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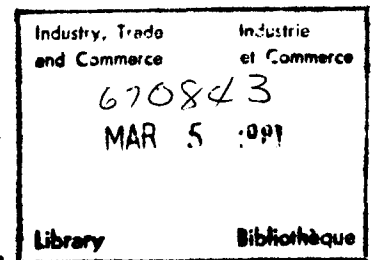
Canada

The State of Competition in the Canadian Petroleum Industry

Volume II

The Domestic Sector: An Overview of the Environment, Industry Behaviour and Performance

**Director of Investigation and Research
Combines Investigation Act**



The State of Competition in the Canadian Petroleum Industry

**Statement of Evidence and Material Submitted to the
Restrictive Trade Practices Commission in Connection with an
Inquiry under Section 47 of the Combines Investigation
Act**

relating to

**THE EXPLORATION FOR, AND THE IMPORTATION, PRODUCTION,
PURCHASE, MANUFACTURE, STORAGE, TRANSPORTATION,
DISTRIBUTION, BARTER, SUPPLY AND SALE OF CRUDE OIL,
PETROLEUM, REFINED PETROLEUM PRODUCTS AND RELATED
PRODUCTS**

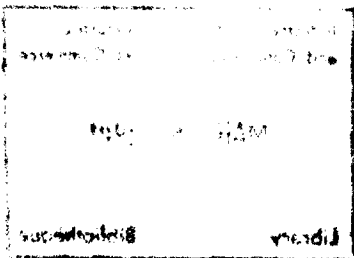
by

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Director of Investigation and Research
Combines Investigation Act**

Volume II — The Domestic Sector: An Overview of the Environment, Industry Behaviour and Performance

This is one of a set of seven volumes comprising the Statement of Evidence and Material submitted to the Restrictive Trade Practices Commission in this matter by the Director of Investigation and Research under the Combines Investigation Act. The volumes comprising this Statement include:

- | | |
|------------|--|
| Volume I | — Findings, Issues and Remedies |
| Volume II | — The Domestic Sector: An Overview of the Environment,
Industry Behaviour and Performance |
| Volume III | — International Linkages: Canada and the World Petro-
leum Market |
| Volume IV | — The Production Sector |
| Volume V | — The Refining Sector |
| Volume VI | — The Marketing of Gasoline |
| Volume VII | — Index: Documents, Hearing Transcripts and other Sour-
ces Referenced in Volumes II through VI |



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Volume II

THE DOMESTIC SECTOR: AN OVERVIEW OF THE ENVIRONMENT, INDUSTRY BEHAVIOUR, AND PERFORMANCE

A. Introduction

The performance of the petroleum industry in Canada cannot be properly understood without properly specifying the bounds within which it functioned. The actions and policies of the firms that dominated the Canadian industry must be set in the context of events occurring elsewhere in the world. The major firms operating in Canada — Imperial, Gulf, Texaco, Shell, British Petroleum, Sun, Petrofina, and Mobil — all were subsidiaries of large multinational firms that operated producing, refining, and marketing facilities in North America, Europe, and around the world. In general, the objectives and the policies that each followed can be only understood in conjunction with world events and the objectives of the organizations to which they belonged. In addition, policies of governments in Europe, North America, and the Middle East have often shaped the degree of competition from the producing to the marketing end of this vertically integrated industry.¹

It would, however, be a mistake to treat these two aspects separately. The oil industry has often turned to governments for protection when petroleum prices threatened to fall. For instance, in the United States, the development of new capacity after 1926 caused prices to fall and led to a governmental scheme to restrict output — via what is referred to as market prorationing. The following excerpt from a 1971 Shell document, which discussed problems that might be associated with Middle East governments exercising greater control, points out that Shell considered government control in Texas and Alberta to have supported crude prices during the post-war period:

“Inherent in this [the possibility of greater government control in the Middle East] is the suggestion that operating under government control is likely to be less profitable than otherwise. Although arguments for and against this assumption can be marshalled we have several examples to the contrary in North America:

“Texas and Alberta Oil prorationing (price support in the name of conservation)...”

(Document # 30951, June 28, 1971, Shell)¹

1. See Stephen L. McDonald, *Petroleum Conservation in the United States: An Economic Analysis*, published for Resources of the Future (Baltimore: Johns Hopkins University Press, 1971), pp. 36-41.

