A Continental Energy Policy--An Examination of Some of the Current Issues

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II. CURRENT VIEWS CONCERNING BILATERAL EXPLOITATION OF NORTH AMERICAN ENERGY RESOURCES

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1. INTRODUCTION

For a number of months now, there has been extensive discussion in the press of a "Continental Energy Policy." The precise meaning of this term and its implications for Canadian-American integration have not been satisfactorily explained. This paper will seek to explore some of the current issues involved in the energy question which are of particular interest to Canadians.

Unfortunately, the rather sweeping term "Continental Energy Policy" may convey the impression of a greater variety of major policy questions than do really exist. In simple terms, what appears to be involved are essentially questions of trade in certain energy commodities such as oil, natural gas, hydro, coal and uranium. This paper will only deal with oil and gas, the most important energy commodities for the immediate future. This is not denying the possibility of a broader "energy package" arising out of the ongoing bilateral negotiations between Canada and the U.S. It is merely a more expeditious way of handling a subject that must ultimately be considered on a commodity by commodity basis. The problems encountered in uranium, coal and hydro may be relevant to the petroleum industry, but before any total energy policy can be formulated, the situation in each industry must be considered in detail.

The petroleum industry does share one important feature in common with several other Canadian resource industries. This is a

high degree of trans-border relationships at both the private and public level, resulting in an advanced degree of integration between the two countries. This has occurred largely on an informal basis in the absence of treaties or bilateral institutions, yet one of the conclusions of this paper is that a continental policy for the Canadian petroleum has been in effect for some time. More accurately, the petroleum industry is another case of the integration of Canadian resources with U.S. markets. Petroleum is one of the more interesting examples of this type of continental integration, in that powerful economic forces are still in flux, and the final point of equilibrium has not yet been reached.

2. Brief History of the Canadian Petroleum Industry

The story of the modern Canadian petroleum industry for all practical purposes began with the discovery of oil at Leduc, Alberta in 1947. This was followed by a period of rapid growth which brought unprecedented prosperity to Alberta. Much of this growth was financed by foreign based corporations, principally American, which soon acquired a dominant position in the industry. As with other Canadian resource industries, the lack of domestic demand led to a considerable level of exports to U.S. markets. These exports have been particularly important in offsetting imports of foreign oil into Eastern Canada. A continental petroleum policy has thus in fact been practised for some years. However, complete integration of Canadian oil with U.S. markets has been restrained by U.S. import policy which has favoured a high level of domestic production.

Due to the distinctive trading patterns which have emerged in the North American petroleum scene, a change in the basic underlying factors could have substantial ramifications. This has in fact already occurred. Rising U.S. consumption of energy, declining U.S. reserves, and tougher demands from the major petroleum exporting countries promise to alter the present picture as far as the Canadian industry is concerned. Recognition of the increasing importance of imports has led President Nixon to publicly announce the desire to look to Canada for a greater volume of supply, particularly for gas. A principal concern of this paper is a consideration of the possible Canadian responses to this Nixon overture together with an appreciation of the broader implications flowing from an even greater degree of integration of Canadian petroleum resources with U.S. markets.
3. PRESENT CANADIAN POLICY

(a) Oil — Western Exports and Eastern Imports

The most striking aspect of Canadian energy policy is the practice of importing cheaper crude oil into Eastern Canada and exporting western Canadian oil to the U.S. This is the result of a conscious policy decision arising out of the energy studies in the 1950's permitting imports as far west as the Ottawa Valley. On the whole, the oil imported into Canada has been more than offset by that exported to the U.S. Canadian imports for 1971 were 650,000 barrels per day, (bd), consumption of domestic oil 765,000 bd, and exports 890,000 bd. Not only is Canada dependent on the U.S. market to take its exports, it is itself much more dependent than the U.S. on imported oil. In 1971, 393,000 bd, or 58.5% of all imports, came from Venezuela at an average price of $2.37 per barrel, and smaller quantities from the Middle East averaged $1.74. This compares with the Canadian export price of $2.95 per barrel.

Canadian imports of foreign oil is already a key issue in the discussions on energy between Canada and the U.S. Although Canada is not as preoccupied with the security phobia as the U.S., quite apart from any continental energy arrangements, the importation of foreign crude into Canada may have to be reviewed in time. Prices of foreign oil have been increasing steadily since the major oil producing countries have begun to exert greater leverage and significant oil discoveries in the Arctic or Atlantic offshore could precipitate such a reappraisal of the supply of oil to Eastern Canada.

