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Pat Carney and the Dismantling of the National Energy Program

by

Tammy Lynn Nemeth

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Name of Author: Tammy Lynn Nemeth

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Tammy L. Nemeth
1322-8th Avenue North
Regina, Saskatchewan
S4R 0E9

09.25 '97

University of Alberta

Faculty of Graduate Studies and Research

The undersigned certify that they have read, and recommend to the Faculty of Graduate Studies and Research for acceptance, a thesis entitled "Pat Carney and the Dismantling of the National Energy Program" by Tammy Lynn Nemeth in partial fulfilment of the requirements for the degree of Master of Arts. in History.

Dr. D. Mills

Dr. K. J. Munro

Dr. K. H. Norrie

Dr. P. Voisey

Dr. A. C. Gow

07.03.97

ABSTRACT

In the context of Canadian energy policy since 1947, the Progressive Conservative initiative of 1984-1985 represented a distinct change not just in how policy was formulated but also in their vision of Canada. The Liberals, especially under Trudeau, centralized power in Ottawa, created an atmosphere of confrontation with Alberta, and relied heavily upon the bureaucracy to assemble their National Energy Program. Conversely, the Tories endeavoured to decentralize government, encourage cooperative federal-provincial relations, and develop an energy policy outside of the bureaucracy through consultation with the industry. Patricia Carney played a vital role while she was first Opposition energy critic and then Minister of Energy, Mines and Resources. She emphasized consultation and cooperation with the industry and provinces and accepted most of their input uncritically. These developments are explored through an examination of the policy-making process developed in Opposition, and then put into practice after the Conservatives took power in 1984.

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INTRODUCTION

> In a very constructive reaction to the NEP policies of the previous Government, the Progressive Conservative Party caucus released its energy policy principles in Prince Albert in July of 1984, and again in Halifax in August of that year. These were energy resource[s] as an engine of economic growth; energy self-sufficiency; increased Canadian participation; fair treatment of energy consumers and producers, and cooperation between the federal and provincial Governments and the industry. Canadians were presented with a choice on energy policy in the last election campaign and they voted for a new approach - they voted for an end to the National Energy Program.[1]
>
> -- Patricia Carney

On 30 October 1985, Patricia Carney, Minister of Energy, Mines and Resources for the Progressive Conservative Government, introduced the policies that effectively dismantled the previous Liberal government's National Energy Program [NEP]. In tabling the policy document, Canada's Energy Frontier - a Framework for Investment and Jobs, to the House of Commons she stated: "...It is a privilege and an honour for me to announce that on Monday, October 28 [1985], when we marked the fifth anniversary of the NEP, [it] was the last anniversary of the NEP."[2] Exuberant cheers of "Hear, hear!" followed her declaration. The following day Carney introduced the Agreement on Natural Gas Markets and Prices, the last of three agreements between the federal government and the Western Provinces which concluded the process. Addressing the House of Commons Pat Carney announced:

> The Atlantic Accord, the Western Accord, the frontier energy policy which I announced yesterday, and this latest agreement on natural gas, represent the beginning of a new era for consumers and producers. We have moved Canada into an environment which is free of excessive regulation, unfair taxes and intervention in the marketplace. It will be an era of economic promise.[3]

After little more than a year of negotiating with the producing provinces and the oil and gas industry, the controversial policy was gone. The Progressive Conservatives (PCs) accomplished what they had promised during the 1984 election campaign; they eliminated the NEP.

There are many in ways in which an historian can approach the Conservative policy-making process that resulted in the dismantling of the NEP. Quite often historians and political scientists have focussed on the Prime Ministers as being responsible for their parties' policies and actions of the people around them.[4] Others might look at the role of the bureaucracy in the formulation of energy policy, but since the policy was actually conceived while the PCs were in opposition, the participation of the bureaucracy was essentially confined to its implementation rather than its formulation.[5]

In this case, however, it is necessary to approach the policy-making process in energy through the experiences and actions of Pat Carney rather than Brian Mulroney or the bureaucracy in Energy, Mines and Resources. Although the Progressive Conservatives would have dismantled the NEP without her, the manner in which the basic principles and policies were developed, and the final content of the agreements with the producing provinces, were a direct result of Pat Carney's personal influence. The importance of an individual, other than the Prime Minister, and his or her influence on events cannot be underestimated or overlooked because in ". . . energy politics, ideas are central and personalities, egos and reputations are rampant."[6]

If Pat Carney, then, was central to the policy-making process, it might be argued that the best means to approach this subject might be through her biography. Although Carney was the key player in formulating the PC policy, it would be difficult in this case to use a biographical approach because there is not sufficient information on Carney herself, how she affected the people around her and how she perceived the events.[7] The information available is mostly written by journalists, in the form of newspaper interviews, and there is very little academic writing about Carney. While journalistic reports are informative they lack the corroborating evidence and in depth study of a subject that an academic analysis may provide. In addition, only a fraction of Carney's manuscript collection is accessible to the public and it is difficult to gain permission to examine the information, while it is possible to gain access to some of the Provincial and Federal Government documents.[8] Therefore, this thesis will focus primarily on the process of developing PC energy policy and Carney's influence upon it.

Since Carney is at the centre of the policy-making process some might argue that a gender model might be used to examine the issue from the perspective of Pat Carney as a woman in politics.[9] In the past decade there has been a considerable amount written about women in politics. Unfortunately, most of the literature has been concerned with how women have been discriminated against in the Canadian electoral system rather than examining what women have indeed accomplished.[10] A recent article by Margaret Conrad has suggested that academics focus more on women in the Liberal Party or the CCF/NDP than on Progressive Conservative women.

She points out, in her discussion of Ellen Fairclough, for example:

> . . . the fact that Fairclough is still alive - historians seem to prefer dead subjects; that she represented a party [the PCs] which draws less scholarly attention than other parties at the centre and left of the political spectrum; that she frequently and passionately declares that she is not a feminist, a position not likely to endear her to women's studies scholars who might otherwise find her story interesting; that gender

> historians have pointedly criticized a scholarly focus on the experience of middle-class, white women who, it is claimed are over represented in the women's studies cannon; that both biography and women's history are still frequently discounted in academic circles as less sophisticated and relevant than either gender studies or the 'new' national history.[11]

Conrad's objective to introduce "the sticky question of gender into a period of Canadian political history where the concept is frequently ignored,"[12] is a noble and necessary one for other political studies. The problem of approaching this topic from a purely gender-based perspective is that there has been little written about Pat Carney in general and more important, her gender did not influence how she made policy.[13] Certainly, there is no doubt that Pat Carney's gender affected her experiences and the way certain individuals interacted with her; a purely gender-based approach though would obfuscate the most important features that Carney brought with her into the energy portfolio: a background in economics, experience in owning and operating a business, and previous contact with the oil and gas industry.[14]

The purpose of this thesis is to show the importance of Pat Carney in the formulation of the Progressive Conservative Party's energy policy in the period from 1983 to 1985 when the Conservatives moved from Opposition to the Government, led by Prime Minister Brian Mulroney. The first chapter will survey energy policy in Canada from 1947 to 1984 and include an examination of the National Energy Program to provide an understanding of the animosity it created. The background information will provide a contextual overview to illustrate the profound differences in the policy-making process that emerged under the PCs in the 1980s as compared to the policy development of the Trudeau government. Where the Liberal energy policy was driven by the bureaucracy under the direction of the Energy Minster

Marc Lalonde; the PCs were guided by the industry which worked closely with Pat Carney while she was still in Opposition.

The second chapter will delve into the background of Patricia (Pat) Carney. She firmly believed, as did the Conservatives, that there should be less government intervention in business and more cooperation between Ottawa and the provinces. PC energy policy revealed a vision of a new Canada - with improved relations between government and business and a commitment to economic rather than bureaucratic growth; and a more decentralized federation reflecting the equal partnership between federal and provincial governments.[15] The NEP was a symbol of all that was wrong with the Liberal idea of Canada and for that reason its elimination became a priority for the Conservatives. Carney's personality, business background and personal philosophy were also central to the process and first as critic and then as minister she played an important role in shaping Conservative energy policy.

The third chapter will analyse, in chronological order, how Carney formulated that policy when she was in Opposition by examining the suggestions presented by industry and provincial representatives, gathered from various policy papers, and outlined in pre-election platforms. The recommendations of the six industry task forces or study groups that Carney created will be scrutinized to determine the degree of influence they had on the final content of PC energy policy. These proved to be vitally important because she largely accepted the industry's input into the policy-making process.

The fourth and final chapter will examine the dismantling of the NEP through a survey of the four policy documents that were announced in 1985. It will also evaluate the extent that the Conservative energy program, developed while in opposition, was incorporated into their actual policy after they assumed power. The PC policy-making process, between 1983 and 1985, represented a significant change from the Liberal Party's methods of the 1970s and 1980s. The Mulroney-led Conservatives were cooperative and consultative rather than confrontational and secretive; their election marked the beginning of a new era in Canadian politics and an attempt to reconstruct the country along new lines. Pat Carney would play an important role in that process.

NOTES for INTRODUCTION

1. House of Commons, Debates, 30 October 1985, 8182.

2. Ibid. The purpose of the document was to review "the policy initiatives which will underly our [PC] new legislation [The Canada Petroleum Resources Act]."

3. National Archives of Canada (NAC), Record Group (RG) 21, Volume (Vol.) 25, File 85/163 Accession (ACC) 90-91/030, Honourable Pat Carney, Notes for an Address in the House of Commons, 31 October 1985: 1.

4. See for example, Michael Bliss, Right Honourable Men: The Descent of Canadian Politics from Macdonald to Mulroney (Toronto: Harper Collins, 1994); Stevie Cameron, On the Take: Crime, Corruption and Greed in the Mulroney Years (Toronto: Macfarlane, Walter & Ross, 1994); Stephen Clarkson and Christina McCall, Trudeau and Our Times: Volumes 1 and 2 (Toronto: McClelland & Stewart, 1990 & 1994); J.L. Granatstein and Robert Bothwell, Pirouette: Pierre Trudeau and Canadian Foreign Policy (Toronto: University of Toronto Press, 1990); Martin Lawrence, Pledge of Allegiance: The Americanization of Canada in the Mulroney Years (Toronto: McClelland & Stewart, 1993); Linda McQuaig, The Quick and the Dead: Brian Mulroney, Big Business, and the Seduction of Canada (New York: Viking, 1991); John Sawatsky, The Insiders (Toronto: McClelland & Stewart, 1987); Warner Troyer, 200 Days: Joe Clark in Power (Toronto: Personal Library Publishers, 1980); Donald C. Wallace, "Friends and Foes: Prime Ministers and Premiers in Intergovernmental Relations," in Prime Ministers and Premiers: Political Leadership and Public Policy in Canada, eds. Leslie A. Pal and David Taras (Scarborough: prentice-Hall Canada, Inc., 1988), 69 - 87.

5. There are mixed opinions on whether or not the PC energy policy was formulated while in opposition. For example in David Bercuson, J.L. Granatstein, W.R. Young, Sacred Trust?: Brian Mulroney and the Conservative Party in Power (Toronto: Doubleday Canada, 1986), the authors state "Carney became energy critic in 1983 and immediately got to work studying the NEP. . . . She set up industry study groups, solicited advice from the oil companies, and held discussions with the leaders of the producing provinces to get a firm grasp on what they thought was wrong with the NEP." Although the authors go on to say that Carney was determined to dismantle the NEP and implement a more market-oriented approach to Canadian energy policy, the phrasing suggests that only general principles were developed and not specific policies. (149). In an article entitled, "The Evolution of Canada's New Energy Policy," in Canada: The State of the Federation 1986, ed. Peter M. Leslie. (Kingston: Institute of Intergovernmental Relations, 1986), David C. Hawkes and Bruce G. Pollard argue that the PC energy policy was not developed until the PCs were elected in 1984. (155 - 156). Newspaper articles of the time acknowledged that consultation took place while the PCs were in opposition, but that "it's one thing to be a critic and throw stones at the government side and quite another to be minister-on-the-spot." [Vancouver Province, 18

September 1984.] See also Montréal Gazette, 19 September 1984, and The Globe and Mail, 18 and 28 September 1984. However, Glen Toner, in his article "Stardust: The Tory Energy Program" in How Ottawa Spends 1986 - 87: Tracking the Tories, ed. Michael J. Prince (Toronto: Methuen, 1986), 120 - 122, contends that the basics of the Tory energy policy were formulated in opposition, and reiterates that claim in the conclusion of his book, written with Bruce Doern, The Politics of Energy: The Development and Implementation of the NEP (Toronto: Methuen, 1985), 470 - 472. Also, some media articles in this period suggest that PC energy policy was developed as a result of discussions with the provinces and industry representatives while the Tories were in opposition. See in particular, Vancouver Province, 22 July 1984; Oilweek 13 January 1986, 7 - 9; Winnipeg Free Press, 12 July 1984. Some sources that deal with the role of the bureaucracy in Liberal policy formulation are Peter Aucoin, "The Machinery of Government: From Trudeau's Rational Management to Mulroney's Brokerage Politics," in Prime Ministers and Premiers, eds. Leslie A. Pal and David Taras, 50 - 69; Clarkson and McCall, Trudeau and Our Times Volumes 1 and 2; Doern and Toner, Politics of Energy; Peter Foster, The Sorcerer's Apprentices: Canada's Superbureaucrats and the Energy Mess (Toronto: Collins, 1982); John N. McDougall, Fuels and the National Policy (Toronto: Butterworth & Co., 1982); David Milne, Tug of War: Ottawa and the Provinces Under Trudeau and Mulroney (Toronto: James Lorimer & Co., 1986); Richard J. Van Loon, "Kaleidoscope in Grey: The Policy Process in Ottawa," in Canadian Politics in the 1980s Second Edition, eds. Michael Whittington and Glen Williams (Toronto: Methuen, 1989), 16 - 38.

6. Bruce Doern and Glen Toner, The Politics of Energy, 2.

7. Bliss, Right Honourable Men, xv. Bliss argues in his introduction that historical biography is not necessarily a bad method to approach history: ". . . there is no flaw in seeing human history as the sum of individual lives, as collective biography. The interaction of humans with the situations they confront, what Creighton called the interplay of character and circumstances, is the warp and woof of all history . . . ."

8. For a more detailed description of the difficulties this author experienced in gaining access to information refer to the **Note on Sources** on page 185.

9. Susan Mann Trofimenkoff, "Feminist Biography," Atlantis 10:2 (Spring 1985): 1-9.

10. Sylvia Bashevkin, Toeing the Lines: Women and Party Politics in English Canada (Toronto: University of Toronto Press, 1985); Penney Kome, Women of Influence: Canadian Women and Politics (Toronto: Doubleday Canada, 1985); Linda Kealey and Joan Sangster, "Introduction", in Beyond the Vote: Canadian Women and Politics eds. Linda Kealey and Joan Sangster (Toronto: University of Toronto Press, 1989), 3 - 15; Jill McCalla Vickers, "Feminist Approaches to Women in Politics," in Beyond the Vote: Canadian Women and Politics eds. Linda Kealey and Joan Sangster (Toronto: University of Toronto Press, 1989), 16 - 38; Gertrude J. Robinson, Armande Saint-Jean and Christine Rioux, "Women Politicians

and Their Media Coverage: A Generational Analysis," in Women in Canadian Politics: Towards Equity in Representation ed. Kathy Megyery (Toronto: Dundurn Press, 1991), 127 - 164.

11. Margaret Conrad, "'Not a Feminist But . . .': The Political Career of Ellen Louks Fairclough, Canada's First Female Federal Cabinet Minister," Journal of Canadian Studies 31:2 (Summer 1996): 6.

12. Ibid.

13. One of the better books written about women in politics, because it does not take a purely feminist approach, is Sydney Sharpe's, The Gilded Ghetto: Women and Political Power in Canada (Toronto: Harper Collins, 1994).

14. Vancouver Province, 18 September 1984. In addition, Carney had long been a woman working in a man's world; thus by the 1980s this was not an issue for her. In a recent interview Carney clarified the gender issue: "I worked almost exclusively in an all-male atmosphere because that [was what] I was interested in, resource economics . . . That was the atmosphere of [the times]. . . . I had worked in that milieu and it was a matter of indifference to me. . . . There were exactly two women in the Conservative caucus when I was elected . . . even the caucus wasn't used to women. . . . But that was the atmosphere we worked in, so I mean if you let it get to you, you wouldn't be able to work." Senator Patricia Carney of British Columbia, telephone interview by author, 19 June 1997, tape recording and transcript, 10.

15. For example, Pat Carney, while in Opposition, made a scathing attack on the growth of the EMR bureaucracy to the House of Commons: ". . . [T]he only employment opportunities created by the minister's National Energy Program are in his own department, which has increased by 160 per cent in the last two years and 300 per cent in the last three years - according to the estimates 717 additional people in the first two years, and 873 over the last three years. Is the minister preparing to cut back on his own staffing requirements, or is his NEP geared only to promoting public sector rather than private sector employment?" House of Commons, Debates, 3 May 1982, 16822.

CHAPTER 1
Canadian Energy Policy 1947-1984

The large quantities of oil and natural gas discovered at Leduc, Alberta in 1947 and throughout the province afterwards, had a profound effect on the economic future of this province and Canada. Energy policy would affect relations between Alberta and Ottawa and accent the differences in how each approached energy policy. Alberta, as a producing province, was dedicated to defending its provincial rights with respect to resources and emphasized cooperation with the industry in policy development. There was little federal intervention or involvement in the development of the oil and gas industry in Alberta, mainly because oil prices were very low in the postwar period. The Social Credit government of Ernest Manning, as manager of the provincial resources, encouraged the large multinationals to develop Alberta's oil and natural gas.[1] In exchange, Alberta received many jobs, minimal work commitments and a fraction of the revenue generated by the development. Alberta's economy prospered. Growth continued throughout the 1950s and 1960s and Alberta became the most populous and most powerful prairie province. The development of the oil and gas industry in Alberta also produced an increase in urban professionals: "[The] economic boom in the cities during the 1950s created immense opportunities for skilled immigrant workmen, technicians, and professionals."[2] Manning's policy of encouraging the multinationals to exploit and develop the resources "was safe, relatively lucrative, and resulted in rapid development."[3] Nevertheless, Canadian companies were also involved in the development of Alberta's oil and gas fields, but they were dependent upon the major companies which had the large sales contracts and purchased the oil and gas from the Canadian companies.[4]

The decade of the 1950s was one of unprecedented expansion of the oil and gas industries. The production of oil went from 30 million barrels in 1950 to 190 million in 1960. In the same period the production of natural gas swelled from 70 million cubic feet to 500 million cubic feet.[5] With the increase in production it became necessary to transport the oil and gas to suitable markets. As a result, in the period between 1947 and 1971 there were only two main issues that preoccupied both the Alberta and Federal governments: the development of the Western oil and gas industry, and the establishment of a transportation system to move the Western oil and gas to the large consumer markets of Eastern Canada and the United States.[6]

There were some parliamentary debates in this period about the extent to which Canadian oil and gas should be used to meet Canadian requirements, although the more contentious issue proved to be the route which a pipeline should take. C.D. Howe, Minister of Trade and Commerce in the early 1950s, stated that oil and gas should be purchased from the cheapest source and moved to markets nearest the source of supply.[7] The Interprovincial Pipeline Company proposed to build an oil pipeline to Eastern Canada via Superior, Wisconsin rather than through Fort William, Ontario. It was the cheapest route and could also be utilized to export oil to American markets, thus improving the efficiency and profitability of the supply system.[8]

The idea of a pipeline transporting Canadian oil to Canadian destinations through the

United States provoked some controversy, but the transportation of natural gas created even greater opposition because first, the Canadian government was going to provide a large loan to an American-controlled company, and then the Liberal government invoked closure to end the debate. The Progressive Conservatives led by John Diefenbaker were outraged and argued that the use of closure made a mockery of democracy. Nevertheless, the bill was passed and pipeline construction continued.[9] The Pipeline debate polarized public opinion against what appeared to be an arrogant Liberal party too long in power, and in a surprising turn, Canadians swung to the PCs in the general election on 11 June 1957.

In October 1957, the minority Diefenbaker government appointed a Royal Commission 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 made several recommendations, however, the most important was the creation of the National Energy Board (NEB) that would act as an independent agency to monitor the petroleum industry.[10]

The second report, presented in 1959, stated that Canada had ample oil reserves to meet national requirements and therefore it was acceptable to increase oil exports. 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 oil. Oil exports to the United States were to be increased to compensate Western producers for the loss of the Montréal market.[11] This became the central tenet of the National Oil Policy (NOP) announced by the Diefenbaker government in 1961.

The NOP was probably the most significant energy policy development at the federal level before 1973. It allowed the Interprovincial Pipeline to carry oil produced in the Western provinces to Ontario while the market east of the Ottawa River would receive imported Venezuelan oil. Alberta could increase production and export oil to the expanded markets of the American Midwest and West Coast. Ontario was somewhat annoyed because at this time oil from Western Canada was more expensive than imported oil. However, in exchange for paying the higher prices, Ontario maintained its expanding petro-chemical and refining industries.[12]

The NOP also established the *Canada Oil and Gas Lands Regulations* to govern the development of federally-controlled land in the northern frontier. The new regulations, developed partially in response to the alarming level of foreign ownership in the Canadian oil and gas industry, served to restrict production licenses to Canadian owned firms or foreign controlled firms in which Canadian's could invest.[13] But the regulations provided few restrictions regarding exploration licenses, and exploration was the most important aspect in the Frontiers or Yukon and Northwest Territories.[14] Therefore, the federal government decided to become directly involved in the oil and gas industry and purchased 45 percent of PanArctic oils. PanArctic then undertook high risk oil and gas exploration in the Arctic, and reflected Diefenbaker's vision of the North as the future of Canadian resource and economic development.[15]

There were no significant controversies during the 1960s and no major policy initiatives were introduced between 1962 and 1972. The prices for oil and gas were stable and Canadians were assured by the industry that there was an abundance of oil and gas supplies in the country. At the same time, Canadian oil and gas consumption and the export of Canadian oil and gas grew steadily.[16] Although there was a sense of optimism that Canada had energy supplies that would last several hundred years, Ottawa began to realize that it relied heavily upon the industry for most of its information about the oil and gas development. Thus, the Government of Canada created the Department of Energy, Mines and Resources (EMR) in 1966. The new department was given a broad mandate that "covered energy in all of its forms, to ensure that national developmental policies were related in the most effective and economic manner to Canadian needs."[17] EMR was also responsible for energy policy development and coordination for the federal government.

If the 1950s and 1960s can be characterized as a period of cooperation between government and the industry and between Ottawa and Alberta, the 1970s and early 1980s were definitely an era of crisis and conflict. The period began ominously. In 1970 the United States began reviewing its oil import policy and found that it had become too dependent on oil imports; the result was a Presidential proclamation restricting Canadian oil imports. A year later the United States made drastic changes to its trade policy, including a 10 percent surcharge on all dutiable imports, like oil and natural gas.[18] Both measures provoked a strong response from the Canadian government because the Americans had acted unilaterally. There was also a fear that the United States was going to replace Canadian oil with the recently-discovered oil from Prudhoe Bay, Alaska. Then world events would shake the Canadian energy industry and force the Canadian government to generate specific energy policies in reaction to them.

The Organization of Petroleum Exporting Countries (OPEC) was formed in 1960 so that its member countries of Venezuela, Saudi Arabia, Iraq, Iran, and Kuwait could exert more control over the pricing, conservation, production and exploitation of oil resources within each country's borders;[19] (in 1962 Libya and Indonesia were added.) Throughout the decade of the 1960s OPEC was largely ineffectual. The turning point came in 1969 when there was a military coup in Libya led by Colonel Mohamar Khaddafi. After he consolidated his power, he successfully imposed new operating terms on the foreign oil companies operating in his country. Libya received higher posted prices and more tax revenue from the petroleum industry.[20] When the other OPEC countries saw that Libya received better arrangements they attempted to renegotiate their agreements with the petroleum companies. They were not satisfied with the results, and OPEC unilaterally increased prices and taxes, cut production, and nationalized some of the oil companies operating in their respective countries.[21] The consequence was the oil crisis of 1973 which was sparked by a fourfold increase in oil prices; an oil embargo by OPEC against the United States, South Africa, the Netherlands, and Portugal; and a five percent cut in production per month by OPEC countries until Israel removed its forces from Arab territory occupied since 1967.[22] Between 1970 and 1975 the price of crude oil increased from $1.80 to $12.38 (U.S.) per barrel and the multinational companies began to assert that oil and gas reserves would not last long into the next century.[23]

The oil crisis came as a shock to most countries in the world and in Canada, on 6 December 1973, Prime Minister Pierre Trudeau announced a revised Federal energy policy. The minority Liberal government took a number of haphazard steps to deal with the problems that increased prices would have on Canada:

. . . in quick succession, the government imposed oil export controls, similar controls

> over the export of refined products, announced the extension of the Interprovincial oil pipeline to Montreal, froze domestic oil prices, levied an export tax on crude oil, developed an oil import compensation scheme to protect consumers dependent on imported oil, considered and rejected acquiring a subsidiary of one of the major multinational oil companies, and contemplated the imposition of oil rationing.[24]

The Liberal government also declared that it was going to increase the amount of research into developing the oil sands and establish a national oil company, Petro-Canada.[25] There were several reasons why Ottawa wanted to do this:

> Contributing factors to this decision [establishing a national oil company] were Ottawa's concern about the vulnerability of Québec and Atlantic Canada to interruption in world markets; Ottawa's growing frustration with its lack of control over security of supplies; the growing popularity among the producing nations with state-to-state contracts; Ottawa's recently recognized lack of solid information with respect to Canada's indigenous supplies and reserves and the growing apprehension of being dependent on the foreign-owned industry for this information; . . . the growing acceptance among the bureaucrats in the Department of Energy, Mines and Resources that a state oil company could extend their control over the energy sector and expand their departmental influence, and the fact that the minority Liberal government was dependent for its parliamentary life on the support of the NDP who advocated the creation of a state oil company.[26]

While the New Democrat Party urged a stronger move toward nationalization, the Liberal government, which sought more control of the oil and gas industry, did not want to go as far as certain OPEC countries and nationalize the industry. The compromise was Petro-Canada which was "an alternative to nationalization, rather than an instrument of nationalization."[27] Nevertheless, the policies put forward by the Liberal government were reflexive in nature, rather than a concerted effort to design a forward-looking and comprehensive energy policy.

The various federal energy policy initiatives in 1973 and 1974 created a great deal of tension between Ottawa and Alberta. In 1971, there had been a provincial election in Alberta and the Social Credit government was defeated after thirty-six years in power. The revitalized

Progressive Conservative Party, led by Peter Lougheed, swept the election on a platform of using oil and gas revenues to promote and diversify Alberta's economy.[28] In 1972, Alberta introduced the *Natural Resources Revenue Plan* that was designed to increase the royalty levels from the fixed maximum of 16⅔ percent. Through negotiations with the industry, it was agreed that the Government of Alberta would impose a tax on remaining oil reserves and implement a maximum royalty rate of 23 percent.[29] Nevertheless, the industry was not happy and for the first time, "the government of Alberta perceived that it had a set of interests related to oil and gas that were distinct from those of the industry."[30] The increased royalty would prove to be more substantial when the price of crude oil began to spiral up.

Early in 1974, according to Trudeau's memoirs, the minority Liberal government engineered the defeat of its budget in the House of Commons so that an election could be called and it could win a majority.[31] The 1974 budget contained provisions to retaliate against Alberta's moves to take a larger proportion of the windfall profits of increased oil prices. Finance Minister John Turner presented amendments to the Income Tax Act to disallow the deductibility of provincial royalties from federal income tax. Thus, the industry would be taxed as if no provincial royalty had been taken.[32] Then a year later the federal government created the Petroleum Administration Act to provide Ottawa with broad powers over the pricing of oil and gas if federal-provincial negotiations failed to provide a consensus. In the House of Commons Trudeau stated: "We do not think it equitable or fair that surplus profits return solely to the provinces producing oil. In the government's opinion, the whole country should take benefit from any windfall profits."[33] In order to receive some of the windfall profits, the federal government imposed an export tax on oil that happened to be the same amount as the increase in price.[34] The irksome part of the federal actions was that they were done with little or no consultation with the producing provinces or the industry.

Alberta's reaction was to move unilaterally. It withdrew the previously agreed-upon royalty arrangement with the industry and made royalties rise with oil price increases. Alberta announced that it would take 65 percent of the increase in the domestic oil price. The reasoning was that if the oil companies had been making satisfactory profits when oil was $2.85 per barrel, they did not need the windfall profits when the production costs had not increased. The industry was shocked since it had always been consulted by the provincial government and raised vocal objections. Then in the spring of 1974, and in response to both the federal and provincial policies, it laid people off, cancelled projects, and slashed exploration budgets. But the grand spectacle came when, in front of television cameras, several of the major companies moved many of their oil rigs south across the border.[35] Later in 1974, both Alberta and Saskatchewan introduced legislation to strengthen their constitutional control over the production, marketing, pricing and regulation of resources within the borders of each province.[36]

Both federal and provincial governments eventually realized that negotiations and concessions were necessary in order to reach some sort of agreement and revitalize the development of the oil industry. Alberta launched the Alberta Petroleum Exploration Plan that provided every company with a one million dollar tax credit. It also cut the marginal royalty rate on natural gas, increased drilling incentives, and promised to reduce the marginal royalty rate on further oil price increases from 65 percent to 50 percent. [37] In addition, a large portion of the money collected by Alberta was to be put in the Heritage Fund which was created in 1976 to diversify the provincial economy. A cornerstone of Lougheed's plan was the development of a provincial petrochemical industry. He intended that the Alberta petrochemical industry would compete with the plants in Sarnia, Ontario and tried, but failed, to prevent the expansion of the Petrosar plant in Sarnia.[38] In 1975 the federal government decided that synthetic oil produced from the Syncrude heavy oil plant would receive world prices. This decision was largely based on the fact that the Syncrude project was in financial difficulty and had to be bailed out by both the federal and Alberta governments. The prevailing view was that oil sands and heavy oil projects were vital to the future of Canadian energy security and therefore had to be promoted. A year later the federal government turned its 15 percent share in Syncrude over to Petro-Canada.

A series of federal-provincial negotiations took place during the 1970s to discuss pricing and revenue sharing. The dispute regarding revenue sharing revolved around the concept of economic rents.[39] The federal government was concerned that if the producing provinces increased their royalty rates in order to take a larger chunk of the economic rent it would mean that Ottawa would have to provide more money to the have-not provinces to maintain their standard of living. By 1977, Ottawa and the Alberta government arrived at a two-year crude oil pricing arrangement that would increase the price of oil by $1 per barrel at six-month intervals until the price reached 80 percent of world prices. Then in 1978 the federal government established the Petroleum Corporations Monitoring Act to report on the operations of certain petroleum companies in Canada which comprised 90 percent of the industry.[40] The two levels of government agreed to implement moderate price increases to ease the consumer into paying more for oil and by 1979 Canadian oil prices were approximately 80 percent of world prices.[41]

The second oil crisis came in 1979. The price of oil leapt from $12.70 in 1978 to about $18.00 U.S. per barrel.[42] This crisis was based largely on perception because in reality there was an oil glut. The international oil market has two ways to purchase oil; through the term market with prices set by the producing countries based on negotiated contracts; and on the spot market where short term volumes can be purchased at fluctuating rates. With the Iranian revolution in 1978, there was a slight decrease in production that was met by Saudi Arabia. However, the importing countries feared that there would be a shortage in the future. They panicked and stockpiled oil by purchasing large amounts from the spot market. The term market had a large surplus of oil, but the spot market had a shortage which increased the prices. Saudi Arabia tried to exert its influence to keep the term market prices low; unfortunately it was pressured by the other OPEC countries to increase the term market prices.[43] Therefore, it was "panic buying on the spot market [that] caused the world oil price to double."[44]

In Canada, a federal election was held in 1979 and the Progressive Conservative Party, led by Joe Clark, won and formed a minority government. The new government's energy policy promised energy self-sufficiency for Canada by 1990 and sought to promote Canadianization of the oil and gas industry through tax and investment incentives. To gain self-sufficiency, Canadians would have to conserve energy and find new alternative sources. The 1979 budget contained proposals for oil price and tax increases as well as a partial privatization of Petro-Canada. There was also an energy profits tax and an energy tax credit for lower and middle income Canadians.[45] In order to encourage energy conservation the

PCs decided that increased taxes on all transportation fuels should be imposed. There had been a seven cent tax on gasoline under the previous Liberal government from which commercial users had been exempted. Under the PC plan, commercial users would pay an additional 25 cents for fuel while fuel for personal use, like automobiles, would face an increase of 18 cents; farmers, fishermen, and urban public transit would pay 15 cents more. Revenues from the tax would be used for the development of alternative energy sources, conservation, assisting Canadians who were absorbing the higher costs, and paying off the large deficit accrued from the previous years of Liberal government.[46]

Joe Clark's brief government also attempted to negotiate a permanent energy agreement with Alberta but did not succeed. This was a significant failure for the Government since many of its Members of Parliament were from Western Canada. Clark was from High River, Alberta and the Minister of Energy, Mines and Resources, Ray Hnatyshyn, hailed from Saskatchewan. If a Prime Minister and Energy Minister, who were both from Western Canada, could not come to an agreement with Alberta regarding energy policy then who could?[47] In the end, the PC budget of 1979 was defeated; an election was called; and Trudeau and the Liberals were returned to office.

The election of the Liberals in February 1980 signified a turning point in the history of Canadian energy policy. On 28 October 1980, Finance Minister Allan MacEachen delivered a budget in the House of Commons which announced the creation of the National Energy Program (NEP). The NEP was developed during the spring and summer of 1980 under the direction of the Minister of Energy, Mines and Resources, Marc Lalonde.[48] There had been some perfunctory discussions with the producing provinces regarding energy policy, however, both sides were convinced that the talks had reached an impasse. "[T]here was therefore a pervasive climate of bureaucratic receptivity to take aggressive action to break the stalemate. In this important sense, the NEP and its unilateral nature was viewed as much as a bargaining ploy as it was a radical package."[49] A cohesive group of people known as ENFIN, "an acronym for 'energy-finance'"[50], worked diligently to prepare a comprehensive energy policy that would escalate the conflict over energy resources and federal-provincial powers in Canada. The Liberal energy policy was essentially driven by the bureaucracy and directed by key individuals like Prime Minister Trudeau, Energy Minister Marc Lalonde and Finance Minister Allan MacEachen.