Whether the industry-government relationship is regarded as being symbiotic or whether the side-effects of some government policies on the performance of the industry are interpreted as ill-considered or unforeseen is not at issue. What is important is that, in the minds of the Canadian petroleum industry, government policies that have been advocated by the industry have been inimical to the public welfare. For instance, in the late nineteen sixties, Imperial Oil strongly advocated the adoption by Canada of a continental oil policy that would have raised the level of protection in this country to approximate more closely the policy being followed in the United States. An Imperial document described the intended effects of the policy in the following manner:

"... what is it? [the Continental Oil Policy] Basically it is a scheme under the guise of 'protecting the citizen's interests' to increase the production and hence profits of Canadian producers."

(Document # 99890, February 20, 1969, Imperial)²

Other examples exist to show that the Canadian industry sought government protection to sanction actions that, otherwise, would be considered inimical to the public interest. For example, in the late nineteen sixties, the industry leader — Imperial — prepared contingency plans for governmental restrictions on imports should large quantities of oil be found both in the Canadian Arctic and on the Canadian East Coast. Control of production and the division of markets between Arctic and Eastern producing regions were seen as necessary if crude prices were to be maintained in the face of the magnitude of production that was predicted for these new sources. Imperial recognized that, should the new finds be owned solely by the large majors, then coordination and restraint of production could probably be accomplished within the industry (Document # 109480).³ An Imperial document noted that:

"The pressures which encourage governments to become heavily involved in inter-region proration will tend to be minimized if, as we now envisage the circumstances, the new supplies are concentrated in the hands of a relatively few, principally major, producing companies."

(Document # 109480, November, 1968, Imperial)⁴

However, if the large majors could not develop the control necessary, Imperial envisaged the necessity of legitimizing the "cartel" by acquiring government sanction. The same study cautioned:

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

(Document # 109479)⁵

In and by itself, neither the desire for protection from world market forces nor the search for exemption from competition laws is unique to this industry. The difference between this industry and others lies in the degree to which the petroleum industry has succeeded in achieving a protected status.

Two factors explain the industry's success: the first is the propinquity of government authorities to worry about energy supplies; the second is the long-term planning horizon adopted by the industry. An example of the industry's ability to plan well in advance of events is provided by the Imperial discussion, quoted above, on the need to prepare for large new offshore discoveries. This document was prepared in 1968—long before these areas were ready to produce. Similarly, Imperial, predicting the development of competition from abroad during the nineteen sixties, approached the government to implement a system of protection as early as 1960 (Document # 117971).⁶ When an industry can plan so far in advance of events, then the probability that it can obtain its ends are increased; governments can be persuaded during crises to adopt policies that, in the long run, are likely to affect competition adversely. For this reason, an appreciation of the constraints that past policies have placed on competition is essential to ensure that appropriate decisions are taken by governmental authorities in the future.

The examples quoted above show that it would be an error to treat all government policy as necessarily being conducive to consumer well-being. It would be an even greater mistake to argue that all actions of the industry were sanctioned by Canadian government policy in the nineteen sixties. In particular, it cannot be argued that the implementation of the National Oil Policy in 1961 obviated the necessity of the industry having to abide by the Combines Investigation Act, since the government deliberately avoided the enactment of legislation to exempt the petroleum industry from such anti-combines laws. Nor did it give the National Energy Board regulatory responsibility that would have permitted the enforcement of the policy in the field of petroleum until 1970. Successive Canadian governments continued the policy of not exempting the industry from the purview of the Combines Investigation Act.

Government policy in Canada during this period impacted upon the oil industry both at the provincial and the federal level. Alberta — the province with the largest oil production — adopted market prorationing. At the federal level, government policy focused on defining the geographic areas that might logically be served by Canadian crude, as opposed to those to which foreign crude would be allowed free access. It also monitored the progress of exports of Canadian crude oil to the United States. Together these actions of the federal government came to be known as the National Oil Policy.¹ In this section, the course of this policy and its effects on industry performance will be outlined.

1. See A. Lucas and T. Bell, *The National Energy Board, Policy, Procedure and Practice*, prepared for the Law Reform Commission of Canada (Ottawa: Minister of Supply and Services, 1977), p. 26.

