty was the}
Before Canadian dominion authorities in the NEB and Department of External Affairs could approach their American counterparts about the issue, Alberta Premier Ernest Manning sent a strongly worded letter to the new FPC chairman Jerome K. Kuykendall stating that “the Government of Alberta could not condone indirect regulation by a United States agency.” The letter also suggested that the commissioner was unaware of the Alberta statutes regulating the natural gas industry in the province, and made it clear that “while the Public Utilities Commission had not made use of their regulatory powers as a matter of policy, it was pointed out that it could do so if necessary.” The State Department “was disturbed by the Premier’s letter and expressed the hope that it would not adversely effect Canadian interests. . . . Several other United States officials have also expressed surprise that the normal channels were by-passed for a communication of this sort.”

A few weeks after Manning sent his letter, Canadian Embassy officials presented an Aide Memoire to the U.S. outlining Canadian concerns, and pressing for a FPC-NEB liaison and information exchanges. At the meeting, Thomas Mann assured the Canadians that the State Department was sympathetic to the Canadian position, and though they were extremely preoccupied with events developing in Cuba, they would take the matter up as soon as possible with the FPC. Surprisingly, within a week, Mann and an official from State’s requirement that the FPC examine costs and profits of Canadian production being exported to the U.S. The briefing memo to Diefenbaker explained, “Accepting this premise would be tantamount to accepting the right of a United States regulatory agency to probe into the affairs of any Canadian concern exporting to that country where United States public interest was deemed to be at stake.”

Ibid., Memorandum for the Minister from N.A. Robertson, Subject: Certain Projects for the Export of Natural Gas from Western Canada, 11 July 1960, 1; Ibid., Aide Memoire to U.S. State Department from Norman Chappell, Canadian Embassy, Washington, D.C., 1 July 1960, 1.

Ibid., Memorandum for the Minister from N.A. Robertson, Subject: Certain Projects for the Export of Natural Gas from Western Canada, 11 July 1960, 2.

Fuels Division met with the FPC chairman to support the Canadian position and “pushed Mr. Kuykendall fairly hard” on the need for a liaison and information exchanges.\textsuperscript{192} What is revealing is the level of communication between the State Department and the Canadian Embassy; it is evidence of the extent and strength of the transgovernmental networks that existed at this time. For example, in a telegram back to Ottawa reporting on the developments, Chappell and A.E. Ritchie commented, “we have a general verbal account of the discussion and we expect to see the memo of conversation probably later this week.” They went on to say, “It is our feeling that the action of making representation to [the] State Dept, and State’s activities on their own and our behalf, has been constructive.”\textsuperscript{193} Eventually an informal arrangement was agreed upon, which helped to lessen but did not eliminate friction or disputes in natural gas issues.

\textbf{IV. Canadian National Oil Policy}

\textbf{INTRODUCTION}

On 1 February 1961, Prime Minister John Diefenbaker’s Progressive Conservative (PC) government announced the National Oil Policy (NOP). With little fanfare, the Minister of Trade and Commerce, George Hees, arose in the House of Commons and outlined the basic tenets of the new policy. A central component of the NOP, designed to preserve Canada’s MOIP exemption, was that an oil pipeline from Alberta would not extend east of the Ottawa River. While Ontario would have its foreign supplies replaced by Canadian oil, the eastern part of Canada, particularly the important refining area of Montreal, was to continue importing foreign oil. To offset the loss to Western oil producers of the Montreal market, oil exports to the United States were also to be increased within reasonable limits. The significance of this policy is that instead of embarking upon a policy of national self-sufficiency in oil, it was a commitment by

\textsuperscript{192} Ibid., Telegram 1709 to External from WashDC, Subject: Natural Gas-Alberta to California Project, 5 July 1960, 2.

\textsuperscript{193} Ibid., 1.
what is generally seen to be a nationalist Canadian government to create and sanction the
beginnings of a continental oil and gas relationship.\textsuperscript{194} As has been argued elsewhere, the NOP
is a prime example of how, in economic relations with the U.S., Diefenbaker’s Progressive
Conservative government actually helped to promote a more continental economic relationship
with the U.S.\textsuperscript{195}

The following analysis of the NOP decision will begin with a brief discussion of how
Canada approached informal continentalism, and how that affected oil and gas relations in this
period. Proceeding from this will be a discussion of the following factors that influenced the
NOP and Montreal Pipeline decision: National security, ideas (market forces, protectionism),
economics (state of the economy, pipeline economics, prices), international forces, interest
groups (multinational companies, independent producers, provinces), and personalities
(Diefenbaker/Eisenhower relationship, role of officials). An examination of the National Oil
Policy’s provision concerning the establishment of the Ottawa Valley line, and the decision to
not build an oil pipeline to Montreal, will follow. Finally, an overview of the oil policy and
decision-making processes within the Diefenbaker government will be examined in light of the
above factors.

Context: Informal Continentalism

Pragmatism rather than an ideological commitment to continentalism was the spirit
behind informal continentalism. As one scholar aptly describes, “the tilt of Canada’s economy
toward continentalism during the 1950s had been less a matter of design than of circumstance.

\textsuperscript{194} For reference to the general view of the Diefenbaker Conservatives as nationalists see, Bothwell,
\textsuperscript{195} Tammy Nemeth, “Consolidating the Continental Drift: American Influence on Diefenbaker’s National
The markets of Europe, Latin America, and Asia had all been virtually closed to Canadian exporters in the decade after the Second World War.\cite{196} The American market, on the other hand, was more open, and it had investment capital “to make up for the shortage of Canadian capital and to help develop Canada’s resource and manufacturing sectors.”\cite{197} The goal of any Canadian government is to have a strong and expanding economy, and given the lack of feasible alternatives, and the pull of geographic proximity, it is not surprising that increased trade with the U.S., and the courting of American investment, was the policy choice of successive post-war Canadian governments.\cite{198}

Given the importance of oil and gas to an economy, and the instability and uncertainty of the world market, it was better, in the view of the pragmatist informal continentalists, to have a policy that permitted flexibility if circumstances changed, than being backed into a rigid corner. This view is best articulated by Mitchell Sharp. Reflecting in his memoirs on the difference between informal and formal arrangements with the U.S., in light of the controversy surrounding the Free Trade Agreement, Sharp conveyed his perspective:

The fundamental reason why, over time, Canadian governments preferred to pursue their objectives more quietly, with less fanfare, was that results were better... Our economic ties were extensive and very close. It did change, however, when the Free Trade Agreement between Canada and the United States came into effect at the beginning of 1989. Thereafter, economic relations between Canada and the United States were governed not by understandings but by enforceable rules that were different from the rules that governed relations between Canada and any other country. We became part of a North American trading bloc in a world of regional trading blocs... Until then, we had done what we could to resist the overwhelming influence of the United States in our economy, our culture, and our politics. By entering into an exclusive free-trade agreement designed to integrate the economies of our two countries, we were not only

\begin{itemize}
  \item[Hart, A Trading Nation, 171.]
  \item[Ibid.]
  \item[For a contemporary view of Canada-U.S. trade and investment relations, see the collection, The American Economic Impact on Canada (Durham, N.C.: Duke University Press, 1959).]
\end{itemize}
abandoning our resistance, we were deliberately inviting ourselves to be overwhelmed... Our relationship, economic and political, became very special indeed, to my regret. Sharp’s view is important because he was the Deputy Minister of Trade and Commerce in the 1950s, resigning after the first year of John Diefenbaker’s government, in order to take up a position as vice-president of Henry Borden’s company Brazilian Traction, Light and Power Company. One might argue that Sharp was being rather sentimental about the approaches taken by the Canadian government in a ‘golden-age’ type past. There may be some truth in the sentimentality argument, nevertheless, Sharp also captures a certain attitude that is reflected in the documents of the period. Most other senior officials within the Canadian bureaucracy embraced the informal continental approach, and, like Sharp just described, attempted to balance increased economic interdependence with the U.S., and Canadian political and economic independence. But even at this time, not everyone was convinced that this approach was working to Canada’s advantage.

By the 1950s, some Canadians began to worry about the growing interdependence in Canada-U.S. trade and investment, particularly American direct investment in Canada. People like Walter Gordon, a member of the Liberal Party but a representative of the kind of economic nationalism that was popular in the New Democrat Party (NDP), argued that the costs of such

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199 Mitchell Sharp, Which Reminds Me... (Toronto: University of Toronto Press, 1994), 183; 185; 180-181.
200 Ibid., 68-77; 88-94. See also Smith, Rogue Tory, 623 fn45. Sharp left government service just after the 1958 election in part because he felt that he was not trusted by his Minister Gordon Churchill or by Prime Minister Diefenbaker. In 1960, Lester Pearson invited Sharp to organize the Liberal Party’s policy conference in Kingston, Ontario, and he was eventually persuaded to run as a Liberal candidate in the 1962 election. See John English, The Worldly Years: The Life of Lester B. Pearson Vol. II, 1949-1972 (Toronto: Alfred A. Knopf Canada, 1992), 212.
201 See for example, the comments of Associate Deputy Minister of Trade and Commerce to the Minister Gordon Churchill: “At an interdepartmental meeting held in Mr. Warren’s office on Thursday, February 4, agreement was reached on the nature of a reply to Washington indicating our desire to cooperate in various ways to avoid foreseeable difficulties but resisting the idea of any treaty arrangements, which might tend to tie our hands in the future.” NAC, MG32 B9, Vol. 58, File Trade & Economics—Joint U.S.-Canada Committee on Trade and Economic Affairs, Memorandum to Gordon Churchill from James A. Roberts, Subject: Export of Gas—Jurisdiction of National Energy Board and Federal Power Commission and possible need for inter-governmental arrangements between Canada and the U.S., 5 February 1960.
interdependence were greater than the material benefits. These costs included, in the economic nationalist view, American domination in Canada, loss of independence, and a stifling of Canadian manufacturing potential because of an over-reliance on the export of staple products. The rising rhetoric of economic nationalists, led by Walter Gordon through the late 1950s and 1960s, and the well-organised NDP Waffle group of the early 1970s, targeted the oil and gas industry as the most visible symbol of American economic domination in Canada. This was due to the concentration of foreign (mostly American) ownership and control of Canada’s oil and gas industry.

However, in 1957, the main concern for the Progressive Conservative government under John G. Diefenbaker with respect to the oil and gas industry was to find a market for Western Canada’s growing production capacity. The idea to either construct a new oil pipeline to Montreal, or extend the existing one from Sarnia, was one solution to the surplus production

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202 The U.S. was aware of, and sensitive to, the Canadian concerns regarding foreign investment. During Eisenhower’s 1958 visit to Canada an extensive background paper was prepared at the behest of Secretary of State John Foster Dulles so that the issue could be addressed and fears allayed. DDEL, PPUS 1953-1961, AWF, International Meetings Series, Box 3, File Canadian Visit July '58 Briefing Papers (4), Background Paper, President’s Visit to Canada, Ottawa, July 8-11, 1958, United States Investment in Canada. A similar paper was also prepared for the 5-6 January 1959 meeting of the Canada-U.S. Joint Committee on Trade and Economic Affairs. DDEL, Papers as President, WHCF Confidential File, 1953-61, Subject Series, Box 77, File: State, Department of (Jan. - Aug. 1959) (6), Background Paper U.S.-Canadian Joint Committee on Trade and Economic Affairs, Ottawa January 5-6, 1959, United States Direct Investment in Canada.

problem; another was to increase exports to the U.S. The most vocal advocates of an oil pipeline to Montreal were the Canadian independent oil producers led by R.A. Brown of Home Oil.

A coalition of Canadian independent companies desired a pipeline to Montreal so that more of their oil could be sold. They believed that under the prevailing system, the multinationals were squeezing out the independents’ ability to sell their oil. 204 With oil prices considerably lower outside of North America, the majors could wait out the oil surplus, mainly because they had producing fields in these outside nations. The independents could not wait as their production was solely in Canada, where prices were high, and markets constricting, especially in light of the refusal of the U.S. to include an exemption for Canada in the changes to the VOIP at the end of December 1957. They had the support of Premier Manning of Alberta, though his main desire was to increase production and sales and was indifferent to the final destination. The multinationals, however, indicated that they would not voluntarily enter into contracts to purchase additional Alberta oil, thus the dominion government would have to force them to do so through regulation and legislation. 205

Diefenbaker, a westerner, was sympathetic to the independents’ cause, but was concerned about expanding government control, as well as the possibility that the dominion government would have to underwrite the project or give financial guarantees the way the Liberals had with TransCanada Pipelines. 206 Therefore, he deferred the decision to the Royal Commission on

204 A detailed examination of Alberta’s struggle to expand its markets in the 1950s can be found in Breen, Alberta’s Petroleum Industry and Conservation Board, Chapter 7 “Conservation and the Struggle to Expand the Market for Alberta Crude Oil.” For Brown’s plan to build an oil pipeline to Montreal see, 465-468; and Doern and Toner, Politics of Energy, 78.


206 Breen, Alberta’s Petroleum Industry and Conservation Board, 398-419. See also John N. McDougall,
Energy or Borden Commission that he had appointed the year before in 1957, as will be discussed below. Since it would be at least another year before the Borden Commission would finish its investigation, Diefenbaker decided to pursue the second option of increased exports to the U.S. in order to aid Western producers in the interim. As analysed in the previous section on the MOIP exemption decision, Diefenbaker directed his officials to press vigorously for Canadian preference in the American policy. One is left wondering: why was the exemption so important to Diefenbaker, and why press so hard? Aside from the above reason, there are four other possible explanations. First, the ending of the Avro Arrow program in February 1959 meant that the inability to secure an exemption for the Western provinces would mean both Ontario and the West would see Diefenbaker as a failure. Second, an election was pending in Alberta for June of 1959, and Diefenbaker was hopeful that a favourable action for the marketing of Alberta’s oil might aid the prospects of the provincial Conservative party. Third, Diefenbaker wanted to demonstrate that his government could deal strongly with the U.S.; the best way would be to gain a very visible concession from the Americans such as the MOIP exemption. Finally, as a westerner from a prairie province, the first elected as Prime Minister in over twenty years, Diefenbaker was keen to be seen as a champion of Western Canadian interests, and energy was one of the major issues of the day.

One of the first actions taken by the newly elected minority government of John Diefenbaker in 1957 was to appoint a Royal Commission on Energy. As discussed in Chapter 1, the mid-1950s was a tumultuous time for oil and gas issues in Canada; the industry was

developing rapidly and required government decisions concerning trade and especially transportation matters. The controversy created by the pipeline debates of 1956 polarized public opinion “highlighted the importance of energy policy, and contributed to the defeat of the Liberals after twenty-two years in power.”

The creation of the Royal Commission after the volatile pipeline debate helped to depoliticise the energy issue and signalled to the provinces, industry, and public that the Conservatives were serious about developing an energy policy.

Diefenbaker chose Henry Borden, a noted Canadian financier and investor and nephew of former Conservative Prime Minister Robert Borden, to head the Royal Commission on Energy. The mandate for what came to be known as the Borden Commission was surprisingly general. It was to consider the creation of a national energy board, “recommend policies for regulating inter-provincial oil and gas pipelines and oil and gas exports, look into the financing arrangement that the Liberal government had made with TransCanada [pipelines], . . . and investigate whatever other matters they thought appropriate.” Armed with a mandate, Borden began hearings within four months and decided early on that two reports would be needed: one for natural gas and one for oil marketing.

The first report was released on 22 October 1958, and made several recommendations concerning natural gas. However, the most important aspect of the report was its recommendation for the creation of a National Energy Board to act as an independent agency to

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208 Doern and Toner, Politics of Energy, 74.
209 Other members of the Borden Commission were J. Louis Levesque, (president Quebec Natural Gas Company), Robert D. Howland (former deputy minister, Nova Scotia Department of Trade and Industry), Leon J. Ladner (Vancouver lawyer), George E. Britnell (economist, University of Saskatchewan), and R.M. Hardy (engineer, University of Alberta). From Gray, Forty Years in the Public Interest, 8. Although a noted Progressive Conservative, Borden worked closely with C.D. Howe during World War Two. As part of the war effort, the Liberal Government under W.L. Mackenzie King recruited “some of Canadian business’s hottest talents to help run the war effort.” (346) Borden was one of these ‘dollar-a-year’ men who worked with C.D. Howe’s Department of Munition and Supplies. See, Robert Bothwell, The Penguin History of Canada (Toronto: Penguin Canada, 2006) and Robert Bothwell and William Kilbourn, C.D. Howe A Biography (Toronto: McClelland and Stewart, 1979).
210 Ibid., 8-9.
monitor the petroleum industry. The Energy Studies Branch of the Department of Trade and Commerce was given the task of drafting the legislation that would be introduced into Parliament at the end of April 1959 to establish the NEB. Douglas Fraser, the Director of the ESB, also became one of the first members of the newly created NEB.

The Borden Commission completed and released its second report concerning oil and the question of the Montreal pipeline in July 1959. There is evidence to suggest that Borden delayed the release of the report until after Canada's exemption to the MOIP was granted.211 In a letter from J.J. Frawley (Special Counsel, Alberta) to Premier Manning of Alberta, Frawley reports on a conversation with Robert Brown, who told him the following: "Diefenbaker already knows that the Borden Report will favour the Montreal market for our oil but that he (Diefenbaker) is the one responsible for delaying the filing of the Borden Report until the end of April. Borden is now in South America. 'Wheels within wheels'!"212 Although this is second-hand information, the fact that Brown specifically mentioned the end of April is significant. At this time, only senior Canadian and American officials knew that an exemption for Canada might be granted by the end of April. Therefore, it stands to reason that the alleged motive for the delay was based on the potential outcome of the U.S. decision. In fact, the Second Report on oil was not released until 20 July 1959 – three months after Canada received its MOIP exemption, and one month after the provincial election in Alberta.213

211 In February 1959, Diefenbaker requested Henry Borden's opinion on oil import and export licensing. Borden sent a detailed reply that mentioned the possibility of Canadian crude being "treated on a continental basis and in effect exempted from the U.S. import restrictions," (8) and what sort of regulatory mechanisms would be required to ensure the imported oil into Canada did not end up in the U.S. See JGDL, VI, R/611, File 354 Borden Conf. Federal Government – Administration – Royal Commissions – Borden – Confidential, 1959-1960, Letter to John G. Diefenbaker from Henry Borden, Subject: Crude Oil, 24 February 1959. Unfortunately, the Diefenbaker archives do not have the request to Borden.
212 PAA, Papers of Premier Ernest C. Manning, Reel 187, Letter to E.C. Manning from J.J. Frawley, 6 March 1959, 2.
213 Incidentally, Manning and his Social Credit party won 61 of 65 seats – a stunning result from the
In the end, the Commission recommended that the best course of action for the Canadian industry was to “encourage and permit the export of Canadian crude oil without licence,” increase market outlets for Canadian crude oil in areas of existing pipelines in Canada, displace foreign oil from the Ontario market (including refined products), “take vigorous and imaginative action” to increase exports to the U.S., and make imports of oil subject to licence. With respect to the Montreal pipeline, the Commission suggested that the Canadian government take no action at that time. However, if substantial increases in Canadian production did not materialise over a 12 to 18 month period, then an oil pipeline to Montreal should be built.\textsuperscript{216} One of the final concerns of the Borden Commission was obtaining credible statistics on which to base policy

<table>
<thead>
<tr>
<th>YEAR</th>
<th>PRODUCTION</th>
<th>IMPORT</th>
<th>EXPORT</th>
<th>CONSUMPTION</th>
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<tr>
<td>1954</td>
<td>96,080</td>
<td>78,772</td>
<td>2,345</td>
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</tr>
<tr>
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<td>129,440</td>
<td>86,678</td>
<td>14,834</td>
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<tr>
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<td>171,981</td>
<td>106,470</td>
<td>42,907</td>
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<td>181,848</td>
<td>111,905</td>
<td>55,674</td>
<td>238,079</td>
</tr>
<tr>
<td>1958</td>
<td>165,496</td>
<td>104,039</td>
<td>31,679</td>
<td>237,856</td>
</tr>
<tr>
<td>1959</td>
<td>184,778</td>
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<tr>
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<td>189,534</td>
<td>125,560</td>
<td>42,235</td>
<td>272,859</td>
</tr>
<tr>
<td>1961</td>
<td>220,762</td>
<td>133,265</td>
<td>67,265</td>
<td>286,762</td>
</tr>
</tbody>
</table>

*Source: Statistics Canada, Historical Statistics, Series Q19-25*

decisions. Thus, the Commission also recommended that the National Energy Board keep track of imports, the level of production, and available markets for Canadian crude.\footnote{Before the creation of the NEB there was no centralised or formalised mechanism for keeping track of imports and production. The Dominion Bureau of Statistics kept some records but companies were not that vigilant in reporting. The Alberta Petroleum and Natural Gas Conservation Board (later known as the Energy Resources Conservation Board) monitored production levels for Alberta, but not other areas.} \footnote{Darcy Henton, “Alberta Election Chronology,” \textit{Edmonton Journal}, 25 October 2004 [online edition], available from \url{http://www.canada.com/edmonton/edmontonjournal/news/albertavotes/story.html?id=bb652c57-c404-49d9-826a-4265b20c186c}; Internet; accessed 25 October 2004.} 

Canadian oil production did increase in the period specified in the Second Report, as shown in Table 2 on the previous page, but during later deliberations concerning the Montreal Pipeline, there was some disagreement as to whether the increases were significant enough. Table 2 also illustrates the profound changes that took place in Canadian oil production and trade between 1954 and 1961. The Suez crisis between 1956 and 1957 gave Alberta and the oil industry a taste of what almost a 33 percent increase in production, and a nearly threefold increase in exports were like over previous years. Indeed, because of the large increase in oil production, royalty revenue also increased and in 1957 and 1958, the Manning government distributed $21 million in oil dividends to Albertans.\footnote{The statistics in Table 2 are excerpted from a larger table that details the years 1947 to 1976. Of note is that the U.S. statistics on imports of oil from Canada for the same period are between 4 and 26 percent higher than the Canadian numbers. For American data see, \url{http://www.eia.doe.gov/emeu/aer/txt/ptb0504.html}; Internet, accessed on 19 September 2004. The files are available in html, pdf, or MS Excel format.} The independent companies and the province did not want to return to the previous low levels and were shocked by the sudden decrease in 1958. The 1959/1960 data shown in Table 2 reveals how the exemption for Canada in the MOIP provided a temporary reprieve from being squeezed out of the U.S. market; Canadian production increased by about 13 percent, and exports by 5 percent in 1959 and 25 percent in 1960.\footnote{The statistics in Table 2 are excerpted from a larger table that details the years 1947 to 1976. Of note is that the U.S. statistics on imports of oil from Canada for the same period are between 4 and 26 percent higher than the Canadian numbers. For American data see, \url{http://www.eia.doe.gov/emeu/aer/txt/ptb0504.html}; Internet, accessed on 19 September 2004. The files are available in html, pdf, or MS Excel format.} 

With the creation of the new National Energy Board, and the final report of the Borden Commission, Diefenbaker directed the NEB to study the oil pipeline question. Then in 1960 the
Ad-Hoc Cabinet Committee on Oil and Gas was given specific terms of reference by the Cabinet to explore the recommendations of the Borden Commission’s second report and the NEB’s pipeline study in order to develop a National Oil Policy. The recommendations for the policy were then brought before, and debated within, the larger Cabinet. Discussed below, six main factors influenced the Montreal pipeline and NOP decision: National security, ideas, economics, international forces, interest groups, and personalities.

NATIONAL SECURITY
The argument that an oil pipeline to Montreal, and a national policy that would support that option, would aid national security by reducing dependence on imported oil was not considered or even employed during the NEB review of the situation, or the numerous Cabinet Committee meetings of 1959 and 1960. The last time it was discussed in any detail was in April 1958. At an inter-departmental meeting of senior officials, Doug Fraser referred to the defence argument, but the response was that “it wasn’t a strong one in the event of nuclear warfare, which might result in the Montreal refineries being wiped out in the initial assault.”

A few days later, the dismissal of the national security argument was then made to Gordon Churchill, Minister of Trade and Commerce, in a briefing memo of 14 April 1958. The above nuclear scenario was mentioned, and an added case was made that in the event of a conventional war, defence would then have to be treated on a hemispheric or continental basis. Therefore, the same relationship between the U.S., Canada, and Venezuela would prevail as it had in the past, and there would be no real threat to the Eastern Canadian market.

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221 NAC, MG32 B9, Vol. 43, File Alberta Montreal Pipeline, Memorandum to the Minister [Gordon Churchill] from John H. English, Subject: The Alberta Oil Problem, 14 April 1958, 3-4. A copy of this memo was also sent to Diefenbaker, and is located at the JGDL, MG01, XII, Vol. 20, File 558 Oil and Gas Industry, 1956-1958, [Document #s: 013717-013728].
222 For an expression of the view by Secretary of State for External Affairs Howard Green that the United
Market Forces

The Progressive Conservative government of John Diefenbaker was said to be "motivated by Canadian nationalism, a commitment to social justice and a conviction that government must create the conditions whereby private enterprise could develop the nation."223 What this meant in practice was "pragmatic state intervention in the economy" without advocating the extreme intervention of the CCF, or the seemingly arbitrary actions of the Liberals during and after World War Two.224 As historian Denis Smith explains in his biography of Diefenbaker, "Despite the evidence that wartime recovery and the postwar boom had been stimulated by government policy, John Diefenbaker remained a fiscal conservative unaffected by any scent of Keynesian economics. With the return of peace, he favoured tax cuts and strict reductions in the national budget."225 This is not to say that Diefenbaker and the Conservative Party were doctrinally committed to any particular economic ideology. It was more a general direction of encouraging development and social welfare for the benefit of Canadians, which is something Canadians had come to expect regardless of which Party was in power.226 Thus, for Diefenbaker and the Conservatives, and perhaps for Canadians generally, there was no


224 Smith, Rogue Tory, 134.

225 Ibid., 164.

226 Michael Bliss, Right Honourable Men: The Descent of Canadian Politics from Macdonald to Mulroney (Toronto: Harper Collins, 1994), 192. Bliss points out, "Diefenbaker continued a course the Liberals had set after the war in viewing government grants, handouts, and job creation programs not as social welfare but as social justice." Bliss also sees Diefenbaker as the father of equalisation payments in order to balance the income and living standards across the regions of Canada.
contradiction in advocating free enterprise while at the same time promoting government activism in “national development.”

The driving theme behind the Conservatives under Diefenbaker was a “New Frontier Policy” or a “New National Policy,” in the mould of Sir John A. Macdonald’s vision for Canadian development. Smith argues in *Rogue Tory* that Diefenbaker’s vision did not embody a “coherent economic strategy,” and that his view of the Canadian economy was inconsistent, based on rhetoric for purely political reasons. Smith’s criticism is summarised in the following excerpt:

“The Vision” of national development was a magical charm that never became a plan. What it amounted to after 1958 was a series of discrete aid and investment projects responding to regional demands for roads, railways, dams, power plants, and resource projects, put together under the energetic inspiration of Alvin Hamilton.

A few scholars disagree with Smith’s negative assessment, and see instead a string of successes in planned resource development that not only stimulated the economy and created employment, but also increased much needed revenues to expand social programs.

What does all this mean for Diefenbaker’s oil and gas policy? As a Westerner, Diefenbaker was keen to ensure that the oil and gas industries in the Western provinces would be able to develop and expand, bringing prosperity to the region, “he understood the West—the old West of the prairie wheat economy and the new West of oil and gas and potash.” Diefenbaker established the Borden Commission in order to provide recommendations for establishing the

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227 Smith, *Rogue Tory*. In Diefenbaker’s view, according to Smith, “Government’s role was, through budgetary and monetary policy, to make adjustments at the margin to control or stimulate growth within reasonable limits and to maintain full employment.” (390) Michael Bliss, in *Right Honourable Men*, adds, “During the Diefenbaker years some intellectuals discerned what has been called a ‘Red Tory’ tradition in Canadian politics. As a strong free-enterpriser and avowed enemy of socialism, not to mention Communism, Diefenbaker was not much of a ‘Red’. The badge he most happily and aptly wore was that of a populist.” (193)

228 Smith, *Rogue Tory*, 390.

229 Kyba and Green-Finlay, “John Diefenbaker as Prime Minister,” 69-70.

appropriate framework. Among the Commission’s recommendations was the creation of a National Energy Board to provide policy advice on energy matters, as well as to administer various regulations “to protect public safety, ensure adequate energy supplies, regulate some energy prices, and promote the optimum development and use of Canadian energy resources.”

Within Cabinet, the most debated section of the NEB legislation was whether oil imports and exports should be subject to licensing by the Board. This debate highlights the division within the Conservative government on what the limit of government involvement should be in the oil and gas industry.

The most interesting aspect about the Cabinet discussions on the NEB legislation is that on 7 March 1959 the Cabinet decided to include oil import and export licensing in the legislation. However, when the draft bill was brought forward for further discussion on 30 April 1959, contrary to the Cabinet decision, the agreed upon oil import and export licensing was not included. After the pros and cons of the issue were discussed again, it was decided that the Cabinet Committee on the NEB should reconsider the matter and report back to the full Cabinet. Two weeks later, on 14 May 1959, the Prime Minister introduced the subject and called for a final decision. The ultimate decision was not to require licensing in the bill, but rather provide for the option through a proclamation if it was required in the future.

231 Gray, Forty Years in the Public Interest, 1.
232 There is some evidence to suggest that Gordon Churchill, the Minister of Trade and Commerce, was responsible for not incorporating the Cabinet decision in the NEB legislation. His department was given the task of developing the legislation, and prior to the Cabinet meeting, Churchill received a briefing memo from his ADM J.H. Warren. The memo articulated nine detailed reasons why immediate inclusion of licensing would be unnecessary and problematic. Warren’s phrasing, that the immediate licensing be included in the Bill was a “suggestion which has been urged on you,” indicates that Churchill disagreed with the Cabinet consensus, and felt it was being forced on him. Among the arguments in Warren’s memo was that it could cause the U.S. to reconsider the exemption it had just granted to Canada. In addition, the Government could be accused by the opposition of wanting controls just for the sake of controls, and might set a dangerous precedent “for similar controls in other fields.” See, MG31 E28, Vol. 28, File Oil, Imports & Exports of 20-2, Memorandum to the Honourable Gordon Churchill from J.H. Warren Assistant Deputy Minister, 30 April 1959, 1-4.
233 The source for the discussions is as follows: NAC, RG2, Series A-5-a, Cabinet Conclusions, Vol. 2744, File 14 February to 14 March 1959, 7 March 1959, 5-10, and idem., 30 April 1959, 3-4.
argument that won the day was that since the U.S. had just exempted Canada from its oil import program, "to require licensing of imports now could only exacerbate the situation and arouse resentment in the U.S. and elsewhere." In this instance, less regulation was accepted, not for ideological reasons, but to avoid antagonizing relations with the U.S.

**Protectionism**

As discussed earlier, throughout 1958 and into 1959 Premier Ernest Manning of Alberta, and a group of independent oil producers led by Home Oil, put considerable pressure on the Diefenbaker government to take some action to alleviate the difficulties in marketing Western Canadian oil. While Alberta desired either increased access to the U.S. market or an oil pipeline to Montreal, the independents really only preferred the latter. Initially, Diefenbaker and his Cabinet were receptive to the protectionist arguments, as they complemented the 1958 PC campaign for a New National Policy of resource development. Indeed, an oil pipeline from Alberta to Montreal would have been the epitome of protectionism for two reasons. It would have ensured that Canadian rather than foreign oil supplied the majority of Canadian markets regardless of price or cost considerations, and it would have reduced the level of oil exports thereby utilising or preserving Canadian resources for Canadian use. However, by 1960-61, the situation had changed. The U.S. MOIP exemption of 1959 meant that Canadian oil had a ready

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234 NAC, RG2, Series A-5-a, Cabinet Conclusions, Vol. 2744, 14 May 1959, 3. One last effort to have oil import and export licensing included in the NEB Bill was attempted on 2 June 1959, but the Cabinet record states that "the arguments against doing this were strong . . . ."

235 JGDL, MG01 XII, Vol. Ill, File 197 Energy – Oil & Gas 1952-1958, Memo for the Prime Minister from M.W. Menzies, 8 March 1958, 5-6. Menzies suggested that during the campaign speeches in Alberta, Diefenbaker make a statement supporting a Montreal pipeline. He concluded by saying that such a policy would "tie in with the basic historic objective of national policy – the prevention of continental economic integration and the strengthening of Canada's economic independence." (6) It is unclear, however, if Menzies counselled Diefenbaker to say the Conservatives would support the pipeline without provisos, or if he were to say it would be supported if the American market became closed to Canadian oil, and if the pipeline was economic. The concern for Menzies was that Liberal leader Lester Pearson had recently given a speech in which he said the Liberals would support a pipeline to Montreal if the U.S. market was closed, but did not mention anything about the economics of the pipeline.
if limited market, and protected access to Montreal was no longer required as long as access of Canadian oil to all of Ontario was ensured. The Second Borden Commission Report was also released in 1959, and it advocated a policy that would not impair Canada’s MOIP exemption. As mentioned above, the Diefenbaker government did not see a contradiction in advocating both market forces and certain forms of protectionism in the national interest, yet the Montreal pipeline was rejected and the NOP created instead.

The NOP provided a compromise framework: market forces would prevail in the area east of the Ottawa Valley, while the market west of that boundary would be protected for Canadian oil and exports to the U.S. encouraged. However, the NOP was in many ways a voluntary program, as it did not strictly regulate oil imports, leaving companies to operate as they chose without quotas. Although the NOP embodies a compromise between the two ideas of market forces and protectionism, the main stimulus of the NOP was Diefenbaker’s personal relationship with Eisenhower and the support of key officials, rather than an ideological conflict.

ECONOMICS

State of the Economy

A recession descended on Canada in 1957 and lasted through 1961.236 Part of the reason for the downturn was the ripple effect from the slump in the American economy, as well as the completion of major resource development investments. The recession in Canada and the U.S.

also led to a decrease in demand for oil. With the economic downturn, and ambitious spending plans of the Diefenbaker government—such as increased social spending, an expensive and extensive infrastructure programme as part of its “Roads to Resources” policy, agricultural price supports, and grants for winter works programmes—dominion money was tight. Finance Minister Donald Fleming attempted to balance the budget each year, but consistently ran deficits because of supplemental spending in response to various crises. The role that the oil and gas industry could play in helping to revitalize the national as well as the prairie economy generated some debate.

If Alberta’s industry could not be maintained or expanded, the economy, particularly the prairie economy, would be adversely affected. A healthy domestic oil and gas industry also meant diversification, which, at a time of worldwide agricultural surpluses, was welcomed. The phrase used repeatedly in discussions was the problem of “oil marketing.” Without markets, the Canadian oil and gas industry could not be maintained or grow. The debate was whether oil markets could be expanded in the U.S., or whether they should be expanded, with Government assistance, within Canada through an oil pipeline to Montreal.

Department of Finance and Bank of Canada officials were reluctant to support government financing of the Montreal pipeline project. They asserted that given the state of the economy, and the desire to avoid government deficits, it was “not a good bargain for the Government to spend $350 millions in order to save $250 millions in foreign exchange per annum for perhaps 6 years or so, by which time the project might be economic and therefore

237 Ibid.
238 Smith, Rogue Tory, 289-290. See also Donald Fleming, So Very Near, Vol. 2, The Summit Years (Toronto: McClelland and Stewart, 1985), 244-249.
239 Natural gas already reached Montreal through the Trans Canada Pipeline, but Alberta wanted to expand by exporting excess supplies to the U.S. A large back-log of export applications accumulated throughout 1958 and early 1959 until the NEB was established.
capable of being undertaken by industry without government assistance." The counter-argument was that the pipeline construction would generate employment, Canadian steel mills would be utilized, and the assured market for Canadian oil would increase employment in exploration and development along with various spin-off benefits. Although Diefenbaker appreciated the concerns expressed by the officials, he was not hesitant about accumulating a larger deficit if it was in the national interest and meant helping the development of the Western regional economy.

*Pipeline Economics*

One of the arguments made repeatedly by Imperial Oil and other multinational companies, as well as by dominion officials, was that an oil pipeline to Montreal would be uneconomic. Since the Montreal refiners and the multinational companies said they would not accept Canadian oil voluntarily, government intervention of some kind would be required for the Montreal pipeline. Ian McKinnon, Chairman of the NEB, asserted that not only would import restrictions be required, "the government would probably also have to guarantee the bonds required for financing the project . . . Those financing a Montreal line would probably [also] want a financial guarantee or a throughput guarantee." The costs associated with guaranteeing the funds for the pipeline had the potential of another "Great Pipeline debate," something that Diefenbaker wished to avoid. But, as Canadian officials reminded their American and Venezuelan counterparts, the economics of the project were not the only consideration, and it

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240 NAC, MG31 E28, Vol. 19, File 19-17, Interdepartmental Meeting on Canadian Oil Marketing Problems: Minutes, 10 April 1958, 2. R.B. Bryce, Clerk of the Privy Council argued that "there were better ways to open up Canada. Artificial measures to stimulate oil development were not justified." (3)

241 As one official conceded, "It was consistent with the policy of the government to promote and develop Canadian-based industry." NAC, MG32 B9, Vol. 73, File Oil policy—Cabinet Committee, Cabinet Committee on Oil Policy, Notes of Meeting 7 October 1960, 4.

242 NAC, MG32 B9, Vol. 73, File Oil policy—Cabinet Committee, Cabinet Committee on Oil Policy, Notes of Meeting 7 October 1960, 3.
would not be the first time that a Canadian government defied economics in order to build the nation. But how serious was the Diefenbaker government in making this assertion? Given the fact that the pipeline issue was considered up until the final meetings of the Cabinet Committee on Oil Policy in late December 1960 and early 1961, it seems to indicate that Diefenbaker and his Cabinet were prepared to take bold action if it were absolutely required.

Prices

The economics of the Montreal pipeline ultimately came down to what price consumers, particularly consumers in the industrial heartland, would have to pay to use Canadian oil, and what price Western producers would receive. If the Canadian economy was to escape from the recession, fuel costs could not be uncompetitively high. As mentioned earlier, Canadian oil was higher cost than oil imported from the Middle East or Venezuela. Part of the reason for this, aside from the higher development costs in Canada, was the tendency of the multinational firms to sell to their subsidiaries at a discount. This meant that the real costs of oil laid down in Montreal were significantly lower than the posted prices on which the estimates for the Montreal pipeline were based. If Canadian oil was to be competitive wellhead prices would have to be cut, and even that would not be enough to make it sufficiently competitive with the discounted imported oil. George Hees, the new Minister of Trade and Commerce, suggested in a Cabinet discussion on the eve of the NOP announcement, that if the Montreal pipeline were built, the dominion government might have to equalize prices out of the national treasury. Although officials and others repeated the pricing arguments, Diefenbaker was not convinced. Having lived in a region that for decades had paid higher prices for all Canadian manufactured goods

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through the tariff regime of the "National Policy," he appreciated the Western viewpoint, widely articulated among Western backbench MPs in his own party, that it would only be fair if Central and Eastern Canada had to return the favour with respect to one commodity, and pay a premium for Western Canadian oil.

**INTERNATIONAL FORCES**

The legacy of the Suez crisis whet Canada's appetite for increased oil exports to U.S. The creation of the European Common market, and the British rebuff to Canada's proposal to increase trade, made Canada feel more vulnerable economically, and more aware of its reliance on the U.S. market. However, one of the most consistent arguments against building the Montreal pipeline was that Canada's relationship with Venezuela could be jeopardized if Canadian oil went to Eastern Canada.

From 1958 through to the last briefing documents in late 1960-early 1961, officials emphasized that Venezuela would retaliate against other Canadian trade items. They also argued that if Venezuela were denied access to Montreal, the U.S. would be pressured to give Venezuela equal treatment, and "this would undoubtedly mean the withdrawal of our own exemption rather than its extension to Venezuela." The Venezuelan argument was employed at the Cabinet discussion of 19 January 1961, but the responses recorded do not mention international concerns. A Canadian delegation was then sent to Washington to apprise the new Kennedy administration of Canada's proposed oil policy. Hees informed the Americans that if Canada was unable to modestly increase its exports to the U.S. "the Canadian government might

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245 See for example, NAC, MG 32 B9, Vol. 43, File Alberta-Montreal Pipeline, Memorandum to the Minister of Trade and Commerce from John H. English, Subject: The Alberta Oil Problem, 14 April 1958, 5.

246 NAC, MG32 B9, Vol. 73, File Oil Policy—Cabinet Committee, Memorandum to George Hees, Minister of Trade and Commerce from James A. Roberts, Deputy Minister, Subject: Canada's External Trade and the Montreal Crude Oil Pipeline, 21 December 1960, 3.
be under irresistible pressure to authorize construction of an oil pipeline to Montreal.”^247 He reported back to the Cabinet that the “U.S. ministers were aware that this in turn would lead countries such as Venezuela, which now sold oil in Eastern Canada, to press the U.S. government to accept increased oil imports from them.”^248 In conclusion, Hees confirmed that the Americans agreed that increased Canadian oil exports “was in the interest of both countries.”^249 Although this argument was employed up until the final decision, it was used more to buttress the maintenance of the MOIP exemption and to convince the U.S. that increased exports were necessary, rather than to convince Diefenbaker and Cabinet ministers that the Montreal pipeline was a bad idea.

INTEREST GROUPS

Multinational Oil Companies

The Multinational integrated oil companies such as Imperial Oil and Shell preferred to maintain imports into Quebec and the Maritimes, and transport Canadian oil into Ontario and the “natural” American markets that Canada already supplied.^250 For example, at a meeting in 1960, thirteen oil companies and refiners were willing to “compromise” by making Ontario completely dependent on Canadian oil and closing off the substantial foreign imports that came into Ontario through Quebec.^251

^248 Ibid.
^249 Ibid.
^250 An integrated oil company is one engaged in the exploration, production, refinement and distribution of oil and gas products.
^251 See for example, NAC, MG32 B9, Vol. 37 File Oil and Gas Meeting July 25, 1960, “Notes on Meeting with Executives of the Oil Industry in Montreal, 25 July 1960.” Government representatives at this meeting were Gordon Churchill, Minister of Trade and Commerce, James A. Roberts Deputy Minister of Trade and Commerce, and Ian McKinnon, Chairman of the National Energy Board.
The major companies and refiners were led by Imperial Oil which owned large interests in Venezuela (through its sister company Creole Petroleum), large refineries in Vancouver, Montreal, and Sarnia, as well as a stake in the pipelines, such as Inter Provincial, that delivered western oil to Sarnia, Ontario. Imperial was adamantly against the Montreal Pipeline; it believed the project would jeopardise its interests in Venezuela. Ten percent of Venezuelan production went into Montreal and the Canadian East Coast, and there was a growing push in Venezuela to nationalize the industry, which, of course, would have a devastating impact on the multinationals. Knowing that this kind of argument would not necessarily garner sympathy in Ottawa, they chose another tactic. In their testimony to the Borden Commission, submissions to the National Energy Board, and meetings with political representatives, their position was consistent: building a pipeline to Montreal would not be economical. Second, the company stated that it would not comply with voluntary restrictions; therefore, if the pipeline were built the Canadian government would have to enact legislation in order to compel the company to accept Alberta oil into its Quebec and Eastern Canadian refineries. Third, it would be foolish for the Canadian government to jeopardise its hard won exemption to the U.S. MOIP as the growth in the Canadian market was limited, whereas the growth potential in the U.S. market was far greater. If Canada forsook its exemption, it might never get it back. Finally, Imperial encouraged the Canadian government to consider the long-term effects of excluding Venezuela from the Canadian market.252

The fact that the NOP happened to take a form that Imperial Oil and the majors had advocated, has led some scholars to speculate or argue that Imperial Oil directed the Canadian oil policy and manipulated Cabinet Ministers and officials to obtain the policy it wanted.

Sociologist Melissa Clark-Jones' book, *A Staple State*, is one example of this point of view.\(^{253}\) Unfortunately, the archival evidence she employs is grossly misrepresented. For example, she writes that consultant Walter Levy was commissioned by the multinational companies to write a report for the Borden Commission that would demonstrate that a Montreal pipeline was not only unnecessary but also uneconomical.\(^{254}\) In fact, the opposite was true. The coalition of independent producers commissioned Levy’s report, and it came to a far different conclusion than what Clark-Jones suggests. First, Levy presented an overview of the prospects for Canadian oil. The outlook was unfavourable as the U.S. domestic market was under increased competition, and new fields were being developed in Montana and North Dakota, which would challenge existing markets for Canadian oil. There was also the prospect of the MOIP that would further curtail the entry of Canadian oil into the U.S. market. As for the Montreal market, Levy acknowledged that Canadian oil was at a price disadvantage in Montreal for a number of reasons, but suggested that the price gap could be closed through government policy. He then gave examples of how the U.S. levied duties on imported oil, and enacted oil import restrictions in order to protect its higher cost domestic industry from cheaper imports. Without making specific recommendations for government policy, he suggested that if Canada were to take government action to move Canadian oil into the Montreal area, it would help Canada’s trade balance.\(^{255}\) This is hardly the advice of someone who wished to prevent the construction of the Montreal pipeline.

The claim about Imperial Oil manipulating Government Ministers and officials is equally false; the evidence just does not support such a contention. It is true that Cabinet Ministers and

\(^{253}\) Clark-Jones, *A Staple State*, 34, 41-43
\(^{254}\) Ibid., 44-46; 172.

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officials consulted with representatives from the multinational companies on a few occasions to obtain their views on the oil marketing situation. Contrary to Clark-Jones’ statement, this did not comprise “exclusive access to the designing of continental energy development.”

Government members and officials also met with representatives from the independent industry coalition to hear their perspective, and the NEB as well as the Cabinet Committee on Oil Policy conducted independent studies on the oil marketing and Montreal pipeline issues. It is also true that more meetings were held with the majors between 1957 and 1961. The reason is that they were being encouraged by Government Ministers and officials to voluntarily take more Canadian oil at their refineries. The independent companies pressing for the Montreal pipeline were not at these meetings because they did not own the refineries in question.

Significantly, and which is not mentioned at all by Clark-Jones, is that Diefenbaker and Borden were suspicious of “the oil interests” (the major companies, especially Imperial Oil). For example, in July 1958, Diefenbaker requested from Gordon Churchill (Minister of Trade and Commerce), “an up-to-date report on the proposals to move Canadian oil to the Montreal market and the measures that would be necessary to achieve this.” This means that while Canada’s

256 Clark-Jones, A Staple State, 77.
259 JGDL, MG01, VI, R-611, File 354 Borden Conf. Federal Government Administration-Royal Commissions-Borden-Confidential, 1959-1960, Letter to John Diefenbaker from Henry Borden. Borden wrote, “The intense lobbying and propaganda inspired by the oil interests in order to discredit the Commission and misrepresent the recommendations has been a tragedy and has been hard to take personally.”
260 NAC, MG31 E28, Vol. 17, File 17-17 Correspondence as Director, Energy Studies Branch, Department of Trade and Commerce, 1955-1959, Letter to Mr. Churchill from R.B. Bryce, 11 July 1958. The request was passed on to Fraser.
position vis-à-vis the American oil import programme was uncertain, Diefenbaker was actively considering the Montreal pipeline option. Gerry Green, a senior official in the International Trade division of the Department of Trade and Commerce, and observer at the Borden Commission hearings, wrote to Douglas Fraser at the ESB that “unless Borden is leaning over backwards to appear impartial, the form of his questions seems to make it clear that he’ll recommend the Montreal market.”

J.J. Frawley, who participated in the Borden Commission as legal counsel for Alberta, also believed that Borden favoured a Montreal pipeline, as did Premier Manning of Alberta. Yet, as mentioned earlier, the second Borden report recommended that the Montreal pipeline be postponed, and the MOIP exemption given an opportunity to prove its efficacy for the Canadian industry. If Diefenbaker and Borden were distrustful of the multinationals, then why would they support a policy that not only benefited the majors, but also bore a striking resemblance to what the majors advocated all along? The answer lies in the MOIP exemption, and Diefenbaker’s relationship with Eisenhower, which will be discussed in the section Personalities.

**Canadian Independent Producers**

A coalition of Canadian independent companies desired a pipeline to Montreal so that more of their oil could be sold. They believed that under the prevailing system, the multinationals were squeezing out the independents’ ability to sell their oil. With oil prices considerably lower outside of North America, the majors could wait out the oil surplus, mainly because they had producing fields in these outside nations. The independents could not wait as their production was solely in Canada, where production prices were high and markets

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261 NAC, MG31 E28, Vol. 1, File 1-5 Correspondence 1958, Letter to Doug Fraser from Gerry Green, 10 May 1958.
constricting. This coalition commissioned “a series of studies by three highly experienced and respected consulting firms.”\textsuperscript{262} The studies ranged from market outlets for Canadian oil, an engineering study on a proposed oil pipeline from Alberta and Montreal, to the possibility of using Canadian crude in Montreal refineries. The results of these studies were compiled and submitted to the Borden Commission and to Diefenbaker and his Cabinet by R.A. Brown, President of Home Oil, in an effort to promote the idea that it would be in the national interest to construct an oil pipeline to Montreal.

Brown and the independents insisted that such a pipeline would increase Canadian national security by reducing dependence upon foreign oil; “create major industrial benefits across Canada” and thereby strengthen Canadian nationalism; improve Canada’s balance of payments; increase exploration and development in Western Canada; and be economically feasible, though it would require long term guaranteed contracts with refineries to purchase Alberta’s oil.\textsuperscript{263} They received some support from the \textit{Calgary Herald} as it published editorials in favour of “Canada’s Pipeline Independence” based on a “Canadian, Not Continental, Concept.” Along with these editorials there were political cartoons like one with a Mountie holding pipeline segments under one arm, gesturing to the businessmen and politicians begging at Uncle Sam’s feet, with the caption “Quit begging . . . let’s build our own pipeline.”\textsuperscript{264} This helped to solidify popular support in Alberta for Brown and the independents’ idea, and did not go unnoticed by Diefenbaker or members of the Cabinet Committee on Oil Policy. Once Canadian oil received the MOIP exemption, however, the pipeline idea was delayed.

Nevertheless, as mentioned above, the multinationals indicated that they would not voluntarily

\textsuperscript{262} Breen, \textit{Alberta’s Petroleum Industry and Conservation Board}, 465.
\textsuperscript{263} Doern and Toner, \textit{Politics of Energy}, 78.
\textsuperscript{264} NAC, MG32 B9, Vol. 43, File \textit{Alberta - Montreal Pipeline}, “Two Editorials from \textit{The Calgary Herald},” Attached to the proof of these two articles was the cartoon.
enter into such contracts, thus the dominion government would have to force them to do so through regulation and legislation. The implications of expanding government control to such a degree were serious and considered carefully by the Borden Commission and the Cabinet Committee on Oil Policy.

Graphic 1 "Quit Begging... let's build our own Pipeline."

Producer and Consumer Provinces

The position of Alberta, Canada's main oil producing province, was to advocate and support any policy that would serve to increase its oil production. In the late 1950s a large percentage of Alberta's oil was 'shut in' because of a world surplus in supplies, the increased production and competition of oil from Saskatchewan, and the higher cost of Canadian oil compared to foreign supplies; oil wells in the province operated at only one third of their
productive capacity. Surplus capacity in the oil fields meant that exploration and development decreased, which translated into loss of jobs, lease payments, and royalties. When it appeared that Canada was not going to be exempted from the United States’ MOIP, Alberta lobbied vigorously for the construction of the Montreal pipeline. Though Alberta still advocated the pipeline, once the exemption was granted, the immediate necessity for the pipeline’s construction diminished, as did the urgency of Alberta’s pleas for the Montreal market.

An interesting aspect of the entire oil marketing debate was the issue of jurisdiction. Under the Canadian constitution, jurisdiction over resources within provincial borders is the responsibility of the province; a right only ceded to the prairie provinces in 1930 by an amendment to Section 109 of the British North America Act. As political scientists Richards and Pratt point out, “The Canadian province with the highest percentage of its land and resources under crown ownership is Alberta where, for example, over 80 percent of all oil is produced from crown as opposed to freehold leases.” Diefenbaker was reminded of this fact by an advisor who suggested that, “Mr. Manning should be asked to explain why he has refrained from taking the very action he asks the dominion government to take, when he holds practically all the

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265 Gray, Forty Years in the Public Interest, 23. Gray notes that industry spending in 1958 had decreased to $263 million from $326 million in 1956. Also, measurement of shut-in capacity is a country’s unused percentage of sustainable production.

266 See for example, NAC, MG32 B9, Vol. 53, File 5-U1-1 - Trade & Economic Relations United States - General, “Letter to Prime Minister Diefenbaker from Premier E. Manning (Alberta), Re: 15% reduction in foreign crude imports, including Canadian to the District V area, 21 January 1958.” Manning suggested that development of the Canadian resources was being impeded by the unregulated flood of imported oil into the Montreal area, and that it was in the national interest “to make possible the construction of a pipeline to transport western crude to the Montreal refineries. In the light of all the circumstances, such action in our opinion not only is warranted but has, in fact, become a national necessity.”

267 Breen, Alberta’s Petroleum Industry and the Conservation Board, 487-490. While the Borden Commission was deliberating the issue of the Montreal pipeline, Alberta’s premier Ernest Manning met a few times with Prime Minister Diefenbaker and wrote several detailed letters outlining Alberta’s position. The necessity of increasing markets regardless of where they were located was emphasised due to the low rate of operating production, and the fact that Alberta had been waiting patiently for almost four years for Ottawa to make a decision regarding energy. See in particular Breen, 457-460.

268 Richards and Pratt, Prairie Capitalism, 38, 283-287.

269 Ibid., 283.
Diefenbaker's marginalia suggests he was impressed by the argument, and helps to explain his commitment to a general framework, rather than an interventionist policy with respect to oil and gas resources.

Scholars such as John N. McDougall, Bruce Doern, and Glen Toner have commented on how there was little interest outside of Alberta regarding a National Oil Policy and construction of the Montreal pipeline. For example, oil production was increasing in Saskatchewan but there was little comment from the provincial government on the future of Canadian oil policy, while Quebec and the Maritimes preferred whichever policy would keep prices low. What is revealing of the general non-interest from Quebec, is that “no representatives from Quebec even addressed the issue in Parliament,” nor did the government of Quebec make any submissions to the Cabinet Committee on Oil Policy. Given the large refining industry in Montreal that was heavily reliant upon imported oil, the silence is significant. The government of Ontario was rather indifferent, as it would benefit in any situation. Ontario already received a large portion of oil from Alberta, and it was clear that if Canadian oil displaced foreign oil and products from its markets, Ontario’s refining and petrochemical facilities would have to be expanded. This meant that Ontario would gain jobs and investment dollars, even if consumers in the province had to pay a few cents more for Canadian oil. On the other hand, if the Montreal pipeline were built, little would change from the status quo; prices would remain about the same, but the pipeline would have to go through Ontario and create some employment. Therefore, Ontario was set to benefit from either scenario.

271 McDougall, Fuels and the National Policy, 90; Doern and Toner, Politics of Energy, 80-81.
272 McDougall, Fuels and the National Policy, 90. See also Oil Policy Committee activities, NAC, MG32 B9, Vol. 73 File Oil Policy – Cabinet Committee, the Quebec ministers in this committee were concerned purely with keeping the prices low. Perhaps the lack of interest on the part of the Quebec government was a result of their being preoccupied with other internal matters of the day, such as the beginning of the Quiet Revolution.
PERSONALITIES

Diefenbaker-Eisenhower Relationship

As discussed previously in Part II—American MOIP and the Canadian Exemption, in the section Personalities Eisenhower and Diefenbaker had a warm personal relationship, which helped to enhance cooperation in Canadian-American relations. Both believed in personal diplomacy as a way to solve bilateral irritants and problems. They talked to each other on the telephone, and sometimes Eisenhower wrote or called Diefenbaker to ask his opinion on international developments. The two liked each other partly because they were close in age, came from rural prairie areas, and had similar interests like fishing. Eisenhower was also quite considerate and “appeared to understand Diefenbaker’s concerns about U.S. influence over Canada, and he went out of his way to relieve them, something he accomplished with remarkable success.” Diefenbaker admired Ike the “war hero, the leader of the great military coalition that had won the Second World War . . . the leader of the free world in the conflict with Soviet Communism.” Yet that admiration did not prevent Diefenbaker from feeling “completely at home with Eisenhower,” and during an informal visit to Washington in June 1960, Diefenbaker said “that it was his impression that Canadian-American relations in the past couple of years had been very good, and indeed had been unequalled in the past.” Following the visit Diefenbaker sent a very warm handwritten thank you note to ‘Ike’: “Our conversations re-emphasized the meaning of the term ‘Good neighbors’ – who share the same ideals and objectives – and whose

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273 Bothwell, Drummond, and English, Canada Since 1945, 207. “The prime minister believed in personal diplomacy and in world travel. . . . It was all very well while President Eisenhower was installed in the White House, because the two old men understood and liked one another.”