Since the NEP contained several tax changes, it became part of the budget and its formation was cloaked in secrecy. There was no consultation with either the producing provinces or the industry. Essentially, the NEP had three main objectives:

> 1. It must establish the basis for Canadians to seize control of their own energy future through *security* of supply and ultimate independence from the world market.
> 2. It must offer to Canadians, all Canadians, the real *opportunity* to participate in the energy industry in general and the petroleum industry in particular, and to share in the benefits of industry expansion.
> 3. It must establish a petroleum pricing and revenue-sharing regime that recognizes the requirement of *fairness* to all Canadians no matter where they live.[51]

The first two objectives affected the foreign oil companies the most, while the third affected them to a limited extent since the revenue-sharing design was planned more to cut out the Alberta government's share of revenue than to reduce the companies' revenue. There was great concern in Ottawa that the powers of the Alberta government needed to be limited and the NEP was the mechanism that the federal government would use to achieve that result. Nevertheless, the primary goal of the NEP was to achieve energy security for Canada within a decade.[52]

Linked to the priority of Canadian energy security was the balance of payments problem faced by Ottawa. The Canadian government sanctioned subsidized imported oil for Eastern Canada so that the region would pay the same price as the area west of the Ottawa River which relied on cheaper Canadian oil. In 1980, Alberta was forced to sell its oil domestically at an average price of $15.75 Canadian per barrel, which was about 40 percent of the world price.[53] In addition, Canada was exporting less crude oil than it was importing; therefore, it had a trading deficit in petroleum products.[54] Energy security could not be achieved if Canada continued to import more oil than it exported and Canadians continued to consume large quantities of the imported non-renewable resource.

In an effort to encourage people to use alternate energy resources the NEP contained numerous conversion and conservation programs. For example, the government provided incentives to convert vehicles from gasoline to propane or compressed natural gas. There were also incentives for people to make their homes more energy efficient. The Canadian Oil Substitution Program (COSP) offered grants, up to $800, for the conversion of oil-based heating systems to alternate energy sources like propane, natural gas, or electricity. The Utility Off-Oil Program was designed for Atlantic Canada and provided "up to 75 percent of the cost of environmentally acceptable conversions of oil-fired electrical plants to coal."[55] The Canadian Home Insulation Program (CHIP) provided grants to cover 100 percent of insulation material costs up to $350 and one-third of labour costs up to $150. In order for residents to be eligible, their houses or apartments, in Newfoundland and the Territories, had to have been built before 1 January 1977. In other regions residences had to be built before

1 January 1971. There was also the Super Energy Efficient Housing (SEEH) program that spent $6 million to support the construction of 300 - 500 SEEH units in Canada.[56] All of these initiatives were designed to help conserve energy and to make Canada less reliant on outside sources of energy. The subsidies, furnished by the federal government, also served to reinforce the idea that Ottawa was indeed a strong central government which provided leadership and assistance to all Canadians.

Conservation and subsidies were not enough to confirm that the federal government was in control of Canadian energy policy. Ottawa needed to reassert its economic leadership, as it pertained to energy in Canada, and did so through the following initiatives contained in the NEP: the reorientation of exploration and development onto federally-controlled Crown, or Canada, Lands; the creation of new Canadian firms that would be loyal to Ottawa and not to Alberta; and the capture of a more significant portion of the oil revenue.[57] There were three contentious methods for achieving these objectives. First, there were the Petroleum Incentives Payments (PIP) that were designed to lower the cost of strictly Canadian investment in oil exploration and development. Second, there were three requirements for exploration and development on the Canada Lands: a 25 percent "back-in" or interest in every development, past and future, on Canada Lands that would be controlled by Petro-Canada or some other Crown Corporation; a minimum 50 percent Canadian ownership requirement for any company with production on Canada Lands, private or public sector; and a strict requirement for the usage of Canadian goods and services in any programs being conducted on Canada Lands. Third, there were pricing and revenue sharing changes that would see "old" oil (production from wells established before 1981) priced lower than "new" oil (from wells still to be discovered). In addition, the federal government would take a larger percentage of revenues at the expense of the industry and producing provinces.[58]

Alberta's response to the NEP was hostile. The PIP grants favoured exploration on the Canada Lands rather than in the provinces by providing an incentive in the form of a 25 percent payment of approved costs; in addition, if the exploring company was more than 74 percent Canadian-owned, it received an 80 percent incentive payment of approved costs. Alberta was most concerned about the section regarding the ownership provisions and supply requirements, on the grounds that it would alienate the foreign companies, which were mostly American, and which provided most of the investment within Alberta.[59]

The Alberta government responded vigorously to the NEP. It reduced oil production and shipments to Eastern Canada, in three stages, by 60,000 barrels per day. It launched a court challenge to the NEP on the grounds that federal taxation on exports of provincially-owned resources was a violation of the constitution. In addition, the Alberta government withheld approval of new oil sands and heavy oil projects.[60]

The final result of Alberta's retaliatory actions was the 1981 Energy Accord, or Canada-Alberta Energy Agreement. Essentially, the terms of the agreement altered the pricing arrangement to increase the "old" oil prices incrementally to a significant percentage of the world oil price; there were changes to the taxation structure and revenue sharing; and Alberta took over the financing costs and administrative responsibilities of the PIP program within Alberta.[61]

Initially, the Liberal government projected that an equal cut would be taken from the industry and the provinces to provide for the federal increase in revenue sharing. Before the

NEP came into operation, the share of revenue between 1975 and 1980 was 50.5 percent for the producing provinces, 40.7 percent for the industry, and 8.8 percent for the federal government.[62] The proposed changes in revenue sharing projected for 1981 - 1983 would provide 43 percent of total revenue for the producing provinces, 33 percent for the industry, and 24 percent for the federal government. For a better sense of the distribution refer to Table 1.1 which outlines the revenue sharing from 1979 to 1983. The chart also includes the total amount of revenue that was accumulated each year and the percentages are the portions of that total revenue.

TABLE 1.1

Revenue Sharing in Percentage

	1979	1980	1981	1982	1983
Federal	13.1	10.7	23.0	26.2	20.5
Provinces	45.7	34.9	37.3	27.9	29.2
Industry	41.2	54.4	39.7	45.9	50.3
Total Revenue in Billions	10.1	17.0	15.0	20.4	22.1

Source: Petroleum Industry Monitoring Survey. (Ottawa: Supply and Services, 1980, 1981, 1982, 1983)

In the distribution mentioned above, the federal government attempted to convince the producing provinces that they were not going to be losing very much revenue. The reality of the situation was that by 1981, industry's share of the revenue increased to 39.7 percent, the provinces' share declined to 37.3 percent and the federal government's share decreased to 23 percent.[63] The reason for the change in the revenue projections was that the calculations were based on the assumption that oil prices would continue to increase. The more oil prices increased the more revenue the provinces would receive. However, by the end of 1981, world oil prices were beginning to level out.

The justification for Ottawa to dip into the provinces' share of revenues can be illustrated in the following excerpt from the NEP 1980 document:

> The producing provinces are entitled to substantial revenues by virtue of their ownership of resources. . . .[T]he energy surge is bringing about a major, enduring westward shift of wealth, activity, and population. . . .At the same time, there must be recognition of a national claim - a claim by all Canadians - to a share in these revenues and benefits. . . .The citizens of Canada, and their national government, have played a major role in fostering the development of the oil and gas industry, and deserve to share in its benefits.[64]

The document went on to state that under the then current policies, only one provincial government was receiving the windfall and that the policies were no longer in the national interest. What seemed to irritate the federal government most was that "Alberta, with 10 percent of Canada's population, receives over 80 percent of the petroleum revenues gained by provinces."[65] Ottawa believed that such an unfair distribution of wealth could not be tolerated when the federal government, lacking a significant percentage of the total revenues, continued to go into debt paying for subsidies, tax breaks, and programs that affected and benefited *all* Canadians. However, the federal government position was based on the assumption that oil prices would continue to rise through the foreseeable future.[66] When Ottawa signed the 1981 Accord with Alberta, and with the consequent revision of the NEP, it was stipulated that the governments would get "a larger share of revenue when prices and profits are high and a substantially smaller share in periods of declining profit and revenue."[67]

The significance of the energy question had changed dramatically in the period since 1947 - affecting as it did the relations between government and the oil industry, and between Ottawa and the producing provinces. In the period from 1947 to 1973 there was an atmosphere of cooperation between both levels of government and the Canadian oil and gas industry. The main priority for all three interests was the rapid development and expansion of oil and gas. However, with the oil crises, conflict prevailed between Ottawa, the producing provinces and the industry. The 1970s saw various initiatives to secure Canada's energy supply. But, the resource boom in the Western provinces meant that the owners of the resources had a real revenue gain at the expense of consumers. There was a shift in capital investment and labour from manufacturing to the energy industry and the result caused apprehension in Central Canada.[68] Moreover, the energy boom challenged the traditional Canadian political and economic power relationships between metropolis and hinterland and served to emphasize the Western Canadian feeling that the national interest was really equated with the interests of Ontario and Quebec. If the 1970s were seen as a time of province-building in the West, then the early 1980s became a period of aggressive nation building in Ottawa. The revitalized Trudeau Liberals sought to raise the profile of the federal government and its involvement in the oil and gas industry. If Canadians asked "Who speaks for Canada?"[69], Trudeau wanted the nation to know that it was the federal government. If the federal energy policy of the 1970s was rather reflexive and piecemeal[70], the energy policy of the 1980s was quite different. The NEP saw the development and implementation of a comprehensive policy that expanded the initiatives undertaken during the 1970s and sharpened Ottawa's conflict with the producing provinces and the industry.[71]

By 1984, Trudeau stepped down as Prime Minister and was replaced by John Turner. Public hostility to the Liberals made it unlikely that they would be returned to power. The Progressive Conservative Party, now led by Brian Mulroney, were determined to improve federal-provincial relations and remove the bureaucratic restrictions on business in order to stimulate economic growth and pull Canada out of the depression.[72] The key would be the dismantling of the NEP, and the person who would be responsible for developing and implementing that policy was Patricia Carney.

NOTES for CHAPTER 1

1. Howard Palmer and Tamara Palmer, Alberta: A New History (Edmonton: Hurtig, 1990), 314. The authors described Manning's view of Alberta's resources as follows: (1) The resources belonged to the people of Alberta and the Alberta government must get a fair return; (2) Sound conservation practices were essential; (3) The most efficient method of resource development was through the private sector.

2. Howard Palmer and Tamara Palmer, Alberta: A New History, 304.

3. Gerald Friesen, The Canadian Prairies: A History (Toronto: University of Toronto Press, 1987), 443. Friesen, like Richards and Pratt, suggested that Manning's reliance on the private sector "meant the sale of the province's assets at a lower price and a faster rate than might have been achieved with government participation in the industry. . . . [A]nd that the growth of a local entrepreneurial class, which might have contributed to the diversification of the Albertan economy, was truncated." This is, of course, a leftist's interpretation of a capitalist approach to resource development, and its argument, though interesting, is based on 'might have beens.'

4. Richards and Pratt, Prairie Capitalism: Power and Influence in the New West (Toronto: McClelland and Stewart, 1979), 71 - 73, 83 - 88. It must be remembered that the large foreign companies had the experience, the expertise, the capital and the access to large markets to sell the resources. In addition, it is often argued that Eastern Canadian capital was indifferent toward investing in the high risk exploration and development of prairie resources and Alberta businesses did not have enough capital to finance rapid development. Ibid.

5. McDougall, Fuels and the National Policy (Toronto: Butterworth and Company, 1982), 58. These figures are approximations.

6. In 1952 the Federal government passed the Pipe Lines Act that established federal control over interprovincial oil and gas pipelines. It also stipulated that interprovincial pipeline companies could only be incorporated through an act of Parliament. Ernest Manning, the premier of Alberta, feared that the federally-incorporated pipelines were designed to extend federal jurisdiction into the province and exert control over Alberta's resources. Thus, in 1954, 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 and would provide the gas to export companies. See John McDougall, Fuels and the National Policy, 59 - 61; John Richards and Larry Pratt, Prairie Capitalism, 64 - 68.

7. Bruce Doern and Glen Toner, Politics of Energy: The Development and Implementation of the NEP (Toronto: Methuen, 1985), 72 - 73.

[8] McDougall, Fuels and the National Policy, 63 - 65.

[9] McDougall, Fuels and the National Policy, 72 - 74. See also Doern and Toner, Politics of Energy, 72 - 74. The great Pipeline Debate took place through May and June 1956. The TransCanada Pipeline Company was having difficulty financing the all-Canadian route of a natural gas pipeline from Alberta to Ontario and Quebec. The company was half-owned by American interests and in 1956 the Liberal government in Ottawa announced that it would advance a loan to cover up to 90 percent of the $80 million cost of the Western portion of the pipeline. The debate in Parliament was heated. Nevertheless, the line was completed to Montreal in 1958; all loans were repaid; and the controlling interests in the company were sold back to Canadians.

[10] Doern and Toner, Politics of Energy, 74. The NEB was created in 1959 and was given jurisdiction, at the federal level, over the export and import of gas and the export of electric power; it was also to regulate oil and gas pipelines and international power lines. It is important to recognize that the idea for the National Energy Board did not originate with the Borden Commission. A short time before, the Royal Commission on Canada's Economic Prospects, headed by Walter Gordon, released its findings. The Gordon Commission report included concerns about the level of foreign ownership of the Canadian oil and gas industry. Among the many recommendations of the Gordon Commission was the call for a "minimum 20 - 25 percent Canadian ownership of companies operating in Canada" and a suggestion that a National Energy Board be established. Ibid., 75 - 77. See also McDougall, Fuels and the National Policy, 80 - 83.

[11] Ralph Toombs, The Canadian Energy Record 1945-1985: An Overview of Policy Developments (Ottawa: Energy, Mines and Resources Canada, 1987), 15 - 16.

[12] McDougall, Fuels and the National Policy, 80 - 82.

[13] Doern and Toner, Politics of Energy, 75. The authors estimate that in the mid-1960s foreign interests controlled 80 percent of the Canadian oil and gas industry.

[14] Ibid., 82 - 83.

[15] Doern and Toner, Politics of Energy, 85. See also Peter Foster, The Blue-Eyed Sheiks (Toronto: Collins, 1979), 50 - 51; David Crane, Controlling Interest: The Canadian Oil and Gas Stakes (Toronto: McClelland and Stewart, 1982), 60 - 61; and for a brief description of Diefenbaker's 'Northern Vision' see, Robert Page, Northern Development: The Canadian Dilemma (Toronto: McClelland & Stewart, 1986), 19-20. Diefenbaker is quoted as saying: "We will open that northland for development by improving transportation and communications and by the development of power." The 'Roads to Resources' programme provided railway subsidies and infrastructure in order to encourage private industry to invest in new projects.

[16]. Toombs, Energy Record, 19. Primary energy use in Canada increased by 6.0 percent per year throughout the 1960s compared with 3.0 percent in the 1950s and 1970s. Crude oil production 'tripled as a result of a six-fold increase in crude oil exports. Natural gas production increased by over four times, in considerable part due to more than a seven-fold increase in natural gas exports."

[17]. Ibid., 29. EMR also "took over the responsibilities of the former Department of Mines and Technical Surveys."

[18]. Toombs, Energy Record, 44 - 46. 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), 247. Three years later the United States lifted the restrictions because of uncertainty about the international oil supply, but at the same time Canada imposed oil export controls in order to secure the Canadian domestic supply.

[19]. Ian Skeet, OPEC: Twenty-Five Years of Prices and Politics (Cambridge: University of Cambridge Press, 1988), 1-16. Although the founding members of OPEC had been working toward changing the method of doing business with the international oil companies, the catalyst for the foundation of OPEC was when Esso decided "to reduce the posted price of Arabian light crude by 14 cents a barrel in August 1960." Esso's action was taken unilaterally. The effect on the Arab countries and Venezuela was particularly profound because oil was the primary and, quite often, the only resource of the producing countries. Therefore, there was a movement toward the idea of nationalizing the oil companies so that the countries would have more control over their important resource. Of course, there were several other factors that influenced the behaviour of the Arab countries and Venezuela with respect to oil, but the final result was the formation of OPEC.

[20]. Ian Skeet, OPEC: Twenty-Five Years of Prices and Politics (Cambridge: University of Cambridge Press, 1988), 58 - 65. See also, Doern and Toner, Politics of Energy, 91.

[21]. Pierre Terzian, OPEC: The Inside Story trans. Michael Pallis (London: Zed Books, 1985), 149 - 161. See also, Skeet OPEC: Twenty-Five Years, 66 - 91; Doern and Toner, Politics of Energy, 91.

[22]. Ibid., 91. The OPEC actions were in part caused by the 1973 Middle East war. It is interesting to note that Iraq did not cut production; instead it nationalized the American and Dutch holdings. See also Skeet, OPEC: Twenty-Five Years, 99 - 102.

[23]. Foster, Blue-Eyed Sheiks, 312.

[24]. Doern and Toner, Politics of Energy, 91.

[25]. Ibid., 92; and Foster, Blue-Eyed Sheiks, 141. A few months prior to the OPEC crisis, Energy, Mines, and Resources Minister Donald MacDonald produced the policy

document An Energy Policy for Canada - Phase I. It suggested that the Canadian government consider creating a national oil company that could undertake expensive exploration activity in Canada where private industry might not choose to invest.

26. Doern and Toner, Politics of Energy, 91 - 92.

27. Ibid., 92.

28. Richards and Pratt, Prairie Capitalism, 162 - 166.

29. Ibid., 224 - 225. See also, Doern and Toner, Politics of Energy, 89 - 90; and Kenneth Norrie and Doug Owram, A History of the Canadian Economy 2nd Edition (Toronto: Harcourt Brace, 1996), 446. Norrie and Owram provided an apt description of the situation: ". . . OPEC price increases of 1973-74 and 1979-80 put the federal government in the position of having to reconcile the directly competing interests of the producing and consuming regions. While Ontario, at times, may have thought its interests were being sacrificed . . . western governments had no doubts that theirs certainly were."

30. Doern and Toner, Politics of Energy, 90.

31. Pierre Elliott Trudeau, Memoirs (Toronto: McClelland and Stewart, 1993), 175 - 177.

32. For example, for every dollar that Alberta took 65 cents, the industry was left with 35 cents but was taxed on the whole dollar.

33. Foster, Blue-Eyed Sheiks, 42. A similar sentiment was reiterated in the NEP of 1980.

34. Ibid., 41 - 43.

35. Ibid., 43. See also, Doern and Toner, Politics of Energy, 180. The actions of the industry were repeated in 1980 with the advent of the NEP.

36. Doern and Toner, Politics of Energy, 182 - 185. The idea is that there is provincial control within the province and federal jurisdiction once the resource crosses the border. See also Richards and Pratt, Prairie Capitalism, 228 - 230. In addition, during the 1970s, the Alberta government moved to make changes to provincial natural gas policy. Alberta attempted to increase the price of natural gas as both the Borden Commission and the Energy Resources Conservation Board of Alberta found that Canadian gas exported to the United States was underpriced. Therefore, Alberta withheld approval of new applications to remove gas from the province until prices increased. There were provisions for price redetermination every two years on the basis of full commodity value.

37. Doern and Toner, Politics of Energy, 181.

[38] Richards and Pratt, Prairie Capitalism, 227 - 246. There were numerous measures taken by the Alberta government at this time which not only reflected the uncertainty in the world oil market, but also served to enunciate the tensions between federal and provincial governments. An interesting point is that the expansion of the Petrosar plant in Sarnia was headed by a federal crown corporation.

[39] Economic rent is the amount of money left over after production costs and a reasonable, normal, rate of profit has been taken, and which cannot be competed away by entry into the industry. Payment to a uniquely endowed factor of production. Norrie and Owram in A History of the Canadian Economy, 448, described the situation between Alberta and Ottawa: "There followed a long series of federal-provincial negotiations in which tax loads were shifted and oil and gas prices brought more into line with those prevailing internationally."

[40] Toombs, Energy Record, 48 - 50. In 1978, there was also a levy on domestic and imported crude so that oil from Syncrude could receive the world price. It became known as the 'Syncrude levy'. In addition, there were numerous incentives for oil sands and heavy oil development provided by the federal government.

[41] Doern and Toner, Politics of Energy, 93.

[42] Foster, Blue-Eyed Sheiks, 312. The price for Canadian crude oil in 1979 was $13.75 Canadian per barrel. Considering that the Canadian dollar was worth less than the American dollar and that world oil prices were in American dollars, Canadian oil producers were making considerably less money than they would have if they received world prices.

[43] A.M El-Mokadem and others, OPEC and the World Oil Market 1973-1983 (London: Eastlords Publishing, 1984), 32 - 35.

[44] Doern and Toner, Politics of Energy, 102.

[45] Department of Finance, Budget Speech 1979, 10 - 13. The budget outlines the energy policy in detail.

[46] Seven years of subsidizing prices through the Oil Import Compensation Program (OICP) contributed to the federal debt. For example, in 1978, total federal revenue was $37 billion but expenditures totalled $48 billion, creating a budgetary deficit of $11 billion. Expenditures can be broken down as follows: government goods and services $5 billion, cost of debt $6.4 billion, transfer payments to persons $14.6 billion, transfer payments to provinces $10.5 billion, and oil import subsidies $4 billion. Arguably, the direct addition of the OICP to the deficit is relatively small. See, Robert Bothwell, Ian Drummond, John English, Canada Since 1945: Power, Politics, and Provincialism (Toronto: University of Toronto Press, 1981), 431 - 432.

[47] Jeffrey Simpson, Discipline of Power: The Conservative Interlude and the Liberal Restoration (Toronto: Macmillan of Canada, 1980), 196 - 197. See also Doern and Toner, Politics of Energy, 190-191, for a concise assessment of the difficulties Clark's government had negotiating with Alberta.

[48] Christina McCall and Stephen Clarkson, Trudeau and Our Times. Volume 2: The Heroic Delusion (Toronto: McClelland and Stewart, 1994), 170 - 175. The authors clearly state that Lalonde was at the centre of the Liberal energy policy-making process: "What he [Lalonde] had in mind was a mammoth legislative package that would implement Liberal campaign promises on energy in one swoop. . . . Lalonde's ambitious plan meshed closely with that of the seventy-odd economists whom Ed Clark [the senior Assistant Deputy Minister for policy in EMR] had forged into an impressive analytical team at EMR." Peter Foster, in his book The Sorcerer's Apprentices (Toronto: Collins Publishers, 1982), 142 - 147, suggests that the EMR bureaucrats were the real masterminds behind the NEP. He admits that Lalonde considered the NEP his brainchild and that Lalonde had been actively involved in the NEP's formulation; however, he qualifies Lalonde's participation by stating at the outset: "...the National Energy Program came as much, if not more, from within EMR as it did from the Liberals." Doern and Toner in Politics of Energy, 41, cite Ed Clark as "a central catalyst and bureaucratic entrepreneur in the development of the NEP. His analytical and organizational skills as the operating head of the team that was given its marching orders by Marc Lalonde in the spring of 1980 were a major impetus in putting the full NEP package together."

[49] Doern and Toner, Politics of Energy, 43 - 45. The authors provide a compelling argument that the Lougheed government was extremely self-confident because of various mega- projects that were ready to come on-line and the fiscal leverage it wielded with the Heritage Fund. Alberta knew that the Liberals desired oil self-sufficiency and thought that Ottawa would not jeopardize the new supplies. In addition, Alberta felt that it could create new intergovernmental alliances that would serve to stand against Ottawa. In the end, Alberta officials decided to wait and see what the Liberals would bring forward, certainly not anticipating the comprehensive nature of the NEP.

[50] Ibid., 41.

[51] Department of Energy, Mines and Resources (DEMR), The National Energy Program, 1980 (Ottawa: Supply and Services Canada, 1980), 2.

[52] Ibid., 113.

[53] John F. Helliwell, "Canadian Energy Policy," in After the Second Oil Crisis, ed. Wilfrid L. Kohl (Lexington, Massachusetts: D. C. Heath and Company, 1982), 232 - 233. The world price in 1980 was around $40 per barrel in Canadian funds or $35 per barrel in American funds.

[54] Charles F. Doran, Forgotten Partnership (Baltimore: Johns Hopkins University Press, 1984), 219 - 220.

[55] Ralph Toombs, The Canadian Energy Record, 76.

[56] DEMR, NEP: Update 1982 A Summary (Ottawa, Supply and Services Canada, 1982), 20 - 30.

[57] Ibid, 226 - 227.

[58] DEMR, NEP, 1980, 103; 45 - 47. Canada Lands only encompassed the Territories and offshore regions, contrary to some of the literature that interprets the sections of the NEP that refer to Canada Lands as being anywhere within Canada.

[59] Stephen Clarkson, Canada and the Reagan Challenge (Toronto: James Lorimer & Co., 1985), 71 - 81. Following exploration, any production from the Canada Lands had to be done by a firm that had a *minimum* of 50 percent Canadian ownership. All companies holding interests on Canada Lands had to renegotiate their exploration agreements with the Canada Oil and Gas Lands Administration (COGLA) and return 50 percent of their lands to the Crown. The federal government also established a Canadian Ownership Account (COA) that was financed by levies on oil and gas consumers and was created to provide funds to purchase companies for the Canadian public.

[60] Bruce G. Pollard, "Canadian Energy Policy in 1985: Towards a Renewed Federalism?", Publius, (Vol. 35, Spring, 1991), 166. See also Kenneth Norrie, "Energy, Canadian Federalism, and the West," Publius (Vol. 14, Winter, 1984), 88.

[61] Norrie, "Energy, Canadian Federalism, and the West," 88 - 89.

[62] Clarkson, Canada and the Reagan Challenge, 69. There are varied reports of the actual distribution of revenue in this period - another one is 47 percent for the provinces, 45 percent for the industry and 8 percent for the federal government.

[63] DEMR, NEP Update, 22.

[64] DEMR, NEP, 1980, 13 - 14.

[65] Ibid, 15.

[66] Clarkson, Canada and the Reagan Challenge, 24.

[67] DEMR, NEP: Update, 21, 31, 36; see also Doran, Forgotten Partnership, 231 - 232. Ottawa's changes to the NEP were not limited to the 1981 Canada-Alberta Energy Agreement. It also made other changes that were due to pressure from the larger oil companies and the U.S. government. As a result of its fear of American retaliation, Ottawa

modified its Canadianization plan before the United States even carried out a single action against Canada. The Canadian government announced, at the end of 1981, two changes to the NEP in Bill C-48, the Canada Oil and Gas Act. First, it offered an "ex-gratia" payment to companies for the Crown taking the 25 percent interest in Canada Lands. Second, it changed the wording of the project-tendering section so that Canadian companies would not receive preferential treatment over foreign companies for supplying mega-projects. Canada also assured the U.S. that "the NEP would not be applied to other sectors of the economy . . ." as outlined in the Throne Speech, and the Foreign Investment Review Agency (FIRA) was not going to be expanded to the extent they had originally foreseen. But the American government felt that the changes were inadequate and demanded more concessions, "'to get Exxon off their backs,'" (Clarkson, Canada and the Reagan Challenge, 33. Clarkson does not clarify who made the statement.) particularly, when the first ten months of the NEP demonstrated a significant drop in the foreign ownership of the oil industry in Canada from 74 percent to 66 percent. However, this also caused a problem because Canadian capital was being used to purchase foreign companies which meant that the money was flowing outside of Canada. In 1981, the outflow of equity investment was $11.4 billion, or 3.5 percent of Gross National Product (GNP). (Doran, Forgotten Partnership, 233; see also J.L. Granatstein and Robert Bothwell, Pirouette: Pierre Trudeau and Canadian Foreign Policy (Toronto: University of Toronto Press, 1990), 325.) The American response is reflected in the words of Granatstein and Bothwell: "The Americans thanked the Canadians kindly, and asked for more." (Pirouette, 326.) Not surprisingly, the Canadian response was swift and to the point: if the United States was not satisfied it could take Canada to court because no other changes were going to be made. (Clarkson, Canada and the Reagan Challenge, 42 - 44.)

The crisis concluded in the first half of 1982 when the United States requested consultations with Canada, through formal General Agreement on Tariffs and Trade (GATT) talks, regarding certain aspects of the FIRA that the Americans felt violated the agreement. Any decision made by GATT would not contain punitive sanctions, but the appearance was that the United States was taking some sort of action. Perhaps this was more for the benefit of the American businessmen and Congressmen who had been pressuring the American government to do something, rather than as an actual threat against Canada. (Ibid., 80 - 81.) The final concessions made by Canada by February 1982 included a request that the banks slow down the rate of Canadian takeovers; the government dropped the plans to give Canadian-controlled firms preference in gas exports; and it removed the power of Canadian companies to force out foreign shareholders. Nevertheless, the NEP had caused a considerable amount of tension not only between Ottawa and the provinces but also between Ottawa and the industry and the United States. (Norrie, "Energy, Canadian Federalism, and the West," 81.

68. Ibid.

69. Doern and Toner, Politics of Energy, 30.

[70] Larry Pratt, "Energy: The Roots of National Energy Policy," Studies in Political Economy (Winter 1982): 34.

[71] It also inflamed Canadian-American relations in the early 1980s, and Canada was forced to make concessions. By 1984, though, the Americans had grudgingly accepted most of the NEP and the Canadian government had developed a more accommodating attitude toward the United States, particularly when the recession beginning in 1982 resulted in high interest rates and the drying up of Canadian capital to invest in the Canadian oil and gas industry. The oil companies only had to bide their time. They and the American government knew that either John Turner or Progressive Conservative leader Brian Mulroney would be more cooperative than Trudeau. Speaking on the future of Canadian-American relations during the election of 1984, U.S. Ambassador Paul Heron Robinson, Jr., is quoted as saying: "If Turner comes in, it will improve even more, and if Mulroney comes in, it will improve more than that." (Clarkson, Canada and the Reagan Challenge, 352.) Turner, in his brief interlude as Prime Minister, let the United States know that he favoured world prices for all oil and he eased the natural gas export pricing rules. In addition, "Turner was believed to be pro-business and pro-American, a pragmatist who knew American politicians like Secretary of State George Shultz very well indeed." (Granatstein and Hillmer, For Better or For Worse, 286.)

[72] National Archives of Canada (NAC), MG32 B43, Honourable Patricia (Pat) Carney Papers, Volume (Vol.) 5 File 13, Progressive Conservative Party - Energy Policy 1984 File 2, F.H. Deacon Hodgson Inc, Political Alerts, "The Conservatives Running Ahead", 13 - 18. "The Conservatives feel that under the Liberals, there has been too much intervention, too much ministerial discretion and basically too much decision making by government. This was particularly evident in the NEP and in government attempts to pick industrial winners and losers. The Conservatives would be more supportive, providing necessary tax incentives (as opposed to direct cash handouts) and helping to develop export markets. However, it would be up to business to take advantage of these incentives, and businesses that would fail would not be bailed out."

CHAPTER 2
Pat Carney

On 9 June 1983, Brian Mulroney had been selected as the new leader of the Progressive Conservative Party and this marked a turning point in Tory fortunes. Mulroney wanted the Conservatives to be ready for power if they won the next federal election and began to reorganize the roles and responsibilities of MPs in his shadow cabinet. In September 1983, he moved Pat Carney from the position of Finance Critic to that of Energy, Mines and Resources Critic. His choice was unexpected by some since Carney was chosen over the long-time supporter of Joe Clark, Harvie Andre.[1] Andre's constituency was in Calgary and he had considerable contacts with the oil and gas industry, but his close ties to Clark probably did not work in his favour.[2] Carney, on the other hand, had been the co-chair at both the PC Party Convention and the Leadership Convention and therefore was in a position where she could claim neutrality because she had not publicly supported a particular candidate; "in short, she made a lot of friends, but more importantly, no enemies."[3] In addition, the events in Carney's life before she became a politician suggest that she was very qualified to handle the job of Energy, Mines and Resources Critic.

Patricia Carney and her twin brother Jim were born on 26 May 1935 in Shanghai, China. Their parents, Dora May Sanders and John James Carney, met on board a ship bound for China and were married in Shanghai.[4] John was a foreign service officer and Dora was an ad writer. She was "a fourth generation South African, [and] was raised in Toronto in a family of journalists."[5] After a few years in China, John and Dora moved from Shanghai to Morriston, Ontario where John enrolled in veterinary school. Eventually, the Carneys settled in British Columbia and purchased a farm "with a cow, two pigs and some chickens and horses."[6] Several years later the Carney family moved to Saturna Island, off the coast of British Columbia, where Pat Carney still has a cottage.[7]

Pat Carney did not remain on the farm; she went to the city and began a career as a freelance journalist for the Vancouver Sun and Vancouver Province. In 1956, at the age of 21, she married Gordon Dickson, a rewrite man who was much older than she and had a daughter from a previous marriage. While she was married, Carney freelanced at the Vancouver newspapers and helped put her husband through law school. It is interesting that even after she was married Pat Carney kept her own surname before doing so was fashionable.

When her husband was attending law school "Carney worked, helped raise his daughter by a previous marriage, Jane, and their own son, John Patrick."[8] She also attended the University of British Columbia and, in 1960, received a B.A. in economics and political science. By 1965, Carney had become a business columnist for the Vancouver Sun. In the late 1960s and early 1970s she also freelanced with the Toronto Star, Macleans, The Financial Post, The New York Times, and the Times of London. Her articles covered a variety of financial subjects as well as the economic development of the North.[9] In addition, she wrote television specials for the CBC and CTV on finance and economics.