(b) Natural Gas — Role of the National Energy Board

Another result of the energy policy review in the late 1950's was the establishment of the National Energy Board in 1959. This body was given regulatory power over interprovincial and international pipeline construction, and over exports and imports of gas, oil and hydro. In addition, the NEB has advisory responsibilities relating to energy matters in general. The statutory powers of the NEB have not been proclaimed in force with respect to oil exports, as sufficient domestic reserves have existed for Canadian needs. However, all exports of natural gas must be approved by the NEB.

By statute, the Board must be satisfied that only surplus gas is exported after the reasonably foreseeable needs of the Canadian domestic market have been met, and that the sale is otherwise in the public interest. This requirement has been interpreted as requiring
the assurance of a 30 year supply for domestic needs. In 1970, the NEB granted permission for the export of 6.3 trillion cubic feet, (tcf), of gas over 20 years worth approximately $2 billion. This was in addition to previously authorized exports of 12 tcf. Approval was on the basis that the export price would be 105% of the Canadian domestic price, and would be revised upward in the event of price increases in the U.S. market. However, in November, 1971, talk of an expanded continental trade in natural gas was dealt a rude shock when the NEB refused three applications for the export of 2 tcf on the basis that Canada no longer had any surplus gas to export. The Board noted that the Canadian domestic demand for gas was increasing at the rate of 12-14% per annum, and uncommitted proven reserves of 47 tcf actually represented a deficit of 1.1 tcf.

Significantly, the NEB refused to include in its calculations potential production from frontier areas such as the Arctic. It is clear that any expanded continental trade in natural gas will therefore depend on future developments in which the NEB will play a fundamental role.

4. Present U.S. Policy

(a) Overview of Future U.S. Energy Requirements

What has essentially precipitated the discussion of increased integration of Canadian energy with U.S. markets is the rapidly changing demand and supply picture within the U.S. Historically, that country has been relatively self-sufficient in most natural resources, including energy. However, this picture has changed as domestic reserves have become depleted or more costly in the face of accelerating consumption. With only 6% of the world’s population, the U.S. uses 35% of the world’s energy, and it is facing a supply situation which has been described as critical. Consumption of natural gas now exceeds additions to reserves, and new oil discoveries barely balance consumption. If no further discoveries were to be made, U.S. gas reserves of 280 tcf would be exhausted in 13 years, and oil reserves of 39 billion barrels, (bb), in 11 years.

By 1985, world oil reserves are expected to increase to 1000 bb, but between now and then 350 bb will also be consumed. Most significantly, total world consumption during this period is expected to double the rate of new discoveries, and substitute energy sources are not expected to replace petroleum to any meaningful extent during the present century.
The implications of the foregoing statistics are clear — U.S. imports of energy will soar. By 1985, oil imports are expected to increase from 3.4 million barrels per day, (mbd), in 1970, or 12% of consumption, to 14.8 mbd or 58% of consumption. As far as natural gas is concerned, a similar demand potential is expected to exist, but growth will be constrained by lack of supplies.

(b) U.S. Oil Import Policy

A key subject for discussion during negotiations on energy matters between Canada and the U.S. will be the oil import policy of the U.S. Partly for security reasons, and partly due to a powerful domestic oil lobby, the U.S. has assured a high rate of domestic production by imposing quotas on foreign oil since the 1950's. In recent times, foreign oil, even though considerably cheaper, has been permitted to supply only 12.2% of U.S. requirements east of the Rockies.

On the whole, Canadian oil has received preferential treatment, although the quotas have fluctuated considerably over the years. In 1954 the Eisenhower Administration introduced the import controls for what was termed security reasons, but in October, 1955, Canada and Venezuela were exempted insofar as they were considered within the U.S. defence orbit. However, in 1957, voluntary controls for Canadian oil were introduced and when the quotas were exceeded these controls were replaced by mandatory controls in early 1959. Nevertheless, in April, 1959, overland imports were again exempted. In September, 1967, Canada and the U.S. reached another agreement to restrain exports, but by 1970 exports east of the Rockies surged to 550,000 bd compared to the permitted 333,000 bd. This resulted in a Presidential order fixing the quota of Canadian imports at 395,000 bd. However, due to U.S. shortages of oil, the quotas have subsequently been raised in 1972 to 540,000 bd. In addition, 250,000 of Canadian production is sold west of the Rockies.