275 Granatstein, Yankee Go Home?, 126.

276 Ibid. See also, Granatstein and Hillmer, For Better or For Worse, 196.

mutual purpose is to view the problems of the other with reason based on a desire to resolve such differences as arise from time to time."^278

However, part of the difficulty with respect to the good relations between the two leaders, is that many of their conversations were just between the two of them — no advisors or secretaries attended to take notes. Indeed, during Eisenhower’s trip to Canada in July 1958 Diefenbaker and Eisenhower went fishing together at Harrington Lake and then for a drive in the country.^279 The two leaders met again at the end of June 1959, at the opening of the St. Lawrence Seaway. There was a private meeting between them, but it is unclear what they discussed. It is likely, however, that Diefenbaker took this opportunity to express his appreciation for the exemption granted to Canada in the MOIP. As discussed earlier, Canada considered the oil import problem to be the most crucial bilateral issue between Canada and the U.S., as stated by Canadian Ministers at the Joint Canada-U.S. Committee on Trade and Economic Affairs meeting held in January 1959.^280* Canadian Ambassador to the U.S., Arnold Heeney, also made it quite clear to Diefenbaker that the issue had divided the Eisenhower Administration, and that a lot of time and effort went into the solution of the problem with Eisenhower’s specific and crucial support of the Canadian position.^281* Diefenbaker had also made the most of the personal relationship in pressing for the MOIP exemption.

Closer to the time of the decision for a National Oil Policy, Diefenbaker met Eisenhower

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^279 Robinson, Diefenbaker’s World, 51. Robinson commented that Diefenbaker “insisted on plenty of time alone with Eisenhower.”
^280 DDEL, DDEP, PPUS 1953-61, WHCF, Confidential File, Subject Series, Box 77, File State, Department of (Jan-Aug 1959)(3), “Joint Canada-United States Committee on Trade and Economic Affairs, U.S. Record of Talks, Meeting January 5-6, 1959, Ottawa”, 18. Finance Minister Donald Fleming stated, “nothing on the agenda is more important or urgent than oil, from Canada’s standpoint.”
^281 See for example, NAC, RG25, Vol. 3175, File Oil and Gas (2) 1958-1972, “Letter to C.D. Dillon, Acting Secretary of State from A.D.P. Heeney, Canadian Ambassador to U.S. 1 May 1959.”
twice for private personal discussions: September 1960, after Diefenbaker’s speech to the U.N.,
and January 1961 at the signing of the Columbia River Treaty. Since the NOP and the issue of
the Montreal pipeline were before Cabinet, and one of the main sticking points for the pipeline
was the probable U.S. reaction of revoking the MOIP exemption, it is reasonable to suggest that
Diefenbaker discussed the matter with Eisenhower to confirm two things: would the U.S. remove
the exemption for certain if a pipeline to Montreal was built, and would the U.S. permit a yearly
increase in imports from Canada in lieu of building the pipeline? If the topic of the MOIP came
up, it is also likely that Eisenhower reinforced the idea that the construction of a pipeline to
Montreal would mean the revocation of Canada’s exemption, as he was the one who had insisted
that such a caveat be inserted into the amending proclamation.\textsuperscript{282} In fact, a few days after a
discussion between Diefenbaker and Eisenhower at the U.N. General Assembly, a senior state
department official sent a letter to the American Embassy in Ottawa to “clarify” the U.S. attitude
towards a pipeline to Montreal “in fairly blunt terms.” The Canadians were informed of the letter
and told that the U.S. would not be indifferent to the construction of the Montreal pipeline and
that “pre-emptive action in the Montreal market would most probably jeopardize the overland
exemption, or at the very least call it into serious question.”\textsuperscript{283} As for the second point of yearly
export increases, it would have to be decided by the new administration.

How these conversations affected the content of the NOP may be revealed in
Diefenbaker’s final letter to Eisenhower in February 1961: “I felt that we were friends – and as

\textsuperscript{282}DDEL, DDEP, PPUS 1953-61, AWF, Diary Series, Box 40, File Staff Notes – April 1959 (1),
“Memorandum for Mrs. Whitman from Don Paarlberg, 27 April 1959.”
\textsuperscript{283}NAC, RG25, Vol. 5659, File 14405-c-8-1-40 pt 4 FP, Telex 2592 from Washington D.C. to External, Oil
- USA Attitude Re Montreal Pipeline, 13 October 1960, 1. (Information copies were sent to Trade and Commerce,
Finance and the NEB.) A Memo to File of 6 October 1960 by Canada’s Energy Counsellor Norman R. Chappell
describes the letter in more detail. He was told that the letter said the “overland exemption would definitely be
jeopardized.” This is much stronger than the “most probably” used in the telex. His memo was sent to External
Affairs as well, and is found in the same file as the above mentioned telex.
friends could speak with frankness regarding the problems of our two countries. Indeed whenever matters of disagreement, actual or potential, were brought to your attention they were acted upon by you to the last extent possible."

As Lawrence Martin points out in his book on the history of relationships between American Presidents and Canadian Prime Ministers, "Diefenbaker felt Eisenhower was a truly great man." Perhaps Diefenbaker thought Eisenhower would consider it a personal slight if Canada pressed on with the Montreal pipeline, given that the U.S. granted an exemption to Canada at the expense of its relations with Venezuela and other foreign oil producing countries. Diefenbaker was aware that Eisenhower had supported Canada's position for an exemption in face of considerable opposition from members of his Cabinet and senior officials in the State Department. The last thing Diefenbaker wanted was for Eisenhower to think badly of him, especially after Eisenhower's comments that "among allies the basic consideration is that there is mutual faith . . . we must not break faith with our allies." Did Diefenbaker think he would be breaking faith with Eisenhower if he promoted an oil pipeline to Montreal?

Role and Influence of Officials

The majority of Canadian officials responsible for researching and reporting on the different options available regarding a National Oil Policy and the Montreal pipeline were against the pipeline. Nevertheless, the Cabinet was undecided on the issue and had the NEB as well as the Cabinet Oil Policy Committee study the issue. Ian McKinnon, the new NEB

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284 DDEL, DDEP, PPUS 1953-61, AWF, International Series, Box 6, File Canada (1) "Letter to General Dwight D. Eisenhower from Prime Minister John G. Diefenbaker, 26 February 1961."

285 Martin, The Presidents and the Prime Ministers, 176.

286 Ibid., "Memorandum of Conversation, 27 September 1960", 6. The date of this conversation may be wrong, as the delegations were there between 20 and 24 September. Instead it could be the date when it was typed out by officials.

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Chairman, was a scrupulously fair individual who ensured that the Montreal pipeline proposal received an even-handed analysis.²⁸⁷

Some have argued that even if the politicians had wanted a different policy, they were relatively powerless to contradict the senior officials.²⁸⁸ Yet, up until the last moment, the Montreal pipeline was still an option being considered by Cabinet. If the officials were as powerful as some suggest, then one would presume that they would have been able to dispense with the pipeline argument in less time than two years, especially after the MOIP exemption was secured. However, as Kevin Gloin relates in his M.A. thesis, even though "senior bureaucrats [were] sour on the pipeline idea . . . [and] were actually reluctant about the pipeline (and its accompanying policy considerations), they chose to speak in favour of it when meeting American representatives."²⁸⁹ Officials and Cabinet ministers continued to use the possibility of the Montreal pipeline even at the January 1961 meeting with the new Kennedy Administration, in order to secure endorsement of increased Canadian oil exports to the U.S.

An interesting development in relation to the Montreal pipeline and the MOIP exemption is the influence of Thomas Mann once again. At an 8 July 1960 meeting with J.A. Roberts (Deputy Minister of Trade and Commerce) and Ian McKinnon (Chair of the NEB), Mann, who was always against the Canadian exemption to the MOIP told the Canadians that the U.S. would not be surprised if Canada were to build the Montreal pipeline. He said it was inevitable and that the U.S. would be indifferent and not remove the MOIP exemption.²⁹⁰ Mann continued to assure

²⁸⁷ Breen, Alberta's Petroleum Industry and the Conservation Board, 265; see also Gray, Forty Years in the Public Interest, 17.
²⁸⁸ For example, see Clark-Jones, A Staple State, 41, 52-53. Clark-Jones also postulates that the officials merely parroted Imperial Oil's policy preferences.
²⁹⁰ NAC, RG25, Vol. 5659, File 14405-c-8-1-40 pt4, Memo to File by Norman Chappell, Meeting at State Department 8 July 1960, 11 July 1960, 2. Incidentally, McKinnon had requested the meeting but he did not consult with the External Affairs department, and the Under Secretary, Norman Robertson, was quite annoyed. See, Ibid.
the Canadians throughout the summer that this was the general view of the Administration.

Around the time of the U.N. General Assembly when Eisenhower made clear to Diefenbaker that if the Montreal pipeline were built the MOIP exemption would be reconsidered, Mann was removed and replaced by Ed Martin. Chappell commented, "It is rather unique that a newly appointed Assistant Secretary finds it necessary to correct an impression left by his predecessor. This, however, is what has happened." Canadian officials, like Diefenbaker, were left in no doubt about the status of the MOIP exemption, and they took every opportunity to remind Diefenbaker and the Cabinet of the potential consequences of abandoning the hard won American concession.

**NOP DECISION**

The Cabinet Committee on Oil Policy had quite a task before them. During 1960 and early 1961 they considered the varied positions of all the interested parties. The committee was aware that Alberta and the producing provinces desired increased production and sales of their product, the consuming provinces just wanted to keep prices low. Since the exemption of the MOIP had provided a respite from contested access to the American market, there was less urgency from Alberta to build the pipeline to Montreal, though the independents continued to pressure the government for the pipeline. The multinationals, on the other hand, preferred the status quo, though they would support, as a "compromise", Ontario being completely supplied by Western Canadian oil. The NOP looked very similar to the Borden Commission’s recommendations: Ontario solely supplied by Canadian oil, expanded exports to the U.S., and postponement of the Montreal pipeline unless access to the U.S. market was reduced or denied.

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Memorandum for the Minister from N.A. Robertson, Subject: Oil Exports to the United States, 11 July 1960.

Despite the similarities between the NOP and the Borden Commission recommendations the Committee was affected most by the exemption Canada had to the U.S. MOIP, and an added dimension of American influence: Diefenbaker’s personal relationship with Eisenhower.

The final decision for the NOP and the fate of the Montreal pipeline, rested with the Cabinet, which had received advice from the Cabinet Committee on Oil Policy. Just weeks before the final decision was to be made, an unsigned telex from the Canadian Embassy in Washington, D.C. was again sent to the Department of External Affairs in Ottawa with information copies to senior officials in Trade and Commerce, Finance, and the Chair of the NEB in order to provide information during the deliberations on a National Oil Policy. The telex stated explicitly “that USA felt it made important concession [in granting Canada exemption] and the CDN Govt welcomed the action both publicly and in official meetings with USA cabinet officers.”

Yet, before the final decision was made, the cabinet told the committee to make one last trip to the U.S. and inform the new administration of the proposals. The goal was to ascertain what the new administration thought about the MOIP exemption, and the potential for increased oil exports from Canada. The main message from Stewart Udall, the new Secretary of Interior, was a warning for Canada not to increase exports too much.

Though difficult to quantify, there was also the influence of Diefenbaker’s esteem for Eisenhower that needs to be considered. As Basil Robinson points out, “... with Diefenbaker so much was personal.” What effect did Eisenhower’s appeal to “not break faith with allies” have on Diefenbaker? Although the evidence is circumstantial, the Prime Minister knew that the

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294 Robinson, Diefenbaker’s World, 318.
U.S. administration, and Eisenhower himself, had gone to some length to accede to Canadian demands for an exemption to the MOIP. If Canada were to forsake an exemption granted through the efforts of the President, how would that bode for future negotiations for exemptions from U.S. policies in oil or other industries? Since he held Eisenhower in such a high regard, Diefenbaker was very sensitive about promoting a policy that could diminish Ike’s own personal view of Diefenbaker.

In the end, the Committee recommended to the Cabinet that it would be in the best interest of Canada if the Montreal pipeline were not built at that time. It was decided instead that it would be best to expand the markets for Canadian oil in Ontario and in the existing Canadian supplied areas of the U.S. The cost of the pipeline and the increase in government intervention of the industry to regulate imports was not appealing to the Diefenbaker government. There was also the recent clear message from the U.S. that if Canada were to build the pipeline to Montreal the Canadian exemption to the MOIP would be revoked. Seeing that it would take approximately two years to build the pipeline, they had to consider the effects on the Canadian industry for those two years that the U.S. market was closed and the Eastern Canadian market was still inaccessible. Therefore, it was American influence, in the form of the MOIP exemption, augmented perhaps by Diefenbaker’s personal relationship with Eisenhower, that led to the decision to not construct an oil pipeline from Alberta to Montreal and to maintain imports into Canada’s East Coast.

But how did this policy draw Canada closer to the United States? As mentioned earlier, the NOP tied Canada more closely to the American market as the major outlet for Western crude,

295 USNA, RG59, Alpha-Numeric files Relating to Canadian Affairs, 1957 to 1963, Box 3, File Oil Quotas 1957-61, “Memorandum to Mr. White from Delmar R. Carlson, January 25, 1961, Subject: Canadian Position for Meeting on Oil Marketing, January 25.”
and made the continental North-South trade pattern the National Policy; this increased interdependence. By not building the Montreal pipeline, Canada aided the U.S. in its relations with Venezuela – and the U.S. was aware of this aid. The NOP ensured that both countries, Canada perhaps more so than the U.S., would have to consult one another before making substantial alterations to their oil policies. The promotion of significant increases of exports to the U.S. meant that the U.S. would become more dependent upon Canadian oil, which had positive implications (depending on your point of view) for continental defence. In addition, when Canada did not embark upon a nationalist oil policy that could have made it self-sufficient in oil, it became more vulnerable to fluctuations in American markets and policies, as will be discussed in the next chapter.

CONCLUSION

Between 1958 and 1961, Canadian-American relations thrived, especially in economic issues and policies, in large part because of the friendly personal relationship of Eisenhower and Diefenbaker. After the emphatic declaration of Canadian Cabinet Ministers that there was nothing more important than the oil issue, and a diplomatic blitz by the Canadian Ambassador that stressed Diefenbaker’s interest in the matter, Eisenhower himself pressed his officials to find a way to accommodate Canada’s request for an exemption. The actions of Livingston Merchant, who outmanoeuvred his rival Thomas Mann, ensured that Eisenhower’s directive about the Canadian exemption was implemented. The U.S., despite much opposition from Venezuela and divisions within the State Department, acceded to Canadian pressure for an exemption to the MOIP in April 1959. The significance of this action on Eisenhower’s part was not lost on Diefenbaker.

296 At this time oil shipped within the continent via pipeline was considered safer from attack than bulky tankers vulnerable to submarine and air attack. A strong Canadian industry was also positive for defence purposes as it would be able to replace other foreign oil in a time of war.
The National Oil Policy implemented by the Conservative government at the beginning of the Kennedy Administration was a legacy of the goodwill that existed between Eisenhower and Diefenbaker. Many factors influenced the NOP, but strongest among them was the Diefenbaker-Eisenhower relationship and the support of key officials. As a result, the shape of Canada's National Oil Policy honoured Eisenhower's efforts regarding the MOIP exemption by establishing the Ottawa valley line and postponing an oil pipeline to Montreal. This ensured that Venezuelan oil would continue to supply the area east of the Ottawa valley, so that Venezuela would not blame the U.S. for the loss of the Canadian market. While Diefenbaker and his Cabinet weighed the advantages and disadvantages of the various policy options available, what likely tipped the scales in favour of rejecting the Montreal pipeline option was Diefenbaker's desire to have Eisenhower think well of him. Diefenbaker, like as not, did not want Eisenhower to believe that his repeated insistence for a Canadian exemption had been insincere, or that he rejected or did not appreciate the effort Eisenhower had made in securing Canada's MOIP exemption. Ultimately, this meant that the NOP pulled Canada closer to the U.S., and Canada-U.S. interdependence in the trade of oil and gas increased.

As the trade in oil across the Canada-U.S. border increased, so too did trade in natural gas expand, but not without overcoming some challenges. Alberta was eager to export surplus natural gas, which would help to subsidize costs to Canadian consumers, and provide additional revenue to the province. However, at different times, varied FPC Chairmen expressed concern about increasing American dependence on a foreign (Canadian) supply of natural gas. Where oil issues were considered at a high political level in the U.S. and Canada, due to oil's strategic value, natural gas issues were dealt with primarily by regulatory agencies like the FPC and the NEB and at the official or technical level except in serious cases. The goal in this period was to
establish an informal consultative mechanism to ease or defuse potential tensions. For example, in 1960, the FPC inserted a caveat into an application approval to import Canadian natural gas that had the potential effect of extending FPC regulatory authority and control into Canadian jurisdiction. The Canadians believed that the FPC did not intend to assert control over Canada’s regulatory structure; they were just uninformed about how the Canadian system operated. The transgovernmental networks of Canadian Embassy and State Department officials helped to clarify the situation. Consequently, there was a more concerted effort through Cabinet Ministers on both sides of the border, to increase the exchange of information to avoid such misunderstandings in the future.

The goodwill and friendly relations between Eisenhower and Diefenbaker, with the support of key officials on both sides of the border through complex transgovernmental networks, led to the emergence of an informal continental oil and gas trading relationship. The framework established through Canada’s exemption to the MOIP, the increased trade in natural gas across the Canada-U.S. border, and the creation of Canada’s NOP, lasted until the first OPEC crisis of the early 1970s. Although the informal continentalism encouraged the increased continental trade of oil and gas, and Canada-U.S. interdependence, it did not remove the possibility of cross-border tension or conflict in oil and gas matters. There is no doubt that feuding, even strife, developed in the Canadian-American relationship. However, this came not with the election of John Diefenbaker, but rather with the election of John F. Kennedy.
CHAPTER 3
CONTINENTALISM STALLED, 1961 TO 1968

INTRODUCTION

Historians often discuss the 1960s as a decade of upheaval and turmoil. In the U.S. there was the Civil Rights movement led by Dr. Martin Luther King Jr., the hippie, feminist counterculture and student movements, the war on poverty, the escalation of the cold war with the Cuban missile crisis, the Berlin crisis with the building of the infamous wall, and the war in Vietnam, not to mention anti-war activism against American involvement.1 In Canada economic nationalism was on the rise and manifest in the creation of the socialist New Democrat Party (NDP) out of the Co-operative Commonwealth Federation and concerns about American foreign investment. There was also an increased sense of nationalism that found a focus with the 1967 centennial celebrations, expansion of the welfare state with Medicare, activism and protests on university campuses, increased activism of Native peoples, growth of the women’s movement and feminism, and of course, the Quiet revolution in Quebec.2 Internationally, the war in Vietnam, cold war tensions over Cuba, Berlin, and Eastern Europe, the spread of socialism and communism in developing countries, the Arab-Israeli war of 1967, the uniting and strengthening of Western Europe with a common market, and a host of other issues made the 1960s a turbulent and troubling time.


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Nonetheless, even with the formation of the Organization of Petroleum Exporting Companies (OPEC) in September 1960, and the brief interruption in oil supplies resulting from the 1967 Arab-Israeli conflict, for the international oil and gas industry, the 1960s was a period of relative calm before the storm of the 1970s. In Canada-U.S. oil and gas relations, despite the near reversal of U.S. policy towards Canadian oil imports in 1962/63, and the tensions underlying the ongoing technical negotiations for the level of Canadian oil imports into the U.S., trade in oil and gas continued to expand throughout the rest of the decade. Most accounts of this period emphasize the apparent stability in the Canadian-American trade in oil and gas—if it is mentioned at all. Understandably, the official Canadian exemption to the U.S. Mandatory Oil Import Program (MOIP) was not revoked until March 1970, and the high drama of the OPEC crises of the 1970s is more exciting and controversial to examine, which is where the focus tends to be. Yet, things were not as sanguine as one might think, and the semblance of stability was only made possible through the “multiple channels of contact between the two countries,” and the “continuous consultation and mutual understanding between the two governments.”

From the announcement of the National Oil Policy (NOP) in 1961 until 1968, Canada’s

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5 Sharp, Which Reminds Me..., 182.
main objective was to maintain its exemption to the MOIP, while the U.S. sought to ensure that the increase in Canadian oil imports were not "too large or sudden." Soon after John F. Kennedy’s administration grasped the reigns of government, American officials insisted on assurances that oil exports to the U.S. would not grow too quickly; this later expanded into a "voluntary" restriction on Canadian oil to be administered by Canada.

While Canada had developed its National Oil Policy, the Kennedy administration initiated a policy review—ostensibly, to develop a national fuels policy, as mentioned in the Democratic Party’s 1960 election platform, but it never materialized. The review also included a reconsideration of the MOIP, and the status of Canada’s exemption to the programme. Tensions between Diefenbaker and Kennedy increased between mid-1961 and early 1963, and this poor relationship began to take a toll on Canada-U.S. oil relations, as Kennedy’s officials sought ways to reflect their leader’s disfavour with Ottawa in tangible ways. Significantly, for Canada, the State Department’s involvement in the oil import question was considerably reduced, and, in many cases, circumvented outright by certain officials in the Department of Interior and the White House. Indeed, Kennedy was preparing to revoke Canada’s exemption to the MOIP to spite Diefenbaker, but after the Liberals were elected, Prime Minister Lester Pearson convinced him otherwise at the Hyannisport meeting in May 1963. This reinforced to many within the

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6 United States National Archives (USNA), RG 59, Alpha-Numeric files Relating to Canadian Affairs, 1957-63, Box 3, File Oil Quotas, 1957-1961, Memorandum to George Ball from Edwin E. Martin, Subject: Possible Change in Canadian Oil Policy, 24 January 1961, 2.


8 Charles Ritchie, Storm Signals: More Undiplomatic Diaries, 1962-1971 (Toronto: Macmillan of Canada, 1983), 2-3. Ritchie comments, "For an embassy to be in disfavour with the White House at a time when the office of President was at the height of its power and influence was a disconcerting experience. The word had swiftly percolated down into every department of the United States Administration." (2) See also for example, USNA, RG59, Alpha-Numeric files Relating to Canadian Affairs, 1957-63, Box 3, File Oil Quotas 1957-1961, "Memorandum to George Ball from Philip Trezise, Subject: Canadian Oil, 2 November 1961."
Canadian government Canada’s vulnerability to American policies. But at this time, Canadian
government leaders and their officials discouraged a policy course of promoting Canadian self-
sufficiency in oil and gas, and pursued instead the maintenance of the MOIP exemption with the
goal of expanding exports as much as possible, which fit in with the policy of informal
continentalism. 9

Within a few years, the MOIP exemption existed in name only, and Canadian oil imports
were not accorded unlimited entry into the U.S., but rather were determined or limited by an
informal “understanding” between the Chairman and officials of the National Energy Board
(NEB) and representatives of the U.S. Department of Interior that Canadian oil would not unduly
displace American domestic oil. The terms of the understanding were reviewed regularly and
adjusted according to changes in the supply and demand structure of the Petroleum
Administration for Defense Districts (PADD) or import areas. 10 The most fascinating part of this
rather bureaucratic process was the Canadian success at exceeding the limits on a regular basis.
Then, in 1967, Canada and the U.S. signed a secret agreement in which Canada agreed formally
to limit exports, yet these too were exceeded.

Of significance, from the end of 1963 until 1968, is the fact that President Lyndon B.
Johnson removed consideration of oil policy from the White House. This meant that
responsibility and authority over the maintenance of oil policy, as delegated by Johnson, rested
with the Secretary of Interior Stewart Udall and relevant areas of the State Department. Thus, oil
and gas relations were only marginally affected by the worsening personal relationship between
President Johnson and Prime Minister Pearson. Nevertheless, the informal continental oil and
gas relationship that was maintained between Canada and the U.S. did not necessarily mean

9 See Chapter 2, 122-123.
10 See Chapter 1, 41-42.
security for the continental oil and gas trade. Canadian leaders and officials came to realize that Canadian oil exports seemed to be at the mercy of American arbitrariness and whimsy.

In order to explain the maintenance of this informal continental arrangement, and the stalling of continentalism, the explanatory variables of interest group pressures (independent oil industry, multinational oil industry, Congress, environmentalists/conservationists), economics (state of the economy and oil prices), ideas (market forces, protectionism), international forces (OPEC and Venezuela), national security concerns, and personalities (President-Prime Minister relationship and support of key officials) will be examined within the context of the decision- and policy-making processes. Although interest groups, economics, ideas, international forces, and national security all had varying levels of influence on the decisions taken by both countries, the varying personal relationships between leaders and the roles of key officials was the most important factor influencing Canada-U.S. oil and gas relations in this period. Indeed, the tremendous efforts and strong personal links or networks between Canadian and American officials prevented the oil and gas difficulties from becoming major irritants.

The examination in this chapter of how continentalism was stalled is divided into three parts: The first briefly examines the American and Canadian decision- and policy-making processes of this period; the second explores the period of the Kennedy administration from January 1961 to November 1963, including Canada’s dogged commitment to its MOIP exemption; and the third analyses the developments in the Canada-U.S. oil and gas trade that took place under the administrations of Lyndon B. Johnson from November 1963 to the end of 1968.

I. Decision- and Policy-Making Processes

In the U.S., although the decision- and policy-making processes did not change very
much from the Eisenhower to the Kennedy administrations, except with respect to the involvement of the State Department, the ability for decision-making altered considerably under President Johnson.11 During the Kennedy administration, appeals were still made by affected groups, such as the American independent producers, to strengthen controls on oil imports and protect the domestic industry. The Office of Civil and Defense Mobilization (OCDM) was reorganized and renamed the Office of Emergency Planning (OEP), which was given the responsibility of determining whether or not there was a national security risk in the level of oil imports.12 As under the Eisenhower administration, at the request of the President, the OEP would undertake an interdepartmental study to determine the level of risk to national security and provide recommendations on what to do about it. The report would then be submitted to the President and Cabinet with the final decision on changes being made by the President, as actual changes to the MOIP were only possible through Presidential Proclamations. However, the Department of the Interior, which was responsible for administering the MOIP through the Oil Import Administration (OIA), could circumvent the OEP by recommending MOIP amendments directly to the President.13 Under Kennedy, the State Department did not exercise as much influence or have as much input into policy considerations as it had under Eisenhower. Some suggest State lost credibility after the Bay of Pigs fiasco, and, thus, Kennedy looked to trusted

11 John F. Kennedy Library (JFKL), White House Staff File (WHSF), Myer Feldman, Box 23, File Oil Import Controls 7/62 - 8/62, Letter to Clyde La Motte, Washington Editor Oil & Gas Journal from Myer Feldman, 21 July 21 1962. Feldman was Kennedy's “point man” on oil issues. In this letter, he was responding to a critical article in the Oil & Gas Journal that accused the Kennedy Administration of lacking leadership on oil issues. Feldman replied, "I am not quite sure what you mean by the lack of leadership but we retain the same lines of authority that have always existed. The Interior programs are guided by the Secretary, Ed McDermott [Director OEP] has the responsibility for the studies, I serve as liaison to the President who makes the really tough decisions. The President calls the signals." (2)


13 JFKL, WHSF, Myer Feldman, Box 23, File Tariff Trade - Oil Import Controls 11/27/61 - 12/21/61, Memorandum to the Director, Bureau of the Budget from Resources and Civil Works Division (J.H. Mayer), Subject: Proposed Proclamation on Oil Import Quota, 29 November 1961, 1.
officials within his inner circle to provide advice and analysis of potential consequences.\footnote{14} Whatever the reason, the documentary evidence confirms that State’s influence in the MOIP changes of late 1962 was cursory, and their advice ignored.\footnote{15} In any event, the White House was very much at the centre of this process.

Despite the production of an Interior Department review in mid-1961, the Kennedy administration, like the Eisenhower administration before it, decided that because oil issues were politically sensitive, and a controversial trade agreement bill was going to be introduced in Congress, it could not act immediately upon Interior’s recommendations.\footnote{16} Therefore, at the end of 1961, as a delaying tactic, President Kennedy (like Eisenhower before him) requested a more comprehensive study into the ”petroleum requirements and supplies in relation to national security objectives.”\footnote{17} An interdepartmental Petroleum Study Committee (PSC) was established to carry out the study under the chairmanship of the OEP director. The report was delivered to the President in September 1962, but the few changes to the MOIP were not made until December of that year, and they did not reflect the recommendations of the PSC study.

Where petroleum policies were considered within the President’s White House circle during Kennedy’s administration, this was not the case during Johnson’s presidency. Acutely

\footnote{15} See for example, USNA, RG 59, Alpha-Numeric files Relating to Canadian Affairs, 1957-63, Box 3, File: Oil Quotas 1957-1961, “Memorandum to George Ball from Philip Trezise, Subject: Canadian Oil, 2 November 1961. Trezise comments, “The Department was not invited to the Kelly-McKinnon get togethers [sic] and has heard about them principally through the Canadians.” (3) For State Department suggestions being ignored see, JFKL, WHSF, Myer Feldman, Box 24, File Tariff Trade -- Oil Presidential Proclamation, 11/30/62, 10/62 - 12/62 & Undated, Memorandum for Myer Feldman through McGeorge Bundy from William H. Brubeck, Subject: Petroleum Import Policy, 16 November 1962. For comments on the consequences not being thought through by Interior see, USNA, RG59, Records Relating to Venezuela, 1960-63, Box 4, File Petroleum 17-2 Imports 1963, Memorandum to Mr. May from Daniel F. Margolies, Subject: Venezuelan Oil, 12 April 1963.
\footnote{16} Ibid., Memorandum for Mr. Feldman from Kenneth R. Hansen [Assistant Director Bureau of the Budget], 30 November 1961. See also, Barber “Studied Inaction in the Kennedy Years,” 301.
\footnote{17} United States Department of Energy (DOE), Job 1002, Box 25, Folder 25 Petroleum Study Committee (OEP), 1962-63, A Report to the President by the Petroleum Study Committee, 4 September 1962, 1.
sensitive to allegations of conflict of interest, and perhaps also wanting to reduce pressure from Senators and other friends for special treatment on pet issues relating to oil and gas, Johnson directed his advisors and Cabinet to keep oil out of the White House. This meant that Johnson would only be involved at the very end of the process when a final decision was required of the President. In this respect, he delegated responsibility mainly to Secretary of Interior Stewart Udall, though the OEP and the State Department also competed for authority. The lack of direction from the White House led to bureaucratic and departmental competition, which meant that many studies were again undertaken but no major policy changes took place.

In the administrations of both Kennedy and Johnson, natural gas issues were not high on the agenda except to try to enact regulatory reform, which bogged down in Congress, or in Kennedy’s case, to make a political point to Canada. In the latter instance, Kennedy delayed signing Presidential permits for two pipelines in 1962, one for oil and one for natural gas condensates, something that was usually just a formality. In most cases, the Federal Power Commission (FPC) was left to manage as best it could in the circumstances. Indeed, the Canadians commented in September 1963 that “there [were] no problems concerning natural gas .... Neither is it expected that the United States representatives will wish to raise any such

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18 Lyndon B. Johnson Library (LBJL), White House Central File (WHCF), Subject File TA6, Box 19, File TA6/Oil 1/1/65-5/31/65, Memorandum to President from Jack Valenti, 29 April 1965. On this memo Johnson wrote, “I must not bring oil into W.H. & tell them [Senators John Pastore, Edmund Muskie, Everett Saltonstall] not to insist – ask them to see Ellington [Director, OEP] if they won’t see Udall [Secretary of Interior].”

19 See for example, LBFL, Anthony M. Solomon Papers, Box 6, File Oil [1 of 2], Doc#8, Telephone transcript 1105 Bowdler and Solomon, 28 July 1967. Venezuela was pushing to involve the President in negotiations to increase its exports to the U.S., but the Americans felt it was “not necessary to bother the President” with the issue. In contrast, Kennedy or one of his close officials like Myer Feldman would likely have been brought into the discussions, as happened in 1962 and is discussed below.


questions."^{23}

In contrast, the Canadian decision- and policy-making process was more centralized, as the responsibility for oil as well as gas issues rested primarily with the National Energy Board (NEB). It provided policy advice to Cabinet, implemented Cabinet decisions, and oversaw an ad hoc interdepartmental committee structure that included representatives from the Departments of Trade and Commerce, Finance, External Affairs, Defence, and occasionally the Bank of Canada. The Chairman of the NEB, accompanied by External Affairs and Trade and Commerce officials, also led discussions with U.S. officials. As mentioned in Chapter 2, Cabinet was involved, but at a later stage compared to the American system. Doern and Toner suggest that:

One of the key objectives of creating the NEB was to depoliticize the energy issue by shifting decision making responsibility with respect to pipeline construction and export volumes and prices from the high profile Cabinet-Parliamentary arena of the 1950s to the low-profile business-like forum of a quasi-independent and expert regulatory agency.^^^^24

The NEB’s main priority in the 1960s was to maintain the National Oil Policy. This meant ensuring the continuance of Canada’s MOIP exemption, and persuading oil companies to maintain the Ottawa Valley Line and reduce the influx of cheaper offshore oil into Ontario. The NEB also accumulated and monitored Canadian oil and gas data, and conducted hearings on oil and gas pipelines and exports.^^25

By the mid-1960s, however, the dominion government, ten years before the U.S, decided that a more coordinated approach was needed for all energy resources, and created the

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The NEB was included under the authority of EMR along with Atomic Energy of Canada Limited, the Atomic Energy Board, Eldorado Nuclear, and the Dominion Coal Board. The Minister of EMR took over from the Minister of Trade and Commerce as the main Cabinet member involved in energy related negotiations or discussions with the U.S. The Deputy Minister of the new department was also a new member at the table during negotiations with the U.S. In addition, the ad-hoc committee structure was altered to form a standing Cabinet Committee on Resources and Trade that examined and worked out policy for energy related issues. In 1966-1967, this included analysis of the Interprovincial Pipeline proposal to run a spur line to Chicago, and the agreement with the U.S. to permit it. Nevertheless, even though EMR was created in 1966, the NEB remained the central place for oil and gas policy advice until the early 1970s.

As discussed in the previous chapter, an intricate network of transgovernmental relationships profoundly affected Canada-U.S. oil and gas relations, and continued throughout the Kennedy-Johnson Diefenbaker-Pearson periods. As will be discussed below in more detail, although the relations between some Canadian and American officials suffered during the low points of the Kennedy-Diefenbaker disputes, the strength of the overall networks continued and increased during the Kennedy-Johnson-Pearson period, though it shifted to some extent from State Department-External Affairs networks to NEB-EMR-Interior Department-FPC networks. Officials met on a regular basis to negotiate the level of Canadian oil exports to the U.S., and

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there was increased co-operation between the NEB and the FPC on some natural gas issues.28

Yet, as will be discussed later, the efficacy of the transgovernmental networks in solving disputes during the Kennedy-Diefenbaker period was constrained by the animosity between the two leaders. Cabinet ministers from both sides of the border continued to meet during the annual meeting of the Joint Committee on Trade and Economic Affairs (JCTEA), though this was suspended at the end of the Kennedy-Diefenbaker period, and at various international gatherings such as NATO, OECD, or UN meetings, where concerns were aired and discussed. The leaders of each country spoke to each other on the telephone and at international meetings as well, though Kennedy and Diefenbaker rarely spoke to each other between the end of 1961 and 1963. Also of significance is that the leaders of each country set the tone of the relationship, which became manifest in how Canadian and American officials dealt with one another. This helps to explain how Canada almost lost its MOIP exemption in 1962/63, and at the same time, how it was able to maintain it (though in a qualified form), and continually exceed agreed upon oil export levels for the rest of the decade.

II. Kennedy Administration 1961 to 1963

On 30 November 1962, President Kennedy, with little warning, announced amendments to the MOIP. Until that time, imports into Districts I-IV (see figure 1 below) were calculated at around nine percent of demand, but were now to be calculated precisely at 12.2 percent of domestic production from the base year of 1961.29 It so happened that 1961 was chosen because there was lower than normal domestic production levels. The treatment of District V remained

28 This did not prevent the FPC from rejecting an application by Westcoast Transmission and El Paso Natural Gas Company to export gas to the U.S. in August 1967, even though the NEB had approved it. See, NAC, RG2, Series A-5-a, Vol. 6323, File 1967 Cabinet Conclusions August, Cabinet Conclusions, 30 August 1967, 2:30 p.m., 2-3.
29 Interestingly, in the Voluntary Oil Import Program of 1957-59 imports were calculated on the basis of 12 percent of domestic production.
unchanged: Imports were calculated "by the differences between expected demand and local production," but the use of domestic production was to be encouraged. Of importance for Canada, the implementation of the overland exemption, and historical allocations to refiners, were altered.

Under the Eisenhower proclamation amendment of 1959, overland imports were considered separately from other imports (except in District V), and were basically on the same footing as domestic oil. But with the 1962 changes, overland oil was to be deducted from the

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total imports. Rather than curb Canadian imports, as supposedly intended, this meant that refiners who utilized predominantly Canadian oil could increase that supply (because it did not require a licence, was not formally limited, and for which their refineries were equipped to process) and thereby reduce the amount of imported cheaper oil available, upon which their competitors were reliant. Of importance is the fact that the refiners using Canadian oil in District V were all multinational companies. The complaints about unfair competition were launched by independents out of California, the most vocal opponent being Union Oil. The rapid phasing out of historical allocations to refiners in Districts I-IV was intended to increase competition by encouraging new refiners to enter the market. The Canadians observed that the changes would likely cause an increase rather than a decrease in Canadian imports; without the limits, refiners in the mid-West that had been somewhat limited by the historical allocations could now increase their Canadian supply at the expense of the more costly American domestic oil. This is indeed, what happened.

Contrary to the provision within the original proclamation to consult with affected Western Hemisphere partners before major changes were made, the Canadians were briefly informed two days before the announcement, and the Venezuelans received only twenty-four hours notice. The Canadians were perplexed because in mid-November, the State Department had requested talks to discuss “bilateral and national measures to strengthen continental

32 However, with the way in which import tickets were traded, in practice, Canadian exports did not suffer as expected. The Oil and Gas Journal called it “the biggest spate of horse trading in the history of the oil business.” As quoted in, Bradley, Oil, Gas and Government vol. I, 739.
33 Since there was a capped amount of imports, and the majority of the imports were allocated to refiners according to their historical use, new refiners were limited.
petroleum security.36 It seemed contradictory for the U.S. to make unilateral changes to the oil import program intended to weaken the Canadian petroleum industry, and then wish to discuss bilateral continental petroleum security. These talks were eventually scheduled for mid-December.

At the December meetings in Ottawa, it quickly became clear that the purpose of the meeting had nothing to do with continental petroleum security, and was meant as an opportunity for the U.S. to explain the changes to the MOIP. American officials emphasized that despite the modifications to the MOIP, Canada’s exemption remained intact—for the time being. However, John Kelly, Assistant Secretary for Mineral Resources of the Interior Department, warned the Canadians that the amendment would be reviewed in six months, and if Canadian oil exports to the U.S. were excessive, or if Canada failed “to cooperate [sic] fully in the observation of these ceilings [it] would raise a serious question with regard to U.S. policy.”37 This type of statement was interpreted as a threat to the overland exemption: If, over the next six months, Canadian oil exceeded the informal limits agreed upon at the meeting, the exemption would be revoked. NEB officials wrote that they understood the inflexibility and tone of the meeting partly stemmed from the White House, and commented, “The tone of the meeting left something to be desired, and should not be ignored in assessing our approach to any future discussions.”38 The State Department’s report of the talks suggests that a threat to the exemption had been made. Officials

38 NAC, RG 99, Vol. 67, File 23, Future Discussions with the U.S. Regarding Canadian Exports of Oil, 6 May 1963, 10. See also pp.18-20 in which the NEB officials suggest that in order to discourage President Kennedy from revoking the MOIP exemption, Canada should offer to co-operate in joint studies “in the development of our joint resources in the mutual interest of our two countries...” and co-operate in controlling export levels short of formal export controls.
wrote, “Elimination of the overland exemption should clearly be avoided. . . . Removal of the exemption is probably too severe a penalty to be employed against relatively small overruns.”\(^{39}\) But the type of changes to the MOIP that were implemented seemed likely to lead to significant overruns, unless the NEB was able to convince U.S. refiners and Canadian companies to accept the “voluntary” limitations, which it was able to do, though Chairman McKinnon of the NEB believed he would be unable to elicit such co-operation indefinitely.\(^{40}\)

By the time the six months had expired, Diefenbaker’s government had fallen, and the Liberal’s under Lester Pearson formed a minority government. The attitude taken by the Kennedy administration towards Canadian oil altered markedly. There was no mention of revoking the Canadian exemption any longer. In June of 1963, Kennedy amended the MOIP again; the overall import levels were to be calculated at 12.2 percent of estimated domestic production for the allocation period instead of the 12.2 percent of domestic production of the previous year’s corresponding allocation period that was employed under the November 1962 amendments. This enabled a slight increase in both Canadian and Venezuelan imports.

After the Hyannisport meeting, between May and September 1963, several additional meetings were held between Canadian and American officials to discuss “joint studies concerning all forms of energy,”\(^{41}\) and another voluntary agreement that would permit “reasonable” levels for Canadian oil exports to the U.S., slightly above the previously agreed


\(^{40}\) NAC, RG 99, Vol. 72, File 53, Joint Studies-Oil Background Information, 6 September 1963, 2, 8. The NEB briefed the Minister of Trade and Commerce on the effect of the MOIP alterations, and the difficulties in quelling the “clamouring for more of the cheaper Canadian crude.” The NEB pointed out that “in co-operation with the industry, [the NEB] has exercised a restraining influence on exports in order to try and keep Canadian exports into Districts I-IV within limits consistent with the spirit of the overland exemption.” (2)

upon amounts. There was a general feeling on both sides of the border that a “new atmosphere” prevailed in Canada-U.S. relations. The question is: What accounts for President Kennedy’s near reversal of Canada’s MOIP exemption, and the subsequent decision to maintain an “understanding” about import levels and co-operate more on energy issues instead? How much influence did ideas, economics, international forces, interest groups, national security, and personalities have on the decisions taken?

IDEAS

Market Forces

Although Kennedy supported the concept of increased trade liberalization, as seen in his commitment to the passage of the Trade Expansion Act (TEA) in 1962, and his position for the General Agreement on Tariffs and Trade (GATT) talks, he did not seem as conflicted as Eisenhower about the contradiction between it and the MOIP. It is likely that Kennedy not only saw the MOIP as a special case, but also as a bargaining tool to secure votes for the TEA. Evidence of the former is in his appointment of John Kelly, a clear advocate of the domestic industry, to be the main person responsible for the MOIP in the Department of Interior. For the latter, before one of the votes in Congress on the TEA, Kennedy’s special counsel, Myer Feldman, and Kelly met with a few Congressmen and Senators to discuss the administration’s plans for the MOIP “and to receive assurances regarding the vote…” Few if any of the key Congressional members on the TEA vote desired Canada’s exemption to be revoked, indeed,

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42 Michael Hart, A Trading Nation (Vancouver: UBC Press, 2002), 226-229. Hart argues that Kennedy saw trade liberalization as a way to stimulate the domestic economy as well as “a means of strengthening ties between nations.” (226-227) The TEA gave the President authority “to cut tariffs by 50 percent from 1962 base levels, and to go to free for tariffs below 5 percent.” (227) Hart also describes how Kennedy and his advisors had to press Congressional members continually in order to win the support required to pass the bill.


assurances that negotiations with Canada on a voluntary limit were enough to assuage concerns of certain members. The Kennedy administration’s policy was to maintain the MOIP in order to strengthen the domestic industry, thus open competition under the principle of market forces or trade liberalization was out of the question.

Protectionism

Given Kennedy’s position on the TEA, and the preparations to further expand international trade in the GATT talks, it is clear that there was a general desire to combat protectionism. However, oil policy was very much motivated by protectionist interests and political considerations. Some analysts like Morris Adelman of M.I.T. argued that the regulatory commissions with vested interests, such as the Texas Railroad Commission, were a large part of the problem. The great number of marginal wells with higher cost production operating in the producing states provided a number of jobs through well maintenance, drilling, and so on. If the MOIP restrictions on imports were reduced or if it was revoked all together, then the less efficient wells would be capped and affected communities would be outraged at the loss of employment.45 The larger independent companies, and the smaller constituencies that had strong representation in Congress, were very vocal about the need for protection, and the MOIP changes reflected most of their complaints. In addition, as mentioned above, the MOIP was also used to secure support from key Congressional members for the TEA bill. But what influence did the idea of protectionism have on Kennedy’s veiled threat to revoke Canada’s MOIP exemption, and then the commitment to co-operation with Canada? Did Kennedy believe that Canadian oil was a threat to the American domestic industry?

The odd aspect about the MOIP changes was that they actually increased demand for Canadian oil in such a way that it was incredibly difficult for the NEB to limit the amounts as agreed upon without imposing formal controls. Although some State Department officials flatly stated that the consequences of the changes had not been well thought out, they were referring to the impact on Venezuela rather than the impact on Canada. The evidence seems to indicate that the intent behind the changes was not just to protect the domestic industry, but also to cause a sudden increase in Canadian imports so that the U.S. would have a tangible reason to revoke Canada’s MOIP exemption. Kennedy did not want to appear vindictive, and if imports surpassed the “voluntary” limit Canada had agreed to, then the U.S. would have every justification to revoke the exemption.46

Kennedy’s reasons for permitting the MOIP changes that affected Canada, and his subsequent co-operation, had less to do with protectionism than with his personal animosity towards Diefenbaker and his personal friendship with Lester Pearson as will be discussed below in the section Personalities.

INTEREST GROUPS

American Independent Oil Producers

As during the Eisenhower administration, the American Independent oil producers exerted some influence over the oil policies of the Kennedy administration. The main change they wanted with respect to the MOIP was to change the basis of the import formula from a percentage of domestic demand to a percentage of domestic production. The Independent Petroleum Association of America (IPAA) and Texas Independent Producers and Royalty

46 As Allen Matusow points out in Unravelling of America, “As the complete politician, John Kennedy understood that image was power. . . . These images, painstakingly crafted, were arguably the greatest achievement of his administration.” (30) Perhaps Kennedy did not want the world to think he arbitrarily removed Canada’s preferred position because of Canada’s lukewarm response to America’s actions in the Cuban missile crisis.

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Owners (TIPRO) argued that imports had not abated as much as expected during the first two years of the MOIP, and though American production had marginally increased, the number of wells drilled had decreased; therefore, in their view, more stringent controls were required. Given that amendments to the MOIP in December 1962 closely resembled the position and proposals of the Independent oil producers, one could make the case that the Independents strongly influenced the Kennedy policy. What is interesting is that the Interior Department submitted almost identical MOIP amendments in October 1961 and Kennedy rejected them, yet they were accepted in late 1962—why?

First, it must be recognized that the Kennedy administration was sympathetic to the Independents’ position, which was reflected in statements made by Secretary of Interior Udall in 1961, as well as in the appointment of John M. Kelly as the Assistant Secretary for Mineral Resources at the Department of Interior.47 Responding to the new Canadian National Oil Policy, Udall told the Canadians “that if increased sales to the United States are ‘properly and orderly timed’ there will probably be no necessity for a U.S. review of the ‘overland’ exemption for Canadian oil.”48 The role of personalities here is also significant as Kelly was himself an independent oil producer, and championed alterations to the MOIP that would decrease oil imports and benefit domestic producers. According to Kelly, he was appointed by Kennedy to

47 Other Kennedy appointments reflected his support of the Independents. For example, in April 1961 Lawrence O’Connor was kept as Director of the Oil Import Administration. He previously served as Director and Vice President of the IPAA’s Houston district. Also, in September 1961 Kennedy appointed Jerome O’Brien as the Director of the Office of Oil and Gas. O’Brien was a former president of TIPRO. See, DOE, Job 1002, Box 21, Folders 27 and 28 Press Releases—Interior Department Office of Secretary—1960-61, Department of Interior Information Service, Press Release, O’Connor to Continue as Oil Import Administrator, 27 April 1961, and Department of Interior Information Service, Press Release, Jerome J. O’Brien named Director of Department’s Office of Oil and Gas, 5 September 1961.

report directly to the White House on oil matters because Udall “had no experience in oil, he had no knowledge of the problems of the oil import program . . .”49 The Canadians viewed Kelly as the person in Interior responsible for the MOIP.50 Kennedy most likely appointed Kelly to “handle” the Independents and come up with ways that would keep them happy, quiet, and supportive of the administration.

The MOIP amendments submitted by Kelly and the Interior Department were rejected in 1961 for three reasons. First, few if any of the other departments agreed with Interior’s proposed changes. Second, Kennedy was persuaded that the oil issue was too controversial and could impair the passing of the TEA, so it would be best to delay action on the MOIP. Third, Kennedy’s dislike for Diefenbaker was growing, but it had not yet reached the point where calculated action to punish Canada was acceptable, as it would be in late 1962-early 1963.

By October 1961, Interior circulated its proposed changes to the MOIP, which included altering how the overland exemption was implemented: imports from that category would be deducted from the total allowable of all imports. Given that most of the Canadian oil entering Districts I-IV supplied refineries that had no access to any other imported oil, deducting overland imports from the total allowable would cut into the Middle East and Venezuela’s share of the U.S. market. However, it would stop Canadian oil from competing directly with American domestic oil.51 This initial plan met with vigorous opposition from the State Department, OEP, Bureau of the Budget (BOB), and Treasury. All argued that America’s relations with Venezuela

50 NAC, MG 32 B39, Vol. 28, File 15, Memorandum to the Minister Finance from A.F.W. Plumptre, Subject: Visit of U.S. Secretaries of Agriculture and Interior, 1 May 1961. “Mr. Udall will be accompanied by Mr. Kelly, his Assistant Secretary, who has assumed direct responsibility for the oil import programme in the Department of the Interior.”
51 Barber, “Studied Inaction in the Kennedy Years,” 297.
and Canada would be seriously damaged, flaws in the calculations were pointed out, and the alleged benefits to the domestic industry were questioned.

Myer Feldman, Kennedy’s point man in the White House on oil, reassured OEP, State, and BOB, that he would have Interior’s MOIP amendments blocked in the White House by suggesting that the issue was too politically sensitive and could impair the passage of the TEA.\(^{52}\)

In late November 1961, an interdepartmental meeting, chaired by Kennedy’s special advisor Theodore Sorensen, was held to discuss Interior’s proposed changes. The recommendation from the meeting was that further study was required. Kennedy agreed, and the PSC was created.

Of importance, at this time, was that Kennedy’s loathing of Diefenbaker had not yet reached critical proportions. The various meetings between the two in 1961, particularly during the President’s visit to Canada in May 1961, reinforced the mutual dislike, as Diefenbaker came across as indecisive, particularly with respect to nuclear weapons, and rather dull. Secretary of State for External Affairs Howard Green did not help matters with ill-timed comments on America’s Bay of Pigs fiasco.\(^{53}\) Then there was the incident at the State dinner during the Canadian visit when the President literally turned his back on the Prime Minister and spent the entire time in a conversation with Lester Pearson—Diefenbaker’s nemesis, as will be discussed later. After the visit, Kennedy and his officials referred to the Canadian Prime Minister as “Diefenbach” in their internal correspondence.\(^{54}\) Essentially, in 1961, Kennedy and his inner circle ridiculed Diefenbaker and hoped action would be taken on accepting nuclear weapons, but

\(^{52}\) DOE, Job 1012, Box 2, Folder 6 Crude Oil Import (Modification) #1, Memorandum for the Record, from Robert L. Finley, Subject: Interior's Amendment of the Oil Import Program, 27 October 1961.

\(^{53}\) Lawrence Martin, The Presidents and the Prime Ministers (Toronto: Doubleday Canada Ltd., 1982), 186-187.

\(^{54}\) See for example, JFKL, POF, Countries, Box 113, File Canada Security 1961, Note to JFK, no date, no author. The little note is written on White House stationery.
there was no concerted effort or desire to tangibly express displeasure with Diefenbaker via policy initiatives.

What changed in 1962 that led Kennedy to accept Interior’s MOIP amendments that had been rejected the year before? The same concerns from other departments about damaging relations with Canada and Venezuela were put forward, but ignored. The TEA was passed so Kennedy did not have to worry about stirring up trouble in Congress. The PSC report was complete, and made very different recommendations than Interior, yet Interior’s same proposals from 1961 won the day. Was there increased pressure from the Independent industry? Most Independents, in 1961 and 1962, maintained their position with respect to the Canadian MOIP exemption: as long as Canadian imports did not threaten the independent industry, or flood the U.S. market, no outcry would be made.\(^{55}\) The only pressure came from the Union Oil Company of California; they wanted Canadian oil into District V to be under a strict and formal quota.\(^{56}\) However, the MOIP changes really only targeted Canadian oil into Districts I-IV, thus Union Oil’s proposals were not included in the amendments. The one striking difference was the alteration in the Kennedy-Diefenbaker relationship, and Kelly capitalized upon it in order to put through changes that he thought would not only help the Independent industry but also score points with the President by punishing Canada. Although the Independent industry did exert influence on the Kennedy administration, the role of personalities—the Kennedy-Diefenbaker

\(^{55}\) NAC, RG 25, Vol. 5660, File 14405-c-8-1-40 pt.5, Telex 620 from WashDC to External, Subject: Speech by Lawrence J. O’Connor, Administrator Oil Import Administration, 1 March 1961; Ibid., Memorandum R-5 to Mr. I.N. McKinnon from N.R. Chappell, Subject: Independent Petroleum Association of America – Position re Oil Imports from Canada, 23 March 1961. See also, NAC, MG 32 B39, [Donald Fleming Fonds], Vol. 128, File 15, Memorandum re Visit of Mr. Udall Secretary of Interior, 5 May 1961, Appendix B, Extract from Piatt’s Oilgram for Wednesday, May 3, 1961, “IPAA Calls for Tighter Controls on Oil Imports.”

\(^{56}\) See for example, DOE, Job 1013, Box 7, Folder 3 Petroleum Study Committee (General) 5/1/62 to 1963, Letter to John Kelly from Union Oil Company of California re: Canadian Imports, 5 September 1962. Interestingly, before entering government service, Kelly had been a consultant to Union Oil.
relationship and the support Kennedy gave to Kelly, who pushed for the changes relentlessly, was the deciding factor as will be discussed below.

_Multinational Oil Companies_

Although the large integrated multinational companies controlled a large percentage of the oil production in Canada, the U.S., and most other places in the world, in many ways, they were in an unenviable position. On the one hand, they were vilified by the public, the independent industry (producers and refiners), the press, developing countries, and those in government (particularly the anti-trust division of the Justice Department) who despised that amorphous entity—"big business." On the other hand, they were expected to keep prices low for the consumer, but keep prices high for the developing producing nations; increase production everywhere, but not have a world-wide glut; co-operate with governments to plan for emergencies and periodically adjust refinery runs to support administration requests, but not co-operate too closely with the government lest they be accused of influencing policy.

Like the Independents, the multinational companies interacted mainly with the OIA, the OEP, and the OOG rather than directly with the executive. They, like the Independents, provided detailed submissions at the various hearings that were held in 1961/62 when changes to the MOIP were being considered. The general attitude of most senior officials, however, was that they were fully aware of the various positions of the different companies and interests within the industry as a whole, and would act in a way that they thought was best for the administration and the nation. That being said, the changes that were made to the MOIP and the Canadian exemption do not seem to have been influenced by the multinational industry.