Holding a position as the business columnist of a major newspaper was quite unusual for a woman and, for some time, Carney thought she was the first woman to occupy such a position: "I thought I was the first female business writer but it turns out that J.K. Edmonds, Jean Edmonds, was writing for The Financial Post. She wrote under J.K. Edmonds and I wrote under Pat Carney, so very few people knew we were women."[10] However, Carney was the first woman business columnist on a metropolitan daily in Canada.[11] When asked why she became a journalist she replied:

> All [of the people in] my family are journalists. My aunt was . . . not the founding editor [of Chatelaine], but the person who took it over and ran it from the time of its conception, in the thirties, . . . until Doris Anderson took it over. My mother is a writer. We just all grew up knowing that if, in the total absence of any other ability to earn money we could always write. . . . [I]n the absence of a real job we could write, so we started . . . my brother and I. . . . When we were in university we were both stringers for the downtown papers at twenty-five cents an inch . . . and [it] just went on for both of us. Jim went on to radio and television and I went into print. We had another brother [Tom and] . . . all that was left for him was the Canadian Press and our younger sister [Nora] went into advertising, . . . because, of course, the twins took the top meat; you know we were there first, so they had to take whatever was left.[12]

Pat Carney's ability to write took her to places she never dreamed she would visit. Her main interest was in resource development and as oil and gas exploration went north, so did she. Carney's editor gave her considerable latitude, as a business columnist at the Vancouver Sun, to write about items that she found interesting. In a recent interview she said, "In most of my cases I wrote my own stuff. . . . I had the leeway to go where I wanted and I was writing about resource development and how it was changing the province. So I tended to go where there were people stories."[13] In 1968, the people stories she pursued were to be found in the area around Fort Nelson, British Columbia and Pointed Mountain, North West Territories.

When Carney arrived in northern British Columbia to interview the industry representatives, the situation was rather troublesome and uncomfortable for her. The oil and gas industry did not include very many women and the men in charge were not very receptive to Carney's presence. However, Pat Carney is not the kind of woman to shrink away from difficult circumstances:

> I had gone up there [the North] in 1968 following the oil -- [the] PanArctic exploration, but then they didn't know that Pat Carney was a woman so [I] got off the plane and they were *awfully* mad. . . . And I had to sleep in the seismic shack and I had to sleep on the floor of the office. But that was okay; I had my sleeping bag and my little pink makeup kit, and my pink pantsuit. . . . I didn't really care where I slept but I was so fascinated by what these Canadians were doing in the North.[14]

There was no complaining from Carney about the sleeping conditions. She did not let the negative attitudes of the industry representatives interfere with her main objective of getting the story. Carney's articles were not limited to the simple depiction of how Canadians were exploring for oil and natural gas. Carney examined the increase in population and employment that went along with the exploration for new sources of oil and gas and the construction of pipelines and gas scrubbing plants. Carney also surveyed the economic effects that the oil and gas industry could have on a community:

> Fort Nelson looks brand new, and most of it is. Twelve years ago, it had only 300 people . . . today there are more than 3,000, mainly dependent on the natural gas industry. Natural gas has brought new jobs, new growth. Westcoast opened its $21 million gas scrubbing plant here in 1965. Today it employs around 67 permanent employees. To house them, the company has built 24 houses and 18 apartments in town and another 14 homes at the plant a few miles away. Some 250 miles further south, the development of Fort St. John has been equally spectacular.[15]

Her writing expressed a certain excitement and hope for how the natural gas industry could stimulate a community. The above excerpt illustrates how Carney preferred to report on the benefits of development, rather than any possible negative effects that rapid expansion and development could engender. It is perhaps understandable that, as a business reporter and as a university graduate with a Bachelors degree in economics, Pat Carney would view the oil and gas industry in a favourable light as a creator of jobs and economic growth.

Carney's career as a journalist in the 1960s and her experiences in the North moulded and influenced her views on the roles of business and government in developing and sustaining the Canadian economy. An article in the Toronto Star by Martin Cohn provided an accurate analysis of Carney's career in the North: "the experience moulded the ex-journalist into an authentic conservative with the motto, 'less government is best government.'"[16] Carney saw the North as an opportunity "to start building Canada all over again, without making past mistakes."[17] In fact, in an article she wrote for Macleans magazine in 1969, Carney compared the exploration and development of oil and gas in the North to the role the railway played in opening the West.[18]

A year later, in 1970, Carney wrote two more articles for Macleans magazine. The first, "Why we should shape our future guided by our northern lights," recognized that sovereignty for Northerners was very important but it should not "be permitted to mask [the] main objectives in the North."[19] She went on to discuss her three priorities for the region: development funds, more jobs and better airstrips. However, Carney did not state who should provide the money to pursue these priorities.

The second article was "Of the North, By the North, For the Northerners." The piece examined two main issues: the dissatisfaction of Northerners in their quest for self-government and the effect of natural resources on development. Carney interviewed a Northwest Territories council member who complained: "Ottawa has transferred all the expenditure areas, such as education, to us and retained all the revenue areas, such as resources. Then Ottawa complains that we can't pay our way."[20] Later in the article Carney discussed the "lost generation [of Northerners], the 16-to-30-year-olds who have no interest in their parents' way of life and insufficient education for ours. Jobs are the answer, but there are no jobs at Simpson - only drinking and despair. And jobs anywhere are scarce. . . ." The role of business was to create the opportunities for employment, whereas, the government's role was to create a stable atmosphere for business to operate. Ideally, government intervention in the affairs of business was to be kept to a minimum. Nevertheless, Carney's series of articles provided her with her first experience of the North and it developed into a burning desire to return: "[I was] so enthralled with what the Canadians were doing in the high High Arctic that I wanted to live there."[21]

An important issue in the North during the early 1970s was not only the exploration and development of oil and gas, but also how to deliver natural gas from Alaska to the mainland United States. A consortium of the large multinational corporations called Canadian Arctic Gas Pipeline proposed to construct a pipeline "from Alaska across the northern Yukon to the Mackenzie Delta and up the Mackenzie Valley through Alberta into the United States."[22] In 1974 the federal government appointed a Royal Commission headed by Justice Thomas Berger to examine the potential social, economic, and environmental impacts of the proposed pipeline.

Carney realized, when she was writing her articles in 1968, that she wanted to live in the Arctic. Unfortunate circumstances provided the opportunity for Carney to act upon her wish. A year after her articles on northern development, Carney's husband filed for divorce.

In 1970 there was a strike at the Vancouver Sun and Carney found herself on a picket line "broke with a kid and mortgage to support."[23] Since Carney was unemployed, due to the strike, she decided to go north. Carney described her predicament:

> The only way, and I knew there was going to be an economic development boom coming, and the only way I could figure out how to live there since no one was paying me as a journalist, . . . there wasn't a job up there, [was to] set up my own consulting firm.[24]

She did not have any experience operating a business but she did have a great deal of determination, a B. A. in economics, and a sense of purpose. With a hint of laughter and sarcasm Carney described her reasoning for establishing Gemini North, her consulting firm: "[I] set up my own consulting firm on the basis that since I had written about business for ten years, naturally I knew everything there was to know about it."[25] Carney also had two partners in Gemini North, Frank Basham who had a Masters degree in economics, and Terence D. Smyth who "had degrees from McGill in electrical engineering and business."[26]

Gemini North was named for Pat Carney and her twin brother Jim. They were born under the sign of Gemini and they previously had a company called Gemini Productions.[27] They established Gemini North in 1970 and it conducted detailed and extensive research into the social and economic impact that pipelines would have on native people.[28] Her firm told "major companies what to do about everything from labour to satellite communication problems."[29] Arctic Gas commissioned a report, then submitted the results to the Berger inquiry.

Carney's company conducted several studies between 1970 and 1975 for many different interests, including the Department of Indian and Northern Affairs. However, a controversy surrounds the credentials of the people employed by Carney's company and the quality of Gemini North's reports. In a book entitled Northern Development: The Canadian Dilemma, Robert Page erroneously referred to Gemini North as a "group of consultants, made up of journalists . . ."[30] In reality, the only journalist was Pat Carney and she was not working as a journalist then. Her company "had a base core of about eight people to twenty depending on the project."[31] For the study Social and Economic Impact of Proposed Arctic Gas Pipeline in Northern Canada, Gemini North employed twelve people. Nine of the twelve employees held university degrees varying in fields from economics to engineering to social anthropology.[32] Pat Carney, herself, held a Bachelor's degree in economics and political science and while working as a consultant in the Arctic she "also picked up a Master's degree in regional planning at UBC."[33] As for the quality of Gemini North's reports, Robert Page stated in his book that Carney's company

> tried to provide the socio-economic data to flesh out the Arctic Gas application . . . [and] proved to be a major embarrassment to their clients . . . [with their] simplistic assumptions on the cash value of native country food and other analysis. . . . Arctic Gas, embarrassed by these superficial efforts, quietly dropped the Gemini North evidence before they presented their case to the NEB [National Energy Board]. Like many corporations in the early 1970s, Arctic Gas had only limited in-house expertise and it was burned by entrepreneurs passing themselves off as experts.[34]

From Carney's perspective, the depiction of her company's work is inaccurate. She saw Gemini North's research as ground-breaking work that presented life in the northern settlements in a very realistic and graphic manner. It was not acceptable at the time to recognize or address the northern living conditions that Gemini North reported in its studies.[35] Pat Carney explained:

> Some of the things that we discovered are now part of the conventional wisdom, the

> fact that the infant mortality rate was x-times the rate of the south; the fact that alcoholism and crimes and alcohol abuse were y-times the rate of the south, [these facts] had never been actually formulated before our report. We had all kinds of people, we had anthropologists doing some of that work. So when it [the report] came out, people said 'Oh, you can't say that! You can't say that about natives! You can't say that [the people in] Arctic-Red River drink hair spray!' But they did. And then, five, ten years later people started writing about the terrible social conditions in some of the settlements and people started realizing yes, that in Arctic-Red River the [people] really did drink hair spray and that's why they put it under the counter in The Bay store. . . . But at the time, . . . there was very little interest in the kind of work we were doing in the whole system of the Mackenzie. And, I guess we didn't know enough not to say these things.[36]

It was Carney's opinion that "the Berger Inquiry was [not] at all interested in the kind of hard line economic research we were doing. . . .The Berger Commission was going for the ethic of 'the beautiful native on the land' and trapping, getting back to the traditional values . . . but we were doing hair spray addicts where everyone could see."[37] Carney's solution to the poverty and social ills that plagued northern communities was to encourage the development of oil and natural gas. The oil companies, and the energy industry in general, were viewed by Carney as potential saviours of a depressed economy, and she "had little patience for romantics who opposed development."[38] This view did not fade over time. In fact, while she was living and working in the North during the 1970s, Carney's view of the oil and gas industry as an "engine of growth" became firmly entrenched in her personal philosophy and happened to coincide with Progressive Conservative ideology.

It is important to point out that Carney's career in the 1970s was not limited to conducting socio-economic studies on the impacts of northern development. She also "set up the first satellite tele-education project ever in B.C. for the B.C. government,"[39] and held memberships in numerous professional organizations like the Canadian Institute of Planners, the Canadian and American Economics Associations and the Economic Council of Canada.[40] In an interview with a journalist from the Vancouver Sun in 1985, Carney stated that her involvement with the Economic Council of Canada in the 1970s helped to prepare her for a life in politics.[41]

However, Carney was not an eager entrant into the political life. Although she was highlighted in a 1971 Chatelaine article "105 Potential Women MPs," it took eight years for Carney to take an active role in politics.[42] She was recruited in 1978 while she "was in Whitehorse reviewing the right of way for the Foothills pipeline on the day that [she] received a call from the riding association in Vancouver asking [her] to run in Vancouver Centre."[43] There is a story about her ignoring a phone call from William Neville, Joe Clark's chief of staff; Carney's reason for not running to the phone was that: "The buses were on strike and I had to drive my son to school."[44] Clark was trying to tempt Carney into entering politics and had Jean Pigott, a former PC MP for Ottawa-Carleton, telephone Carney to assure her that they would help to look after her son John Patrick.[45] Carney is quoted as saying, "They call you and call you and call you, and say the country's going to go to ruin if you don't save it, and after a year of this - this was Joe Clark, in 1978 - you begin to believe it. . . ."[46] A year later, in 1979, Carney succumbed to Joe Clark's pressure. She decided to "put her economic consultant business on hold and run in Vancouver Centre . . . against former mayor and Liberal Art Philips. She lost by 95 votes but was finally elected in 1980."[47] Some accounts state that Carney was initially a shy campaigner and "had to be dragged by fellow Tory Flora MacDonald into shaking hands with voters."[48] However, once she was elected, Pat Carney was determined to be available to her constituents. She provided regular Neighbourhood

Night forums where she would speak with her constituents on whatever topics they wished to discuss.[49]

Pat Carney is not the kind of person who will quietly blend into the background, particularly if she feels passionately about an issue. A journalist once wrote of Carney: "She's very smart, very hard working and very, very tough. . . . She takes no guff. She swears occasionally. . . . She is the kind of woman who does not produce in men the inclination to be cute or talk down to her."[50] For example, in her first year as an MP she became embroiled in a large controversy concerning the travel allowance. MPs could use the travel allowance to fly their spouses to Ottawa but, since Carney was divorced, she wanted to use her allowance to fly her son to Ottawa to visit. The people who enforced the rules of Parliament would not allow her to use the travel allowance to do this; therefore, Carney boycotted Parliament, stating that it discriminated against single mothers. A friend of Carney's said "whenever they get her Irish up, Carney lowers the boom,"[51] and with all the fury of her Black Irish temper she charged that Parliament's "antiquated, old-fashioned, Edwardian rules [were] concocted for the convenience of the WASP, middle-aged and definitely married majority."[52] The result was that they changed the rules.[53]

During her first year as an MP Carney was given the position of Critic of the Secretary of State (1980-1981). A year later she became Critic of the Minister of State for Finance (1981-1982). Then, in the spring of 1983, Joe Clark called the Progressive Conservative leadership convention and Carney took over as Finance Critic so that Michael Wilson could run for the leadership.[54] In late 1981 she had attacked the Liberal budget of then Finance Minister Allan MacEachen, "damning him for cancelling a number of tax breaks for a large number of half-built apartment buildings, halting their construction and forcing the layoff of thousands of workers."[55] After two days of repeated attacks from the Opposition PCs, MacEachen announced changes to the budget and, not long after, he was removed from his post.

Although Carney was not the critic of Energy, Mines and Resources (EMR) until 1983, she did occasionally comment on energy issues. During a debate in the House of Commons in October 1981 on Bill C-48, the Canada Oil and Gas Act, she gave a poignant speech about her experiences in the North and her perception of what role federal governments of the past had played in the economic development of the North. It is worth quoting at length:

> Before I became a Member of Parliament, I had the opportunity to spend a lot of time in the North. During the 1970s I lived in the Northwest Territories where I worked for several years. . . . During that time I developed a deep appreciation for the people of the North and its traditions. I travelled extensively throughout the Northwest Territories. . . . I am opposed to the assumption that underlies the federal government's attempt to take a straight 25 percent ownership of projects. It is typical of the attitude that the federal government has always adopted when dealing with the North. Federal governments have rarely demonstrated any real sensitivity to the needs of the North. Federal governments have always, throughout the history of the North, taken the major revenues for themselves and prevented Northerners from attaining any degree of control over their own future. . . . Throughout the period, the essential conflict has been the demand by Northerners for a greater measure of self-government and the federal government's reluctance to relinquish ownership and control over the natural resources which would provide the financial base for self-government. Bill C-48 fits into this tradition.[56]

From her statement it is apparent that her experiences as a journalist and businesswoman in the North influenced her attitude toward the interventionist role that Ottawa had played in the exploitation of resources in northern Canada. This attitude grew stronger throughout Carney's time in opposition and would be a significant factor in how she developed the PC energy policy.

There were some basic principles shaping the PC energy platform upon which she would construct a new policy. During the debate on Bill C-48, in October 1981, Carney discussed the proposed PC amendment regarding the 25 percent "back-in" by the federal government. The Tories submitted a motion that sought "to limit the right of the Crown to back-in to a production field. . . . it would allow the Crown to become a Canadian owner of last resort only. We would permit the federal government to acquire sufficient interest to bring the project up to 50 percent Canadian ownership."[57] A year later, Carney mentioned that part of the PC energy policy would consist of amending the NEP "to reduce red tape and remove the retroactive confiscation feature which is considered such an unpleasant part of it."[58] The PCs were also very critical of the PIP program, Canadian Ownership Requirement legislation, the extraordinary increase in the number of EMR's staff, and the usage of the Canadian Ownership Charge.[59] But, the PC energy policy, before Pat Carney took over the Energy critic's position, still consisted of general principles rather than specific solutions. However, Carney's attitude toward the perceived problems of the NEP would be translated and incorporated into her approach for tackling the issue first as critic and then as the Minister for Energy, Mines and Resources.

Carney's business experience and her previous relationship with various aspects of the oil and gas industry were not the only assets she brought with her. She also brought her powerful personality and personal philosophy to the job. Although the Progressive Conservative Party had one major goal with respect to energy - to dismantle the National Energy Program (NEP) - it was up to Pat Carney to come up with the means to that end so that all interested parties would be satisfied. Without her strong personality and deep conviction that the NEP was wrong, she would not have been successful in negotiating agreements with the provinces and industry. The heart of the PC energy policy was developed by Pat Carney while she was Opposition energy critic, and was clearly articulated before the 1984 election. Ultimately, Carney was the guiding force behind the Conservative energy policy.

NOTES for CHAPTER 2

1. Toronto Sun, 11 September 1983. The article by Allan Fotheringham goes on to state that Mulroney did not alienate Clark's supporters, but rather employed them in such a way as to deter division.

2. David Bercuson, J.L. Granatstein, W.R. Young, Sacred Trust? Brian Mulroney and the Conservative Party in Power (Toronto: Doubleday Canada Limited, 1986), 13. However, Harvie Andre was not left out completely. Soon after Mulroney became Leader of the Progressive Conservative party he appointed Andre as chairman of the policy committee, one of the four transition teams to assist the Conservatives in their preparation for taking over the government.

3. Vancouver Province, 18 September 1984.

4. Ottawa Citizen, 22 January 1988.

5. Vancouver Sun, 16 November 1985.

6. Toronto Star, 7 November 1986.

7. Oilweek, January 1986.

8. Ibid.

9. See in particular the Financial Post, 21 March 1970, p. 5 for her article describing the delays experienced by PanArctic in their exploration of the Arctic for oil and gas. See also her articles in Macleans, November 1969, 11, 17-21; May 1970, 8; November 1970, 1 - 3, 6; May 1971, 46 - 7, 49 - 50. For a glimpse of her business writing in general see Vancouver Sun 14 November 1968; 18 November 1968, 2 December 1968; 4 December 1968; 6 December 1968; 9 December 1968; 11 December 1968; 13 December 1968; and Financial Post, 28 March 1970, 29.

10. Senator Patricia Carney of British Columbia, interview by author, 26 November 1996, Ottawa, tape recording and transcript, 2.

11. Vancouver Sun, 16 November 1985.

12. Senator Patricia Carney of British Columbia, interview by author, 26 November 1996, Ottawa, tape recording and transcript, 1 - 2. Carney's mother, Dora Sanders Carney had a few articles published in Saturday Night, 28 August 1948, "B.C.'s Disaster: After the Flood-Mud!"; and 13 November 1948, "What's Wrong With the So-Called 'Comics'?".

13. Senator Patricia Carney of British Columbia, telephone interview by author, 19 June 1997, tape recording and transcript, 2.

[14] Senator Patricia Carney of British Columbia, interview by author, 26 November 1996, Ottawa, tape recording and transcript, 4. In the interview of 19 June 1997, Carney did not express bitterness that she, "would never have [made it] to the Arctic Islands on a Dome drilling plane if they [had known that] Pat Carney was a woman." Rather, she made clear the point that the atmosphere of working "as the only woman in a completely male world . . . was just a fact of life."

[15] Vancouver Sun, 8 November 1968.

[16] Ibid., 16 November 1985.

[17] Macleans, November 1969, 11.

[18] Ibid., 19.

[19] Ibid., May 1970, 8.

[20] Ibid., November 1970, 2. The council member was David Searle, a lawyer who was raised in the NWT.

[21] Senator Patricia Carney of British Columbia, interview by author, 26 November 1996, Ottawa, tape recording and transcript, 4.

[22] Bruce Doern and Glen Toner, The Politics of Energy: The Development and Implementation of the NEP (Toronto: Methuen, 1985), 100.

[23] Vancouver Sun, 22 March 1984.

[24] Senator Patricia Carney of British Columbia, interview by author, 26 November 1996, Ottawa, tape recording and transcript, 4.

[25] Ibid.

[26] Ibid., 5.

[27] Ibid., 4. Carney's twin brother Jim is currently working for the United Nations.

[28] Vancouver Province, 18 September 1984.

[29] Vancouver Sun, 22 March 1984.

[30] Robert Page, Northern Development: The Canadian Dilemma (Toronto: McClelland & Stewart, 1985), 224.

[31] Senator Patricia Carney of British Columbia, interview by author, 26 November 1996, Ottawa, tape recording and transcript, 4.

32. Gemini North, Social and Economic Impact of Proposed Arctic Gas Pipeline in Northern Canada Book 4 (Vancouver: Privately printed, May 1974), 106. The following is a list of the personnel who worked on the report and their credentials: **Project Director** - Pat Carney, *B.A.*; **Project Economist** - Frank C. Basham, *B.A., M.A.;* **Senior Economists** - Dominique F. Prinet, *B.A.Sc., MBA.*, Terence D. Smyth, *B.A.Sc., M.S., Peng.*; **Social Anthropologist** - H. Philip Thomas, *A.D., M.A.*; **Senior Researcher** - George Braden, *B.A.*; **Research Assistants** - Joan V. Hornal, *B.Sc.*, Dominique M. Prinet, *B.A.*, Neil Pascal, Francis Blackduck; **Copy Editor** - D.D. Thomas Carney, *B.A.*; **Production Coordinator** - Brenda J. Basham.

33. Vancouver Sun, 16 November 1985.

34. Page, Northern Development, 224.

35. Senator Patricia Carney of British Columbia, interview by author, 26 November 1996, Ottawa, tape recording and transcript, 5.

36. Ibid., 5 - 6.

37. Ibid., 5.

38. Toronto Star, 7 November 1986.

39. Vancouver Sun, 16 November 1985.

40. Pierre G. Normandin, ed., Canadian Parliamentary Guide, 1985 (Ottawa: Government of Canada, 1985), 295 - 296.

41. Vancouver Sun, 16 November 1985. She is also quoted as saying, in an interview with the Ottawa Citizen, 4 April 1985, that during her time with the Economic Council of Canada in Ottawa her view of federalism was altered: "I came to Ottawa a federalist but the city made me a regionalist."

42. Chatelaine, October 1971, 33 - 34. The caption read "These women across the country will stand for Parliament if asked to run in a suitable riding." The description of Carney listed her political priorities as "national economic and financial policies; developing grass roots democracy."

43. House of Commons, Debates, 29 October 1981, 12308.

44. Toronto Star, 16 November 1984.

45. Ibid.

46. Vancouver Province, 13 January 1985. A Toronto Star article of 7 November 1986, states that Carney was recruited as a star candidate to run against the former mayor of Vancouver.

47. Ottawa Citizen, 4 April 1985. However, Macleans reported in the 30 April 1979 issue, Art Philips "was given a dramatic boost by Carney's pre-election resignation (claiming financial hardship) and last minute renomination. In the shuffle she lost the services of the wizard Tory organizer Gary Anderson. . . ." It is interesting to note that The Financial Post, 5 January 1980, included Carney in their list of "leaders-to-be" along with Lloyd Axworthy, James Lorimer, and Bob Rae. A month later The Financial Post, 2 February 1980 again included her as one of the "Candidates to watch among newcomers." They referred to Carney as "the biggest potential star [in the West]."

48. Toronto Star, 7 November 1986.

49. Vancouver Sun, 16 November 1985.

50. Ottawa Citizen, 4 April 1985.

51. Ibid.

52. Ibid.

53. Gazette, 16 January 1988.

54. Calgary Herald, 8 September 1983.

55. Vancouver Sun, 22 March 1984.

56. House of Commons, Debates, 29 October 1981, 12308.

57. House of Commons, Debates, 29 October 1981, 12308.

58. Ibid., 28 October 1982, 20168.

59. Ibid., 3 May 1982, 16822; 20 April 1983, 24686 - 24689.

CHAPTER 3
PC Energy Policy Formulation

The Beginning of Policy: September to December 1983

Although Brian Mulroney had some basic ideas about what the PC economic and energy policy should contain, his role in the policy-making process was that of a leader who delegated authority to trusted officials.[1] One of Mulroney's first actions was to ask Finlay MacDonald, an experienced PC fund raiser from Nova Scotia, to examine the ways in which the Conservatives could assume the reigns of power in an organized and efficient manner. The report by MacDonald recommended that the Conservatives establish four transition teams that would prepare information on the status of the civil service, future policy, the machinery of government, and the staffing of the ministers' offices.[2] The recommendations did not go unnoticed. Soon after the by-election in August 1983 that made Mulroney an official member of the House of Commons, he created his own shadow cabinet. He displayed his expertise as a conciliator "when he appointed supporters and leadership rivals to shadow cabinet positions."[3]

In early September 1983, Pat Carney assumed the role of Energy Critic.[4] She was given the task of dismantling the NEP and her first step in that process was to meet with industry and provincial representatives to get a clear idea of what they did or did not like about the NEP.[5] In an interview with the Globe and Mail Pat Carney briefly described her technique for acquiring information on energy policy: "I've had intimate Bay Street dinners and opened a gas plant in Hythe, Alta., - population 700. . . . I'm trying to wrap my mind around an extraordinarily complex (energy) program and find out what's in the minds of the players."[6] It was common knowledge that Carney went on fact-finding missions and established study groups to examine the various aspects of the NEP, but there was little detail provided. In addition, the degree to which the industry study groups influenced the content of the PC energy policy was never clearly presented or examined in the media or subsequent literature except to point out that the PCs had "a direct pipeline to the policy changes expected by those actors."[7] The PCs were extremely secretive about the specifics of their policy and did not want to release the information until coherent and complete policies were developed.

In order to develop such policies the members of the shadow cabinet were given an outline entitled "Steps in the Policy Process" that provided a time-frame for each critic to prepare assessments of their portfolios.[8] The assessments were then to be used to form a PC Policy platform for the 1984 election and "a coherent and coordinated economic development policy for a new government."[9] It is important to recognize that the PCs in Opposition, under Brian Mulroney, were very well organized. They did not want a repeat of the situation in 1979 when the Party led by Joe Clark was not prepared when it assumed office and, as a result, Clark made several promises during the election that the PCs could not keep.[10]

The policy-making process that Carney carried out as energy critic went through various stages between September and December 1983. The first step in the policy-making process was the gathering of information. She needed to know how the NEP worked, if it was successful in accomplishing its goals, and how it could be changed to reflect PC ideology as well as satisfy the disgruntled interests. In her first three months as energy critic, Carney met with the Canadian Association of Oilwell Drilling Contractors; the former PC energy critic, Harvie Andre; officials from Energy, Mines and Resources (EMR); representatives from Dome Petroleum, TransCanada Pipelines and many others at dinners held specifically to introduce her to industry representatives. She also met with Alberta Energy Minister, John Zaozirny, and was briefed on the interests and concerns of Saskatchewan and Ontario.[11] However, the information gathering was not confined to meetings and interviews. Carney also received detailed letters and copies of speeches and submissions made by influential oil and gas businessmen to assorted organizations and government committees. The content of these packages outlined what industry representatives like J. L. Stoik, President of Gulf Canada, J. K. Gray, Executive Vice President of Canadian Hunter Exploration, Jock Osler of Canterra, and A. H. Willms, Senior Vice President of Westcoast Transmission Company Limited would like to see in an energy policy.[12]

The next step in the policy-making process was for Pat Carney and her staff to sift through all of the information that had been acquired from the briefings, meetings and letters and decide which suggestions or recommendations would fit into the PC energy policy. It is important to keep in mind that Carney was on a schedule and had deadlines for the development of policy. A memo from Michael Wilson, dated 19 October 1983, reminded his fellow members of the Economic Development Envelope Committee (EDEC) about the target date of 6 December 1983 for policy reports. Members of the shadow cabinet were asked to complete "a preliminary report on policies that would be followed by a new Mulroney government." The memo also provided a proposed framework for the reports. The following quotation outlines the seven basic points each report was to follow:

> 1) Assess current spending of department (and agencies, etc. under jurisdiction of department)
> 2) Evaluate current status of the industry
> 3) Review the spring 1983 policy initiatives as attached for your particular area
> 4) Identify constraints and structural problems within the industry resulting from government policy.
> 5) For resource-based departments, identify any changes in the management of the resource which we should follow in government.
> 6) Identify any other policy initiatives, following the same guidelines as set out in three above.
> 7) As a concluding section to your report state the overall priorities which you believe should be followed.[13]

The memo also informed the Committee members that the party was going to stand by the principle of less government intervention and regulation in all aspects of the economy. Thus, the critics were to take that into account when examining expenditures in departments. In addition, the memo suggested that the critics consult someone from the private sector "to assist in the analysis and the writing of your report."[14] The 6 December 1983 deadline was considered crucial so that the party would have an opportunity to refine and coordinate the various policies into a workable platform for the new government. The result, for energy critic Pat Carney, was the development of three policy discussion papers in November and December 1983 that reflected the initial stages of the policy-making process.

The first energy policy paper was circulated through the PC caucus on 10 November 1983. However, the deficiency of substance in the Memorandum on "Energy Policy," indicates that, at this point, Carney had not spent very much time reviewing the mountains of information she had acquired. She began the Memorandum by stating what strategy the PCs should pursue:

> Our approach to energy policy must be based on the premise that self sufficiency in energy is one of the oustanding [sic] failures of this administration. The Petroleum Import Compensation Board and the Petroleum Incentive Program both demonstrate gross negligence in their implementation and fraud on the people of Canada by the administrators of these programs.[15]

She proceeded with an outline of the PIP grants and the Petroleum Import Compensation Board and then put forward several broad statements of what PC energy policy should contain. Potential elements included a focus on energy self-reliance in Canada and the benefits of alternative energy resources. The former had the possibility of creating an economic boom: "The transmission consortiums, the pipe and fitting companies, the construction workers to be employed, all could be a very positive advantage for this country." The latter would assist in the conservation of Canadian oil and gas.[16] Nevertheless, the memorandum did not provide the clarity and detail that are found in later documents with respect to more concrete policies.

A more in-depth and detailed document was distributed to the PC caucus on 30 November 1983. All of the initiatives contained in the third draft of the Canadian Energy Plan (CANEP) were clearly extrapolated from the myriad of suggestions that Carney had collected over the previous two months. The document began by stating that it was the Clark government in 1979 that first introduced the objective of oil self-sufficiency. It then went on to express the primary aims: "The Canadian Energy Policy has as its underlying objective the return of the initiative of finding and producing energy to those who actually do and know the job." This objective, which meant the removal of government intervention in the industry, was supplemented by three basic principles: a simplified and reduced role of government, an equity of prices and supply, and a reestablishment of investor confidence.[17]

The people from whom Carney had received input provided suggestions almost identical to the underlying objective and the three principles listed above: "[The] central theme of any policy should be to put the industry back to work . . . the industry is a re-investment machine . . . [and] means jobs across the country"; "We want less government"; "Government interference with the marketplace is the major problem"; "Fairness of revenue sharing between governments and industry . . . Realistic consumer cost both as consumers and as taxpayers . . . Equal treatment of investors, Canadians and others"; "Lack of clarity results in uncertainty and (more so an investor fear) as a consequence [there is] restricted investment."[18] The similarities between the suggestions and the policy do not end at the basic principles.

The recommendations permeate the content of all the specific policy initiatives which followed in the document. Several of the people whom Carney consulted suggested that the PIP grants be replaced with some form of tax break or royalty holiday, that money be spent on the development of oil sands and heavy oil upgraders, and that the PGRT be phased out and replaced with a tax on profits.[19] These proposals are reflected in the first three policy initiatives:

> Emphasis will shift from encouraging only large-scale oil producing projects to schemes of all sizes, producing or converting energy from all forms.
>
> Effective the day of taking office, the PGRT will be deductible for corporate tax purposes. In the longer term, an appropriate vehicle for replacing the PGRT and IORT will be found, and the over-all taxation regime will be simplified.
>
> The PIP grants will be phased out and replaced with a non-discriminatory, more practical and less costly means of encouraging exploration and development, while

maintaining the involvement of Canadian-owned companies.[20]

An interesting observation is that none of the people who were consulted even mentioned the fourth policy initiative: "The tax system, will be examined with an eye to establishing a regime which encourages production or conversion of all sources of energy. For instance, there should be a tax advantage to a homeowner who installs a solar heating system comparable to those which the oil industry receives."[21] Perhaps the industry representatives were not terribly concerned about consumer or taxpayer issues; or a more likely reason was that it would not be in their best interest to encourage conservation or utilization of alternate energy sources. Nevertheless, the remaining policy initiatives were all based on advice Pat Carney had received from the industry and provincial representatives. The concluding policies dealt with natural gas pricing, the expansion of markets for the sale of oil and gas, "the speedy construction of [an] . . . oil sands plant," the removal of the Crown-share under the Canada Oil and Gas Act, and the proposal for Petro-Canada to be more accountable to the public.[22] Yet, these policies were still quite brief and did not provide a very comprehensive assessment of how and why such changes were necessary.