At the same time as the quotas on Canadian oil imports have been fluctuating up and down, the Nixon Administration has been seeking a continental energy pact with Canada. Such a proposal was first prominently featured in the Shultz Report of February, 1970, entitled "The Oil Import Question" which comprehensively reviewed the future U.S. needs of imported petroleum from the point of view of national security.

The report took full account of the impending deficit of U.S. domestic energy resources, and considered various import alterna-
atives in detail. Canada was singled out as the preferred source of supply. A stable political history, and the use of overland pipeline routes were two principal factors cited. The report also observed that the large degree of economic integration between Canada and the U.S. would result in Canadian imports having the least adverse impact on the U.S. balance of payments. In arriving at this conclusion it was noted that 63% of the Canadian petroleum industry and 1/3 of the Canadian manufacturing industry was U.S. owned and an estimated 47% of the cost of oil at the border represented amortization, interest, and return on capital accruing to U.S. sources.

While the Shultz Report did recommend that an energy pact with Canada be negotiated, it commented on Canada's own oil import policy as follows: "A large U.S. tariff preference for Canadian oil is difficult to justify while Eastern Canada continues to import all of its requirements from insecure sources." It also indicated that a further precondition to such an energy agreement should be a "harmonization of energy policies of the two countries." If Canada could satisfy these two considerations, the report suggested that by July, 1972 all quotas on Canadian oil could be lifted and up to 2 mbd could eventually be exported to the U.S.

As mentioned, the Shultz Report was acted upon by President Nixon when he publicly announced in early 1971 that the U.S. was willing to enter into some sort of energy arrangement with Canada, subject to the same two general caveats. Before commenting further on the political and economic implications of such an energy deal, it is first necessary to examine Canada's capability of supplying a meaningful share of future U.S. oil and gas requirements.

5. CANADIAN PETROLEUM RESERVES

(a) Proven Reserves

An examination of Canada's proven reserves of gas and oil lends a note of harsh reality to any discussion of a continental energy policy. Canada's existing export capabilities are clearly limited in the absence of new discoveries. At present, Canadian gas supplies only 4% of total U.S. consumption, and the NEB has ruled that Canada no longer has any surplus gas for sale. In the case of oil, excess capacity does exist, but total proven reserves are only 8 bb. This is

less than the Alaskan North Slope reserves of approximately 10 bb and represents less than two years of total U.S. consumption.

The bulk of Canada's proven oil and gas reserves are located in Alberta where reserves are actually declining. Furthermore, if Canadian oil were called upon to replace foreign imports in eastern Canada, Canada might itself face an energy crisis.

(b) Potential Reserves — Frontier Areas

Clearly, if Canada is to play a crucial role in the supply of energy to the U.S., this must await the discovery of major new reserves. Existing proven reserves are relatively small but estimates based on the geological potential of relatively unexplored areas indicate that Canadian reserves could increase tenfold to in excess of 100 bb. Three "frontier" areas in particular are held out as promising — the McKenzie Delta, Arctic Islands, and offshore Atlantic. In addition, the Athabaska tar sands are believed to contain 300 bb of oil.

Significant discoveries have recently been made in all three frontier regions, giving credence to long standing geological predictions. Imperial Oil has 5 oil and gas finds in the McKenzie Delta, and Gulf Oil has 1 gas find. In the Arctic Islands, Panarctic Oils has made several encouraging oil and gas discoveries, and in the Atlantic area, Mobil Oil has discovered oil on Sable Island.

Exploration in these new regions is still in the early stages and it is not possible to predict if and when commercial quantities will be found. Imperial Oil has stated that the discovery of 2 bb of oil is necessary in the McKenzie Delta for commercial exploitation at present prices and for gas the figure is 15 tcf, assuming price increases. Panarctic has indicated that 30 tcf of gas is necessary to justify a gas pipeline from the Arctic Islands.