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57 DOE, Job 1013, Box 8, Folder 4 Untitled Notebook, Office of Emergency Planning, Minutes of Meeting No.4, Petroleum Study Committee, 13 February 1962, 3-4. Admiral Biggs from the Defense Department.
In Canada, the multinationals were, however, in close contact with the Chairman of the NEB, and occasionally met with the Minister of Trade and Commerce and senior officials. One of the complaints of the Kennedy administration was that Canada was increasing its production through exports rather than domestic consumption, while increasing imports from the Middle East. To mollify American concerns, and maintain the MOIP exemption, the Canadians exerted a great deal of pressure on the multinational industry to control exports and increase refinery capacity in Ontario for Canadian domestic crude.58

Congress

Similar to the Eisenhower period, representatives of affected states (producers and refiners) from the Senate and the House exerted some pressure on the Kennedy administration regarding petroleum policy—particularly oil policy. A trade agreement bill was going to be introduced into Congress in early 1962, and Kennedy needed support from key members who had specific interests in oil import policies. Even within the Democratic Party, interests conflicted, particularly as it related to Canadian oil imports. For example, some representatives from North Dakota and California wanted Canadian imports reduced. North Dakota had recently become an oil producer and competed with Canadian oil for the mid-West market. Independent refiners in California wanted Canadian imports into the Pacific Northwest to be reduced because they believed it was flooding the market and giving an unfair advantage to the multinational commented that if the industry was asked to participate in the study “they each will give us 75-page briefs.” Nicholas Katzenbach of Justice responded, “We might limit them to one pound—.” OEP acting director Edward McDermott joked, “Then they would use onion skin!” Admiral Biggs observed, “All of us have rooms full of material industry has filed with us. Ninety percent of the time, all you have to do to know what is in a letter is to look at the letterhead.”

58 NAC, MG 32 B39, Vol. 128, File 15, Memorandum re Visit of Mr. Udall Secretary of Interior, 5 May 1961, 4-5.
companies that were the sole refiners of Canadian oil in the region. Refiners in Washington State wanted to maintain or even increase the level of Canadian imports; so too did the refiners in the Minnesota, Ohio, or the Northern Tier area of the mid-West since they only had access to Canadian oil, and if formal quotas were implemented on Canada their refineries would not be able to expand.

These different interests lobbied their respective Senators and House representatives, who then brought the issue to the attention of the administration. The striking aspect of Congressional relations in the Kennedy period is that, regarding oil policy, members only occasionally directly lobbied the President. Even if Kennedy tended to rely on Vice President Lyndon Johnson to prod and persuade Senators and House representatives to support administration initiatives, he did not wish to strain the situation by pursuing such a controversial subject as oil import policy that divided Democrats and Republicans alike. In addition, Kennedy explained to President Betancourt of Venezuela in late 1961 that he could not act on the crude oil problem because “the key Senator on whom the success of his trade program rested came from an oil-producing state.” Hence, Kennedy delayed action on modifying the MOIP until after the trade bill had passed. As for the specific changes made to the MOIP and the Canadian exemption, they reflected more the influence of the independent producers and refiners rather than specific lobbying efforts made by Congressional members.

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60 JFKL, WHSF, Myer Feldman, Box 23, File Tariff Trade—Oil Import Controls 11/27/61 - 12/21/61, Memorandum for Mr. Feldman from Kenneth R. Hansen [Assistant Director Bureau of the Budget], 30 November 1961.
Environmentalism/Conservationism

Although the conservation movement in the U.S. had existed for some time before the 1960s, environmentalism as a movement was just beginning. Allen Matusow makes a compelling case that John F. Kennedy was not necessarily ideologically committed to liberalism, but rather courted the liberal intelligentsia in order to create a broad base of support for his Presidential run. Part of the “new liberal agenda” was a concern for the environment—nuclear fallout, smog and air pollution, water pollution, and the impact of chemical use on wildlife. These issues were somewhat addressed in a Presidential Statement on national resources, and a White House Conference on Conservation. Kennedy’s signal to the environmental or conservationist Democrats was the appointment of Stewart Udall as Secretary of Interior, who was described by one scholar as an “activist secretary . . . who energetically promoted the cause of environmental protection.” In 1962, Rachel Carson’s Silent Spring popularized environmental concerns among a wider audience, and caused Kennedy to have “his science advisers report on the use of pesticides.” But at this time it had very little to say about oil and gas issues except for oil spills, and had no influence in Kennedy’s MOIP decisions.

Conservation in the oil and gas industry had existed for some time in order to prevent uncontrolled exploitation of fields, and to regulate production. The Texas Railroad Commission (TRC), a self-described conservation agency, saw fit to lobby against imported oil, particularly Mexican and Canadian. In a letter to Vice-President Johnson, Chairman of the TRC, William J. Murray, Jr., argued that imported oil had filled almost all of the increase in domestic demand,

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62 Matusow, Unravelling of America, 14-19.
64 Ibid., 5.
65 Ibid.
while domestic production was cut back. Then, in a striking statement, intending to capitalize on cold war fears, he said, "Canadian oil imports, also quota free, are being shockingly increased while Canada imports increased volumes of foreign oil including, it is reported, some of Soviet Bloc origin." It is unclear what response Johnson gave, but no mention of the allegation was ever made to the Canadians. There is no evidence that this had any effect on the MOIP changes that affected Canada.

**ECONOMICS**

*State of the Economy*

The Kennedy administration was concerned about the American economy, particularly high unemployment and sought ways to boost economic output and demonstrate the superiority of capitalism over communism. One of the ways to accomplish this was to increase foreign trade, which is part of the reason why Kennedy pursued the TEA and changes to GATT. Corporate taxes were effectively reduced in the hopes that this would encourage reinvestment, expansion, and increased employment. Although there were some arguments made about protecting the domestic oil industry in order to maintain employment in certain areas, these did not seem to have much effect on Kennedy’s approach to Canadian oil imports.

*Prices*

There was some interdepartmental conflict within the Kennedy administration concerning oil prices. The MOIP kept oil prices high and was supported by the Department of Interior because it benefited American producers. There was some concern in the Interior Department that the slight decrease in demand and increase in Canadian imports was lowering domestic

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prices, therefore, Canadian imports should be reduced to raise prices. In contrast, BOB and Commerce argued that the high cost had a negative effect on the American consumer and economy. Therefore, it would be better if controls were relaxed somewhat to permit more competition and lower prices. Commerce further argued to Feldman that Interior’s recommendations would increase rather than curb Canadian imports, which would increase consumer costs as cheaper imported oil was displaced by more expensive Canadian oil. This provides some evidence that the MOIP changes were meant to create a situation of large Canadian overruns that could be used as a justification to revoke Canada’s exemption. Prices, in this instance, seemed to have little effect on the decisions taken.

NATIONAL SECURITY

The original rationale or justification for the MOIP and the exemption for Canada was national security. As discussed in the previous chapter, the argument that prevailed was that a strong domestic industry, which could quickly increase production in an emergency such as a war, and access to secure sources such as Canadian oil, were vital for national security. Part of the difficulty faced by the American administration was how to interpret national security.

For example, the Soviet Oil offensive caused a considerable amount of angst. The Soviets sold oil sometimes at about half the price of posted Middle East oil, and made barter deals for Cuban sugar, Brazilian coffee, and Egyptian cotton. In the Cold War perspective, not

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69 DOE, Job 1002, Box 28, Folder Russia 1962-63, Letter to Senator Fulbright from Stewart Udall, re: Soviet Oil Offensive, 21 September 1962. See also, Daniel Yergin, The Prize: The Epic Quest for Oil, Money & Power (New York: Simon & Schuster, 1991), 515, 519-521. The Soviet Oil Offensive began in 1958, with Soviet production doubling between 1955 and 1960, to the point that they became the second largest oil producer in the world—just behind the U.S. While the Soviets undersold oil in order to get Europeans hooked, it over-charged Soviet satellite countries.
only did Soviet oil destabilise the world market, and create instability in the Middle East, it made Western European countries potentially dependent on Soviet oil. If national security was defined as winning the Cold War, then the Soviet Oil offensive could tip the balance in favour of the Soviets. Since the MOIP kept oil prices quite high, and fierce competition in Western Europe and other places was decreasing prices, producing countries clamoured for access to the American market. The OEP and the PSC wanted to reduce import restrictions, as they thought a more stable international oil industry would be more in the American interest, reduce consumer costs, and have the added benefit of making the American industry more efficient. As for the Canadian exemption, the OEP supported it, though it recommended that talks be held with Canadian officials in order to discuss the problem of the higher than expected level of Canadian exports. Although officials within the Department of Interior were made aware of these tensions and were counselled to make room for more imports from these troubled countries, the advice was ignored because Interior defined national security strictly as a strong domestic industry, and this was the view they presented to the President.

Aside from the OEP and BOB, the State Department seemed to be the most concerned about the national security objectives of the MOIP and oil policy in general, which was reflected in the PSC report submitted to the President in early September 1962. President Kennedy acknowledged the report, but then did not alter the MOIP until the end of November; those changes were based upon proposals made by the Interior Department. Much to the consternation of BOB, the MOIP alterations ignored or took the opposite stance of the PSC recommendations, including those relating to national security. For example, in BOB’s view, switching from
import quotas based on the previous year’s production rather than demand made no sense from a national security viewpoint; nor did restricting Canadian imports.\textsuperscript{70}

The State Department was equally annoyed with the Interior Department’s proposed changes. Senior officials complained that the MOIP changes contravened the PSC recommendations, and “could not be related to consideration of national security but would conflict with important objectives of U.S. foreign relations.”\textsuperscript{71} Their objections were noted, but the policy changes were implemented mostly as Interior had proposed. Interestingly, the Department of Defense, like State, seemed to have very little influence over the policy changes.

The strongest articulation of the national security argument, particularly as it pertained to Canadian oil, came at a 13 December 1961 meeting of the Interdepartmental Committee of Under Secretaries on Foreign Economic Policy. Assistant Secretary of Interior for Mineral Resources, John Kelly, first dispensed with the various alternatives to the MOIP such as oil stockpiling, and suggested that oil import controls should be tightened to ensure the viability of the domestic industry. He then argued forcefully that not only was the “U.S. consumer subsidising Canadian producers,” Canada was a security liability because of the increased imports of foreign oil into the Eastern Canadian market. Others in attendance “commented that it is in [the American] national security interest to receive Canadian oil.”\textsuperscript{72} Kelly was undaunted,

\textsuperscript{70} JFKL, PPK, NSF, Carl Kaysen, Box 372, File Economic Policy – Subject – Oil Policy 2/62-6/63, Memorandum to the Director from Resources and Civil Works Division, Subject: Interior Draft Letter from President to Interior on Oil Imports, 15 November 1962, 1, 5-6.

\textsuperscript{71} See for example, JFKL, WHSF, Myer Feldman, Box 24, File Tariff Trade -- Oil Presidential Proclamation, 11/30/62, 10/62 - 12/62 & Undated, Memorandum from C.W. Nichols [Bureau of Economic, Business and Agricultural Affairs, State Department], 9 November 1962. For concurrence on Nichols’ arguments by other senior State Department officials see, Ibid., Memorandum for Myer Feldman through McGeorge Bundy from William Brubek, Subject: Petroleum Import Policy, 16 November 1962; see also, USNA; RG 59, Records Relating to Venezuela, 1960-63, File Venezuela 43.5 U.S. Oil Import Program Oil Policy 1962, Memorandum to Mr. Wellman [EST] from Sam Moskowitz [EST], Subject: Oil Import Program and Proposed Discussions with Canada, 15 November 1962.

\textsuperscript{72} DOE, Job 1013, Box 7, Folder 4 Petroleum Study Committee Task Force Vol I: Working Papers 1-45, Department of State Summary Minutes of Meeting of Interdepartmental Committee of Under Secretaries on Foreign
and though Interior’s planned changes to the MOIP were delayed, they were finally implemented in late 1962.

On the other side of the border, the Canadians held few illusions regarding the real pressures behind the changes, though they tactfully did not comment directly on why the Canadians had been successful at circumventing those pressures with Eisenhower, but were unsuccessful with Kennedy. The Canadian view of the U.S. national security rationale is worth quoting at length:

The U.S. policy on oil imports, however, has been progressively protective of its domestic industry. While this policy is ‘rationalized’ on a defence basis, few doubt that it is, in fact, based on domestic and external political [Venezuela] considerations. It is useful to Canada to have the U.S. authorities maintain this fiction of defence inasmuch as they have recognized that Canadian crudes have a special position on a security basis, but the defence argument is proving a progressively less effective one for Canada. . . . More recent discussions have made it clear that the approach of the U.S. authorities to Canadian exports has been based on two factors: (1) their concern with the pressures of their own domestic industry and (2) the political situation in Venezuela.73

A subsequent note following conversations between Canadian embassy officials and Myer Feldman after the Liberal’s election and the Hyannisport meetings are revealing, “Feldman referred to the new atmosphere in Canadian-U.S. relations and the great difference this has made in the way the White House approaches Canadian problems.”74 As will be discussed below, the attitude of Kennedy towards Diefenbaker and Pearson had a profound impact on Canada-U.S. oil policy.

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73 NAC, RG 99, Vol. 72, File 53, Discussion with the United States on Energy Matters, 6 September 1963, 4-5. The political situation in Venezuela is discussed below.

INTERNATIONAL FORCES

OPEC

In April 1959 at the Arab Oil Congress, Juan Pablo Pérez Alfonso, the Venezuelan Minister of Mines and Hydrocarbons, "angry about both BP's price cut and the restrictions on Venezuelan oil under the new American quotas, and still smarting over the recent summary rejection in Washington of his Western Hemisphere oil scheme," initiated a "Gentlemen’s Agreement" between representatives from Saudi Arabia, Kuwait, and Iraq, which led to the creation of OPEC a year later.\(^\text{75}\) The "Gentlemen’s Agreement" was an informal co-operative arrangement that "proposed the formation of a Petroleum Consultation Commission, to meet at least once year to discuss matters of shared concern such as oil prices and production and the participation of producing countries in the oil industry."\(^\text{76}\) In 1960, faced with increased competition from Soviet oil that was being sold well below cost, and price cuts by the major companies operating within their borders, five oil exporting nations formalized and expanded upon the "Gentlemen’s Agreement" to form OPEC. The goal of OPEC was for the producing countries to exert more control over the pricing, production, and development of their oil resources. Pérez Alfonso often declared that the point of OPEC was to create a prorationing scheme that would operate along the lines of the Texas Railroad Commission. State Department and multinational company officials were sceptical of how agreement would be reached amidst the different countries to effectively administer an international pro-rationing scheme.\(^\text{77}\)

\(^{75}\) Yergin, *The Prize*, 516-518.


The creation of OPEC in 1960 caused some consternation in the U.S. and other consuming countries. The general attitude taken within its first few years of existence was that it was too soon to tell if all the OPEC nations would be able to co-operate. This did not prevent President Betancourt of Venezuela from making veiled threats about unilateral action under the auspices of OPEC if world prices, particularly those paid in Western Europe, did not increase. At a late December 1962 meeting to allay Venezuelan fears and anger over amendments to the MOIP proclamation Betancourt told Feldman that under the OPEC resolutions on crude oil prices, “if the OPEC members were unable to reach agreement with the companies [to increase prices], the organization would be required to adopt unilateral measures at its spring meeting.” 78 Feldman replied that “countries like Venezuela should be more concerned over Soviet oil,” which was flooding the world market and destabilizing prices. 79 Nevertheless, the influence of OPEC, an organization still in its infancy, had little impact upon the changes to the MOIP and Kennedy’s approach to oil relations with Canada.

Venezuela

Aside from the domestic industry and Canada, the next most important concern for the Kennedy administration was its relationship with Venezuela. Bitter about Canada’s MOIP exemption from the beginning, Venezuela continued to press for equal treatment and to expand its share of the U.S market. Latin America was a priority for the Kennedy administration, as was the fight against Communism. The Betancourt government was under considerable pressure from the Communist party in Venezuela, particularly as there was an election to be held in 1962,

79 Ibid.
and there were some fears in the State Department that Venezuela could fall to the Communists. It could be argued that the tough line with Canada in the MOIP changes was taken to placate Venezuela. However, the State Department repeatedly warned that the changes would anger Venezuela as much as Canada, and that some discussions or consultations with Venezuela about the changes needed to take place before they happened. Neither warning was heeded. John Kelly and the Interior Department pressed ahead with their proposals, and gave only twenty-four hours notice to Venezuela. President Betancourt was furious; his Minister of Mines and Hydrocarbons made escalating statements denouncing the changes. After a few weeks of increased tension, Betancourt phoned Kennedy the day before Christmas Eve. As a result, Kennedy sent Myer Feldman and John Kelly down to Caracas to meet with Betancourt and allay his concerns.

President Betancourt emphasised the traditional Venezuelan position that it should be treated on an equal basis with Canada, and that the alterations in the MOIP would increase Canadian oil at the expense of Venezuela in the U.S. market. He also pointed out “that the two countries [Mexico and Canada] which had given little support to the United States position in the Cuban [missile] crisis had been treated better than Venezuela under the new program.”

Feldman reassured Betancourt that Canadian oil would not displace Venezuelan oil. He stated that, “Canada no longer enjoyed an exempt status but had been brought in line by a voluntary agreement to restrict sales on a comparable basis.”

Another account of the meetings reported

that, “this was obviously new information and seemed to convince the President [Betancourt] that the addition of Canadian overland imports to the quota would not cut into Venezuelan imports.”

Feldman then gave the standard argument that Canadian imports had to be kept up to a certain level so that they would not build an uneconomic pipeline to Montreal, which would deprive Venezuela of that large market. Overall, the Kennedy administration viewed Feldman’s mission as a success, and President Betancourt made positive statements in his year-end address. Nonetheless, if the changes were meant to appeal to Venezuela, then Interior and State would have notified Venezuela well in advance in order to obtain maximum benefit in the relationship, instead of only giving a twenty-four hour notice that created much outrage in Venezuela.

PERSONALITIES

Kennedy-Diefenbaker-Pearson Relationship

The souring personal relationship between Kennedy and Diefenbaker was cumulative. It began with the brief informal meeting between the two in January 1961, and then with the formal meeting in February. The turning point for Diefenbaker’s animosity was a series of events that took place during Kennedy’s official visit in May 1961: the appalling behaviour of Kennedy at an Embassy dinner near the conclusion of the visit, and Diefenbaker’s discovery of a secret briefing memo that advised Kennedy to “push” Diefenbaker on a number of issues. For Kennedy, the turning point was the May 1962 revelation that Diefenbaker possessed the “secret memo” left behind by Kennedy during the 1961 visit: this seemed to motivate Kennedy more than anything to exact some kind of revenge. The apparent consequences of the growing resentment and malice appears to have culminated in two distinct American actions: Canada’s MOIP exemption was put on notice, and the State Department released a statement of

“clarification” on Canada-U.S. defence issues in January 1963. Some of these key events built upon concurrent issues such as Diefenbaker’s procrastination on nuclear weapons, the shift in Canada towards neutrality, and the lukewarm Canadian response to the Cuban Missile Crisis, among other issues. The degrading personal relationship of the leaders also filtered down through to officials. On the U.S. side, this translated into specific policy actions, as officials sought ways to please Kennedy, such as the alterations to Canada’s MOIP exemption. In Canada, the effect was different; officials in External Affairs seemed embarrassed by Diefenbaker, and dealt with their American counterparts in an apologetic manner. This changed with the election of Pearson and the Liberals to a minority government in April 1963. The Kennedy administration went out of its way to improve the Canada-U.S. relationship that had suffered from the Diefenbaker feud, and oil policy was one of the beneficiaries.

Although the Canadian exemption to the MOIP, and Canada’s NOP, were a legacy of the goodwill in the Eisenhower-Diefenbaker relationship, some officials wondered if that goodwill between leaders would carry over after the 1961 American election. One American official suggested to Canadian Ambassador to the U.S., Arnold Heeney, that the goodwill between leaders would not persist regardless of who was elected. Willis C. Armstrong, U.S. Deputy Chief of Mission in Ottawa, warned Heeney that neither Republican Richard Nixon or Democrat John F. Kennedy would “be as patient and tolerant of the inclination of the present Canadian Government to take a very long time to react on a number of problems, and frequently react without making any alternative suggestions, although criticizing United States policies and

84 Michael Hart in A Trading Nation, comments that though the most difficult issue between Canada and the U.S. was defence related, it “spilled over into matters of trade and investment.” (218) He also mentions how the atmosphere by 1962 had turned so “chilly” the new Canadian Ambassador to the U.S., Charles Ritchie, “wondered what good he could do.” (217)
Heeney agreed. Then there was the matter of personalities. Three days before
Kennedy’s inauguration Eisenhower and Diefenbaker signed the Columbia River Treaty and
spent some time together chatting. Apparently, Eisenhower did not have very good things to say
about the new president. Upon return to Ottawa, Basil Robinson wrote a letter to Heeney
thanking him on behalf of the Prime Minister for the arrangements, especially the time with
Eisenhower, and reflected on the trip to Washington, “for all the promise of the incoming team,
there is no doubt that the absence of a personal relationship with the new President is going to
introduce an incalculable factor into relations with the United States. It is disturbing that the
Prime Minister seems to have formed some rather unfavourable early impressions. I just hope
that these can be erased.”

A few weeks later, Diefenbaker met with President Kennedy in Washington, D.C. and
made a concerted effort to establish good relations with Kennedy. Indeed, Kennedy also sought
to establish a basis for cooperation, and agreed to remove some bilateral irritants. For example,
at the first official meeting between Kennedy and Diefenbaker in Washington on 20 February
1961, Diefenbaker raised the oil bunkering issue. This involved a situation where Imperial Oil
Canada was denied permission by its U.S. head office “to supply bunker oil to Canadian ships
under charter to convey Canadian wheat to Communist China,” because of the American
Foreign Assets Control regulations. After some debate on the issue, Kennedy “acknowledged
that the matter should be re-examined,” and asked someone from the Treasury Department to

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85 USNA, RG 59, Alpha-Numeric files Relating to Canadian Affairs, 1957-63, Box 1, File Basic Policy -
Canadian, “Memorandum of Conversation: Arnold Heeney, Canadian Ambassador to the United States and Willis
C. Armstrong, Deputy Chief of Mission, 29 August 1960”, 5.
86 NAC, MG 30 E144, Vol.1 File United States Ambassador to Washington, 1961, 1962 – Correspondence
87 NAC, MG31 E83, Vol. 4, File 4.2 – February 1961, Memorandum to the Under-Secretary, Prime
88 JFKL, PPK, NSF, Countries, Box 18, File Canada – General 1/61-3/61, Memorandum of Conversation,
investigate the issue, and report back after lunch. Ultimately, the result was that Kennedy assured Diefenbaker that "if the Canadian Government will ask Imperial Oil to supply the bunker oil, he, the President, will make sure that no action is taken by the United States to frustrate the transaction and that the American directors in the company will be protected against sanctions." 89 Diefenbaker was pleased that the two leaders could discuss such a contentious issue and arrive at a solution. He enthused, "this discussion [was] a tribute to the informal and friendly character of relations between our two countries. We must live together in friendship and cooperation." 90

Yet, there were auguries of conflict at the meeting that Diefenbaker recalled in his memoirs. Diefenbaker was an ardent fisherman and Kennedy bragged about a large sailfish he had caught and asked Diefenbaker if he had "ever caught anything better." When Diefenbaker mentioned a 140-pound blue marlin he had recently caught, there was some indication that Kennedy did not really believe the fish story. There was also a brief exchange about the War of 1812 and Kennedy’s dry comment that he was not aware of any British victories in that war. 91

This did not sit well with Diefenbaker, and he reflected in his notes that the meeting began rather


89 Ibid., 8-9. The Canadian account differs a little from the American version of the discussion, "the Canadian Government would say to Imperial Oil of Canada that they should go ahead and supply the oil in the expectation that the United States Government would not bring any pressure to bear, under the Foreign Assets Control regulations, on the parent company in the United States." (7) NAC, MG31 E83, [Basil Robinson Fonds], Vol. 4, File 4.2 – February 1961, Memorandum to the Under-Secretary, Prime Minister’s Visit to Washington, February 20, 1961, 21 February 1961.

90 JFKL, PPK, NSF, Countries, Box 18, File Canada – General 1/61-3/61, Memorandum of Conversation, Subject: Visit of Canadian Prime Minister Diefenbaker, 20 February 1961, 5. Interestingly, Diefenbaker’s notes of the discussion do not include this positive statement on relations.

“stiffly.” According to Knowlton Nash, a Canadian journalist close to Kennedy, a negative opinion was formed about Diefenbaker that day too. Nash quotes presidential aide and historian Arthur Schlesinger as saying, “Kennedy thought the Canadian insincere and did not like or trust him.” Nash then goes on to say, “most of all, Kennedy was simply bored by Diefenbaker. ‘I don’t want to see that boring son of a bitch again,’ Kennedy told his brother Robert. Charles Bartlett, a journalist and long-time friend, said, ‘You could kick him. You could rob him. But you must never bore him.’” Despite Kennedy’s efforts to smooth an irritant like the oil bunkering issue, the more negative aspects of this first meeting seemed to set the tone for Kennedy’s relations with Diefenbaker over the next two stormy years.

Why did Kennedy and Diefenbaker not get along? Kennedy was younger and from a privileged background, while Diefenbaker was getting on in years and from a poor family. Kennedy came across as brash, arrogant, and over-confident. He would not bother with niceties for people he did not like, even if they were leaders of countries, and he had a vindictive streak. One could even say that Kennedy was filled with an inflated sense of self-importance. Diefenbaker deferred action on controversial issues (especially in the case of nuclear weapons), followed a certain code of conduct in dealing with foreign leaders, believed that he was owed a certain level of respect for his position, and also had an inflated sense of self-importance.

Perhaps Diefenbaker also felt that he had worked hard to earn his position, while Kennedy had

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92 NAC, MG31 E83, Vol. 4, File 4.2 – February 1961, Memorandum to the Under-Secretary, Prime Minister’s Visit to Washington, February 20, 1961, 21 February 1961, 1. This is based on the only example of Diefenbaker’s notes of a meeting I found in his or anyone else’s collections.


94 On being brash and arrogant, see Benjamin C. Bradlee, Conversations with Kennedy (New York: W.W. Norton & Company Inc., 1975). There are several examples covering all the aspects of Kennedy’s personality and behaviour outlined above. For example, Bradlee, a friend of Kennedy’s, stated that Kennedy “never got mad, but he plainly got even,” 25, 206. As for self-importance, Bradlee also gives an account of cruising with Kennedy in a yacht and “Kennedy would occasionally check large ships that we passed to see if they had collected the crew at attention to pay him proper respect.” 209
not. Kennedy tended to make jabbing comments that irritated Diefenbaker, and seemed to disrespect Diefenbaker as Prime Minister. For example, there was an extended delay in responding to Diefenbaker’s congratulatory letter, and on their first official meeting, even though he had several briefings and a phonetic spelling beneath the name to ensure that he get it right, Kennedy mispronounced Diefenbaker’s name and joked about it afterward with the Prime Minister of Australia. As mentioned earlier, Kennedy and his inner circle also referred to Diefenbaker in subsequent internal memos as “Diefenbach.” Then, during the President’s visit to Canada in May 1961, Kennedy made a jab at Diefenbaker’s French, and insistently pressured Canada to join the OAS, mentioning it in parliament even though Diefenbaker had repeatedly said no to it earlier that day. On the other hand, Diefenbaker seemed to lose his sense of humour around Kennedy and was on the defensive – trying to impress and compete with Kennedy’s accomplishments and vigour.

The turning point for Diefenbaker was the episode that took place at a dinner Kennedy gave during his trip to Ottawa in May 1961. The U.S. Ambassador to Canada, Livingston Merchant, who was no fan of Diefenbaker’s, recounted the incident in an oral history of the Kennedy years. During the dinner, Kennedy and Pearson conversed through most of the meal. Afterwards the ladies withdrew and the men had cigars and coffee at the dining room table.

Kennedy was at the centre of the table with Pearson on one side of him and Diefenbaker on the

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95 Smith, Rogue Tory, 388.
96 NAC, MG 31 E83, Vol. 3, File 3.13 - Nov-Dec 1960, “Memorandum for the Diary File, November 22, 1960,” and Nash, Kennedy and Diefenbaker, 63 and 90. According to Robinson, Kennedy also mispronounced Diefenbaker’s name when he arrived in Ottawa for the Presidential visit in May 1961. Given that Kennedy joked about mispronouncing it the first time, he must have been quite aware of how to say it properly, thus, it is likely that Kennedy deliberately mispronounced the name in Ottawa to irritate the Prime Minister. Robinson, Diefenbaker’s World, 198. See also, JFKL, POF, Countries, Box 113, File Canada Security 1961, Note to JFK, no date, no author. The little note is written on White House stationery.
other. Much to the dismay of Merchant and Diefenbaker, Kennedy kept himself immersed in conversation with Pearson. Merchant’s own description is worth recounting at length:

... almost as soon as we settled down to general conversation — the President turned to Mr. Pearson and asked him a question. Within thirty seconds, he and Mr. Pearson were engaged in an intimate, far-ranging, private conversation, during the course of which the President had literally half-turned his back on the Prime Minister, sitting on his other side and totally excluded him from this téte-à-tête [sic], despite one or two early efforts of Mr. Diefenbaker to participate in the conversation. This was punctuated by my more frequent and increasingly desperate efforts to turn the discussion to a general conversation and, in particular, to involve Mr. Diefenbaker in some form of triangular dialogue, in order to cut short what had turned into an extended, private conversation between Mr. Pearson and Mr. Kennedy. From Mr. Diefenbaker’s facial expressions — his face is mobile — it was quite clear that he took much amiss what he regarded as almost a personal slight by reason of the President’s attention being so concentrated on his political rival, the Leader of the Opposition. And, in a sense, what made it even more embarrassing to me ... what compounded the difficulty was that the conversation went on and on and on to the extent that when the President finally acceded to my suggestion that we join the ladies, the feminine atmosphere in the room was several degrees below zero.99

Although Merchant did not care for Diefenbaker, he understood the affront given by Kennedy and was chagrined at the undiplomatic behaviour.100 For Diefenbaker, the insult was extremely damaging, and perhaps even unforgivable, because of his intense rivalry with Lester Pearson. Diefenbaker resented how Pearson’s view of international affairs was widely respected, while his own perspective did not seem to carry much weight amongst the political elite.101 Furthermore, the fact that the insulting episode took place in front of the Governor General, several cabinet ministers, top U.S. officials, and ambassadors, meant that Diefenbaker was publicly humiliated,


100See also Nash, Kennedy and Diefenbaker, 126. Nash’s account is minimal and qualified. Interestingly, Denis Smith leaves this event out of his biography of Diefenbaker, Rogue Tory, as does Diefenbaker in his own memoirs, though Basil Robinson includes mention of it in his Diefenbaker’s World, 208.

101This was partly his own fault as the journal Foreign Affairs requested an article or a “think-piece” from Diefenbaker on three occasions; he refused each time because he was too busy. In contrast, whenever the editor, Hamilton Fish Armstrong, asked Pearson to write a piece he did it within a few weeks. See Princeton University, Seeley Mudd Library, Hamilton Fish Armstrong Papers, Series I – Correspondence, Box 24, File Diefenbaker, John 1960-61; Idem, Box 49, File Pearson, Lester B. 1935-1965.
and his prestige as leader significantly diminished.

This served to reinforce the slights and negative perception Diefenbaker had already formed about Kennedy from previous meetings, not to mention the infamous Rostow briefing memo that Diefenbaker had found earlier in the day. The memo, written by one of Kennedy’s advisors, Walt W. Rostow, outlined the items that the U.S. wanted to gain during the trip, and which Kennedy was to “push” Diefenbaker about. Admittedly, Diefenbaker overreacted to the memo, as it was a typical bureaucratic briefing note that happened to use the word ‘push’ instead of ‘press’, and was not evidence of American machinations to bully Canada. The fact that Diefenbaker kept the memo and threatened to use it against Kennedy in the 18 June 1962 Canadian election angered Kennedy intensely.

The circumstances that led to Diefenbaker’s threat are interesting. During the 1962 election, Kennedy held a dinner at the White House for Nobel Prize winners, and Lester Pearson was of course invited; Diefenbaker was informed in advance. However, just before the dinner, Pearson met privately with Kennedy to discuss international issues and the Canadian press publicized the meeting as a sign of Pearson’s statesmanship, compared with Diefenbaker’s fumbling. Diefenbaker was livid, and when he met with Livingston Merchant soon after, he

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102 Controversy surrounds this memo as Diefenbaker found it after the meeting, and rather than copy and return it to Kennedy, he kept it in a safe. He also threatened to expose it during the 1962 and 1963 elections as an example of America’s bullying tactics towards Canada. Kennedy was quite resentful that Diefenbaker did not return it. See for example Bradlee, Conversations with Kennedy, 167, 182-185.

103 See, JFKL, PPK, NSF, Countries, Box 18, File Canada – General 4/62 - 5/15/62, Memorandum of Conversation, Subject: Canadian Ambassador’s Farewell Call to the President, 17 April 1962. At his farewell call to Kennedy, Heeney diplomatically pointed out that the meeting was going to take place “while the electoral campaign was in full swing, and observed that Pearson would be the only Nobel peace prize winner who would be present.” Kennedy “smilingly said that a lot of people seem to be out to win the Nobel peace prize these days.” (3) Heeney was hinting that Pearson’s presence could be used by Diefenbaker in the campaign, while Kennedy was alluding to Diefenbaker and Green’s obsession with international peace. Knowlton Nash in Kennedy and Diefenbaker, states that American officials were concerned about it becoming an election issue, but they decided in the end that it would be worse to withdraw the invitation. Furthermore, Nash points out, “Kennedy asked Pearson to come to the White House before dinner so they could chat.” (157) Thus, Kennedy insisted on personal time with Pearson even though he had been counselled (to an extent) by the Canadian Ambassador that Pearson’s presence alone at the dinner was
talked about the secret memo and how he would release it so that Canadians would see how Kennedy wanted to “push” the Canadians around, and that only Diefenbaker was strong and bold enough to withstand American pressure. Merchant was stunned and mortified. In his view, it was entirely inappropriate for Diefenbaker to have held onto the memo, and should have returned it right away without looking at it. The fifteen-minute appointment soon turned into a two-hour exchange, as Merchant used all of his diplomatic skills to persuade Diefenbaker that using the memo would damage Canada-U.S. relations almost beyond repair. Merchant sent a lengthy message back to George Ball (the Acting Secretary of State), who then conveyed it to Kennedy, describing the harrowing meeting, and recommended that one way to ease Diefenbaker’s concern and balance the meeting with Pearson would be for Kennedy to meet briefly with Diefenbaker.\footnote{104}

The documentary evidence clearly indicates that Kennedy was incensed by Diefenbaker’s threat, but it does not convey the intensity as well as Knowlton Nash’s account. Nash describes “the president’s reaction [as] the strongest of all,” and that “he exploded when he heard of it. Kennedy talked about ‘cutting his balls off’ in an expletive-filled roar of vituperation.”\footnote{105} After pondering potential responses for a few days, Merchant was given instructions from the President through McGeorge Bundy and Ball to convey in the strongest possible manner the ramifications for Canada-U.S. relations if the memo were published or if the threat was made enough to affect the campaign. However, Kennedy’s records indicate that Pearson requested the private meeting. See, JFKL, PPK, NSF, Countries, Box 18 File Canada-General-Rostow Memo 5/16/61 & Related Matters 5/61-5/63, Memorandum for George W. Ball from McGeorge Bundy, 8 May 1962. For officials concerned about effect of meeting in Canadian campaign see, JFKL, PPK, NSF, Countries, Box 18, File Canada – General 4/62 - 5/15/62, Telegram 1030 from Ottawa [Livingston Merchant] to Secretary of State [Rusk], Re: Mike Pearson, 11 April 1962. For a detailed account of the meeting see, Smith, Rogue Tory, 432-437. For the original account by Merchant see, JFKL, PPK, NSF, Countries, Box 18, File Canada-General-Rostow Memo 5/16/61 & Related Matters 5/61-5/63, Letter to George Ball [Acting Secretary of State] from Livingston Merchant [U.S. Ambassador to Canada], 5 May 1962. Nash, Kennedy and Diefenbaker, 160. Nash provides more explicit examples of Kennedy’s comments, but I have not included them here.

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again. As for Merchant’s suggestion to briefly meet with Diefenbaker to balance things, he was
told: “the President has no intention of seeking a meeting with Diefenbaker in the near future.” 106
One account suggests that after Merchant reported back to Kennedy of the second meeting,
“Kennedy swore he would never see or talk to Diefenbaker again.” 107 Merchant’s follow-up
letter, after the inconclusive June election that saw Diefenbaker’s Conservatives win a minority
government, suggested that Kennedy “maintain an attitude of coolness toward Mr. Diefenbaker
and take no initiative to restore a more normal personal relationship with the Prime Minister.” 108
Although Diefenbaker was persuaded not to release the memo, he held on to it for future use,
which could come at any time since he and the Conservatives were reduced to a minority
government. Kennedy did not really need Merchant’s advice on remaining cool towards
Diefenbaker, as that was his intent anyway.

If Kennedy disliked Diefenbaker before, the memo incident turned the dislike into
abhorrence and an inclination for revenge. After this point, Kennedy took a personal interest in
subsequent Canadian actions. For example, two days after George Ball received Merchant’s
account of his meeting with Diefenbaker, he talked with McGeorge Bundy about a meeting with
the President earlier in the day. Bundy reported that Kennedy “was not amused by the Canadian
wheat deals with the Soviet Union.” Bundy opined, “should we offer wheat to the Chinese to
pull Diefenbaker down[?] We might threaten to do that if he threatens to publish Rostow’s
memorandum.” 109 Canada-U.S. oil relations also came under scrutiny. Soon after hearing of

106 JFKL, PPK, NSF, Countries, Box 18 File Canada-General-Rostow Memo 5/16/61 & Related Matters
107 Nash, Kennedy and Diefenbaker, 161.
108 JFKL, PPK, NSF, Countries, Box 18, File Canada-General-Rostow Memo 5/16/61 & Related Matters
5/61-5/63, Letter to George Ball [Acting Secretary of State] from Livingston Merchant [U.S. Ambassador to
Canada], 11 July 1962. The minority win was a significant loss for Diefenbaker as the Conservatives went from 208
seats to 116—a loss of 92 seats, with the combined opposition holding 149 seats.
109 JFKL, Personal Papers of George W. Ball, Box 2, File Subject: Canada 4/26/61-11/8/63; Telecon Bundy

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Diefenbaker’s possession of the Rostow memo, Myer Feldman, the principal White House person responsible for oil policy, requested views “on the likely outcome of the petroleum [PSC] study and on the steps which will need to be taken in the near future with respect to petroleum import quotas.” Quotas had to be set for 1 July 1962, and it appeared that Canadian oil was going to be targeted. The recommendation was that the President delay the pipeline approvals, but not amend the MOIP legislation until the PSC study was complete and the TEA was passed in Congress.\textsuperscript{110} This is indeed the action taken by the President, and he and his advisors waited until the end of November 1962 before altering Canada’s MOIP exemption.

There were limits to targets of revenge. For example, concurrent with the memo controversy, Canada suffered a financial crisis and a run on its dollar, and was saved in effect by American loans. It was one thing to take an action that would hopefully, in Kennedy’s view, bring down the Diefenbaker government, and another to destabilize the entire Canadian economy.\textsuperscript{111} However, the most obvious target was the defence and nuclear weapons issue, though oil policy was also affected.

In January 1963, to the dismay of many within his Cabinet, Diefenbaker made a speech in Parliament that obfuscated the defence and nuclear weapons issue even further.\textsuperscript{112} The new U.S. Ambassador to Canada, William Walton Butterworth, suggested that it was time to take a

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\textsuperscript{110} JFKL, WHSF, Myer Feldman, Box 23, File Oil Import Controls 3/62-6/62, Memorandum to Myer Feldman from Kenneth R. Hansen [Assistant Director, BOB], Subject: Petroleum, 8 May 1962, 2-3.

hard line with Diefenbaker, since otherwise the U.S. “would then face the critical years ahead with a half-hearted and irresponsible ally. Canada would then be another Mexico.” His recommendation was to release a State Department statement “clarifying” the issues from the American point of view. National Security Advisor McGeorge Bundy agreed, as did George Ball and William R. Tyler, Assistant Secretary of State for European Affairs. Bundy told the others he would run it by the President, but thought there would be no problem. All agreed that it was well within the lines of Kennedy’s own thinking on the issue. The statement temporarily created a mild controversy in Canada, though most newspapers were sympathetic to the American position. Diefenbaker’s fractured Cabinet became more divided, Ministers resigned, the Conservatives were hammered in the House of Commons, and the government fell, but Diefenbaker was privately jubilant as he believed he had the issue of American “bullying” to take to the electorate. Again, within Cabinet this time, he threatened to use the infamous memo, and though the Cabinet was very much against it, the story was eventually leaked to Charles Lynch, though the memo itself was not released. Interestingly, Lynch’s story about the memo included additional false information. Stating that the memo wanted to “push” Canada to accept nuclear weapons, and so on, it added, “possible pressures to be brought to bear were the


114 See a series of Telcons between George Ball and Tyler, Bundy, and Kennedy: JFKL, Personal Papers of George W. Ball, Box 2, File Subject: Canada 4/26/61-11/8/63, Telcon Tyler and Ball, 1/28/63, 1 p.m.; Telcon Tyler and Ball, 1/29/63, 3:55 p.m., Telcon Tyler and Ball, 1/30/63, 4:30 p.m.; Telcon Bundy and Ball, 1/30/63, 4:55 p.m.; Telcon Bundy and Ball, 1/31/63, 10 a.m.; Telcon The President and Ball, 1/31/63, 7:30 p.m.; Telcon The President and Ball, 1/31/63, 9 p.m. Charles Ritchie, the Canadian Ambassador to the U.S., caught wind of the intended U.S. action and tried to convince Tyler that it “would have an adverse effect.” Ball responded to Tyler that, “he was for getting the Canadian statement out in spite of Richey’s [sic] efforts.” Interestingly, when Kennedy expressed concern that Diefenbaker might use the statement to call an election, Ball sought to strengthen Kennedy’s resolve on the issue by saying, “You notice he said he wouldn’t be ‘pushed by America.’” Kennedy replied, “Oh, yes. Did he say that?” After a little more discussion, Kennedy confirmed that the statement should be supported or justified as being an appropriate response to press queries after Diefenbaker’s comments.

115 Fleming, So Very Near, Vol. 2, 588-591. The Cabinet was divided on whether an election should be fought on the issue, with Fleming and George Hees very much against it.
threat of cuts in US Defense Production Sharing, and the possibility of quotas or increased tariffs against Canadian gas and oil . . . .”

The memo never included such references to pressure points. When Kennedy heard about the article he was absolutely furious and called William Tyler and read the entire story to him over the phone while injecting editorial comments. Kennedy floated the idea of ‘leaking’ or releasing the original document to the Canadian press. He was particularly miffed that the news article focused on why Diefenbaker was bitter and sore at the U.S., but not why Kennedy was bitter and sore at Diefenbaker, and worried that the story might help Diefenbaker’s campaign. He concluded the phone call by calling Diefenbaker a liar.

It is uncertain how much assistance the Lynch article provided Diefenbaker in the election, but in the end, Pearson reversed position and said he and the Liberals supported defensive nuclear weapons, and on 8 April 1963, the Liberals barely won the election and formed a slim minority government. Kennedy would no longer have to deal with Diefenbaker.

Where defence was a concrete issue that the U.S. could respond to, the oil issue required more finesse. In November 1962, after the Cuban Missile Crisis and Canadian dithering and lukewarm response, the oil issue again came to the White House for consideration. The PSC study was submitted on 4 September 1962, but action on its recommendations was “suspended” in Myer Feldman’s office in the White House for almost two months before an announcement was made. Importantly, on 15 November 1962 a memo was drawn up on U.S. objectives in

116 JFKL, President’s Office Files (POF), Box 113, File Canada-General, 1963, Telegram 25 from Vancouver to Secretary of State, re: Charles Lynch Story in Vancouver Province, 27 March 1963. Bundy and others debated if they should respond, but in the end, they decided to follow the President’s policy of not saying anything while the Canadian campaign was ongoing.

117 JFKL, Presidential Records, Telephone Conversations, Cassette E 16A.5, 28 March 1963, JFK, William Tyler—Diefenbaker and a Rostow Paper. Kennedy’s tone of voice was definitely angry and annoyed that Diefenbaker could be getting any kind of political capital for his campaign from the memo.

the Canadian oil negotiations, and it was pointed out “that the Canadian Government is not able (even if agreeable for other reasons) to undertake the political action necessary to permit a voluntary import restriction.” Despite a memo to Feldman through Bundy regarding Interior’s suggested changes that would apply to the Canadian exemption, the State Department’s recommendations were not heeded. As mentioned earlier, the State Department was told to set up discussions with Canada concerning bilateral continental petroleum security. With some chagrin, the U.S. State Department officials apologized to the Canadians for being “vague and general as to the intent and nature of the discussions and explained that they were awaiting directions from the White House.” Nevertheless, at a subsequent meeting, two days before the MOIP changes were announced, they assured the Canadians that the MOIP changes would not limit or put a ceiling on Canadian imports. But then at the meeting, Canada was forcefully asked to agree to oil limits. Both American and Canadian officials knew that the changes towards Canadian oil imports emanated directly from the White House, and John Kelly was the spokesman. Which raises the question, if Kennedy wanted to spite Diefenbaker, why did he not just revoke the MOIP exemption in December 1962?

A telling observation made by historian Allan Matusow about Kennedy is that he was

122 JFKL, WHSF, Myer Feldman, Box 24, File Tariff-Trade-Oil Venezuela 12/61-6/63, Report of the United States Delegation to the United States-Canadian Discussions of Petroleum Policies and Programs, Ottawa, Canada, 13-14 December 1962, 3-5. For the statement that no limits for Canadian oil were contemplated see, JFKL, PPK, NSF, Countries, Box 18, File Canada-General 10/62-1/63, Telegram 669 to Amembassy Ottawa from Department of State re: Meeting with Canadians, 28 November 1962.
123 NAC, RG99, Vol. 67, File 23, Future Discussions with the U.S. Regarding Canadian Exports of Oil, 6 May 1963. The briefing document stated, “the recent changes in the Proclamation and the inflexibilities associated with it and in the meeting in Ottawa in December last stemmed in part, we understand, from the White House. This suggests that the initial step should be taken at that level.” (12)
obsessed with cultivating a powerful yet pleasant image. Concerned about image, Kennedy did not want to take action that would appear petty; and though Canadian oil imports had increased, they were largely due to seasonal and temporary conditions. Theodore Sorensen, one of Kennedy’s closest advisors, adds: “Few American Presidents who made so much history possessed [Kennedy’s] sense of history . . . [he] also cared deeply about how that performance would be measured by future historians as well as contemporary voters.” A petty action would not get sympathetic coverage in the Canadian or American press, it might even help Diefenbaker in an election that could be anticipated at any moment, and it might tarnish Kennedy’s image in history. Hence, the oil and gas pipeline permissions were delayed, which would not draw very much attention yet still send a message to the Canadians, while a more indirect method was chosen for the import question.

It should be pointed out that the specific changes to the MOIP exemption did not originate with Kennedy himself, but (as will be discussed in the next section) came from John Kelly at the Department of Interior with modification and agreement by Myer Feldman, and final approval from Kennedy. As political scientist Margaret Hermann and her colleagues point out, “A president with an agenda seeks information that reinforces a particular point of view and advisers who are supportive of these predispositions.” The President’s role is or was to set a

124 Matusow, *Unravelling of America*, 30-31. Matusow describes the type of images desired by Kennedy, and promoted by a very sympathetic press: Kennedy in command, as idealist, as intellectual, as First Host, and as good father and husband.
125 Theodore C. Sorensen, *Kennedy*, (London: Pan Books, 1965), 16. This also helps to explain why accounts of the State Department statement repeatedly emphasize that Kennedy himself had no knowledge of the action until after the fact.
126 One of the curious aspects of Kennedy’s records is that there is very little documentation from Kennedy himself, except for cryptic messages. Perhaps this is related to his awareness of his position in history, and his desire not to have a paper trail that might contribute to a negative image. See for example, JFKL, PPK, NSF, Countries, Box 18, File Canada General 7/62-9/62 & Undated, Memorandum for Secretary of the Treasury from JFK, 9 July 1962.
general tone and direction, and trust in his officials to carry out the initiatives rather than have
the President set out specifically how the initiatives should be achieved. Nevertheless, the lack
of a specific record from the President ordering the action is not surprising according to
Sorensen. He mentions that Kennedy had an "elusive approach" to creating a documentary
record, and provides some illuminating remarks on Kennedy's decision-making style: "He
communicated many of his key decisions by voice instead of in writing, by telephone instead of
letter, and to one instead of many, . . . his motives were often unknown or unclear to others; . . .
and he was usually too busy with the next decision to take time to explain the last." It was
clearly understood that Diefenbaker was a legitimate target, and the Interior department accepted
that the MOIP exemption was one too. The MOIP changes were meant to create a large influx
of Canadian oil that the Canadians would not be able to control. As mentioned above, American
officials believed the Canadians did not have the will or the capacity to voluntarily control oil
exports to the U.S. Since a review of the MOIP changes would take place in six months, and if
Canadian oil flooded into the U.S. during that time, then the exemption could be revoked with
the American (Kennedy) image not being tarnished, because it would be a matter of Canada
violating its "voluntary" agreement with the U.S. But, if the Conservatives fell before then,
adjustments could be made.

As it turned out, Diefenbaker and the Progressive Conservatives were defeated, and
Pearson became the new Prime Minister. Recently declassified documents indicate that the

study of leaders, leadership, personalities, and decision-making in foreign policy.

128 Sorensen, Kennedy, 17.

129 For the former see, JFKL, Personal Papers of George W. Ball, Box 2, File Subject: Canada 4/26/61-
11/8/63, Telcon Bundy and Ball, 7/9/62, 12:50 p.m. For the latter see, LBJL, Conference Files, Box 92, File
TA6/Oil-Tariff-Imports, Memorandum of Conversation, Subject: U.S. Oil Import Control Program in Relations to
Canada and Venezuela – Minister Sharp and Secretary Udall, 5 May 1965, 3. At this meeting, Udall commented to
Sharp about the Diefenbaker days and how the exemption was almost "modified" but had proved unnecessary, as
Pearson had subsequently been elected.
President amended the MOIP in June 1963 specifically to benefit Canada, and that the decision and form of the amendment occurred within a week of the Hyannisport meeting between Kennedy and Pearson. Ten days after the Liberal minority victory, a National Security Action Memorandum (NSAM) went out to a number of Secretaries informing them of the President’s new approach to Canadian issues. National Security Advisor McGeorge Bundy wrote,

The advent of a new government in Canada has naturally stirred nearly all branches of the government to new hope that progress can be made in effective negotiations with this most important neighbor on all sorts of problems. It is the President’s wish that these negotiations should be most carefully coordinated under his personal direction through the Department of State.

The new approach was to begin with the Hyannisport meeting between Kennedy and Pearson. During a briefing on Canada, Kennedy stated that he wished to be well briefed for the meeting. When the discussion turned to the oil import situation, and Kennedy was told that the way it was set up there would be no increase for a year and half for Canadian imports, “The President asked if there was not some increase in U.S. market growth that would help the general problem.” Feldman replied that the intent was to give Venezuela a large portion of that increase. Kennedy then requested additional background information.

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130 JFKL, Memorandum for the Record, Subject: Meeting with the President on Canada, 9 May 1963. At this briefing for the Hyannisport meeting, Canadian oil exports was one of the main issues covered. When it was explained that any increases in Canadian imports would come at the expense of Venezuela, “The President asked if there was not some increase in U.S. market growth that would help with the general problem.” The Canadians were also aware that it was Kennedy’s personal involvement that altered the MOIP exemption to accommodate Canada, see NAC, RG2, Vol. 6253, File 1963 Cabinet Conclusions 3 June-25 June, Cabinet Conclusions, 11 June 1963, 12-13. During the discussion it was pointed out that, “the U.S. representatives advised that President Kennedy had agreed to alter his proclamation so as to relate the imports to present and not past consumption.”
132 JFKL, PPK, NSF, Countries, Box 19A, File Canada—Subject Pearson Visit, 5/63 Memorandum of Conversation, Memorandum for the Record, Subject: Meeting with the President on Canada, 9 May 1963, 1, 3.
At the Hyannisport meeting, the Canadian oil situation was discussed. After Pearson made the case for Canadian oil, Kennedy “said he would be glad to have the matter discussed with Canadians by Mr. Feldman.” Within a week, Kennedy followed-up the matter with the Secretaries of State and Interior and they agreed upon an “Administration position on Canadian oil and related questions.” This position is described in a subsequent State Department memorandum as being the changes that were made to the MOIP: altering the quota formula from the actual previous year’s production, to an estimate of U.S. production for the upcoming period. Meetings were then scheduled with Canadian officials for 28 May and 3 June 1963. The communique after the Hyannisport meeting reflected the new era of continental cooperation, and singled out natural resources in the following statement, “President Kennedy and Prime Minister Pearson reaffirmed the desire of the two governments to co-operate in a rational use of the continent’s resources: oil, gas, electricity, strategic metals and minerals . . .”

An important development at the 28 May and 3 June 3 meetings was Mitchell Sharp’s introduction of the idea for a bilateral study on a co-ordinated Canada-U.S. energy policy or continental energy policy. It is unclear with whom the joint study idea originated—if it was Mitchell Sharp’s idea, or if it came from the NEB. One document that may have influenced

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Sharp’s proposal was a briefing memorandum from Ian McKinnon, Chairman of the NEB. In it, the NEB suggested that American officials might provide Canada more immediate and favourable treatment regarding the MOIP if they believed “further studies and developing co-operation between the two countries on a wider basis” were under consideration, which they would not wish to jeopardize. The Canadian Ambassador, Charles Ritchie, set about smoothing the way in Washington for Sharp’s initiative, and spoke to George Ball about it a few days before the first meeting. Sharp met with Ball the day before the meeting to run the idea by him, and then Ball talked with Secretary of Interior Udall. Ball and Udall concluded there would be no harm in pursuing joint studies, with this added exchange, “Udall suggest[s] we nurse it along; it might be a good way to get off on the right foot. Ball agreed and said anything we can do right now to move into a closer relationship with the Pearson government is a good idea.”

Some subsequent meetings were held to explore the possibility of joint studies, but not much was settled and the process was delayed from a technical point of view by the decision to go forward with a more comprehensive examination of bilateral issues, which later came to be the Merchant-Heeney report. As this section has demonstrated, the personal relationship between the President and Canadian Prime Ministers affected the shape of Canada-U.S. oil relations, yet this relationship was also shaped by the role and influence of key officials.

**Role and Influence of Officials**

What is interesting is that the poor personal relationship between Kennedy and Diefenbaker took its toll on Canada-U.S. oil relations, as Kennedy’s officials sought ways to

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138 JFKL, Personal Papers of George W. Ball, Box 2, File Subject: Canada 4/26/61-11/8/63, Telcon Udall and Ball, 5/27/63, 5:15 p.m. For Ritchie’s conversation with Ball see, Idem, Telcon Ritchie and Ball, 5/24/63, 10:30 a.m.
reflect his disfavour with Ottawa in tangible ways. The converse was also true as Kennedy and Pearson had a very warm and friendly relationship, and some officials were keen to satisfy the President. As discussed earlier, the Secretary of the Interior, Stewart Udall, did not have much to do with oil policy at this time, though he seemed to support the Canadian position. Therefore, the two main officials in the U.S. responsible for oil policy were John Kelly, the Assistant Secretary of Mineral Resources in the Department of Interior, and Myer Feldman, White House Deputy Special Counsel.

Kelly was not only a staunch supporter of the President, but he was also an independent oil producer with close ties to the industry. He believed he had a personal mandate from the President to improve and manage the MOIP for the benefit of the independents. Kelly was abrasive, unyielding, pugnacious, and seemed to have a chip on his shoulder regarding Canada. Doug Fraser, one of the leading members of the NEB involved in the oil talks, described Kelly as “political, vain, rich . . . works on impression, and still doesn’t understand [the] role of [Canadian] oil in US Midwest.” Kelly believed Canada was taking the U.S. for granted by buying cheap imported oil for domestic use while selling the pricier Canadian oil to the U.S., which was in fact true. He wanted Canada to use more of its own oil domestically—to fill that

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139 Ritchie, Storm Signals, 2-3. Ritchie comments, “For an embassy to be in disfavour with the White House at a time when the office of President was at the height of its power and influence was a disconcerting experience. The word had swiftly percolated down into every department of the United States Administration.” (2) This sentiment is echoed in an op-ed article by former Canadian Ambassador to the U.S. Allan Gotlieb. His article began with the question, “Does it matter if relations between the Canadian Prime Minister and the President of the United States are frosty and remote?” His reply to it was, “Access is, after all, the sine qua non of exercising influence in Washington. No access, no influence.” Gotlieb also mentioned how a President’s general directive concerning a foreign leader or policy would “go down through the layers of the political bureaucracy . . . .” Allan Gotlieb, “No Access, No Influence,” National Post, 3 December 2002.