The third policy paper, which capped the initial stage of the policy-making process, was entitled "Federal Energy Policy: A Discussion Paper." The "Discussion Paper," dated December 1983, expanded upon the items in the previous "CANEP" document and provided even more detailed policy ideas. The introduction gave a brief summary of the PC perspective of the political goals set out by the NEP. The "Discussion Paper" then went on to suggest how a PC energy policy should be presented. The passage is worth quoting at length since the manner in which the policies were proposed during the 1984 election campaign emulated the following template:

> A new <u>federal</u> (as opposed to <u>national</u>) energy policy statement should be concise, concentrate on broad goals or issues, and be free of graphs, numbers and the usual quasi-technical appendices which have become the trademark of federal policy or "position" papers. This approach will give the new federal government some flexibility at a time when the world energy situation is in a state of flux . . . Such a statement also will send a broad but unmistakeable signal to the petroleum industry, to investors and to the Canadian public at large that the new government means business, that it intends to put in place programs which will get Canadians back to work finding and developing their hydrocarbon energy resources for the overall benefit of the country.[23]

The above statement set the tone for the document and, as in the "CANEP" policy paper, it established three basic principles as the foundation for PC energy policy. The three objectives were defined as follows: to promote security of supply; to maximize economic and social benefits of energy development and ensure that the benefits accrued to all Canadians; and "to restore investor confidence in Canada's oil and gas industry."[24]

However, in the "Discussion Paper," as opposed to the first two policy papers, there were specific ideas on how to accomplish each objective. For example, after the first principle there were three mechanisms listed concerning how to achieve crude oil self-sufficiency. They were: emphasis on oil sands and heavy oil development, promotion of conservation and substitution of oil, and review of research and development initiatives pertaining to alternate sources of energy.[25] In addition, each mechanism had a description for how to approach the respective issues. Thus, the "Discussion Paper" represented a more advanced step toward the development of PC energy policy.

In the "Discussion Paper," the section on revenue-sharing stated that the PGRT, NGGLT, and COSC taxes would be phased out as PIP was phased out. However, the difference in this proposal compared to the "CANEP" document is that the PGRT was to be eliminated not replaced. The "Discussion Paper" also explained that the federal government would receive its fair share of revenue "through the corporate tax system and through various ad valorem and excise taxes it gets through the sales of goods, services and refined products."[26] The document advocated the idea of "one crude oil price for Canadians . . . [and] world prices for all domestic crude oils," with the stipulation of a *force majeure* clause that would protect both the consumers and the industry in the event of unforeseen price shocks. The section on Natural Gas Pricing and Oil and Gas Exports were a little more vague and it was suggested that the issues be left alone until after the election. The final section discussed how to restore investor confidence in Canada's oil and gas industry and really only reiterated points made earlier in the other two sections of the "Discussion Paper." The three new aspects of the policy initiatives were the commitment to eliminate the 25 percent 'back-in' on Canada Lands, the pledge that 50 percent Canadian ownership would be required in a project on the Canada Lands before production could begin, and the reference to making Petro-Canada more like a private-sector company.

Although Pat Carney had a fairly clear idea herself of what a PC energy policy should contain, there is continued evidence that the policies in the December "Discussion Paper" were indeed influenced by the many different people with whom Carney consulted. All of the policy initiatives were recommendations made by several of the industry and provincial representatives.[27] However, there were two exceptions. Under the headings Canadian Content and Regional Benefits the message had a more political nature and did not reflect any specific policies or recommendations.

This is not to say that every recommendation or suggestion that came across Pat Carney's desk was incorporated into policy. There were some recommendations that were not included in any of the policy documents. Former PC energy critic Harvie Andre suggested that PIP grants be replaced with a bid system. Alberta Energy Minister John Zaozirny wanted the PGRT abolished immediately when the PCs assumed office rather than phasing out the tax. Imperial Oil recommended that there should be 50 percent Canadian ownership of an interest on the Canada Lands at the production level *except* if no Canadian firm could be found to fulfill the 50 percent ownership, then the rule would not apply.[28] None of these suggestions made it into the policy papers that Pat Carney circulated to the PC caucus in the fall and winter of 1983.

Despite the number of recommendations that influenced the PC energy policy in the pre-election discussion papers, the ideas of less government intervention, fairness for both producers and consumers, and the restoration of investor confidence in Canada's oil and gas industry were all a clear reflection of Carney's and the Party's ideology at that time. The concept of energy as an "engine of growth" was not a new one for Pat Carney. Since her time as a journalist in the 1960s, she had subscribed to this particular concept. Nevertheless, the policy papers of November and December 1983 lacked specific proposals to implement the policy suggestions. The one item that all three policy papers had in common was the repeated remark that further examination of the issues was necessary.[29] The reason for more research was to develop a more thorough policy that could be used once the Progressive Conservatives took office.

At a private dinner in Calgary with several industry representatives, Pat Carney related that her strategy was to have an energy policy developed before the election that would be in the national interest. She then told those present to "ignore [the] political implications; just feed us policies, politics is our job." However, the information Carney accumulated between September and December 1983 was received in an informal fashion, and it did not provide the type of detail that she required to implement the policy objectives if the Party assumed office. Carney informed the PC caucus that "during the initial review of the many complex problems facing the energy sector, it became clear that five areas needed further consideration and study."[30] Thus, in order to formulate a comprehensive PC energy policy that would combine both political statements and specific policies, Carney decided to appoint six industry task forces, or study groups, to examine those five areas.

The idea for the study groups did not originate with Carney. Brenda Brown, Carney's assistant, had previously worked for former Ontario premier Bill Davis and he had employed task forces quite often when he wanted issues examined. Ms. Brown suggested that it might be worthwhile for Carney to establish task forces to study various aspects of the NEP. The notion was initially rejected by Carney, but she reconsidered and realized that task forces could accomplish a great deal. Carney explained, ". . . my job in replacing the NEP was simply to figure out how we could best develop the regime . . . so that the feds were out of the picture. . . . I did look to the industry [for advice]. They knew what their problems were."[31]

On 18 January 1984, Carney sent letters to the prospective study group members.[32] Each task force was composed of between five and seven members from various oil and gas companies. Many of the industry representatives with whom Carney had consulted between

September and December 1983 comprised the study group membership. The study groups were given 'terms of reference', or questions that Carney wanted answered. The beginning of each 'terms of reference' letter included a statement of the study's objective. The objective also outlined how the report should be organized: "Recommendations should be specific and should include, where appropriate, implementation proposals for the recommendations."[33] The study groups were also asked to submit their findings to Carney by 15 March 1984. There were between seven and ten questions in the terms of reference, and they were specific to the particular program or policy that the study group was being asked to examine. It is notable that the chairmen of each group had been in contact with Carney, in an advisory or consultative capacity, before they were recruited.[34] Therefore, it is not surprising that many of the general objectives outlined in the three policy papers of 1983 were found in various forms within each study group's recommendations.

Although the letter sent to the study group members stated explicitly that "the report of the study group should only be considered as input, however valuable, to our policy formation process," Carney implied the opposite to PC party members. In the minutes of a meeting with the Economic Development Envelope Committee Carney is quoted as saying: "our future policy is being developed by five industry task forces . . . their recommendations will be for government policy not the election."[35] Despite these words it was not inevitable that the task force recommendations would indeed become policy. Carney's role as energy critic and future Minister of EMR was to evaluate the recommendations and advice she was given and then formulate a policy from that information. The ultimate decision about what was going to comprise the energy policy presented to the PC caucus was still Carney's responsibility.

Industry Task Forces

In the following section, the recommendations of the study groups will be examined in detail. The five aspects to be scrutinised by the study groups were price/taxation/revenue sharing, PIP grants, COGLA operations, oil sands and heavy oil development, and natural gas policy. The primary objective of the analysis will be to determine which proposals were incorporated into policy and which were not. The beginning of each study group segment will begin with a brief overview of the corresponding Liberal policy in order to assess how the recommendations varied from the NEP policies.

I. Price/Taxation/Revenue Sharing

Background. The Liberal government's NEP was a behemoth of new taxes, rules, and regulations. Refer to Table 3.1 on the following page for a comparison of Pre-NEP taxes and royaties to the NEP system. The Petroleum Compensation Charge (PCC) was a charge levied on domestic refiners to pay for the Oil Import Compensation Program (OICP). The OICP was a federal subsidy designed for refiners who processed imported oil in order to reduce their costs to the same level as refiners who processed Canadian oil. In 1980, the price of oil from a Canadian well, excluding transportation costs, was \$16.75 per barrel; the delivered price to central Canada was \$18.00 per barrel; and the landed cost of imported oil to Canada was \$38.00 per barrel.[36] The federal subsidy amounted to \$20.00 per barrel or approximately 53 percent of the cost. Previously, the OICP was paid out of general revenues.[37]

TABLE 3.1
Taxation and Royalty Comparison Chart

Pre-NEP	NEP & NEP Update
Federal/Provincial Income Taxes	Federal/Provincial Income Taxes
Provincial Royalties	Federal/Provincial Royalties
"Syncrude Levy" $1.75 per barrel - to compensate purchases of synthetic crude oil	Petroleum Compensation Charge (PCC) - replaced the "Syncrude Levy"
Export Tax (Federal government)	Petroleum and Gas Revenue Tax (PGRT)
	Canadian Ownership Charge (COC)
	Incremental Oil Revenue Tax (IORT)
	Natural Gas and Gas Liquids Tax (NGGLT)[38]
	Export tax - shared by federal and provincial governments

Source: DEMR. NEP 1980, 25; and Price Waterhouse. The National Energy Program 2nd Edition (Price Waterhouse, November 1981), 10-11.

The PCC was levied on domestic refiners so that the charge was borne by those who used petroleum products rather than directly by the taxpayer. The charge amounted to $2.55 per barrel at the end of 1980, and was set to increase by $2.50 per barrel on January 1 of each year beginning in 1981. However, the actual increase in 1981 was greater than expected because of increased imports due partly to Alberta's production cutbacks in the wake of the announcement of the NEP.[39]

The next new tax was the Petroleum and Gas Revenue Tax (PGRT). The PGRT was quite a complex mechanism that consisted of two parts, the production revenue tax and the resource royalty tax. The former was initially set at a rate of 8 percent on the production revenue which was defined as revenue "derived from the production of Canadian petroleum or gas, or the processing in Canada of petroleum up to the crude oil stage."[40] There was also a rate of 8 percent charged to every person who received any type of resource royalty. A resource royalty was defined as "any amount computed by reference to the amount or value of production after December 31, 1980, of Canadian petroleum or gas and includes any minimum or advance royalty payment in respect thereof."[41] The PGRT was to be reviewed as oil prices increased.

At the beginning of 1982, the PGRT was still levied at 16 percent, but it was reduced, in the NEP Update, to 14.67 percent for the period 1 June 1982 to 31 May 1983. The tax applied to anyone who had income from oil and gas production in Canada. Therefore, it was not imposed on income from transporting or transmitting gas and oil, processing or refining crude oil, but rather was levied on the "net operating income from production of oil and gas."[42] The PGRT was not income tax deductible, but the government did permit the companies to deduct the resource allowance from their net income, a provision which effectively lowered the amount of money that went to the tax.[43] The reason for the PGRT was to provide extra revenue to the Federal Government so that it could continue funding the existent incentives to the oil and gas industry.

The Canadian Ownership Charge (COC) was levied on "gasoline and petroleum products and gas consumers"[44] for the purpose of purchasing major foreign-owned oil companies by publicly-owned Canadian companies. This would in turn increase the Canadian ownership and control levels in the oil industry of Canada. These funds from the COC went directly into the Canadian Ownership Account (COA). These were to be used specifically for "investment in shares, debentures, bonds, or other evidences of indebtedness and/or for property acquisitions from any person in order to increase Canadian public ownership of the oil and gas industry in Canada and to repay loans or expenses incurred for that purpose."[45] The funds from the COA were used to help pay for Petro-Canada's purchase of Petrofina.[46] In addition, money from the COA was earmarked to finance the Trudeau government's loan package of $500 million to Dome Petroleum if it became necessary.[47] However, by 1984 the government broadened the uses of the account to assist in financing some of the other incentive programs, like PIP grants or certain types of project financing, for Canadian-owned oil companies.

The NEP advocated an averaged or "blended" price for all types of oil whether they be synthetic, conventional, crude bitumen or any other type. But under the terms of the Canada-Alberta Energy Agreement of 1981, a two-tiered oil pricing system was developed to differentiate the price of "old oil" and "new oil." Old oil was defined as conventional oil recovered from a pool before 1 January 1981 and would "not include incremental oil produced by enhanced recovery schemes."[48] New oil was referred to under the New Oil Reference Price (NORP) system. New oil was defined as conventional new oil from Alberta, synthetic oil, and oil from Canada Lands, that was discovered after 31 December 1980. Conventional new oil included oil recovered using enhanced recovery techniques and crude bitumen from oil sands. The NORP was designed to encourage, through higher prices, the development of new supplies of oil, but the price of new oil was not to exceed 100 percent of the actual international price of oil.[49]

The Incremental Oil Revenue Tax was another outcome of the 1981 Canada-Alberta Energy Agreement. It was to become effective on 1 January 1982 and was "designed to tax the incremental revenue earned by producers of 'old oil' in Alberta. . . . [O]ld oil revenue is defined as the additional revenue earned by producers of old oil under the price schedule contained in the agreement as compared with the price schedule as originally planned under the NEP."[50] This was to ensure that producers did not amass windfall profits as a result of prices being raised above the levels that were set out in the original NEP document.

The forecasting of the NEP and the Canada-Alberta Energy Agreement prices was based on the assumption that prices would continue to increase. Table 3.2 on the following page is a chart comparing the wellhead oil prices under the NEP and the price schedule that was established in the Canada-Alberta Energy Agreement. The prices listed in the table were projections. The schedule, and other plans that sought to phase-in regular price increases, had to be altered dramatically when the forecasted world prices did not rise as anticipated.

Natural gas prices were also affected by the NEP. The natural gas tax that was set out in the 1980 NEP document was a charge of 30¢ per thousand cubic feet (Mcf) for domestic sales and 15¢ per Mcf for exports. Additional increases of 15¢ per Mcf were assigned for 1 July 1981, 1 January 1982 and 1 January 1983. However, the Canada-Alberta Energy Agreement altered the natural gas tax and made the wholesale price at the Toronto city gate equal to about 65 percent of the average price for crude oil at the Toronto refinery gate. Under the agreement the export tax on natural gas was temporarily shelved for the agreed upon term of 1 October 1981 to 31 December 1986. Nevertheless, all natural gas and gas liquids sales or all marketable gas in Canada were hit with the Natural Gas and Gas Liquids Tax (NGGLT) the amount of which varied depending on certain factors such as transportation costs and the price of oil.[51]

TABLE 3.2
Schedule of Wellhead Oil Prices

(All prices are in Canadian $)	NEP	Alberta Agreement Old Oil	Alberta Agreement New Oil
October 1, 1981	18.75	21.25	21.25
January 1, 1982	19.75	23.00	45.92
July 1, 1982	20.75	25.75	49.22
January 1, 1983	21.75	29.75	53.06
July 1, 1983	22.75	33.75	57.06
January 1, 1984	25.00	37.75	60.18
July 1, 1984	27.25	41.75	63.48
January 1, 1985	29.50	45.75	66.83
July 1, 1985	31.75	49.75	70.23
January 1, 1986	35.25	53.75	74.08
July 1, 1986	38.75	57.75	77.48

Source: Price Waterhouse. NEP 2nd Edition. 35. Exhibit 27.

The export taxes that the federal government did levy on oil were split with the two oil producing provinces, Alberta and Saskatchewan. The amount was determined by taking the "additional revenues generated from the difference between the export price and the domestic price of oil."[52] One-half of the tax revenue was to be divided between the two provinces with the federal government retaining the other half. The NEP also indicated that Canada would work toward phasing out oil exports by 1985 in order to become completely self-sufficient. The achievement of self-sufficiency could only be attained by having a secure and plentiful supply of oil and gas. Therefore, it was necessary to find new oil and gas fields and have the majority of the discoveries made by Canadian-owned or Canadian-controlled firms.

Study Group Assessment. There were two study groups appointed to examine the issues of price, taxation and revenue sharing. Representatives from the Canadian Petroleum Association (CPA) composed the membership of one study group and members from the Independent Petroleum Association of Canada (IPAC) formed the other group.[53] Each group was presented with the same set of terms of reference and each produced a report.

The CPA report began with a brief summary of the pricing, taxation and royalty systems as they existed in 1984. The CPA's recommendations for the pricing system for oil and gas were the elimination of government control of crude oil wellhead prices with the goal of establishing a free crude oil market. They also suggested that the federal government should not license exports and imports but maintain "stand-by powers in case of a supply emergency."[54] They recognized that a government should keep its options open in case there were drastic fluctuations in the world oil price. An alternative to the free market pricing system was also put forward. The alternative suggested was an "'administered' market system at international price levels." However, a new system would require a review of the NEB's and Alberta Petroleum Marketing Association's roles and responsibilities. As for natural gas pricing, the report outlined the complexities of the gas marketing system and also concluded that competition in an open market environment should be the ultimate goals.[55]

The IPAC report was more in-depth and covered more issues than the CPA report. Nevertheless, many of IPAC's policy proposals were similar and sometimes identical to the CPA proposals. In the case of suggestions for the pricing system, IPAC's recommendation was essentially the same as the CPA's advice. IPAC advocated the deregulation of oil prices in line with a move to a system based on the world oil market price. It also suggested that natural gas, like oil, be priced at the international market value. However, the producing provinces would establish a reference price which would be used to set a ceiling for domestic prices. They also advised that transportation rates and surplus tests "be examined with a view to developing an alternate approach to provide supply protection for Canadians."[56]

The next aspect covered in the task forces' reports was the question of when pricing changes should be made by the PC government. The reply was that decontrol of oil prices should occur expeditiously. However, decontrol should be linked with a federal-provincial agreement "to abolish the dual royalty system (retain only new oil royalties or similar scale). . . ."[57] The CPA report also recommended that the PGRT be eliminated or modified. With respect to natural gas, the suggestion was to phase-in changes but in the interim to have a type of "administered market oriented pricing system [that would lead] to orderly decontrol."[58] The impact of price changes on the consumer was described as negligible for oil and uncertain for natural gas.

IPAC responded that changes to oil and gas pricing could be made whenever the federal and provincial governments decided to make the changes. Alterations in the pricing system could be made by amending federal-provincial agreements or negotiating new ones. IPAC concluded the section by stating that it would be beneficial for all sides if the industry would be consulted prior to implementing any changes to the system.[59] IPAC's assessment regarding the impact of price changes on the consumer was the same as the CPA's: the changes would be insignificant for oil and unpredictable for natural gas.[60]

One of the main recommendations made by the CPA was that profits rather than the gross revenue of the oil industry should be taxed. Its argument was twofold: first, no other industry in Canada had its gross revenue taxed; second, if there were no front-end taxes then more money would flow-through to the industry and the revenue could be used for reinvestment purposes. Not surprisingly, the ultimate advice was that the PGRT, IORT, NGGLT, COSC and PCC all be eliminated.[61] IPAC concurred with these recommendations and added that it did not "take a position on the right or otherwise of the federal government sharing revenues beyond the present income tax system."[62] IPAC stressed that the petroleum industry only wanted to be treated like all other industries in Canada.

In the terms of reference Carney also asked the two study groups for suggestions on how provincial royalties should be modified. The response by the CPA was that the two-tiered system of classifying oil as old or new should be removed and replaced with a revised system. The new system could be linked with the decontrol of prices and the removal of the PGRT. There was also an exhortation that high-cost capital projects like the oil sands should be exempt from royalties or that royalties be levied at a minimal rate until pay out. Then, after the project began to make money, the governments should tax the profits.[63]

IPAC's recommendations varied from the CPA's on the royalty issue. The two-tiered system was retained but with some modifications. There would be a base royalty but its rate would be qualified by whether oil and gas was classified as old or new. Added to the base royalty was the proposed resource levy, calculated "as a percent of revenue less operating costs; less base royalty; less capital, and administered by the provincial government concerned."[64] The levy would be deductible from taxable income for corporate income tax calculations. In addition, in order to assist smaller exploration companies, IPAC suggested that there should be a credit that could be applied to both the resource levy and payable royalties.[65]

The terms of reference also asked the study groups to discuss how the recommendations would affect the revenue shares of the federal and provincial governments. The response by the CPA was that the changes could be implemented in such a fashion to "avoid any major disruptions in the revenue flow to governments. Decontrol of oil prices would increase gross revenues available for sharing."[66] The CPA suggested that by simplifying the pricing system and removing the various NEP taxes the government would save in the area of administrative costs. In addition, the report emphasized the point that if the industry had more revenue to reinvest the entire economy would benefit through increased employment and various other spin-off effects. The government would also gain through extra tax revenue from the increased economic activity as well as through less Unemployment Insurance and welfare payments. Overall, the CPA advised that the changes recommended would be positive for both the governments involved and the country as a whole.

IPAC did not really address the issue of what impact its recommendations would have on federal and provincial revenue shares. There is some reference made to revenue shares in the discussion of royalties and taxation but it is vague. The recommendations focus more on how to levy the royalties rather than what the projected revenues would be for governments. However, IPAC went into great detail about issues that were not included in the terms of reference.

Additional recommendations were made by IPAC concerning Canadianization and Canada Lands. IPAC proposed that there should be special incentives for new Canadian investors and smaller Canadian companies. Suggestions included changes to the capital gains tax or its elimination, modifications to the flow-through tax provisions, and the creation of a tax credit for new investors. The PIP grants were to be eliminated but grandfathered for exploration agreements signed before the termination. It suggested a resource tax for the Canada Lands that would be similar to the resource levy proposed earlier in its report. The resource tax would also be tax deductible. If the government decided that there would be grants provided for exploration on Canada Lands, the incentive would be available to all investors. The 25 percent back-in was to be removed, a 50 percent interest by a Canadian company would be necessary to receive a production license on Canada Lands, and Crown Corporations would be required to operate under the same rules as every other company.[67]

Aside from the additional information provided in its presentation and its different approach to the royalty system, IPAC subscribed to the same basic principles as the CPA. The ideas for the government to deregulate oil and gas prices and move to a system based on the world oil market, to include a *force majeure* clause in case of sudden price swings, to tax profits instead of gross revenue, and to eliminate all of the NEP taxes were recommended by both groups. The degree to which these proposals influenced PC energy policy will be examined later.

II. Petroleum Incentive Program (PIP)

Background. In the preamble to the description of the need for new supply development and PIP grants, the NEP document stated:

> . . . the Government of Canada must review carefully whether there are areas where incentives are no longer warranted in view of the private investor's expected risks and

rewards. It must also consider whether the form of the incentive is consistent with the objective of increased Canadian ownership.[68]

This statement meant that the federal government had reexamined the previous incentive system and found that it conflicted with the new objectives of Canadian energy policy. The earned depletion allowances for exploration outside of Canada Lands, which had been significant deductions and incentives for the industry, were to be phased out. The depletion allowance was an income tax deduction of approximately "one-third of oil and gas exploration, development, and certain capital expenditures related, for example, to oil sands plants."[69] The NEP eliminated the depletion allowance for conventional oil and gas development expenditures, but allowed the depletion allowance to be used for oil sands projects, enhanced recovery projects, and heavy crude oil upgraders to a maximum of one-third of qualifying expenditures incurred in and after 1981. This had the effect of moving exploration and development away from the Western Sedimentary Basin and into the Frontier and high-risk projects.[70]

The PIP grant system was developed to replace the depletion allowance and established direct incentive payments for exploration and development in Canada by Canadian taxable and non-taxable firms as well as individuals. The payments were higher for Canadian-owned firms, with the grant being considerably more for those companies that had a Canadian Ownership Rate greater than 75 percent. In addition, the grant amount was significantly greater for exploration and development expenses sustained in Canada Lands than those incurred on land under provincial control.

The process for applying to receive a PIP grant was extremely time consuming and involved a large amount of paperwork. There were also several restrictions concerning the eligibility requirements to qualify for the new federal incentive. Applicants for a PIP grant had to meet five criteria in order to be eligible for the incentive payment and these also determined what percentage of eligible costs or expenses would be covered:

> The Canadian Ownership Rate ('COR') of the applicant;
> The Canadian-control status of the applicant;
> The location of the land, whether Canada Lands or Provincial Lands, where the work [was] carried on;
> The nature of the expenditure (whether it [was] on account of exploration, development or eligible assets);
> The year in which the expenditures [were] incurred.[71]

In order to be eligible for a COR certificate, an applicant had to be one of the following: a corporation that was incorporated in Canada, a Canadian citizen ordinarily resident in Canada, a landed immigrant, or a partnership or trust that would be treated on the same basis as corporations whose shareholders were essentially partners and beneficiaries. In addition, an application could not be made on behalf of a joint venture; instead, the participants of the joint venture were considered as individual applicants.[72] The COR was designed to identify and expose the corporate tactic of using either nominee ownership through Canadian intermediaries or numbered investment companies. If the ownership interests were not identified, it was assumed that the Canadian content was nil.

The whole process for calculating COR was quite complicated and involved a formula among many other steps to determine the eligibility of the various types of ownership classes and corporate structures that abounded in the oil and gas industry. However, in essence, the COR was an average of the various classes of "formal equity," such as common or preferred shares, shares issuable on the conversion or exercise of securities, or other instruments. The natures of the shares were characterized by voting rights or Canadian ownership constraints.[73] The COR applications were administered by the Petroleum Monitoring Agency (PMA) and were valid for twelve months, after which time the application had to be renewed.

The PMA, using the guidelines from the Foreign Investment Review Agency (FIRA), was also responsible for determining the Canadian control level within a company. The level of Canadian-control was necessary in order to ascertain the applicant's eligibility for a PIP grant. The extent of Canadian control over a company differed from the level of Canadian ownership in the sense that it does not take a majority of shares to actually control a company. FIRA defined control as "direct control through ownership of shares or indirect control through a trust, a contract, or through the ownership of shares of another corporation."[74] The following are three examples of what would ***not*** be accepted as Canadian controlled:

> A public corporation where 25% or more of its voting stock is owned by non-eligible individuals, foreign governments or government agencies, corporations incorporated outside Canada or any combination thereof;
> A private corporation where 40% or more of its voting stock is owned as indicated above;
> Any corporation, where 5% or more of its voting stock is owned by any one non-eligible individual, foreign government or agency, or foreign incorporated company.[75]

In essence, the decision was based on what was determined to be control in fact and not legal control. If a company did not have a significant amount of Canadian ownership or Canadian control, there was little hope that it would receive any grant for exploration and development expenses. However, there was the provision that all enterprises would qualify for an incentive payment of 25 percent of approved exploration expenses on Canada Lands. The greater the amount of Canadian ownership and Canadian control in a company, the more money it received in incentive payments. In this way, the federal government hoped not only to encourage investment by Canadian individuals and Canadian companies, but also to promote exploration and development on Canada Lands.

Under the 1981 Canada-Alberta Energy Agreement, the Alberta and federal governments jointly administered the incentive program. It is notable that both British Columbia and Saskatchewan signed separate agreements with Ottawa that allowed the federal government to fund and administer the Petroleum Incentive Program in those provinces. The Alberta government administered and paid the incentives for activity on provincial land while all other aspects of the program were handled by the federal government. The Alberta government was obligated, on an annual basis, to provide a report on the program. The opening section of the 1981 annual report described the nature of the agreement between Alberta and the Government of Canada for the Alberta Petroleum Incentives Program (APIP):

> Under the terms of the Agreement, Alberta undertook to administer and fund the portion of the federal Petroleum Incentives Program applying to oil and natural gas exploration and development activities in Alberta. The federal Petroleum Incentives Program was created in October 1980 to provide cash grants to Canadian owned and controlled companies in lieu of the earned depletion allowances provisions of the corporate income tax system.
>
> APIP's objective is to encourage the exploration and development of Alberta's petroleum and natural gas resources. The program also supports work on enhanced recovery oil recovery projects.[76]

Costs and expenses that were eligible for APIP funds included exploration and development of oil and gas wells; "geological and geophysical expenses; and development drilling and asset costs related to enhanced oil recovery projects."[77] The larger percentage of expenses covered for companies that had a higher COR and Canadian control, as opposed to companies that did not have a very significant Canadian content, are profiled in the following Table.

TABLE 3.3
Incentive Payments as a Percent of Eligible Expenditures

Canada Lands	COR Level 1	COR Level 2	COR Level 3	COR Level 4
Exploration	Less than 50% COR	50%+ COR	60% COR in 1981, increasing 1%/year to 65% by 1986	65% COR in 1981, increasing by 2%/year to 75% by 1986
1981	25%	35%	65%	80%
1982	25%	45%	65%	80%
1983	25%	45%	65%	80%
1984 seq	25%	50%	65%	80%
Development				
1981	—	—	15%	20%
1982	—	10%	15%	20%
1983	—	10%	15%	20%
1984 seq	—	10%	15%	20
Provincial Lands				
Exploration				
1981	—	—	25%	35%
1982	—	10%	25%	35%
1983	—	10%	25%	35%
1984 seq	—	15%	25%	35%
Development*				
1981	—	—	15%	20%
1982	—	10%	15%	20%
1983	—	10%	15%	20%
1984 seq	—	10%	15%	20%

Source: Price Waterhouse NEP 2nd Edition, 27.
*These same grants were available for qualified costs in respect of non-conventional and tertiary oil projects and for crude oil upgraders.

Study Group Assessment. The PIP study group report began with a general overview of PIP operations, including reasons for its creation as well as PIP's objectives, achievements, and cost. Following all of that came the recommendations. The main recommendation was that PIP be terminated "at the en0d of 1986 coinciding with the expiry of federal-provincial energy agreements."[78] The delay in ending the PIP system was also recommended in order to maintain some stability for companies that had changed their business strategy in order to capitalize upon the government grants. The study group also suggested that the PIP grants be grandfathered beyond 1986 "to minimize the negative effects the program termination would have on investors and their work commitments."[79]

Since the PGRT was levied for the purpose of funding PIP, the study group recommended that the PGRT be reduced or eliminated. However, with the elimination of PIP there was a fear that companies would not be able to conduct high-risk exploration. The PIP task force suggested that an "offset could be found in a mix of earned depletion and royalty reduction but this raises provincial-federal revenue sharing implications and, thus, should be considered as part of the broader revenue sharing issues."[80] Yet, the report argued that investment would be stimulated in Western Canada if the royalty burden was significantly reduced. The example of Saskatchewan's policy was provided to augment the argument. In July 1982 Saskatchewan introduced a program that exempted wells from provincial royalties for the first to fifth years of production. The program doubled the interest in exploration licenses and the number of rigs that

operated in the province went from fifteen in September 1982 to fifty-one during the first week of September 1983. The success of the program prompted the Saskatchewan government to extend the royalty holiday.[81] Thus, the study group concluded that if all provinces would implement policies that reduced the royalty rate, more investment would occur in the Western Sedimentary Basin.

The advisory group also recommended that PIP be replaced with another form of incentive for exploration in the Canada Lands. It also supported the concept of increasing the Canadian content in oil and gas exploration and development. However, the study group tempered its statements with the suggestion that the incentives should not discriminate against foreign-owned companies and foreign investors. But what kind of program could replace PIP that would be "cost effective, nondiscriminatory, simple and acceptable to governments, [and] would still achieve a satisfactory modicum of results with regards to the two stated objectives?"[82] The PIP study group had several policy suggestions that it believed could accomplish the same objectives as PIP but without the negative facets that had angered the industry.

The first suggestion was for the federal government to establish a more appealing fiscal regime that would tax profits rather than revenues. The study group argued that if there was only an incremental royalty combined with income taxes the government would receive its fair share of the economic rent while ensuring that companies would have more revenue to reinvest. The study group also recommended that the 50 percent Canadian content requirement be maintained for both the exploration and production stages on Canada Lands. The reasoning for this recommendation was that the 50 percent Canadian content requirement "would partly compensate all Canadian companies, regardles [sic] of their tax situation, for the loss of PIP funds by ensuring their participation in all frontier future prospects."[83]

However, the task force also recommended that nondiscriminatory tax-based incentives be provided to generate high-risk exploration activity in Canada Lands. The incentive proposed was an earned depletion allowance that would range between 50 and 65 percent and "result in an after tax cost of investment not significantly higher than the current cost to the high COR company when 25 percent crown's interest is taken into account."[84] The recommendation contained the stipulation that the unused tax write-offs and depletion allowances could be transferred to company shareholders with a flow-through mechanism of some kind. The final suggestion, to complete the policy objectives to replace PIP, was that the 25 percent Crown carried interest be eliminated. The report contended that the combination of the various policy objectives would result in a more balanced and fair system and would encourage activity in both the Frontier lands and the Western Sedimentary Basin.

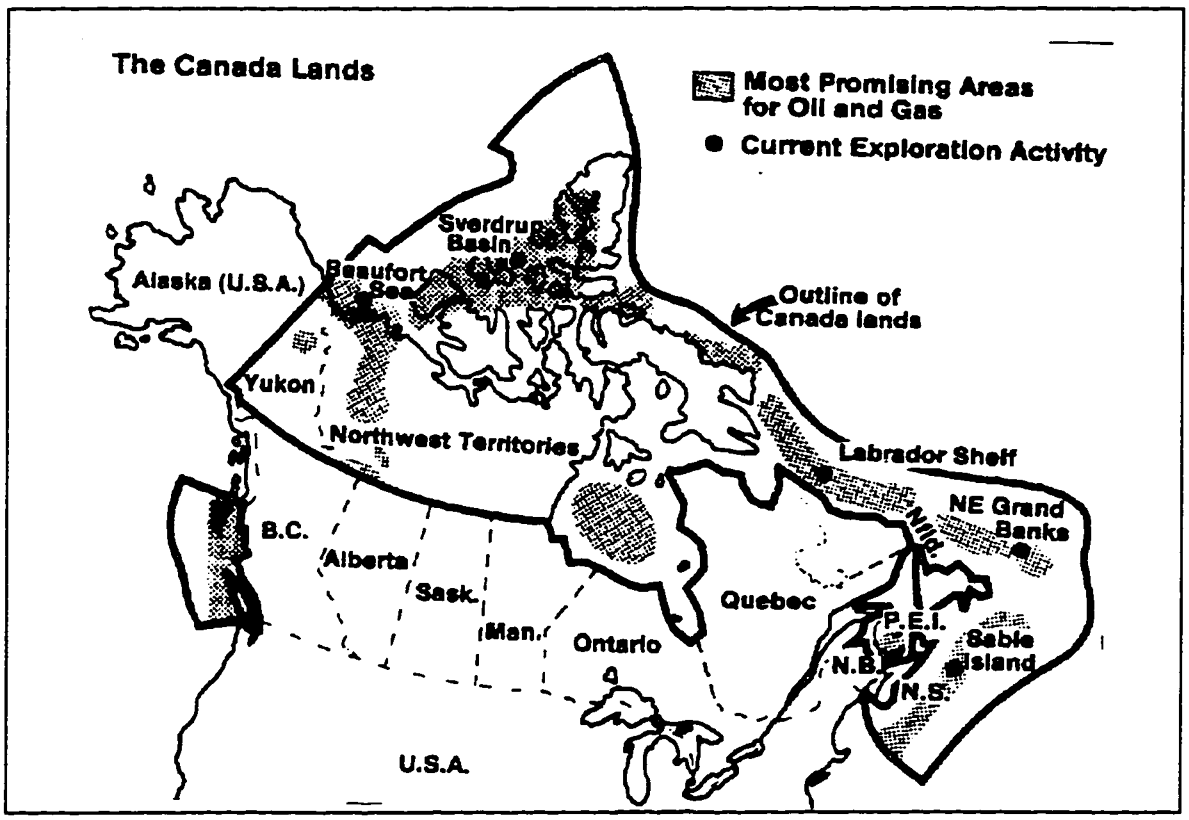
The study then addressed the effects of a terminated PIP program. Exploration would probably decline, but the activity could be regained, after a transition period, if there were appropriate replacement measures. The report went on to state that the loss of Canadian investors who participated in Frontier exploration specifically because they received PIP grants would not really matter, since their capital expenditures were insignificant. The study did point out that the elimination of PIP grants might cause a drop in the involvement of Canadian companies on Canada Lands. However, if there remained the 50 percent Canadian content provisions for both exploration permits and development, Canadian participation would increase. Under the 'terms of reference', Carney stipulated that a consensus regarding the recommendations was desirable, but minority opinions would be accepted if they included reasons for their dissent. Gerry Maier, President of Bow Valley Industries, did not agree completely with two recommendations of his fellow PIP study group members. He argued that "PIP [should] be maintained but modified after 1986. Within the context of a new energy policy, a PIP type of program should be one of a number of instruments of that energy policy." His fear was that the smaller and financially weaker Canadian firms would not benefit from tax breaks because they did not pay enough taxes to offset the type of incentive they received from PIP grants. His suggestion was that the new system combine tax benefits with grants.