An investigation of the National Oil Policy serves to show the extent to which the industry proved capable of exploiting whatever monopoly position it might naturally have possessed as well as that engendered by the various government policies affecting it. As was demonstrated, firms in the industry perceived that certain policies could be used to enhance their own interests. They actively sought and were successful in having such policies implemented. These government policies had the effect of changing the environment within which the industry operated. By themselves, they did not interfere with competition. They did, however, increase the rewards for anti-competitive behaviour. Subsequent chapters outline the manner in which the industry was able to exploit its protected position. These chapters detail the nature of the behaviour that allowed the industry to set the domestic price of crude at a high level, bring imported crude into Canada at 'unrealistically' high levels, implement predatory schemes to restrict competition in the marketing sector and use the discretionary power associated with refinery ownership to block or to restrict entry to the marketing sector. While evidence on performance will necessarily be adduced as well in later volumes, this volume provides an overview of the extent to which the performance of the Canadian industry demonstrates that it was successful in taking advantage of the bounds that it was able to persuade the government to place on its environment.

B. *The Development of the National Oil Policy*

1. *The Changing Environment of the Late Nineteen Fifties*

Two events in the late nineteen fifties changed the environment facing the Canadian crude oil production industry. First, emerging competition in the world petroleum industry and expanding Middle East supplies led to declining world prices.¹ Secondly, the United States resorted to a system of protection that served to isolate its domestic market from the downward price trends developing in world markets at this time. While various voluntary quota schemes were tried by the American government, these failed to constrain the competitive forces at work and a mandatory quota system for crude oil imports was finally adopted in 1959.²

Canadian crude prices were influenced by both of these events since domestic production competed on two fronts with foreign crude. Table 1 outlines the magnitude of Canadian crude sales and imports between 1957 and 1965. In Canada, domestic production served Canadian refineries from British

1. See M.A. Adelman, *The World Petroleum Market*, published for Resources of the Future (Baltimore: Johns Hopkins University Press, 1972), ch. VI.

2. See K.W. Dam, "Implementation of Import Quotas: The Case for Oil", *Journal of Law and Economics*, XIV, April 1971.

Columbia to Ontario. Since American oil was an alternate source for Ontario refineries, the amount of domestic crude oil consumed in Ontario was a function of the relative price of Canadian and American crude oil. Canadian crude was also exported to the United States and the volume of this flow also depended upon the relative price of American and Canadian crude oil. Eastern Canada was served by both foreign (non-American) imported crude and imported product. The dividing line between the area in Canada served by domestic crude and the area supplied by foreign crude depended upon the relative price level of Canadian and foreign crude oil. Therefore a change in the relative price of American and foreign crude would have altered the competitive position of Canadian crude in each of these markets.

TABLE 1
CANADIAN CRUDE OIL SALES AND IMPORTS
1957-65
(MB/D)

<i>Category</i>	1957	1958	1959	1960	1961	1962	1963	1964	1965
Canadian Domestic Sales									
— Western Canada	214	214	225	228	228	251	255	260	281
— Eastern Canada	135	163	196	192	216	231	262	281	299
Exports to US	151	82	92	113	184	236	248	278	295
— West Coast	94	25	36	49	91	126	126	141	143
— District I-IV	57	57	56	64	93	110	122	137	152
Imports to Eastern Canada									
— Crude	306	294	319	346	365	371	402	392	402
— Products	76	67	90	83	70	72	78	108	134

Source: Document # 89362-3, Imperial⁷

As long as American crude prices equated to laid down world prices on the United States east coast, a Canadian price that allowed Canadian crude to compete with American crude in Ontario and that permitted Canadian exports to the United States also established a dividing line in eastern Ontario beyond which foreign crude and products generally would not be imported. Until 1958, this system governed the pricing of Canadian crude:

“... from 1957 until late in 1958 Canadian crude was still being priced against such reference crudes as Illinois Basin in the Ontario market.”

(Document # 118723, June 7, 1962, Imperial)⁸

However, with the imposition of quotas on petroleum imports by the United States, American prices increased relative to world prices. Between 1957 and 1960, Venezuelan posted prices fell by 25 cents per barrel, Arabian posted

prices fell by some 28 cents per barrel and Iranian posted prices fell about 26 cents per barrel.¹ In the United States, the "Gulf price" of crude came down by only 15 cents per barrel in the same period.²

At this time, foreign posted prices lost their validity as discounts on this crude became widespread.³ In Figure 1 the average Arabian Gulf crude postings from 1958 to 1963 are compared to product postings in the same area — the difference after 1960 being indicative of the extent to which crude was either discounted or to which pressures were developing for discounting. Therefore from 1960 onward, the differential between United States and world prices can no longer be measured only by the difference between posted crude prices alone. The difference between United States and Middle Eastern prices widened by even more than posted prices would indicate. With this situation, the Canadian production sector could no longer set a price for crude that would equate Canadian with American prices for crude delivered in Ontario and still meet competition from foreign crude in Ontario. Choosing to equate to American prices in Ontario would have led to increased penetration of offshore crude and product into Ontario.