Some believe that these threshold volumes may soon be reached, and the prospects for an expanded trade in energy could change suddenly and dramatically as the result of new reserves. To justify the large scale facilities that are necessary to transport northern oil and gas to market, it appears that much of the production will have to be exported. These new sources may be more costly, but increasing prices are already predicted for Alberta and U.S. gas. The Shultz Report estimates that at the present Canadian price for oil of $2.90 a barrel, up to 5 mbd of Arctic oil could be marketed in the U.S.
6. **ALTERNATIVE ENERGY SOURCES**

Some mention must be made of the supply competition for Canadian energy resources. Oil in particular is a world commodity as it is more readily transported by tanker than gas which is expensive to liquify. Canadian reserves of oil are small and expensive in comparison to reserves from other sources. Middle East reserves are 245 bb and the delivered price per barrel is roughly half that for Canadian oil. World oil prices, however, have been increasing, largely as a result of the efforts of the Organization of Petroleum Exporting Countries (OPEC). It recently succeeded in raising prices another 8.49%, and is seeking a minimum 20% equity share in the major producing companies, most of which are U.S. owned. These developments, coupled with real and threatened interruptions of supply, have caused the U.S. to shy away from undue reliance on the major producing nations. Nevertheless, production from these low cost areas is likely to be an important factor which Canadian export policy must take into account.

In addition to overseas competition, consideration must be given to substitutes for petroleum which will eventually become an important factor in the future energy scene. Petroleum is expected to supply the bulk of North American energy requirements for this century, but in time it will lose its relative importance. The most prominent development is likely to be in the field of atomic energy, but other possibilities include the exploitation of the extensive oil shales of the western U.S. and the conversion into gas of vast U.S. coal deposits. However, these substitutes are expected to have very long lead times, and for the medium term petroleum is likely to retain its dominant position in energy supply.

7. **THE RESOURCES DEBATE — PROS AND CONS OF RESOURCE EXPORTS**

(a) **Current Prosperity**

Central to the whole question of resource exploitation for the export market, which has resulted in a high degree of economic integration between the Canadian and U.S. economies, is the level and nature of the benefits accruing to Canada from such activity. Historically the petroleum industry has been important to Alberta's prosperity in particular. Total 1971 revenues from the sale of Alberta oil were $1 billion and from gas $1/4 billion and direct revenues of the province, principally in the form of the production...
royalties, amounted to $260 million. In addition, substantial expenditures to produce these revenues were expended within Canada on wages, goods, services and other taxes. Moreover, total Canadian petroleum exports in 1971 worth $1.2 billion exceeded the total cost of imports worth $.7 billion.

There is little dispute that petroleum exports have brought a certain degree of prosperity to western Canada. Furthermore, it is debatable whether in the past realistic alternatives to resource exploitation have existed in various underdeveloped regions of the country. The issue is more a question of whether Canada is reaping the maximum advantages from its resources, and whether resource exports have integrated Canadian industry into a specialized role in the North American economy in such a way as to inhibit the eventual development of a more viable industrial economy.

(b) The Kierans Thesis

One of the most vocal critics of resource exports has been Eric Kierans. In the January-February, 1972 issue of Canadian Forum, Kierans challenges the benefits derived from resource exploitation and argues that resource exports create few jobs and cause serious dislocations in other sectors of the economy. Kierans contends that an investment of $1 billion in petroleum development results in only $68 million in wages, due to the capital intensive nature of the industry, compared to $260 million resulting from a like investment in manufacturing. Furthermore, it is argued that large foreign investments in resource industries puts pressure on the exchange rate, with adverse effects on the manufacturing sector. It is also argued that Canada has been assigned the role of a resource satellite to U.S. industry, as evidenced by the U.S. tariff on processed goods, making it more difficult to diversify out of this specialized and subservient function in the integrated North American economy. Finally, Kierans argues that the rate of resource exploitation should be slowed down, as prices for energy and other non-renewable resources will rise as scarcity increases.

The general thrust of these arguments has been contested, but they appear to contain sufficient substance to give rise to genuine concern. More study of these questions appears necessary. Unquestionably, investment in manufacturing creates greater employment but it has to be demonstrated that investment can be shifted from one sector of the economy to another without it being lost. Furthermore, there seems to be some dispute as to whether development of
resource industries inhibits or encourages the development of other sectors.

These may be problems which have only become relevant as Canada has experienced greater prosperity. In terms of past experience, the poorer and less developed regions of Canada may not have had any alternative to resource based growth. For example, few would have criticized the expansion of the gold mining communities during the depression. Even Kierans does not contend that there should not be any resource exploitation in Canada — the real issue is whether Canada has any meaningful control over the manner in which development proceeds in order to ensure that maximum benefits are achieved.

The foregoing arguments merely illustrate some of the contentious issues involved in exploitation of natural resources such as petroleum. A middle of the road view is that Canadian resource industries should be used to develop a broader industrial base, but unfortunately very little in the way of precise policy suggestions to achieve this goal have been advanced to date.