141 See brief discussion of Kelly’s background in the section Interest Groups – American Independent Oil Producers, 18-19.

market first and reduce dependence on foreign oil—before seeking expanded markets in the U.S.; thus, he advocated the building of the Montreal pipeline. Knowing that the State Department would object to the policy changes he had in mind, Kelly avoided involving the State Department in discussions. This served to diminish the effectiveness of the Canada-U.S. transgovernmental networks with the State Department.  

The transgovernmental networks that carried over from the Diefenbaker-Eisenhower days were still somewhat intact at the State Department. However, the two main State Department officials involved in oil issues under Eisenhower, Thomas Mann and Livingston Merchant, were removed from direct activities during Kennedy’s Administration. After the Bay of Pigs fiasco, Mann, who was Assistant Secretary of State for Inter-American Affairs and had provided advice regarding the action, was effectively exiled and appointed U.S. Ambassador to Mexico. Merchant, who was nearing retirement and desired a “relaxing” last post, was appointed U.S. Ambassador to Canada. Therefore, they seemed to have little influence in the oil negotiations between Canada and the U.S., and Venezuela lost a powerful voice to lobby on its behalf. Officials at the Canadian Embassy, like Norm Chappell and the new Ambassador Charles Ritchie, worked tirelessly to maintain the relationships with U.S. officials, but they felt the impact of the poor Presidential-Prime Ministerial relationship in the coolness of their reception.  

143 For an image of Udall and Kelly on the cover of a Department of Interior circular, see, DOE, Job 1001, Box 19, Folder 1 NPC – General, 1963.  
144 For an image of Udall and Kelly on the cover of a Department of Interior circular, see, DOE, Job 1001, Box 19, Folder 1 NPC – General, 1963.  
145 Sorensen, Kennedy, 341-342.  
In any event, the State Department’s role was quite reduced under Kennedy, and Kelly actively excluded the department as often as possible in technical oil discussions. For example, from July 1961 onward, Kelly sought to circumvent traditional State Department involvement in the talks with Canadian officials. One American official complained “The Department was not invited to the Kelly-McKinnon get together[sic] and has heard about them principally through the Canadians.”\(^{147}\) The Canadians hoped that by keeping State informed they would gain a sympathetic ear whenever State might have input on the final decision. At one meeting, Kelly was characterized by other American officials as being “inflexible” and “blind to Canadian sensibilities in attempting to force on Canada a quantitative quota which he described as ‘not negotiable.’”\(^{148}\) It should be noted that the Canadians at the meeting were also described as inflexible with respect to “the sanctity of the overland exemption to the exclusion of reality.” As discussed earlier, at an interdepartmental meeting of under secretaries on foreign economic policy Kelly articulated his negative view of Canadian oil policy, while others reiterated the national security purpose for receiving Canadian oil.\(^{149}\) This did not dissuade Kelly as he pressed for the removal of the Canadian exemption while heading the Interior Department’s review of the MOIP, and suggested the same during the PSC study.

Even after the PSC reported that the Canadian exemption should be preserved, and imports increased, Kelly remained undeterred. Although the President had rejected Interior’s

\(^{147}\) USNA, RG 59, Alpha-Numeric files Relating to Canadian Affairs, 1957-63, Box 3, File: Oil Quotas 1957-1961, “Memorandum to George Ball from Philip Trezise, Subject: Canadian Oil, 2 November 1961, 3.

\(^{148}\) Ibid. Though there were a few senior officials who supported Canada’s Exemption such as Ball, Trezise, Ed Martin and others, there were some like Thomas Mann and Mr. G. Alexander who would have preferred to see Canada’s exemption retracted and seemed to work to undermine Canada to the Secretary of State and presidential advisors. See for example, Idem, Box 2, File Oil Import Program Jan-June 1961, “Memorandum to Mr. Ball from Mr. Mann, Subject: Canadian Oil Problem, 25 January 1961.” But Mann’s influence on Canadian issues became negligible as he was soon appointed U.S. Ambassador to Mexico in 1961.

proposal in late 1961 mainly because of the TEA going through Congress, Kelly resubmitted essentially the same proposal in late 1962, but this time Kennedy accepted it. As discussed in the previous section, Kennedy was incensed with Diefenbaker’s threat to release the secret Rostow memo, and this negativity was compounded by Diefenbaker’s response to the Cuban missile crisis. Kennedy and his immediate advisors were keen to punish Diefenbaker, and altering the MOIP exemption was one way to do it.

One could argue that Kelly, who had close ties with the independent industry, saw the increased Canadian oil imports as a threat. Therefore, he sought to use his position to champion the interests of the independents. It is true that in the first half of 1961, Canadian imports increased significantly more than estimated “due to unforeseen circumstances,” while domestic consumption of Canadian production did not increase as much as desired. The NEB was in constant contact with Canadian refiners to persuade them to purchase more Canadian crude oil, and was forced to be in constant contact with American refiners to persuade them to purchase less Canadian crude. Yet, Kelly himself recognised that the Canadian overruns were necessary to fill a supply gap. If he knew that the increased imports were required, then why did he push so relentlessly to have the MOIP altered to reign in the Canadians? It seems likely that Kelly took advantage of the opportunity of Kennedy’s dislike of Diefenbaker to push for policy changes towards Canada, not only to satisfy Kennedy, but also to please the American independent producers. Of significance is the fact that Kelly’s role in talks with the Canadians

\[150\] NAC, MG 32 B39, Vol. 128, File 15, Memorandum re: Visit of Mr. Udall, Secretary of the Interior, [no author] 5 May 1961. See also, JFKL, Second Oral History of John M. Kelly, interview by William W. Moss, 10 February 1970, Kennedy Oral History Project Transcript, 48. These circumstances were described by Kelly himself in an oral history, “the severe weather froze up the rivers and we were not able to move barge oil northward; and secondly, the Rocky Mountain area which they depended upon for their crude had not responded to the program and increased its supply during these years. So, therefore, Canada stepped in and filled the breach.” (48) At the same time that exports to the U.S. increased, Canadian use of domestic supply did not increase as quickly as expected. Thus, initially, the increase in Canadian production was based on exports rather than domestic consumption.
diminished after the Pearson Liberals were elected. Although Kelly was still involved in the discussions, Secretary Udall and Myer Feldman assumed a more active role.

Kelly may have been the driving force behind the specific form the changes to the MOIP took; yet, Myer Feldman was the key person in the White House responsible for oil and tariff related issues. Feldman had a long working relationship with Kennedy and was a trusted advisor. He had been a campaign and legislative assistant to Kennedy in the Senate. Feldman also worked on Kennedy’s presidential campaign, including the preparation for Kennedy’s debate with Nixon. All the proposals sent to the White House went through Feldman before they reached the President, and Feldman would summarize and make recommendations on the policies submitted. Furthermore, when Kennedy was serious about accommodating a party on an oil issue, he sent Feldman as his personal representative to work things out.

For example, when Venezuela reacted strongly to the 1962 MOIP changes, Kennedy sent Feldman to Caracas to smooth things with President Betancourt. Kelly accompanied Feldman, but was treated very much as the “technical” person and not the one who held the power of the personal relationship. Indeed, at one point Betancourt stated that he believed “President Kennedy is aware of the importance of Venezuela to [American] foreign policy and that his sending of Mr. Feldman to Venezuela was an indication of this feeling.” In addition, during the discussions when Kelly began a technical explanation on quotas “the discussion was terminated by the President [Betancourt] himself, who said the details could be discussed at the technical level.” Importantly, Feldman was not sent to discuss oil issues with Canada while


152 All quotations in this paragraph are from, USNA, RG59, Records Relating to Venezuela, 1960-63, Box
Diefenbaker was Prime Minister. However, as a sign that Kennedy was serious about altering Canada-U.S. relations with Pearson, at or soon after the Hyannisport meeting, Kennedy designated Feldman as the point man to work with the Canadians on easing oil related tensions.

Still, the official paper trail with respect to the 1962 MOIP changes is incomplete. There is no one specific document that outlines the final action that should be taken by the President, which is unusual given that there are documents with Feldman’s recommendations on residual fuel oil, oil relations with Venezuela, and on earlier suggestions for MOIP changes. Perhaps one explanation, as discussed earlier, is Kennedy’s acute awareness of his place in history and concern over how his image would be characterized in the future, and so no paper trail was left concerning this decision. But given Feldman’s loyalty to Kennedy, it is reasonable and likely, that Kelly convinced him that the MOIP changes would only hurt Canada, and this was discussed and recommended to the President who signed the changes to the proclamation. Once Pearson was elected, Kelly was still involved in Canada-U.S. talks, but it was clear that Feldman, and later Udall, would be setting the tone.

Conclusion

Diefenbaker did his best to try to get along with Kennedy initially, but when it became apparent that Kennedy liked to play petty insulting games while demanding respect, Diefenbaker’s dislike of Kennedy and his administration solidified. Kennedy did not care for Diefenbaker at all from the first, but was willing to maintain basic cordial relations until Diefenbaker threatened to disclose the secret Rostow briefing memo during the 1962 election. This turned Kennedy’s dislike into open contempt, and the resulting attitude made Diefenbaker


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dislike Kennedy even more. When the State Department released a statement to clarify defence related issues, after Diefenbaker had made misleading pronouncements in parliament,

Diefenbaker’s dislike also turned to a self-conscious antipathy.

The strained personal relationship of Diefenbaker and Kennedy, along with long-standing defence issues, quickly soured the Canadian-American relationship that had thrived under Eisenhower. As a result, loyal and ambitious officials, like George Ball and McGeorge Bundy mused about ways to punish Diefenbaker. John Kelly’s way to support the American independents, and gain favour with the President, was to promote oil policy changes that would punish Canada. Myer Feldman, Kennedy’s White House point man on oil, then supported the action to the President when it became clear that Diefenbaker was a legitimate target.

With all of the other pressing international issues of the day, it is interesting to see how much time and personal interest President Kennedy took on Canadian issues, particularly after Diefenbaker’s threat to use the Rostow memo in early 1962. During the 1963 election, Kennedy requested daily updates on the Canadian election, and an assessment of all the different possible scenarios of minority situations. When, to Kennedy’s relief, Pearson was narrowly elected, the entire atmosphere altered, and the U.S. could not do enough to help smooth irritants. Oil policy was one area that was affected, and Kennedy took a personal interest in the matter. First, he directed his officials to come up with a way to increase Canadian imports, which was done by amending the MOIP. Second, he and Pearson agreed that joint studies should be undertaken to explore a more co-ordinated or continental approach to energy resource trade. Third, Kennedy ensured that all within the Administration knew that improved Canadian relations were a priority by making Myer Feldman the point of contact for oil issues.
The good relations between Kennedy and Pearson extended beyond oil and gas issues. For example, even though Walter Gordon’s controversial 1963 budget created some dismay in the U.S., there was also a great deal of sympathy from senior advisors such as George Ball and McGeorge Bundy. When Pearson asked Kennedy to restrain U.S. comments and reaction on the budget, he did. There was much hope that Canada-U.S. relations would blossom and mature because of the friendship of Kennedy and Pearson, but when Kennedy was assassinated in November 1963, that hope turned to uncertainty of how the relationship would develop under Lyndon Johnson.

### III. Pearson and LBJ, 1963-1968

Initially, the Canadians’ apprehension about Lyndon Johnson was unwarranted, as he wanted to maintain friendly relations with Pearson and enhance Canada-U.S. relations, but as the decade progressed, the relationship became strained. During the first year and a half of Johnson’s Presidency, the continental impulse and amiable relations seemed to be ascendant. The Autopact Agreement was signed, the Columbia River Treaty came into force, the Merchant-Heeney report “Canada and the U.S., Principles of Partnership” was released, and talks for a continental energy policy continued. Yet the affable relations between Pearson and Johnson faltered around mid-1965 largely because of the conflict in Vietnam: controversy over increased American involvement, Pearson’s concern about it conveyed in a speech to an American...

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153 JFKL, Personal Papers of George W. Ball, Box 2, File Subject: Canada 4/26/61-11/8/63, Telcon Bundy and Ball, 8/14/63, 10:35 a.m. Both expressed considerable sympathy with Canada’s economic position vis-à-vis the U.S., with Ball saying, “If I were in Walter Gordon’s place with the position the Government has to take—that it must defend the integrity of Canada as a state—I would be doing what he is doing.” (2) Ball then ran by Bundy an idea he had for a comprehensive examination of Canada-U.S. economic relations and the long-term implications. Bundy confirmed that it was important and supported the initiative. See also, Donaghy, Tolerant Allies, 31-35; and Department of State, FRUS, 1961-63, Vol. XIII: Western Europe and Canada, Doc. 451, Telegram from the Department of State to the Embassy in Canada, 28 June 1963.

audience, and criticism of American actions from vocal opponents on the Canadian left.

Concurrently, the pursuit of a continental energy policy or even greater cooperation on oil and gas issues stalled. Once again, Canadian officials had to continuously negotiate informal oil export limits, which, as will be discussed later, they were surprisingly successful at exceeding without penalty even after a secret agreement to formally limit exports was signed in September 1967. The less warm personal relations between leaders, however, did not have as negative an effect as with Kennedy because Johnson had removed oil policy from the White House. Instead, a power struggle ensued between Secretary of the Interior, Stewart Udall, and Under Secretary of State for Economic Affairs, Thomas Mann, which shaped the decisions relating to Canada. A power struggle, which affected Canada-U.S. oil and gas relations, also took place in Canada between Minister of Trade and Commerce Mitchell Sharp, who advocated closer but managed relations with the U.S., and Minister of Finance Walter Gordon, who wanted to decrease Canadian dependence on the U.S. Nevertheless, also shaping the alternatives available, and the context in which the decisions were made were: American relations with Venezuela, new oil and gas supplies found in Canada, the desire to develop the Athabasca oil sands, new oil pipelines to bring oil from the U.S. south to the Chicago area, the continued world oil glut, increased U.S. demand domestically and militarily, and new supplies of oil in Alaska and elsewhere in the world. Although no major policy decisions were made on either side, except for the 1967 agreement, it is still important to briefly discuss these developments during the Pearson-LBJ Canada-U.S. oil and gas relationship as they frame the background for subsequent events in the Nixon-Trudeau period.

Soon after Kennedy’s death, Canadian Prime Minister Pearson and Secretary of State for External Affairs Paul Martin flew to Washington for the funeral and met with President Johnson.
The purpose of the meeting was to express sorrow for the untimely and tragic death of Kennedy, and to become better acquainted with Johnson. The meeting itself lasted only fifteen minutes, and it was agreed that Pearson would return to Washington for a fuller meeting on 22 January 1964. The maintenance of a close personal relationship was stressed in all of the American briefing documents. In preparation for the January meeting, oil imports were understood to be the number one issue in an American “roundup of Canadian problems,” as Canada wished to increase exports while the U.S. wanted Canada to hold at the 1963 levels; but they were not included on the agenda for the meeting. Instead, the main objective for the U.S. at the meeting was to carry through with the Pearson-Kennedy proposal of a joint study on the nature and future of the Canada-U.S. relationship. It was agreed that the former Canadian Ambassador to the U.S., Arnold Heeney, and the former U.S. Ambassador to Canada, Livingston Merchant, would conduct the study to define “the unique and complicated relationship between the two countries.” The result, released publicly on 12 July 1965, came to be known as the Merchant-Heeney Report. Assessments of the meeting, from both sides of the border, stressed how the close relationship cultivated between Pearson and Kennedy would continue with Johnson, and were reinforced during the April 1964 meeting of the Joint Committee on Trade and Economic Affairs (JCTEA).

At the JCTEA meeting, closer continental cooperation was encouraged in order to prevent trade irritants escalating into crises. Specific sectors were identified for inclusion in the

155 LBJL, National Security Files (NSF), Country Files, Box 165, File Canada Memos Vol. I 12/63-7/64, Document #40a, President’s Meeting with Prime Minister Pearson, 25-29 November 1963. See also, LBJL, NSF, Subject File, Box 42, File President’s Meetings Nov 25-29, 1963 [1 of 2], Document #29, Briefing Memorandum What President Might Say to Canadian Prime Minister Lester Pearson. Johnson also asked for Secretary of State Dean Rusk to put together a “roundup” of Canadian problems that he could use in his forthcoming meeting in January 1964 with Prime Minister Pearson. See, Department of State, FRUS, 1961-63, Vol. XIII: Western Europe and Canada, Doc. 455, Memorandum from Secretary of State Rusk to President Johnson, 12 December 1963.

156 LBJL, NSF, Country Files, Box 167, File Canada Pearson Visit, Briefing Book1/2, 22/64 [1 of 2], Memorandum for the President, Subject: Your Meeting with Prime Minister Pearson, January 1964, 1.
Merchant-Heeney study with oil issues prominent. Canadian Minister of Trade and Commerce, Mitchell Sharp, in particular, encouraged joint Canada-U.S. studies for a coordinated or continental energy policy. As discussed above, Sharp introduced the idea in mid-1963, and it was mentioned in some speeches and discussed at various meetings throughout 1964 and into early 1965.\textsuperscript{157} Sharp's counterpart in Washington, Secretary of the Interior Stewart Udall, reinforced the apparent American commitment to joint studies in various speeches.\textsuperscript{158} Prime Minister Lester Pearson also supported Sharp's position in a \textit{Foreign Affairs} article in January 1965, where he advocated the rational and cooperative division of continental resources, with the warning to the U.S. of Canada's determination "not to confuse cooperation with absorption."\textsuperscript{159} Johnson, however, did not make any public pronouncements for or against a continental energy policy, but he did support further continental cooperation and integration as demonstrated in the


\textsuperscript{158} For example, LBJL, WHCF, Subject File—Countries, Box 18, File CO 43 4/1/64-12/31/64, Memorandum for Douglas Carter, 26 June 1964. In this speech of June 1964, Udall talked about pooling the resources of the continent. He said that Canada and the U.S. could demonstrate a "model of international cooperation in resource development" by pooling the resources of the continent. Udall referred "to the North American continent as a great vault or storehouse of resources, which, if pooled, would maximize the economic strength of both countries." He also remarked in a speech at the Empire Club of Canada on 15 November 1965, "[I]t is on this fourth pillar of co-operation that the future growth of Canada and the United States rests—as clearly evidenced by the increasing interdependence of the people of both nations on the abundant and varied natural resources of North America.... I pledge the fullest co-operation of the Government of the United States as we go forward with the joint development of the energy resources so vital to the future of both Canada and the United States." Stewart Udall, "Joint Use of Energy Resources," Speech to the Empire Club of Canada, Toronto, 15 November 1965. Available from, \url{http://empireclubfoundation.com/details.asp?SpeechID=2808&FT=ves}; Internet, accessed 30 April 2006.

\textsuperscript{159} Lester B. Pearson, "Good Neighbors," \textit{Foreign Affairs}, 43:2 (January 1965), 257-258. Of importance, oil and gas, and other natural resources, was the first item singled out by Pearson as an example of the joint studies undertaken to ease irritants in bilateral economic relations. Pearson concluded the section with this statement, "Each of us can often do better by cooperation than either could do separately to advance its own interest. We should, I think, be more conscious of the great advantages of such cooperation and should make more of our opportunities to promote it." (257)
signing of the Autopact Agreement in January 1965. Yet, the attitude on both sides of the border began to shift in 1965 around the time when the Pearson-Johnson relationship faltered; continentalism was on the wane.

On 2 April 1965, Prime Minister Pearson travelled to Temple University in Philadelphia to receive a World Peace Award. His reception speech covered the controversial subject of the war in Vietnam by suggesting that if America suspended its air strikes it might “inject some flexibility” into Hanoi’s policy. Johnson was furious with Pearson’s remarks, not only because he made them in the U.S., but also because Pearson, fearing the President would dissuade him to call for a bombing pause, had deliberately refused to either meet with Johnson in advance or to provide the White House with an advance copy of the speech; the former was cancelled by Pearson and the latter was a common diplomatic courtesy. The day after the speech, Pearson met with Johnson at Camp David and was subjected to “The Treatment,” an episode frequently commented on by Canadian historians. Two columnists cited by historian Bruce Shulman describe “The Treatment” as

supplication, accusation, cajolery, exuberance, scorn, tears, complaint, the hint of threat. It was all of these together. Its velocity was breathtaking, and it was all in one direction. Interjections from the target were rare. Johnson anticipated them before they could be spoken. He moved in close, his face a scant millimetre from his target, his eyes widening and narrowing, his eyebrows rising and falling.

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160 LBIL, NSF, Country Files, Box 167, File Canada Pearson Visit Briefing Book [1965] 1/15-16/65, Memorandum for the President from Dean Rusk [Secretary of State], Subject: Visit of Canadian Prime Minister Pearson, 14 January 1965. The briefing note outlines the “Accomplishments in US-Canadian Relations,” and mentions specifically how the Autopact and the civil aviation agreement were “important moves toward a more rational division of continental resources.” (2) [Emphasis in the original.]


162 See for example, Ibid; Martin, Presidents and the Prime Ministers, 226; Granatstein and Hillmer, For Better or For Worse, 215-217. For a contemporary eye-witness account see Ritchie, Storm Signals, 79-80.

163 As quoted in Bruce J. Schulman, Lyndon B. Johnson and American Liberalism (Boston: Bedford Books, 1995), 44. The two journalists quoted are Rowland Evans and Robert Novak.

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Johnson’s “treatment” was an effective tool to cajole Senators to support a bill, however, it did not occur to Johnson that this was an inappropriate way to treat a foreign dignitary— even from a close neighbour like Canada. Johnson lectured Pearson on the timing, the location, and lack of prior consultation of the speech. But what incensed Johnson the most was that, as historian Greg Donaghy describes, “Pearson had violated one of Johnson’s rudimentary but sacrosanct political precepts: ‘you don’t piss on your neighbour’s rug.’” Pearson was stunned and shaken by the reaction and when back in Ottawa he sent a lengthy letter that explained his reasoning, and assured Johnson that Canada was still America’s ally.

Johnson operated very much in a quid pro quo fashion, and if Pearson had not built up so much political capital with Johnson over the previous year and a half, by sending troops to Cyprus and having Blair Seaborn act as an intermediary between the U.S. and the North Vietnamese, the consequences could have been worse. In August 1965, William Osborn Twaits, President of Imperial Oil, suggested to Sharp that the proposed changes to the MOIP, which would have a negative effect on Canada, were a result of Pearson’s comments. Twaits thought Johnson was responsible for the decision; in contrast, Canadian Cabinet Ministers and officials believed policy formulation for the MOIP was in the hands of Secretary of Interior Stewart Udall and Under Secretary of State Thomas Mann. Interestingly, two days before the

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164 Donaghy, Tolerant Allies, 130.
165 On Johnson’s appreciation for Canada’s peacekeepers in Cyprus see, Martin, Presidents and the Prime Ministers, 224. For more details on Seaborn’s activities as the Canadian member of the International Commission for Supervision and Control (ICSC) during the Vietnam conflict, see Donaghy, Tolerant Allies, 125-129. See also, LBJL, NSF, Country Files, Box 165, File Canada-Memos Vol. I 12/63-7/64, Memorandum for the Record, Subject: Conversation between the President and Prime Minister Lester Pearson at the New York Hilton Hotel, May 28, 1964, 6:15-6:45 p.m., Recorded by McGeorge Bundy, 30 May 1964. During this discussion, Johnson thanked Pearson warmly “for his cooperation in the matter of Mr. Seaborn’s special assignment.” (2)
166 NAC, RG2, Series A-5-a, Vol. 6271, File 1965 Cabinet Conclusions, 4 August 1965 to 27 August, Cabinet Conclusions, 4 August 1965, 3. Contrary to Twaits’ view, the proposed changes to the MOIP had more to do with the power struggle between Udall and Mann than a need for revenge by President Johnson. However, having learned from their experience during the Kennedy years, the Canadian officials sought to smooth relations in case Johnson did wish to exert influence over Canada-U.S. oil and gas issues.
Cabinet meeting, Ambassador Ritchie met with Jack Valenti (one of Johnson’s key advisors), to try to smooth things between Pearson and Johnson. As it was, since Johnson had removed oil from the White House the faltering of the personal relationship had a limited impact on Canada-U.S. oil and gas issues.

Soon after Kennedy’s death, Johnson moved to distance himself from oil and gas matters. He met with Udall and, according to Udall, the President “designated him ‘oil czar [sic].’” A side effect of Udall’s new authority was a decline in the influence of John Kelly. One Canadian official reflected, “Kelly’s nose [is] a bit out of joint over Udall’s personal participation in oil negotiations, so Kelly has petulantly been passing more and more responsibility to O’Leary—[Kelly] is now beholden totally to Sec. Udall on policy matters, and O’Leary has taken over much of Kelly’s former activity.”

Kelly’s loss of influence and prestige after Kennedy’s death led to his resignation in June 1965. The State Department also understood that Udall was the person in the Executive Branch with “the last word” on the oil import program, and were concerned about their loss of influence. Ostensibly, to further protect the President from accusations of conflict of interest, the Interior Department tried to

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167 USNA, RG59, CFPF, 1964-66, Subject Numeric-Petroleum, Box 1382, File PET 10 Resource Oil Fields CAN 1.1.64, Memorandum to the Secretary from Mr. Johnson [Assistant Secretary Economic Affairs], Subject: Senator Humphrey and Canadian Oil, 30 January 1964, 2. “In December, Secretary Udall announced to the press (an announcement not denied by the White House) that the President had designated him ‘oil czar.’” For the stalling effect of oil policy not being in the White House and the power struggle between the Departments of Interior and State see also, Richard H.K. Vietor, Energy Policy in America Since 1945: A Study in Business-Government Relations (Cambridge: Cambridge University Press, 1984), 135-140. See p.139 in particular.

168 NAC, RG99, Vol. 67, File 24 Oil Import Policy 1964, Handwritten notes of Doug Fraser, 20 March 1964, 1. Kelly was replaced by J. Cordell Moore. O’Leary remained the Deputy Assistant Secretary to Moore, and responsibility for most of the technical talks with Canada was delegated to him.

169 USNA, RG59, CFPF, 1964-66, Subject Numeric-Petroleum, Box 1382, File PET 10 Resource Oil Fields CAN 1.1.64, Memorandum to the Secretary from Mr. Johnson [Assistant Secretary Economic Affairs], Subject: Senator Humphrey and Canadian Oil, 30 January 1964. All throughout the administration recognized that Johnson had delegated authority to Udall, and was also stated publicly at a Congressional hearing. See, LBJL, WHCF, Subject Files TA-6, Box 19, File TA-6/Oil 1/1/65-5/31/65, Memorandum to the President from Lee C. White, 30 March 1965, Subject: Residual Oil Import Program. See also, Drew Pearson, “Oil Sticky Problem for LBJ,” Washington Post, 31 May 1965, B37.
alter the way amendments to the MOIP were made: to be in the hands of the Secretary of Interior instead of from Presidential Proclamations. This was rejected by the State Department, and most strongly by the Attorney General’s Office, thus the amendments to the MOIP remained with the President.  

Even after Johnson was elected President, and the publicized delegation of authority to Udall, he continued to be pressured by Senators and some Texas oilmen, with whom he had been very close during his own Senate career. As a result, at the end of April 1965 when some senators clamoured for Johnson to take action on oil issues, he reminded his immediate circle that he “must not bring oil into the White House,” and told them to tell the senators to have them see Udall or Governor Buford Ellington, the Director of the OEP.  

With respect to Canadian oil, Udall had not only spoken on occasion advocating a continental oil policy, though what he meant by it was deliberately vague, he also had support for a pro-Canadian policy from

170 DOE, Job 1012, Box 2, Folder 6 Crude Oil Import (Mod) #1, memorandum for Lee C. White from the Attorney General re: Delegation to the Secretary of the Interior of the President’s Authority under Section 232(b) of the Trade Expansion Act of 1962 (19 U.S.C. 1862(b)), 2-4. The Bureau of the Budget concurred with the Attorney General’s objections. See, LBIL, WHCF, Subject Files TA-6, Box 19, File TA-6 6/1/65-8/30/65, Memorandum for Lee C. White from Charles L. Schultze [Director BOB], 24 June 1965. Although amendments to the MOIP could only be made through Presidential proclamation, the ultimate recommendations for such amendments were to be made outside the President’s White House circle. Johnson did not want to be involved in the deliberation of the recommendations or have Senators and other interested parties lobby him to take a position on particular recommendations.  

171 LBIL, WHCF, Subject File TA-6, Box 19, File TA6/Oil 1/1/65-5/31/65, Memorandum to President from Jack Valenti, 29 April 1965. Johnson’s comments in this memo are particularly important in light of events that took place a month earlier. Udall had worked hard to prepare the ground to lift the quotas on residual fuel oil for Florida and New England. However, just days before the announcement was to be made, Johnson, after much pressure from east coast Senators, had Harry McPherson and Lee White meet with Udall to explain that it would be politically disastrous at that time to lift the quotas. Udall persuasively outlined that events had gone too far, and that altering the prospective policy at the last minute would bring accusations of White House interference and “charges that the President did not mean what he said when he delegated the oil responsibility to Interior.” After some discussion, Udall said, “I will do whatever you tell me to do — I am the President’s boy.” Lee White’s report conveyed that Udall was more than willing to say it was his decision to reverse course, but suggested that the blow to Udall’s prestige would be considerable. White also said he agreed with Udall’s suggestion that the White House “did not fully understand all the factors involved.” In the end, Udall announced that the residual fuel oil issue required more study, and had the OEP begin an investigation; therefore, the existing program would continue for the next year while the investigation took place. Once again, a study was used to delay a politically sensitive issue. Significantly, after this incident, there is no evidence of Johnson intervening in Udall’s decisions, and a month later, he sought to distance himself from Senators’ pressure on oil issues. The source for this information is, LBJL, WHCF, Subject Files TA-6, Box 19, File TA6/Oil 1/1/65-5/31/65, Memorandum for the President from Lee C. White, Subject: Residual Oil Import Program, 30 March 1965; Memorandum for the President from Lee C. White, No Subject, 31 March 1965.
the Vice President, Hubert Humphrey. Humphrey was from Minnesota and championed the
interests of his constituents who were dependent on Canadian oil.\textsuperscript{172} This likely gave Udall extra
ammunition in his power struggle with Thomas Mann.

When Johnson assumed office after Kennedy’s death, he brought Mann back from
Mexico to be Assistant Secretary of State for Inter-American Affairs. After Johnson was elected
in November 1964, Mann was promoted to Under Secretary of State for Economic Affairs, one
of the most powerful positions in the State Department.\textsuperscript{173} Johnson trusted Mann’s views on
Latin America, and, even though Interior tried to reduce State’s involvement in oil policy issues,
Mann still managed to press for an improved position for Venezuela. Mann acknowledged that
Venezuela’s demand for exemption parity with Canada could not be accepted because of the
concerns of American domestic producers. Instead, he advocated some form of symbolic equal
treatment with Canada in the MOIP, a considerable reduction in Canadian imports, or the
removal of the Canadian exemption to soothe political tensions in Venezuela’s unstable coalition
government.\textsuperscript{174}

\textsuperscript{172} USNA, RG59, CFPF, 1964-66, Subject Numeric-Petroleum, Box 1382, File PET 10 Resource Oil Fields
CAN 1.1.64, Memorandum to the Secretary from Mr. Johnson [Assistant Secretary Economic Affairs], Subject:
Senator Humphrey and Canadian Oil, 30 January 1964. Indeed, the Canadians thought a useful tactic might be to
involve the Vice-President and the northern refiners to help champion the Canadian position. See, NAC, RG2,
Series A-5-a, Vol. 6271, File 1965 Cabinet Conclusions, 2 July 1965 to 29 July, Cabinet Conclusions, 2 July 1965,
10-11. Sharp said the following, “Negotiations were now at a delicate stage and it might be desirable in the near
future to involve, perhaps through the United States Vice President, the interest of some of the northern states and
northern refiners in the continuance of Canadian oil imports at an increasing rate.”

\textsuperscript{173} Mann became the Under Secretary in May 1965. The \textit{Time} magazine edition of 31 January 1964 had a
lengthy cover story on Mann and Latin American affairs that provides some interesting insight into Mann’s
background and relationship with Latin America. For an image of Mann on the cover of \textit{Time} magazine see,
available from, \url{http://www.time.com/time/covers/0,16641,19640131,00.html}; Internet; accessed 1 October 2006.

\textsuperscript{174} For Mann’s position see, LBJL, NSF, Country Files, Box 166, File Canada-Memos Vol. III 3/65-12/65
[2 of 2], Memorandum of Conversation, Subject: Canadian Oil Imports and Venezuelan Charges of Discrimination,
2 April 1965. On political instability in Venezuela and the role of the MOIP see LBJL, Conference Files, Box 92,
File TA-6/Oil-Tariff-Imports, Note to Leigh White from George Jacobs [State Department], Influence of U.S.-
Venezuelan Oil Trade on Venezuelan Political Stability, 1 June 1965.

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In mid-1965, Mann once again became involved in the talks between the U.S. and Canada and Venezuela. The President was informed by his advisor Lee White that Mann “tended to give great weight to the Venezuelan political problem; Udall, on the other hand, has tended to be greatly concerned about Canada and the fact that the Canadian government could fall if the burden on them was too great.”

This power struggle over whose view would prevail for the MOIP manifested itself in the approach taken in discussions with the affected parties. Intentionally or not, Mann was very negative and tough with the Canadians, while Udall would follow-up with a more conciliatory and understanding attitude. The Canadians, NEB Chairman Ian McKinnon, Vice-Chairman Robert Howland, and Minister of Trade and Commerce Mitchell Sharp, recognized the difference. Although they were still uncertain of who held more influence, they were inclined to believe that Mann was ascendant.

Negotiations for changing the MOIP continued from April until November 1965, with the Canadians being told, particularly by Thomas Mann, that their exemption would have to be terminated if they could not agree to lower their export levels. The main complaint against the Canadians was that almost all of the increase in American demand was filled by Canadian oil, imports of which had increased 10 to 15 percent per year since 1961. The U.S. wanted Canada


176 USNA, RG59, CFPF 1964-66, Subject-Numeric-Petroleum, Box 1382, File PET 17 Trade CAN 1.1.64, Memorandum to Mr. Mann from Jerome Jacobson, Subject: Canadian Oil Imports: Minister Sharp’s Meeting with Secretary Udall, May 5, 5 May 1965. Mann was told, “Secretary Udall took a much softer lie than the one you took yesterday.” For the Canadian view see, NAC, RG2, Series A-5-a, Vol. 6271, File 1965 Cabinet Conclusions, 3 May 1965 to 28 May, Cabinet Conclusions, 11 May 1965, 10-11. Sharp informed Cabinet that Mann “was reported to be supporting the Venezuelan case because of his own preoccupation with Latin American affairs.” He went on to say, “he had received a quite different reception [from Mr. Udall]. He found the Department of Interior anxious to maintain the present arrangement which they recognized had worked well.”
to reduce its oil export growth to five percent. The Canadians countered that removal of the exemption would create irreparable damage to Canada-U.S. relations, and though it was politically impossible for them to initiate export controls, they would do their best to control them informally, as they had been doing. In the end, the major changes to the MOIP that were under consideration were not implemented largely because American demand for oil was estimated to increase dramatically in 1966 from automobiles and economic growth, and increased Defense Department requirements owing to the conflict in Vietnam. The Canadians were also aided by the inflexible position of the Venezuelan's concerning equitable treatment with Canada.

The U.S. attempted to negotiate some kind of hemispheric preference with Venezuela, but as talks continued through 1964 and 1965, the Venezuelans rejected all proposals. There

177 NAC, RG2, Series A-5-a, Vol. 6271, File 1965 Cabinet Conclusions, 3 May 1965 to 28 May, Cabinet Conclusions, 11 May 1965, 10-11; Ibid., Cabinet Conclusions, 2 July 1965 to 29 July, Cabinet Conclusions, 2 July 1965; Ibid., 6275, File 353-65, Memorandum to Cabinet, Re: Discussions with the United States on Proposed Changes in the U.S. Oil Import Control Program, 24 June 1965; Ibid., Vol. 6271, File 1965 Cabinet Conclusions 1 November 1965 to 29 November, Cabinet Conclusions, 10 November 1965; USNA, RG59, CPFF 1964-66, Subject Numeric-Petroleum, PET18 CAN 1/1/66 TO CHA 1/11/64, Box 1383, File PET Can-A 1/1/64, Telegram 12214 from Department of State to Amembassy Ottawa, re: Ambassador Ritchie meeting with Under Secretary Mann, 22 April 1965. For Mann's hard line on Canada see, LBJL, Confidential Files, Box 92, File TA-6/Oil-Tariff-Imports, Memorandum for Lee White from Thomas Mann, Subject: Oil Import Proclamation, 22 November 1965. Since negotiations were complicated, proposed changes to the MOIP were postponed twice. It is important to emphasize that the Canadians relentlessly fought any changes to Canada's status in the MOIP. Even the outcome of the 8 November 1965 Canadian election was employed to persuade the Americans not to act against Canadian oil. The Liberals were in a weaker position in oil producing provinces, and during a 12 November 1965 meeting, Canadian Ambassador to the U.S. Charles Ritchie argued to Thomas Mann that any drastic change to the Canadian position in the MOIP would have dire consequences for the "whole spectrum of U.S.-Canadian relations," not just in oil policy. However, Mann replied that though the U.S. sympathized with the Government's dilemma, Canadian oil export growth was far greater than U.S. production growth and something had to be done. LBJL, NSF, Country Files, Box 166, File Canada – Cables Vol. III 3/65-12/65 [1 of 2], Memorandum of Conversation, Subject: Exports of Canadian Oil to the US, 12 November 1965. Nevertheless, within two weeks concern over changes to the MOIP had dissipated.

178 See for example, LBJL, Confidential Files, Box 92, File TA-6/Oil-Tariff-Imports, Memorandum for Lee White from Gardner Ackley [Chairman Council of Economic Advisors], Subject: Oil Import Quotas, 24 November 1965.

179 On failed negotiations with Venezuela see, LBJL, NSF, Country Files, Box 75, File Venezuela Memos & Misc Vol. II 8/64-8/66, Background Paper, U.S.-Venezuelan Petroleum Relation, 19 January 1966. For the importance Venezuela attached to equal treatment with Canada see, LBJL, Confidential Files, Box 92, File TA 6/Oil – Tariff – Imports, Memorandum for the President from Stewart Udall and Thomas Mann, Subject: Oil Import.
were also indications that Venezuela was really manoeuvring (as they had in 1959) to exert government control over exports to the U.S. market, which even Mann recognized could not be permitted. Finally, Mann and Udall concluded that no re-wording of the MOIP would satisfy the Venezuelans, and with the reports of probable increase in demand, the problem seemed to be defused. At a 23 November 1965 meeting between Udall and Sharp, it was agreed that Canada would have a “target ceiling” of five percent annual growth in exports, “but that there should be continuing consultation about the levels in periods immediately ahead and, when the facts warranted it, excesses above those levels would be permitted.” The interesting aspect of the 1965 power struggle and wrangling over the MOIP and Canadian access to the U.S. market was that a continental policy was not mentioned once; the Canadians, however, reintroduced the idea the following year.

While a power struggle ensued in the U.S. between Udall and Mann until 1966, something similar was taking place in Canada. One of the interesting dynamics of the Pearson government was the internal conflict between the ideas and supporters of Mitchell Sharp and Walter Gordon, which had implications for Canada-U.S. oil and gas relations. Sharp was the

Program, n.d. (Accompanying memo to President from Lee White is dated 15 November 1965.) This memo points out that equal treatment with Canada “is indeed the major issue in United States-Venezuelan relations, and is potentially an explosive one in domestic Venezuelan politics.” The memo went on to say that Venezuela’s President was “publicly committed to obtain treatment for Venezuela closer to that now enjoyed by Canada.” (3)

Mann wrote in a memo to the President that if the Government of Venezuela controlled exports to the U.S. it “would give it a blackmail power over U.S. oil companies operating in Venezuela which it would be likely to abuse.” (2) LBHE, Confidential Files, Box 92, File TA-6/Oil-Tariff-Imports, Memorandum to the President from Tom Mann, 15 October 1965.

USNA, RG59, CFPF 1964-66, Subject-Numeric-Petroleum, Box 1382, File PET17 Trade CAN 1.1.64, Memorandum of Conversation, Subject: Oil Imports from Canada, 23 November 1965. For the Canadian account see, NAC, RG2, Series A-5-a, Vol. 6721, File 1965 Cabinet Conclusions, 1 November 1965 to 19 November, Cabinet Conclusions, 26 November 1965, 3. The Canadians reported that, “The United States at an earlier stage had been pressing strongly to change existing arrangements to either remove the overland exemption or to limit the rate of Canadian growth. In part, their concern arose from domestic pressure and in part because of State Department pre-occupation with Venezuela. . . . Mr. Sharp said that his meeting with Mr. Udall, Secretary of the Interior, had been extremely successful. The United States did not press their original objective and consequently there would be no change in the formal position of Canadian oil.”
Minister of Trade and Commerce and a former senior dominion civil servant. As noted in
Chapter 2, Sharp subscribed to the idea that a certain amount of continentalism was acceptable as
long as it was balanced and Canada maintained independence through the ability to manoeuvre
when required. Walter Gordon, on the other hand, was the Minister of Finance from April
1963 to November 1965, and advocated the reduction of American foreign investment in
Canada. His first budget contained provisions intended to reduce American investment, but
within a few weeks the controversial budget measures were withdrawn, and Gordon’s influence
seemed to wane temporarily. In an interview with historian Robert Bothwell in 1993, Sharp
reflected on the divergent views between himself and Gordon:

My view like Walter’s was that we should have as much Canadian ownership as possible
but I didn’t think that we would accomplish very much if all our policies were directed to
the control of foreign ownership. And this was really the point of contention. In a sense
we were both nationalists, but I wasn’t an economic nationalist of the kind that Walter
Gordon represented. And he had a group of people in Toronto, who were very much of
his own view... I don’t think that Walter really did understand that the kind of economic
nationalism that he was advocating was not acceptable to the party, in general, and
particularly it was not acceptable in the West and even in the Maritimes. He had a centre
in Toronto, of people who thought like he thought and he thought in turn that this was
representative of the whole party and it wasn’t so.

See also University of Toronto Archives (UTA), Acc. B1984-0024, File 014, Interview with Mitchell
Sharp by Robert Bothwell, 23 November 1979, for Sharp’s continued belief that “exemptionalism” was valid for
Canada-U.S. relations. In his memoirs, written a few years after he left government, Lester Pearson reflected on
Canada-U.S. economic relations. In a much clearer statement than he seemed to make while Prime Minsiter,
Pearson declared his support for exemptionalism and the informal continentalism approach: “Independence must
rest on strength and policies discouraging foreign investment could weaken us. But contrary policies, while
increasing our economic strength, could also ensure that this stronger Canada would be controlled economically, and
hence ultimately politically, by the United States. This does not have to happen. We can reconcile these
difficulties—and in a way which should give us the best of both worlds. To do so, we need to receive the kind of
special treatment that we have enjoyed in Washington, while making it clear to our American friends that this is not
a matter of grace and favour but something to which we are entitled by the nature of our trade and financial relations
with them, and from which both countries benefit.” Pearson, Mike: Memoirs, 128.

The Royal Commission on Canada’s Economic Prospects, chaired by Gordon in 1956-57, supported that
conclusion. The controversial measures included a 30 percent takeover tax, an increase in the withholding tax, and
tax breaks for companies that were at least 25 percent Canadian owned. Gordon sought to curb American economic
influence in Canada through various restrictive measures to reduce the amount of foreign (American) investment in
the Canadian oil and gas industry, which bore a resemblance to economic nationalism. For a detailed account see,
Donaghy, Tolerant Allies, 21-29. See also, Hart, A Trading Nation, 236-237, and Stephen Azzi, Walter Gordon and

UTA, Robert Bothwell Papers, Acc. B1994-0029, Box 3, Interview with Mitchell Sharp by Robert
In this power struggle, Sharp seemed better able to shift his support depending on prevailing attitudes within the Canadian public, the Liberal Party, and the Cabinet, but the continuous shifting was also due to a lack of leadership by Prime Minister Pearson. Thus, the attitude toward continentalism and oil for Canadian decision-makers oscillated between 1965 and 1968 from discouraging to encouraging it.  

For example, in 1965, Canada sought to discourage a formalized continental oil agreement; but a year later, the idea was reintroduced. In February 1965, a Canadian internal memorandum, drafted by Ian McKinnon (Chairman of the NEB) for Mitchell Sharp, suggested that the relationships through the informal network of officials across the border, such as that between the NEB and the DOI, were perhaps the best way to avoid problems for oil and gas issues, therefore no ‘official’ joint planning was necessary. A few months later, the Merchant-Heeney report, released publicly in July 1965, included a section on energy. The essential conclusion of the report was that quiet diplomacy, or the interchange between transgovernmental networks of officials, worked very well in Canada-U.S. relations, and should be enhanced and utilised as often as possible not only to address minor problems before they escalate, but also to prevent the counter-productive public airing of disputes. Some Canadians, particularly those

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Bothwell, 28 June 1993, 1-2. This is taken from a typed transcript of a recorded interview, hence the certain awkwardness of wording. Gordon’s views were defeated at the 1966 Liberal Party convention in Ottawa.  

185 While Sharp supported the push towards sectoral continental agreements in late 1963 and 1964, he began to back off on increased continental arrangements in 1965, only to encourage them again in 1966.  

186 NAC, RG99, Vol. 67, File 23, Joint Energy Studies, Drafted by I. McKinnon, Introduction by the Minister, 23 February 1965. The relevant part of the document states, “All these changing circumstances suggest a question, I think, whether there continues to be the need for undertaking the broadly-based joint studies which we contemplated some time ago; indeed whether we are not now making good progress in co-operative effort under existing arrangements... We believe that many of the obstacles and problems concerning exchanges of energy between our two countries can be removed by their free and frank discussion at an early stage by officials.” (2-3)  

in the opposition ranks of the Progressive Conservatives and the New Democrat Party (NDP), reacted very strongly and denounced the conclusions as a “diplomatic sell out of Canadian sovereignty and resources.” The Conservative Premier of Manitoba, Duff Roblin, went so far as to say the report should be thrown in the trash.

For Sharp, the 1965 change in attitude was most likely related to his desire to keep continental developments balanced, though one cannot rule out McKinnon’s own preferences given that he drafted the memo. Since the Autopact Agreement had just been signed, and the Columbia River Treaty recently came into force, a continental energy policy, or even a continental oil policy, may have been perceived as too much continentalism in such a short period. It could open up the Liberal minority government to excessive criticism from the opposition as well as within its own divided ranks particularly from the Walter Gordon faction and his supporters. For example, in November 1966, NDP leader Tommy Douglas equated continentalism with dependence and argued that successive dominion governments pursued a policy of “creeping continentalism,” which was leading to the American takeover of the Canadian economy.

Walter Gordon, though of the Liberal Party, sympathized with and

188 Source: Globe and Mail, 17 July 1965, p7.
189 “Hamilton Critical: Canadian-U.S. Report is Labelled Sellout,” Globe and Mail, 15 July 1965, p.39. The person quoted was Alvin Hamilton, a PC and former Minister in the Diefenbaker government. Of interest is that the main focus of the report was on economic and financial issues concerning Canada-U.S. relations, with only a small part addressing foreign policy. But the critics were quick to leap upon the slight foreign policy reference to capitalize on growing anti-American sentiment particularly in light of the growing public hostility to the conflict in Vietnam.
190 For the first week of the Merchant-Heeney report’s release, from the 13th through the 17th of July 1965, the Globe and Mail carried articles and commentaries every day that tended to emphasize the report as a rebuke to Canadian sovereignty and capacity to speak freely and publicly on matters the U.S. might find sensitive. For Roblin’s remarks see, “Put Diplomats’ Report into Basket: Roblin ,” Globe and Mail, 17 July 1965, p4.
supported some of the NDP’s ideas concerning the alleged American dominance of the economy, and the oil and gas sector in particular. Gordon was very much concerned with the oil and gas industry. While Minister of Finance, and later as the overseer of a dominion task force on foreign investment, he targeted its large amount of American investment, ownership, control, and management. Although Gordon supported the move to increase oil and gas exports temporarily, he did not support formalizing it in some sort of continental oil and gas agreement. The Pearson Cabinet was split on which path to follow.

A large part of the problem with the Liberal Cabinet, and the factionalism within it, was Pearson’s poor leadership qualities. As a bureaucrat and diplomat, his strong qualities of pragmatism, diplomacy, and consensus seeking served him well. But as leader of the government, these same qualities turned into a liability. Sharp comments that Pearson “was reluctant to take a clear position when there was dissent, hoping to be able to mediate.” Sometimes as leader one has to take “harsh and decisive action,” which Pearson was unable to do. The battle between Sharp and Gordon, informal continentalism versus economic nationalism, was complicated for Pearson because of his personal friendship with Gordon. Perhaps then, Sharp’s replacement of Gordon as Minister of Finance after the 1965 election helped to smooth the way again for the idea of a continental oil policy.

\[\text{192}\text{ Gordon, and his supporters, wanted to decrease the foreign ownership levels of the companies while simultaneously increasing the number of Canadians in management positions. Christina McCall-Newman, Grits: An Intimate Portrait of the Liberal Party (Toronto: Macmillan of Canada, 1982), 37, 44-49.} \]

\[\text{193}\text{ Sharp, Which Reminds Me..., 109.} \]

\[\text{194}\text{ McCall-Newman, Grits, 33.} \]

\[\text{195}\text{ Gordon resigned from Cabinet after the 1965 election, but after meeting with Pearson in December 1966 and with Pearson and Sharp in January 1967, he returned to Cabinet in January 1967 though not as Minister of Finance. Instead, he was given the opportunity to oversee a dominion task force to investigate American foreign direct investment, which came to be known as the Watkins report. The task force was officially on the Structure of Canadian Industry and was headed by Mel Watkins, an economist at the University of Toronto. The conclusions of that report, one author suggests, were written specifically to provide “an analytical basis for Gordon’s intuitive assessment that foreign investment, particularly American foreign direct investment, was bad for the Canadian economy.” (Sharp, Which Reminds Me..., 113) Gordon also proposed the creation of the Canada Development} \]

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In May 1966, during a technical discussion between Canadian and American officials about Canadian oil export overruns led by Robert Howland (NEB Vice-Chairman) and John O‘Leary (DOI Deputy Assistant Secretary Mineral Resources), Howland asked whether the U.S. was “prepared to move in the direction of a continental approach.” Despite Secretary Udall’s earlier support of a continental oil policy in various speeches and the retirement of his main rival Thomas Mann, O‘Leary replied that a continental oil policy was out of the question because it would conflict with the MOIP and have a bad effect on the Venezuelan problem. The NEB strategy was to stem American restrictions on Canadian oil by proposing discussions and studies for a continental oil arrangement, though the U.S. at this time was uninterested. Discussions between Canadian and American officials and Cabinet level ministers continued throughout 1966 to monitor and agree upon Canadian oil exports to the U.S., which continuously exceeded the five percent limit. Due to supply shortages in the Great Lakes region, the U.S. was willing to allow the Canadian over-runs until a pipeline from Louisiana to Chicago, the “Capline project,” was completed. Also, despite O‘Leary’s comments, concern regarding Venezuela’s view of Corporation where the Canadian government would intervene when resource companies were about to be taken over by American companies. This last initiative was not implemented until 1971 under Pierre Trudeau. Soon after the issuance of the report, Foreign Ownership and the Structure of Canadian Industry in 1968, Watkins, convinced “that Canada’s independence could only be guaranteed if it became a socialist state,” joined forces with Jim Laxer and others to form the Waffle Group of the NDP. They believed that the only existing vehicle that could be utilized for that purpose was the NDP, thus, their aim was to radicalize the party to pursue the transformation of Canada into a socialist state. See Hart, A Trading Nation, 491n87.

196 USNA, RG59, CFPF, 1964-66, Economic-Petroleum, PET 18 CAN 1/1/64-CHA 1/1/64, Box 1383, File PET CAN-A 1/1/64, Airgram CA-11329, To Amembassy Ottawa from Department of State, Subject: United States-Canadian Discussions on Canadian Oil Exports into the United States, 18 May 1966 and enclosed Memorandum of Conversation, 12 May 1966, 4-5. Norman Chappell, Energy Counsellor at the Canadian Embassy in Washington, a month later, also suggested that discussions for a continental oil policy should take place to reduce the effects of the Louisiana pipeline. NAC, RG25, Vol. 3175, File Oil and Gas (2) 1958-72, Memo to File by Norman Chappell Subject: Prospective Oil Pipeline – Louisiana-Chicago Area, 3 June 1966. Udall supported the concept of the continental sharing of resources, but never provided a specific outline of how it would be implemented.

197 See for example, USNA, RG59, CFPF 1964-66, Subject-Numeric Petroleum, Box 1383, File PET CAN-A 1/1/64, Memorandum for Anthony M. Solomon from Edward R. Fried, Subject: New Issues Emerging in United States-Canadian Oil Relations, 24 June 1966 and Ibid., Telegram 48320 from Department of State to Amembassy Ottawa re: Meetings with Robert Howland of NEB 14 September 1966, 16 September 1966. Howland was concerned because existing pipeline capacity to Districts I and II would not be able to match projected increases in
Canadian oil exports to the U.S. did not seem as significant in the decision-making later in 1966. Perhaps of importance was Thomas Mann’s retirement from government service in 1966; this meant that objections against Canada based on Venezuelan concerns were diminished, and this might help to explain the more accommodating attitude of the U.S. towards Canadian excesses.\footnote{Actions by Venezuela on residual fuel oil also contributed to a reduction in the Johnson Administration’s concern for Venezuela’s protestations of the Canadian exemption. With much difficulty, particularly because of the coal lobby, Johnson “liberalized” the residual fuel import program to enable a large increase in imports of Venezuelan fuel oil to the U.S. east coast. Within weeks, however, Venezuela moved to increase the price of residual oil from $1.55 to $1.80 per barrel. White House officials were enraged. One wrote, “we did not liberalize the residual fuel oil program in order to let the Venezuelans drive up the price.” See, LBJL, WHCF, Subject Files TA-6, Box 19, File TA 6/Oil 12/15/65-10/6/66, Memorandum for Joseph A. Califano, Jr. from Gardner Ackley, Subject: The Venezuelan Government Tries to Fix the Price of Residual Fuel Oil, 3 January 1966. For more on the residual oil issue within the Johnson Administration see from March through December 1965, LBJL, WHCF, Subject Files TA-6, Box 19, File TA 6/Oil 1/1/65-5/31/65; File TA 6/Oil 12/15/65-10/6/66; and LBJL, Confidential Files, Box 92, File TA 6/Oil – Tariff – Imports. Residual Fuel Oil is a by-product of the refining process, which is used primarily for industrial and domestic heating, electrical power generating, vessel bunkering (ship propulsion), and various industrial purposes. See, \url{http://www.eia.doe.gov/glossary/glossary_r.htm} and \url{http://www.opec.org/library/annual%20Statistical%20Bulletin/interactive/2003/FileZ/definition.htm}.} 

During discussion on Canadian oil export over-runs both American and Canadian officials agreed that there would be a significant supply gap in the Great Lakes and Chicago region that would peak in 1968 before the Capline project was finished.\footnote{See for example, NAC, RG99, Vol. 73, File 56M, Memorandum for the Ambassador from Norm R. Chappell, Subject: Oil—Technical Meeting, November 17th, 22 November 1966. At this meeting both sides agreed that “the gap between peak supply and demand in the U.S. Great Lakes area appears statistically to be between 75,000-100,000 b/d for 1966-67 and perhaps as much as double that for 1967-68 based on present supply patterns.” (1)} Canadian officials made a strong case that Canadian oil should fill the gap; while the American officials countered that the source of supply should be varied. The problem for Canada was that in order to distribute large new supplies, like oil from the new Rainbow Lake field and the expected 60,000 barrels per day from the experimental oil sands plant, and meet growing demand in Ontario, Chicago, and the Great Lakes region, pipeline capacity would have to increase.\footnote{DOE, Job 1002, Box 37, Folder 9 Sun Oil Co., 1966-67, Letter to R.G. Dunlop, President Sun Oil Co. from Onnie P. Lattu, Director OOG, re: Athabasca Project, 23 September 1966. This letter accompanies a binder} Thus, the
Interprovincial Pipeline Company put forward a proposal to loop its existing line to Ontario and run a spur line to Chicago to help make it more economical. In order to secure financing for the project, IPL required some kind of assurances regarding the American policy towards Canadian oil, and submitted their proposal to the NEB and the dominion government. They were told that the NEB and Cabinet Ministers would discuss the proposal and decide whether the dominion government would support the project, and thereby support it to the American government as well, which they did. Although the oil from the spur line would help to fill the expected supply gap, after 1968 the Canadian line would then compete with the Capline and American oil. Discussions to increase the amount of Canadian oil entering the U.S. and the construction of the IPL spur line then took place in 1967 between Canadian and American officials.