Maier's second point of contention was actually an elaboration upon the 'grandfathering' system for PIP. He agreed that the industry would require two or more years of notice in order to alter or plan their future commitments. He then provided some specific policy recommendations about how the grandfathering system should operate. First, all commitments made should continue to be eligible for the grants until the commitments expire, including contracts that were before COGLA but had not been approved. Second, any optional exploration wells defined in "the initial farm-out agreements should be grandfathered." Maier asserted that such a policy would allow Canadian firms the opportunity "to earn the maximum interest" in both the exploration and development on Canada Lands.[85] On other issues, Maier concurred with the recommendations made by the PIP study group.

III. COGLA Operations

Background. The Canada Oil and Gas Lands Administration (COGLA) was created by the federal government to administer the Canada Oil and Gas Act (Bill C-48). Bill C-48 received royal assent on 19 December 1981 and was proclaimed in March the following year.[86] The Act included objectives to ensure that Canadian taxpayers would receive a fair return on frontier oil and gas exploration and development; encourage exploration and development on Canada Lands; and promote the use of Canadian goods and services, as well as employment for Canadians, in frontier oil and gas activities. As Doern and Toner point

MAP 3.1
The Canada Lands



Source: Price Waterhouse. The National Energy Program. 1st Edition. 1981.

out, this legislation also "established new rules and regulations for exploration and production on the Canada Lands, and provided for the 25 percent Crown interest in every development right on the Canada Lands."[87] See Map 3.1 above for the locations of Canada Lands.

Initially, the 25 percent back-in provided no compensation to the companies which had conducted exploration on these lands. After intense pressure from Alberta, the oil and gas industry and the United States, the Canadian government modified Bill C-48. It included compensation (ex-gratia payments) for some past exploration costs, accumulated up to 31 December, 1980, on land that was to be appropriated by the 25 percent Crown interest. Compensation came in the "form of future production, the amount or value of which is to be calculated based on a formula outlined by the Minister."[88] However, the back-in clause had precedents in previous Canadian legislation. The Canada Oil and Gas Lands regulation of 1961 provided the federal government with an automatic "minimum 50 percent interest in the acreage of any area slated for production."[89] The acreage was distributed, in a checkerboard fashion, between Ottawa and the industry to ensure equity to both interests. The back-in was also supported by precedents set by Petro-Canada in 1977. In situations where permits had expired and which were on lands proven to be barren, Petro-Canada was "given the right to acquire a 25 percent working interest subject to the level of Canadian ownership."[90] This provision also ensured that Petro-Canada did not have to pay its 25 percent share in previous exploration expenses as compensation.

COGLA's mandate was to oversee and manage the exploration and development of oil and gas operations throughout the Canada Lands. This included the responsibility for negotiating, on a more rigorous basis, the conversion of interests in the Canada Lands to exploration agreements.[91] It was also designed to contribute, in conjunction with the PIP program, to the Canadianization and self-sufficiency goals of the NEP. In the NEP Update the federal government stated that exploration and development of resources on Canada Lands would not proceed unless it was safe, environmentally prudent, and in accord with the needs and preferences of the region's people.[92]

Although the terms and conditions of each agreement varied, there were six main factors that had to be considered in every negotiation. First there was the size of the holding. It was not to exceed, for one agreement, 810,000 hectares or two million acres, and it must ensure that a balanced exploration program was implemented. The second consideration was tenure. The maximum duration of an agreement was five years but the Minister had the option of extending the agreement to eight years in an exceptional circumstance. Tenure also varied with the operating conditions and the work program. The third factor was the composition of the work program. At least one well had to be drilled under each agreement and more activity was required in mature areas. Seismic and drilling commitments were necessary as well. Canadian ownership levels comprised the fourth consideration. A minimum 50 percent Canadian Ownership Rate (COR) had to be demonstrated before a production license was granted to a company. Companies were encouraged to involve "new Canadian players at the exploration stage, either as partners or through such devices as farm-outs."[93] This was facilitated by PIP grants to Canadian companies. Generally, in a farm-out situation, the farmee (Canadian company) would earn an interest in the area of the exploration agreement, in return for a partial payment of the costs of the exploration program.[94] The fifth factor was land selection. As part of the negotiating process, companies were asked to return 50 percent of the lands, under each agreement for the term of the agreement, to the Crown. This aspect was relaxed if there were not enough drilling prospects during the course of the work program. As for land distribution, "companies keep all discoveries they have made, as well as additional prospects which they are prepared to drill, and also have first choice for the additional land blocks which they believe to be most promising."[95] However, COGLA, would have the chance, "through an alternating process of selection with the company," to select blocks of land for the Crown.[96] The final consideration for negotiating exploration agreements between the federal government and oil and gas companies was environmental protection. All agreements had to include measures that would protect the environment to the fullest extent possible.[97]

Despite all the negotiations and the consideration of the six main factors described above, the work program could not begin until the company submitted a Canada Benefits plan to the Minister of Energy, Mines and Resources. The Canada Benefits plan had to include an assurance that Canadians would be "given full and fair access on a competitive basis to the industrial and employment benefits arising from exploration programs."[98] In some cases affirmative action programs were required to aid native people or other disadvantaged groups. In addition, the Canada Benefits plan had to include a description of how, and to what extent, Canadian partners would be active participants in exploration. The Minister of Energy, Mines and Resources had final approval authority and if the Canada Benefits plan did not meet expectations work would not commence.[99]

Study Group Assessment. The study group began its report with a brief background of the purpose and operations of COGLA. The report charged that COGLA failed in its role of "providing a single point of contact between government and the petroleum industry."[100] The administration was accused of trying to control the petroleum industry, intervening in the day-to-day operations of companies, being very confrontational and suspicious of the industry, providing inconsistent treatment of companies, having inexperienced staff with no business experience, and abusing its power by imposing rules, unrelated to the Canada Oil and Gas Act, on the industry. In addition, the study group asserted that COGLA was just another agency among the several others that dealt with Canada Lands and that it made decisions based on political considerations.

The study group provided many recommendations for improving COGLA. The principal recommendation was to overhaul the mandate, terms of reference and organization of the agency. The overhaul would include making COGLA genuinely a 'single window' between government and industry by removing the overlaps of other departments. COGLA would be mandated not to intervene in the management of petroleum companies and it would base its decisions on commercial factors rather than political considerations. Simplification of the agency was recommended along with a suggestion that COGLA should treat all companies on an equal basis.[101]

The COGLA task force was not opposed to Exploration Agreements (EAs). The members of the study group did however suggest changes to the EAs. They recommended that acreage should not have to be relinquished until the end of the primary term of the EA. Exploration on Crown Lands should be awarded to companies on a fair and nondiscriminatory basis. It was also recommended that COGLA should not renegotiate basic terms once a winning proposal had been accepted, and once proposals were initiated they should be carried through to conclusion. In addition, there should be more flexibility in COGLA's work requirement demands.[102]

The issue of Canada Benefits was addressed in the context of offshore resources more-so than Canada Lands in general. The first recommendation, with respect to this issue, was that both levels of government "should work with industry to develop reasonable guidelines and objectives for optimizing Canada Benefits. . . ."[103] The study group also suggested that a Canada Benefits monitoring committee should meet with industry representatives on an annual basis to establish objectives that would benefit all interests. An arrangement could be made so that the committee could operate under the direction of the boards established in Nova Scotia and Newfoundland. The arrangement would permit an annual performance review of companies operating in the offshore areas.

It is no surprise that the study group recommended that the 25 percent back-in be abolished. However, Nova Scotia presented a problem. The province had signed an agreement with Ottawa that gave the province half of the "federal government's 25 percent share of the discovery in a gas field or 25 percent of the federal government's 25 percent share of the discovery in an oil field."[104] The study group's solution was to honour the provincial share but remove the federal interest. In addition, the task force warned that it would not be wise for the federal government to increase royalties to offset the loss; after all the government had income tax revenue to fall back on.

The 50 percent Canadian ownership requirement was not dismissed. The study group advocated the idea but included the following provision - a project would be allowed to proceed if it could confirm that it had a plan to attain 50 percent Canadian ownership and control in the production stage, or if it could demonstrate that it had at least made a reasonable effort to correct the deficiency of Canadian content at the production stage. The task force suggested that the "Canadian ownership deficiency penalties" be abandoned, and that reasonable negotiations occur between the industry and government to correct any ownership and control deficiencies.[105]

The task force was asked in the terms of reference if the "study group member agree[d] with the P.C. Party's amendment [sic] to the back-in as put forward during Bill C-48 debate."[106] The response was a definite no. The study group could not sanction a policy that would allow the government to assume a share in a company's interest on Canada Lands in order to increase the Canadian content to the required 50 percent. Less government intervention was at the heart of every recommendation made by the study group.

IV. Oil Sands/Heavy Oil Development

Background. The NEP included a provision that allowed crude oil upgrading plants to be treated as a resource activity rather than as a processing and manufacturing activity. This allowed the income from the operations to be eligible for the resource allowance; the capital expenditure of the plant and the equipment and machinery used in processing to be eligible for the depletion allowance; and the plants to qualify for PIP grants. The various pricing arrangements concerning synthetic oil, heavy oil and products from the oil sands are discussed under the heading Price/Taxation/Revenue Sharing.

Study Group Assessment. The Oil Sands/Heavy Oil Development (OSHOD) study group prepared a very thorough and detailed report. Although the subject of oil sands and heavy oil development was important, it did not have a very significant role in the policies that were announced while the PCs were in opposition, or even after they were elected in 1984.

The announcements of continued federal assistance for the heavy oil upgrader in Saskatchewan and the continued support of the oil sands projects in Alberta were not included with the major policy agreements. Therefore, the discussion of the OSHOD study group's recommendations will be brief.

The principal concerns of the study group were hurdles to development. Taxation and royalties were thorny issues and impediments to profitable development. The task force, therefore, recommended that the economic rents taken by both levels of government be minimized until the project was operating at a profit; then the taxes and royalties should be based on profits rather than on gross revenue. A realization by government of the high costs to developing oil sands and heavy oil needed to be recognized. In addition, the study group recommended that the PGRT be eliminated and that heavy oil and oil sands production receive world prices. The development of export markets was also suggested along with the advice that heavy oil and oil sands production should have unlimited access to the Canadian domestic market.

The study group recommended that mega-projects highlight a Canadian energy policy. What this meant was that the government would encourage the projects through loan guarantees, special financing terms, and floor prices for oil sands/heavy oil production. The idea of Canadian content was not rejected by the study group. In fact, it stipulated that "the participation by Canadian controlled companies in the development of oil sands/heavy oil should be an objective of energy policy." Their recommendations, designed to encourage Canadian content, were for the government to implement various tax-breaks and deferred tax deductions. The final recommendation concerned technological development. The study group suggested that research and development expenses should be considered a valid project cost and therefore tax deductible.

V. Natural Gas Policy

Background. After the first OPEC crisis, Canada decided to set the price of exported natural gas at a level similar to competing energy sources. Thus, in January 1975 Canada increased the price from 55¢ per Mcf to $1.00 per Mcf. Canadian natural gas export prices also increased significantly when the second OPEC crisis occurred. The United States was outraged and protested vigorously. Negotiations between the U.S. and Canada ensued and at the end of March 1980 an agreement was reached.[107] The Duncan-Lalonde price agreement stipulated that "the border price for Canadian gas exports to the United States would be set on the basis of the average cost of crude oil imported into Eastern Canada, with certain transportation adjustments. A formula calculation was to be made each month. . . ."[108] The price change would only be applied if it was over 15¢ per MMBtu U.S., and there would be a ninety-day delay before the change was implemented. However, the agreement was never implemented effectively and there were never any significant changes to the export price of natural gas.

Later in 1980 the NEP presented changes to the domestic pricing of natural gas. The NEP established city-gate prices for inter-provincially exported natural gas for centres east of Alberta.[109] The price increases for a three-year period beginning 1 November 1980 were set at 45¢ per Mcf. Gas shipped west of the TransCanada Pipelines' (TCPL) eastern zone was cheaper in order to reflect the lower cost of transportation. Prices in British Columbia, Alberta and Saskatchewan were set by each province, but were still subject to some level of federal taxation. The NEP wanted a pricing policy that would encourage production of natural gas and persuade consumers to use natural gas instead of oil.[110]

There was also a provision in the NEP for a Natural Gas Bank. This bank would provide cash to assist Canadian firms in exploration for new gas reserves and would also purchase gas from Canadian-owned and-controlled companies that could not find a market for their surplus gas. In addition, the Natural Gas Bank would enter joint-venture operations or provide production loans for Canadian-owned and Canadian-controlled companies. This idea was replaced in 1981, after the Canada-Alberta Energy Agreement came into effect, by the Market Development Incentives Payments (MDIP).

The MDIPs were used to help fund the opening up of new gas markets east of Alberta. The money was given by Alberta to the federal government for the sole purpose of finding markets for natural gas produced in Alberta and the funds could not be accrued to general revenue. The federal government had a legal obligation to provide Alberta with an annual account of how the funds were used.[111] The funds assisted the Distribution System Expansion Program (DSEP) that provided grants for utilities to expand into new markets.

There was also the objective in the natural gas policy of the NEP to expand the natural gas infrastructure. For example, the federal government promoted and helped finance the construction of the TransQuebec & Maritimes Pipeline by paying "the full cost of engineering and survey work on the gas transmission system between Quebec City and the Atlantic Coast. . . ."[112] The Government of Canada also encouraged the development of the Sable Island gas reserves off the coast of Nova Scotia. In these ways, Ottawa tried to develop an infrastructure that could accommodate an increase in the demand of alternate energy sources. An increase in demand was predicted when the participation in the conservation and "off oil" programs expanded.

Study Group Assessment. The natural gas export pricing study group was asked to "examine the appropriateness of the current natural gas export policy and make recommendations for improvement."[113] There were ten points or questions that Carney included in the study group's terms of reference. The first two points requested a review of the existent export pricing policy and then asked for recommendations to improve the system.

The first recommendation was to minimize government intervention in the setting of natural gas prices. Buyers and sellers, the study group advised, should be free to negotiate competitive prices based on the marketplace. The suggestion was tempered with the recognition that all pricing arrangements would have to receive NEB, Cabinet, and U.S. regulatory approval. The NEB's primary role would be to ensure that the sale of Canadian natural gas to the United States was in the Canadian public interest and whether the prices agreed upon were appropriate.[114]

The second recommendation was that competitive export prices should be negotiated. However, the study group stated that competitive pricing must also ensure that American customers would always have to pay more for Canadian natural gas than Canadians.[115] The new policy of a PC government would have to include a provision that would allow for contracts, implemented before the new policy, to be renegotiated. However, the study group recommended that there be no policy regulating a buyer to take the amount of gas stipulated in contracts. The argument was that if prices were competitive there would be no problem in increasing the volume of exports.[116]

Offshore resources, the study group recommended, should be treated like any other. The policies for exporting natural gas found in the offshore areas should be no different from exports to the U.S. from other areas of the country. The applicant would have to demonstrate that the prices were competitive and in the Canadian public's interest.[117]

The domestic pricing structure was more complicated. Prices for natural gas sold beyond the producing provinces' borders were set by federal-provincial agreements. Therefore, the study group suggested that there be closer cooperation and consultation between provincial and federal governments during the approval process.[118]

The final recommendation discussed the future energy policy of a PC government. The export pricing agreement of the Liberals was to expire on 1 November 1984. Thus, the task force proposed that the Conservatives would have to announce a new policy before the expiration of the previous agreement. The study group advised that the new policy announcement could "suggest that buyer and seller negotiate such competitive prices and any other necessary contractual changes."[119] The NEB would then receive the renegotiated contracts for review and submit recommendations to the cabinet. The task force recommended that the new policy state that "the single border price [was] no longer appropriate in light of the competitive market situation."[120] The report concluded that it would take approximately six months to renegotiate contracts and another six months for NEB approval of the contracts. The time it would take to renegotiate and approve contracts would effectively provide the new government with a window of about one year to implement a new policy agreement.

One of the study group members submitted a letter outlining some differences of opinion with some of the study group's recommendations. The first concern was with respect to the NEB. Mr. J. Anderson of the Westcoast Transmission Company did not favour the idea of the "NEB acting as a continuous monitor of contracts."[121] He thought that the onus should be on those who negotiated the contracts to work out any changes or differences in the contractual arrangement. In addition, he wanted the study group members to emphasize in the report that although provisions within a contract were difficult to enforce when gas is noncompetitive, a contract is still a contract and its provisions should not be taken lightly.

In a supplementary letter to Pat Carney from the study group, concerns were raised regarding Canada Lands. The fear was that natural gas on provincial lands would be used to maintain the 25-year surplus requirement, while natural gas produced from the Canada Lands would be exported. If the provincial gas was used for the surplus requirement that meant it would have to stay in the ground and not be exported. Therefore, the study group appealed to Carney that fairness and equity be the paramount consideration when decisions were made regarding the export of natural gas.[122]

The Development of Policy: January to September 1984

Committees and Meetings. While the study groups were forming their assessments, Pat Carney continued to attend caucus and committee meetings to report on the basics of her energy policy. At the Economic Development Envelope Committee meeting of 23 January 1984, Carney was asked to summarize the policy to that point and provide two or three key priorities. The central theme was "energy as an engine for growth"; there were also links to unity, self-sufficiency and conservation. Fair domestic pricing would help heal the wounds with the producing provinces; increased development of the oil and gas industry would assist in the goal of self-sufficiency, generate jobs across the country and boost taxation revenues for the government; and less consumption of energy resources meant conservation of resources.[123]

One of the main concerns of the committee was how energy policy would impact upon the budget. Carney replied that the energy budget would have to be fixed at the then current levels until 1986 because of commitments made through PIP and other government programs. The energy portfolio had fixed expenditures of approximately three billion dollars, half of which were used for PIP grants. Carney made the point that the PGRT and COC would be rescinded eventually, but they were still needed in order to pay for the Liberal commitments. She also stated that "many of the issues do not lend themselves to a campaign; these include incentives for drilling, development of heavy oil, fair pricing policies . . . the PIP program will be replaced with an incentive program that will not discriminate against regions or companies. . . ."[124] Yet again she stressed that the PCs should refrain from making energy an issue in the election.

Several members of the committee argued that pricing would indeed be an election issue. Carney responded that it would be folly to make pricing an issue because a PC government would be "locked into the existing arrangements under the NEP, and renegotiating with the provinces [would] be difficult."[125] Don Mazankowski was particularly adamant about making energy an election issue. After several efforts to be polite and to provide explanations to Mazankowski about why it was not wise to make energy pricing a campaign issue, Carney made a stinging retort: "It should be a conservation issue, not a promise of 18 cent gas."[126] Her remark was a pointed reference to the problem that led to the downfall of the Clark government in 1979.

Despite the minor disagreements regarding what should or should not be an election issue, the purpose of the meeting was to decide on the priorities of each envelope. Several questions were raised regarding the future of Petro-Canada, Canadianization, atomic energy, and the move to world prices. Carney responded that Petro-Canada would be made accountable to the Canadian public and would receive no additional funding. The energy policy would also emphasize the concern "to ensure the maximum participation of Canadian companies," and it would end the COC.[127] Atomic energy was not a high priority for Carney but she stated that a PC government would cooperate with the provinces on the issue. Finally, she warned that the move to world prices could be dangerous because the world market fluctuated in an unpredictable manner. Unfortunately, from the transcript of the committee meeting, it is difficult to determine what priorities were actually decided upon for the energy envelope.

On 22 February 1984, Pat Carney sent a letter to Harvie Andre which outlined the seven policy initiatives discussed at the January committee meeting. The COC would be removed and it was predicted that this would reduce gasoline prices. PIP grants would be replaced but there was no alternative presented. The sales tax on gasoline would be removed for farming and fishing industries. Petro-Canada would be made accountable to Parliament and would be funded from internally generated revenue. Atomic Energy of Canada Limited (AECL) would be maintained, but its objectives and funding would be evaluated and redirected. The PGRT would be eliminated. Conservation would be actively encouraged and the funding for direct grant programs would be redirected to technology development in conservation.[128] All of these policies were eventually included in the PC Pre-Election Policy Handbook. However, the proposed energy policies were not accepted without debate.

The PCs in opposition were very well organized. The critics had to provide an estimate of what their particular department's expenditures would be if the Party was elected. This meant that the critics had to produce better numbers than the Liberals. Two members of the Committee on Government Planning, John Crosbie and Ron Huntington, were put in charge of questioning each critic's expenditures and clarifying details.[129] The purpose was to have a clear fiscal framework that would stand up to Liberal and media scrutiny.

On 6 March 1984 Pat Carney received a list of questions regarding her energy policy initiatives. The questions from Crosbie and Huntington were very thorough and Carney had the assistance of Ian Hornby and Dr. G. Gurbin in answering the questions. The former was in the PC Research Department and the latter was an MP for Bruce-Grey who had considerable knowledge regarding AECL. The responses to the questions were equally thorough and they provided sensible explanations to additional expenditures in the energy envelope. When the question was raised about what would replace PIP, Carney responded that she would not make a decision on a PIP replacement until she had received and reviewed the PIP study group's recommendations.[130] The policy initiatives and the expenditures associated with them were approved and included in the Pre-Election Policy Handbook.

The month of March was filled with several policy planning committee meetings. The Priorities and Planning Committee was scheduled to define the Party's 'government' priorities. The Policy Advisory Group reviewed the Priorities and Planning material and then the two committees met and evaluated the Policy Advisory Group's recommendations. The result was a draft budget and throne speech that was presented for approval at a caucus retreat at Mont Ste-Marie at the beginning of April. All of these meetings were treated with 'cabinet secrecy,' complete with distributing copies of the draft budget and throne speech by hand.[131]

March was also the month that Pat Carney received the study group reports and met with each task force to discuss its recommendations. The interviews provided an opportunity for her to ask the study group members to clarify their recommendations. The members also had an opportunity to explain and, in some cases, justify their suggestions. However, there were no significant challenges to the various recommendations. The task that remained for Pat Carney was to analyse the information she had received from the study groups, couple it with the preliminary policy she had developed in 1983, and forge it all into a coherent and comprehensive energy policy.

However, before she could make a decision concerning the fate of the PCC in her energy policy, she had to take into consideration the information she received in a confidential letter. G.C. Watkins, President of Datametrics Limited, informed Carney in a letter of 20 March 1984 that the PCC was "deliberately not being set at present to cover the cost of the compensation programme on an ongoing basis."[132] The implications were staggering. The PCC account, used to pay the OICP, was suspected of being in deficit, which meant that an estimated $600 million would have to be transferred from general revenues, sometime in 1984, to cap the shortfall. The only other solution would be to raise the PCC. Watkins suspected that "there may be some kind of pre-election chicanery going on to avoid the current government being seen as increasing oil prices to the consumer."[133] In addition, it meant that Finance would have another addition to the deficit.

Policy Papers. At the beginning of April 1984, after processing all the recommendations and information she had assembled during her term as energy critic, Pat Carney produced two important policy papers. The first one, "PC Energy Policy", was written mostly in point form and provided a breakdown of energy issues as well as policy. The political strategy, profiled on the first page of the document, stated that the goals of the NEP were to be supported, due to popular opinion, but the NEP's methods for achieving these goals were to be attacked. Carney suggested that energy policy be employed as an economic issue in the election, rather than as a taxation or pricing issue. The document then went on to examine the failure of the NEP's objectives and its impact on various aspects of the economy. The section on the 'Energy Consultation Process' listed the industry task forces and stressed how the PC Party was committed to continued consultation with the provinces, special interest groups, task forces, and the industry. The "PC Energy Policy" document was designed primarily for the election campaign and therefore it stated general policy goals with few specific references about how the policy was to be achieved.[134]

The five policy goals listed within the "PC Energy Policy" document were identical to the goals outlined later in the July policy statement during the election; they were: energy as an engine of growth and creator of employment; energy security and productivity; increased Canadian participation; fairness for both producers and consumers; and collaboration between governments. The Canadian participation and fairness goals contained the most detailed references about how these goals were to be achieved.[135]

The emphasis for the Conservatives was to increase Canadianization in the private sector rather than through Crown corporations. The energy policy stipulated that there would be 50 percent CORs for mega-project approval and for both exploration and production licenses on Canada Lands. PIP grants were to be phased out and replaced with a depletion system. A programme for a tax credit incentive was suggested but the description was rather vague. The 25 percent back-in would be removed and the criteria for Canadian ownership and control would be simplified. Government interference, in particular COGLA, would be withdrawn from the daily operations of corporations. Finally, there would be "tough and thorough audits of company performance on Canada Benefits by Government."[136] The underlying theme for the goal of enhanced Canadian participation was reduction of the Government's interference in the oil and gas industry. This theme was continued in the next policy goal of fair treatment.

The goal of fair treatment covered oil pricing, natural gas pricing, and revenue sharing and taxation. The policy stated that fairness in oil pricing for producers would result when the domestic price was moved to international levels. Consumers would be protected by the Government in the event of sudden international price fluctuations. A PC government would maintain "an administered pricing system for domestic natural gas with a modified pricing structure, subject to current review."[137] However, export pricing would be more market sensitive with the condition that Canadian consumers always pay less for Canadian natural gas than Americans. With respect to revenue sharing and taxation, the "PC Energy Policy" document stated that taxation would be based on profits rather than revenue. The policy document also proposed that the level of front-end taxes would be reduced but included a reference that the PGRT would be removed completely. Some industry taxes were to be phased out "concurrent with phasing out expenditures so as to minimize any impact on the deficit,"[138] and the COC was also to be removed completely. All of these measures were designed to provide more equity in the relationship between a Progressive Conservative government and the industry.

The second major policy paper that Carney produced was the "Draft Energy Policy" at the beginning of April. Although the title suggests that it would be less detailed than the "PC Energy Policy" document, the "Draft Energy Policy" was a comprehensive analysis of all aspects of a prospective government policy. The policy book was over one hundred pages long and contained twelve chapters. Four of the chapters are of particular relevance to this analysis: they are Policy Themes, Pre-Election Policy Handbook, Departmental Philosophy, and the Minister's Work Plan.[139] The thoroughness of the policy cannot be emphasized enough. The document outlined not only what the policy platform would be for the election, but it also detailed what the policy and departmental organization would be if the PCs won the election and assumed power.

The chapter on Policy Themes was most indicative of the policy discussion papers that had preceded the "Draft Energy Policy". The Policy Themes were statements concerned with the type of policy direction that would be necessary to generate and support a "vibrant energy industry."[140] The preamble to the seven general principles included a statement that is representative of the philosophy behind Pat Carney's energy policy: "Good energy policy is good economic policy; good economic policy means jobs for Canadians."[141] The seven principles that would underpin the PC energy platform did not change from the previous policy papers.[142]

The solutions presented about how to achieve the principles were generally consistent with the policy recommendations made by the study groups and contained in the previous policy discussion papers. However, there were some principles that were conspicuously minimized and others that were left out completely. Although conservation and research and development were not mentioned in the study group recommendations, the issues were stressed in all three of the 1983 energy policy discussion papers. In the 1983 "CANEP" document Carney suggested that there be a tax advantage for people who converted their homes or vehicles to an alternate energy source.[143] But conservation issues were hardly mentioned in the 1984 policy papers. Both 1984 policy papers state that conservation would be important, but aside from declaring that the money spent on conversion incentives would be redirected, there is little in the way of a specific policy.[144]

The December 1983 policy discussion paper also stated that 'ad valorem' and excise taxes on the sale of goods, services, and refined products would give the federal government its fair share of resource revenues rather than maintaining the multitude of NEP taxes on the industry.[145] There is no mention, in either of the 1984 documents or in any of the study group recommendations, of the 'ad valorem' and excise taxes.

Taxation was a complicated issue and Carney was particularly indecisive about the PGRT. The "CANEP" document stated that the PGRT would be tax-deductible for the short term and then replaced with an "appropriate vehicle" for the long term.[146] However, the December 1983 document declared that the PGRT would be eliminated after PIP grants were phased out.[147] The letter sent to Harvie Andre in February 1984 also stated that the PGRT would be removed.[148] The first 1984 policy document "PC Energy Policy" asserted that front-end taxes would be reduced but the PGRT would be eliminated. The second 1984 policy document "Draft Energy Policy" wavered again and announced that the appropriateness of the PGRT would have to be examined. In an interesting twist the document stated: "There is strong pressure to abandon the PGRT, but the realities of the budget deficits may require us to modify it instead. . . . If a more cost-effective, efficient tax based incentive system were implemented, a corresponding reduction could be made in PGRT."[149] While Carney herself had advocated that the PGRT be eliminated and all of the study groups supported this position, the finance committee exerted considerable pressure on her to maintain some of the taxes for the purpose of deficit reduction. Therefore, the principle of abolishing the PGRT was quietly dropped.

Another idea that was absent from the 1983 Discussion Paper and the 1984 policy documents was the potential for expanding Liquid Natural Gas (LNG) exports to the Pacific Rim countries.[150] The natural gas study group did recommend the possibility of LNG exports to Japan, but they were somewhat indifferent about the issue. The "PC Energy Policy" document does not even mention expansion of export markets, it only discussed the pricing of natural gas. The "Draft Energy Policy" discussed the need for an increase in surplus gas exports to the United States, but nothing was said about expanding the export market beyond the U.S. border.[151]

The level of Canadian ownership required for various projects went through some fluctuations in the PC energy policy. In the 1983 policy papers the basic idea was for 50 percent Canadian ownership at the production stage on Canada Lands.[152] However, in the

1984 "PC Energy Policy" document, there was suddenly an added dimension. The policy recommended that fifty percent Canadian ownership would be necessary for frontier exploration agreements, the approval of mega-projects, as well as for frontier production licenses.[153] But, in the "Draft Energy Policy" the 50 percent Canadian ownership requirement was necessary only for the production stage. There was a provision regarding Canadian content in oil sands projects and enhanced recovery frontiers that stipulated: "To obtain approval of new energy projects, applicants should be required to optimize utilization of Canadian manpower, service and supplies where economical."[154] Many of the study groups supported the idea of 50 percent Canadian ownership at the production stage, but none of them recommended anything beyond encouragement of Canadian participation in the development stage and mega-projects. Nevertheless, the idea for 50 percent Canadian ownership in areas other than the production stage on Canada Lands was non-existent in the "Draft Energy Policy."

The chapter that contained the Pre-Election Policy Handbook was quite brief. The Handbook outlined how the energy policy would impact on Canadian consumers, the industry and governments. Aside from a few general political statements like, energy policy will create jobs and unite the country, all of the policies profiled were study group recommendations. They could also be traced through the various policy papers that Carney had drafted throughout the end of 1983 and early 1984.[155] At the core of all the policies was Carney's idea of energy as an "engine of growth". In addition, the policies were designed to be fairly flexible so that there would still be room for negotiation with the industry and provinces if the PC Party assumed power.

The Departmental Philosophy for Energy, outlined in the "Draft Energy Policy," stipulated that the fundamental role for the department under a PC government would be "to work with industry and the provinces to develop policy and programs which create a business climate where energy development and economic growth can flourish and re-investment is encouraged."[156] The role of the department would also be to provide policy recommendations to achieve the Minister's goals. Moreover, Carney indicated clearly that the bureaucracy would be encouraged to develop policy initiatives but ultimately "policy direction must and will flow from the Minister's office."[157] The specific policy goals for the department were then described. The seven goals of the department were economic development that would increase employment and investment, energy security, energy productivity, cooperation with industry and provinces, consultation, emphasis on private sector activity, and simplified and efficient regulations. The chapter concluded with the statement that "the department's first challenge will be to assess the energy policies developed by the party for the election to see how they can be best implemented."[158] This was a clear statement that Pat Carney had developed the main tenets of the Party's energy policy before the PCs formed the government.

The most revealing chapter of the Draft Policy was that which contained the proposed Minister's Work Plan. The work plan was divided into three main sections: administrative priorities, consultations and major priorities.[159] The administrative priorities were to staff the office, meet with department officials for briefings, "make senior department changes as necessary", and cultivate a working relationship between the department and the Minister. Continued consultation with the provinces, industry and consumer groups was an important objective for Carney. The work plan stated that on the day of the Minister's appointment telegrams would be sent and meetings would be arranged between the Department and the provinces, industry and consumer groups. Then fourteen major priorities, to be accomplished in the first year of the mandate, were listed.