(c) Foreign Ownership Aspects

Any examination of the Canadian petroleum industry in a continental context necessitates a discussion of the extensive degree of foreign ownership, mostly American, which is prevalent in the industry. Figures for 1968 indicate that 82% of the oil and gas industry was foreign owned, and 65% of the industry was U.S. owned. In the case of refining, the degree of foreign ownership was 99.7%.

Consequently, the net benefits to Canada derived from the industry are reduced to the extent that many of the perquisites of ownership ultimately flow to external sources. The difficult question is the degree to which this disadvantage is offset by the benefits that would not otherwise accrue in the absence of this foreign investment.

The widespread U.S. ownership of the Canadian petroleum industry was duly noted in the Shultz Report and in official U.S. studies of the Trans Alaska pipeline. It was observed that a large proportion of the investment in Canadian petroleum development, including an Arctic pipeline through Canada, would flow back to the U.S., since U.S. subsidiaries account for the majority of companies active in the industry, 1/3 of Canadian manufacturing is U.S. owned,
71% of Canadian exports are from the U.S., and most of the large new capital requirements would be furnished from U.S. sources.

Another serious concern arises from the fact that most of the assets of the industry are concentrated in the hands of several large corporations which have extensive operations in other jurisdictions. The Canadian subsidiaries cannot therefore be regarded as autonomous operations, and conflicts of interest may occur which are not necessarily resolved in the Canadian interest. Companies with production facilities in the U.S. or Venezuela, for example, may increase production from those sources at Canadian expense. On the other side of the coin, however, the Shultz Report indicates that the extensive U.S. ownership of the Canadian industry may favour granting Canada a preferred status for imports.

Once again, it is simpler to diagnose the problem than to prescribe a cure. Official policy has grappled with the desire for increased Canadian ownership and control of the petroleum industry on a piecemeal basis for some time. In 1961, the Canada Mining Regulations applicable to federal lands contained proposals for increased Canadian ownership, and more recently the Canadian Government blocked the sale of Home Oil to U.S. interests. Similar concern has been expressed at the provincial level, and the recent Alberta approval of the Syncrude Athabaska tar sands project contains requirements for a degree of Canadian participation.

The dilemma arises from the recognition at the same time that some foreign capital, whether equity or debt, is undoubtedly necessary for the development of new discoveries, especially in the Arctic where transportation costs are expected to be enormous.

A new federal policy on foreign ownership is expected to be revealed shortly and no doubt the situation prevailing in the petroleum industry has been considered in detail. However, it may be worth mentioning an interesting financial arrangement involving Panarctic Oils. Panarctic itself is a joint venture between the federal government (45%) and a number of private companies, and may or may not be a suitable precedent for further ventures. Probably of greater significance is a recent agreement between Panarctic and four large U.S. gas companies. This provides for the advance of $75 million for further exploration and development, to be repaid from the sale of any new gas which is discovered and which is surplus to Canadian domestic needs. Similar agreements with other U.S. companies have been entered into by Dome Petroleum for up to $60 million, and by Imperial Oil for $40 million. This form of
quasi-debt financing for the resource industries has obviously been applauded. In the case of natural gas, the demand for Canadian exports is sufficiently strong to command these terms. Any broader application of these financial techniques will undoubtedly be a function of the basic bargaining power of the commodity involved.

8. Federal vs. Provincial Responsibilities — A Case of Overlapping Jurisdictions

Another difficulty in formulating a national energy policy for Canada, not to speak of a continental policy, arises from the complex allocation of federal and provincial powers under Canadian constitutional law. Since the policy objectives of the respective governments concerned with energy matters do not always coincide, obvious difficulties arise.

A typical example of such conflict is the criticism by the Alberta Government of the NEB decision of November, 1971, which denied further exports of Alberta gas. Alberta argues that this decision prevented Alberta producers from obtaining higher gas prices in the U.S. market, and in effect subsidizes prices to eastern Canadian utilities and consumers. Furthermore, Alberta is of the opinion that higher prices are necessary to stimulate exploration in order to increase reserves.

It is therefore far from clear that the views of the two governments will coincide on energy matters. Premier Lougheed has already requested an Alberta presence at the bargaining table during any negotiations involving a continental energy arrangement and Alberta has implied that the constitutional basis of certain NEB functions may be open to challenge. While it is not possible to explore here the legal consequences of any such jurisdictional hassles, it is obvious for political reasons that such conflicts will have to be considered in any future policies involving energy.