Again, the Canadians pondered the idea for some kind of continental oil agreement. A.E. Ritchie, the new Canadian Ambassador to Washington, sent a lengthy telegram to Ottawa outlining the case for closer liaison with the U.S. on energy matters. A continental oil policy was one option suggested. Although Claude Isbister, the Deputy Minister of the newly created EMR, did not dismiss the idea of a continental policy, given the crisis in the Middle East (the Arab-Israeli Six Day War) and other pressing issues like the Chicago spur line, he argued that the

outlining the Great Canadian Oil Sands project at the Athabasca oil sands. For the Rainbow Field see, LBJL, J. Cordell Moore Papers, Box 2, Chronological File – January 1966 through April 1966, Memorandum for the Secretary from Assistant Secretary-Mineral Resources [Moore], Subject: Rainbow Lake Oil Discovery-Canada, 22 April 1966. On increased Canadian oil supply situation and pressure for expanded markets see, USNA, RG59 [State Department], CFPP, 1964-66, Subject-Numeric-Petroleum, Box 1382, File PET 17 Trade Can 1/1/64, Airgram A-1236, to Department of State from Amembassy Ottawa, Subject: Pressure for Increased Petroleum Exports, 3 June 1966.

201 NAC, RG99, Vol. 73, File 56M, Memorandum to File from D.M. Fraser, Re: Chicago Project, 20 December 1966. This document is Fraser's notes on the meeting that took place between NEB officials (Ian McKinnon, Robert Howland, Lee Briggs, and Doug Fraser), and industry representatives from Imperial Oil, Shell, B.A., Interprovincial Pipe Line, and Texaco. Despite the comments at this late meeting, Ottawa supported the spur line proposal in earlier talks with the U.S. in June 1966. See, USNA, RG59 [State Department], CFPP, 1964-66, Economic-Petroleum, Box 1383, File PET Can-A 1/1/64, Memorandum to Anthony M. Solomon from Edward R. Fried, Subject: New Issues Emerging in United States-Canadian Oil Relations, 24 June 1966. This memo summarizes a meeting between Udall and Minister of EMR, Jean Luc Pepin on 23 June 1966.
focus should be on solving problems on a case-by-case basis, “rather than trying at this time to
develop some broad new joint studies of trade in energy between the two countries.” In the
U.S., State Department officials also toyed with the idea of a continental oil agreement,
particularly Ambassador Butterworth, but the Interior Department was not interested in a
continental policy at this time, and preferred to focus on getting formal rather than voluntary
restraint of Canadian exports. Given O’Leary’s earlier comments, a continental oil policy was
unlikely for the near future. Until September 1967, Canada and the U.S. engaged in numerous
meetings regarding Canadian oil export levels and the proposed Canadian pipeline into Chicago.
It should be noted that with the creation of EMR in 1966, the Minister of Trade and Commerce
was not as involved in negotiations as in the past; the Minister of EMR was now the key Cabinet
official designated for the bilateral discussions. Howland and McKinnon of the NEB, and Jean-
Luc Pepin (Minister) and Isbister (DM) of EMR followed Isbister’s recommendation and worked
on current problems rather than a comprehensive policy during the negotiations.

202 NAC, RG99, Vol. 72, File 53, Memorandum to the Minister from Deputy Minister EMR, Subject:
Canada-U.S.A. Liaison in Energy Matters, 7 June 1967, 7. For Ritchie’s telegram see, Ibid., Telegram 1145 to
External from WashDC, Subject: CDA-USA Liaison in Energy Matters, 23 March 1967.

203 See for example, USNA, RG59, CFPF, 1967-69, Subject-Numeric-Economic, Box 1350, File PET 17-2
CAN 1/1/67, Memorandum to Anthony Solomon from Edward Fried, Subject: Alternative methods of Dealing with
Canadian Oil Imports Problem, 19 January 1967. Alternative III in this memo outlined a form of continental oil
policy. See also, Ibid., Telegram 1339 from Amembassy Ottawa [Butterworth] to Department of State, Subject:
Udall-Pepin Discussions, 9 February 1967, 2. Butterworth urged “that USG move confidently toward continental
approach to U.S.-Canadian petroleum resource utilization.” For Interior’s position see for example, LBJL, NSF,
Agency Files, Box 29, File Department of Interior, Memorandum to Mr. Rostow from Stewart Udall, 26 May 1967,
1; USNA, RG59 [State Department], CFPF, 1967-69, Subject-Numeric-Economic, Box 1350, File PET CAN-A
1/1/67, Telegram 206213 from Department of State to Amembassy Ottawa, Subject: Udall-Pepin Oil Talks, 5 June
1967. Udall told Pepin at this meeting, “if we could reach agreement on level and rate of growth of imports, a firm
Canadian commitment to specific import levels (not 'best efforts' to meet targets), and assurances Canada would
continue give priority to established customers, then U.S. would consider issue of construction Chicago pipeline.”

204 Regarding the various meetings see for example, NAC, RG99, Vol. 73, File 56M, Memorandum for the
Ambassador, (no author) Subject: Oil-Technical Discussions, 19 January 1967; Ibid., Meeting of Canadian and
United States Officials in Washington, 17 April 1967; USNA, RG59, CFPF, 1967-69, Subject-Numeric-Economic,
Box 1350, File PET 18-1 CAN 1/1/67, Memorandum of Conversation, Subject: Export of Canadian Oil to the
United States, 17 January 1967; Ibid., File PET 17-2 CAN 1/1/67, Memorandum to Anthony M. Solomon from
Edward R. Fried, Subject: Alternative Methods of Dealing with Canadian Oil Imports Problem, 19 January 1967;
Ibid., Telegram 130659 from Department of State to Amembassy Ottawa, Subject: Imports Canadian Oil, 3

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Canadian position was to try to maintain the voluntary arrangement or ‘best efforts’ approach to exports, and to avoid a formal agreement.  

Through the late spring and early summer of 1967, some Canadian Cabinet Ministers and officials, including the Prime Minister, believed they had an upper hand in the oil negotiations because of the Middle East crisis that culminated in the Arab-Israeli Six Day War. Indeed, during the pre-war crisis between 15 May and 4 June 1967, President Johnson met with Prime Minister Pearson in Canada on 25 May 1967. Although a number of issues were under discussion, with the Arab-Israeli crisis being paramount, Canadian oil exports to the Chicago area was brought up by Pearson. The Prime Minister commented that the Middle East crisis demonstrated how important it was to reduce dependence on those supplies. The President replied “that he had been talking along these lines only the night before with a group of Texas

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205 See for example, USNA, RG59, CFPF, 1967-69, Subject-Numeric-Economic, Box 1350, File PET CAN-A 1/1/67, Telegram 1339 from Amembassy Ottawa to Department of State, Subject: Udall-Pepin Discussions, 9 February 1967; LBJL, Francis M. Bator Papers, Box 6, File Chronological File 8/16/67-9/14/67, Memorandum for the President from Nicholas de B Katzenbach and Stewart Udall, Subject: Oil Import Program—Restraint on Canada, 15 February 1967; LBJL, Anthony M. Solomon Papers, Box 6, File Oil [1 of 2], Telegram 179112, from Department of State to Amembassy Ottawa, Subject: US-Canada Oil Talks, 20 April 1967; USNA, RG59, CFPF, 1967-69, Subject-Numeric-Economic, Box 1350, File PET CAN-A 1/1/67, Telegram 197314 from Department of State to Amembassy Ottawa, Subject: US-Canada Technical Talks on Oil, 18 May 1967; Ibid., Telegram 021473 from Amembassy Ottawa to Department of State, Subject: Canadian Oil Exports, 20 May 1967, (This Telegram relays content of “several conversations with Canadian Officials and Minister Pepin” and American embassy officials including Ambassador Butterworth.); Ibid., Telegram 206213 from Department of State to Amembassy Ottawa, Subject: Udall-Pepin Talks, 5 June 1967; Ibid., Telegram 210490 from Department of State to Amembassy Ottawa, Subject: U.S.-Canadian Oil Talks, 12 June 1967; Ibid., Telegram 2156 from Amembassy Ottawa to Department of State, Subject: US-Canadian Oil Talks, 14 June 1967; USNA, RG59, CFPF, 1967-69, Subject-Numeric-Economic, Box 1350, File PET 17 CAN 1/1/67, Memorandum of Conversation, Subject: Canadian Petroleum Exports to the U.S., 8 August 1967; LBJL, Francis M. Bator Papers, Box 6, File Chronological File 8/16/67-9/14/67, Memorandum for the Record, Subject: Agreement on Restraint of Canadian Oil Imports, 10 August 1967.

oilmen. Johnson indicated that the executive branch was more sympathetic than Congress about the issue, and left the matter at that. From this conversation, it is understandable that the Canadians felt confident in making the national security argument and continued to do so once the Six Days War began on 5 June 1967.

Within a few days of the start of the war, Kuwait and Iraq announced an oil embargo on countries that supported Israel, namely the U.S., U.K., and West Germany. Two days later, Saudi Arabia and Libya joined the embargo. During the JCTEA meeting from 20-22 June 1967, Pepin tried to emphasize the importance of Canadian oil for American security, and argued that it should be granted less restricted access to the U.S. market. The American officials knew that Canada employed the security argument as a way to secure support for a larger amount of oil exports to the U.S., and the Interprovincial Pipeline spur to Chicago. As one official commented, “We consider it possible [that the] Middle East oil crisis may have moved Canadians to defer any further compromises on export restraint to see what advantages they can reap from it.”

Canada’s hopes with respect to the oil embargo were short lived. Within a short time, it became clear that the use of the “oil weapon” was unsuccessful for a number of reasons. Venezuela and Iran did not join the embargo and they increased production, the U.S. tapped its reserve capacity to increase production by one million barrels a day, supertankers moved more oil quicker than during the earlier Suez crisis, the oil companies managed to rearrange supply patterns to compensate for the loss of Middle East oil, and after the quick

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Israeli victory, the Arab nations could not maintain unity on the use of the “oil weapon.” By the end of August 1967, Saudi Arabia convinced the other countries at an Arab congress meeting that the loss of revenue was not worth it, and support for the embargo dissolved.  

Concurrently, negotiations for Canadian oil export restraint and American approval of the IPL spur line to Chicago neared completion.  

In the end, a secret agreement was reached with the U.S. in which Canada agreed, for the first time, to a formal limit on exports to the U.S. in exchange for American approval of the IPL spur line to Chicago.  

Canada secured fairly high formal limits, partly because one of their tactics, in the words of U.S. officials, was to raise “the anxieties of the Twin Cities refineries, and the latter with their Congressional representatives, in order to strengthen [the Canadian] bargaining position.” This also included the Vice President who was very much concerned with the refineries in his home state of Minnesota. The Americans were thrilled that, after six years of trying, they finally had Canada agree to a formal limit on exports. Yet, there was still a possibility that the agreement would not go through. When the memo reached Johnson’s desk for approval, he circled the section on the Canadian pipeline to Chicago and wrote, “This concerns me—.” At the bottom of the memo he wrote to its author Francis Bator, “Call me about this.”  

The documentary record does not provide an account of what transpired between

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211 The actual exchange of notes took place on 25 September 1967. See, USNA, RG59, CFPP, 1967-69, Subject-Numeric-Economic, Box 1350, File PET CAN-A 1/1/67, Telegram 43353 to Amembassy Ottawa from Department of State, 26 September 1967. See also, NAC, RG2, Series A-5-a, Vol. 6323, File 1967 Cabinet Conclusions August, Cabinet Conclusions, 30 August 1967, 2:30 p.m., 5. The Cabinet Conclusions are quite vague about the agreement, saying only that the Minister was authorized to conclude the agreement with the U.S. that would permit the IPL line to Chicago. The important detail regarding the formal limit on exports was not mentioned.  
212 LBJL, WHCF, Subject Files TA-6, Box 19, File TA6/Oil 10/7/66, Memorandum to Joe Califano from Stan Ross, 1 August 1967.  
214 LBJL, NSF, Country Files, Box 167, File Canada Memos Vol. V, 1/67-10/68 [1 of 2], Memorandum to
Bator and Johnson; however, Johnson must have been convinced of the efficacy of the agreement given that it was approved without American alteration a month later.

The formal limit of the agreement was not strictly implemented for the remainder of 1967 and 1968 because of oil supply problems in Districts I-IV caused by delays in the Capline project, which was not completed until late 1968. As a result, the U.S. requested additional Canadian supplies in excess of the 280,000 bpd agreement.\textsuperscript{215} Meetings and discussions between Canadian and American officials continued throughout the year to work out supply numbers. However, even with the large oil find at Prudhoe Bay, Alaska in early 1968, given that it was an election year in both Canada and the U.S., serious discussion regarding a continental oil policy did not materialize until 1969.

**CONCLUSION**

Despite the usual understanding of the 1960s as a period of relative calm in oil and gas issues before the hurricane of the 1970s, the Canada-U.S. oil and gas relationship oscillated between threat and cooperation. The poor personal relationship between Kennedy and Diefenbaker filtered down into the behaviour and performance of American officials, and almost led to the revocation of Canada's MOIP exemption. Officials like George Ball and McGeorge Bundy pondered ways to make Diefenbaker pay for keeping the Rostow memo and not supporting the U.S. quickly during the Cuban missile crisis. Sensing an opportunity to gain favour with the President and promote the interests of the American Independent producers, John Kelly promoted changes to the MOIP that would penalize Canada. Once it was evident that

\textsuperscript{215} USNA, RG59, CFPF, 1967-69, Economic E-1613, Box 1350, File PET-17 CAN 1/1/67, Telegram 158031 from Department of State [Dean Rusk] to Amembassy Ottawa, 3 May 1968. The limit was temporarily increased to 320,000 barrels per day for the third quarter of 1968, with a return to the 280,000 limit for the fourth quarter.
Diefenbaker was fair game, Myer Feldman, the key White House official responsible for oil who reported directly to the President, at the end of 1962, eventually supported Kelly.

Much to Kelly's disappointment and frustration, the election of Lester Pearson in 1963 meant that irritants were to be removed, and oil policy was one of the issues that benefited from the new friendly President-Prime Minister relationship. Kennedy took a personal interest in Canada-U.S. oil policy: the MOIP was amended to permit increases in Canadian imports; joint studies on a continental approach to energy trade were to be undertaken; and Myer Feldman, rather than John Kelly, was made the contact for oil issues concerning Canada. The close personal relationship between Kennedy and Pearson generated a great deal of optimism on both sides of the border that Canada-U.S. relations would strengthen and develop in all areas. However, the assassination of President Kennedy stifled the optimism and turned to uncertainty with the ascension of Lyndon Johnson.

Initially, Johnson and Pearson continued to pursue closer cooperation between the two countries, such as with the signing of the AutoPact Agreement, and the Merchant-Heeney report. But the relationship began to cool after spring 1965 when Pearson made a speech on Vietnam at Temple University. Although Johnson was outraged, his anger did not manifest as negatively for Canada-U.S. oil and gas relations as with Kennedy because Johnson had removed oil policy from the White House. However, it did translate into a cooler approach to the idea of a continental energy or oil policy between the U.S. and Canada, and a persistent push to limit Canadian oil exports to the U.S.

Canadian oil policy during the Pearson era was to preserve the NOP, maintain the MOIP exemption, and to negotiate increased exports of Canadian oil to the U.S. while continuing to receive cheaper imported oil into the eastern part of Canada. The policy for natural gas also
continued as before: amounts that were surplus to Canadian use could be exported, and exchanges of information between the NEB and the FPC were encouraged in order to expedite applications, though this did not always happen. The Pearson government did not undertake an oil and gas policy review while they were in power. The Johnson Administration, likewise, did not initiate any major changes to its oil and gas policy. More studies were undertaken, but since Johnson removed oil policy from the White House, it was in a state of suspended animation and was affected by a power struggle between Udall and Mann. This meant that the MOIP stayed essentially the same, and the informal limits to Canadian exports were constantly renegotiated culminating in a secret agreement in 1967 that formally limited Canadian exports, which the Canadians nonetheless exceeded.

Although there was some talk on the merits of a continental oil agreement in the 1960s, the support for a continental approach oscillated. Both countries were keen on increasing continentalism between 1963 and early 1965, then Canada started to back off and emphasis was put on the informal transgovernmental networks that tended to keep issues from ballooning into major irritants. A year later, around the time that Gordon was no longer in Cabinet, and the NEB received word that a large new pipeline was going to be built in the U.S. that seemed likely to reduce Canadian access to the U.S. market, the idea for a continental oil agreement was reintroduced by Canada. The U.S. rejected the idea, though it was mentioned and rejected again in 1967. The uncertainty created by oil being removed from the White House, and the ideological struggles within the Pearson Cabinet, meant that continentalism during most of the 1960s was stalled, but with the election of new governments in both Canada and the U.S., a new round of continental talks were set to re-enter the stage in 1969.
CHAPTER 4
CONTINENTALISM THWARTED, 1968 TO 1974

INTRODUCTION
Significant changes in Canadian and American attitudes towards each other, the U.S. and international energy economy, and Canada-U.S. oil and gas relations took place during the dramatic period from 1968 through 1974. Initially, the new Liberal government of Pierre Elliott Trudeau pursued the informal continentalism approach, and looked to increase trade with the United States. Gradually, as Trudeau asserted his own preferences, and increasing anti-American sentiment pervaded public discourse, Canada’s attitude towards the U.S. shifted toward an anti-continentalism backlash. Canada altered its general investment and trade policy to distance itself from American ties. Some of these policies included: the creation of the Foreign Investment Review Agency (FIRA) to monitor foreign investment in Canada with the intent to reduce American takeovers of Canadian companies; a clear policy to divert trade from the U.S. to Europe and Japan; and strikingly, oil exports to the U.S. were to be phased out.

Attitudes in the U.S. also changed toward Canada. An attitude had been building amongst some American officials throughout the 1960s that Canada was receiving all the benefits of the relationship, while the U.S. had to suffer through Canadian nationalist policies. This crystallized into action with President Richard Nixon who believed that, like Canada, the rest of the world had been taking advantage of the goodwill of the U.S., and that had to stop.1 Canada’s exemption from the Mandatory Oil Import Program (MOIP) was revoked in the spring of 1970, and a year later Canada, along with every other country in the world that traded with the U.S., was subject to a ten percent surcharge on dutiable exports to the U.S. Concurrent with these

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1 J. L. Granatstein and Robert Bothwell, Pirouette: Pierre Trudeau and Canadian Foreign Policy (Toronto: University of Toronto Press, 1991), 61. The authors quote Nixon saying, "We have too long acted as Uncle Sugar and now we've got to be Uncle Sam." There were also some in the U.S. administration who wanted to end the Autopact because Canada received far more benefit from it than the U.S.
alterations in overall Canada-U.S. relations, the American and international energy economy was being transformed.

In January 1968, the largest oil field in America was discovered at Prudhoe Bay, Alaska, and something of an oil boom began in the Arctic regions of both Canada and the U.S. In 1970, the creation of the U.S. Environmental Protection Agency, and changes to American environmental laws, came into force that meant several refineries had to be refitted to meet the new requirements, demand for low sulphur oil increased, and many coal based electrical generating plants switched to oil or natural gas, which all put pressure on supply. Adding to the supply pressure was the fact that 1969/70 was the coldest U.S. winter in thirty years, and in 1970, U.S. oil production peaked. Consequently, a so-called “energy crisis” hit America as demand for refined products, low sulphur oil, and natural gas increased dramatically while supply was tight.

By 1973, world demand for oil had increased appreciably over the preceding decade, and there was little spare capacity. The outcome of the Six Day War in 1967 did not resolve the endemic problems in the Middle East, and war erupted again in the early morning of 6 October 1973 in what is known as the Yom Kippur War. During the most sacred Jewish religious festival (the day of atonement), Egyptian-Syrian forces initiated a surprise attack on Israel. When the U.S. realized that the Soviet Union was resupplying the Arab forces, the U.S. felt compelled to resupply Israel’s dwindling munitions. Several Arab oil producers then unilaterally increased

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3 For a general overview of the Arab-Israeli conflict see, Ritchie Ovendale, The Origins of the Arab-Israeli
oil prices (though all of the Organizations of Arab Petroleum Exporting Countries (OAPEC) and Organizations of Petroleum Exporting Countries (OPEC) benefited), instituted a production cut, and enacted an oil embargo or boycott against countries that supported Israel, namely the U.S. and the Netherlands.\textsuperscript{4} For the first time in a crisis, the U.S. was unable to be a swing producer to counter supply shortages; panic buying resulted that drove prices higher.

But in 1968, these troubles were only on the horizon, and Canadian and American policymakers were more concerned with federal elections, new governments, and the MOIP.\textsuperscript{5} After Lester Pearson, leader of the Liberal Party, resigned in December 1967, a leadership convention was held and Pierre Elliott Trudeau became the new leader after an acrimonious and divisive battle. He immediately called an election and was swept to victory riding the wave of what came to be known as “Trudeaumania.” This was the first majority government since Diefenbaker’s resounding victory of 1958. In the U.S., 1968 was also an election year. Tarnished by the seemingly endless domestic protests of American involvement in Vietnam, race riots, and a faltering economy Lyndon B. Johnson chose not to run in the election. Republican Richard M. Nixon narrowly defeated Democrat presidential candidate, former Vice President Hubert Humphrey.\textsuperscript{6} Both Trudeau and Nixon, after their victories, began reorganizing their governments.

\begin{answernotes}
\item[4] Yergin, The Prize, 613. The embargo was later extended to Portugal, South Africa, and Rhodesia (now Zimbabwe). It is likely, however, that oil prices would have been increased unilaterally regardless of whether the Yom Kippur War happened or not. Ibid., 599-609. See also, Venn, The Oil Crisis.
\item[5] Although the use of the term ‘dominion’ began to be phased out in the 1950s, the Trudeau years saw the term ‘federal government’ completely replace ‘dominion government’ in usage. Perhaps this can be attributed in part to the fact that ‘dominion’ has no equivalent in French.
\end{answernotes}
Trudeau spent the next several months working on a plan to restructure the Canadian government; he created new committees and disbanded others, altered the Cabinet’s structure and operation, and consolidated his power. One area that came under review in early 1969 was oil policy. With the construction of the Capline oil pipeline from Louisiana to Chicago, discussed in the previous chapter, and the massive Prudhoe Bay oil discovery, Canada worried that its access to the U.S. market was threatened. Thus, soon after the Nixon Cabinet’s confirmation, Canada initiated a proposal to begin discussions on a continental energy policy. Nixon also set about organizing his Cabinet’s operation, and assessing his administration’s priorities. One of the key issues was oil policy and the MOIP. Nixon immediately announced “that he was assuming direct responsibility for oil import policy and that the MOIP was to be reviewed by a cabinet task force.” Even though the American oil policy was under review, the U.S. welcomed discussions with Canada on a comprehensive energy agreement.

The negotiations for a continental energy policy, and then a scaled down common oil policy, continued sporadically for four years. During this time, the Liberal government under Trudeau pushed relentlessly for increased U.S. market share for Canadian oil—until 1973. In February of that year, Canada finally introduced export licensing, (something the U.S. had been requesting since the mid-1960s) but, to American consternation, Canada also announced it would have to reduce its oil exports to the U.S. A year later, the Trudeau government announced that it would phase out oil exports all together. Why, after four years of negotiations, did talks fail and Canada reverse directions from a policy it had fully embraced since 1961? What accounts for this policy shift?

In order to explain the dramatic policy reversal from seeking open access for oil to the U.S. market to phasing out oil exports all together, the explanatory variables of interest group pressures (environmentalists/Aboriginals, multinational oil industry, independent oil industry, and provinces), international forces (OAPEC/Arab-Israeli War, International Energy Agency), national security concerns (oil supply), personalities (President-Prime Minister relationship, Trudeau, and support of key officials), ideas (market forces, anti-Americanism, economic nationalism, social democracy), and economics (state of the economy and oil prices) will be examined within the important context of the altered decision- and policy-making processes in both countries. Although interest groups, international forces, and national security all had varying levels of influence on the decision taken by Canada, the altered politicized roles of key officials, buttressed by Trudeau’s commitment to certain social democratic principles, and the desire to keep prices low to consuming provinces combined to influence Canada-U.S. oil and gas relations in this period.

In seeking to explain the policy shift from seeking a common oil policy to phasing out oil exports, this chapter will first provide an outline of the changes in the policy- and decision-making process. Then, in order to understand why Canada and the U.S. entered into negotiations in the first place, and why they failed, a brief overview of the discussions will be presented. An analysis of the explanatory variables will follow, with the ultimate goal of demonstrating that the reason for the policy shift was the nexus of personalities (including changes to the bureaucracy and policy- and decision-making apparatus), ideas, and economics. The chapter will conclude with a brief discussion of how these events affected Canada-U.S. oil and gas relations. Since the changes the U.S. made to its oil and gas policy, such as the introduction of Project Independence,
had little effect on Canada-U.S. relations, but Canada’s decision to phase out exports had a significant impact, only the latter decision will be analysed.8

I. Decision- and Policy-Making Processes

Both the Trudeau government and the Nixon administration reorganized the decision- and policy-making processes generally, and oil and gas policy processes in particular. Both sought to bring “rationality” and technocracy to the general process, while maintaining an inner group of loyalists to ensure the primacy of the leader’s view.9 One of the interesting aspects of the reorganizations is that the transgovernmental networks that had been nurtured over the previous thirty years were steadily eroded in this period, yet the remaining remnants assisted in muting the American response to an otherwise offensive policy like phasing out oil exports. First, the changes to the Canadian processes will be examined, and then, briefly, the changes that took place in the U.S.

Canada

Central to the shift in Canadian policy direction were the changes that took place in the energy policy-making power structure, and the department of Energy, Mines and Resources in particular. Two main questions need to be addressed to understand the changes to the policy-

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8 Although Nixon removed Canada’s MOIP exemption in 1970, it had no effect on reducing the amount of Canadian oil entering the U.S. In fact, Canadian oil exports to the U.S. increased even with the exemption removed. For example, Canadian oil imports increased by around 12 percent in 1971, around 28 percent in the following year, and by around 19 percent the year after. (Source for data: DOE, EIA, U.S. Energy Review 2001, http://www.eia.doe.gov/emeu/aer/petro.html and Statistics Canada, Historical Statistics, Section Q: Energy and Electric Power, by G. David Quirin, Table Q19-25 “Production and trade in crude petroleum, 1868 to 1976.”) The reason for the removal is stated clearly in the documentary record as a tactic to get the Canadians to commit to a common oil policy. Later, when Nixon scrapped the MOIP, Canada had already decided to reduce oil exports.

9 On Trudeau’s passion for technocracy, see Gordon Robertson, Memoirs of a Very Civil Servant (Toronto: University of Toronto Press, 2000), 256. With Trudeau, there is a noticeable change in Canadian Cabinet discussions and briefing documents that emphasised strategy and tactics to be used in negotiations with the U.S. Across the border, the obsession with strategy and tactics in briefing documents surfaced during the Kennedy years, subsided in Johnson’s time, and re-emerged with Nixon.
and decision-making processes: Why did Trudeau want to change these processes; and how were the processes changed?

Trudeau’s education and personal experience within the bureaucracy convinced him that the civil service would be a barrier to innovation. After completing a law degree at the Université de Montreal in 1943, and practicing for a year as a lawyer, Trudeau completed a Masters degree in political science at Harvard. With World War Two at an end, he was keen to study in Europe and spent some time in Paris taking classes at the Sorbonne. He then went on to study at the London School of Economics, and was, by his own recollection, profoundly influenced by his main teacher Professor Harold Laski. He, like Trudeau, struggled with the competing concepts of individual liberty and the authority of the state. Laski also advocated the state control of natural resources, and was suspicious of the bureaucracy, and other “vested interests” as obstacles to radical change. Indeed, Laski advocated the recruitment of “outside specialists” into the civil service to assist the new British Labour government in implementing “an enterprising program.” These ideas were fresh in Trudeau’s mind when he went to work in the Privy Council Office in 1949. Although he does not comment very much on that experience, his later comments reveal the impact of his experience. By 1960, Trudeau’s suspicion of the bureaucracy had solidified.

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In a 1961 article regarding the socialist cause in Canada and the strategy that a new social democratic party (the New Democrat Party (NDP)) might pursue in making Canada a more social democratic state, Trudeau made a brief comment that democracy must be protected from bureaucracy. He said, “In time, it is hoped that administrative law will be expanded and perfected, that Parliament will learn to use the committee system with greater effectiveness, and that other devices will be developed to protect democracy against bureaucracy.” Yet, Trudeau realized that the NDP could not gain enough national support to actually form a government. Although Trudeau is popularly presented as a reluctant entrant into politics who was persuaded to enter public life to maintain national unity and battle Quebec separatism, this is hardly the case and is worth discussing as it sheds light on Trudeau’s political allegiances and approach to the bureaucracy.

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14 Some might argue that the CCF, the forerunner to the NDP, abandoned socialism in 1956, but an examination of the CCF Statement of Principles of 1956 reveals otherwise. It is true that the 1956 Statement took a more moderate approach to its relationship with capitalism than its original 1933 manifesto by not advocating its eradication, but stating rather that “private profit and corporate power must be subordinated to social planning . . . there will be an important role for public, private and co-operative enterprise working together in the people’s interest.” (2, 4) The last section of the statement is titled “Socialism on the March.” In this section recognition is given to the various labour and socialist parties operating in other countries and then declares that the CCF is one of those “democratic socialist parties.” (6) Incidentally, the 1956 Statement of Principles and a statement made at the 1961 NDP formation convention employed the phrase ‘Just Society’ before Trudeau used it as the Liberal Party campaign slogan in 1968. (4) See also, Editorial, “New Party Freedom”, Globe and Mail, 19 June 1961, p6. Cooperative Commonwealth Federation, 1956 Statement of Principles. http://www.saskndp.com/documents/sop56ccf.pdf. For the 1933 CCF Manifesto see, http://www.socialisthistory.ca/Docs/CCF/ReginaManifesto.htm. Furthermore, the NDP in 1961 did not abandon socialism in general or social democracy either. A Globe and Mail headline following the election of Tommy Douglas as the first leader of the new NDP read, “Socialism Key Issue, Leader Says.” The article states that Douglas “happily agreed to fight the next election on the issue of free enterprise versus socialism.” Bruce Macdonald, “Socialism Key Issue, Leader Says,” Globe and Mail, front page, 4 August 1961. The NDP’s 1983 declaration reaffirmed its commitment to the broad goals of socialism and democratic socialism, and it remains a member of the organization Socialist International to this day. See, http://www.saskndp.com for the 1983 Statement of Principles, and http://www.socialistinternational.org/maps/english/northa.htm for the NDP’s membership in the Socialist International. For the comment that the CCF abandoned socialism see, Robert Bothwell, A Penguin History of Canada (Toronto: Penguin Canada, 2006), 407. Bothwell qualifies the comment three pages later by saying that after 1956 the CCF/NDP were “semi-socialist.” (410)


In the first volume of an intellectual biography of Trudeau, Max and Monique Nemni provide evidence from Trudeau’s personal papers that he planned to pursue a political career at an early age. For example, at the age of twenty he wrote the following in his application for a Rhodes scholarship: “I sought a profession where all my inclinations and all my tastes would find satisfaction, and so I chose a career in politics.” Trudeau even went on to say that he had chosen his courses and activities carefully at Brebeuf College selecting those “that prepare one most immediately for public life.”

McCall-Newman describes how Trudeau, Marchand, and their friends were “drawn intellectually to the CCF and then to the NDP, but they were prevented from joining the socialist party [and its Quebec incarnation the Parti social démocratique] by their recognition that it couldn’t make political gains in Quebec.” The other reason Trudeau himself provides for not officially joining the CCF was its “excessive centralism ... and its ignorance of French Canada.” Later he rejected the newly formed NDP because of its “support for the ‘two nations’ doctrine” of Canadian federalism. Dissatisfied with the existing social democratic parties, between 1956 and 1959 Trudeau toyed “with the idea of creating a party of the democratic left.” Two organizations came and went: the first was La Rassemblement, the second was Union des forces démocratiques. Both endeavours were unsuccessful at enlarging “the left in Quebec,” and frustrated Trudeau’s socialist friends Thérèse Casgrain and Michel

Hunt also describes how Trudeau, though a “liberal democrat” knew the NDP could never form a national government, and went to the Liberals in order to put his ideas into action. (89)

17 Max and Monique Nemni, Young Trudeau: Son of Quebec, Father of Canada, 1919-1944, trans. William Johnson (Toronto: McClelland and Stewart, 2006), 107. See also, 105. The Nemni’s observe with some surprise Trudeau’s seemingly life-long political ambitions by commenting, “He wrote that in 1940, at the age of twenty, when he was just graduating from college—he, the very man who later cultivated an image as the reluctant politician.” (107) In 1938 Trudeau wrote, “Young people equipped to take an active part in politics act as unspeakable cowards if they fail to do so.” (102) See also, English, Citizen of the World, 367.

18 Ibid.

19 Trudeau, Memoirs, 70. See also English, Citizen of the World, 366-367.


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Chartrand "who hoped that Trudeau’s socialism would bring about his definite commitment to the party."  

Trudeau remarked with some bitterness in the above-mentioned 1961 article that the failure of the organizations were due in part because the CCF "refused to envisage any orientation that might lead to the setting up of a left-wing political group, newer and stronger than the C.C.F." Other accounts of the later Trudeau years discuss how he and a core group of friends, mainly from Quebec, eventually "joined the Liberal Party and set out to learn how to turn its power to his purpose. . . . Trudeau’s most intimate friends . . . believed he had wanted political power for most of his adult life in order to put his ideas into effect." As Jim Coutts, Trudeau’s Principal Secretary from 1975 to 1981, reflected, “Trudeau made little secret of his view that a political party was simply an instrument to implement his agenda. He once told an unfriendly Edmonton audience that he and his friends had taken over the Liberal Party.”

However, taking over the Party not only took time, it was insufficient. Having had experience working in the PCO under St. Laurent and Pearson, Trudeau and his friends realised that if his ideas were to be put into effect, they would also need to take over the senior levels of the civil service, as mentioned above. Indeed, one of the five conditions Trudeau stipulated to Jim Davey before he would run for the Liberal Party leadership concerned the civil service.

Davey reported to historian Ramsay Cook in 1968 that Trudeau “had to be sure that the Ottawa

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21 English, Citizen of the World, 320. English comments that in the 1950s Trudeau “had dared to visit Russia and China and to declare himself a socialist.” (398) In addition, as late as 1963 Trudeau worked on the federal campaign of his friend philosopher Charles Taylor, an NDP candidate. (403) But Trudeau apparently set aside his principles and convictions in support of social democracy in order to join the Liberal Party.

22 Trudeau, “The Practice and Theory of Federalism,” 129. Trudeau criticized the CCF for not supporting his Quebec-based groups and allowing the Liberals to be the sole victors against the Union nationale in the Quebec election instead of “a coalition of the left and of liberal-minded people.”

23 McCall-Newman, Grits, 87. As McCall-Newman goes on to say that, “The Liberal Party, in Trudeau’s view, was the only place [he, Jean Marchand and Gérard Pelletier] could jump. It was to be used, he said, ‘not as an end but a means, not a goal but an instrument.’” (95)

bureaucracy would work with him. He implied that this might mean some changes at the top in
the civil service.”25 Once Prime Minister, Trudeau sought to implement his ideas.

At one of the first Cabinet meetings of his new government, Trudeau articulated his plan
to reorganize the Cabinet committee structure, the decision- and policy-making process, and the
personnel of the highest levels of the civil service. He emphasised Cabinet solidarity on issues
and the avoidance of leaks.26 The Cabinet system was reorganized “into a system of
interlocking, functionally defined committees. New bureaucratic organizations were created to
break down the monopolies of older departments.”27 Ministers were permitted to attend any of
the committees aside from the ones to which they were members, except the Priorities and
Planning (P&P) Committee. Attendance for the latter was “limited to ministers who were
members of it plus other ministers who might be invited from time to time when matters of
special concern to their departments were under discussion.”28 Membership of all committees
was to be kept secret. As for officials, only Deputy Ministers (DMs) were permitted at Cabinet

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25 Ramsay Cook, The Teeth of Time: Remembering Pierre Elliott Trudeau (Montreal/Kingston: McGill-
Queen’s University Press, 2006), 55. For a contemporary image of Trudeau see, available from,
26 National Archives of Canada (NAC), RG2, Vol. 6338, File 22 May to 17 July 1968, Cabinet
Conclusions, 8 July 1968, Cabinet Procedures and Structure and Composition of Cabinet Committees, 2. Trudeau
warned that those identified as the perpetrators of leaks would be dealt with in a merciless fashion.
27 Colin Campbell and George J. Szabowski, The Superbureaucrats: Structure and Behaviour in Central
Agencies (Toronto: Macmillan of Canada, 1979), 8. There were four main subject committees, three co-ordinating
committees, and several special committees. New bureaucratic organizations created to counter the hegemony of
the Department of Finance included, Regional Economic Expansion, Manpower and Immigration, Consumer and
Corporate Affairs, EMR, and Environment. (37) Campbell and Szabowski paraphrase Michael Pitfield, Clerk of
the Privy Council, explaining that these new economic departments were created “in order to encourage
countervaillance (that is, several competing approaches) in financial affairs.” It is interesting that EMR is included
in this list as it was created in 1966; yet, it provides further evidence of the movement to strengthen the department
under Trudeau. For the original quotation see Michael Pitfield, “The Shape of Government in the 1980s:
Techniques and Instruments for Policy Formulation at the Federal Level,” Canadian Public Administration 19:1
(1976), 13-14.
28 NAC, RG2, Vol. 6338, File 22 May to 17 July 1968, Cabinet Conclusions, 8 July 1968, Cabinet
Procedures and Structure and Composition of Cabinet Committees, 5. The composition of the P&P Committee was
thirteen plus the PM who served as Chairman; regionally divided with five from Ontario, five from Quebec
(including the PM), two from the West, and two from Atlantic Canada. The Vice Chairman was the Minister of
Finance.
committee meetings, except in some circumstances where further assistance was required on an issue, then, a maximum of two officials was permitted. Trudeau clarified that “these officials should be present only during discussion of matters with which they were directly concerned.”

A warning was also given to Cabinet, “Mr. Trudeau said that if the committee system did not work he would have to move to an inner cabinet system. . . . The intention was solely to make Government operations more efficient.” As part of Trudeau’s efficiency initiative, planning was the key for the development of each department’s policy, and lengthy reviews were undertaken. In EMR, as will be discussed in a later section, the Oil Policy Review was a comprehensive interdepartmental exercise that took several years to complete, and yet was obsolete within months of its publication. To assist with the new extensive planning required, and to generate new ideas, at the above-cited Cabinet meeting, Trudeau put forward his plans to initiate changes in DMs.

First, he asserted his authority over the appointments of DMs by citing tradition. Then he dropped the bombshell: To further remake the role of DMs it might be necessary to bring in people from outside Government service, “and in this connection he would welcome suggestions of Ministers.” Mitchell Sharp spoke up at this point. Concerned about the implications and

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29 Ibid., 2.
30 Ibid., 3. According to McCall-Newman in Gris, Donald Savoie in Governing from the Centre (Toronto: University of Toronto Press, 1999), Campbell and Szablowski, Superbureaucrats, and others, the Trudeau government did in fact end up going to the inner cabinet system. Contrary to the evidence presented in this chapter and the next, Michael Pitfield claimed in 1976 that the changes made the public service more professional “rather than the development of a sizable partisan substratum in the bureaucracy – of in-and-outers responsible to a particular party for policy development and the control and direction of the civil service.” Pitfield, “Shape of Government in the 1980s,” 15.
31 Similar to developments that took place in the U.S. under Nixon, Trudeau’s first government undertook several lengthy interdepartmental policy reviews on just about every issue facing Canada; yet, very little seemed to be accomplished at the end of most of them.
32 NAC, RG2, Series A-5-a, Vol. 6338, File 22 May to 17 July 1968, Cabinet Conclusions, 8 July 1968, Cabinet Procedures and Structure and Composition of Cabinet Committees, 4. It is unclear how much influence Ministers exerted over the selection of the DMs, or how much consultation took place between Trudeau and his Ministers over the appointments. However, Trudeau was more likely to trust and listen more carefully to personnel.
potential effects of making outside appointments to the highest level of the civil service, Sharp warned that it was important “not to damage the morale of the Public Service, otherwise the Government would not continue to attract the best people.” Trudeau’s response was to say, yes, morale was important, but “there was room for bringing in outstanding people, in some cases perhaps for only a year or so and not as permanent appointments.”33 Why was having outside appointments so important?

As one who had experience working within Ottawa’s civil service, Trudeau had some suspicion of the bureaucracy. He believed that it was an impediment to implementing bold new strategies for redesigning federal-provincial relations (the constitution), social programs, and the Canadian economy. Thus, if a bold new program was to be developed and introduced without being eviscerated by a protective civil service, the DM would have to be as committed to the idea as the Prime Minister (PM). This could be ensured by specifically recruiting people who were of the same ideological disposition as the PM, and even better, if they could by trained by the PM before going into the DM position. This is indeed, what happened.

Before the restructuring of the Canadian bureaucracy that began in 1968 under Trudeau, the DMs of departments were normally suggested by the Clerk of the Privy Council, drawn from the higher ranks of the civil service within that department, and approved by the PM. It was not uncommon before 1968 for officials to ascend through the ranks over time to the DM position, and unusual for a senior level appointment outside the normal civil service ranks to occur.34 As political scientists Colin Campbell and George Szabowski point out, “On-the-job training, in-

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33 Ibid.
34 See Savoie, Governing from the Centre, for example, and Stephen Clarkson and Christian McCall, Trudeau and Our Times Volume 2: The Heroic Delusion (Toronto: McClelland & Stewart, 1994), 280-82; McCall-Newman, Grits; and Campbell and Szabowski, Superbureaucrats. It is true that occasionally a DM would be appointed from outside the civil service, but the sudden increase in outside appointments that took place during the Trudeau years was significant and even more unusual.

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house experience, and seniority, as well as departmental loyalty, were given the highest value. Promotion was a reward for dependability and long service, and direct appointments to senior positions of those outside government were seen as violations of the principle of merit. With Trudeau, this changed. DMs were still suggested by the Clerk and approved by Cabinet, but several senior bureaucrats, who had ascended in the traditional way, were moved or retired to make way for a younger generation from outside the normal civil service system. The replacements were individuals who were recruited and trained, or had some connection with the Prime Minister’s Office (PMO) or Privy Council Office (PCO). The restructuring of the bureaucracy, particularly in Energy, Mines and Resources (EMR) and the NEB, took place in two phases: 1970 to 1974 and 1978 to 1982. However, it was not enough for Trudeau to replace key individuals and recruit new officials to work in EMR. Since the energy policy-making capability and credibility really rested with the NEB, power needed to shift away from there to EMR.

In this first phase, those targeted for removal at EMR were individuals thought to be a hindrance to the execution of Trudeau’s vision. For example, Claude Isbister, the career civil servant who had worked his way up to be DM of EMR, was replaced by the external appointment of Jack Austin. Austin, a former Liberal candidate and trusted friend of Trudeau’s

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35 Campbell and Szabowski, *Superbureaucrats*, 12.
36 One anecdote provided by journalist Larry Zolf is revealing. Reminiscing about one of the first times he met Trudeau in preparation for the controversial TV show, *This Week Has Seven Days*, Zolf recounts, “I told him about my pet hate—socialists who pretend to love the people but who are, in fact, hypocrites, misanthropes, and exploiters of the humble and weak. I worked myself up to a particular froth against a former professor of mine in Winnipeg who had marked me harshly after he found me drunk at a college function. This obscure bit of personal trivia got an even wider Cheshire cat response from Trudeau. I didn’t know why then, but later on I learned that my professor was a close socialist friend of Trudeau. As prime minister, he appointed my prof to a senior government post.” Larry Zolf, “Humble Arrogance: A Cautionary Tale of Trudeau and the Media,” in *Trudeau’s Shadow*, 52-53.
37 The bureaucratic restructuring tended to focus upon those portfolios that would have the greatest involvement in implementing Trudeau’s “Just Society.” However, due to the focus of this study, examination will only be extended to departments directly related to oil and gas policy, namely, EMR and later Finance with a brief mention of the changes made to External Affairs.
inner circle, was an agreeable replacement because he concurred with Trudeau’s vision of employing energy policy as a “positive lever” to enact social change.\(^{38}\) According to journalist Peter Foster, during Austin’s interview for the position Trudeau asked “what particularly interested him in the energy field.” Austin’s reply was “A state presence in the oil industry.”\(^{39}\) Accordingly, Austin was given a great deal of liberty by the Prime Minister to strengthen the department’s information gathering and policy analysis capabilities; this strength came necessarily at the expense of the NEB.

Since the creation of the NEB in 1959, it had been the main source of policy advice to Cabinet ministers on oil and gas related issues. Even with the creation of EMR in 1966, the NEB continued to be the repository of expertise relied upon by Cabinet ministers, and the lead negotiators during technical discussions with the U.S. The original EMR DM, Isbister, appeared to accept the NEB as the best place for policy and technical advice. The new DM, Austin, did not care for the independent nature of the NEB.

Over the next two and a half years, Austin worked tirelessly, some might say relentlessly, to consolidate the energy policy-making power in EMR by undermining and reducing the influence and credibility of the NEB. This was done gradually while upholding the appearance of desiring interdepartmental cooperation. During this period, Austin did more than lure key NEB officials like Matt Schwartz (head of Canada-U.S. market assessment) and William Scotland (NEB’s Chief engineer) to EMR, and actively recruit economists and lawyers with

\(^{38}\) Dennis Olsen, The State Elite (Toronto: McClelland and Stewart, 1980), 90. For an image of Jack Austin as Deputy Minister in EMR see, Earle Gray, Forty Years in the Public Interest: A History of the National Energy Board (Vancouver: Douglas & McIntyre, 2000), 51.

\(^{39}\) Peter Foster, The Sorcerer’s Apprentices: Canada’s Superbureaucrats and the Energy Mess (Don Mills, Ont: Collins Publishers, 1982), 58.
strong state interventionist philosophies. He also poisoned Cabinet Ministers’ opinions of NEB officials by whispering that they thought they knew more than the Ministers, and suggesting that the NEB was being uncooperative in preparing the energy policy review.

One of Austin’s biggest obstacles in consolidating power in EMR was the NEB chairman, Robert Howland, who became a casualty of the restructuring process. Howland had been with the Board since its inception in 1959, serving as Vice-Chairman until he took over from Ian McKinnon as Chairman in 1968. In the summer of 1973, two years before the end of his seven-year term, he ‘retired’ in the midst of a power struggle with Austin over whether or not the NEB would maintain a policy advisory function, or become a ‘rubber stamp’ for EMR decisions. Marshall Crowe replaced Howland. Crowe had served in both the PCO and the PMO, the latter as an economic advisor to the PM, and had been head of the Canada Development Corporation.

The restructuring of the bureaucracy continued, but not all experienced high-ranking officials were replaced. There were some exceptions, like T.K. “Tommy” Shoyama, who managed to maintain a senior position because he had the same ideological disposition as

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40 By the end of 1972, the power struggle came more into the open when advertisements for EMR economists listed it as being the place for energy policy in the Canadian government. NEB Chairman Robert Howland and Vice-Chair Douglas Fraser complained to EMR Minister Donald S. Macdonald and R. G. Robertson, the Clerk of the Privy Council, but nothing was done to alleviate their concerns. Some of Austin’s outside recruits like Joel Bell, William Hopper, and Ian Stewart would later have a central role to play in the formation of the 1980 National Energy Program, which will be discussed in the next chapter. See also, W. R. Strachan, “The Development of Canadian Energy Policy 1970-1982 – One Man’s View,” Journal of Business Administration Vol. 14, Issue 1-2: 143-162.

41 See for example, Granatstein and Bothwell, Pirouette, 78-79, recounting Cabinet minister Don Jamieson’s reflections that “the NEB was ‘contemptuous’ of ministers who questioned its judgment.” See also NAC, RG 99, Vol. 75, File “S7A EPR Pilot Study”, Letter to Prime Minister from J. J. Greene, 3 November 1970. Attached to the letter was a table of study teams that deliberately left out Board nominees for the oil and gas section of the study stating they had yet to be named. Doug Fraser wrote in the margin “misleading if it implies we are holding back.” Howland responded by writing a letter to Austin pointing out that they had agreed to only list the names of project or team leaders, and not give detailed lists to the Minister or Prime Minister. For Howland’s response see Ibid., Letter to Jack Austin, re: Pilot Study on Energy Policy, 6 November 1970.

42 Gray, Forty Years in the Public Interest, 56-58. For images of Howland and Marshall Crowe see, Ibid., 141.
Trudeau, having been an advisor to Tommy Douglas in the heady days of the socialist CCF in Saskatchewan. 43 Shoyama temporarily held the DM position in 1974 at EMR and oversaw the introduction of the policy to phase out oil exports. He soon left EMR to become DM of Finance after Simon Reisman, another career civil servant who ‘retired’ in protest over Trudeau’s economic policies. At the same time, Trudeau’s contempt for the Department of External Affairs continued, and it was “systematically shorn of its great power by the foreign policy review the Trudeauites undertook.”44 Instead of relying upon External Affairs for advice, Trudeau put most of his faith in his Foreign Policy advisor, Ivan Head. There is little doubt that External Affairs diminished in importance and influence during the Trudeau years, which would have a profound effect on oil and gas policy in 1980, yet at this point the deterioration had not completely eviscerated the transgovernmental networks that helped to ease the American response to the oil export phase out. This ended the first phase of restructuring. The second phase took place in 1978 and will be discussed in the next chapter.

In sum, Trudeau desired to alter the policy- and decision-making processes ostensibly to make government more “efficient,” but the changes were also designed to reduce resistance to his more interventionist policies. Deputy Ministers who might disagree with the new agenda were either moved to other less important portfolios or were encouraged to “retire.” In some cases, people from outside the government were recruited into the PMO and PCO, trained for two years, and then parachuted into DM positions. Policy-making affecting oil and gas was gradually shifted away from the NEB, in a rather backhanded way, and centralized in EMR. External Affairs also lost influence as a voice in the development of policies that affected foreign

44 McCall-Newman, Griss, 214. See also, Granatstein and Bothwell, Pirouette, 9-15; 226-227.

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relations, particularly Canada’s relationship with the U.S. The effect on oil and gas policy was a shift away from informal continentalism to a form of economic nationalism, or from maintaining access to the U.S. market to phasing out oil exports and becoming “self-sufficient.” However, before examining decision to phase out oil exports, it is necessary to understand the context of Canada-U.S. discussions on a continental energy policy during this same period.

United States

When Richard Nixon became President, as mentioned in the introduction, one of the first actions he took was to reassert Presidential responsibility over oil policy by bringing it back into the White House. One of the fascinating aspects of Nixon’s attempts to develop a coherent oil and gas policy (though oil was of primary concern) was the number of studies, committees, and bureaucratic reorganizations that took place with little action or anything actually changing. For example, in Nixon’s first term (1969-1972) there were four different executive organizations created to deal with oil and gas policy. Then between 1973 and 1974, there were at least ten different executive committees, groups, offices, and administrations created to handle the

45 De Marchi, “Energy Policy Under Nixon,” 400. The information in this section on the U.S. is compiled from De Marchi, “Énergy Policy Under Nixon,” and confirmed by my own examination of records at the USNA, Nixon Project. See for example, USNA, Nixon Project, WHCF, SMOF, Glen Schleede Files; Michael Duval Files; Ibid., Energy Policy Office, John DiBona Files; John Love Files; John Schaeffer Files; Edward M. Miller Files; John Rafuse Files. See also DOE, Job 1401, Box 28, Eric Zausner Chronological Files (most of the Job 1401 records relate to the FEA); DOE, Job 1007, Box 2, Folder 9 – 23 Domestic Council; Ibid., Box 4, Folder 10 – Oil Policy Committee; Ibid., Box 6, Folder 1—Working Group Notes of Meetings; DOE, Job 1002, Box 70 (this entire box covers the Oil Policy Committee in 1972-73); DOE, Job 1012, Box 2 (this entire box is material concerned with the Shultz Committee); DOE, Job 1404, Box 2 (most of this box deals with the FEA). For a detailed documentary record of Nixon’s restructuring of the policy- and decision-making processes in foreign policy see, United States Department of State, Foreign Relations of the United States (FRUS), 1969-1976, Vol. II: Organization and Management of U.S. Foreign Policy, 1969-1972. Available from, http://www.state.gov/r/pa/ho/frus/nixon/ii/index.htm; Internet; accessed 8 May 2007.
46 The first four groups were: the Cabinet Task Force on Oil Imports (the Shultz Committee), the Oil Policy Committee (chair, G.A. Lincoln [Director of the OEP]), the Joint Board on Fuel Supply and Transport (Chair, G.A. Lincoln), and the Energy Subcommittee of the Domestic Council (Chair, Paul McCracken [Chair, Council of Economic Advisors] until January 1972 then replaced by George Shultz until February 1973 when replaced by Secretary of the Treasury, William Simon). However, Peter Flanigan was the main person in the White House who assumed responsibility for energy policy related issues, though he was in a power struggle with John Ehrlichman Director of the Domestic Council, and James Akins of the State Department.
“energy crisis.” What stands out the most is not just the number of constantly changing organizations but the continuous shift of people appointed to be responsible for the policies, and the power struggles that went along with it.

There was a great deal of Presidential interest in energy policy, but no clear direction provided as to what that policy should be. Even when studies were done, proposals put forward, and policies submitted to the President, little seemed to be implemented. The lack of Presidential direction and sustained interest exasperated and amplified personality and power struggles amongst those who dealt (or wanted to deal) with energy policy. Part of this was due to President Nixon’s leadership style, which thrived upon generating and observing competition between individuals, and avoiding letting others know (aside from the tightest inner circle) what he really thought or wanted on a particular issue. Thus, those who were put in charge of the various committees, groups, and offices, never knew if they were truly supported by the President, and this was a blow to their authority.

The other major factor that had a profound impact on the policy- and decision-making processes for oil and gas policy in 1973/74 was the Watergate affair. Watergate is rarely if ever mentioned in the documents, but it was always lurking beneath the surface. It created a strange atmosphere—like perpetual damage control within a context of near panic; and there was a

47 At the beginning of Nixon’s second administration, he shuffled personnel. William Simon was given more responsibility and authority over energy policy, then Charles Di Bona arrived in February 1973, John Love (Governor of Colorado) arrived in June 1973, Eric Zausner in late 1973, and John Sawhill in May 1974. All of these people battled with Simon and Ehrlichman over who had the real authority and responsibility for tackling the energy crisis. The ten different groups created were: the energy “troika” or White House Special Energy Committee comprised of Henry Kissinger, George Shultz and John Ehrlichman (February 1973), the National Energy Office headed by Charles Di Bona (February 1973), the Energy Policy Office headed by John Love with Charles Di Bona as his assistant (June 1973), Energy Research and Development Agency (ERDA) which absorbed the Atomic Energy Commission (1973), the Supply Allocation Task Force and Emergency Petroleum Supply Committee both headed by Eric Zausner (October 1973), Energy Emergency Action Group, a 65 person interagency group headed by John Love and Eric Zausner, but William Simon takes over as Chair in December 1973 (November 1973), the Federal Energy Office with William Simon as “Energy Czar” (December 1973), a deputies group of the Committee on Energy chaired by William Simon (1974), and finally the Federal Energy Administration (FEA) the precursor to the DOE, with John Sawhill as chairman (May 1974).
tangible sense of uncertainty.\textsuperscript{48} By 1973, Congress was overtly hostile, which meant there was little chance of any legislation passing; this helps to explain in part why there seemed to be so little progress on the policies put forward. Yet, while all of these reorganizations and power struggles took place, negotiations with Canada proceeded on a continental energy policy.