At the same time as this change was occurring in the relative price of American and foreign crude, the Canadian production sector developed substantial excess capacity. Table 2 outlines the course of the ratio of Canadian production to Canadian capacity from 1955 to 1965. By 1958, Canadian production was only 47 per cent of capacity. With the imposition by the United States of a mandatory quota system in 1959, Canadian excess capacity threatened to increase even further. Initially, the new American mandatory quota system of 1959 threatened to cut off the United States market to Canadian production. The American quota regulations, as first issued, made no distinction between Canadian and Middle East crude. While Canadian crude had been somewhat cheaper than United States crude in American mid-west markets, it was generally more expensive than Middle Eastern or Venezuelan crude. Most American importers, when granted a quota, would have purchased a foreign crude other than Canadian. However, the mandatory quota on Canada was quickly withdrawn since the programme had been declared on national security grounds⁴ and "there was of course, no shadow of 'security' reason for excluding Canadian Oil".⁵ Since the overland imports from Canada were as secure as

1. Adelman, *The World Petroleum Market*, p. 340.

2. See N. Jacoby, *Multinational Oil* (New York: MacMillan, 1974), p. 224.

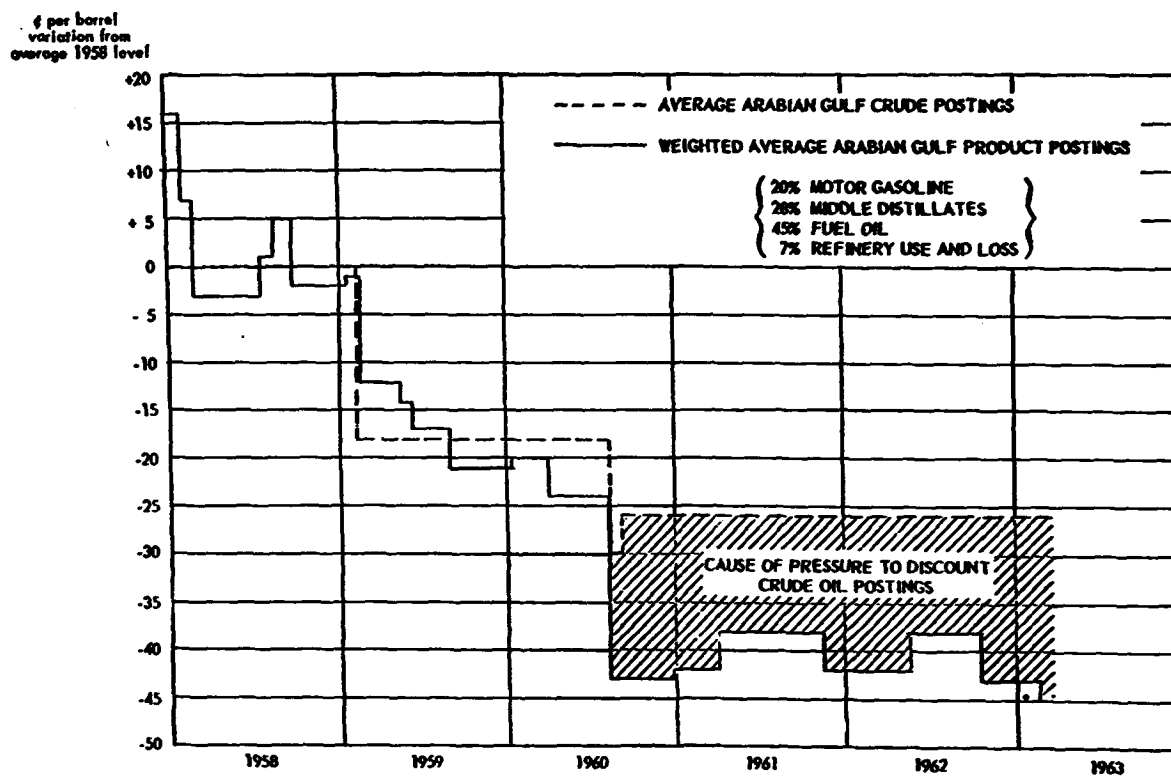
3. Adelman, *The World Petroleum Market*, p. 161.