9. Arctic Pipelines — A Corollary Issue

In any discussion of continental energy, the subject of Arctic pipelines inevitably comes up. To date, however, only Alaska has proven reserves sufficient to justify a pipeline. Apart from the large expenditures involved, it can be argued that a pipeline through Canada for Alaskan oil is no different in principle than the existing pipelines carrying Canadian oil through the U.S. midwest, or the pipeline from Portland, Maine carrying imported oil to Montreal.
There is increasing recognition in the U.S. of the feasibility of the Canadian route.

A recent U.S. study concluded that an Alaskan route would be just as expensive as a route down the McKenzie Valley and would create greater environmental problems. Most important, a Canadian line appears necessary in any event to transport Alaskan gas which at present is very costly to liquify for tanker transport.

The pipeline question is therefore another example of an issue very much in the process of resolution which could yet be decided one way or another. If Canada urges the development of a Canadian route, the key issue will be whether petroleum from the Canadian Arctic will be eventually permitted to enter the U.S. via the same facilities. This is the principal distinction from the pipelines carrying Canadian bound oil through the United States. The possibility has already been considered in the Shultz Report, and once again is a matter that will be determined partly by future events and partly by further negotiations. Even if agreement is reached on the construction of facilities to transport both Canadian and Alaskan gas, as mentioned earlier serious problems will have to be resolved concerning the financing of the project.

10. CONCLUSION

The principal purpose of this paper has been to briefly outline some of the specific issues associated with the discussion of a future Continental Energy Policy. A number of these issues are still in the transition stage and merit further detailed scrutiny.

It may be said with some degree of confidence, however, that a continental petroleum policy is already being practised in North America. Substantial volumes of oil and gas are presently being exported from Canada to the U.S. and there exists an extremely high degree of investment integration.

It is debatable whether any major new policy departures are necessary or desirable at this time with a view to institutionalizing existing trading arrangements on a bilateral basis. An adequate policy body in the form of the NEB already exists to safeguard the Canadian national interest, and convincing arguments for a bilateral agency have not been presented. Although unfettered access to the U.S. market is a desirable option from the Canadian viewpoint, there is reason to believe that the U.S. import quotas may continue to increase or be eliminated completely by unilateral measures taken by the U.S. alone. For this reason Canada may be wise to proceed
slowly and avoid entering into any formal arrangements with the U.S. until the reasons to do so become more obvious and compelling.

Furthermore, the limitations of existing Canadian petroleum reserves makes a greatly expanded Canadian role for the supply of energy to the U.S. merely conjectural at the moment. There is presently no surplus Canadian gas, and Canada's oil surpluses are small in relation to projected U.S. needs. For that matter, Canada's own oil import picture is more precarious than that of the U.S. and requires review quite independently.

Since there is the distinct possibility of major new petroleum discoveries in Canada, at the same time it is not too early to consider the implications of an expanded trade in energy. Such expansion will merely emphasize the problem areas that already exist. Resource exports, including petroleum, have fostered a high degree of integration between Canada and the United States with Canada having been assigned a narrowly defined role. Such integration may be the natural consequence of substantial trade flows which yield obvious benefits to the exporting country, but it has been seen that an integrated resource trade may also be accompanied by side effects which reduce the total level of the benefits. Not only has Canada become heavily reliant on the U.S. market, to which there may not be any alternative, but by being cast in a specialized role as a supplier of resources, it may have experienced a lack of balanced industrial growth and an excessive degree of foreign ownership. This may have been justified in the past on the basis of growth first and remedial measures later. This point in time may have already come, and rather than arguing the case for no resource development at all, it appears more productive to concentrate on efforts to reduce the adverse impact of the side effects.

The area of foreign investment may offer the most scope for new policy initiatives. New financial techniques to maintain a Canadian presence in the industry should be explored, particularly if trade in energy is to grow, since this will represent a forward looking rather than a buy back policy. Similarly, the difficult problem of utilizing benefits derived from resource exports to promote more balanced industrial growth requires much more study.

Finally, it is debatable whether the present or future problems arising out of a continental trade in petroleum can be attributable to integration per se. There is little evidence that the type of functional integration experienced in the case of the petroleum industry in itself impairs the actual legal capacity of Parliament to act in its
own interest when on balance there are compelling reasons to do so. A high level of integration is more likely to be the symptom of a complex bilateral relationship between two advanced economies giving rise to a number of difficult problems. The challenge lies in the analysis of these problems and the prescription of viable solutions, rather in the search for sovereign legislative power to effect the cure.

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