II. Canada-U.S. Negotiations 1969 to 1973

Since the United States was reviewing its MOIP, it was reluctant to begin discussions with Canada that would only address oil issues. Indeed, during Prime Minister Trudeau’s visit to Washington in March 1969 his External Affairs’ Minister, Mitchell Sharp, introduced the idea to begin discussions on a continental energy agreement,

Opening the discussion of oil, Minister Sharp pointed to the enormous flow of energy in both directions across the United States/Canadian border. . . . North American resources were involved in which Canada and the United States had a common interest. . . . He hoped these talks would lead to a shared continental approach to energy. . . . Secretary Hickel [Interior] commented that the large oil discoveries in Alaska introduced a new factor into the situation. Minister Sharp readily agreed and said that these discoveries had been partly responsible for the Canadian conclusion that existing policy was outdated and that North American energy matters as a whole should be re-examined.\textsuperscript{49}

Preliminary talks for a continental energy agreement between Canada and the U.S. began on 2 April 1969. Immediately, however, the U.S. was exposed to conflicting messages from the Canadian side. In a case of classic Canadian ambivalence, though the Cabinet Ministers,

\textsuperscript{48} See for example, Yergin, \textit{The Prize}, 617-619. Yergin quotes Steven Bosworth, Director of the State Department’s Office of Fuels and Energy, “‘Because of Watergate, there was a general sense of paralysis. . . . Congress was mesmerized by Watergate, the executive branch was mired in it, and the White House was circling its wagons. It was difficult to get a political decision on anything on an inter-agency basis. There was no real decision-making apparatus in Washington—other than Henry Kissinger.”” (619) The only time Nixon spoke extensively about Watergate in Cabinet was at the 6 August 1974 meeting when he explained his decision not to resign at that time. See, USNA, Nixon Project, POF, WHSF, President’s Meetings Files, 1969-1974, Box 94. Indeed, in all of the President’s Meetings Files up to that box, Watergate was only mentioned twice.

\textsuperscript{49} USNA, RG 39, E-1613, CFPF, Subject-Numeric – Economic 1967-1969, Box 1350, File “PET 17-2 CAN 1/1/67,” Memorandum of Conversation, Subject: Canadian Oil, 25 March 1969, 1-2. See also idem, Box 1349, File “PET 11-2 CAN 1/1/69,” Telegram 031468 from State Department to Amembassy Ottawa, Subject: Canadian Oil, 28 February 1969. This was a copy of an Aide Memoire delivered to the State Department by Canadian Ambassador A. E. Ritchie, suggesting that oil talks begin. What is interesting is that a comprehensive energy agreement is not specifically mentioned, phrases such as “broad review” of policies were used instead.
privately and publicly, pronounced their support for a continental energy agreement, the officials were quick to downplay the possibility of succeeding in a comprehensive arrangement. For example, at this initial meeting Claude Isbister, the Deputy Minister for Energy, Mines and Resources, warned his U.S. counterparts, "discussion of a 'common energy policy' linking the individual energy fields might create internal political problems in Canada. While this was perhaps semantic, he preferred [to] view the meetings as exchanges of information on subjects of common interest." Throughout 1969 and early 1970 the Trudeau government was bombarded in the House of Commons and in the press about the "sell-out" of Canadian resources to American interests, and a continental energy or common oil policy was often the focus of such attacks.

Several other meetings took place throughout 1969 and early 1970, but Canadian officials, perhaps affected by the rhetorical attacks of the Canadian press and opposition parties on the concept of a continental energy agreement, continued to be cool on the issue. The U.S. made it clear, however, that a singular treaty on oil would be difficult to sell, and that "approval of a treaty would be easier in the United States if other forms of energy, especially gas, were included." In addition, the U.S. officials were concerned that Canada had still made no commitment to reduce oil imports into eastern Canada. The Canadian response was that further discussions with Ottawa on "the question of a continental approach to energy" would have to take place. Thus, the subsequent directive from Cabinet was that during discussions "the

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50 USNA, RG 59, E-1613, CFPF, Subject-Numeric - Economic 1967-1969, Box 1349, File "PET 11-2 CAN 1/1/69," Telegram 052381 to Amembassy Ottawa from Department of State, Subject: Canada-U.S. Oil and Energy Talks April 2, 5 April 1969, 2.


Ambassador should direct his efforts towards diverting or diluting U.S. interest in the particular situation in eastern Canada.” If this did not work, then he was to ascertain the absolute minimum action the U.S. would require in securing eastern Canada that would ensure access to the U.S. market. But even the minimum requirement was too much for the Canadians, and the talks stalled.

American officials, frustrated at the diversions and delays, counselled President Nixon to enact “temporary” formal restraints on Canadian oil imports. The action was meant to motivate the Canadians to take the negotiations for a continental energy policy more seriously. On 10 March 1970, President Nixon announced that the volume of Canadian oil imported into the U.S. was to be formally limited, though even that proved fruitless. The Canadian MOIP exemption was dead. The eventual Canadian reaction was to declare that continental energy talks were suspended.

Thus, by 1970 the vision for a comprehensive agreement that would cover all forms of energy had evaporated. What emerged instead, much to Canadian preference, were talks for a “common oil policy,” or an “understanding” on oil trade; the term “continental” was quickly dropped because of associated negative connotations. The discussions for an understanding on Canada-U.S. oil trade lasted from 1970 through the beginning of 1973. Until the middle of 1972,
Canadian officials still pressed for unimpeded access of Canadian oil to the U.S. market. One telegram from the U.S. ambassador to Canada, Adolph William Schmidt, to the State Department stated, “Despite constraints imposed by Canadian politics on formal U.S.-GOC [Government of Canada] agreement in energy field, GOC today also still is willing to negotiate for access to U.S. market.” Of course, at the 27 June 1972 discussions the Canadians said that “the GOC was ‘not pressing for access’,” but at the same time desired “some flexibility in the U.S. approach” for increased market access for Canadian oil. The main sticking point in the discussions, the same as for the 1969/70 talks, was the Canadian resistance to reducing eastern Canada’s exclusive reliance on oil imports. The American officials continued to question what the Canadians were doing to secure their eastern region from overseas supply disruptions: Would Canada construct a pipeline to Montreal and storage facilities in eastern Canada? Canada hedged its replies: Spare pipeline capacity was being planned, storage in the Sarnia salt domes was being considered, but nothing definite was ever presented.

At this time, until 1973, because world oil prices were lower than Canadian, and the prices in the protected U.S. market were high, refineries in Montreal and the Canadian east coast expanded far beyond the projected demand for the region, while exports of Canadian oil into the U.S. increased dramatically. Product shipments from eastern Canada continued to violate the Ottawa Valley Line and penetrate into the supposedly protected Ontario market. The U.S. was concerned because it seemed to them that Canada was increasing its oil exports to the U.S. in

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59 Some of the refinery expansions in Montreal and in the Maritimes were federally funded as part of regional economic development, such as the Come-By-Chance refinery in Newfoundland. See for example, NAC, RG2, Series A-5-a, Vol. 6381, Cabinet Conclusions, 25 March 1971, 21-22.
order to take advantage of the higher prices, while making the Canadian market even more
dependent on cheaper but insecure imported oil. In fact, this was the admitted intent as revealed
in the Cabinet discussions of the Canadian “Oil Policy Review” of May 1969; the Cabinet
understood the Canadian domestic policy to be “of buying in the cheapest market [Middle
East/Venezuelan oil] and selling in the most expensive [U.S. market].”

The problem was that this policy had worked too well, and in late 1972, it became clear
that demand for Canadian oil exceeded pipeline capabilities. Furthermore, the inflated oil
demands by American refineries for Canadian oil jeopardized supplies to Ontario refiners. The
Canadian policy response, in February 1973, was to limit the amount of oil exports to the U.S. in
order to ensure that the needs of Ontario refiners would be met. A month later, discussions on
a common oil policy officially ended because the Canadians “could not enter into a commitment
to maintain export levels [in an emergency].” Of interest is that between 1972 and early 1973
Robert Howland of the NEB attempted to allay American fears by reminding the U.S. that
Canada had traditionally maintained and even increased exports in an emergency, while Austin
refused to allow the Canadian negotiating team to make a firm commitment and appealed for the

The Canadian government had a similar policy for natural gas, as one document explains in December 1972 EMR’s
position was that Canada “should get the opportunity price in the export market but be content with a more
economic price in the domestic market. The domestic price should go up but not as high a that relating to exports.
The opportunity price in the U.S. is now so high that we could get very much more than we are today. We can get
this extra rent through an export tax or through the mechanism of a central marketing agency.” NAC, RG99, Vol.
77, File 57D Gas Pricing—Alberta Situation EPR 1972-73, Memorandum to G.M. MacNabb [ADM, EMR] from
Senior Adviser – Oil and Gas – Canada [EMR], Subject: Alberta Gas Price Problem, 1 December 1972, 2.
61 Lafayette College, William Simon Papers, Series IIIA, Subject Files (Deputy Secretary), Drawer 12
Administration Miscellany – Federal Budget, Folder 12:17 “Canada: 1973-74,” Memorandum for the Record from
James Reddington, Subject: Summary and Analysis of Canadian National Energy Board case for Restriction of Oil
62 NAC, RG2, Series A-5-a, , Vol. 6422, Cabinet Conclusions, 1 February 1973, 4; Ibid., Cabinet
Conclusions, 15 February 1973, 5-6.
Memorandum of Conversation, Subject: Proposed U.S./Canada Agreement on Switching Oil in Times of
Emergency, 21 March 1973. For the final U.S. decision, see USNA, Nixon Project, WHCF, Subject Files CO 28,
Box 15, File “[EX] CO 28 Canada 1.1.73-6.30.73,” Memorandum for Bill Simon, Jules Katz and Jim Akins from
Peter M. Flanigan, Subject: Agreement with Canadians on Oil, 22 March 1973.
discussion to “stay within principles” rather than enter into the mechanics of how much oil would go where in an emergency. The end of negotiations turned out to be only temporary, as the oil shock in the fall of 1973 created the impetus to reopen talks.

When the Arab embargo on the U.S. was announced in October 1973, the Canadians, worried that American oil companies would divert their shipments from Canada to the U.S., and that Canada too might be subjected to the boycott, suddenly “seemed eager to enter into serious discussions about a ‘coordinated’ oil policy.” During the ensuing discussions, in what seemed to be a contradiction to the policy of oil export controls, EMR Minister Macdonald told his American counterparts that he was concerned Canada would spend a great deal of money developing its expensive frontier areas and oil sands, and then discover that the U.S. market was closed to Canadian imports. Surprised at the comment, American officials replied that they understood from Canadian statements that oil exports to the U.S. would be curbed, which had prompted the U.S. to pursue a policy toward self-sufficiency. A month later, in yet another apparent change of mind, Prime Minister Trudeau alluded in a letter to the President that oil exports were to be phased out. At this point, the transgovernmental networks that had worked

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64 USNA, RG 59, CFPP 1970-73, Subject-Numeric-Economic, Box 1494, File PET 4 US-CAN 1972, Memorandum of Conversation, Subject: U.S.-Canadian Oil Talks, 27 June 1972, 13. For Austin’s later filibustering see, Ibid., Box 1521, File PET 17-2 US-CAN 1/1/71, Draft Notes, US-Canada Oil Talks, Ottawa, 6 March 1973. Ironically, while refusing to commit to maintain exports, aside from ‘best endeavours’ in the event of a crisis, the Canadian Cabinet wanted senior officials to receive an assurance that the American government “would use its influence to ensure Canada a pro rata share of available oil in world trade in the event of an emergency.” NAC, RG2, Series A-5-a, Cabinet Conclusions, 15 February 1973, 10.


66 Ibid., 2-3. The Canadian Cabinet told its negotiators for the March 1973 discussions to warn the Americans “of the probable need to place some restrictions on the volume of Canadian exports to the United States .. to protect Canadian market requirements.” NAC, RG2 [PCO], Series A-5-a, , Cabinet Conclusions, 15 February 1973, 10.

so well between Canada and the U.S. were still in place, though they were being quickly eroded by changes in both countries. Thus, for some months, Canadian officials privately served notice on the U.S. that oil exports would indeed be phased out, and an announcement was issued in November 1974. What accounts for this shift in policy from a desire for open access to the U.S. market for Canadian oil, to the complete reversal of phasing-out all oil exports?

INTEREST GROUPS

Environmentalists and Aboriginals

After the Prudhoe Bay oil find in 1968, many multinational and other companies, looking to cash in on the oil and gas potential of the Arctic, left the more conventional areas of Alberta and the rest of Canada. They shifted exploration and development to the Canadian offshore, Mackenzie Valley, Mackenzie Delta, and the Beaufort Sea areas of the Canadian North. Large potential reserves were identified, and proposals emerged for pipelines to link the Prudhoe Bay, Mackenzie Valley, and Beaufort Sea fields to the south. The industry and the Canadian government supported oil and gas pipelines that would run through Canada and then into the

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68 It should be pointed out, however, that in the crisis days of the OPEC embargo EMR left External Affairs out of the discussion with the Americans. See Granatstein and Bothwell, *Pirouette*, 87. “The Canadian response was directed by Donald Macdonald and his officials in EM&R. It was pointedly not managed by External Affairs, even though External Affairs made a valiant effort to persuade cabinet to let it coordinate this most important aspect of Canadian foreign policy.”

69 Gerald R. Ford Library (GRFL), White House Central Files (WHCF), CO 28, Box 11, File “CO 28 Canada, 12/1/74-12/31/74 (Executive),” Briefing Memorandum for the President from Henry A. Kissinger, Meeting with Pierre Elliott Trudeau Prime Minister of Canada Wednesday, December 4, 1974, 4.


71 The Humble Oil Company also attempted to run an ice-breaker turned tanker, the *SS Manhattan*, through the Northwest Passage as an alternative to constructing pipelines. Upset at the breach of sovereignty, the Canadian government protested the action, but also cited environmental reasons in an effort to prevent tankers from going through the Arctic areas. See the description in Pierre Trudeau and Ivan Head, *The Canadian Way: Shaping Canada’s Foreign Policy, 1968-1984* (Toronto: McClelland and Stewart, 1995), 25-65; and Granatstein and Bothwell, *Pirouette*, 79-81.
Bilateral discussions for a possible oil pipeline to transport Alaskan oil through Canada to the U.S. east coast fell through rather quickly as the Nixon administration was eager to have access to the Alaskan crude as quickly as possible. Thus, it was decided to run a pipeline across Alaska to the port of Valdez and then haul the oil in tankers to the American west coast, despite Canadian environmental protests regarding possible oil spills along the British Columbian coastline. The environmentalists were successful, however, in gaining a moratorium on Pacific offshore exploration, but that had little to do with the oil export phase out decision. The natural gas issue was more complicated.

Although the U.S. initially welcomed the idea to link the Northern gas areas with pipelines through Canada, negotiations stalled because American officials balked at the various Canadian requirements on the projects. The Canadian government, understandably, pressed for a certain percentage of the construction to be undertaken by Canadian companies, Canadian employees, and Canadian materials. While the “most extensive and expensive public hearings ever held to consider competing industrial proposals” took place in Canada, environmentalists joined forces with Aboriginals to oppose the construction of the pipelines. Ostensibly to meet their concerns, Trudeau established a Royal Commission headed by Justice Thomas Berger, a former leader of the B.C. NDP, to analyse and report on the situation. Berger’s 1977 report recommended a moratorium for ten years to settle outstanding Aboriginal land claims and environmental issues before reopening the Mackenzie Valley pipeline issue. The government complied, and for a variety of reasons, a northern pipeline has still not been constructed. At the

72 Gray, Forty Years in the Public Interest, 64-65.
73 Sharp, Which Reminds Me..., 247.
74 Gray, Forty Years in the Public Interest, 66.
75 Berger also “recommended no pipeline—ever—on the Arctic Gas route along the coastal plan and across the Arctic Wildlife Range...” Ibid., 69.
time however, it could be argued that Trudeau selected Justice Berger because he anticipated that Berger would favour delays in development. Such delays worked to the advantage of Trudeau’s aim to expand federal control and involvement in the oil and gas industry, particularly in the North (Yukon and Northwest Territories), which were under federal jurisdiction. For example, during a July 1973 Cabinet discussion on Northern oil and gas development, Trudeau supported the idea of buying time to “amass the required capital to become involved in the exploitation of the resource.” He agreed that the land use regulations and royalty structures should be altered to be more favourable to the government, while “further consideration could be given to the possibility of pursuing the matter via the vehicle of a Canadian or a Canadian government corporation to become involved at an appropriate time.” The appropriate time for federal involvement meant after private companies had gone to the expense of drilling and determining how much oil and gas existed in the North, then the state oil company would “back in” at the development stage. Thus, although environmentalists and Aboriginals had some influence on the decisions concerning Northern pipelines, they had almost no influence on the decision to phase out oil exports.

Multinational Oil Companies

The role, influence, and reputations of multinational oil companies operating in Canada underwent a dramatic change in this period. The major companies, such as Imperial Oil (Esso), Shell, and Texaco, went from being consulted about prices, taxes, exports, exploration and development, production, and refining, to being beset by unilateral actions by both federal and

77 John Erik Fossum, Oil, the State and Federalism (Toronto: University of Toronto Press, 1997), 60-61. Changes to the oil and gas land legislation under development during that period were announced in 1976 but died on the order paper in 1978.
In the early years of Trudeau's first government, a government-industry National Advisory Committee on Petroleum (NACOP) was established, along the lines of the American National Petroleum Council, in order to provide a venue where policy-makers and industry representatives could meet to discuss important issues. The intent behind the creation of the NACOP was most likely to give the appearance of being consultative and amenable to the industry's viewpoint. Although it is known that this group existed, there is little available evidence of what transpired at these meetings. However, one fact is certain, when the government had decided to implement oil export controls in late December 1972, it decided to inform the industry of its planned action through NACOP rather than through discussions with individual companies.

The federal government also utilised the NEB to maintain consultations with the multinational dominated Canadian oil and gas industry. The relationship between the NEB and the oil industry in general, including the multinational companies, was one of mutual respect. As discussed in previous chapters, the NEB consulted regularly with companies and employed moral suasion regarding the level of exports to the U.S. There was a spirit of cooperation, tempered with a dose of mild but mutual suspicion. Consultations and meetings, buttressed by the newly formed NACOP and the Canadian Petroleum Association (CPA), continued during

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78 The Provincial actions will be discussed later in this section under the sub-heading Producing Provinces – Alberta.
79 I was unable to locate specific records pertaining to the operation of the group. It could be that the records have not been properly catalogued in the NAC finding aids. The ponderous nature of the Canadian Access to Information legislation also worked against locating the proper information as all records requested must be reviewed, hence much of the information declassified for this project is rather patchy. Future scholars may be more successful in obtaining this information. Mention is made of the NACOP in the following documents, NAC, RG99, Vol. 73, File 56F, Memorandum to File from F.H. Lamar, Subject: Formation of Council to Advise Government on National Oil Policy, 18 July 1969; Ibid., Vol. 77, File 57M, Notes of Meeting with the Minister, December 20, 1972 by R.F. Brooks, re Energy Policy, 22 December 1972; and NAC, RG2, Vol. 6340, Cabinet Conclusions, 27 November 1969, 5-6.
1972 through early 1974. In 1972, companies that had been encouraged to divert more oil to the U.S. to take advantage of the price differential were pressured by the federal government through the NEB to reduce exports on a voluntary basis in order to ensure that Ontario would have enough oil to meet its requirements. This pressure continued through 1973 and into 1974, and what at first seemed a temporary request began to appear more permanent. In addition, EMR Minister Donald Macdonald had the NEB request that the oil companies raise Canadian prices to be at par with U.S. prices to reduce American demand for Canadian oil; the companies again complied. Yet, when the federal government decided to implement a 40-cent export tax in September 1973, industry was informed and not consulted. The industry grudgingly accepted the tax as part of a crisis/emergency situation, but when the government announced in November 1973 a unilateral increase in the tax to $1.90 per barrel, the CPA and the Independent Petroleum Association of Canada reacted bitterly as they had been led to believe domestic prices would be increased rather than the export tax. For example, Gulf Oil had requested price increases for gasoline but was told by Jack Austin to wait until the end of October “for a Cabinet decision on price increases.” When no decision seemed to be forthcoming, Gulf raised its gasoline prices one cent a gallon. The reaction from EMR Minister Macdonald was quick and scathing, calling Gulf’s “American president of this American company’ a poor corporate citizen.”

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81 USNA, Nixon Project, WHCF, Subject Files, CM29, Box 11, File EX CM29 Petroleum and Coal Products [3 of 47] Jan 1972-March 1973, Memorandum for Peter Flanigan from Jim Akins, Subject: Canadian Oil Prices, 10 January 1973. This memo is a report of a telephone conversation between Bill Twaits, President of Imperial Oil and Jim Akins. Twaits called to inform Akins of Imperial’s 20 cent/barrel price increase of Albertan oil, and commented that “He did not know if any other companies have followed, but he assumes they all will.”

82 NAC, RG2, Series A-5-a, Vol. 6422, Cabinet Conclusions, 13 September 1973 (morning meeting), 6-7. At this meeting Cabinet decided that publicly the government ought to state that the measure was temporary, however, there was widespread support to make the export differential permanent and create a federal marketing agency to administer and manage it. See also, Paul Chastko, “Developing Alberta’s Oil Sands, 1920-2002” (PhD Diss., University of Ohio, 2002), 218.


84 “Energy Minister says Gulf Oil is a poor corporate citizen,” Globe and Mail, 2 November 1973, front
no penalties were brought to bear upon Gulf Oil, the importance of this reaction is that the
government wanted the industry to know that it (the industry) no longer had the moral authority
to act alone on prices, and that the government should approve any price increases.\textsuperscript{85} Suspicions
grew amongst the multinational companies that Ottawa could not be trusted and that the
government intended to intervene more broadly and directly in the oil and gas industry without
consulting the industry. Members of the CPA believed that many within the government were
hostile to the companies; they were right.

The Trudeau Cabinet of 1973 and early 1974 was somewhat divided on the issue of the
large oil companies. During the Cabinet discussions of this period, some Ministers, such as
Alastair Gillespie (Minister of Industry, Trade and Commerce), who would become Minister of
EMR a few years later, supported by the PM, argued repeatedly and forcefully for more
government intervention in the industry, a larger share of the revenues, and the means to prevent
“windfall” profits from accruing to the multinational companies. Others, like James Richardson
(Minister of Defence), made the case that special taxes and levies that singled out one industry
was inappropriate and opposed the idea that “oil companies should be required to subsidize
Canadian consumers from their current revenues.” Faced with the reality of the oil crisis, even
Donald Macdonald (Minister of EMR), occasionally supported a softer line on the multinational
companies arguing that the “Government would still have to rely on the industry to implement its
pricing policy.”\textsuperscript{86}

\textsuperscript{85} John Picton, “Government gives in to oil companies for help in avoiding winter shortage,” Ibid. The
article makes the following observation, “Under the terms of the Government’s Sept. 4 price freeze, companies were
to be able to increase prices on petroleum products to recover increases on foreign crudes. Although it was not
stated, there was an inference that the Government still wanted to approve such increases. The major oil companies,
catching this inference, asked for Ottawa’s approval to recover higher costs on imported crude they had been paying
for two or three months; nothing happened.”

\textsuperscript{86} Ibid., 20 September 1973, 7-9; 4-5 October 1973, 7-8; 20; 25 October 1973, 10; 31 October 1973, 5-6; 1
When the first oil crisis hit, the federal government established a temporary twenty
person Industry Advisory Committee on Supply (IACS), chaired by Jack Stabback of the NEB,
to work out the distribution and allocation of supplies during the emergency.\textsuperscript{87} Members were
taken from the main oil producing, refining, and transporting companies—mostly multinational
companies. The uncertainty of whether Canada would be included in the Arab oil embargo
heightened suspicions, despite the cooperation of industry in the advisory committee, that the
multinational companies would divert supplies bound for Canada to the U.S. These fears were
unfounded, but they added to the deteriorating opinion of the oil companies amongst Cabinet
members, which was reinforced daily by comments from the Opposition, particularly the NDP,
and in the press.

A month later when the federal government again decided to increase the oil export tax
without informing the industry in advance, some Ministers speculated on what would happen if
the companies balked and withheld production. Trudeau replied, “that the oil industry should
[then] be treated as a public utility, i.e., it could not withhold essential supplies.” Macdonald
tried to allay fears by stating “the oil industry was anxious to ensure that they did not allow
shortages to develop in the country.”\textsuperscript{88} Prime Minister Trudeau’s main concern or preoccupation
with respect to the multinational companies was that they would not reinvest the increased
profits in Canada. Indeed, at the 31 October 1973 Cabinet meeting Trudeau stated that he

\textsuperscript{87} Gray, Forty Years in the Public Interest, 51. See also, Provincial Archives of Alberta (PAA), Acc.
85.401, Peter Lougheed Papers, Box 29, File 480, Agenda from Minister of Energy, Mines and Resources, Meeting
Between Federal and Alberta Ministers on Energy Items, 26 October 1973. Once the federal government
established the Energy Supplies Allocation Board it assumed the responsibilities held by the advisory committee.

\textsuperscript{88} NAC, RG2, Series A-5-a, Vol. 6422, Cabinet Conclusions, 1 November 1973, 7-8.

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wanted EMR to ensure that windfall profits did not go to the companies.\textsuperscript{89} Even with these different consultative mechanisms, and the industry cooperation in government policies, many of the Trudeau Cabinet members spoke with scorn and contempt regarding the multinational companies. The general sense represented at the Cabinet table was that the companies were making profits when oil prices were much lower, and since the higher prices and subsequent profits were not from any investment and planning by the companies, taxing the windfall profits was justified and should not affect investment levels. However, there was a grudging recognition that cooperation with the industry had to be maintained until the Montreal pipeline, the National Oil Company, and the planned legislation to extend federal control and involvement in the industry were ready. Although the companies were involved in various consultative initiatives with the federal government, presented submissions to the NEB on Canada’s energy future, and fully cooperated with the federal government in order to ensure that Canadian markets were adequately supplied with oil and gas, they did not influence the decision to phase out oil exports.

The phasing out of oil exports meant that multinational, and any other companies producing oil in Canada, would have to sell what they produced at well below world prices, for the foreseeable future if not permanently. With the changes in the tax regimes (including the export tax), the increased royalty rates by the provinces, and uncertainty surrounding frontier development, the companies warned that reserve development would be stifled. There was also the problem of the more lucrative incentives provided by the U.S. to increase American production.

\textsuperscript{89} See for example, NAC, RG2, Series A-5-a, Vol. 6422, Cabinet Conclusions, 31 October 1973, 6; 1 November 1973, 7-8; 22 November 1973, 14. At the 22 November 1973 meeting, Trudeau wondered aloud if there was some way the government could force the companies to re-invest the amounts properly. No one at the Cabinet offered any ideas. See also, PAA, Acc. 85.410, Peter Lougheed Papers, Box 29, File 480, Memorandum to File from Don R. Getty, 7 September 1973. Macdonald informed Alberta about Ottawa’s views on windfall profits.
exploration and development. The result was that drilling rigs fled south. Thus, despite the cooperation of the multinational companies in handling the oil crisis, they had little influence on the decision to phase out oil exports.

**Canadian Independent Companies**

Like the multinational companies, the independents had an industry organization known as the Independent Petroleum Association of Canada (IPAC). IPAC representatives were included in the NACOP, and participated in other industry-government discussions. However, there is no direct mention of the independent companies during the 1973 oil export control decision, the October energy crisis, or in the decision to phase out exports. The only time that independents were discussed was when the federal budget of September 1974 was being developed and consultations were held with Alberta. The controversial budget contained significant changes to the taxation of oil companies, such as the non-deductibility of provincial royalties, in order to prevent windfall profits, and provisions for the federal government to take a larger share of oil revenue. Alberta appealed to federal officials to take into consideration the impact of the changes on the independent oil companies. In subsequent discussions with Alberta before the budget, officials attempted to develop an agreeable definition of an “independent” oil company, but were unsuccessful. Finance Minister John Turner requested that one of his senior officials, Mickey Cohen (who would be one of the main personalities involved in the creation of the National Energy Program in 1980), “look at the situation with a view to helping

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90 Reggi Ann Dubin, “The Feud that keeps Canada’s oil underground,” *Business Week*, 10 February 1975, 46. See also, NAC, MG31 E28 [Douglas Fraser Fonds], Vol. 19, File 2 General Reports, Economic and Financial Needs of the Oil and Gas Industry, Submission to the National Energy Board by the Canadian Petroleum Association, February 1975. The CPA report begins with the following observation, “The year 1974 was the most traumatic ever experienced by the Canadian Petroleum Industry.”

91 PAA, Acc. 85.401, Peter Lougheed Papers, Box 28, File 474, Memorandum to File from G.L. Duncan, Subject: Meeting with Federal Officials re: Oil and Gas Related Budget Proposals, Edmonton, 13 August 1974, 2-3.
these companies.” However, the discussions concluded that the provinces, rather than Ottawa, could respond better “to [the] specific needs of the ‘small’ oil and gas companies.”

The only other aspect of the Canadian independent companies that was of concern to the Trudeau government was the possibility of American takeovers. To that end, in 1971 Trudeau established the Canada Development Corporation (CDC), “a government agency established to increase Canadian ownership of resource firms,” and in 1973 the Foreign Investment Review Agency (FIRA), “to screen new foreign investments to determine whether they were of significant benefit to the Canadian economy.” Although the CDC and FIRA were intended to target the industrial sector, the petroleum industry was among the most affected. These two initiatives discouraged takeovers of Canadian independents by foreign companies, while takeovers of independents by Petro-Canada were not discouraged.

With respect to the phasing out of oil exports, there is no evidence to suggest that the independent companies were consulted in any way about the decision. The continued lower price for oil that would be promoted with the oil export phase out, affected the independents more negatively than the large multinational companies. While the MNCs could absorb to a degree the lower prices paid in Canada, the independents were solely dependent upon sales in the Canadian market. This meant that less revenue went to the independents than it would have;

92 Ibid., Notes from Meeting with Honourable John Turner, 14 September 1974, 2.
93 Gray, Forty Years in the Public Interest 69; Ken Norrie and Doug Owram, A History of the Canadian Economy. 2d Ed., (Toronto: Harcourt Brace, 1996), 424. See also the brief discussion in Michael Hart, A Trading Nation (Vancouver: UBC Press, 2002), 298-304. The potential sale of the Home Oil Company, owned by R.A. Brown (Canadian), to Ashland (an American company), occupied a great deal of Cabinet’s time in 1970-71. Brown was told by J.J. Greene (Minister of EMR) that even though the government did not have legislation enacted yet, it would not permit an American company to buy Home Oil. Potential Canadian buyers backed away, and Brown was left with an offer from the federal government itself to purchase his company. Tired, and with a heart condition, Brown was on the brink of accepting the federal offer, but at the last moment he backed out and said he would prefer to deal with the private sector. A few months later, Consumers’ Gas utility of Toronto bought Home Oil. See, NAC, RG2, Series A-5-a, Vol. 6359, 12, 19, 26 August 1970, 1 September 1970, 26 October 1970, 23 December 1970, Vol. 6381, 25 February 1971, 4, 11, 18 March 1971, and Foster, Sorcerer’s Apprentices, 59-61.
they could therefore not expand as quickly nor engage in as much exploration and development activity that was ostensibly the desire of the federal government.  

Provinces

A critical element in the structure of Canadian federalism is the division of power between the provincial and federal governments, and the dynamics of regionalism. Where the provincial governments have jurisdiction over natural resources within their borders, the federal government has responsibility for inter-provincial and international trade, as well as complete jurisdiction over the resources of the Yukon and Northwest territories. Both levels of government have certain jurisdictions and responsibilities for taxation. Over the years since Confederation, the provinces and federal government came to an understanding regarding revenue distribution across the country in order to equalize the financial resources of the different regions. Wealthier provinces contributed some of their revenue, calculated with an agreed upon formula, to poorer provinces.

The sudden increase in oil and gas prices jeopardized not only the understandings of resource ownership and control, it also threatened equalization or transfer payments amongst the provinces because in 1971 the federal government, against the arguments of Alberta, insisted that oil and gas revenues be included in the equalization formula. Thus, the regional differences and rifts that had always existed in Canada were magnified and inflamed by the oil crisis, pitting

95 Interestingly, while the Canadian independent companies had been vitally concerned with the construction of the Montreal pipeline in the late 1950s and 1960s, when the decision was officially announced in December 1974, they were rather silent about the issue.
96 One of the best articles that outlines the effect of the energy crises on Canadian federalism is Kenneth Norrie, “Energy, Canadian Federalism, and the West,” Publius 14 (Winter, 1984), 79-91.
the consuming provinces and the federal government against the producing provinces—much like the international energy crisis in microcosm.

**Provinces – Consumers (Ontario and Quebec)**

When the oil crisis hit in 1973 from the Arab embargo and the actions of OAPEC, Trudeau’s Liberal government was in a minority situation. During the 1972 election, the Liberals lost a number of seats across Canada, but in order to regain a majority Trudeau knew he would need the votes of Ontario and Quebec, which had the largest populations in Canada. Western Canada did not contain enough voters to bring in a Liberal majority, therefore there would be little electoral benefit of adopting policies that appeared to benefit the West while consumers, the majority of which resided in Ontario and Quebec, suddenly paid much higher prices for petroleum products than they ever had in the past. The Liberals realised in 1973-74 that “Alberta was barren territory for them politically.”\(^{98}\) They also reasoned that if no move was made to curb the financial benefits accruing to the West from higher prices, while Eastern Canada, particularly Quebeckers, had to pay the increased prices that enlarged Western coffers, this would not only damage Liberal political prospects in the region but it would also add fuel to the separatist fires.

The growing spectre of separatism in Quebec was of considerable, some might say obsessive, concern to Trudeau. When Trudeau first became Prime Minister, the functioning of the federal government outside of Parliament was unilingually English. Determined to make the federal government more welcoming to Quebeckers, Trudeau introduced the Official Languages Act in 1969, which formally declared English and French to be the official languages of Canada.

This meant that bilingualism was the official mandate for the operation of federal institutions.\textsuperscript{99} Then, a year later, the October Crisis of 1970 occurred, one of the most controversial events during Trudeau’s first term in office. Amidst an atmosphere of bombings, protests, and riots, a British diplomat was kidnapped; then a member of the Quebec Liberal cabinet was kidnapped and subsequently murdered by the militant separatists, the Front de libération du Québec (FLQ). Trudeau’s much debated controversial response was to send in the Army to quell the civil unrest in Montreal, and then he invoked the War Measures Act (WMA) at the request of Montreal’s mayor and the premier of Quebec.\textsuperscript{100} After such traumatic events for Canada, Trudeau was more determined than ever to make federalism work. A number of constitutional meetings were held in the Trudeau period, the first beginning in 1971 in Victoria. An agreement regarding the constitution amongst the provinces was almost reached, but at the last moment, Quebec Liberal Premier Robert Bourassa backed out. Trudeau also created the Department of Regional Economic Expansion, which diverted federal funding to regions of high unemployment, with a fair amount going to Quebec.\textsuperscript{101} The separatist Parti Québécois grew in popularity during this period, and seemed to threaten the very foundations of Canadian Confederation. The increases in offshore oil prices, on which Quebec was entirely dependent, seemed likely to provide separatists with more ammunition against federalism.

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\item \textsuperscript{99} Robertson, \textit{Memoirs of a Very Civil Servant}, 259-261; Trudeau, \textit{Memoirs}, 118-228. It should be noted that Prime Minister Diefenbaker had installed simultaneous translations services in Parliament so that Quebeckers would be able to use their own language during debate.
\item \textsuperscript{100} For an interesting reflection on how one historian’s opinion changed on the appropriateness of Trudeau’s actions, see J.L. Granatstein, “Changing Positions: Reflections on Pierre Trudeau and the October Crisis,” in \textit{Trudeau’s Shadow}, 295-306. At the time he was against the action, but after much research and reflection he came to the conclusion that Trudeau behaved in the best way possible given the circumstances. See also Robertson, \textit{Memoirs of A Very Civil Servant}, 261-265; Sharp, \textit{Which Reminds Me...}, 192-196; Trudeau, \textit{Memoirs}, 130-152; and René Lévesque, \textit{Memoirs}, trans. Philip Stratford (Toronto: McClelland and Stewart, 1995), 242-251
\item \textsuperscript{101} Trudeau, \textit{Memoirs}, 87, 104, 357.
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How would it look to Quebec if a Prime Minister from Quebec like Trudeau allowed the West to reap all the benefits of higher prices while Quebeckers (and the rest of Canadian consumers) suffered the consequences? As authors Stephen Clarkson and Christina McCall point out, "a guaranteed supply of oil and gas below world prices was a concrete benefit Quebeckers could identify with federalism and contrast with the economic difficulties a sovereign Quebec would face, dependent as it would be on the uncertain supplies and unstable prices offered by the world market." This type of political calculus was important, but not the sole factor in the decision to phase out oil exports to the U.S.

The consuming provinces did not really need to press the federal government for actions that would benefit them, as Trudeau, his Ministers, and officials were already aware of the situation. Nevertheless, the federal government encouraged Ontario to make its case to the United States in order to help reduce criticism from the Americans regarding oil export controls, and the possibility of phasing out exports in the future. For example, in April 1972, two members of the Ontario Advisory Committee on Energy (OACE), accompanied by the Canadian Embassy's energy counsellor Norm Chappell, met with two senior officials of the Office of Emergency Preparedness (OEP). Mr. Clarkson of OACE explained Ontario's position:

Ontario fears the great U.S. 'thirst' for oil and gas and is most anxious that its own needs be met from secure Canadian sources in the future. . . . In response to a question, . . . [Mr. Clarkson] said that Ontario would expect the Canadian government to assure the oil requirements of Ontario even if that meant limiting exports.

103 In April 1972, Ontario officials told their American counterparts that "while the provincial government's point of view is well known, no formal presentation of anticipated needs has yet been made to Ottawa." USNA, RG 396, Subject Files, Oil Policy Committee 1969-1973, Box 60, File Oil and Energy Canada, Memorandum of Meeting on April 18, 1972, Subject: Call by-Canadian Oil and Energy Officials, 20 April 1972, 2.
104 Ibid.
The American officials sympathised with the Ontario and Canadian position stating that it was reasonable to expect a country to ensure adequate supplies of strategic materials for its own population. However, they warned that, “an export tax on energy, as is sometimes mentioned, would probably be considered an unfriendly act by the United States.” The conversation then turned to the amount of Canadian oil available for export, and the Ontario officials “commented that Canada might well be at the limit of its exportable surplus by 1974 or 1975.” Norm Chappell took “exception to this” and argued that in a recent discussion between EMR Minister Macdonald and Secretary of Interior Morton, Macdonald had emphasised that Canada had considerable resources that would be available to export. As will be demonstrated below, the significance is that the Trudeau government was already planning to preserve Canadian oil and gas resources for Canadian use before external circumstances provided a worthy rationale.

When the oil prices increased even further with the OAPEC crisis, Canadian consumers, particularly those who required a great deal of petroleum products to operate their businesses, appealed to the government to do something to help alleviate the situation. For example, William J. Bennett, president of the Iron Ore Company, met with the Minister of EMR Donald Macdonald when oil prices began to increase to explain the impact of the higher prices on his company. Bennett described how his company consumed around five million barrels of petroleum a year and with the increase in prices the costs escalated by about thirty to thirty-five million dollars a year. Bennett reflected that Macdonald was “seized with the gravity of the

105 Ibid.
106 It is significant that Ontario officials were warning American officials well before the NEB and EMR supply studies were completed, or the Arab embargo and massive OPEC price increases occurred, about Canada’s apparent problematic supply situation.
107 Bennett was a former civil servant who worked under C.D. Howe and remained through the first year of Diefenbaker’s government. In 1960 he became Vice President of the Iron Ore Company, and President in 1965. He retired in 1977, with future Prime Minister Brian Mulroney, whom he recruited, taking over as President. For further details of Bennett’s life see the entry in the Canadian Encyclopedia. http://www.canadianencyclopedia.ca.
problem and the need to do something. And out of that of course came the ... freezing [of] the
Canadian well oil head price and allowing it to increase every six months.\textsuperscript{108} There is little
doubt that the Trudeau government sincerely wanted to help cushion the impact of the higher
prices on consumers—individuals and industry alike—when the prices skyrocketed, yet it also
made political strategic sense. By employing the tactic of appealing to the desire of the more
populous regions to protect their consumers from higher prices, Trudeau and his officials were
able to maintain political support in the most populous regions. The other tactic was to get the
provinces governed by the NDP also on side under the rubric of stronger central control for the
benefit of \textit{all} Canadians. While the provinces were occupied with the seeming chaos of events,
and under the belief that Canadian resources were going to be preserved for Canadians, more
interventionist policies were gradually developed and implemented at the expense of the
producing (and less populated) regions of Canada.

The success of this strategy was exhibited at the 22-23 January 1974 Federal-Provincial
First Ministers’ Conference on Energy. All of the consuming provinces except for
Newfoundland, and two of the producing provinces, Saskatchewan and B.C. (both governed by
the NDP) agreed with the following principles: there should be a one-price system for Canadians
(except for reasonable transportation costs) with domestic prices controlled and kept well below
world prices, exports should be set at world prices with the federal government collecting the
difference in price, the major oil companies should not receive windfall profits, the federal
government should strengthen regulations concerning the oil and gas industry, and “low cost”

\textsuperscript{108} University of Toronto Archives (UTA), Robert Bothwell Papers, Acc. B1994-0029, Box 001, Interview
with William J. Bennett by Robert Bothwell, 10 April 1990, 23.

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Canadian oil should be used for internal consumption only. The two provinces that disagreed with the above principles were Alberta and Newfoundland.

Alberta disagreed because it was the largest oil and gas producer in Canada and had the most to lose by having its resources priced significantly below world prices, by having the federal government take increased amounts of revenue from the industry through income or export taxes, and by having the federal government encroach upon resource management through expanding regulations. Newfoundland disagreed because it was trying to exert control and jurisdiction over resources in its offshore areas. Since it could soon become an oil and gas producing province, Newfoundland did not want to agree with policies that would deny it full access to revenue accruing from those resources. Although the conference was inconclusive, Trudeau now knew he had the support of most provinces to take more aggressive action, which came after the July 1974 majority win for Trudeau’s Liberals.

Provinces – Producers (Alberta)

Although there were three oil and gas producing provinces at this time, Alberta, Saskatchewan, and B.C, Alberta, by far the largest producer, had the most at stake, and was the main target of federal actions; therefore, Alberta will be the focus of this section. The clash

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110 A number of court cases involving Newfoundland and Ottawa took place in the 1970s and 1980s regarding jurisdiction over the offshore. The Supreme Court of Canada finally ruled in March 1984 that the federal government and not Newfoundland had jurisdiction. See for example, Bruce Pollard, “Canadian Energy Policy in 1985: Toward a Renewed Federalism?”, Publius 16 (Summer 1986), 165-66.

111 Since NDP governments led Saskatchewan and B.C., they took a very different position than Alberta on how to approach the so-called energy crisis. Indeed, when the Arab-Israeli war and OPEC embargo generated the first oil crisis, B.C.’s NDP leader Dave Barrett actually offered B.C.’s petroleum resources, along with all Canadian petroleum resources, for federal nationalization. He reiterated his proposal at the January 1974 First Ministers’ Conference on Energy. See, NAC, RG21, Temp Box 58, File 1165-F2 incl., Verbatim Report 1974, Federal-Provincial Meeting on Energy, 1974 Verbatim Report, 74-75. While Saskatchewan agreed with federal efforts to create a single Canadian price market for oil, and to generally protect Canadian consumers, like Alberta, it opposed the oil export tax and wished to strengthen its “constitutional control over the production, pricing, marketing, and
that took place between Alberta and Ottawa in 1973/74 set the stage for what would happen later in 1980 when oil prices surged again. Guided by Premier Peter Lougheed, Alberta’s approach to its oil and gas resources, particularly after oil prices increased, conflicted with the Trudeau government’s plans. The fight with Alberta over revenue sharing and taxation during the 1970s (and 1980s) should be viewed within the context of Trudeau’s vision of federalism and federally guided economic development. For Trudeau, federalism meant a strong central government that could develop national social, cultural, and economic policies, which the provinces would then help implement. Thus, it was important to stem the growth of provincial power that could potentially forestall the ambition for a stronger centralized state; Alberta is the best example for the period.

In 1971, after thirty-six years of Social Credit rule, Peter Lougheed’s Progressive Conservative Party was elected to a majority government on the platform of change – in particular, extracting more tangible benefits to Albertans from the oil and gas industry, and promoting the concept of diversifying Alberta’s economy from resources revenues. This meant maximizing royalty returns or resource rents. To that end, Lougheed entered into discussions with the oil and gas industry to alter the royalty rate structure of the province.\textsuperscript{112} With the \textit{Natural Resources Revenue Plan} Alberta increased the royalty from the fixed maximum of $16\frac{2}{3}$ regulation of their resources.” G. Bruce Doern and Glen Toner, \textit{The Politics of Energy: The Development and Implementation of the NEP} (Toronto: Methuen, 1985), 90 and 179. For Saskatchewan’s agreement with federal policies see NAC, RG21, Temp Box 58, Interim Box 211, File 1165-F2 incl. Background – Federal 1974, Telex 3358-002 to Prime Minister Trudeau from Allan Blakeney, 21 December 1973, 3. This is one of an exchange of telexes between Trudeau and Blakeney in late December 1973 to early January 1974 because Saskatchewan introduced legislation to initiate a royalty surcharge to capture 100 percent of any further oil price increases. The federal government argued this interfered with its constitutional jurisdiction for interprovincial and international trade because it viewed the royalty surcharge as an \textit{indirect} tax that would be levied on consumers outside of the province.\textsuperscript{112} The Lougheed government was suspicious of the oil and gas industry and its relationship with civil servants long in the service of the Social Credit governments. Thus, Lougheed replaced seventy percent of Alberta’s senior civil servants, and moved to alter the oil and gas development policy. For more details see, Chastko, “Developing Alberta’s Oil Sands,” 206-210, 224.
percent to 23 percent, imposed a tax on remaining oil reserves, and provided exploration incentives directed toward Canadian independent companies that were doing most of the drilling anyway. The Alberta government announced to the public that the revenues generated from the increased royalties would be used to diversify the economy. The goal was to begin by processing the raw petroleum and natural gas in the province, particularly by creating a petrochemical industry, and then expanding into other industries.

The other major initiative undertaken by the Lougheed government was its move to increase natural gas prices and royalties. Natural gas is the feedstock for industrial production and is a core element used in the petrochemical industry. Since oil prices were increasing, Alberta wanted natural gas prices to be calculated in relation to oil prices. The other character of the natural gas industry was the existence of low prices locked into long-term contracts. Alberta wanted prices to increase and the contracts to be reviewed on a regular basis to ensure adequate compensation to the producers. The Alberta Energy Resources Conservation Board (ERCB) undertook a comprehensive study of natural gas field prices and concluded in 1972 that, “prevailing prices were substantially below commodity value (the BTU equivalent price per unit of energy in competing forms, such as oil.)” Lougheed’s government responded by withholding approval for the removal of additional gas from the province until prices increased.

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114 Richards and Pratt, Prairie Capitalism, 230-236; 243. Other government efforts towards diversification were the purchase of Pacific Western Airlines and the creation of the Alberta Energy Company. The latter was forbidden to compete directly with conventional oil and gas companies, and was intended to provide a place where local talent could be trained in the management of the industry “who can assume the direction of the Alberta economy after the major petroleum companies have left the province…” (243)


116 Ibid., 229.
This was not only to secure more revenue, but also to encourage the creation of a petrochemical industry by assuring supply at a lower price for companies operating in Alberta. Internal NEB documents reveal that federal officials took a very negative view of the Alberta moves and suggested it was unfair and unacceptable for Alberta to have benefited from the protected Ontario market for oil over the previous ten years (when Ontario paid slightly higher than world prices for oil), and now it did “not want to supply the Eastern Canadian gas market” at a reasonable and guaranteed price. Discussions were held between Alberta and Ottawa that culminated in a December 1974 decision to price gas exports at parity with the BTU equivalent of world oil prices. The domestic price of gas was determined by a federal-provincial agreement in 1975.

When oil prices skyrocketed in 1973, the federal government imposed the export tax and price freeze with little to no consultation with the province. Although Alberta was furious at not being consulted, it chose to discuss its proposed royalty changes with the federal government. Alberta withdrew the previously agreed upon royalty arrangement and implemented royalties that rose with oil price increases instead. It also announced it would extract 65 percent of the domestic oil price increase, to prevent “windfall profits” accruing to the industry. The industry was shocked as it had always been consulted in the past.

117 NAC, RG99, Vol. 77, File 57M – Re December Meeting with Minister EPR 1972 & January 1973, Memorandum to R.F. Brooks from Director, Engineering [J.R. Jenkins], Subject: Key Issues – Federal-Provincial – Issues, 8 December 1972, 2. The argument that Ontario subsidized the Alberta oil industry throughout the 1960s would be made more frequently during the energy battles of the second oil crisis in 1979-80 that culminated in the National Energy Program. Interestingly, Trudeau himself admitted in the Cabinet discussions of 27 November 1973 that the price paid by consumers east of the Ottawa Valley line was not much less than what consumers paid west of the line. This would indicate that Ontario did not suffer as much as the rhetoric later implied. See, NAC, RG2, Vol. 6422, Cabinet Conclusions, 27 November 1973, Oil Policy, 18. “Even if in reality prices had not been substantially lower [east of the Ottawa Valley line], this was due almost solely to the imposition of heavy provincial taxes, particularly on gasoline and some other petroleum products.”
Interestingly, many within the federal Cabinet, including EMR Minister Macdonald, supported Alberta’s royalty changes to stop windfall profits going to the industry. Others, led by Minister of Industry, Trade and Commerce Alastair Gillespie protested the increased Alberta royalties because “Alberta could use the royalties which it collected for any purpose it wished and not necessarily for a national objective.” Other Cabinet ministers offered the Western Canadian point of view that the export tax and the controlled prices were a “rip-off”, and the federal government only cared about the interests of Eastern Canadians even if it was at the expense of the West. Undaunted, at a later meeting, Gillespie went further and said “[c]onsumers in other parts of Canada might well consider the provision of windfall profits to the Alberta government to be equally bad as the provision of such profits to the oil companies.” When Gillespie persisted in his position that it was unfair and inequitable that Alberta increase its royalties, and that Alberta could not be trusted to use the money properly, Macdonald pointed out that Alberta had the constitutional right “to increase royalties and take additional profits.” Prime Minister Trudeau challenged Gillespie’s assumption that Alberta would not want to use the windfall gain for increased exploration. Yet he suggested that federal negotiators should secure some kind of assurance or guarantee from Alberta that “higher profits would be used to develop the tar sands;” and if such guarantees could not be extracted then other measures would have to be taken. Two days later the Cabinet expressed concern about the magnitude of revenues Alberta would receive with the royalty changes, and worried that it would cause “very significant changes in the distribution of population and the structure of the Canadian...

118 NAC, RG2, Series A-5-a, Vol. 6422, Cabinet Conclusions, 31 October 1973, 5. “There were arguments in favour of...avoiding windfall profits to the companies by appropriate taxes. If Alberta acted partly to introduce its new royalty arrangements, a good deal of the windfall problem might be mitigated.” See also, Ibid., 22 November 1973, 14.
120 Ibid., 27 November 1973, 7.
121 Ibid., 9-10.
The general attitude of the Cabinet was that Alberta would not know how to spend the money wisely, and only the federal government had the ability to do what was best for the national interest.

Numerous discussions were held with Alberta in 1973 and 1974 regarding oil and gas pricing, revenue sharing, and the royalty changes. Alberta officials’ memories of those discussions are not pleasant. One official described the federal attitude of the day as patronizing and the schemes for dividing revenue “half-baked.” Eventually, agreements were reached regarding oil and gas pricing, division of export tax revenues, and revenue sharing. For the royalty changes, the federal solution was to include in its budget a provision that would make oil and gas royalties non-deductible from income taxes. Even though the federal government had discussed the changes with Alberta, the province was furious, as the royalties had always been deductible before. The effect of the income tax amendment was that the industry was taxed as if no provincial royalty had been taken. The province, then, was forced to not only reduce its royalty rate, but also to provide exploration incentives to revitalize the development of the oil and gas industry within Alberta.

Soon after the tax amendment was introduced, the federal government announced it was phasing out oil exports. As discussed in the section on National Security the Alberta government

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122 Ibid., 29 November 1973, 18.
123 PAA, Acc. 85.401, Box 28, File 463, Memorandum to Mr. Leitch from G.B. Mellon, Re: Attached Minutes of Meeting with EMR Officials, 17 September 1979. See also, PAA, Acc. 85.401, Box 29, File 480, Memorandum to the Energy Committee from A.G. McDonald, Director Resources and Development [FIGA], Subject: Discussions between Mr. Jack Austin with Dr. Barry Mellon and Al McDonald—Victoria, September 27, 1973, 1 October 1973.
124 During the discussions regarding the federal budget changes and the non-deductibility scheme, Don Getty, Alberta Minister of Federal and Intergovernmental Affairs, argued “that the federal government through its policies is continually shrinking the provincial governments’ powers. The present budget was one of those means. Mr. Getty pointed out that the centralization of power was not good for the country. Mr. Turner [Federal Minister of Finance] agreed with this point.” PAA, Acc. 85.401, Box 28, File 474, Notes: Getty/Miniely/Turner Meeting, 21 October 1974, 2.
believed that it had enough oil to continue exports as well as supply Canadian needs into Montreal. One could argue that Alberta had an indirect influence on the decision to phase out oil exports. With prices increasing dramatically, and the consequent revenue shift to Alberta, perhaps the federal government only wanted to reduce Alberta’s growing revenue by forcing it to sell its oil at a lower price, and in order to reduce pressure from Alberta for receiving full world prices for exports, they were phased out all together. This is likely not the case as the federal government was already taking the extra export revenue through the export tax. There were other mechanisms available to the federal government, which they employed, to limit the amount of revenue accruing to Alberta. The changes that took place in provincial and federal oil and gas policies, and the confrontations between Alberta and Ottawa over prices, revenue sharing, and jurisdiction in the early to mid-1970s, are central to understanding the conflicting views of Canadian federalism and are the precursor to embittered subsequent federal-provincial conflict. But, ultimately, Alberta had little influence on the decision to phase out oil exports.