The first two priorities were to renegotiate energy agreements with the producing provinces, and to resolve the offshore dispute with the Atlantic provinces. The 25 percent back-in was to be eliminated and policy was to be implemented pertaining to price, revenue sharing, PIP grants, and Canadianization. COGLA's administrative methods were to be improved, the natural gas export pricing policy was to be evaluated and revised if necessary, and Petro-Canada's mandate was to be reviewed. The Department was to determine the necessary measures that would encourage oil sands and heavy oil development, the appropriate role of the nuclear industry domestically and in export policy, and the impact of hydro surpluses on natural gas sales. The NEP's regulatory approval process was to be examined "with a view to eliminating duplications in other areas", and proposals for pipeline construction and development were to be reviewed. The role of the federal government's participation in the development of the Canada Lands was to be evaluated. The various conservation programs were also to be assessed. These fourteen initiatives represented the basis of the PC energy policy not only for the election but also if the party formed the government.

The significance of the "Draft Energy Policy" document and the other policy documents that were drafted throughout the end of 1983 and early 1984 cannot be stressed enough. The various policy papers illustrated the evolution of the PC energy policy from the very basic and vague policy objectives set out in the 10 November 1983 Discussion Paper to the compact "PC Energy Policy" document that contained specific goals to accomplish. However, the "Draft Energy Policy" document was the most comprehensive of all the policy papers. It represented one of the last stages in the policy development process and as such provided a comprehensive and coherent plan not only for policy initiatives but also for the coordination and organization of the Department.

The document also reflected the amount of detail, thought, and work that Pat Carney put into her task of dismantling the NEP. In addition, the degree of thoroughness in the policy development process, and the "Draft Energy Policy" in particular, was a reflection of the near obsession with preparedness that the PCs experienced in 1983-1984. Brian Mulroney did not want to be caught off guard the way that the Clark Conservatives were in 1979. If the Conservatives won the election there would be few MPs with experience in government. The solution, then, was to have the critics prepare specific policy initiatives and administrative information ahead of time. Thus, when they walked into their respective departments they could initiate departmental changes and deliver their objectives to the bureaucracy because they would be prepared. Therefore, Pat Carney developed her energy policy while in Opposition. The policy was based on the information she had gathered in 1983 and the study group recommendations of 1984. Yet, there were two public declarations of PC policy made before the 1984 election that also need to be discussed: the Atlantic Offshore Accord with Newfoundland and the energy platform statement made at Prince Albert, Saskatchewan.

Newfoundland Agreement. The jurisdictional boundary of the Canada Lands, in the coastal areas of provinces, was a controversial subject in energy policy. Although the study groups did not examine the issue of offshore resources, it is important to discuss the initiatives of the Progressive Conservatives regarding this issue. However, before discussing the offshore policy it is necessary to provide a brief background about the dispute between Newfoundland and the Government of Canada.

Throughout the 1970s and early 1980s Newfoundland and Ottawa had been fighting a bitter war over the jurisdiction of offshore resources. Newfoundland claimed that the resources of the continental shelf belonged to the province, and that the principle of ownership should be enshrined in the constitution as it is for land-based provinces.[160] The Liberal governments of the 1970s and 1980s refused to cede jurisdiction of the offshore to any of the Atlantic provinces. Ottawa became even more protective of the federal claim after natural gas was discovered off Sable Island and large oil deposits were found at Hibernia. The brief Clark government did agree in principle to transfer the "ownership of the offshore resources to the provinces."[161] However, it was defeated by the Liberals before it could implement any changes to offshore jurisdiction.

The revitalized Liberals were willing to negotiate agreements with the Atlantic provinces regarding shared management of the offshore resources. But, they would not even consider recognizing the ownership claims of Nova Scotia and Newfoundland. Coincidentally, both provinces were led by Tory governments. After much discussion and negotiation Nova Scotia signed an agreement with the federal government on 2 March 1982. Newfoundland was also willing to negotiate but an agreement could not be reached. Premier Brian Peckford firmly believed that the continental shelf belonged to the province. When the federal government failed to satisfy Newfoundland's desire to have its ownership rights of the offshore acknowledged, Peckford took the issue to the Supreme Court. In March 1984 the Supreme Court ruled that the federal government had both ownership and jurisdiction over the offshore areas and its resources.[162]

The goal for the Mulroney PCs was to reach an agreement with Newfoundland concerning the offshore resources so that the Hibernia project could be developed. An agreement would not only please the influential Atlantic members of the Party, it would also illustrate to the voters across the country that the Conservatives were committed to cooperation with the provinces rather than confrontation. Both Brian Mulroney and John Crosbie promised Newfoundland that "regardless of the decision of the Supreme Court of Canada, a Conservative government would give Newfoundland ownership of the offshore petroleum resource."[163] However, soon after the court's decision was announced, Mulroney revealed that he could not promise Newfoundland ownership.

In November 1983 Brian Mulroney met with Premier Peckford to discuss a number of issues relevant to Newfoundland. Pat Carney also attended the meeting along with various members of the provincial government. Although Mulroney and Crosbie provided some input into the offshore negotiations, Carney was at the centre of the energy negotiations with Newfoundland. Discussions took place between Carney and the provincial Minister for Energy, William Marshall, during the fall of 1983, but serious negotiations did not begin until after the Supreme Court decision.

In the spring of 1984 Pat Carney went to Newfoundland and said: "Why don't we just leave the issue of jurisdiction. Why don't we just treat it 'as if' you owned [the resource]."

The Newfoundland Minister for Energy replied, dumbfounded, "You mean, like Alberta?" Carney said: "Yeah, like Alberta. Why don't we run the Offshore 'as if' you owned it like Alberta."[164] The result was a letter from Brian Mulroney to Premier Peckford which outlined the basic policies for the development and management of the offshore resources.

The letter contained the elements of an Agreement in Principle (AIP) and on 14 June 1984 Mulroney and Peckford met in Newfoundland to publicly endorse it. The AIP, as negotiated by Pat Carney, contained fifteen points concerning the development and management of the offshore resources. The fifteen points spanned the issues of management of the resources, revenue sharing, the crown share, local benefits, equalization payments, constitutional amendments, and implementation of the agreement.[165] The key elements were recognition that Newfoundland should be the primary beneficiary of the offshore wealth; equality of federal and provincial governments in managing the resources; the creation of a joint management agency; the federal government would control the pace of development until national self-sufficiency was secured; the federal government would retain responsibility for environmental protection of the offshore; and most important, Newfoundland would "be entitled to establish and collect resource revenues as if those resources were on land."[166] Both sides were satisfied, not only with the content of the Agreement but also with the fact that they had achieved something in ten months that the Liberals had not been able to accomplish in ten years. The Agreement was a significant accomplishment for the Conservatives and for Pat Carney.

Immediately following the signing of the Agreement in Principle, Carney received congratulatory letters from William Marshall, John Crosbie, and Brian Mulroney. The following excerpt from John Crosbie's letter provides an insight into Pat Carney's role in the negotiating and policy-making process: "You certainly kept the negotiations moving along and kept all interested parties involved so that the outcome is one widely supported, not only in Newfoundland but across the country."[167] Brian Mulroney's comments were more brief but in the same tone. He congratulated Carney on the accomplishment of the Agreement and said that its success "was also a tribute to your talents for conciliation, tough negotiation, and straight talk."[168] The achievement of reaching an agreement with Newfoundland while the PCs were still in Opposition can be attributed to a great degree to Pat Carney. Her own fundamental belief that "the resources belonged to the provinces . . ."[169] was at the centre of her entire approach toward energy policy.

Critics shrugged off all of the PC initiatives, stating that it was much easier to talk and make policy when in Opposition than to implement it when in power. An editorial column in the Ottawa Citizen dismissed the Agreement in Principle stating that Mr. Mulroney was "in no position to offer Peckford anything until he is Prime Minister," and then it proceeded to criticize him for not providing specific policy alternatives while in Opposition.[170] Pat Carney decided to address the issue and sent a vituperative letter to the editor challenging the inconsistent argumentation and overall content of the editorial. Pat Carney retorted: "As leader of the Conservative Party negotiating team, I assure you Mr. Mulroney's proposals are so specific he succeeded where Liberal Energy Minister Jean Chrétien failed."[171] She then rejected the editorial's suggestion that "the offshore deal [was] 'shallow'" and proceeded to describe how the PCs succeeded because they operated in a spirit of cooperation rather than confrontation.[172]

The Toronto Star published an editorial similar to the one in the Ottawa Citizen and the Star also received a letter from Pat Carney. The Star chided the efforts of the Conservatives to sign an Agreement in Principle with Newfoundland. The editorial declared that the Agreement was a "silly and needless irritant in federal-provincial relations."[173] Carney responded by outlining the process of negotiations, the benefits of cooperation rather than confrontation, and the advantages the Agreement offered Newfoundland. She concluded with the following rebuke: ". . . your editorial states: 'The opposition should criticise government policy when it sees fit and advance alternatives.' That is precisely what Brian Mulroney has done."[174] Despite the detailed offshore policy represented in the AIP, the two newspaper editorials demanded a more solid policy alternative from the PC Party. Their demands were addressed when Pat Carney and the Conservatives revealed their energy and economic platform for the election in Prince Albert, Saskatchewan.

Prince Albert Statement. A month after the Agreement in Principle was signed in Newfoundland, the PC Party's Western caucus met in Prince Albert. On 5 July 1984 it revealed the "PC Agenda For Government, Policy Area: Energy", or what is referred to as the Prince Albert Statement. It reflected the policies recommended by the study group process initiated by Carney over the past year.

The Prince Albert Statement addressed the issues that were directly related to the NEP and particularly sensitive to Western Canada. The statement began with the recognition that certain elements of the NEP had been helpful to some parts of the country. There was also agreement with the three NEP goals of fairness, security of supply, and Canadianization, but the Conservatives disagreed with the Liberals' methods for achieving those goals. The underlying principle for the Tories was to have a policy that would "unite the country both economically and politically."[175] Energy was going to be used as an 'engine for growth'. The PCs also declared that the future of federal energy policy would be based on cooperation, consultation and trust. Jobs and unity were the basis of Carney's PC energy policy and the five goals outlined in the Prince Albert Statement were the same as those listed in the "PC Energy Policy" document.[176] The Prince Albert Statement then reviewed the twelve specific policies needed to achieve the five goals. The first stated that a PC government would remove the 9 percent sales tax on gasoline for all primary industries. This policy was discussed at the Economic Development Envelope Committee meeting on 23 January 1984 but was not a recommendation made by any of the study groups. The policy concerned taxation and emphasized that profits would be taxed instead of gross revenue, and that the front-end taxes would be reduced on large projects. The next stipulated that a PC government would protect the consumer from any sudden price changes. Market sensitive pricing was recommended for natural gas exports with the provision that Canadian consumers would pay less than American consumers for Canadian gas. All refinery taxes would be removed to assist the petro-chemical industry and the development of the oil sands projects would be accelerated. The PIP grants would be replaced with a system of tax-based incentives that would assist Canadian companies. The 25 percent back-in would be removed but the 50 percent Canadian ownership requirement would still apply to the production stage on Canada Lands. Petro-Canada would be made accountable to Parliament and "act as a private-sector corporation." All of these policies were recommended by most or all of the study groups with whom Carney had consulted during her time as energy critic.[177]

There were some policies that were not directly recommended by the study groups. One was the development of the Offshore resources and the recognition of the Atlantic Offshore Accord. There was also a policy concerned with conservation programs. It stated that all the programmes would be reviewed and their funding would be combined and then apportioned to the most cost-effective projects. The conservation issue had been mentioned consistently in the PC energy policy discussion papers throughout 1983 and 1984. There was also a statement about federal support for finding new export markets for hydro-electricity, tidal and nuclear power. This issue had not been discussed by any of the study groups because it was beyond the scope of their terms of reference. The statement was designed for the benefit of Ontario, Quebec and the Maritimes; the PC energy policy, unlike the Liberals', could not appear to be ignoring any region.[178]

Throughout the entire Prince Albert Statement there were continued references to how the PC energy policy would generate employment across the country and heal the various rifts that had been created by the Liberals' NEP. Also highlighted was the PC policy process: "For the past year the Progressive Conservative caucus has undertaken the most comprehensive policy development exercise in the history of any Canadian political party." The Statement was then defined as the vehicle to present "some of the specific commitments which a Progressive Conservative government in Ottawa will implement."[179] Certainly, in the case of energy policy, the agenda was set before the conservatives assumed power. The energy policy was influenced by the interviews Carney conducted in 1983 with industry and provincial representatives, the letters sent to her from interested parties, the committee meetings, and the study group reports. All of the input that Carney received and cultivated between September 1983 and July 1984, assisted her formulation of the energy policy. Carney made the point quite clearly: "I did all the work as an MP and critic. All the preliminary [work], all the policy formulation was done before we were in government. . . . We had developed our task forces, we did develop our platform, we did develop everything [in Opposition] and we hit the ground running."[180] But how much or how little of the policy that was developed in Opposition translated into legislation when the PC Party became the government in September 1984? The following chapter will analyse how the policies of the PCs were implemented and the NEP dismantled.

NOTES for CHAPTER 3

1. Natural Resources Canada (NRC), file 00869, Memorandum to Mr. Paul Tellier from Len Good, 7 November 1983, 1 - 3.

2. David Bercuson, J.L. Granatstein and W.R. Young, Sacred Trust? Brian Mulroney and the Conservative Party in Power (Toronto: Doubleday Canada Limited, 1986), 13.

3. Ibid., 18.

4. Although the energy portfolio encompassed the jurisdiction of hydro-electricity, nuclear power and mining, among other fields, the scope of this discussion is focussed primarily on the oil and gas sectors.

5. Vancouver Province, 22 July 1984.

6. Globe and Mail, 29 December 1983.

7. Glen Toner, "Stardust: The Tory Energy Program," in How Ottawa Spends 1986-1987: Tracking the Tories, ed. Michael J. Prince (Toronto: Methuen, 1986), 121.

8. National Archives of Canada, MG 32 B43, Honourable Patricia (Pat) Carney Papers, Volume (Vol.) 2 File 2, Energy Policy - Appraisal and Priorities 1983-1984 File 1, "Steps in the Policy Process". The following is the timetable set out in the document:
December 6-20: Each critic to establish the priorities and policies of his/her department.
December 20-January 18: Staff will standardize presentations and prepare documentation for consideration by envelope committees.
- Crosbie/Huntington - to examine departmental policy priorities
- Policy advisory committee to meet to review departmental policies and priorities

January 18, 19, 20: Envelope committees meet to establish envelope policies and priorities.
- Crosbie/Huntington - to attend each envelope to review fiscal framework

January 24: Priorities and Planning meets to review envelope priorities and establish priorities for government. These major priorities are to be treated in cabinet document fashion in preparation for a throne speech.
- Campaign policy established.

March 1: The major priorities for government and cabinet document fashion are completed.
Mid March: Mont-Ste-Marie II with all caucus.

9. Pat Carney Papers, Vol. 2 File 3, Energy Policy - Appraisal and Priorities 1983-1984 File 3, 21 December 1983, Michael Wilson to Economic Development Committee "Work Plan for Economic Development Committee", 2.

10. Pat Carney Papers, Vol. 5 File 13, Progressive Conservative Party - Energy Policy 1984 File 2, F.H. Deacon Hodgson Inc., Political Alerts, "The Conservatives Running Ahead", 13 - 18.

11. Pat Carney Papers, Vol. 2 File 1, Interview Records (I. R.), "Meeting with the Canadian Association of Oilwell Drilling Contractors (C. A. O. D. C.)", n.d.; "Harvie Andre", 12 September 1983; "Private Dinner at the Ranchmen's Club - Calgary", n.d.; "TransCanada Pipelines Dinner in Toronto", 4 October 1983; "EMR Briefings - General Overview", 13 September 1983; "EMR Briefings - COGLA", 19 September 1983; "COGLA Briefing", 19 September 1983; Vol. 2 File 2, I. R., "Oil and Gas Briefings - John Beddome and Terry Hargreaves of Dome Petroleum", 19 September 1983; "Oil and Gas Briefings - Bill Stuart of TCPL", 19 September 1983; "John Zaozirny", 21 September 1983; "Briefing Notes: Saskatchewan", n.d.; "Briefing Notes: Ontario", n.d.

12. Pat Carney Papers, Vol. 1 File 6 COGLA - correspondence, clippings, speeches 1983-1984, Forwarded Letter of Esso Resources Employee from Harvie Andre to Pat Carney, 31 October 1983; Vol. 1 File 12 Canadian Hunter Exploration - speech, submission, J.K. Gray to Pat Carney "Moving to a New Opportunity - Speech to Canadian Association of Petroleum Landmen", 15 September 1983; J. K. Gray to Pat Carney "REP: A Realistic Canadian Energy Policy - prepared for the Royal Commission on the Economic Union and Development Prospects for Canada", 10 November 1983; J. K. Gray to Pat Carney, "Energy Policy Discussions", 12 December 1983; Vol. 3 File 15 National Energy Program 1983, Jock Osler to Pat Carney "Notes for Pat Carney MP", 12 October 1983; Vol. 4 File 1 Natural Gas - General, Charles McMillan to Pat Carney "Attached Paper - Energy Policy: An Imperial Oil Perspective A New Look at a New Time", 7 December 1983; Vol. 5 File 5 Petrochemical Industries - General - 1983-1984, Forwarded Letter, Prairie Pacific Energy Corp. to Brian Mulroney, "Re: Petro-Canada", 6 October 1983; Vol. 6 File 13 Westcoast Transmission Company Limited - correspondence concerning Canadian gas imports 1983, A. H. Willms to Pat Carney, "Status of U.S. Legislative and Regulatory Proceedings Relating to Canadian Gas Imports", 29 September 1983.

13. Pat Carney Papers, Vol. 2 File 4 Energy Policy - Appraisal and Priorities 1983-1984 File 3, Memorandum, Michael Wilson (Chairman of Economic Development Envelope Committee) to members of the Economic Development Envelope Committee, 19 October 1983, 1 - 3. Each of the seven points had additional directions for how the critic was to assess the portfolio and present the information. The deficit was a very real concern for the Conservatives in Opposition. Wilson reminded the members of the Committee that "it has been agreed that we should avoid, if possible, large spending programs because of the size of the federal deficit. . . . [T]his involves using the tax system to a greater extent as opposed to grants, subsidies et cetera."

14. Ibid., 3. The suggestion of finding a private sector 'advisor' was followed by the clarification that: "This person should be an objective, well-qualified individual whose political leanings favour the Conservative Party."

15. Pat Carney Papers, Vol. 5 File 11 Progressive Conservative Party - Energy Policy n.d., 1983, Memorandum, "Energy Policy", 10 November 1983, 1.

16. Ibid., 6 - 7.

17. Pat Carney Papers, Vol. 2 File 3, Energy Policy - Appraisal and Priorities 1983-1984 File 2, "CANEP - The Canadian Energy Plan: Creating National Wealth Third Draft", 30 November 1983, 1 - 2.

18. Pat Carney Papers, Vol. 2 File 1, Energy - Progressive Conservative Party Caucus briefings 1983, I. R. "Private Dinner at the Ranchmen's Club", n.d., R. J. and Ted Best, 1; I. R. "Meeting with C. A. O. D. C", n.d., Jack Williams, 2; I. R. "Private Dinner at the Ranchmen's Club", n.d., Bill Elder, 3; Vol. 1 File 12, Canadian Hunter Exploration Ltd. - speech, submission 1983, J. K. Gray to Pat Carney "REP", 4; Vol. 3 File 15 National Energy Program 1983, Jock Osler to Pat Carney "Notes for Pat Carney MP", 3.

19. Ibid. They all more or less agreed upon the same issues and made similar recommendations.

20. Pat Carney Papers, Vol. 2 File 3, Energy Policy - Appraisal and Priorities 1983-1984 File 2, "CANEP", 30 November 1983, 3.

21. Ibid., 4.

22. Ibid., 4 - 5. The specific recommendations were contained in the bulk of the information that was gathered between September and November 1983 and can be found in the following references. Pat Carney Papers, Vol. 1 File 6 COGLA - correspondence, clippings, speeches 1983-1984, Forwarded Letter of Esso Resources Employee from Harvie Andre to Pat Carney, 31 October 1983; Vol. 1 File 12 Canadian Hunter Exploration - speech, submission, J.K. Gray to Pat Carney "Moving to a New Opportunity - Speech to Canadian Association of Petroleum Landmen", 15 September 1983; J. K. Gray to Pat Carney "REP: A Realistic Canadian Energy Policy - prepared for the Royal Commission on the Economic Union and Development Prospects for Canada", 10 November 1983; J. K. Gray to Pat Carney, "Energy Policy Discussions", 12 December 1983; Vol. 2 File 1, Energy - Progressive Conservative Party Caucus briefings 1983, Interview Records (I. R.), "Meeting with the Canadian Association of Oilwell Drilling Contractors (C. A. O. D. C.)", n.d.; "Harvie Andre", 12 September 1983; "Private Dinner at the Ranchmen's Club - Calgary", n.d.; "TransCanada Pipelines Dinner in Toronto", 4 October 1983; "EMR Briefings - General Overview", 13 September 1983; "EMR Briefings - COGLA", 19 September 1983; "COGLA Briefing", 19 September 1983; Vol. 2 File 2, Energy Policy - Appraisal and Priorities 1983-1984 File 1, I. R., "Oil and Gas Briefings - John Beddome and Terry Hargreaves of Dome Petroleum", 19 September 1983; "Oil and Gas Briefings - Bill Stuart of TCPL", 19 September 1983; "John Zaozirny", 21 September 1983; "Briefing Notes: Saskatchewan", n.d.; "Briefing Notes: Ontario", n.d.; Vol. 3 File 15 National Energy Program 1983, Jock Osler to Pat Carney "Notes for Pat Carney MP", 12 October 1983; Vol. 4 File 1 Natural Gas - General, Charles McMillan to Pat Carney "Attached Paper - Energy Policy: An Imperial Oil Perspective A New Look at a New Time", 7 December 1983; Vol. 5 File 5 Petrochemical Industries - General - 1983-1984, Forwarded Letter Prairie Pacific Energy Corp. to Brian Mulroney, "Re: Petro-Canada", 6 October 1983; Vol. 6 File 13 Westcoast Transmission Company Limited - correspondence concerning Canadian gas imports 1983, A. H. Willms

to Pat Carney, "Status of U.S. Legislative and Regulatory Proceedings Relating to Canadian Gas Imports", 29 September 1983.

23. Pat Carney Papers, Vol. 2 File 3 Energy Policy - Appraisal and Priorities 1983-1984 File 2, "Federal Energy Policy: A Discussion Paper", December 1983, 2.

24. Ibid., 3.

25. Ibid., 4.

26. Ibid., 5.

27. See n. 22.

28. Pat Carney Papers, Vol. 2 File 1, Energy - Progressive Conservative Party Caucus briefings 1983, I. R. "Harvie Andre", 12 September 1983; Vol. 2 File 2, Energy Policy - Appraisal and Priorities 1983-1984 File 1, I. R., "John Zaozirny", 21 September 1983, 3; Vol. 4 File 1 Natural Gas - General, Charles McMillan to Pat Carney "Attached Paper - Energy Policy: An Imperial Oil Perspective A New Look at a New Time", 7 December 1983, 7.

29. Pat Carney Papers, Vol. 5 File 11 Progressive Conservative Party - Energy Policy n.d., 1983, Memorandum, "Energy Policy", 10 November 1983, 4, 6; Vol. 2 File 3, Energy Policy - Appraisal and Priorities 1983-1984 File 2, "CANEP", 30 November 1983, 3 - 4; "Federal Energy Policy: A Discussion Paper", December 1983, 4 - 12. After almost every sub-heading of each general policy objective listed in the "Discussion Paper" has a statement that further study on the issue was required.

30. Pat Carney Papers, Vol. 2 File 6, Energy Policy - draft 1983, "Draft Energy Policy for the Progressive Conservative Party", n.d., 82.

31. Senator Patricia Carney of British Columbia, interview by author, 26 November 1996, Ottawa, tape recording and transcript, 9.

32. Pat Carney Papers, Vol. 2 File 3 Energy Policy - Appraisal and Priorities 1983-1984 File 2, Draft Letter Pat Carney to study group members, n.d.; Vol. 1 File 25 Energy - briefing book on oil and gas programs [Mar.] 1984 File 2, CPA Task Force Report "Price and Revenue Sharing", makes reference on the first page to the letter sent to them on 18 January 1984.

33. Pat Carney Papers, Vol. 2 File 6, Energy Policy - draft 1983, "Draft Energy Policy for the Progressive Conservative Party", n.d., 86-99.

34. Pat Carney Papers, Vol. 2 File 6, Energy Policy - draft 1983, "Draft Energy Policy for the Progressive Conservative Party", n.d., 83 - 85. Ted Best (VP Ops, BP Resources Canada Ltd.), chairman of the CPA study group on revenue sharing; Bernard

Isautier (Pres. & CEO, Canterra Energy Ltd.), chairman of IPAC study group on revenue sharing; Bob Blair (Pres. & CEO, Nova Corporation), chairman of the oil sands and heavy oil development study group; Vern Horte (Board Chairman, Progas Ltd.), chairman of the study group on natural gas export pricing policy; Arnie Nielson (Board Chairman, Canadian Superior Oil Company), chairman of the COGLA study group; Gerry Maier (Pres. & CEO, Bow Valley Industries Ltd.), chairman of PIP study group.

35. Pat Carney Papers, Vol. 2 File 2, Energy Policy - Appraisal and Priorities 1983-1984 File 1, Minutes of the Economic Development Envelope Committee, 23 January 1984, 1 - 2.

36. Price Waterhouse, The National Energy Program 2nd Edition (Privately Printed, 1982), 17 - 18.

37. Bruce Doern and Glen Toner, The Politics of Energy: The Development and Implementation of the NEP (Toronto: Methuen, 1985), 330.

38. Department of Energy, Mines and Resources (DEMR), The National Energy Program, 1980 (Ottawa: Supply and Services Canada, 1980), NEP 1980, 25. The NEP document explains the reasons behind the 'Syncrude Levy' and what exactly the levy is: "As an incentive for the development and production of synthetic oil from oil sands, the Government of Canada has provided prices higher than those available to conventional oil. . . . The federal government subsidizes refiners purchasing synthetic oil to the extent needed to reduce their costs to the same level paid by refiners purchasing domestic conventional oil. This subsidy is financed by a federal levy imposed on all oil refined in Canada (the so-called 'Syncrude Levy'). The refiners pass on the costs of this levy to consumers in the form of higher prices for petroleum products."

39. Price Waterhouse, NEP 2nd Edition, 17 - 18.

40. Ibid, 14.

41. Ibid, 15.

42. DEMR, NEP Update, 73.

43. Ibid, 73 - 75. The resource allowance was defined as follows, "a deduction equal to 25 percent of production revenue determined before the payment of resource royalties." Small producers were given an annual credit, up to $250,000, "against the PGRT liability of corporations, on their production revenue. . . . It will be available to offset taxes on revenue earned after May 31, 1982." The exemption to small producers was available to all firms in the industry not just Canadian firms.

44. Doern and Toner, Politics of Energy, 330.

[45] Ibid, 391. The legislation that encompassed the Canadian Ownership Charge was the Energy Administration Act and the quotation in the book Politics of Energy is taken from Section 65.26 3.b of that Act.

[46] Ibid, 109. Petro-Canada acquired Petrofina in February 1981.

[47] Ibid.

[48] Price Waterhouse, NEP 2nd Edition, 34.

[49] Ralph Toombs, The Canadian Energy Record 1945-1985: An Overview of Policy Developments (Ottawa: Energy, Mines and Resources Canada, 1987), 74.

[50] Price Waterhouse, NEP 2nd Edition, 17. The tax was calculated at "50% of incremental old oil revenue less Crown royalties payable thereon."

[51] Natural gas liquids are defined as propane, butane, and ethane.

[52] Price Waterhouse, NEP 2nd Edition, 19.

[53] The CPA and IPAC were associations composed of oil and gas companies. The CPA represented the interests of the foreign-owned majors like Imperial Oil, Shell, Texaco and others, whereas IPAC represented most of the 'Canadian junior' companies as well as the "Canadian majors and the second-line Canadian companies [Pan Canadian, Norcen, Home Oil, Canterra, Husky, Bow Valley Industries, and others]. . . with the exception of Petro-Canada, which withdrew in 1981." Doern and Toner, Politics of Energy, 205 - 207; 237; 245. The collective members of the CPA and IPAC study groups were Bernard Isautier (Pres. & CEO, Canterra Energy Ltd.), Don Barkwell (Exec. VP, Norcen Energy Resources Ltd.), Dick Haskayne (Pres. Home Oil Company Ltd.), Gerry Henderson (Pres. Chevron Canada), Gerry Maier (Pres. & CEO, Bow Valley Industries Ltd.), Ted Best (VP Ops, BP Resources Canada Ltd.; Chairman CPA), and Joe Dundas (Pres. IPAC). The first five were also on the PIP task force. Pat Carney Papers, Vol. 2 File 6, Energy Policy - draft 1983, "Draft Energy Policy for the Progressive Conservative Party", n.d., 83 - 85, 88, 91.

[54] Pat Carney Papers, Vol. 1 File 25, Energy - briefing book on oil and gas programs [Mar.] 1984 File 2, CPA Task Force Report "Price and Revenue Sharing", 2.

[55] Ibid., 3. The complexities of natural gas include the requirement of the Alberta government that there be 25 years of supply in the ground for Alberta's consumption before any can be exported outside of the province. Likewise, the federal government required that the equivalent to 25 years of gas consumption in Canada be held in reserve before any could be exported outside of Canada. There was also the consideration of the long-term contracts negotiated and the intricacies of the regulatory environment of the transportation and distribution of the natural gas. Finally, there was the delicate matter of domestic versus export pricing.

56. Ibid., IPAC Task Force Report "IPAC Energy Policy Discussion paper", 23 March 1984, 5.

57. Ibid., CPA Task Force Report "Price and Revenue Sharing", 3.

58. Ibid., 3 - 4.

59. Ibid., IPAC Task Force Report "IPAC Energy Policy Discussion paper", 14.

60. Ibid., 16.

61. Ibid., CPA Task Force Report "Price and Revenue Sharing", 4. At the time that the CPA report was written, February 1984, the IORT had been suspended until 31 May 1985 and the NGGLT was set at zero, but the CPA preferred to eliminate the taxes altogether so that there would be less temptation of reactivating the taxes in the future. The Liberal government, in its last budget before the 1984 defeat, proposed to expand the use of the COSC rather than maintaining its legislated purpose of Canadianizing the industry.

62. Ibid., IPAC Task Force Report "IPAC Energy Policy Discussion paper", 2, 4, 5.

63. Ibid., CPA Task Force Report "Price and Revenue Sharing", 5.

64. Ibid., IPAC Task Force Report "IPAC Energy Policy Discussion paper", 4.

65. Ibid., 6.

66. Ibid.

67. Ibid., 7 - 9.

68. DEMR, NEP 1980, 38.

69. Ibid, 38 - 39.

70. Ibid.

71. Price Waterhouse, NEP 2nd Edition, 27.

72. Ibid, 38 - 39.

73. Ibid, 40.

74. Ibid, 40.

75. Ibid.

[76] Alberta Energy and Natural Resources (AENR), Alberta Petroleum Incentives Program (APIP) Fund Annual Report 1981-1982 (Calgary: AENR, 1982), 7.

[77] Ibid.

[78] Pat Carney Papers, Vol. 1 File 24, Energy - briefing book on oil and gas programs [Mar.] 1984 File 1, PIP Study Group Report "Petroleum Incentives Program", 7. See first six pages of the study for details on PIP's background as seen from the perspective of the study group membership. The PIP task force membership included Gerry Maier (Pres. & CEO, Bow Valley Industries Ltd.), Don Barkwell (Exec. VP, Norcen Energy Resources Ltd.), Dick Haskayne (Pres. Home Oil Co.), Gerry Henderson (Pres. Chevron Canada), and Bernard Isautier (Pres. & CEO, Canterra Energy Ltd.).

[79] Ibid., 8.

[80] Ibid.

[81] Pat Carney Papers, Vol. 2 File 2, Energy Policy - Appraisal and Priorities 1983-1984 File 1, Briefing Notes, "Saskatchewan", 1 - 4.

[82] Pat Carney Papers, Vol. 1 File 25, Energy - briefing book on oil and gas programs [Mar.] 1984 File 1, PIP Study Group Report "Petroleum Incentives Program", 9.

[83] Ibid., 10 - 11.

[84] Ibid., 12.

[85] Pat Carney Papers, Vol. 1 File 24, Energy - briefing book on oil and gas programs [Mar.] 1984 File 1, Letter Gerry Maier to Pat Carney, Supplement to the PIP Study Group Report, 2 - 3. Both quotations in this paragraph are from the same pages in the supplementary report.

[86] Toombs, Energy Record, 74.

[87] Doern and Toner, Politics of Energy, 109. The reasoning behind the 25 percent back-in was that, no matter what type of exploration occurred on the Canada Lands, the federal government would get nothing in return for all the money it invested through the tax or grant-based incentives given to the industry.

[88] Price Waterhouse, NEP 2nd Edition, 41.

[89] Doern and Toner, Politics of Energy, 51.

[90] Ibid.

[91] DEMR, NEP Update, 42 - 43.

92. Ibid.

93. Ibid.

94. Ibid.

95. Doern and Toner, Politics of Energy, 407.

96. Ibid.

97. DEMR, NEP Update, 42 - 43. The six points were summarized from "The Exploration Agreement Process" in the NEP Update.

98. Ibid. The Canada benefits plan represented several of the objectives set out in Bill C-48, The Canada Oil and Gas Act, that were described earlier.

99. COGLA was a huge organization that had six branches: Land Management, Resource Evaluation, Engineering, Environmental Protection, Canada Benefits, and Policy Analysis and Coordination.