4. K. Dam, "Implementation of Import Quotas", p. 3.

5. Adelman, *The World Petroleum Market*, p. 154.

FIGURE 1

RELATIVE MOVEMENT OF CRUDE OIL AND PRODUCT POSTED PRICES IN THE ARABIAN GULF SINCE 1958
ILLUSTRATING THE PRESSURE TO DISCOUNT CRUDE OIL POSTINGS SINCE 1960



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(Reproduction of Document # 57663
'Figure 1' added)

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APPENDIX 5

TABLE 2
EXCESS CAPACITY IN THE CANADIAN
CRUDE PRODUCING INDUSTRY
1955-65
(MB/D)

<i>Year</i>	<i>Production</i>	<i>Capacity</i>	<i>% Utilization</i>
1955	357	567	63
1956	478	795	60
1957	500	920	54
1958	459	980	47
1959	513	1004	51
1960	533	1080	49
1961	639	1165	55
1962	718	1235	58
1963	765	1334	57
1964	819	1488	55
1965	978	1585	62

Sources: Col. I & II: Documents # 89359-60, Imperial¹
 Col. III: Column I ÷ Column II

ocean shipments of United States Gulf Coast crude, "it was politically necessary to create certain exemptions for Canadian imports."¹

2. *The Multinationals' Objectives*

Before the continuation of Canadian exports to the United States was ensured by the removal of the mandatory import quota on Canadian crude, the Canadian government appointed a Royal Commission to examine the problem of surplus capacity in the Canadian crude production sector. A number of independent companies who produced Canadian crude had been advocating the extension of the Canadian pipeline system to Montreal and the replacement of foreign imports in Quebec with domestic crude in order to solve the excess capacity problem in the Canadian west.

The Commission's recommendations essentially rejected the proposal to extend the sphere of domestic sales to Quebec. Instead, it favoured the promotion of exports to the United States and the gradual displacement of the remaining crude imports into Ontario with domestic production. The emphasis, even at this time—1958—was on a voluntary regulatory framework. The Commission recommended that the oil companies "take steps" to displace imports into Ontario, and to enlarge the market for Canadian crude in the United States. Before any other government action was to be undertaken, the

1. K. Dam, "Implementation of Import Quotas", p. 3.

Commission also recommended that "the oil industry be given opportunities to demonstrate that it can find sufficient markets elsewhere in Canada and in the United States" (Document # 46433-4).¹⁰

The large oil companies, led by Imperial, also favoured a voluntary approach, in particular, one that did not upset their own trading patterns. In this respect, the Royal Commission's recommendations closely resembled those advocated by the large companies. Imperial, in 1960, noted that, since the mid-nineteen fifties, it had supplied all of its own requirements in British Columbia, the Prairies, and Ontario except for the Ottawa Valley with domestic crude (Document # 117963)¹¹ and that it had developed exports of Canadian crude to the United States via sales to non-affiliated United States refineries (Document # 117964).¹² As a result, Imperial observed, it was in a position where it purchased 45 per cent of total Canadian production or 250,000 barrels per day, although it produced only 82,000 barrels per day.

Imperial regarded itself as the dominant firm in the industry. It provided the umbrella under which the other firms functioned and, in doing so, consciously ceded market share. In 1960, Imperial observed that since 1954 its efforts had "not resulted in increased outlet to Imperial, but to other producers, many of whom are contributing nothing in the way of financial responsibility or basic exploration effort" (Document # 117964).¹³ The same Imperial document attributed this to the prorationing system that had been implemented:

"...any entrepreneur can go into Alberta today, buy production at Crown auction, and get guaranteed outlet through the refining/marketing investment of other companies...."

(Document # 117967, July 22, 1960, Imperial)¹⁴

The ease of entry to the production was the result of provincially sponsored market prorationing that firms like Imperial had originally requested. Market prorationing initially protected existing producers; however, it had the offsetting disadvantage that it guaranteed an umbrella under which new entrants could expand.