INTERNATIONAL FORCES

OAPEC/OPEC/Arab-Israeli War

Although OPEC had been working on increasing oil prices in the early 1970s, it was not until the Arab-Israeli War of October 1973 that it was really able to extract the increases it wanted. The embargo by Arab oil producers against the U.S. and the Netherlands (OAPEC), and the threat to embargo other countries, coupled with the inability of the U.S. to be the swing producer to fill the gaps, gave OAPEC/OPEC the apparent power to alter prices in its favour. It is often argued in the Canadian literature that these events shocked the Trudeau government and motivated the various actions taken such as the creation of a state oil company, the Montreal pipeline, price controls, the oil export tax, and phasing out oil exports. However, the evidence
presented in this chapter reveals that the Trudeau government, particularly in the reorganized Department of EMR after 1970, had been working on plans for all of these actions, before the energy crisis that began in October 1973. Therefore, the OAPEC/OPEC/Arab-Israeli War events provided an opportunity and public justification for interventionist measures to be implemented that likely would not have been accepted otherwise.125

International Energy Agency

With the sudden rise in oil prices and the embargo initiated by the Arab members of OPEC because of the Arab-Israeli war, the United States sought to establish a mechanism for consuming countries to coordinate and cooperate to battle the “oil weapon.” When the oil crisis first hit, many consuming countries like France, Britain, Japan and even Canada, sought to conclude bilateral state-to-state deals with producing countries in order to secure preferential oil supplies.126 The U.S. viewed these bilateral deals as a threat to its efforts to negotiate a settlement in the Arab-Israeli war and to fight OAPEC/OPEC. The OECD emergency oil sharing group seemed ineffective in maintaining the unity of consuming countries. Thus, American Secretary of State Henry Kissinger organized an Energy Conference in Washington for February 1974 in order to create an International Energy Program (IEP). The International

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125 Strikingly, there is little to no mention of Venezuela in the available Canadian documents. Even during the discussions for a continental oil policy between 1969 and 1972, unlike previous times, concerns about Venezuela were not articulated. Perhaps part of the reason was Nixon’s revocation of Canada’s MOIP exemption in March 1970, hence the main point of contention for Venezuela had been removed. There was also the nationalization of the oil industry in Venezuela that took place in the early 1970s. With Venezuela pursuing a nationalist course, the U.S. would be unconcerned about Venezuela’s views on a Canada-U.S. continental oil policy. (See, Yergin, The Prize, 649-50). Again, due to the nature of accessing information, particularly in Canada, documents related to Venezuela were not declassified for this period at the time of writing.

126 Yergin, The Prize, 629. Yergin cites an article headline of January 1974, “Bilateral Deals: Everybody’s Doing It,” in the Middle East Economic Survey. Yergin describes the panic, chaos, and mad rush of government officials and politicians, most with little knowledge of the business, descending upon Middle Eastern countries like a plague of locusts. Some of the deals were barter where the consuming country would trade technology or some other item in exchange for oil. For example, Canada negotiated a deal for Nigerian oil in exchange for Canadian funding of a refinery. See, NAC, RG2, Series A-5-a, Vol. 6422, 20 December 1973, 26. Discussions also took place in 1973-74 between Canada and Venezuela towards a bilateral deal, but no agreement was reached.
Energy Agency (IEA) was created to administer the IEP. The goal of the IEP was to prevent the “each country for itself” scramble by establishing agreed upon conservation, storage/stockpiles, and emergency sharing policies for the signatory countries.\textsuperscript{127} The most important aspects of the IEP were the emergency sharing, stockpiling, and allocation measures. As political scientists Glen Toner and Gregg Legare explain, “The obligations, in general, are to prepare procedures in advance of possible emergencies which will work effectively and then to carry them out if a crisis should befall the IEA group.”\textsuperscript{128} But it also included policies for strengthening information gathering on the industry, and non-emergency measures to reduce dependence on imported oil. However, since Canada was technically self-sufficient in oil, it did not have to maintain stockpiles. What effect then did Canada’s obligations under the IEP have on its decision to phase out oil exports?

The IEP and Canada’s involvement in the IEA had little to do with its decision to phase-out oil exports. Indeed, at the Washington Energy Conference in February 1974, Mitchell Sharp signaled that Canadian exports might be phased-out. Sharp told the audience that Canadian conventional reserves in both oil and gas were in decline and that, “exports too can be expected to decline since the relatively small remaining reserves will be required to meet domestic requirements.” Thus, even before the IEP had been agreed upon, Canada indicated it was likely going to phase-out exports.\textsuperscript{129}

\textsuperscript{127} For more detail on the IEP see, International Energy Agency, IEP Agreement, available from http://www.iea.org/Textbase/about/IEP.PDF, Internet, last accessed 5 June 2005. Canada was one of the founding members of the IEA; most industrialized countries joined the organization except for France.


\textsuperscript{129} GRFL, Arthur Burns Papers 1969-1978, Box B32, File Energy: Washington Conference February 1974 (6), Statement by Mitchell Sharp, Secretary of State for External Affairs, Canada, Washington Energy Conference, 11 February 1974, 2. In addition, in what seemed to be an appeal for external financing, Sharp used the opportunity to promote the oil sands as a secure investment for oil security because with the added reserves Canadian demand for imported oil would be reduced “and thus free overseas oil for other importers.” (3)
NATIONAL SECURITY

Canada did not take national security with respect to oil as seriously as the U.S. In the context of cold war considerations, the Americans were concerned about lengthy physical supply shortages owing to a Soviet military attack on tankers or oil fields, a Middle Eastern war or coup that would disrupt supply, and, more likely, embargoes from oil producing nations. Canada, on the other hand, did not believe any type of shortage was likely, and felt that the Americans were too pessimistic and exaggerated the possibility of disruptions, and if some international crisis did happen, oil supplies would only be disrupted for a few months and the OECD emergency sharing arrangement would activate. In 1971, G.A. Lincoln, the Director of the Office of Emergency Preparedness and Chairman of Nixon's Oil Policy Committee commented, "the Canadians have been interpreting our discussions of 'security' as being entirely a matter of possible political cutoffs [sic] and not 'defense.'" As discussed earlier, the U.S. was very concerned about the increased dependence of Canada's east coast on imported oil, the expanding amounts of imported oil penetrating the Ottawa Valley line into Ontario, and the security risk this posed. Yet, the Canadians did not seem to take the matter seriously until the oil embargo of October 1973.

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130 One American official reported, "The Canadians do not have the same sense of urgency concerning possible supply interruptions, and seem cool to any overall agreement." DOE, Job 1009, Box 10, Folder 8 US/8/111 Canada—Oil, Gas, etc. Vol. I, Memorandum to Assistant Secretary Hennessy from D.R. Ligon, 20 November 1972, 5. See also, USNA, RG 59, CFPF 1970-73, Subject-Numeric-Economic, Box 1055, File FT CAN-US 1/1/70, Canada—Oil, Gas, etc. Vol. I, Memorandum to Assistant Secretary Hennessy from D.R. Ligon, 20 November 1972, 5. See also, USNA, RG 59, CFPF 1970-73, Subject-Numeric-Economic, Box 1055, File FT CAN-US 1/1/70, Telegram 1110 to SecState WashDC from Amembassy Ottawa, Subject: Policy: US Oil Import Policy and Canada's Role in US Supply, 20 June 1972, Section 2 of 2, 2. Canadian Cabinet documents convey Canada's scepticism of the risks to foreign supplies, "it was recognized that the eastern provinces' current dependence on overseas oil posed some security risk, although in the present Canadian assessment this risk was considerable less than that implied in the Flanigan proposal." NAC, RG2, Series A-5-a, Vol. 6395, Cabinet Conclusions, 20 April 1972, 6. One last example of Canada's scepticism regarding a possible supply problem for eastern Canada is the following remark made by DM Jack Austin during Canada-U.S. oil talks on 6 March 1973: "Deputy Minister [Jack] Austin asked if U.S. officials were not encouraged that, given recent developments, there was now less risk of interruption in oil supplies from OPEC countries. Messrs. Flanigan and Akins replied emphatically that the situation was 'quite to the contrary.'" USNA, RG 59, CFPF 1970-73, Subject-Numeric-Economic, Box 1521, File PET 17-2 US-CAN 1/1/71, Draft Notes, US-Canada Oil Talks, Ottawa, 6 March 1973, 11.

131 DOE, Job 1007, Box 1, Folder 14 13-Canada-Oil Import Quotas, Memorandum for the Record from G.A. Lincoln, Subject: Canadian Oil, 19 July 1971, 1.
While it might seem on the surface that the 1973 oil crisis motivated Canada to take its national security seriously, hence the decision to phase out oil exports in order to make Canada less dependent on foreign oil and thus more secure. However, in all of the documents and cabinet discussions leading up to the decision, national security, when mentioned is considered as a secondary issue, with the main issues internally being threefold: the desire to keep prices to consumers low, taking a larger federal share of oil and gas revenues, and increasing or extending federal participation and control of oil and gas exploration, development, production, and pricing. National security, or security of supply, was considered as an afterthought and a convenient justification to make otherwise controversial policies more palatable to the United States and producing provinces like Alberta.

At the time, the reason most often cited publicly by the Trudeau Government and the press, regarding the reduction and eventual phase out of Canadian oil exports, was a shortage of supply. Two NEB reports were used to support the decisions: a December 1972 internal study, written under the directorship of Robert Howland; and a subsequent report in 1974 based on nationwide hearings, under the directorship of Marshall Crowe. However, as will be shown, the first report was written as an effort to maintain the NEB's relevance as a source of policy advice for the Minister, while the latter was written with particular policy decisions already in mind. Thus, these two reports had little to do with the actual supply situation, and were most likely written for political purposes.

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132 See for example, RG2, Series A-5-a, Vol. 6422, Cabinet Conclusions, 4/5 October 1973, 7, 31 October 1973, 3-6; 1 November 1973, 5-9; 22 November 1973, 13-15; 27 November 1973, 3-20. Most significantly in the 27 November 1973 lengthy Cabinet discussions on Oil Policy the supply issue was almost non-existent; the focus instead was on prices, windfall gains, taxes, and increasing federal involvement in the oil and gas industry. See also, RG2, Series A-5-a, Vol. 6423, Cabinet Conclusions, 3 January 1974, 14-16; 17 January 1974, 12-14; 7 March 1974, 19-20; 14 March 1974, 4-7; 21 March 1974, 3-6. The uses for the additional revenue were listed as, subsidizing eastern consumers, higher equalization payments, providing industry's share and establishing oil and gas development, and enhancing general revenue funds at both producer province and federal levels.
In December 1972, representatives of the National Energy Board and EMR met with Minister Macdonald to discuss the NEB report Potential Limitations of Canadian Petroleum Supplies. The report indicated that “Canada would not have enough oil to meet both domestic and export demands beyond the following year.” The report included modest production from the Athabasca oil sands, and predicted that moderate amounts of oil from the Arctic would enter the Canadian market around 1980, but this would only be enough to ensure domestic market demand; there would be little to no surplus for export. During the discussion, officials worked out how oil export controls might be implemented, and suggested that the best way would be through Section 87 of the NEB Act. Consequently, on 15 February 1973, EMR Minister Macdonald announced that formal export controls would begin on 1 March, and by December 1974 oil exports were to be phased out all together.

What seemed to stun many observers was the seemingly sudden change in Canada’s supply position. Only a few years earlier former EMR Minister J. J. Greene had confidently stated that Canada had enormous resources that could supply North America for hundreds of years at contemporary consumption rates. Later, the main criticism of Greene’s remarks was that he and the Government were too dependent on industry information, which exaggerated Canadian supply. This sentiment is often found in the literature, but does not accurately reflect the truth of the situation. EMR and NEB numbers were compiled from a number of different sources including the Dominion Bureau of Statistics (later called Statistics Canada), the

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133 Gray, Forty Years in the Public Interest, 50-51. See also, Canada, National Energy Board, Engineering Branch, Potential Limitations of Canadian Petroleum Supplies (Ottawa: NEB, 1972).
135 Greene stated in this speech that “Canada had 923 years of oil and 392 years of natural gas in the ground.” Honourable J. J. Greene, “Speech to Petroleum Society of the Canadian Institute of Mining and Metallurgy,” Banff Alberta, 1 June 1971; as quoted in Doern and Toner, Politics of Energy, 85, n.33.
Geological Survey of Canada, in-house calculations though government specialists, provincial organizations, as well as the industry. Deputy Minister Jack Austin, and others, perpetuated this myth about the reliability of NEB and early EMR numbers as a convenient excuse to justify the consolidation of power and expansion of personnel in EMR. So which was right – Greene’s optimistic statements, or the gloomy prognostications of the NEB? The answer is both. Greene’s comments were based on reserve potential not proved reserves. He included the oftencited numbers for the estimated amount of oil in the Athabasca oil sands, and the potential for oil in the Mackenzie Delta and other Arctic areas. The NEB estimates, on the other hand, were extremely conservative, and it is unclear if they factored in technological developments in secondary and tertiary recovery, conservation-efficiency measures, or heavy oil.

Although American officials were not surprised by the Canadian move to limit exports, in their assessment of the NEB report, they acknowledged that there were many different estimates circulating in the industry of just how much oil was in Canada. They also provided different reasons for the export controls, among them: inflated U.S. refinery demands, allegations that U.S. subsidiaries supplied American parents while Canadian refineries ran short, insufficient

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136 See for example, NAC, RG99, Vol. 76, File 57L, Letter to R.D. Howland from Jack Austin, 30 August 1972, 2.

137 There are numerous documents between 1972 and 1974 that demonstrate the Americans expected some kind of oil export controls, and had been forewarned by March 1973 that oil exports might be phased out completely. See for example, USNA, RG 59, CFPF, Subject-Numeric – Economic 1970-1973, Box 1055, File “FT CAN-US 1/70,” Telegram 1110 from Amembassy Ottawa to SecState WashDC, Subject: Policy: U.S. Oil Import Policy and Canada’s Role in U.S. Supply, 20 June 1972; USNA, RG 59, Subject-Numeric – Economic, 1970-1973, Box 1494, File “PET 4 CAN-US 1972,” Memorandum of Conversation, Subject: U.S.-Canadian Oil Talks, 27 June 1972 Ottawa. During these talks, the Canadians produced oil export numbers with the notation that the “level [was] not attainable in period for lack of facilities.” (p7). USNA, Nixon Project, WHCF, Subject Files, CM29, Box 11, File “[EX] CM29 Petroleum and Coal Products [3 of 47] Jan 1972-March 1973,” Memorandum for Peter Flanigan from Jim Akins, Subject: Further on Canadian Oil Price Increases, 12 January 1973. Signals were being sent from EMR Minister Macdonald that “if United States demand for Canadian oil were to grow to the point where Canada would go short, the National Energy Board had the authority to impose export controls.” See also DOE, Job 1009, Box 10, Folder 8 “US/8/111 Canada – Oil, Gas, etc. Vol. I,” Memorandum to Deputy Secretary Simon from D. R. Ligon, Subject: Canadian Oil Export Controls, 27 February 1973. Simon was told “that we cannot expect to get more crude from Canada in the future until such time as their Arctic reserves are opened up for exploitation.”
Canadian refining capacity, and insufficient pipeline capacity to accommodate all export
nominations. Indeed, the Alberta Government pointed out that though it could produce 2.1
million barrels a day of oil, it only had the installed capacity to produce and move 1.7 million
barrels a day, while refinery demands were 1.73 million barrels a day. In their view, it was not a
matter of supply but one of pipeline capacity; unfortunately, few acknowledged this
perspective. The American officials also realized that since the NEB estimates made it clear
that exports to the U.S. could only continue in the future if Mackenzie Delta or Arctic oil were
brought on-line, it would build up “greater political pressure for the trans-Canadian pipeline
route [from Alaska].” Thus, in the process of issuing the supply warning, the NEB could also
support the Government’s push to have the Prudhoe Bay oil pipeline run through Canada.

One scholar, political scientist Dr. John B. Robinson, suggests that throughout the 1970s, the
NEB tailored its energy supply and demand forecasts to reflect “the direction of contemporary
policy . . . and major project proposals of the time.” There seems to be some truth to this
claim, as revealed in the NEB report mentioned above, and in particular after Marshall Crowe
became head of the NEB in September 1973. First, however, if one looks at the NEB report

138 DOE, Job 1014, Box 4, Folder 1 “Canada”, Airgram A-16 from Amccong Calgary to Department of
139 DOE, Job 1009, Box 10, Folder 8 “US/8/111 Canada-Oil, Gas, etc. Vol. I,” Memorandum for the
Record from James Reddington, Subject: Summary and Analysis of Canadian National Energy Board Case for
Restriction of Oil Exports to the United States, 20 March 1973, 1-3, 6. Interestingly, State and Interior Department
officials did not believe Canada was committed to building a pipeline from the Arctic. The U.S. Senate Committee
on Interior and Insular Affairs was told that Canada’s ultimate intention was to “husband Canadian resources to the
maximum extent necessary to meet Canadian needs projected well in to the future.” GRFL, Vice Presidential
Papers, Box 155, File “Pipeline June 15-July 5, 1973,” Letter to Senator Henry M. Jackson, Chairman, Committee
on Interior and Insular Affairs, United States Senate from Marshall Wright, Assistant Secretary for Congressional
Relations, 22 June 1973, 1. This letter was drafted by Frank Mau from the State Department, and cleared by
officials from State and Interior.
140 John Bridger Robinson, “Pendulum Policy: Natural Gas Forecasts and Canadian Energy Policy, 1969-
on the natural gas forecasts, he does explore to some degree the oil forecasts as well.
within the context of the power struggle going on between it and EMR, then it takes on a whole new character.

As will be discussed in more detail later, Jack Austin was appointed Deputy Minister of EMR in the spring of 1970. He was given a great deal of latitude by the Prime Minister to make EMR the centre of energy policy advice for the Government. Given Jack Austin's move to consolidate power and policy advice capability in EMR, which would effectively reduce the NEB to a "rubber stamp," it is likely that the report was an effort by Chairman Howland to keep the NEB relevant as a policy advisor. In order to demonstrate that the NEB could assist in political decision-making, the report can be seen as an attempt to pre-empt EMR's own forthcoming analysis of the situation. In fact, this sentiment was expressed in a conversation in February 1972 between Roland Priddle (Chief, Oil Policy Division, NEB) and Harry Montgomery Jr. (Official, American Embassy, Ottawa). Priddle stressed that Howland was "resisting Austin's approach . . . to make the Board into a 'rubber stamp'." But, though the Government still relied to some extent on NEB oil and gas policy expertise, the continued exodus of key NEB officials to EMR was taking its toll, and the future of the NEB as a source of policy advice was in doubt. As Priddle pointed out, "the Government's attitude towards the Board might well change if it should become convinced that the Board's independence—combined with a new caution and sensitivity to consumer interests—is more of a handicap than a help to political decision-making."

But just how far were Howland and other Board members willing to go in order to maintain credibility and demonstrate that the Board was a main source of energy policy advice to the Government?

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Like the NEB, EMR was working on its own supply-demand forecast report, and planned to submit it to the Minister in January 1973. They were being quite secretive about the report, and despite repeated requests by Howland to hold meetings for information exchanges Austin continued to delay.\textsuperscript{142} Nevertheless, the NEB was aware that the EMR report was going to recommend some form of export controls and provide extremely conservative estimates on the supply availability and potential of Canadian oil. In fact, two meetings were organized for the beginning of December 1972 so that EMR could brief the NEB on the results of its supply and demand analysis. These results were to be incorporated into the larger strategic report on Canadian energy resources that would be submitted to Cabinet around December 30\textsuperscript{th}.\textsuperscript{143} Around the same time, the NEB informed the Minister that it too had been working on a supply-demand study, which revealed concerns about increased demand and lack of exploration success. This would be the report issued at the end of December. What concerned the NEB was, if EMR came out with numbers saying export controls were required and Canadian supplies were limited, the NEB would appear to have either misled previous Ministers with faulty information, or they would be tainted as being too reliant upon the industry for data. In this context, the report can be seen as a concerted effort to stem the erosion of the NEB’s capability of providing politically relevant energy policy advice for the Minister.

The evidence of subsequent NEB hearings and reports conducted under the Chairmanship of Marshall Crowe reveal a much different atmosphere and motivation, and support Dr. Robinson’s hypothesis. Crowe, who assumed the Chairmanship of the NEB in September 1973

\textsuperscript{142} See the exchange of correspondence between Austin and Howland in NAC, RG 99, Vol. 76, File “57L – EPR ’72 II,” 30 August, 5 October, and 22 November 1972 in particular.

\textsuperscript{143} NAC, RG 99, Vol. 76, File “57L – EPR ’72 II,” Letter to Robert Howland from Jack Austin, 17 November 1972. Missing from the documents currently available are drafts of the report and the EMR study. Once the documents become open to the public, future research might well trace the development of the report in full detail, taking into account information received from the EMR study and at the December 1\textsuperscript{st} and 5\textsuperscript{th} meetings. The goal would be to ascertain whether the NEB report was truly pre-emptive, or merely reflecting what EMR wanted.
after Howland took “early retirement,” had close ties to the government and a far different view of the NEB’s purpose. The priority was not to provide independent information, nor to defend the NEB’s role as a policy advisor; but rather to provide the necessary information to fulfill particular policy decisions. For example, in April 1974 the NEB began cross-Canada hearings to review the Canadian oil export policy. American observers to the hearings opined that “the NEB was primarily interested in eliciting information concerning a formula, related to life index or the like [of oil supplies], that would limit the quantities of oil available for export.”144 The Alberta Energy Resources Conservation Board (ERCB) presented a supply-demand forecast of the future thirty years that revealed an exportable surplus of 700 thousand to 1.8 million barrels a day. The Americans commented,

Presumably, Donald Macdonald would not agree with the ERCB’s supply-demand forecast since it does not support his view that completion of the Sarnia-Montreal pipeline coupled with reduction in conventional production in Alberta will result by 1980 in a reduction in present exports to the United States at a level below 500 thousand barrels per day.145

They also noticed that almost all of the submissions did not indicate a real supply crisis, and advocated maintenance of oil exports to the U.S. at a level higher than the NEB proposed. The one exception was a group of “Saskatchewan socialists, who called for complete nationalization of the oil industry and total elimination of all oil exports to the United States in 3 years....”146

The Americans were uncertain whose views, in the end, would have the most influence with the NEB. Their concluding observation on the hearing is most telling, “It is also possible that the NEB is searching for confirmation of preconceived ideas and that the hearing process is

145 Ibid.
146 Ibid.
perfunctory and not a force majeure in the decision-making process."¹⁴⁷ The product of these NEB hearings was a report recommending that all oil exports be phased-out, and an announcement was made to that effect on 22 November 1974.¹⁴⁸

There is some merit in the American observation that the hearings were a formality to justify a policy that had already been decided. As mentioned earlier, Canadian officials had suggested to their American counterparts at least a year before that there was a good chance oil exports would have to be phased out completely unless new sources were brought online. There is also the fact that Finance officials had promoted a "no-export" option during the discussions for the energy policy review, and that one of the key proponents of this option, T. K. (Tommy) Shoyama, presided as DM of EMR when the export phase-out was introduced. Furthermore, with the replacement of NEB Chairman Howland with Marshall Crowe, the politicization of the NEB was complete. There would be no question that under Crowe’s directorship the NEB would not operate as an extension of EMR’s policy direction and augment those policies with the appropriate reports and decisions. Ultimately, the conflicting reports on Canada’s oil supplies indicate that concern over supply, as will be explained later, was an expedient justification for keeping oil prices in Canada below world prices, increasing the federal share of oil and gas revenues, and expanding federal control of oil and gas development and production.

The other main component of the national security implications of the supply situation was the need for exploration and development to replenish supplies. Despite the fact that the U.S. believed, to some extent, that Canada limited oil exports in order to shock the U.S., and create an atmosphere of urgency that would encourage more exploration and development in Canada, it is more likely that this was just a residual effect of oil export controls, and not one of

¹⁴⁷ ibid.
¹⁴⁸ Gray, Forty Years in the Public Interest, 58.
the main factors for the decision. Based on the 1972 NEB report outlining the potential limits of Canadian oil supplies, and statements by Canadian politicians and officials, American officials surmised that oil surplus to Canadian needs would rapidly decline over the following two years "unless substantial new discoveries [were] made in Canada." Indeed, almost a year before the export controls were implemented, and eight months before the NEB issued its report on Canadian supplies, the Cabinet agreed to the following directions for Canadian negotiators.

Canadian officials were to inform their U.S. counterparts that "unrestricted access of Canadian oil to United States markets was no longer the principal objective [of Canadian oil policy] and that such access might require export control in a few years unless substantial discoveries were made in our frontier exploration areas." However, this must be understood in the context of the debate over the route of the Alaskan oil and gas pipelines. Since Canada wanted the pipelines to run through Canada, it hoped to persuade the Americans to support the Canadian route by threatening to impose export controls. By the time the export controls came into being, the U.S. had already decided to build the oil pipeline solely through Alaska. Thus, the oil export controls could not have been implemented in order to encourage the exploration and development of the frontier areas because they were dependent on pipelines to transport the oil resources south. Canada and the U.S. recognised that pipelines serving only the Canadian Arctic oil and gas fields would not be economically feasible without being tied into the Alaskan fields.


151Canada wanted the pipelines to run through Canada but was faced with significant delays in approval due to aboriginal land claims and environmental concerns. The U.S. wanted an oil pipeline constructed quickly, and could not wait for the Canadian approval. Consequently, the U.S. went ahead and approved an oil pipeline from Prudhoe Bay to Valdez where the oil would then be transported by tanker to Washington State and California.
Nevertheless, in 1974, the U.S. was aware that the Canadian Cabinet was “considering three alternative export policies.” They also knew the NEB’s recommendation was to

limit exports according to a procedure designed to protect Canadian requirements and encourage industry to explore and develop additional petroleum reserves and producibility... [the] impact is a fairly rapid phase out of all exports unless new production ‘surplus to Canadian demand’ is developed.¹⁵²

This seems like incontrovertible evidence that Canada’s decision to phase-out oil exports was based on the goal of encouraging investment in exploration and development particularly in the North. The problem is that this conclusion does not coincide with the Government’s pricing policies.

With the onset of OPEC price increases in 1973, Canadian prices were kept well below world prices for domestic consumption, while exports were valued at world prices. However, in exports, the federal government took the difference between the domestic and world price through an export tax; thus, the oil and gas industry and the provinces did not receive world prices for their oil. If Canada phased out oil exports, but kept domestic prices well below world prices, there would be little incentive for the oil industry to continue searching for oil and gas in a country where the costs were high, and the possibility for return was far lower than could be achieved elsewhere like in the U.S. The Trudeau government responded by creating Petro-Canada. The purpose of Petro-Canada was to facilitate state activity in the oil and gas industry, particularly in the Arctic but also in the Athabasca oil sands of Alberta. This would counteract the expected reduction in industry oil and gas exploration, and help promote the government’s other objective of increasing Canadian ownership of resource industries.

On the surface, it might appear that the Canadian oil export decisions were motivated by the desire to scare the U.S. into increasing Canadian reserves through investment in exploration

¹⁵²GRFL, M. Raoul-Duval Files 1974-1977, Box 8, File “Import Fees on Oil,” Canadian Crude Oil, [1974].
and development in the expensive Canadian frontier areas. However, a more in depth consideration of the larger context of Canadian price controls, taxes, and crown corporations indicates that increased exploration and development was perhaps a welcome side-effect of the export policy, but not necessarily the deciding factor.

PERSONALITIES

Trudeau-Nixon-Ford Relationship

One of the interesting aspects of the Trudeau period is that the Prime Minister-President relationship did not seem to influence oil and gas policy decisions the way it had before and after Trudeau. Trudeau did not particularly like Nixon, and he got on reasonably well with Ford, but in this case, like the Pearson-Johnson period, it had little to do with the policy decisions that were made. Meetings, letters, and phone calls were made between leaders in order to explain Canadian decisions, or warn of them in advance, which certainly helped to reduce American antagonism to the decisions.

Role and Influence of Officials

Key to the successful implementation of Trudeau’s controversial policy of phasing out oil exports, and increasing federal involvement in the oil and gas industry, was the support of officials. A perfect pretext for reorganizing EMR and appointing an outside DM came with the collapse of the initial continental energy policy talks. Within two months of the U.S. imposed controls on Canadian oil, Prime Minister Trudeau removed career civil servant Claude Isbister as DM of EMR. The Cabinet minutes of 26 February 1970 reveal Cabinet’s displeasure with the
failure of the talks, and the subsequent import controls; perhaps this sealed Isbister’s fate. His replacement was an outside appointment: Jack Austin. Austin’s appointment was somewhat controversial, not only because of his ties to the mining industry and the apparent conflict of interest, but also because of his strong links with the Liberal Party, having run as a Liberal candidate a decade earlier. This marked a definite shift to a politicization of senior government officials.

As discussed earlier, part of Austin’s unwritten mandate was to shift policy-making power from the NEB to EMR. He did this gradually during the interdepartmental, comprehensive energy policy review. Originally estimated in 1970 to take a year, the study was not completed and released until the end of June 1973. Austin drew upon the expertise and ideological leanings of his recruits, and those in other departments, to put forward policy options that were more interventionist than the NEB would have recommended if left alone to write the policy review. Austin knew that the NEB and many of the established civil servants in the other departments would not support the kinds of policy directions he and the Prime Minister had in mind. Despite opposition from NEB officials and others to the use of outside consultants to conduct independent studies for the review, Austin, following in Walter Gordon’s footsteps, went ahead and commissioned a consulting firm with close ties to the Liberal Party, to provide various reports. One report in particular was Austin’s pet project: A review of how other countries had developed and utilized state oil or energy companies.

\[153\] NAC, RG 2, Series A-5-a, Vol. 6359, 26 February 1970, “Oil Negotiations with the U.S.”, 8. During discussions it was said that, “Negotiations of important issues regarding the formulation of energy policy should in the future be conducted by ministers and decisions should not be left to officials.”

\[154\] In a Globe and Mail article of 2 July 1970, “The danger of conflicting loyalties” by Vaughan Lyon, p7, Austin was characterized as “an active partisan politician.” It was also suggested that his term as DM would be temporary, lasting only as long as negotiations with Washington continued.

But it was not enough to just recruit new people; the “old guard,” or those who might be a liability or interfere with the pursuit of Trudeau’s desire for more state intervention, had to be removed. After suffering a heart attack in 1969 and then a stroke in 1971, the Minister of EMR J. J. Greene was replaced by Donald S. Macdonald on 27 January 1972. Macdonald was likely chosen as Minister not just because he had specifically requested the portfolio, but also because he had offered Trudeau important support during the 1968 Liberal leadership campaign, had earned Trudeau’s confidence in government as Leader of the House and then as Minister of National Defence during the FLQ crisis, and was to the left in the party. In August 1973, two years before his term was to end, Robert Howland “retired” as chairman of the NEB, and was succeeded by Marshall Crowe – another political appointment. Crowe came to the NEB fresh from his position as chairman of the Canada Development Corporation (CDC), “a government agency established to increase Canadian ownership of resource firms.” Before that Crowe held a series of influential positions in the Privy Council Office: Assistant Secretary to the Cabinet, Assistant Clerk of the Privy Council, Deputy Secretary to the Cabinet, and Economic Adviser to Trudeau. He had hoped to eventually become the Clerk of the Privy Council, the top consultants to help him develop his controversial 1963 budget. The provisions to reduce foreign (American) investment in Canada were all removed or modified, and Gordon was left humiliated.

156 NAC, RG 99, Box 70, File 43 - Arthur D. Little Studies for EMR, “National Oil Policies: A Background to Canadian Policy Considerations,” December 1971, Arthur D. Little, Inc. The report most definitely advocated the creation of a National Energy Company of some type. One of its conclusions was that “A powerful central government with control over resources is almost a necessity if the maximum benefit for the whole country is to be derived from resource development.” (6). The author of the report was William (Bill) Hopper who would later become the head of Petro-Canada.

157 Greene was appointed to the Senate and served there until his death in 1978.

158 Macdonald was a supporter of Walter Gordon, on the left of the party, and had proved his loyalty and trustworthiness to Trudeau since the late 1960s. He was a member of the committee to elect Trudeau and had organized important Ontario delegate support for him. Macdonald believed Trudeau “owed him one” for sticking it out as House Leader, a position he did not really enjoy. See, Stephen Azzi, Walter Gordon and the Rise of Canadian Nationalism (Montreal-Kingston: McGill-Queen’s University Press, 1999), 146; English, Citizen of The World, 452; Cook, The Teeth of Time, 41, 45-47; and University of Toronto Archives (UTA), Robert S. Bothwell Papers, Accession (Acc.) B1990-0034, Box 004, Interview with Hon. Donald S. Macdonald by Robert Bothwell, 5 April 1988, 2, 4; UTA, Bothwell Papers, Acc. B1994-0029, Box 002, Interview with Hon. Donald S. Macdonald by Robert Bothwell, 24 June 1993, 1-3.

159 Gray, Forty Years in the Public Interest, 69.
job in the civil service, but he was persuaded instead to take up the position as head of the fledgling CDC.\textsuperscript{160} Crowe was appointed not only to guide the transition of the NEB from a policy adviser to more of a pure regulatory agency, he was also to ensure that the NEB fulfilled Austin’s unwritten mandate: decisions and reports would reflect and support EMR policies.\textsuperscript{161}

One of the most important policies of the reinvigorated EMR, announced in December 1973 during the middle of the first oil shock, was the Government’s intention to create a state oil company. When Petro-Canada was created, Austin coveted the chairmanship. In May 1974, Austin left EMR to become Prime Minister Trudeau’s principal secretary, presumably to create some distance from his position as DM of EMR before he became head of Petro-Canada. However, the desired outcome did not materialize. Allegations of Austin’s conflict of interest were publicized, and Maurice Strong was chosen as president and chairman instead, with William Hopper as executive vice-president.\textsuperscript{162} A year later Austin was appointed to the Senate.

Meanwhile at EMR, Tommy Shoyama from Finance replaced Austin as DM. Shoyama was a career civil servant, but he had impeccable credentials for his temporary role in EMR: He had served as research economist and then economic advisor to T. C. Douglas in Saskatchewan from 1946 to 1964. He has been described as a “left-leaning Keynesian,” which meant he would continue the work begun by Austin.\textsuperscript{163} Although Shoyama only lasted a year at EMR, before he was appointed DM of Finance replacing Simon Reisman, he oversaw the introduction of phasing out oil exports. There is some evidence to suggest that the idea for phasing out oil exports

\textsuperscript{160} Clarkson and McCall,\textit{ Trudeau and Our Times}, Vol. 2, 121. Crowe also worked in the Department of External Affairs from 1947 to 1961. He then worked for six years as an economic adviser to the Canadian Imperial Bank of Commerce before returning to government.

\textsuperscript{161} The conduct and result of the oil export hearings in 1974 are a prime example of this alteration in the Board’s behaviour under Crowe, and are discussed in the section on National Security.

\textsuperscript{162} Peter Foster,\textit{ Blue-Eyed Sheiks} (Don Mills, Ont: Collins Publisher, 1979), 143, 148-149. Hopper was in the running for the DM position in EMR, but took the Petro-Canada position instead.

\textsuperscript{163} Clarkson and McCall,\textit{ Trudeau and Our Times}, Vol. 2, 122. See also a brief biography of Shoyama at \url{http://www.library.ubc.ca/archives/hdcites/hdcites8.html}. 
originated in the Finance department, and perhaps with Shoyama himself. During the interdepartmental meeting in February 1973 on the energy policy review, Finance, represented by Shoyama and George Tough, introduced a proposal “to include a no-export option” for oil.  

The reaction of senior EMR official Tom Tuschak, who had drafted the econometric models, was that the idea was “absurd.” During a coffee break at the meeting, Austin decided that Tuschak’s report had to be rewritten as a “short qualitative analysis rather than [a] spuriously precise arithmetic analysis.” He decided that a core group including Joel Bell (EMR), George Tough (Finance) and P. M. Dickie (NEB) would work with Tuschak to create a “textual treatment” of the analysis. Dickie observed to Doug Fraser that Austin would need to “resolve his ‘political’ problem of managing to get [the] desired result without destroying Tuschak.”  

Though the energy policy review drafts did not contain the no-export option, it was quietly included in the published report, An Energy Policy for Canada: Phase I – Analysis. Austin might not have been DM when the phasing out of oil exports was announced, but his successor Tommy Shoyama ensured the policy gained acceptance and was implemented.

One question immediately arises: why was the American reaction to the phasing out of oil exports in 1974, relatively mild? The most compelling reason for the benign official response was that lengthy advanced consultations and “signals” that these changes would be taking place warned the U.S. about pending actions, hence they were not surprised, and the reaction was mild. In the early days of the restructuring of the EMR bureaucracy,
interdepartmental discussions still took place with regard to policy development, and the traditional involvement of External Affairs in energy issues still existed to some degree. Thus, for example, when it was decided to phase out oil exports to the U.S., American officials were apprised and reminded of the fact for almost a year in advance by Canadian officials from EMR, the NEB, as well as External Affairs. The Prime Minister also forewarned the President in a November 1973 letter that oil exports were to be phased out -- a year before the policy was introduced. In addition, since the U.S. was trying to establish an International Energy Agency to counter OPEC, it did not want to send the wrong message to OPEC or the international community by responding harshly to Canadian policies. Finally, despite Canadian signals, American officials had “hoped that Canada would not cut back on its export of crude.” Even once the announcement was made, there was a sense that Canada could be reasoned with and a deal made to ensure that the Northern refineries would be supplied. Nevertheless, the U.S. did protest Canada’s oil export fee and the phasing out of oil exports through quiet diplomacy, and

167 There are numerous documents between 1972 and 1974 that demonstrate the Americans expected some kind of oil export controls, and had been forewarned by March 1973 that oil exports might be phased out completely. See for example, USNA, RG 59, CFPF, Subject-Numeric – Economic 1970-1973, Box 1055, File “FT CAN-US 1/1/70,” Telegram 1110 from Amembassy Ottawa to SecState WashDC, Subject: Policy: U.S. Oil Import Policy and Canada’s Role in U.S. Supply, 20 June 1972; Ibid., Box 1494, File “PET 4 CAN-US 1972,” Memorandum of Conversation, Subject: U.S.-Canadian Oil Talks, 27 June 1972 Ottawa. During these talks, the Canadians produced oil export numbers with the notation that the “level [was] not attainable in period for lack of facilities.” (p7). USNA, Nixon Project, WHCF, Subject Files, CM29, Box 11, File “[EX] CM29 Petroleum and Coal Products [3 of 47] Jan 1972-March 1973,” Memorandum for Peter Flanigan from Jim Akins, Subject: Further on Canadian Oil Price Increases, 12 January 1973. Signals were being sent from EMR Minister Macdonald that “if United States demand for Canadian oil were to grow to the point where Canada would go short, the National Energy Board had the authority to impose export controls.” See also DOE, Job 1009, Box 10, Folder 8 “US/8/111 Canada – Oil, Gas, etc. Vol. 1,” Memorandum to Deputy Secretary Simon from D. R. Ligon, Subject: Canadian Oil Export Controls, 27 February 1973. Simon was told “that we cannot expect to get more crude from Canada in the future until such time as their Arctic reserves are opened up for exploitation.”


169 DOE, Job 1401, Box 2, Folder 6 Canada, Memorandum to ERD/IEA Task Force from Robert G. Sands, Subject: Northern Tier Refineries Dependency Upon Canadian Crude Which is Begin Phased Out of Exports, 13 December 1974, 2. Indeed, a few years later the American assessment of the phase out was that due to pipeline constraints from western to eastern Canada, it was unlikely that Canadian exports would fall below 100,000 barrels per day. See, DOE, Job 1408, Box 10, Folder 7 International Energy Affairs (1977) Jan-May Memos, Memorandum for John O’Leary from Clement Malin, Subject: Outstanding U.S./Canadian Energy Issues, 22 February 1977, 6.
many congressmen and the general public expressed a sense of betrayal, but the Ford Administration seemed resigned to the Canadian policy shift on phasing out exports.

In the end, Trudeau had recruited Austin, and Austin had in turn recruited others into EMR; Trudeau had also initiated a process whereby certain individuals were recruited into the PMO and PCO, like Marshall Crowe and Ian Stewart, trained there for a few years, and then parachuted into DM positions. The cumulative effect of these changes was that the ideological complexion of the federal government was gradually altered in order to reduce resistance to Trudeau’s self-declared “leftist” policies.\(^{170}\) Indeed, the restructuring of EMR can be seen as a microcosmic manifestation of Trudeau’s ideological or philosophical approach to government and its operation. After all, the successful articulation, enactment, and implementation of policies can only be achieved if the core Cabinet members, key officials, and the public are on side. In the case of the oil export decisions, Trudeau managed to harmonize all three because he had built up a core group of officials between 1970 and 1974 who believed in, were committed to, and would implement more interventionist policies.

**IDEAS**

*Market Forces*

Trudeau’s view of government’s role in the economy was that markets could not be trusted; the federal government was obligated to plan and intervene to level out market imbalances. When oil prices increased dramatically, Trudeau and most of his Cabinet colleagues did not hesitate to institute price controls, export taxes, and other measures mentioned in

\(^{170}\)James A. Desveaux, *Designing Bureaucracies: Institutional Capacity and Large-Scale Problem Solving* (Stanford: Stanford University Press, 1995), 67-73. Desveaux observes, “Austin, as deputy minister, was able to effect more change in both organizational structure and decision-making than his predecessor, Claude Isbister, because he had the ear of the prime minister.” Savoie’s *Governing from the Centre* and *Breaking the Bargain*, and Campbell and Szabowski’s *Superbureaucrats*, detail the changes made to other departments with Trudeau’s altered process.
previous sections. Few misgivings were expressed in Cabinet or the bureaucracy with respect to the creation of a state oil company, an idea that would not have received support in the 1950s or 1960s. Indeed, Trudeau was committed from the outset to expanding federal participation and control in the oil and gas industry, even if it meant crossing into areas of provincial jurisdiction. If Trudeau and the Liberal Party had been committed to free market capitalist principles, oil prices would not have been controlled in order to create a monetary incentive for oil and gas companies to increase exploration and development. In addition, by phasing out oil exports, the federal government removed another market incentive for increased exploration, as additional discoveries would be preserved for the consumption of the limited and lower priced Canadian market. Companies were unlikely to obtain a competitive return on investment when other areas of the world like the North Sea and even the United States were offering better terms.

Anti-Americanism

A current of anti-Americanism runs through both economic nationalism and social democracy in Canada. As discussed in the introduction, anti-Americanism in this period, enhanced by the searing images of the War in Vietnam, ghetto riots, anti-war protests, and long lines at gas stations, comprised a hostile caricature of American values, behaviour, and the U.S. economic system. As will be discussed below, the rhetoric of the day negatively referred to American influence on Canada such as the “sell-out” of Canadian resources, the “Americanization” of Canada through the prevalence of American popular culture (T.V.,

magazines, films), and the significant amounts of American foreign direct investment in some industries.\textsuperscript{172} However, it was not a direct motivator for the decision to phase out oil exports.

**Economic Nationalism**

The Committee for an Independent Canada (CIC) represented the economic nationalists most visibly. It was headed by former Finance Minister Walter Gordon, and supported by many of the Canadian elites such as author Margaret Atwood, publisher Mel Hurtig, and Maclean’s magazine editor Peter Newman.\textsuperscript{173} They sought, in particular, to raise public awareness of the levels of American foreign investment in Canada. The goal was to create enough public pressure on the federal government to enact robust policies to enhance Canadian ownership of the Canadian economy. The oil and gas industry was considered a prime target for intervention because of the high level of American investment.\textsuperscript{174} In addition, the possibility of a continental energy policy was deplored because it would bring more American investment and the quicker consumption of Canada’s resources. Their rhetoric filled the pages of Canada’s newspapers, was embraced by some of the editorialists, and was watched closely by EMR’s ministers.


\textsuperscript{173} Richard Gwyn, The 49\textsuperscript{th} Paradox: Canada in North America (Toronto: McClelland and Stewart, 1985), 69. Two high profile members were also members of the NDP Waffle group: Abraham Rotstein and Mel Watkins. See also, James Laxer, In Search of a New Left: Canadian Politics after the Neoconservative Assault (Toronto: Viking, 1996), Chapter 7 The Waffle: A Children’s Crusade, 147-162.

Despite the initial few newspaper articles favourable to the idea of a continental energy policy in the wake of the first meeting between Prime Minister Trudeau and President Nixon, not everyone was impressed. In the Globe and Mail, letters to the editor from university professors and the general public harangued EMR Minister J. J. Greene for subscribing to the continentalist views of America and big business. Occasionally Greene fought back, and a war of words ensued on the pages of the Globe and Mail between 1969 and 1971. When Greene suspended talks with the U.S. because it put import controls on Canadian oil, many Canadian newspapers provided positive coverage. But when it appeared in the fall of 1970 that Canada would approve of an oil agreement that would give Canadian oil unimpeded access to the U.S. market, a Globe and Mail editorial scolded Greene for being quixotic, calling him an “on-and-off again nationalist.” These debates over a continental energy policy in the Canadian press and Parliament did not go by unnoticed in U.S. circles.

The American embassy in Ottawa noted the debate on continental energy policy and sent back descriptions and analyses of the exchanges. During the February 1970 discussions between Canadian and American officials, the U.S. side observed that the Canadians seemed

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175 Some of the academics who wrote in to the newspaper castigating Greene were people like Garth Stevenson, Assistant Professor of Political Science at Carleton University, R.H. McMillan at the Department of Geology at the University of Western Ontario, J.A. Goldak, Associate Professor Faculty of Engineering at Carleton University, and Ross H. Hall, Chairman of the Department of Biochemistry at McMaster University to name a few. There were also other academics like Mel Watkins and James Laxer who wrote polemical works that were widely read. An example of such a polemic is James Laxer, The Energy Poker Game: The Politics of the Continental Resources Deal (Toronto: New Press, 1970).

176 See the following dates of the Globe and Mail, 1969: 22, 31 December; 1970: 12, 15 January; 21 April; 13, 23 May. Editorials also chastised Greene for conducting talks with the U.S. in a secretive manner and caring only for the present and not the future of Canadian resources.

divided on what their goals for the talks should be. They attributed this dissention to “a rash of articles in the Canadian press and speeches in Parliament attacking Minister Greene’s ‘give-away’ of Canadian resources to the United States . . . Apparently these articles had had some effect on Canadian thinking.” In a later message the American consul in Calgary reported that his sources claimed Greene was “remarkably susceptible to pressures of public opinion, and that he [was] ‘almost obsessed’ by the viewpoints of the Toronto Star and the Toronto Globe and Mail concerning his political performance.” The message went on to say that “Greene’s cited super sensitivity to calls in the press (especially in Toronto) for bold action in [oil policy] caused him to include gratuitous and ill considered remarks in his Denver speech.”

Once Donald S. Macdonald replaced Greene in 1972, the strong words in the press were replaced by a continued call for Canada to protect its resources for Canadian needs, and the importance of exports as a job creation device. It is of little surprise then, that the Canadian decision to impose export controls on oil was well received in the central Canadian press, and explained as being in the best interests of Canada. Journalist George Bain also noted the apparent influence of the NDP on the Canadian decision, “The New Democrats have been the strongest in their demands that Canadian energy needs into the limitless future be protected

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180 Ibid, Box 1490, File “PET 1 CAN 6/1/70,” Airgram A-12, from AmConsul Calgary to Department of State, Subject: Reaction to Speech in Denver by Canadian Minister of Energy, Mines and Resources, 3 June 1970, 2.
181 Greene stated in his speech to the Independent Petroleum Association of America in Denver that Canada would not barter its wealth of resources merely for dollars. A large portion of the speech was an undiplomatic anti-American invective disguised as Canadian nationalism. For example, Greene declared that the American dream had turned into a nightmare and Canadians “should not seek to make the American dream ours . . . the voice of my people cries out for a unique and distinct personality, which is not the replica of the U.S.A. or anyone else.” Excerpts are from, Editorial, “The message is true,” Globe and Mail, 13 May 1970, 6. The editorial was very supportive of Greene’s statements. See also, Terrance Wills, “Impatience hinted at by Hickel over bilateral resource talks,” Globe and Mail, 22 May 1970, 9; “Greene rejects policy on continental energy,” Globe and Mail, 23 May 1970, 3.
against the insatiable thirst of the American market – and the Trudeau Government these days is receptive to messages from that quarter.”

**Social Democracy**

*Influence of the NDP*

The main criticism of the opposition parties, picked up by the press, was that the Trudeau government did not have a firm, coherent energy policy. Excerpts from the parliamentary question period were included in the *Globe and Mail* newspaper, and many covered opposition questions on energy and oil policy. A look through the Hansard transcripts of the parliamentary debates from 1969 through 1974 reveals the tremendous amount of time devoted to oil policy related matters. Almost daily, the Minister of Energy, Mines and Resources or the Prime Minister was grilled about the future of Canadian oil policy, and often how that policy would relate to the United States. During the 1973/74 period of the Liberal minority government, and the energy crisis, the questioning intensified as the NDP pressed its advantage.

The NDP resource policy was, in great measure, formed from the ideas by the NDP splinter organization called the Waffle group; so named “because its members demanded that the New Democrat Party ‘waffle’ to the left, away from the political center.” These self-declared socialists advocated public ownership of Canadian resources and industry, among other things. Although the life of the Waffle group only spanned the years from 1969 to 1972, during that year.

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182 George Bain, “Carrying capacity the key,” *Globe and Mail*, 17 Feb 1973, 6. At the time of Bain’s writing, the Liberal government was in a minority situation with the NDP holding the balance of power. Of course, by the time of the oil export phase out decision, the Liberals had been returned to a majority and no longer required the NDP to maintain power.
183 For example, in the Hansard 1973/74 index, ten pages are filled under the heading Oil and Gas. The issues of prices and Arctic pipelines seemed to generate the most discussion.
185 A brief description of the Waffle group can be found in Gwyn, 49th *Paradox*, 76-80.
brief period they almost fractured the NDP and forced it to adopt many of their policies. Some of the policies adopted by the NDP were to husband or preserve Canadian resources solely for Canadians, establish a state resource company, and nationalize the oil and gas industry. The restriction on oil exports in February 1973, the creation of Petro-Canada and the building of the Montreal oil pipeline proposed in December 1973, and the move to phase out all oil exports in November 1974 all seem to suggest that the NDP had indeed greatly influenced the Liberal minority government to accept these policies. However, in the July 1974 federal election the Liberal party won an electoral majority and no longer had to appease the NDP to maintain power. With that majority, the Liberals could very easily have let those policies languish. But, as historians J. L. Granatstein and Robert Bothwell point out in their book Pirouette, though “the surge of nationalist opinion in Canada continued to influence the Trudeau government even after it recovered its parliamentary majority... the strongest advocates of a national oil company were within the federal bureaucracy and cabinet.”

**Trudeau’s Approach**

As appealing as it might be to believe that the NDP put a great deal of pressure on the Trudeau government to adopt its view of resources policy, the evidence indicates that Trudeau already subscribed to many of the principles popular in left-wing or social democratic intellectual circles of the time. Historian John English describes Trudeau’s ideological disposition, at least in the 1950s and early 1960s, as “a socialist cast in a British-Canadian mould... [who] saw alternatives in the democratic socialism of Western Europe.”

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186 Granatstein and Bothwell, *Pirouette*, 72, 84.
187 English, *Citizen of the World*, 296-297. In addition, political scientist Andre Carrier analysed Trudeau’s magazine *Cité Libre* and found a pattern within its articles articulating an alternative to an independent Quebec. The best alternative advocated through the articles was a federal state respectful of individuals through its commitment
to describe how Trudeau’s friends—English and French Canadian—tended to be social democrats, such as Frank Scott, Eugene Forsey, Charles Taylor, Ramsay Cook, Therese Casgrain, Jean Marchand, Gerard Pelletier, Michel Chartrand, Pierre Vadeboncoeur, and Pierre Dansereau. However, historian and friend of Trudeau, Ramsay Cook, suggests that by the time Trudeau joined the Liberal Party in 1965 his philosophy had shifted; he set aside social democracy and became “left liberal,” even though “his writings sometimes suggested that capitalism would evolve in a social democratic direction.” Nevertheless, Trudeau admits in his Memoirs that he did not discard all of his left-wing or social democratic principles, but rather suppressed them for a time. Some of the principles Trudeau accepted were that Canada needed to decrease foreign (read American) investment, increase secondary manufacturing, and decrease the role of “staples” in the Canadian economy, and that ultimately, Canada’s industrial development was impeded by its reliance on the American dominated natural resources sector.

188 English, Citizen of the World, 312-314, 320, 325-326, 331, 364. English comments, “Trudeau’s ties with English Canada politically were almost exclusively with CCF intellectuals.” Trudeau’s ties to social democrats extended beyond Canada when he attended the 1959 International Socialist Congress. (333-334) Although Vadeboncoeur became a separatist and thus broke his friendship with Trudeau, he still remained a social democrat.

189 Cook, Teeth of Time, 97. Part of the problem in trying to identify Trudeau’s philosophy or commitment to certain political ideas, is that, unlike someone like Ramsay Cook who declares himself a card-carrying member of the NDP and a social democrat, Trudeau did not clearly articulate which philosophy best described his belief system. Perhaps this vagueness was intentional as it permitted him a great deal of flexibility, and creates a sense of mystery about where he stood on an issue. If one is to take Trudeau’s youthful comment seriously, “If you want to know my thoughts, read between the lines!”, then one is left to infer what general category best describes Trudeau’s position based on “reading between the lines” of his writings and actions. English, Citizen of the World, 56.

190 For Trudeau’s industrial policy and commitment to decrease foreign investment, increase secondary manufacturing, and decrease the role of staples see, Joel Bell, “Canadian Industrial Policy in a Changing World,” 78-106. See also, Clarkson and McCall, Trudeau and Our Times, Vol. 2, 131, 176. Ramsay Cook mentions that Trudeau expressed concern “about U.S. domination of the Canadian economy” as early as 1958. See, Cook, Teeth of Time, 95. See also Trudeau, Memoirs, 203 for his own view on reducing American ownership of the Canadian economy through taxation and regulation, and p.205 for his view on areas of direct government ownership in the economy, including the creation of the state owned petroleum company, Petro-Canada.
As a result, once Trudeau was in power, concerted efforts were made to gradually make the oil and gas industry more Canadian. The Canada Development Corporation was created with the mandate to promote federal government investment in strategic industries, which included the rescue of Canadian resource companies targeted for foreign purchase; FIRA was used to prevent foreign takeovers of Canadian companies, and the Canadian government presence in the resource industry was increased by altering the legislation affecting the federal or Canada Lands.  

In addition, if Canadians were unwilling to act, or act quick enough, the federal government itself would take an active interest through the creation of a crown corporation. Jack Austin’s pet project in 1972-1973 was to push for the creation of a state oil company. It should be noted that these moves happened before the 1973 oil crisis.

As mentioned in the section on *Policy- and Decision-Making Processes* during Trudeau’s education at the LSE he was very much influenced by socialist Harold Laski. Laski believed that socialism could be introduced gradually within a democratic society in what he termed “revolution via consent,” a concept Trudeau echoed in 1960 as revealed in the following passage, which is quoted at length to capture the fullness of Trudeau’s argument.

> If the whole of the Canadian electorate could miraculously be converted to socialist ideals at one fell swoop, there would be no reason to discuss strategy in the present context. Socialism would be achieved with or without federalism, and socialist administrations would be installed at every level of governmental affairs, no matter what the form of the constitution.

> But such is not the case. In a non-revolutionary society and in non-revolutionary times, no manner of reform can be implanted with sudden universality. Democratic reformers must proceed step by step, convincing little bands of intellectuals here, rallying sections of the working class there, and appealing to the underprivileged in the next place. The drive towards power must begin with the establishment of bridgeheads, since

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192 Peter Foster in *The Sorcerer’s Apprentices* argues that this was the main reason for Austin being appointed by Trudeau, 58.
at the outset it is obviously easier to convert specific groups or localities than to win over an absolute majority of the whole nation. . . . Federalism must be welcomed as a valuable tool which permits dynamic parties to plant socialist governments in certain provinces, from which the seed of radicalism can slowly spread.\textsuperscript{193}

Even if Trudeau shied away from a complete commitment to social democracy once he joined the Liberal Party and became its leader, he pursued the strategy of creating bridgeheads once in power. He incrementally introduced changes first to the bureaucracy, which would have to implement his controversial ideas, and then to oil and gas policies; all of which steadily moved Canada toward more state intervention in the industry. However, one might ask, why did the Liberal Party acquiesce to Trudeau’s leftist or social democratic tendencies?

The Liberal Party itself was divided to some degree between economic nationalists, leftists, and those who scorned the idea.\textsuperscript{194} In 1968 Trudeau wrote, “My political action, or my theory – insomuch as I can be said to have one – can be expressed very simply: create counterweights.”\textsuperscript{195} Trudeau reflected in his \textit{Memoirs} that he had to suppress his own “‘leftist’
leanings [and] be very circumspect from 1968 to 1972” in order to maintain the balance between the left and the right wing of the Liberal party. But when the Liberals were reduced to a minority, Trudeau had an opportunity to consolidate his power. Cabinet Ministers like Donald S. Macdonald, Alastair Gillespie, Herb Gray, and Marc Lalonde who supported a more interventionist and leftist position on the oil and gas industry were promoted. Others who disagreed with this approach resigned in frustration like John Turner in 1975 and James Richardson. Indeed, one of the most revealing comments during the Cabinet discussions before the federal-provincial conference on energy in January 1974 was made by future Minister of EMR Marc Lalonde,

If during the course of the energy conference it became apparent that there was no possibility of agreement, the government should preserve its option to force a direct confrontation involving, for example, disallowance [of Alberta’s royalties for taxation purposes] and take-over of the control of the oil and gas industry on the grounds of public interest.