100. Pat Carney Papers, Vol. 1 File 24, Energy - briefing book on oil and gas programs [Mar.] 1984 File 1, COGLA Study Group Report, "Task Force Comments and Recommendations", 2. The members of the COGLA study group were Arnie Nielson (Board Chairman, Canadian Superior Oil Company), chairman, Harry Carlyle (Senior VP, Gulf Canada), Alex Cummings (Pres. Pembina Resources Ltd.), Peter Outerbridge (Pres. Harvey Offshore Services Ltd.), Bob Pogontcheff (Senior VP, Exploration, Husky Oil Ltd.), in H. P. C. P, MG 32 B43, N. A. C, Vol. 2 File 6, Energy Policy - draft 1983, "Draft Energy Policy for the Progressive Conservative Party", n.d., 97.

101. Ibid., 4 - 5.

102. Ibid., 6.

103. Ibid., 7.

104. Pat Carney Papers, Vol. 2 File 2, Energy Policy - Appraisal and Priorities 1983-1984 File 1, "Canada-Nova Scotia Agreement", 1.

105. Pat Carney Papers, Vol. 1 File 24, Energy - briefing book on oil and gas programs [Mar.] 1984 File 1, COGLA Study Group Report, "Task Force Comments and Recommendations", 9. Under COGLA, if a company had a deficiency in Canadian ownership and control the government could expropriate or force the sale of the company's interests.

106. Pat Carney Papers, Vol. 2 File 6, Energy Policy - draft 1983, "Draft Energy Policy for the Progressive Conservative Party", n.d., 95.

107. Pat Carney Papers, Vol. 2 File 5, Energy Policy - briefing book 1983-1984, Natural Gas Export Pricing Study Group Report "Natural Gas Export Pricing Study", 16 February 1984, 1 - 5.

108. Pat Carney Papers, Vol. 6 File 3, Progressive Conservative Party - Policies - speeches, new releases, memoranda n.d., 1984, Letter A.H. Willms to Pat Carney "Status of U.S. Legislative and Regulatory Proceedings Relating to Canadian Gas Imports", 29 September 1983, 6.

109. For a discussion on taxes to natural gas refer to the section on **Price/Taxation/Revenue Sharing.**

110. DEMR, NEP 1980, 31.

111. Doern and Toner, Politics of Energy, 389.

112. DEMR, NEP Update, 59. The funds were in the form of an interest free-loan that was to be repaid after the Maritime portion of the pipeline was constructed.

113. Pat Carney Papers, Vol. 2 File 6, Energy Policy - draft 1983, "Draft Energy Policy for the Progressive Conservative Party", n.d., 98 - 100. Members of the Natural gas export pricing policy study group were Vern Horte (Board Chairman, Progas Ltd.) Chairman, John Anderson (Pres. & CEO Westcoast Transmission Company), John Beddome (Pres. & CEO, Dome Petroleum Ltd.), Jim Gray (Exec. VP, Canadian Hunter Exploration Ltd.), Rad Latimer (Pres. & CEO, TransCanada Pipelines Ltd.), Stan Milner (Pres. Chieftain Development Co. Ltd.), D. G. Stoneman (Sen. VP, Shell Canada).

114. Pat Carney Papers, Vol. 2 File 5, Energy Policy - briefing book 1983-1984, Natural Gas Export Pricing Study Group Report "Natural Gas Export Pricing Study", 16 February 1984, 5 - 6.

115. Ibid., 7.

116. Ibid., 10.

117. Ibid., 11.

118. Ibid., 12.

119. Ibid., 13.

120. Ibid., 14.

121. Ibid., Letter John Anderson to V.L. Horte, 27 February 1984, 1 - 3.

122. Ibid., Letter V.L. Horte to Pat Carney, 26 March 1984, 1 - 3.

[123]. Pat Carney Papers, Vol. 2 File 2, Energy Policy - Appraisal and Priorities 1983-1984 File 1, Minutes of the Economic Development Envelope Committee, 23 January 1984, 1.

[124]. Ibid. During this exchange, Carney made quite a provocative statement: "The question is to what extent we should mislead the voters; promises vs. delivery."

[125]. Ibid., 2.

[126]. Ibid., 3. Don Mazankowski was the Minister of Transport in Clark's ill-fated regime.

[127]. Ibid., 1-3.

[128]. Pat Carney Papers, Vol. 2 File 4, Energy Policy - Appraisal and Priorities 1983-1984 File 3, Letter Pat Carney to Harvie Andre, "Policy Initiatives", 22 February 1984, 1. The "Pre-Election Policy Handbook" was to include high priority issues that would be the basis of the campaign and addressed over the term of office. The critic was also to develop a 'Speech from the Throne' that would highlight two or three priorities of the particular portfolio, a 'Budget' that would provide cost estimates, and a 'Minister's Work Program' that would include "those priorities for implementation, further study, and assessment; also suggestions for administrative and personnel reorganization." The preceding information can be found in, Ibid., Memorandum Michael Wilson to Economic Development Committee, "Priority Listings", 21 December 1983.

[129]. Pat Carney Papers, Vol. 2 File 4, Energy Policy - Appraisal and Priorities 1983-1984 File 3, Letter Committee on Government Planning to Pat Carney, "Date of Meeting", 22 February 1984, 1. The letter listed the committee members: J. Crosbie, R. Huntington, D. Glencarn, M. Wilson, F. MacDonald, S. Stevens, A. Lawrence, P. Carney, A. Cooper, H. Andre, B. Mulroney.

[130]. Pat Carney Papers, Vol. 2 File 4, Energy Policy - Appraisal and Priorities 1983-1984 File 3, Letter John Crosbie to Pat Carney, "Crosbie Questions", 6 March 1984, 1. The responses to the questions were made the next day. Pat Carney Papers, Vol. 2 File 4, Energy Policy - Appraisal and Priorities 1983-1984 File 3, Letter Ian Hornby to John Crosbie, "Reply", 7 March 1984.

[131]. Pat Carney Papers, Vol. 2 File 4, Energy Policy - Appraisal and Priorities 1983-1984 File 3, Letter Erik Nielson to Pat Carney, "Policy Development", 16 February 1984.

[132]. Pat Carney Papers, Vol. 2 File 13, Energy - Taxation of Oil and Gas Revenues - clippings, memorandum, communiques, notes n.d. 1980, 1983-1984, Letter G. C. Watkins to Pat Carney, "Shortfall in the Current Petroleum Compensation Charge", 20 March 1984.

[133]. Ibid.

[134] Pat Carney Papers, Vol. 2 File 2, Energy Policy - Appraisal and Priorities 1983-1984 File 1, "PC Energy Policy", n.d., 1 - 6.

[135] Ibid., 7.

[136] Ibid., 10 - 11.

[137] Ibid., 12.

[138] Ibid., 13.

[139] Pat Carney Papers, Vol. 2 File 6, Energy Policy - draft 1983, "Draft Energy Policy for the Progressive Conservative Party", n.d. The other subject matter included sections on the Speech from the Throne, Government Re-organization, Deregulation, Department Description, Alternative Energy Resources: Policy Themes, Personnel and Department Assessment, and the Study Groups Terms of Reference and membership lists.

[140] Ibid., 2.

[141] Ibid.

[142] Ibid. The seven principles were: energy security and self-sufficiency, fair domestic pricing, fairness in revenue sharing and taxation, increased Canadianization, more efficient regulation, expanded markets for natural gas, and energy productivity through conservation. For each principle there was a brief description of what the principle should represent and accomplish for the government, industry, and the Canadian public.

[143] Pat Carney Papers, Vol. 2 File 3, Energy Policy - Appraisal and Priorities 1983-1984 File 2, "CANEP", 30 November 1983, 5. See also, Ibid., "Federal Energy Policy: A Discussion Paper", December 1983, 4-5, for the issue of conservation and research and development. The conclusion, in this document, was that a thorough cost-benefit analysis needed to be done on each oil substitution and conservation programme that existed. In addition, the general policy paper of 10 November 1983 discussed conservation and alternate use ideas. Vol. 5 File 11, Progressive Conservative Party - Energy Policy n.d., 1983, Memorandum "Energy Policy", 10 November 1983, 6.

[144] Pat Carney Papers, Vol. 2 File 2, Energy Policy - Appraisal and Priorities 1983-1984 File 1, "PC Energy Policy", n.d., 9; Vol. 2 File 6, Energy Policy - draft 1983, "Draft Energy Policy for the Progressive Conservative Party", n.d., 6, 8.

[145] Pat Carney Papers, Vol. 2 File 3 Energy Policy - Appraisal and Priorities 1983-1984 File 2, "Federal Energy Policy: A Discussion Paper", December 1983, 6.

[146] Pat Carney Papers, Vol. 2 File 3, Energy Policy - Appraisal and Priorities 1983-1984 File 2, "CANEP", 30 November 1983, 3 - 4.

147. Pat Carney Papers, Vol. 2 File 3 Energy Policy - Appraisal and Priorities 1983-1984 File 2, "Federal Energy Policy: A Discussion Paper", December 1983, 5.

148. Pat Carney Papers, Vol. 2 File 4, Energy Policy - Appraisal and Priorities 1983-1984 File 3, Letter Pat Carney to Harvie Andre, "Policy Initiatives", 22 February 1984, 1.

149. Pat Carney Papers, Vol. 2 File 6, Energy Policy - draft 1983, "Draft Energy Policy for the Progressive Conservative Party", n.d., 4.; See, Vol. 2 File 2, Energy Policy - Appraisal and Priorities 1983-1984 File 1, "PC Energy Policy", n.d., 13, for the description of the PGRT reduction and eventual elimination.

150. The proposal for expansion of exports to the Pacific Rim was contained in, Pat Carney Papers, Vol. 2 File 3, Energy Policy - Appraisal and Priorities 1983-1984 File 2, "CANEP", 30 November 1983, 4.

151. Pat Carney Papers, Vol. 2 File 2, Energy Policy - Appraisal and Priorities 1983-1984 File 1, "PC Energy Policy", n.d., 12; Vol. 2 File 6, Energy Policy - draft 1983, "Draft Energy Policy for the Progressive Conservative Party", n.d., 6, 9.

152. Pat Carney Papers, Vol. 2 File 3, Energy Policy - Appraisal and Priorities 1983-1984 File 2, "CANEP", 30 November 1983, 5; Ibid., "Federal Energy Policy: A Discussion Paper", December 1983, 11 - 12.

153. Pat Carney Papers, Vol. 2 File 2, Energy Policy - Appraisal and Priorities 1983-1984 File 1, "PC Energy Policy", n.d., 10.

154. Pat Carney Papers, Vol. 2 File 6, Energy Policy - draft 1983, "Draft Energy Policy for the Progressive Conservative Party", n.d., 5.

155. Ibid., 8 - 9. The main policies were as follows: remove the COC, remove the sales tax on gas for farmers and fishermen, reduce the tax burden for industry, expand natural gas export markets, replace PIP grants with tax-based incentives, reduce regulations and government intervention, encourage heavy oil and oil sands projects, make Petro-Canada accountable to Parliament and operate like a private company, and finally, commitment to negotiate pricing agreements with the producing provinces.

156. Ibid., 12.

157. Ibid.

158. Ibid. Carney stated that the department would be given the task of "formulating the necessary legislation, establishing time frames and implementation procedures." She estimated that it would take approximately twelve months to draft the legislation and wade through the legalities of changing the energy policy.

159. Ibid., 28.

160. Bruce Pollard, "Canadian Energy Policy in 1985: Toward a Renewed Federalism?" Publius 16 (Summer 1986): 165 - 166. See also, Doern and Toner, Politics of Energy, 160 - 161. British Columbia had taken the issue of offshore mineral rights to the Supreme Court in 1967 and lost.

161. Doern and Toner, Politics of Energy, 161.

162. Ibid., 283 - 286. For more details on the legalities of the Newfoundland court case and a comparison of Nova Scotia's and Newfoundland's separate agreements with the federal government, see Leo Barry, "Offshore Petroleum Agreements: An Analysis of the Nova Scotian and Newfoundland Experience," in Managing Natural Resources in a Federal State, ed. J. Owen Saunders (Toronto: Carswell, 1986), 177 - 189.

163. Ibid., 179.

164. Senator Patricia Carney of British Columbia, interview by author, 26 November 1996, Ottawa, tape recording and transcript, 8.

165. Pat Carney Papers, Vol. 4 File 12, Newfoundland. Premier Brian Peckford, 1984, Letter Brian Mulroney to Hon. Brian Peckford Premier of Newfoundland, 14 June 1984, 1 - 6.

166. Pat Carney Papers, Vol. 4 File 18, Offshore Resources - Newfoundland, 1984, Letter Ian Anderson to All PC Caucus Members and Staff, 14 June 1984, 1 - 2. See also, Ibid., "PC Research Briefing Note", 18 June 1984, 1 - 2.

167. Ibid., Letter John Crosbie to Pat Carney, 26 June 1984.

168. Ibid., Note Brian Mulroney to Pat Carney, 18 June 1984.

169. Senator Patricia Carney of British Columbia, interview by author, 26 November 1996, Ottawa, tape recording and transcript, 9.

170. Ottawa Citizen, 21 June 1984.

171. Ibid.

172. Ibid.

173. Toronto Star, 22 June 1984.

174. Ibid.

175. NRC, document EP 5000-2-2, Memorandum, "Prince Albert Caucus, Progressive Conservative Agenda for Government, Policy Area: Energy", 5 July 1984, 1.

176. Ibid., 2. See also for comparison of policy goals, Pat Carney Papers, Vol. 2 File 2, Energy Policy - Appraisal and Priorities 1983-1984 File 1, "PC Energy Policy", n.d., 7.

177. NRC, document EP 5000-2-2, Memorandum, "Prince Albert Caucus, Progressive Conservative Agenda for Government, Policy Area: Energy", 5 July 1984, 2 - 4.

178. Ibid., 3.

179. Ibid., "Statement by Hon. Brian Mulroney at Prince Albert, Sask.", 5 July 1984, 3.

180. Senator Patricia Carney of British Columbia, interview by author, 26 November 1996, Ottawa, tape recording and transcript, 3; and Senator Patricia Carney of British Columbia, telephone interview by author, 19 June 1997, tape recording and transcript, 7.

CHAPTER 4
Dismantling the National Energy Program

The New PC Government

The election of 4 September 1984 ushered in a new era when the Progressive Conservative (PC) Party, headed by Brian Mulroney, won an overwhelming majority in the federal election. Although the PCs did not make energy the focus of the 1984 campaign, energy policy was certainly a priority before, during and after the election. While in Opposition from 1980 to 1984 much of the strong and consistent PC support came from Western Canada. The provincial governments in Western Canada believed that the Liberal Party's National Energy Program (NEP) discriminated against them, and the oil and gas industry viewed the NEP as an unnecessary government intrusion into their business. Both groups wanted the NEP dismantled.

The process of dismantling the NEP began when Brian Mulroney appointed Pat Carney as the Minister of Energy, Mines and Resources (EMR). Carney was the first woman in the history of Canada to hold the portfolio.[1] Carney was prepared for the task of dismantling the NEP because of her own experience with the industry and because of the policies formulated while she was energy critic. Glen Toner for example, argued in 1986 that:

> [The study group recommendations] reinforced Carney's personal belief - which she has been vigorously championing now for at least fifteen years - that energy development can be a major 'engine of economic growth.' The Tory energy program can basically be understood as a manifestation of this conception of the potential of

the private sector.[2]

The private sector believed that it could only thrive if governments at both the federal and provincial levels interfered as little as possible with its activities. Yet federal-provincial relations, as well as government-industry relations remained central to the resolution of the energy problem. Carney had drafted the PC policy while she was energy critic and had achieved an Agreement in Principle with Newfoundland regarding offshore resources; now she faced the task of first taking control of EMR and then reaching agreements with the producing provinces through the Atlantic and Western Accords. (While the negotiations for the Atlantic and Western Accords occurred simultaneously, in order to maintain clarity, each Accord will be discussed separately.) In addition, Conservative policy regarding the Agreement on Natural Gas Markets and Prices and the statement on Canada's Energy Frontiers would have to be put in place. The challenge in negotiating all these agreements was that the Federal Government would not only have to satisfy the producing provinces and the industry, it would have to appease consumer interests as well.

However, before the process could begin, Carney wanted to put her stamp on the Department of EMR. Her first move was controversial - she hired Harry Near as her chief of staff. In 1979 Near had been the Executive Assistant for Ray Hnatyshyn, PC Energy Minister in Joe Clark's government; after the PCs lost the 1980 election Near established a consultancy firm, Public Affairs International.[3] Criticism erupted when Carney confirmed that Near would be paid $50,000 for a five-month contract.[4] She justified her decision with the argument that Near "was invaluable because of his awareness of all the pitfalls facing a new administration."[5] Carney had been in contact with Near during her time as Opposition Energy

Critic and she knew about his grasp of the industry's expectations and that he had experience in government administration. The new Government needed as many knowledgeable personnel as possible to assist in its operations and it was imperative that they support the ideological objectives behind PC policies.

Carney also decided to retain Paul Tellier as Deputy Minister over the Prime Minister's objections.[6] Mulroney was suspicious of Tellier, as were Alberta's officials, because Tellier was linked to the Liberals and the NEP. Carney argued that Tellier was essential because of this background. If the Conservatives were going to dismantle the NEP, it would be advantageous to have someone who knew what it was all about and who could assist in taking it apart. Carney's argument was persuasive and Tellier remained as Deputy Minister.

The officials within EMR were thus initially caught off-guard by Pat Carney. Normally, when there is a change in government, the responsibility of the bureaucrats is to brief the new Minister about what the department has been doing. The senior officials in EMR provided the Minister with a transition book outlining "what they thought the issues were and how they [the issues] should be approached."[7] Carney rejected the advice of her senior bureaucrats: "No. Those are not the issues and this is how we will approach them [the issues we have defined]. We will do this. It's already been approved by the caucus."[8] Carney then briefed the department officials on the issues and explained the direction that policy would follow under the Progressive Conservative government. The EMR officials were stupefied and dismayed.

The bureaucrats had known about the Conservative position before and during the election, but they did not anticipate that Carney would have a firm energy policy developed upon assuming office. If the policy had already been developed without the participation of department officials, how would they be able to negotiate and implement the policies effectively? The differences between Carney and the senior EMR officials would cause some tension and difficulty in the operation and functioning of the department and will be discussed in the context of the negotiations that took place between the federal government and Alberta.

Nevertheless, within days of being appointed Carney was on the telephone arranging meetings with the various provinces. By 27 September 1984 Carney had spoken to Newfoundland Energy Minister Bill Marshall regarding a timetable for negotiations to turn the Agreement in Principle (AIP) on offshore resources into legislation.[9] She also began a trip to Ontario and Western Canada to market her policy: "We had our energy policy developed. I had the mandate from the Prime Minister to implement it. I was on the road within two days of being declared Energy minister. I mean, two days after I was sworn into Cabinet I was on the road with that energy policy."[10] The Globe and Mail reported:

> Ms. Carney's five-day, five-city tour is designed to bring her up to date with the views of many of the people she met often during the last year when she was energy critic for the Tories while in opposition. During this round of talks, however, she will be occupying the role of decision-maker rather than critic, a transformation that will significantly change the ambience of the meetings. Her audience will be looking to her for action rather than words of support.[11]

Atlantic Accord

The AIP, which was signed with the Premier of Newfoundland when Brian Mulroney was still Opposition Leader, was a significant gesture by the PCs. The AIP revealed the Conservative approach to federal-provincial relations. Energy policy was not only to be used as an 'engine of growth', it was also the larger "vehicle to promote national unity and demonstrate the trust and cooperation the Party deems essential."[12] The clearest indication that the PCs were committed to improved federal-provincial relations was to demonstrate that they kept their promises. The best way for the new government to achieve credibility was to translate the principles in the AIP into legislation.

The problem for Carney in the discussions with Newfoundland was that the province wanted to use the AIP as a starting point from which more concessions could be extracted from the federal government. This is outlined in a document entitled "Implementation of the Atlantic Accord" which discussed the negotiations with Newfoundland. Newfoundland sought a more independent joint agency that would make all the decisions concerning the management and development of the offshore resources. The province also wanted federal money designated as grants not loans; a guarantee of the provincial revenue share; and pressed to extend the deal to other minerals found in the offshore areas.[13] Newfoundland's proposals went beyond the AIP and did not go unnoticed by the federal officials. However, Ottawa was more concerned with the details of drafting the legislation.

Although the federal document discussed Newfoundland's proposals, and was partially occupied by the various options available for the legislative framework and the time-frame for implementation, a large portion of the document focused on the general concept of power-sharing. Three fundamental questions were raised: (1) How were decisions going to be made? (2) How was the joint management agency or joint board going to be structured and what kind of powers would it have? and (3) How were the federal-provincial ministerial powers to be shared? Categories were established in order to compartmentalize the decision-making process and provide specifics for discussion with the provincial negotiators.[14]

On 13 December 1984, Pat Carney presented a brief at the Priorities and Planning Committee meeting entitled "Energy Discussions: An Overview."[15] The document outlined the PC energy platform, the issues that pertained to dismantling the NEP, and the process to be followed in implementing Government policy. The brief also contained a basic summary of the Newfoundland negotiations. The essential points centred on the understanding: "That Newfoundland must be the principal beneficiary of offshore development, [and] that revenue sharing will be as if the resource were on land."[16] The estimated timetable to secure a formal agreement was two to three months from the date of the brief.

In January a draft Agreement was produced. It contained a point-by-point comparison between the Government of Canada proposal and the Newfoundland text. There was an elaboration of the AIP and the points articulated in the 5 December 1984 document. The federal text was almost identical to what was in the finalized Agreement. Most of Newfoundland's proposal matched the federal text; the province's requests for greater powers for the management agency, more clarity in pricing, and the inclusion in the Agreement of other minerals found in the offshore areas were not included.[17]

The Atlantic Accord was signed by Pat Carney, Brian Mulroney, Brian Peckford, William Marshall and Newfoundland MP and Justice Minister John Crosbie, on 11 February 1985 in St. John's. Sixteen of the eighteen points found in the AIP were included in the Atlantic Accord. Two political statements that were not specifically related to policy were not.[18] The Accord created a joint management board and outlined its role, responsibilities, authority and jurisdiction. A significant aspect of the Accord was the fact that it allowed

Newfoundland to treat the offshore resources 'as if' they were on land for revenue-sharing and jurisdictional purposes.[19] In short, the Accord fulfilled the promises made by Pat Carney to Newfoundland while she was the Opposition Energy critic.

Western Accord

The Western provinces were next on Carney's agenda. Within the first week of holding the Energy portfolio, Pat Carney met with the Energy ministers of Alberta, Saskatchewan, British Columbia, and Ontario. This was a dramatic change from the behaviour of the previous Liberal government. There was a spirit of cooperation between the producing provinces and Carney, and a hope that a lasting energy agreement could be negotiated. However, it must be remembered that all parties concerned in the negotiations wanted to be certain that they were going to receive maximum benefits from any agreement.

In previous energy negotiations between the producing provinces and the federal government Alberta usually took the lead in the discussions. Initially, the producing provinces were hesitant about accepting Alberta's leadership. It was argued that multilateral rather than bilateral negotiations with the Ottawa might be best, but finally, the provinces agreed to present a united front and Alberta once again took the lead.[20]

The Alberta Government was thorough in developing its strategy for negotiations. It was very well briefed about every province's concerns, both producers and consumers. During September and the early part of October, Alberta officials met with their counterparts from Saskatchewan, British Columbia, Ontario and Quebec to discuss what stance each would prefer to take on the various issues that would arise in the negotiations.[21] In addition, Alberta was cognizant of the energy policy that was presented when the federal PCs were in Opposition.

A report prepared jointly by four Alberta government departments provided an assessment of the PC energy policy, developed from the various statements made while Pat Carney was the Energy critic. It also examined the timing and format of the potential negotiations and recommended a negotiating strategy for the provincial officials.[22] The report suggested that there would be advantages in beginning negotiations before January 1985 in order "to capitalize on the momentum of change [and] to establish Alberta's position early."[23] However, some problems that might postpone serious negotiations until after the end of 1984 were also listed: "The federal government . . . probably will not be ready for some time. The mechanics of implementing the general principles of the Conservative policy statement will have to be worked out along with fiscal and other matters."[24] The recommendation, therefore, was that the Alberta government wait "until the New Year before engaging in negotiations."[25] Yet Alberta and the producing provinces were approached by Pat Carney within days of her becoming Minister in September and discussions concerning a new energy agreement began before the end of 1984.

Carney experienced some difficulty in negotiating an agreement with the producing provinces. Even though all sides agreed that there had to be a public statement conveying "'correct signals' to the industry,"[26] Alberta was very suspicious of the federal officials even though many of the senior bureaucrats who had helped develop the NEP went to the Department of Finance with Marc Lalonde. Yet, the Liberals had been in power federally for such a long period of time it was believed that most of the bureaucrats were Liberals and would somehow work to undermine the PC policies.[27] Carney described the negotiating atmosphere: "Just understand the picture of the Alberta people [being] extremely suspicious. They hated the Liberal energy policy people. They hated the Liberal energy bureaucrats. They hated the political people. They hated the Liberals. . . . And so, they were very defensive about Alberta's position."[28] On the other hand, the Alberta officials were indifferent towards Pat Carney, at least until the end of October 1984.

In a document dated 26 October 1984, a provincial bureaucrat summarized "observations received from a senior federal bureaucrat concerning the status of federal/provincial negotiations."[29] It reviewed a meeting between Carney and Michael Wilson and was not very flattering to Carney. It depicted her as an overwrought and uninformed Minister. Michael Wilson was quoted as advising Carney to "stop shooting volleys into the night. You are in no position to negotiate when you have no officials you trust and, as a result, no reliable facts and figures."[30] The document also stated that "Federal Finance will have major input into energy policy during the first term of the Mulroney government."[31] Carney does not dispute that she and the Finance Minister had some disagreements concerning fiscal issues in energy policy.

It should not be a surprise that Finance was consulted in the details of how energy policy was to be implemented. Carney described the role of Finance as follows:

> I don't know who the Federal bureaucrat was, but it's quite true that Finance took a very hard line on giving up the revenue and I was distraught because I could see that Finance was going to try and hang onto the funds that we were morally committed to giving up. . . . Finance does - did have control -- of the money. [The Department of] Finance had control because the national energy policy involved taxation, it involved the payments of money and the collection of money which were taxes. . . . In the NEP when you're talking about PIP grants and the PGRT those are Finance taxes so of

course Finance was involved. And my ability, and I did set the energy policy, but my ability to implement energy policy was hog-tied by the Finance Minister's reluctance to give up the source of revenue. . . . You get elected and you say you're going to eliminate the NEP which means you're going to phase out the PGRT and you're going to do all of these things, and then the guy who's the Minister of Finance gets told by his officials, "No, no, no. You can't afford to do that.". . . So, there's always this tension . . . there was always me pushing to have the policy implemented and Michael Wilson and the Finance people resisting giving up the money. Remember in Finance, these were the same officials who had imposed it [the NEP].[32]

The document did not end with its assessment of the role that Finance would occupy in the implementation of energy policy. The vitriolic conclusion addressed Carney's "inadequacies" as perceived by the "senior Federal bureaucrat." Carney was described as having no credible staff and of being disorganized, mercurial, and lacking personal credibility "especially when she is under any amount of pressure."[33] Yet the document ended with the comment that it would be in Alberta's best interest to encourage the Prime Minister to support Pat Carney "and allow her to handle energy issues . . . her intentions are good and if she was put in a position where she could develop some credibility with the Prime Minister and her cabinet colleagues . . . she affords us the best avenue for achieving some of our objectives."[34] Carney responded to the comments in a recent interview:

I don't know, women are mercurial, women are always mercurial - [while] men are inspirational. 'She lacks credibility'. I think that's a male chauvinist pig thing because the only person I had to be credible with was the Prime Minister and he gave me absolute freedom to negotiate. . . . If I'm supposed to be lack[ing] credibility [then] why did they think ***they*** [the Provincial officials] could influence the Prime Minister to support Pat Carney? . . . I think that's very funny, since the Prime Minister, as Leader of the Opposition, had come down with me to Newfoundland and sign[ed] the Atlantic Accord [Agreement in Principle], an extremely gutsy thing to do, which you do not do if you don't have confidence in your shadow cabinet MP person.[35]

This document had a significant effect on Alberta's officials. After 26 October 1984, their tone, when discussing Carney and the federal EMR officials in internal Memoranda, was decidedly more disparaging. It is ironic that the provincial officials believed the negative comments that were conveyed by one of the very bureaucrats hated by the province and they affected future discussions.[36] An excellent example of the changed attitude is in a Memorandum that described a meeting of energy officials at the end of November 1984. The section entitled "Concluding Thoughts" was a combination of the Alberta Deputy Minister's observations and comments from industry and government sources. The observations were again sharp: "Federal EMR is in a state of suspended animation, with little or no meaningful communication between Ms. Carney and her senior officials."[37] The Memorandum went on to represent the officials in the federal Finance Department as "being in full control of its mandate [and] . . . who very clearly have the final say (at the bureaucratic level) on fiscal matters." The document did not mince words in its final assessment:

> In this context Ms. Carney is at a distinct disadvantage in dealing with Mr. Wilson on major energy issues. She appears to be inadequately or poorly briefed, with no obvious game plan or strategy to follow up on the federal government's pre-election commitments. Mr. Wilson, in contrast, is well briefed by his officials and, moreover, seems to have the authority to hold back or veto any decisions or proposals put forward by EMR.[38]

How accurate were these perceptions? There is considerable evidence that the comprehensive study undertaken by Pat Carney as Opposition energy critic was translated into the Government's energy policy. Therefore the claims that there was no strategy and no game plan in EMR, are patently false. How did the officials at both the federal and provincial levels develop such misleading impressions? Carney provided some insight in a recent interview. She asserted that the Federal officials had no idea what the new PC government wanted and they did not want to admit it. In addition, the bureaucracy did not want to "accept how it was supposed to respond," nor did the bureaucracy completely understand what the Minister's office wanted to do. Carney also suggested that the federal officials were not aware of her business background and her familiarity with issues that involved the oil and gas industry. Thus, it was easy for them to dismiss her and say that she did not really know what she was doing as Minister of EMR.[39] The negative attitude fostered by some federal bureaucrats and perpetuated by the Provincial officials probably made the negotiations more difficult than they needed to be:

> But, the perception that it [EMR] was in a state of suspended animation, that could easily have been the bureaucracy because they didn't understand what the Minister's office wanted to do. . . . so you had a bureaucracy in place who had imposed the NEP [and] who were viewed with great distrust by the Conservative government. And, the bureaucracy wouldn't accept how it was supposed to respond. . . . So, what I see coming through these discussions [is an official] saying that 'Well, . . . they're in suspended animation; they don't seem to know what they want.' ***They*** [the bureaucracy] didn't know what *we* wanted. We had a very clear program, and that's why I was able to start negotiations within forty-eight hours. . . . But reading those memos indicates how confusing it must have been to the people involved. . . . First of all, they [the EMR officials] didn't like to admit that they didn't know what we were doing; and secondly they didn't know what the Conservative policy was . . . and thirdly, guys like Barry Mellon in Alberta were extremely burned, gun-powder shy, male chauvinist pigs and very, very defensive. . . . But I mean, they [the EMR officials] were quite stunned by the fact that we were going to completely reverse the policy, which we did. . . . And also, another thing to keep in mind is that very few of them had any idea that I had such an extensive background in energy anyway. I mean I had spent years running an economic consulting company dealing with pipeline economics which you have to, by definition, pick up quite a bit about energy and energy policies. . . . And they weren't used to women with that kind of background. . . . So, if they don't think of you as having that capacity it's awfully easy for them to say, 'Oh, she doesn't know what she's doing.' That's just a gender issue which is quite real. But, the proof of the pudding that we knew what we were doing was that there were caucus position papers and basically that's what we had put in place. . . . There was a great deal of chauvinism, what I call inherent chauvinism, a great deal of disbelief that the Conservatives actually knew what they were doing and a fear in the department because they knew that heads would roll. . . . The most important

discussions, in terms of with the Ministers, [took place when] no officials were in the room. And, we did, we came to our conclusions without the help of all these little people who write memos about how important they are. . . . But, we had developed our task forces, we did develop our platform, we did develop everything and we hit the ground running. And if it confused them, maybe it's because they weren't used to that.[40]

Despite the difficulty Carney experienced in conveying her policy to the public servants in EMR and in maintaining her authority with the Provincial officials, some 'quick-fix' measures were introduced in the 8 November 1984 Economic Statement. The Statement was a mini-budget that set the agenda for the government until a budget could be presented in the spring of the New Year. The section concerning Energy issues addressed the desire of the Conservatives to "let the price of oil be determined by the marketplace."[41] The statement also provided reassurance to Canadians that there would be safeguards that would protect consumers in the event of extraordinary price surges. The lower PGRT rate for oil sands projects was extended for a year and the small producers' credit was increased from $250,000 to $500,000. A general political statement was made concerning the government's commitment to examine the fiscal measures of the NEP with a view to reforming the various taxes. The producing provinces and industry would have preferred that the PCC be eliminated immediately, but they were not surprised or extremely upset when the government increased the PCC in order to alleviate part of the deficit accrued in the Petroleum Compensation Account during the last year of the Liberal government. However, the PCC would only be levied until oil and gas prices became fully decontrolled.[42] The inclusion of energy sector issues in the economic statement was to provide the "right signals" to the industry and reassure provincial governments that the policy statements made in Opposition would be fulfilled. The NEP would be dismantled.[43]

This objective was clearly reflected in both the negotiations with the producing provinces and in EMR departmental policy papers. In a 13 December 1984 document entitled Energy Discussions: An Overview, which Pat Carney presented to the Priorities and Planning Committee, there were two sections of particular importance.[44] One defined the PC energy platform and it contained the five goals that were set out in the introduction of the Prince Albert Statement: energy as an engine of growth; self sufficiency and energy security; enhanced Canadian participation; fair treatment for consumers and producers; and cooperation between the federal government, provinces, and industry.[45]

The second section of the document contained six policy areas that were referred to as "Fundamental Changes to Energy Policy." They included: oil pricing going to world prices and dismantling the NEP; market sensitive pricing for natural gas; flexible border pricing to reflect market conditions for natural gas exports; federal taxation of industry profits; reduction of industry tax load; replacement of PGRT; phasing out of PIP grants; replacement of PIP with tax-based incentives; the removal of the retroactive Crown share; petrochemicals; and Canadianization.[46] These had also been outlined in the Prince Albert Statement, and had been suggested first by the study group recommendations. Although Conservative energy policy was now formally presented, discussion with the producing provinces stalled.