It turned out that the Trudeau government of 1974 did disallow the Alberta royalties, but did not go so far as to nationalize the industry. Like most social democrats, nationalization was not a priority for Trudeau, not only because he preferred to work towards the goal more gradually, but also because the federal government did not have the money, the administrative capacity at that time, or the public support to initiate such a dramatic move.

Still the Liberal Party did not move to get rid of Trudeau. Part of the reason was the infiltration of the party by Trudeauites, but another was that many believed Trudeau was the only state and therefore it must be counterbalanced by reshaping it into a more social democratic one; thus, the two are not mutually exclusive. For example, Trudeau states in his Memoirs, “You need a state strong enough to provide the counterweight to the profit motive and to make sure that once the wealth is produced, it is distributed with fairness.”

196 Trudeau, Memoirs, 164. Thompson and Randall in Ambivalent Allies say that Trudeau found economic nationalism “a nuisance and distraction from the things he really cared about,” 252.

197 NAC, RG2, PCO, Cabinet Discussions, 17 January 1974, 14. Lalonde’s willingness to act unilaterally with respect to Alberta, on the slightest pretence, in order to promote federal control of the oil and gas industry, would be evident in 1980.
person who could maintain national unity and effectively combat the growing separatism in Quebec. Trudeau went on to say that the time as a minority government also gave him the opportunity, or justification, “to put forward more advanced ‘left-wing’ projects. . . I was thus able to institute policies [and institutions] that I had been dreaming about for a long time, and the social-democratic faction of the Opposition was forced to support them, or else deny their own social program.” For oil and gas, these policies included the creation of a state oil company (Petro-Canada), the state setting oil prices (which used to be the purview of the companies) at first temporarily through Cabinet and then permanently through the Petroleum Administration Act, implementation of an oil export tax to deny revenues to companies and the provinces, and first controlling and then phasing out oil exports. The last element was central to the gradual move to exert federal involvement in the industry. Phasing out oil exports not only preserved Canadian resources for Canadian use, and bought time for the state oil company to become organized, it also discouraged expansion of the traditional industry which meant companies might then be more willing to divest themselves of assets that could be taken over by the state. Trudeau might not have been an economic nationalist, or a revolutionary socialist, but he did embrace tenets of social democracy that coincided with his own views of the “just society” including increased state intervention in the economy, economic redistribution, and equality of opportunity.

This is not to say that Trudeau was dogmatic in his approach to implementing his

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198 Trudeau, Memoirs, 164-167. Trudeau lists the creation of Petro-Canada and the Foreign Investment Review Agency as some of those institutions.
199 Throughout the 1970s Trudeau attempted to alter the Canada Lands policies to compel companies to use Canadian employees and materials, and provide a mechanism in which the federal government could “back-in” to discoveries. Significant changes, however, were not passed until Bill C-48 in 1981.
200 Historian Michael Bliss makes the following observations, “The first Trudeau government planned to continue to broaden the social welfare tradition. It vastly liberalized access to unemployment insurance, tinkered with experiments in a guaranteed annual income, and saw regional development and equalization programs as the key to it thrust towards a ‘just society.’ But by 1971 it was becoming clear that the state might have trouble financing existing welfare entitlements, let alone launching major new programs.” Michael Bliss, “Guarding a Most
leftist ideas. He was flexible and pragmatic in how to achieve his aims, and often criticized those he called the “doctrinaires” of socialism and social democracy in Canada. As a savvy politician, it is not surprising that he exploited the shift in public opinion and the NDP, the divisions within the Liberal Party itself, the crisis mentality of the energy situation, and the threat of Quebec separatism, in order to manoeuvre the Government’s agenda to coincide more closely with his own views.

Preparation for that manoeuvre had been going on since Trudeau took office, as he used the Prime Minister’s Office and the Privy Council Office to recruit people for government service and promote those who were more in line with his way of thinking; this applied to Cabinet Ministers as well as officials. Perhaps he believed that departments like EMR and Finance had become unbalanced by a domination of pro-business “continentalist” attitudes, and

Famous Stream: Trudeau and the Canadian Political Tradition,” in Trudeau’s Shadow, 17.

201 Trudeau, “Practice and Theory of Federalism,” 128, 130. See also, Trudeau, Memoirs, 164-165.

202 Public opinion in Ontario, Quebec heavily supported controlled oil prices if it meant that gas prices at the pump would remain low. Opinion in the west, particularly Alberta, was less supportive. The same split in support was evident for the creation of a state oil company, with the east being in support, and the west uncertain. As for phasing out oil exports, there was never a specific polling question given on the matter, however, Ministers and editorials in the national press conveyed the message that phasing out oil exports was absolutely necessary to preserve Canadian supplies and keep prices low. For Gallup polls from 1973 to 1975 see, http://www.library.carleton.ca/ssdata/surveys/pop_gallup.html#1973. Interestingly, details from the polls were never reported in the national press, only questions dealing with who the respondent would vote for if an election were called. Questions on oil and gas related issues were asked in March, July, September, November 1973; January and March 1974; March, October, and December 1975. Of note, respondents were asked in December 1975 if they felt Canada was becoming a more socialistic state, and about 50 percent agreed it was or it was to a certain extent. See, http://www.library.carleton.ca/ssdata/surveys/doc/gallp-75-dec383-doc. It should be noted that the Gallup polls were heavily weighted to Ontario and Quebec. On average, 60 percent of the respondents were from those two provinces, and, on average 35 percent of overall respondents lived in cities larger than half a million people, with a further 16 percent from cities between one and five hundred thousand people.

203 An excellent discussion of the consolidation of power in the PMO/PCO during Trudeau’s time in office can be found in Savoie, Governing from the Centre. In reflecting on the Trudeau years, one cabinet minister thought that the “combined power of PMO and PCO had grown far beyond anything reasonable in a parliamentary democracy.” (318) That increase in power was utilized effectively by Trudeau to recruit and train people who he would then move into strategic positions to ease the development and implementation of his policies. Cabinet ministers who were not only loyal to Trudeau but were definitely on the left of the Liberal Party and were promoted accordingly included: Marc Lalonde, Herb Gray, Allan MacEachen, Alastair Gillespie, and Donald Macdonald. Senior public servants who also inclined towards social democracy or the left included: Tommy Shoyama, Ian Stewart, Joel Bell, George Tough, and Ed Clark. The latter became infamous for his PhD thesis “on the problems of achieving socialism in Tanzania.” Clarkson and McCall, Trudeau and Our Times Vol.2, 175.

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therefore a counterweight of more interventionist statist or “nationalist” minded people was necessary.\textsuperscript{204} As Clarkson and McCall point out with the example of Ian Stewart’s appointment as DM of Finance, Trudeau believed Stewart “could be trusted, because he was ‘one of us’ rather than ‘one of them’—that is, a product of the Trudeau PMO/PCO rather than of the Finance Department’s hierarchy.”\textsuperscript{205} Thus, in a rather Machiavellian type scenario, people recruited and promoted by the Prime Minister like Ian Stewart, Joel Bell, Marshall Crowe, Gordon MacNabb and Jack Austin for example, were also then loyal and accountable mainly to the Prime Minister rather than the Minister of the department. Indeed, Gordon Robertson, Clerk of the Privy Council during Trudeau’s first term, called these people Trudeau’s acolytes.\textsuperscript{206} The result was to effectively politicize the character and operation of departments—in this case EMR—so that opposition to more interventionist policies would be significantly reduced. In light of the changes to the world oil situation, the ultimate objective of those interventionist policies, was to keep oil prices for Canadian consumers at a relatively low level for as long as possible while increasing the federal presence in the oil and gas industry.

\textbf{ECONOMICS}

\textit{State of the Economy}

The Canadian economy, along with other industrialized economies around the world, faced a crisis in the early 1970s. Markets for trade contracted, the U.S. imposed a ten percent surcharge on dutiable imports in 1971 and did not exempt Canada, inflation and unemployment

\textsuperscript{204}See for example, Clarkson and McCall, \textit{Trudeau and Our Times}, 112. The authors argue that the Department of Finance under John Turner, and run by DM Simon Reisman, was “travelling in a direction somewhat contrary to the one in which the PMO/PCO thought the Trudeau government was heading;” Reisman had a pro-business approach at a time when Trudeau introduced “an expanded social security policy.” Reisman angrily retired from the civil service in 1975 and was replaced by T. K. (Tommy) Shoyama – “a left-leaning Keynesian.” (122)

\textsuperscript{205}Clarkson and McCall, \textit{Trudeau and Our Times}, Vol. 2, 230-231.

\textsuperscript{206}Robertson, \textit{Memoirs of a Very Civil Servant}, 256. Although Robertson’s views of the Trudeau governments are rather jaded, his point about Trudeau’s followers is supported by McCall-Newman in \textit{Grits}, 133, and in Clarkson and McCall, \textit{Trudeau and Our Times} Vol. 2, 277-283.
increased, and then oil prices increased dramatically. Faced with these economic problems, the Trudeau government sought to manage the situation through increased government intervention. In order to provide a competitive advantage to Canadian industries, located mostly in Eastern Canada, oil prices were frozen. Oil exports were licensed and then controlled to reduce pressure by companies to obtain the higher price in the U.S. market. An oil export charge was implemented to capture revenue that would be used to ease the burden of Eastern Canadian importers reliant upon the far more expensive OPEC oil. Other taxes were implemented or amended to increase the federal share of oil and gas related revenues, which could then be spent on various federal directed social and economic programmes. The goal was to improve the state of the Canadian economy, and in a world of very high oil prices, Canada would gain an international competitive advantage if it could preserve its oil for internal use only at reduced prices.

Prices

Concern over prices – what consumers had to pay for oil – is the one constant in Canadian oil policy from 1961 through 1974. Until 1973 the major oil companies, such as the so-called Seven Sisters, controlled the marketing and posted pricing of oil in the international marketplace. This meant that the companies produced the oil, negotiated access and royalty agreements with the producing countries, and ultimately established the price of oil in the marketplace, acting as both producer and marketer of their product. Production costs, type and quality of crude, royalties or taxes, concession arrangements, and transportation costs determined the price. Since the companies controlled the marketing, the international price was fairly stable.

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207 Bothwell and Granatstein, *Pirouette*, 61. At the time, eighty percent of Canadian exports to the U.S. were duty free and remained so.
however, some countries, like the U.S. controlled the price within its domestic market. To clarify, posted prices were calculated as the price at which royalties (or the 50-50 negotiated agreements in the Middle East) to the producing countries were determined; regardless of what price the multinational companies sold the oil for to themselves or others. In Canada, the companies established posted prices for Alberta and Saskatchewan crude, and in the U.S., companies established posted prices for various types of American crude.

The other mechanism for the international trade of crude oil is the spot market. The spot market for crude oil existed before and after the OPEC crises. The spot market was a place where short-term contracts could be made. If a company had excess production there would be a surplus on the spot market and the price for it relatively low. But if there was an international crisis, such as the Suez crisis or the OPEC crises, then panic buying might ensue because buyers sought to secure access to whatever crude oil possible, fearing that their long-term contracts would not be filled because of the crisis. The spot market prices are generally not very volatile when there is a surplus of supply, or a country or region can be a swing producer and fill gaps when necessary. Until 1972, the U.S. had the capacity to be a swing producer. Saudi Arabia also has the ability to be a swing producer, but as a member of OPEC, it chose not to exercise that power in 1973/74. In addition, since in the pre-1973 period the major oil companies controlled a large percentage of world production, they could usually increase production and move oil around to where it was needed to ameliorate temporary disruptions, as with the Suez crisis in 1956 and the 1967 Arab-Israeli war.

The significance of OPEC's moves in the years after 1973, and the various nationalization of oil production in OPEC countries, was that it now determined the international posted prices and removed the capability of the oil companies to increase production or shift oil
when necessary to overcome sudden shortages. Through the nationalization of oil production, OPEC countries controlled over half of the world’s oil production, and set production quotas for each member country in order to control the price. In addition, until the mid-1980s, the sale of oil was mostly based on long term contracts, “with prices and volumes being negotiated on a quarterly basis.” OPEC also used the increased control of the producing countries over their own resources (usually through National Oil Companies) to determine production outputs that were ostensibly to match demand after taking into account non-OPEC production. This was in order to maintain a price high enough to provide the OPEC countries with significant revenue, while not being too high to decrease demand significantly. However, the high oil prices also made the development of sources of oil outside the control of OPEC profitable, most notably in the North Sea and the oil sands and offshore in Canada. Thus, by the mid-1980s, demand subsided, supply increased from various sources, and in order to maintain market share OPEC agreed to allow prices to be set by the marketplace. In the fall of 1985, Saudi Arabia made the dramatic move to link their oil prices to the spot market. From that point onward, crude oil has been traded on the international commodity market, both the spot and future markets, responding to supply and demand pressures, international political developments, stock inventories, and other events. Where previously the spot market was used to fill short-term gaps, and the base price was established through the posted price system, since 1985 the spot market is the main

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mechanism for buying and selling oil in the world. Long-term contracts effectively no longer exist.

Nevertheless, individual nations can determine what price is paid for oil within their borders even if they are compelled to purchase the oil on the world market. This can be done in different ways: for example, a country could subsidize consumers when prices are high, or if the country is an oil producer, it can pass legislation to determine/control the price of domestically produced oil, or a country can limit imports when prices are low (as with the U.S. MOIP). In the 1970s this was the strategy of some countries such as the United States, Canada, Germany, Switzerland, France, and Austria.\(^\text{210}\)

When the international price of oil increased dramatically because of the OPEC embargo, Canada moved to keep domestic produced oil prices low, charged a differential export tax to take the difference between the government established domestic price and the export price (which was set at the newly changed international price), and subsidized consumers by keeping the price paid for crude oil in Canada uniform; this meant the government paid importers the difference between the domestic and international price out of the export charge. Initially, Canada did not really have the technical legal authority (through legislation) to control the price of domestic oil, but it did so through voluntary agreements with the industry and the producing provinces. The industry and provinces complied because it was considered an emergency. By December 1973, the federal government introduced a piece of legislation to give it official control over the pricing and exporting of Canadian oil: the Petroleum Administration Act (PAA).\(^\text{211}\) However, this was


\(^{211}\) See for example, Fossum, Oil, the State and Federalism, 46-47. A corresponding piece of legislation passed earlier was the Energy Supplies Emergency Act. This act gave the federal government the power to allocate and ration crude oil and its products during an emergency, and regulate their export through the NEB. Although it
not enacted until the spring of 1975 after the Liberals were re-elected with a majority in the summer of 1974. As will be discussed in the next chapter, the PAA gave Ottawa the power to determine domestic oil and gas prices if an agreement could not be reached with the provinces. Before then, the NOP of 1961 ensured that consumers in eastern Canada would continue to receive lower oil prices while exports to the higher priced U.S. market would enable western Canadian oil producers to develop their resources. In December 1972, NEB Vice Chairman Doug Fraser summarized Canadian energy policy as ensuring adequate supplies at “reasonable prices” and exporting “at the best prices available” supplies that were surplus to “reasonably foreseeable requirements” for Canadian use.  

212 Little had changed in the decade since the NOP. American officials were aware that Canada’s policy was based on buying cheap and selling high.  

213 Between 1969 and 1973, during the Canada-U.S. discussions for a common oil policy, it became clear to the American officials that the Canadian government did not want to take any action, or support any policy, that would raise prices in eastern Canada. The Americans observed, “any price increase to consumers gives them concern.”  

214 The consequences of this policy was that Canadian oil was exported to the U.S. in record amounts in order to gain the premium American price, while significantly cheaper Venezuelan and Middle Eastern oil flowed into eastern Canada. Eventually the imported oil began to penetrate into the Ontario market, which violated the NOP and alarmed the United States. Canada was becoming increasingly dependent on imported oil for its domestic needs, and did not seem willing to alter the situation.

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214 USNA, RG 434, Box 100, File “Oil Import Administration, Canada (Gen Corres w/Companies See file on Dept of Defense Prod.), Resume of Canadian Talks at Ottawa February 10-12, 1970, 3.
During the negotiations for first a continental energy agreement and then a common oil policy, the U.S. insisted that as part of an agreement, Canada limit its exports and reduce its reliance on imported oil. The strategy of the Canadian officials, as directed by Cabinet, was to delay and distract for as long as possible. The NEB and the federal government, aside from a few feeble attempts at moral suasion, insisted they were powerless to alter the situation, and at one point actually claimed it would be “a political impossibility” to impose export controls.\footnote{For Canadian claims of being “powerless to do anything more to restrain exports,” see USNA, RG 59, Subject-Numeric – Economic 1970-1973, Box 1494, File “PET 18-I CAN-US 1970,” Memorandum of Conversation, Subject: Talks on U.S.-Canadian Oil Policy, 10 & 11 February 1970, 2. For “political impossibility” statement see, DOE, Job 1009, Box 1, Folder 3 “U/5/417 Canada Vol. I,” Telegram 661 from Amembassy Ottawa to SecState WashDC, Subject: J Greene on Canadian Nationalism, 12 May 1970, 2. Canada stated during discussions that it would only restrain exports to a level achievable “without imposition of formal controls across the board.”}

Frustrated, the American officials recommended that “temporary” import controls be placed on Canadian oil, as a means to back up the State Department’s negotiating position. Canada then announced that the talks for a continental energy policy were suspended indefinitely. The suspension only lasted a few months and talks resumed, but for a common oil policy instead of a comprehensive agreement.\footnote{DOE, Job 1009, Box 1, Folder 3 “U.S./5/417 Canada Vol. I,” Airgram A-323 from Amembassy Ottawa to Department of State, Subject: Oil and Gas: Address by Deputy Minister of Energy, Mines and Resources Jack Austin,” 11 May 1971, 17. The U.S. was very much aware that this was the policy in practice, see Ibid., Briefing document, Canada: Oil, Gas and General Energy Questions, [no date].} Even those talks, however, as discussed earlier, failed to generate an agreement because Canada would not guarantee that it would not curtail exports to the U.S. in an emergency, impose export taxes, or reduce oil imports into eastern Canada.

The reasons for Canadian reticence to make a formal agreement with the U.S. were twofold. First, Canada did not want to give up its policy of having the lowest possible energy prices in Canada while ‘surplus’ energy would go “to export markets at optimum prices.”\footnote{Editorial “The message is true,” Globe and Mail, 13 May 1970, 6.} Second, by the beginning of 1972 world oil prices increased more than expected, future increases seemed likely, and overseas supplies appeared to be even more unstable than ever before. In this
situation, Canada did not want to be committed to supplying the U.S. with specific amounts because, due to pipeline capacity limitations, cheaper Canadian oil could not then be used to displace the more expensive imports. What effect did this have on Canada’s decision to curb exports to the U.S., and eventually to phase them out all together?

There is a direct correlation between the progression of world oil price increases, the decrease in the percentage of Canadian oil being used in Canada, and Canadian negotiators backing away from agreements with the United States, culminating in the declaration that oil exports would be phased out. The main objective of the Canadian Government was to ensure that prices remained as low as possible, for as long as possible, in Eastern Canada (mainly Quebec and Ontario), and the best way to accomplish this goal was to close off access to the higher priced U.S. market. The U.S. MOIP had created a protected market for oil from its inception in 1959 until world oil prices surpassed the protected price in 1973, and until 1973 Canada officially based its oil prices on the higher American prices because of similar production costs. However, looking at the data in Table 1 on the following page, taken from Statistics Canada information on the actual prices paid, it becomes clear that Canadian oil was priced significantly lower than the Alberta production price for export and internal use. Except for 1960, Canada paid less for imported oil than it charged for exports. Again, except for 1960, the average Canadian production price was lower than the export price. This is significant because the Canadian production price is based on the amounts received for all Canadian production, which includes domestic use and exports. Given that the total paid from Canadian

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"USNA, RG 396, Subject Files Oil Policy Committee 1969-1973, Box 60, File “Oil and Energy Canada,” Memorandum of Meeting on April 18, 1972, Subject: Call by Canadian Oil and Energy Officials, 20 April 1973. The Canadian representatives were from Ontario and were accompanied by Canadian embassy officials including Norman Chappell, the energy counsellor. They told the U.S., “Ontario fears the great U.S. ‘thirst’ for oil and gas and is most anxious that its [Ontario’s] own needs be met from secure Canadian sources in the future.” (2)"

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production was lower than export prices, it follows that domestic users were charged less. Not only that, between 1960 and 1975 Canada had become incredibly dependent on imported oil as it exported as much of the higher priced oil as possible.
Table 3 Comparative Select Crude Oil Prices, 1960-1976

<table>
<thead>
<tr>
<th>Year</th>
<th>Import price (C$)*</th>
<th>Export price (C$)</th>
<th>CDN Production price (C$)</th>
<th>Alberta price (C$)</th>
<th>US Avg price (US$)**</th>
<th>World Oil price (US$)***</th>
<th>Venez Oil price (US$)</th>
<th>Domestic Consumption as % of Domestic Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>2.255</td>
<td>2.236</td>
<td>2.231</td>
<td>2.382</td>
<td>2.88</td>
<td>1.9</td>
<td>U/A 77</td>
<td></td>
</tr>
<tr>
<td>1961</td>
<td>2.184</td>
<td>2.293</td>
<td>2.284</td>
<td>2.352</td>
<td>2.89</td>
<td>1.8</td>
<td>U/A 70</td>
<td></td>
</tr>
<tr>
<td>1962</td>
<td>2.252</td>
<td>2.699</td>
<td>2.245</td>
<td>2.496</td>
<td>2.9</td>
<td>1.8</td>
<td>U/A 65</td>
<td></td>
</tr>
<tr>
<td>1963</td>
<td>2.282</td>
<td>2.58</td>
<td>2.421</td>
<td>2.504</td>
<td>2.89</td>
<td>1.8</td>
<td>U/A 65</td>
<td></td>
</tr>
<tr>
<td>1964</td>
<td>2.229</td>
<td>2.575</td>
<td>2.455</td>
<td>2.552</td>
<td>2.88</td>
<td>1.8</td>
<td>U/A 63</td>
<td></td>
</tr>
<tr>
<td>1965</td>
<td>2.166</td>
<td>2.599</td>
<td>2.459</td>
<td>2.557</td>
<td>2.86</td>
<td>1.8</td>
<td>U/A 63</td>
<td></td>
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<tr>
<td>1966</td>
<td>1.885</td>
<td>2.536</td>
<td>2.399</td>
<td>2.566</td>
<td>2.88</td>
<td>1.8</td>
<td>U/A 60</td>
<td></td>
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<tr>
<td>1967</td>
<td>2.192</td>
<td>2.63</td>
<td>1.896</td>
<td>2.505</td>
<td>2.92</td>
<td>1.8</td>
<td>U/A 57</td>
<td></td>
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<tr>
<td>1968</td>
<td>2.088</td>
<td>2.637</td>
<td>2.469</td>
<td>2.538</td>
<td>2.94</td>
<td>1.8</td>
<td>U/A 55</td>
<td></td>
</tr>
<tr>
<td>1969</td>
<td>2.065</td>
<td>2.593</td>
<td>2.468</td>
<td>2.63</td>
<td>3.09</td>
<td>1.8</td>
<td>U/A 51</td>
<td></td>
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<tr>
<td>1970</td>
<td>1.992</td>
<td>2.655</td>
<td>2.509</td>
<td>2.63</td>
<td>3.18</td>
<td>1.8</td>
<td>2.05 47</td>
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<tr>
<td>1971</td>
<td>2.215</td>
<td>2.886</td>
<td>2.754</td>
<td>2.86</td>
<td>3.39</td>
<td>2.24</td>
<td>2.45 44</td>
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<tr>
<td>1972</td>
<td>2.357</td>
<td>2.891</td>
<td>2.791</td>
<td>2.9</td>
<td>3.39</td>
<td>2.48</td>
<td>2.45 38</td>
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<tr>
<td>1973</td>
<td>3.001</td>
<td>3.576</td>
<td>3.426</td>
<td>3.52</td>
<td>3.89</td>
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<td>2.6 37</td>
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<tr>
<td>1975</td>
<td>10.961</td>
<td>11.876</td>
<td>7.209</td>
<td>7.3</td>
<td>7.67</td>
<td>11.53</td>
<td>11.51</td>
<td></td>
</tr>
<tr>
<td>1976</td>
<td>12.343</td>
<td>13.119</td>
<td>8.431</td>
<td>8.54</td>
<td>8.19</td>
<td>12.38</td>
<td>11.12 64</td>
<td></td>
</tr>
</tbody>
</table>


* Prices are in $/barrel, and do not include transportation charges such as pipeline fees.
** Between 1962 and 1971 the Canadian dollar was fixed at 0.925 cents to the U.S. dollar. In 1971, it was put on a floating rate and increased to 0.98 cents, and was about at par with the U.S. dollar from 1972-1976.
*** The world price used here is for Arabian Light crude oil.

219 The Canadian pricing and production data in this table are derived from the author’s calculations of aggregate numbers found in the Statistics Canada, Historical Statistics, Section Q: Energy and Electric Power, by G. David Quirin, Table Q19-25 “Production and trade in crude petroleum, 1868 to 1976.” Canadian production includes oil from all areas of Canada. Import Prices were calculated by dividing the Value of the import by the Quantity. Production prices were calculated by dividing the Value of the production by the Quantity. The percentages have been rounded off to the higher number.
The most striking numbers in Table 3, on the previous page, reveal the extent to which Canada diverted its oil production for export rather than internal use, and relied upon imported oil. In the column of apparent Domestic Consumption as a percentage of Domestic Production, it is clear that from 1960 to 1974, there was a steady decline in how much of Canadian consumption was fulfilled by Canadian production. Canadian use of Canadian oil went from a high of 77 percent in 1960 to a low of 36 percent in 1974. The two largest surges in the decline of domestic use came in 1961, when it dropped from 77 to 70 percent, and 1972, when it dropped to a shocking 38 percent from 44. It is no wonder that the U.S. saw Canada as a security liability, and believed Canada was taking advantage of its exemption to the MOIP. In their view, Canada was exporting more of its oil to the U.S. market, while at the same time increasing its reliance on cheaper imported oil for domestic consumption. That was in fact what Canada was doing. As mentioned earlier, this was the policy as understood by the Canadian Cabinet, and which formed the basis of Canada’s position in all negotiations for a common oil policy with the U.S.

In keeping with the policy to ensure lower prices for Canadian consumers, once it was evident that the U.S. was in an energy crisis, and world prices began to increase, it was clear that the export and pricing policy had to change. In order to justify reducing exports, in a way that would appeal to the public and deflect criticism from Alberta, official evidence had to be brought forward demonstrating that there would not be enough “surplus” oil to export. As described in the section on National Security above, studies to this effect were what EMR and the NEB indeed produced.

After the initial steps were taken to reduce exports in February 1973, an analysis of the situation in the draft energy policy review suggested that Canada’s policy of maximizing oil
exports to the U.S. was unsustainable. One NEB official commented that the U.S. "demand pull" was putting enormous pressure on Canadian prices, and "if Canadian crude prices increase in line with American crude price increases, this would result in higher end product prices in Western Canada and Ontario." The analysis pointed out that "if Canada wished to 'insulate' itself against further U.S. crude oil price increases, but still continue to export at premium market prices, some control mechanism must be used to effectively increase the price to U.S. customers while leaving a lower price in the home market."220

Earlier suggestions of how to limit "the increase of prices to Canadian consumers" involved export taxes to discourage exports, transportation equalization payments, government intervention in the form of "a Crown agency to buy and sell crude oil on a two price or multi-price basis," among other things.222 The report published in June 1973 was deliberately vague in saying that "some price control mechanism [was] necessary", but offered no indication of what that mechanism might be.223 The officials did not want to "tip [their] hand" before the planned announcement in the fall that would freeze Canadian domestic prices, and impose an export tax

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221 The Canadian pricing and production data in this table are derived from the author's calculations of aggregate numbers found in the Statistics Canada, Historical Statistics, Section Q: Energy and Electric Power, by G. David Quirin, Table Q19-25 "Production and trade in crude petroleum, 1868 to 1976." Canadian production includes oil from all areas of Canada. Import Prices were calculated by dividing the Value of the import by the Quantity. Export Prices were calculated by dividing the Value of the export by the Quantity. Production prices were calculated by dividing the Value of the production by the Quantity. Apparent Domestic Consumption as a Percentage of Domestic Production was calculated by subtracting the Quantity of oil imports from the Quantity of apparent consumption and dividing by the Quantity of domestic production. The percentages have been rounded off to the higher number.


223 EMR, An Energy Policy for Canada, 17. In this published report almost the exact same phrase is used as in the analysis of 1972, "if Canada wishes to insulate its domestic market from gas and oil price increases, some price control mechanism is necessary."
on Canadian oil, with the ultimate aim of reducing oil imports consistent with a policy of self-
sufficiency.\textsuperscript{224}

The difficult part for the federal government would be the transition period from
exporting as much oil as possible, and importing large quantities of now expensive oil, to self-
sufficiency. Until the pipelines were built to bring western Canadian oil into Quebec, or the
anticipated offshore oil and gas fields like Hibernia and Sable Island were brought into
production for the east coast, eastern Canada still had to import oil at the high world prices. The
federal government was faced with the dilemma of how to subsidise the imports without putting
too much strain on the nation’s finances. The solution was an export tax valued at the difference
between the controlled domestic price and the world price. In talks with the Americans during
the October oil crisis, EMR Minister Macdonald admitted that Canada’s “decision to impose
export taxes was motivated by a desire to bring export prices up to the world price level, while
keeping a lid on domestic prices.”\textsuperscript{225} The U.S. position was that “the Canadian policy, in effect,
required the U.S. public to subsidize Canadian taxpayers.” Apparently, the topic of prices
generated heated discussion; perhaps because it was unclear whether Canada’s policy would be
temporary or not.

The sudden impact of extremely large increases in the world oil prices, caused by the
Arab-Israeli war and OPEC embargo on the U.S., spurred Canada to look beyond temporary
price controls. If Canada could have all of its oil supplied internally at a controlled price, well

\textsuperscript{224}NAC, RG 99, Vol. 77, File “57S – EP12-NEB Notes – Feb ’73,” Memorandum to Dr. Dickie from D. M.
Fraser, Subject: EPR, 28 February 1973, 3. Fraser recounts an exchange between Tommy Shoyama and Bill Hopper
at an interdepartmental meeting on the Energy Policy Review: “Shoyama asks whether ‘control mechanism’ is
deliberately minimized. Hopper says yes. Shoyama says subject of great public interest, but agrees it is not desirable
to tip hand.”

\textsuperscript{225}Lafayette College, William Simon Papers, Series IIIA, Subject Files (Deputy Secretary), Drawer 12,
below the world price, then the competitive advantage gained by Canada's industrial base, which happened to be in Quebec and Ontario, would be significant. But as long as the United States was taking half of Canada's oil – at world prices, or at prices that were higher than what Canada wanted to pay – then Alberta and the industry would of course want to sell as much oil as possible in the higher priced market. Once the supply issue was introduced, the solution to phase out oil exports gained credence in Cabinet and with the public, at least in Eastern Canada.

CONCLUSION

On 24 November 1974, EMR Minister Donald Macdonald made a low-key announcement: beginning in 1975 oil exports from Canada would be phased out. This was an abrupt policy shift as Canada and the U.S. had been negotiating since 1969 first for a continental energy agreement and then a common oil policy. It represented a break with the previous Canadian approach of informal continentalism. The driving force behind the decision to phase out oil exports and alter the Canada-U.S. oil and gas relationship was a combination of the influence of politicized officials, Trudeau's strategy to incrementally extend federal control and involvement in the oil and gas industry, and the political need to keep prices low to consuming provinces.

The large Alaskan oil field discovered at Prudhoe Bay in 1968 was seen as a threat to Canada's tenuous and continually contested access to the U.S. oil market. Therefore, overtures were made for consultations almost as soon as the Nixon cabinet had been confirmed. Of interest is the fact that Canada, not the U.S., introduced the idea to begin discussions on a continental energy agreement during Prime Minister Trudeau's visit to Washington in March 1969. The two new administrations initially approached the idea of increased continental interdependence with great vigour, but almost as quickly the goal of a sectoral continental agreement in oil was beyond reach. The failure rested on Canada's refusal to make the East...
Coast more secure by building an oil pipeline to Montreal to utilise Canadian oil, though the altered attitude of some American officials who viewed Canada as a freeloader, also played a role. At this point, imported oil was still cheaper than Canadian, though that began to change in 1972, and Trudeau would not permit a policy that unnecessarily increased prices to Quebec and Ontario consumers.

Since the 1950s, various Canadian and American governments had occasionally considered the idea of a continental energy policy, but it had never gained widespread acceptance within policy circles. This was particularly the case when the Trudeau Liberals were in power. Phasing out oil exports was designed to curtail provincial and American control over the oil and gas industry, exert federal control over the Canadian oil and gas industry, and reduce reliance upon the American market by preserving Canada’s oil and gas for domestic use. The changes that took place in the Canada-U.S. oil and gas relationship between 1968 and 1974 were the first attempts by Canada to extricate itself from the interdependence in the trade of oil and gas, and the informal continentalism that had been the mainstay of Canadian policy since the 1950s.

It was not until prices for imported oil began to increase that Canada entertained the idea to reduce exports to the U.S. In fact, up until early 1973 during the negotiations for a continental energy agreement and common oil policy, the U.S. pleaded with Canada to control its exports, but the response was that it was politically impossible. At this point, imported oil was still cheaper than domestic oil, however it was clear that this was changing. Then, when pipeline capacity peaked and it appeared Ontario refiners would fall short of supplies because sellers received a higher price in the U.S., export controls were implemented to limit the amount moving into the U.S. market. After the OPEC embargo caused the meteoric rise of world oil
prices, and many suggested higher prices would be permanent, the Canadian government looked
to further shelter the Canadian consumer. A common oil policy that would force Canada to
guarantee its exports to the U.S., and which could not be diverted for domestic use to keep
consumer prices low, was out of the question. Since 63 percent of Canadian demand was being
supplied from sources that demanded world prices, the only way that consumers could be
protected, in EMR’s view, was to make Canada more energy self-sufficient. The first step
toward that larger vision of self-sufficiency was to phase out oil exports.

In the Trudeau era, energy became politicised and the decision to phase out oil exports
was made not just because prices had skyrocketed, but also because of the new breed of
bureaucrats recruited through Trudeau’s restructured and reorganized decision- and policy-
making processes. Concerned that the bureaucracy, mired in the certitude of informal
continentalism, would impede his plans, Trudeau restructured the bureaucracy and the policy-
making process. The PMO and PCO were used to recruit and promote people for government
who were more in line with his way of thinking; this included Cabinet Ministers as well as
officials. Trudeau altered the character of the Government, and EMR in particular. Senior civil
servants, who had advanced through the system over the years, were replaced by outside
appointments. These new people, like Jack Austin and Marshall Crowe, were loyal to the PM
and shared his ideological predisposition toward state intervention in resource development and
the economy. Under Austin’s direction, power and the capacity for generating policy advice,
were moved from the NEB to EMR. The modification of personnel ensured that there would be
few difficulties in developing and implementing a more interventionist role for the state in
Canadian oil policy. In this way, resistance was reduced to controversial policies that would
otherwise not have been considered, such as the creation of the state oil company, and more importantly for Canada-U.S. oil and gas relations, the phasing out of oil exports.

The effect of the politicization of energy in Canada on Canada-U.S. oil and gas relations was mixed. In its initial stage, the politicization of the bureaucracy still contained residue from the traditional system of consultation with other departments. External Affairs, and other affected departments, that still maintained eroding transgovernmental networks with their American counterparts, were included in the decision-making process regarding the phasing out of oil exports, and worked to ensure that the U.S. received the appropriate ‘signals’ that the policy was going to be changed. Thus, the Americans were prepared for Canada’s move, and President Gerald Ford’s reaction to phasing out exports was relatively benign.

These controversial policies were in line with Trudeau’s commitment to certain social democratic principles. He wanted to gradually increase federal control and involvement in the oil and gas industry (at the expense of the producing provinces) by creating a state oil company, by controlling domestic and export prices, and by reducing not increasing Canadian oil exports to the U.S., with a further goal of expanding secondary manufacturing. The intent was not only to decouple Canada from the world oil market, by setting prices internally and being self-sufficient in oil, but also to remove Canada from its interdependence with the U.S. in the oil and gas trade. Trudeau capitalized on the minority government situation and the energy crisis, to align the Government’s programme with his own self-declared “leftist” ideas, and used the rhetoric of the economic nationalists and the NDP to help prepare the public for the apparent need first for export controls, and then their ultimate cessation. The interventionist policies that the oil and gas industry and the producing provinces hoped were temporary emergency measures turned out to be only the beginning. The changes that took place in the Canada-U.S. oil and gas
relationship between 1968 and 1974 were the first attempts by Canada to extricate itself from the
interdependence in the trade of oil and gas and the informal continentalism that had been the
mainstay of Canadian policy since the 1950s.
CHAPTER 5
CONCLUSION

You want the truth, of course. You want me to put two and two together. But two and two doesn’t necessarily get you the truth. Two and two equal a voice outside the window. Two and two equals the wind. The living bird is not its labelled bones.

Margaret Atwood, The Blind Assassin

Where there are so many, speech becomes a debate without end. But two together may perhaps find wisdom.

J.R.R. Tolkien, Lord of the Rings: The Fellowship of the Ring

The shift toward informal continentalism and its rejection between 1958 and 1974 is a story of oscillating and sometimes contradictory desires. Throughout the 1950s and into the early 1970s, Canada’s priority was to secure guaranteed access to the U.S. market for increased oil production that was surplus to Canadian use. America’s priority, because of the Cold War, was to ensure quick and assured access to oil supplies in case of an emergency. Both countries sought to balance the interests and concerns of consumers and producers, multinational and independent companies, economic forces like the state of the economy and the price of oil, competing ideas of trade liberalization versus protectionism, international concerns such as tensions in the Middle East and relations with Venezuela, and national security. Nevertheless, through the personal relationship between Prime Minister Diefenbaker and President Eisenhower, and with the support of key officials within the extensive Canada-U.S. transgovernmental networks, Canada secured an exemption to the American Mandatory Oil Import Program (MOIP). Then, in 1961, after much discussion and debate within Cabinet, Canada implemented its National Oil Policy (NOP) that was designed around the MOIP exemption. At the same time, natural gas exports increased and informal consultative mechanisms were established to ease disputes. Together, the MOIP exemption, the NOP, and
the increased trade in natural gas comprised an informal continental relationship. The informal continentalism approach worked well at this time because there was a surplus of oil in the world market, surplus natural gas, and barriers to the U.S. market.

Yet, within a few years, the informal continental arrangement was almost terminated because of the poor personal relationship between President Kennedy and Prime Minister Diefenbaker. Key officials, eager to please Kennedy, sought ways to punish Canada; oil and gas policy was one chosen area. Once Diefenbaker was defeated in early 1963, the American attitude changed dramatically. The new Prime Minister, Lester Pearson, who got along very well with Kennedy, made the case to preserve Canada’s MOIP exemption, albeit based on an informal understanding that would prevent the volume of Canadian oil exports from becoming “unreasonable.” The agreed upon levels were negotiated on a fairly regular basis, and Canada was quite successful at exceeding the limits that American officials determined were reasonable.

The death of President Kennedy altered, to some extent, Canada-U.S. oil and gas relations. In 1964, anticipating the Merchant-Heeney report, Prime Minister Pearson and President Johnson initiated technical level talks on a more formal continental energy agreement. Interest waned rather quickly, and was not rekindled until 1969. In the U.S., because President Johnson removed oil policy from the concern of the White House, and delegated authority to Stewart Udall the Secretary of Interior, a power struggle ensued between the departments of Interior and State. In Canada, although oil and gas policy was predominantly handled by the National Energy Board (NEB), a parallel power struggle ensued between two Cabinet Ministers, Mitchell Sharp and Walter Gordon, over the general direction Canadian trade and development policies should take: continentalism versus economic nationalism. Sharp triumphed with the Autopact Agreement and the implementation of the Columbia River Treaty, but his success was
limited and he did not succeed in securing a more secure and formal arrangement for trade in oil and gas. Though continentalism in oil and gas policy stalled between 1963 and 1968, the tremendous efforts and strong personal links or networks between Canadian and American officials prevented the oil and gas difficulties from becoming major irritants. Part of the reason for this success was the trust and respect American officials had for Ian McKinnon, Chairman of the NEB, and his successor Robert Howland.

In 1968, the large Alaskan oil field was discovered at Prudhoe Bay and was seen as a threat to Canada's continually contested access to the U.S. market. Therefore, overtures were made for consultations on a continental agreement almost as soon as the Nixon cabinet had been confirmed. Of interest is the fact that Canada, not the U.S., introduced the idea to begin discussions on a continental energy agreement during Prime Minister Trudeau's visit to Washington in March 1969. The two new administrations initially approached the idea of increased continental interdependence with great vigour, but almost as quickly the goal of a sectoral continental agreement in oil was beyond reach. The failure rested on Canada's refusal to make the East Coast more secure by building an oil pipeline to Montreal to utilise Canadian oil. At this point, imported oil was still cheaper in Eastern Canada than Canadian, though that began to change in 1972, and Trudeau would not permit a policy that unnecessarily increased prices to Quebec and Ontario consumers.

There is some question as to whether the Trudeau government was serious about a continental energy or oil agreement. The evidence suggests that Trudeau was already planning an overhaul of Canada's oil and gas policy that would be very interventionist in nature and more consistent with his views of reshaping Canada along more social democratic lines. To that end, he reorganized the policy- and decision-making process that shifted policy-making responsibility
from the NEB to the Department of Energy, Mines and Resources (EMR). In addition, Trudeau made significant personnel changes. He recruited individuals who shared similar ideological views into the Prime Minister’s Office and Privy Council Office, trained them for a few years, and then appointed them to key positions in the NEB and EMR. With the knowledge and approval of Trudeau, plans were made by these new officials to create a state oil company, reduce and eventually phase out oil exports, and expand federal control and involvement in the oil and gas industry, particularly on federally controlled lands. During the 1960s, oil and gas policy was developed mainly at the NEB, but Trudeau shifted power away from the NEB to EMR where he had appointed loyalists to his vision. Although these plans were developed before the first oil crisis of 1973 and the sudden increase in prices, the oil crisis was used as a convenient justification to announce the phase out of oil exports in 1974. The American reaction to the oil export phase out was surprisingly benign because the transgovernmental networks that had served Canada so well since the 1950s still existed, though in a diminished capacity. Canadian officials prepared American officials for the announcement almost a year in advance, and the Prime Minister and the Energy minister also sent signals to their American counterparts over the same period of time. The result was a statement of regret and understanding concerning Canadian actions.

The informal continental approach succeeded in the 1950s and 1960s for a number of reasons: there was a surplus of cheap oil on the world market, Canada was keen to develop its fledgling industry, the U.S. wanted to treat its main cold war ally favourably, and most importantly, the personal relationships between leaders and key officials across the border reinforced the understanding of the benefits of an informal relationship. Diefenbaker and Eisenhower’s good relationship, and the key role played by officials Heeney and Merchant,
resulted in Canada’s MOIP exemption, and the creation of the NOP. Conversely, Diefenbaker’s poor relationship with Kennedy almost resulted in Canada’s MOIP exemption being revoked. Pearson’s good relationship with Kennedy helped to maintain Canada’s MOIP exemption. When Pearson’s personal relationship with Johnson began to falter, the transgovernmental networks kept oil and gas issues from becoming major irritants, and were assisted by Johnson having removed oil policy from the White House.

This changed in the 1970s when oil prices increased, and the availability of Middle East oil became more unstable, OPEC became more militant, and the leadership changed in Canada and the U.S. The restructuring of the bureaucracy in Canada also happened to coincide with reorganization in the U.S., which meant that the informal networks of officials deteriorated. In addition, the politicization of key civil service positions under the Trudeau government meant that these people were dedicated to Trudeau and his vision, and this vision did not endorse increased trade in oil and gas with the U.S. The goal was to reconstruct or refashion the Canadian oil and gas industry, in successive phases and similar to certain social democratic principles, that would increase federal involvement in the industry through a state oil company, reduce foreign investment in the industry, and increase federal regulation and control over the exploration, development, and trade in oil and gas. What is most interesting about the Trudeau years is that, like the Pearson-Johnson years, the personal relationship between the two leaders seemed to have little effect. Instead, Trudeau’s own personal vision for Canada affected what policies were taken, and which officials would help develop and implement them, regardless of the potential American reaction.
In most cases there are several factors and competing interests and personalities that combine to influence policy- and decision-making. Oil and gas policy is no exception. Which factors and interests exert more influence at a given time is highly dependent on the particular context of the time and place, the individuals, and the country involved. What might be a priority and of over-riding importance for a leader at one time, may not be of as much importance at a later time for another leader. The influence of Venezuela on American policy towards Canada is a good example. Where Venezuela (its objections and the support it had from certain American officials) was the one interest during Eisenhower’s administration that held back an immediate exemption for Canada in 1959, it was no longer an obstacle for a continental oil agreement in the 1969-1973 period during Nixon’s administration. Another example is the different weight given to national security concerns in each country. The United States, with larger international responsibilities and obligations as leader of the free world during the Cold War, understandably held national security to be one of its primary concerns in its oil and gas policy and decisions taken with respect to Canada. On the other hand, national security was of minimal concern to Canada in its decisions, largely because Canada believed American concerns were exaggerated and because successive Canadian governments did not want to absorb the economic and political costs of reducing its reliance on cheap imported oil. Economics is another area of difference between the two countries. In making decisions that affected Canada-U.S. oil and gas relations, American governments in this period were least influenced by economics. While the Canadian decision to create the NOP was moderately influenced by economic considerations, the decision to phase out oil exports was motivated in large part by a desire to keep oil prices low for consumers. The oil export phase out decision is also a good
example of how several variables combined to influence the policy path taken. The desire to keep prices low, combined with an ideological disposition toward certain social democratic principles and the personal will of the Prime Minister and key officials, created an environment or atmosphere that favoured or made acceptable the move to end the informal continental trade in oil and gas that had developed since 1959. Yet, throughout the period examined in this study, it became clear that the personal relationships between leaders, the networks between officials, and the personalities of both groups—particularly the force of will and capacity for persuasion—could tip the balance one way or another in the decision-making process.

Personal relations between leaders matters because it sets the tone for how bilateral issues are approached and addressed. But it can also matter if the leader has a personal interest in the issue or not. In the Canada-U.S. relationship, as in any bilateral relationship, leaders must prioritize what issues are worth raising or addressing at the highest level. For example, Prime Minister Diefenbaker, as a Westerner, cared about Western oil development, thus he used his personal relationship with President Eisenhower to argue the case for a Canadian exemption. Usually, the Prime Minister-Presidential relationship is not officially drawn upon until all other avenues for addressing the issue or irritant have been exhausted; though this does not stop the leaders from raising an issue informally when the opportunity arises such as at an international conference, as Diefenbaker did with Eisenhower at a NATO meeting. The Prime Minister and President usually sets the direction an issue ought to take, and leaves it to Minister’s and officials to work out the details. For example, Prime Minister Pearson cared enough to raise the issue of oil with President Kennedy, urging him not to revoke Canada’s MOIP exemption, but then during President Johnson’s administration Pearson had other priorities, and Johnson tried to keep aloof from oil issues, thus oil and gas developments were handled by Ministers and officials with
little involvement from the leaders. In another instance, Trudeau agreed to allow discussions
with the U.S. to take place between 1969 and 1973 on a continental oil agreement even though
he was probably not keen on the idea. On the other side, Nixon believed Canada could play an
important role in U.S. oil and gas policy and supported a continental oil agreement but insisted
through his officials that Canada had to ‘carry its weight’ with respect to securing its supply in
case of war. Although there was a cool civility between Trudeau and Nixon publicly, it seems
that Nixon and his officials did not trust Trudeau to honour a continental oil agreement if
imported supplies into Eastern Canada were cut off, and sought concrete actions by Canada to
secure supplies before an agreement was reached. Ultimately, leaders are brought back into the
process once a serious obstacle needs to be overcome that can only be resolved through a Prime
Minister’s or President’s decision; and they will also make the final decision. Thus, even though
Johnson removed oil policy from the White House, and delegated authority to the Secretary of
Interior and his officials, Johnson still had the final say of whether or not the 1967 secret
agreement with Canada on limiting oil exports in return for approval of an oil pipeline to
Chicago was acceptable.

Nevertheless, the power of the Prime Minister or President is limited to some extent by
the ability and inclination of officials to follow the direction set out by the leader. As we saw
with the MOIP exemption, President Eisenhower’s desire to exempt Canada was nearly thwarted
because some State Department officials did not want to give Canada preference unless
Venezuela was treated similarly. Canada was well-served by its officials who masterfully
utilized personal diplomacy and well-developed transgovernmental networks to make the case
for a Canadian exemption. As discussed above, the transgovernmental networks were also very
successful at times when the leaders’ priorities were elsewhere and authority was delegated to
Ministers/Secretaries and officials. In addition, during the early 1970s when Canada was deciding to phase out its oil exports to the U.S., the transgovernmental networks in oil and gas relations that had developed over the preceding decade were employed to notify the U.S. some time in advance of Canada’s intentions. Yet the transgovernmental networks and personal diplomacy of officials can also be limited, particularly when the poor personal relationship between leaders creates a cool or hostile environment. The best example of this phenomenon is the break down of the personal relationship between Prime Minister Diefenbaker and President Kennedy. Regardless of the networks created over time by the Canadian Ambassador, the dedicated Canadian energy counsellor, or other officials, doors were shut and Canadian officials found that American officials were not receptive to Canadian viewpoints. What this study has demonstrated is that the role of personalities—the individual personalities of leaders, the personal relationships between leaders, and the personalities of officials and their transgovernmental networks—played an important part in Canada-U.S. oil and gas relations in the period under study.

In the end, how does this study contribute to and inform the literature on Canada-U.S. oil and gas relations, and our understanding of this relationship? The strong comparative aspect of this study provides a new perspective on many aspects of Canada-U.S. oil and gas relations from America’s decision to exempt Canada from its MOIP to Canada’s decision to phase out oil exports. For example, assessments of America’s MOIP mention Canada’s exemption as an expected and simple matter, not deserving of much attention. As this study has shown, Canada’s exemption was hard won, was not predetermined, and would not have happened without the good personal relationships between Eisenhower and Diefenbaker and the efforts of key officials. It also set the stage for Canada’s NOP. New understanding of the NOP is revealed here
as the archival evidence indicates that interest groups had less influence than commonly asserted. The desire to maintain the MOIP exemption that was granted with Eisenhower’s personal involvement, which Diefenbaker likely did not want to betray, had more influence.

New light is also shed on the Canada-U.S. oil and gas relationship during the Kennedy and Johnson period. The poor personal relationship between Kennedy and Diefenbaker is commented upon often in the historical literature, but this study provides evidence of how Kennedy’s dislike manifested itself negatively in oil and gas policy decisions with the MOIP exemption almost being revoked, and gas pipeline decisions delayed. Similarly, the historical literature often comments upon the friendly relations between Kennedy and Pearson, in Chapter 3 evidence of tangible benefits of those good relations is presented when Pearson convinced Kennedy not to revoke the MOIP. Neither the Canadian nor the American literature discusses events during the Johnson-Pearson period. Perhaps that is because there were no major decisions made. Nevertheless, the significant contribution this research makes is to reveal the importance of Presidential involvement in the decision- and policy-making process, and the importance of the transgovernmental networks of officials. By disengaging himself from oil policy, President Johnson effectively let oil policy drift rudderless, which encouraged interdepartmental power struggles. The power struggle in this case involved Canada as one of the key officials sought to reduce Canadian oil exports to the U.S., while another supported the maintenance of Canadian oil levels. Canada’s fight to preserve its access to the American market is rarely if ever discussed, nor the success of the networks between Canadian and American officials in maintaining increases in Canadian oil exports as was analysed here. Furthermore, it was surprising to discover that there was some discussion of a continental oil and gas policy in this period, even though it did not materialize.
Another revelation, because it was rarely mentioned in the secondary sources, was found in the archival records on negotiations between 1969 and 1973 for a continental energy and then a scaled back continental oil policy. Significantly, Canada, rather than the U.S., introduced the idea for a continental energy agreement. Although these discussions also did not result in an agreement, they revealed the assumptions, tactics, and divisions within the Canadian and American approach to continental trade in oil. Given that it took just over two years to negotiate the comprehensive Free Trade Agreement of 1988, and that after four years of negotiations Canada and the U.S. could not agree on a bilateral oil agreement, indicates that one or both were not serious about it. The evidence demonstrates that Canada used the discussions as a delaying tactic while it set about reorganizing and re-evaluating its oil and gas policy. In both the Canadian and American literature, Canada’s decision to phase out oil exports in 1974 is usually only mentioned in passing, when it is mentioned at all. This is unusual for such a momentous policy shift. Perhaps part of the reason for the past lack of interest is that internal government documents relating to this decision have only recently become available. What these newly released documents reveal, contrary to the popular view, is that the Trudeau government began planning for a state oil company and an expanded and more centralized federal role in oil and gas development before the first oil crisis of 1973. Another important revelation is the extent of the bureaucratic restructuring of the oil and gas policy-making process undertaken by Trudeau, and the resultant power struggle between the NEB and EMR.

Collectively, perhaps the most significant contribution this study makes on our understanding of Canada-U.S. oil and gas relations is the importance of the personal relationships between the Presidents and Prime Ministers, the actions of key officials, and the transgovernmental networks of officials. The significance of the various people involved in
developing policy, and influencing and making decisions is more evident when there is more archival information available. This research has demonstrated that at the various discussed turning points in the Canadian-American oil and gas relationship, what made the difference were the actions and relationships of leaders, which filtered down to their officials and the transgovernmental networks.

With respect to transgovernmental networks, what is presented here is but a small window on the links and relationships that have developed over time between Canadian and American officials. The strong relationships that had built up during the 1950s through the early 1970s helped to ensure that Canada’s position was strongly represented to those who mattered. However, the influence of officials and the effectiveness of the networks in exerting influence on policy depended upon the level of support from the President or Prime Minister. Nevertheless, even when Presidential or Prime Ministerial support was lacking, the transgovernmental networks were usually successful at maintaining contacts and preserving the status quo. Ultimately, in the period under discussion, in oil and gas issues, it is apparent that the personal relationships between Presidents and Prime Ministers, the individual personalities of leaders and key officials, as well as the networks between key officials across the border, consistently made the difference on whether and what form of continentalism was chosen when and why.

Further study could be done on tracing more of the connections between officials, and perhaps explore what networks existed between various officials and industry representatives from the 1950s onwards. Another area for further research raised by this study is the altered importance of Venezuela in U.S. oil policy in the early 1970s. Where concerns about Venezuela were significant during the 1950s and 1960s and influenced American oil policies towards
Canada, during the discussions on a continental oil policy in the early 1970s and afterwards, there is almost no consideration of the impact on Venezuela.

Given that this study ends before the controversial period of the 1980s, perhaps the most important contribution it makes to our knowledge of Canada-U.S. oil and gas relations is the necessary foundation it provides to explore the two seminal events that followed the oil export phase out decision of 1974: the National Energy Program (NEP), and its policy legacy of the continental oil and gas agreement found in the energy chapter of the FTA. Once more archival documents are declassified and personal papers of the politicians and officials involved are made available, more research might be undertaken into the details surrounding the development of the NEP, and on the study groups and negotiating positions regarding the energy chapter of the FTA. This might shed light on the specifics surrounding the decision-making processes in Canada and the U.S. concerning what finally comprised the continental oil and gas agreement as the FTA energy chapter. Ultimately, this study ought to be seen as the first part of a two-part study evaluating the relative importance of various factors, including and especially the role of personalities – the relationship between leaders, and the role and influence of key officials including transgovernmental networks – in defining the timing and the character of the continental oil and gas relationship.
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    Job 1012
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    Job 1401
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    Job 1408
    Job 1413
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    Job 1416
    Job 1418
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    Job 1433
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