The deadline for an agreement had to be extended twice, and following several more months of protracted meetings, consultations, and negotiations, a conclusion was finally reached. The Western Accord was signed on 28 March 1985. Despite the difficulty Carney had negotiating the agreement she managed to secure almost all of the provisions in the

Government's energy policy. Certainly, there were changes concerning the details of how oil and gas prices were to be deregulated, how taxes were to be phased out, and to what extent revenues were to be shared; but the basic premises from which the details were negotiated came mostly from what Carney had worked out while in Opposition and after consulting with the CPA and IPAC and the drafting of the Prince Albert Statement.

Section One of the Western Accord dealt with the deregulation of crude oil pricing. It was agreed: "that market pricing of oil is desirable. . . ."[47] Both the CPA and IPAC reports had recommended this, as did almost every person and group with whom Carney consulted.[48] The purchase of oil was to be negotiated freely between buyers and sellers and the export charges on oil and petroleum products were to be removed, including the Oil Import Compensation Program (OICP) and the PCC. There was also a *force majeure* clause included that would allow the Canadian government to protect consumers in the case of an extraordinary fluctuation in world oil prices.[49] There were also political statements about the movement of oil and gas products across borders and the powers of the producing provinces regarding the control of production within their respective borders which reflected Tory views about decentralization and cooperation with the provinces.[50]

The second section discussed domestic natural gas pricing. The provinces and the federal government agreed that "a more flexible and market-oriented pricing mechanism" was required for natural gas pricing, a recommendation made by three of the study group reports.[51] The Accord stipulated that all interested parties would have to work together in order to develop, on or before 1 November 1985, an improved system in-line with the market-oriented objective.

The final section of the Western Accord addressed fiscal principles. The preamble stated that a revamped fiscal regime was necessary "to promote industry investment which furthers energy security and economic growth; and to ensure that the producing industry is taxed on the basis of profits rather than revenues."[52] These objectives were repeated like a mantra by Pat Carney throughout her role as Opposition energy critic and during her time as Minister of EMR; therefore, it is not a surprise that they would be included in the Accord.[53] There were significant alterations in the taxation regime. All of the NEP taxes were removed and the Government of Canada promised not to initiate a new tax to recover the PCA deficit. The PIP grants were phased out with a 'grandfathering' clause that provided for the length of Exploration Agreements previously negotiated, and were replaced with tax-based incentives. The PGRT was removed from new oil and gas and it was phased out for old oil and gas. In order to assist smaller companies, which were mostly Canadian-owned, exploration and development write-offs not used for federal corporate income tax could be used to reduce the PGRT.[54] The Accord also made a political statement about benefits from lower federal taxes flowing through to industry without provinces taking an extra percentage to illustrate the improved relationship between Ottawa and the business community. There are two remaining policy initiatives that provide further evidence that PC energy policy was formulated by Pat Carney while she was Opposition energy critic.

Frontier Policy

Amidst cheers from her fellow MPs in the House of Commons, Pat Carney unveiled the PC Government's frontier policy on 30 October 1985 Canada's Energy Frontiers: A

Framework for Investment and Jobs. Every point could be found in the Prince Albert Statement and/or the COGLA and PIP study groups' recommendations. The frontier policy eliminated the controversial 25 percent back-in, repealed the extraordinary powers of COGLA bureaucrats, provided a 25 percent investment royalty credit and a 25 percent refundable exploration tax credit above $5 million per exploration well. The incentives replaced the PIP grants and were not only tax-based but also non-discriminatory. The new policy maintained the requirement of 50 percent Canadian ownership at the production stage on Canada Lands. The exploration agreements were to be altered by lengthening their duration, simplifying the negotiations between companies and the government, and compelling realistic work requirements. The organization was also going to be simplified and revamped.

However, a significant study group suggestion that was conspicuously left out of the frontier policy was the issue of Canada Benefits. Nowhere in the document are Canada Benefits or a Canadian share mentioned.[55] This suggests that the Conservative policy did not wish to interfere with how the oil and gas industry conducted its business, and did not endorse a Liberal policy that would favour Canadian companies over others.

Natural Gas Agreement

The day after the frontier policy was announced, the Government tabled the Agreement on Natural Gas Markets and Prices in the House of Commons. The Agreement's main objective was to create "a more flexible and market-oriented pricing regime" for both domestic and export pricing of natural gas. Open negotiations between buyers and sellers were allowed with the proviso that the NEB would determine whether the negotiated export prices would be an appropriate price for Canadian gas in the American market and would be in the Canadian public's interest. In addition, the export price of Canadian gas to the United States had to be greater than or equal to the price that Canadian consumers paid for Canadian gas. It was also stipulated within the agreement that the price of exported gas had to "recover its appropriate share of costs incurred." This provision was designed to prevent a substantial price drop in the event that competition became too fierce. The new agreement also provided for contract renegotiations, but did not make them mandatory. Exporters were required to demonstrate a "reasonable assurance that volumes contracted [would] be taken."[56] These had all been recommended by the Natural Gas study group.[57] Carney had fulfilled the promises made while in Opposition. The NEP had been dismantled.

NOTES for CHAPTER 4

1. Judy Erola held the position of Minister of State for Mines in the early 1980s, but not the portfolio of Minister of Energy, Mines and Resources.

2. Glen Toner, "Stardust: The Tory Energy Program," in How Ottawa Spends 1986-1987: Tracking the Tories, ed. Michael J. Prince (Toronto: Methuen, 1986)," 123.

3. See National Archives of Canada, MG 32 B43, Honourable Patricia (Pat) Carney Papers, Vol. 2 File 8, Energy Policy- Issues - Briefing Book 1983 File 2, Interview Record "Public Affairs International, Harry Near", 27 September 1983; Vol. 4 File 1, Natural Gas -General - 1983-1984 File 1, Letter Harry Near to Pat Carney, 14 December 1983.

4. Oilweek, 13 January 1986, p. 9.

5. Ibid.

6. Bruce Doern and Glen Toner, The Politics of Energy: The Development and Implementation of the NEP (Toronto: Methuen, 1985), 308. Mickey Cohen had been the Deputy Minister under Marc Lalonde. When Lalonde moved to the Department of Finance, Cohen went with him. When Jean Chrétien took over as Energy Minister he had appointed Paul Tellier as the Deputy Minister.

7. Senator Patricia Carney of British Columbia, telephone interview by author, 19 June 1997, tape recording and transcript, 5.

8. Ibid. See also, Natural Resources Canada (NRC), EP 5000-2-2, Secret Report, "Offshore Negotiations with the Government of Newfoundland and Labrador", (Prepared) 1 August 1984. This Federal document is a review of what the Government of Canada's position should be with respect to a political settlement with Newfoundland and Labrador regarding the offshore. It provides an assessment of the PC Party's policy as it pertained to the offshore and furnished some ideas of how the PCs would approach the issue if they were elected. It is very much like a briefing book, and since none of the suggestions were really followed, it was most likely set aside by Carney since she had her own energy policy developed.

9. Montréal Gazette, 27 September 1984.

10. Ibid., 4.

11. Globe and Mail, 28 September 1984.

12. Provincial Archives of Alberta (PAA), Department of Energy and Natural Resources (ENR), Accession (Acc.) 93.337, Resource Statistics and intelligence, Energy and Natural Resources, Resources and Economic Development, and Federal and Inter-

governmental Affairs (FIGA), Confidential Report, "Assessment of Federal Conservative Party Energy Policy", 17 September 1984, 5.

13. NRC, EP 5250-30(1-), "Implementation of the Atlantic Accord", (Update) 5 December 1984, 3 - 5.

14. Ibid., 7 - 10, 14 - 15. There are no records available which outline the negotiations.

15. NRC, Document 8, "Energy Discussions: An Overview", 13 December 1984.

16. Ibid., 9.

17. NRC, EP 0140-5-1, Document 7, "The Atlantic Accord: Memorandum of Agreement Between the Government of Canada and the Government of Newfoundland and Labrador on Offshore Oil and Gas Resource Management and Revenue Sharing, Government of Canada Proposal - For Discussion Only," 21 January 1985. The document is just under 90 pages long and covers all the provisions that are in the final agreement.

18. NRC, EP 5000-2-2, 530-R1-5, Notes for an Address, "Brian Mulroney to The Board of Trade in St. John's, Newfoundland", 14 June 1984, 4 - 6. The first point was: "2. A new Progressive Conservative administration would be prepared immediately to conclude an agreement with the Government of Newfoundland on the offshore." The second point was: "18. I propose that an agreement would be concluded immediately following the formation of a Progressive Conservative Government, with legislation being introduced within a reasonable period thereafter and, in any case, not more than one year." See also, Pat Carney Papers, Vol. 4 File 12, Newfoundland. Premier Brian Peckford, 1984, Letter Brian Mulroney to Hon. Brian Peckford Premier of Newfoundland, 14 June 1984, 2 - 6.

19. Department of Energy, Mines and Resources (EMR), The Atlantic Accord: Memorandum of agreement between the Government of Canada and the Government of Newfoundland and Labrador on offshore oil and gas resource management and revenue sharing (Ottawa: Supply and Services, 1985), 2 - 11.

20. PAA, ENR, Acc. 93.337, Resource Statistics and intelligence, Energy and Natural Resources, Resources and Economic Development, and Federal and Inter-governmental Affairs (FIGA), Confidential Report, "Assessment of Federal Conservative Party Energy Policy", 17 September 1984, 14.

21. See for example, Alberta, ENR, PAA, Acc. 93.337, Memorandum, N.E. MacMurchy (Assistant Deputy Minister or ADM) to Dr. G.B. Mellon (Deputy Minister or DM), "Meeting with Saskatchewan Officials", 19 September 1984; Memorandum, Luigi Di Marzo (ENR, Director Resource Statistics and Intelligence) to N.E. MacMurchy (ADM), "Position of Consuming Provinces RE a New Energy Policy", 9 October 1984; Memorandum, N.E. MacMurchy (ADM) to Dr. G.B. Mellon (DM), "Re: Impressions Arising

from the Meeting of British Columbia, Saskatchewan and Alberta Officials in Vancouver, October 11, 1984", 15 October 1984.

22. PAA, ENR, Acc. 93.337, Resource Statistics and intelligence, Energy and Natural Resources, Resources and Economic Development, and Federal and Intergovernmental Affairs (FIGA), Confidential Report, "Assessment of Federal Conservative Party Energy Policy", 17 September 1984, 3 - 14.

23. Ibid., 12.

24. Ibid.

25. Ibid., 12 - 14. The report contained a recommendation that "Alberta's negotiating leverage would be enhanced by waiting until the new year instead of asking for energy negotiations to begin immediately" because: "Commitments were made by the federal PCs and no doubt industry and other interested groups will be pressuring them to fulfill their promises. Since many of these must be fulfilled in consultation with the provinces, the federal government will be forced to approach the provinces."

26. PAA, ENR, Acc. 93.337, Memorandum, N.E. MacMurchy (ADM) to Dr. G.B. Mellon (DM), "Re: Impressions Arising from the Meeting of British Columbia, Saskatchewan and Alberta Officials in Vancouver, October 11, 1984", 15 October 1984, 5.

27. The Diefenbaker Tories had faced a similar problem in the late 1950s and early 1960s.

28. Senator Patricia Carney of British Columbia, telephone interview by author, 19 June 1997, tape recording and transcript, 4.

29. PAA, ENR, Acc. 93.337, No Author, "Issues Surrounding Federal/Provincial Energy Negotiations", 26 October 1984. It is not clear who the author of the document was. However, two names were handwritten in the margin of the first page: G. Tough and Mr. Kanik (an arrow was beside Kanik's name). George Tough had been the ADM of the energy sector in EMR under Lalonde; while Myron F. Kanik was ADM for Alberta's Department of ENR and responsible for policy analysis and planning in the early 1980s. Both Tough and Kanik were senior number crunchers and worked closely together during the 1981 negotiations. Peter Foster, in The Sorcerer's Apprentices: Canada's Superbureaucrats and the Energy Mess (Toronto: Collins, 1982), described their relationship during the 1981 negotiations when they cooperated to establish a common data base: "Kanik and Tough developed a respect and admiration for each other during their months of work together." (170) Although the authors of the memo are not stated specifically within it, I suspect that Tough was the senior federal bureaucrat referred to in the document and Mr. Kanik was the person who actually wrote the memo, mainly because their names are handwritten on the document. Why else would their names be mentioned? The memo was found in the ENR files at the Provincial Archives of Alberta. The significant aspect of the document is that it

was in the possession of the Alberta government. It would therefore appear that the bureaucracy was indeed trying to undermine the PC policies by attempting to sabotage the negotiations. If the Alberta officials believed that Energy was disorganized and that the control over energy policy was in the hands of Finance, then it would be more likely to work with the Finance officials. Many of the Finance officials were the ones who had created the NEP; thus by shifting the focus away from the EMR officials to the Finance officials there would be more of an opportunity for the bureaucracy to maintain aspects of the NEP that would otherwise be discarded by Carney.

30. Ibid., 2.

31. Ibid., 5.

32. Senator Patricia Carney of British Columbia, telephone interview by author, 19 June 1997, tape recording and transcript, 5 - 6.

33. PAA, ENR, Acc. 93.337, No Author, "Issues Surrounding Federal/Provincial Energy Negotiations", 26 October 1984, 4 - 5.

34. Ibid., 5.

35. Senator Patricia Carney of British Columbia, telephone interview by author, 19 June 1997, tape recording and transcript, 6.

36. During a conference call of the Deputy Energy Ministers (DM) at the beginning of March 1985, a provincial official, R. Illing from B.C., engaged in a heated dispute with the Federal DM Paul Tellier regarding the "influence that bureaucrats have on their Ministers." The result was that Mr. Illing hung up on the meeting. PAA, ENR, Acc. 93.337, Memorandum, G. B. Mellon to File, "Energy Discussions: Deputy Ministers' Conference Call, March 4, 1985," 8 March 1985, 3.

37. Ibid., Memorandum, G. B. Mellon to File, "Meeting of Alberta, B.C., Saskatchewan and Federal Energy Officials, Toronto, November 27, 1984," 30 November 1984, 5.

38. Ibid., 6.

39. Senator Patricia Carney of British Columbia, telephone interview by author, 19 June 1997, tape recording and transcript, 6 - 7.

40. Ibid.

41. Department of Finance, Economic Fiscal Statement 8 November 1984 (Ottawa: Supply and Services, 1984), 11.

42. Ibid., 11-12.

43. PAA, ENR, Acc. 93.337, Box 21, Black Binder Duotang 2, Memorandum, N. E. MacMurchy to G. B. Mellon, "IPAC Annual Luncheon Meeting, 4 October 1984: Comments on Natural Gas Pricing and Energy Policy", 18 October 1984, 3. A summary of the meeting included a reiteration of a discussion between Carney and IPAC representatives in Ottawa: "IPAC told Ms. Carney that current activity levels are based on anticipated changes in energy policy and will drop off dramatically if they do not materialize. Ms. Carney's reaction was that the PCs had found the federal fiscal position much worse than they had expected. This limited the actions they could undertake in certain areas (i.e. where it cost them money). The federal government did want to make some quick changes to give the industry the right signals."

44. NRC, document 8, "Energy Discussions: An Overview", 13 December 1984, 1.

45. Ibid. For the PC statements made while they were in Opposition see, NRC, document EP 5000-2-2, Memorandum, "Prince Albert Caucus, Progressive Conservative Agenda for Government, Policy Area: Energy", 5 July 1984, 2.

46. NRC, document 8, "Energy Discussions: An Overview", 13 December 1984, 1, 5 - 6.

47. Department of EMR, The Western Accord: An Agreement between the Governments of Canada, Alberta, Saskatchewan and British Columbia on Oil and Gas Pricing and Taxation (Ottawa: Supply and Services, 1985), 2.

48. Pat Carney Papers, Vol. 1 File 25, Energy - briefing book on oil and gas programs [Mar.] 1984 File 2, IPAC Task Force Report, "IPAC Energy Policy Discussion Paper", 5; CPA Task Force Report "Price and Revenue Sharing", 2.

49. Ibid., IPAC, 5-7; CPA, 2 - 3; Natural Resources Canada (NR Canada), document EP 5000-2-2, Memorandum, "Prince Albert Caucus, Progressive Conservative Agenda for Government, Policy Area: Energy", 5 July 1984, 2.

50. Department of EMR, Western Accord, 2 - 3.

51. Ibid., 3. The recommendations were from the CPA, IPAC, and the Natural Gas study groups. See specifically, Pat Carney Papers, Vol. 1 File 25, Energy - briefing book on oil and gas programs [Mar.] 1984 File 2, CPA Task Force Report "Price and Revenue Sharing", 3; IPAC Task Force Report, "IPAC Energy Policy Discussion Paper", 5; Vol. 2 File 5, Energy Policy - briefing book 1983-1984, Natural Gas Task Force Report, "Natural Gas Export Pricing Study", 12. The Natural Gas study group included a warning that the domestic pricing-system would have to be somewhat regulated or else the competitiveness could collapse the entire pricing structure.

52. Department of EMR, Western Accord, 4.

53. NRC, document EP 5000-2-2, Memorandum, "Prince Albert Caucus, Progressive Conservative Agenda for Government, Policy Area: Energy", 5 July 1984, 2; Pat Carney Papers, Vol. 1 File 25, Energy - briefing book on oil and gas programs [Mar.] 1984 File 2, CPA Task Force Report "Price and Revenue Sharing", 4; IPAC Task Force Report, "IPAC Energy Policy Discussion Paper", 2; PIP Study Group Report "Petroleum Incentives Program", 10.

54. Pat Carney Papers, Vol. 1 File 25, Energy - briefing book on oil and gas programs [Mar.] 1984 File 2, CPA Task Force Report "Price and Revenue Sharing", 4 - 6; IPAC Task Force Report, "IPAC Energy Policy Discussion Paper", 2, 4 - 8; PIP Study Group Report "Petroleum Incentives Program", 7 - 10, 12. All of these policies were recommended by the CPA, IPAC, and PIP study groups and were mentioned in some form in the Prince Albert Statement. All of the study group recommendations were included in the final policy. For example, the IPAC study group suggested that the two-tiered pricing level be maintained and proposed a simplified royalty and taxation system that included a resource levy and resource tax as a means for the federal government to reap revenues from a non-income tax stream - Ibid., IPAC Task Force Report, "IPAC Energy Policy Discussion Paper", 3, 4, 6. Capital expenditure cash grants were also rejected because Carney wanted to rely solely on tax-based incentives that would be non-discriminatory. There would be no special subsidies to Canadian companies. See also, Pat Carney Papers, Vol. 1 File 24, Energy - briefing book on oil and gas programs [Mar.] 1984 File 1, Letter Gerry Maier to Pat Carney, Supplement to the PIP Study Group Report, 2 - 3, for a discussion of the addendum to the PIP report concerning the maintenance of a grant system for Canadian companies. This issue was addressed in Section Three, "Fiscal Principles", point six. It stipulated that smaller companies could use their exploration and development write-offs, not used for federal corporate income tax, to reduce the PGRT.

55. For the various recommendations that are included in the frontier policy see, Ibid., COGLA Study Group Report, "Task Force Comments and Recommendations", 4-10. However, on page 6 the report discussed Canada Benefits, which were left out of the policy. In addition, there were two PIP study group recommendations that were not included in the frontier policy. First, the PIP task force advocated that there should be a 50% Canadian Ownership Requirement for exploration permits as well as for production licenses; and second, they suggested that there should be an earned depletion allowance to encourage exploration on Canada Lands in lieu of PIP grants. Ibid., PIP Study Group Report "Petroleum Incentives Program", 10, 12.

56. Department of EMR, Agreement on Natural Gas Markets and Prices (Ottawa: Supply and Services, 1985), 4. See pages 1 - 4 for specific policies.

57. Pat Carney Papers, Vol. 1 File 25, Energy - briefing book on oil and gas programs [Mar.] 1984 File 2, Natural Gas Task Force Report, "Natural Gas Export Pricing

Study", 5 - 14.

CONCLUSION

Since the massive oil find at Leduc in 1947 Canadian energy policy has experienced several changes. In the years between 1947 and 1971 the main priority was the development and expansion of Canadian oil and gas and Ottawa did not interfere to any great degree with the operations of the industry or the policies of the provincial government. The economy of Alberta grew and relations between the provincial and federal governments were largely cordial and cooperative. Unfortunately, in the 1970s and early 1980s, the relationships between the federal government and the industry, and between Ottawa and Alberta, deteriorated in an atmosphere of crisis and conflict and suffered considerably.

When the oil crisis hit in 1973 the Liberal government attempted to develop an energy policy that would redirect the control of the industry toward the federal government and away from the producing provinces. The confrontation between Ottawa and Alberta escalated when the federal government, with little consultation with either the province or the industry, kept the domestic price of Alberta oil much lower than the world price. As well, it initiated changes to the income tax system that penalized both Alberta and the industry. Although lower prices for oil were to benefit all Canadians, most of the consumers were in Central Canada; thus Ottawa's actions were perceived in the West, and particularly in Alberta, as a way to curtail the economic prosperity of a region outside of the traditional centre of economic and political power.[1] By 1978 a series of agreements had been reached between

Alberta and Ottawa regarding the sharing of windfall profits, and there was a brief respite in the deterioration of federal-provincial relations.

The Liberals were defeated in the 1979 election and the brief Progressive Conservative government under Joe Clark had to deal with the second oil crisis which occurred in the same year. Clark's minority government, which had strong representation from the West, assumed that it would be able to reach a quick accord with Alberta on pricing and revenue sharing, while it continued to protect Canadian consumers. However, the federal government was unsuccessful in negotiating an acceptable agreement with the government of Alberta; then it was defeated in the House of Commons over a gasoline tax after only 200 days in power.

The Liberals were returned in 1980 and a small group of bureaucrats helped Energy Minister Marc Lalonde develop the NEP. The producing provinces despised the NEP and roared that it discriminated against them. The industry was not happy either since the NEP contained more rules, regulations and taxes than any energy policy before. The Trudeau Liberals fostered an atmosphere of confrontation and division while arguing that they were simply maintaining a strong federal authority to protect the interests of all Canadians in the face of greedy Albertans.

The primary goal of the Progressive Conservatives under Brian Mulroney, who became leader in 1983, was to take the country in a different direction. The Party in opposition subscribed to the ideology that market forces should direct the economy, not the bureaucracy; less government would allow business to operate more efficiently and profitably. It also sought a more cooperative partnership between Ottawa and the provinces in a more decentralized federation. The process for PC energy policy formulation reflected these objectives. Pat Carney, the key political player in these developments, looked to the industry rather than the bureaucracy for leadership. She wanted a policy that would stimulate economic growth, heal the rift between the provinces and Ottawa through the recognition of regional interests, and benefit all Canadians. She believed:

> fundamentally, [that] the resources belonged to the provinces . . . that's a different view than the NEP concept. . . . Ontario didn't share gold . . . the resources belonged to Alberta and B.C. and Saskatchewan, therefore that was the founding principle [of our energy policy] . . . [that] the provinces owned the resources. Therefore the object was to get the Feds out.[2]

The hated symbol of Liberal economic control and centralization was the National Energy Program and if the Conservative vision of the new Canada was to be put in place the NEP had to be eliminated.

The policy that dismantled the NEP was formulated by Pat Carney when the PCs were in Opposition. During her time as energy critic between September 1983 and July 1984, Carney had several meetings with provincial officials and industry representatives. From these meetings and the recommendations of industry task forces, Carney and her staff sifted through the information, developed several draft policy papers, assembled the PC energy policy, and directed that policy through the caucus. Once they attained power in 1984, the Conservatives could put their policies into practice and they did with the Atlantic Accord, the Western Accord, the Agreement on Natural Gas Markets and Prices, and the Frontier Policy. The process represented a significant shift not just in policy-making but in how the country as a whole was to function. It also demonstrated the importance of Pat Carney as the person responsible for directing and devising the program that dismantled the NEP. In doing so she achieved her own personal goals - improved government-industry relations and more cooperative federal-provincial relations.

Although Carney's approach to creating the PC energy policy was not necessarily unique in the context of Tory policy-making in general, she was one of the few Cabinet Ministers who actually translated the opposition platform into government policy when the Party assumed power. Mulroney's PCs were very well organized and each critic had been given a specific outline of how they should gather information and when the policies were to be presented to the caucus for approval. The approved policy was then to be implemented to the greatest possible extent when the PCs took control of the government. The most notable failure in this process was Michael Wilson who, as Minister of Finance, was unable to translate his deficit reduction program into action. Moreover, when his 1985 budget tried to de-index Old Age Security and Family Allowance payments and increased the federal sales tax and provided more corporate tax breaks, Mulroney backed off. Social programs were, in his words a "Sacred Trust."[3] Carney succeeded, where other Ministers failed, because she was determined to push her policies through and was uncompromising with the bureaucracy, the provinces, and the PC caucus once she became Minister of Energy, Mines and Resources. She also believed fundamentally in almost all of the industry recommendations and therefore it was much easier for her to be firm on those matters. The final contents of the agreements, inasmuch as they reflected the policies created in opposition, were a direct result of Carney's intimidating, inflexible, and tough attitude.

The process of policy development revealed both strengths and weaknesses. By developing the essential tenets of the policy while in opposition, Carney avoided relying too heavily upon the bureaucracy for ideas. The process also emphasized the conciliatory role that the PCs desired when dealing with the provinces and the industry in their quest for Canadian unity and economic growth. However, the potential problem with this approach in the energy sector was that only the industry and the producing provinces would provide input, while the consumer and national interests would become secondary. Carney attempted to address the problem during the negotiations once she became Minister, but it would appear from the agreements that the industry view prevailed. Nevertheless, Carney would argue that less government intervention in the affairs of the oil and gas industry would mean a stronger economy for Canada and create jobs across the country; therefore, her policy would succeed for all interested parties.

There is the possibility that Carney might have failed in her role if oil prices had increased dramatically rather than declined as they did. There would have been a significant amount of pressure from the consuming provinces to maintain strong controls over oil and gas prices and the exploration and development of Canadian oil and gas. However, Carney was committed to the deregulation of oil and gas pricing and other aspects of the industry. It is unlikely that she would have advocated permanent government intervention but rather would have implemented some type of temporary measures that would satisfy both producers and consumers -- as was outlined in the *force majeure* clause of the Western Accord. Healing the rifts between the Western provinces and the federal government and between the oil and gas industry and Ottawa, was a high priority for both Carney and the Mulroney Government, therefore some compromises would have been necessary in order to mollify all the parties. The collapse of world oil prices in 1986 only temporarily tempered the success of Carney's energy policy; the ultimate test was in the long-term ability of the Government's policy to adapt to fluctuating economic conditions. In the end, it has survived.[4]

It should be noted that after Carney eliminated the NEP and put her stamp on the Conservative Government's energy policy, her job, as she saw it, was done. She was not interested in the day-to-day details of running EMR and said so herself in a recent interview: "Once you've done the Atlantic Accord and the Western Accord, and deregulated Natural Gas, which was the toughest of them all . . . what else was there to do?"[5] She needed another big issue to tackle and so she was moved. On 1 July 1986 Pat Carney went to the Department of International Trade where, as Minister, she was responsible for directing the negotiations of the Free Trade Agreement with the United States. In 1988 she became the president of the Treasury Board and commissioned a task force to study "The Barriers to Women in the Public Service." In describing her political career Carney stated: "In every one of my three portfolios I've tried to concentrate on one thing. Like one major task. . . . You find your main assignment and people can criticize you because you never did more things in other areas."[6] Carney was the kind of politician who needed to focus on a significant and controversial issue because she was not content with simply administering her department. However, soon after her appointment to the Treasury Board she became very ill and announced that she would be retiring from politics due to a chronic back and arthritis problem.[7]

Carney made an incredible recovery and was appointed to the Senate of Canada in 1990 where she continues to sit, acting as Chairman of the Standing Senate Committee on Energy, the Environment and Natural Resources. She is also an Adjunct Professor at the

University of British Columbia where she teaches courses on regional planning.[8] In addition, Carney remains involved with the important political questions of the day as a Senator from B.C.:

> Now I've been working with the Government of B.C. on the fish issue, same thing [as Newfoundland's ownership of the offshore resources] . . . [there is] no reason why B.C. can't manage its own fish, because they have the same coastline [for the province]; it's not like the Maritimes where you've got four provinces and the Feds have to do it. So, B.C.'s trying to follow the idea [of] how do you manage the fishery 'as if' B.C. owned it?[9]

Carney is a staunch advocate of senators representing their regions. She uses her position to lobby "persistently and passionately on B.C. issues. . . . [and tries] to advance the collective British Columbia interest."[10] As a journalist in the 1950s and 1960s it struck her that one has "to shout to be heard over the Central Canadian chorus," and she continues to believe that "policy-makers in Ottawa still don't understand Canada's West Coast province any more than they did before."[11] In the end, Carney's view of Canada has not changed and she remains a force in Canadian politics.

NOTES for CONCLUSION

1. Kenneth Norrie and Doug Owram, A History of the Canadian Economy 2nd Edition (Toronto: Harcourt Brace, 1996), 444 - 447. The authors made an excellent point regarding the issues of regional fairness and economic management: "The concern with economic management stemmed from the recognition that provinces had considerable economic powers under the Constitution, and that they would be led to use them in ways that were consistent with their own economic objectives, even if these conflicted with central government objectives. . . . Notions that the federation operated consistently to the advantage of some regions to the disadvantage of others were rife in the 1970s. . . . Ontario's interests had always been equated, fairly or not, with those of the national government. Energy issues, in particular, altered this perception somewhat, as the province began to press more openly for policies that reflected its status as the major consuming province."

2. Senator Patricia Carney of British Columbia, interview by author, 26 November 1996, Ottawa, tape recording and transcript, 9.

3. David Bercuson, J.L. Granatstein, and W.R. Young, Sacred Trust? Brian Mulroney and the Conservative Party in Power (Toronto: Doubleday, 1986), 99 - 105. For Mulroney's statement of Canada's social welfare system being a "sacred trust" see, 94. Among other PC MPs who were not able to implement the policy that was developed while in opposition were: Marcel Masse, Minister of Communications; Jake Epp, Minister of Health and Welfare; and to some extent Don Mazankowski, Minister of Transportation. Mazankowski did not privatize Air Canada but he did guide the privatization of the de Havilland aircraft company and did manage to deregulate some aspects of the transportation sector. (Ibid., 130 - 131). "[Masse] cast aside the cultural policies that had been developed by the Conservatives in opposition and floundered around to find replacements. . . . Naturally, he relied on the bureaucrats who were closest to him. . . ." (202).

4. Glen Toner, "Stardust: The Tory Energy Program," in How Ottawa Spends 1986-1987: Tracking the Tories, ed. Michael J. Prince (Toronto: Methuen, 1986), 141. "Canada is already a signatory to an International Floor Price of $7 (U.S.) per barrel through its membership in the International Energy Agency."

5. Ibid.

6. Senator Patricia Carney of British Columbia, interview by author, 26 November 1996, Ottawa, tape recording and transcript, 4.

7. Ibid., 3.

8. Kieran Simpson and Elizabeth Lumley, eds., Canadian Who's Who (Toronto: University of Toronto Press, 1995), 185 - 186.

9. Senator Patricia Carney of British Columbia, interview by author, 26 November 1996, Ottawa, tape recording and transcript, 8.

10. Vancouver Sun, 27 December 1996. See also a recent article in The Globe and Mail, 2 June 1997, where she discussed her view of Canada's medicare system.

11. Ibid.

NOTE ON SOURCES

There was a considerable amount of wrangling that occurred during my research for this thesis. The Federal documents housed at Natural Resources Canada were difficult to examine because there is a 50 year restriction on accessing Cabinet document information. In order to access federal documents from a particular department, a request must be made and a five dollar application fee paid. In addition, photocopying costs 10 cents per page. However, Senator Carney deposited, at the National Archives of Canada in Ottawa, a large portion of the documents concerning the actions of the various portfolios she held while in government. Included in her collection are files she collected while she was the Opposition Energy Critic which is what I was able to access since the rest of her collection falls under the auspices of the 50 year restriction. Normally, there is an unwritten rule that 20 years must pass before a collection can be viewed. In the case of Senator Carney's Manuscript Collection, she stipulated that access may be granted with her written permission.

As for the Alberta Provincial documents they are not as difficult to access if a researcher has the money to pay the assorted fees charged by the Provincial government. Most of the provincial documents pertaining to my research were at the Provincial Archives of Alberta, however some were also contained at the Provincial Department of Energy. Fees may range from a few hundred dollars to several thousand dollars depending upon how much information there is to go through and the amount of time a researcher might require to examine the documents. In some cases, it is cheaper to have the information photocopied than to actually view it. A researcher has to pay a twenty-five dollar application fee for each request made and then a fee estimate is calculated -- the balance of which must be paid before a person can view the information. There are provisions in the Alberta regulations that allow a researcher to ask for the fees to be waived if it can be demonstrated that the person cannot afford the fees. Having experienced this process I can assure future researchers that the currently administered system rarely rules in favour of a fee waiver and decisions are left to the discretion of the Freedom of Information and Protection of Privacy Commissioner.

The Provincial process for preparing information for a researcher is comparable to the Federal process. Both have government officials who go through the requested information and assess whether or not it may be released based upon certain regulations and laws governing access to information. A researcher should expect the entire process to take at least eight months depending upon the amount of information requested and should budget enough time accordingly. For varying perspectives on this issue see: Edmonton Sun, 7 June 1997, 20; Edmonton Journal, 7 June 1997, A9; Edmonton Sun, 10 June 1997, 16; Alberta Report, 7 July 1997, 12; and Alberta Report, 28 July 1997, 3.

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