This process engendered a set of small firms whose interests were not wholly aligned with that of the majors because they did not also possess the same supply of foreign oil. These firms advocated a form of domestic protection in areas being served by offshore crude and it was this demand that led to the formation of a Royal Commission to study the proposal to build a pipeline to Montreal. Imperial's position during this debate, as the following excerpt indicates, was that it would not continue its leadership role indefinitely and certainly not in the face of policies that would divert crude oil trade flows from the direction that had evolved under Imperial's leadership. In a document entitled "Imperial's Viewpoint on the Current Crude Oil Marketing Situation" (Document # 117962-86)¹⁵ written in July, 1960, Imperial stated that it

welcomed the opportunity to state its views to "the few refining/marketing companies represented here" (Document # 117962).¹⁶ These views were that it was essential to reach acceptance on the "facts" of the situation and "an acceptance" of "common objectives" (Document # 117962).¹⁷ Otherwise, it stated:

"Imperial's position is that unless reasonable agreement or progress can be achieved toward these objectives, we, as a company, must reconsider the policy we have pursued so aggressively since 1947, increasingly using our assets for the benefit of shareholders of other companies."

(Document # 117963, July 22, 1960, Imperial)¹⁸

In this presentation, Imperial advocated that the pressures to adopt the Montreal pipeline proposal be opposed. Imperial argued that:

"The total 'domestic' market in Canada is no continuing solution to the excess producibility problem or sustained growth rate for the Canadian oil and gas industry. Therefore, we must have access to large export markets and, by corollary, we must not jeopardize our exemption under the U.S. quota system."

(Document # 117965, July 22, 1960, Imperial)¹⁹

Imperial stated to the group that in order to solve:

"the problem of surplus producibility in Western Canada . . . In regard to crude oil, we require a clear program of accepted marketing policy in 'protectable' areas while encouraging exports into accessible markets..."

(Document # 117971, July 22, 1960, Imperial)²⁰

Imperial's stance was that Canadian policy should involve saturating Ontario to the maximum practical extent and encouraging a "steady growth of exports to tributary U.S. markets" (Document # 117972).²¹ In concluding its presentation, Imperial recommended that "individual companies should be prepared to advise the Government" (Document # 117972)²² on the steps each would follow to meet these goals and noted:

"In summary, it would appear that the individual companies should recognize an obligation to cover fully their Ontario crude and product requirements from Canadian crude sources, and to be responsible for a reasonable volume of crude oil export in relation to the level of their refinery runs for the Montreal market."

(Document # 117977, July 22, 1960, Imperial)²³

This was the goal that both itself and Gulf had been following. As early as 1958, Imperial, in conjunction with Gulf, had worked jointly on programmes to extend the service area of the Toronto refineries further toward Montreal (Document # 16368).²⁴

The supply pattern that had developed in Canada at this time corresponded to the interests of the large multinational petroleum firms and, in particular, to the dominant firm — Imperial. As the previously quoted excerpt

demonstrates, Imperial was the self-recognized leader of the industry in Canada. There are other examples of Imperial's role. In 1960, an Imperial document stated: "Imperial has carried the major responsibility for finding outlet [for crude], without any government guarantees or support" (Document # 117964).²⁵ Imperial continued to influence the course of trade flows after the National Oil Policy was announced. In 1962, the President of Imperial recommended that his company:

"Obtain the unequivocal support of the Energy Board and the Government for the need to keep Canadian crude oil at a competitive delivered cost in U.S. export markets. *We are bearing the sole responsibility for this...*"

(Document # 115873, June 22, 1972, Imperial, emphasis added)²⁶

Therefore, given Imperial's role, and the control exerted over its decisions by its parent¹ it should be expected that the supply pattern that evolved was in the self-interests of Exxon.

That this was so is borne out by Imperial's own analysis. Table 3 compares the profit that Imperial's parent (Standard Oil of New Jersey, now Exxon) derived from supplying Quebec via its Venezuelan subsidiary (Creole) to that which it would have earned if the Montreal market had been pre-empted for Canadian crude. The figures contained therein explain why Imperial objected to reserving the Montreal market for domestic crude. Whether crude costs are calculated on an average or incremental basis, Imperial's parent received more by supplying Montreal from Venezuela than from Western Canada. This difference, using average cost of production, was 35 cents per barrel; using incremental costs, the difference was 8 cents per barrel. Since transportation costs between Montreal and Toronto were between 15 to 25 cents per barrel (Documents # 5291, # 57364-6)^{28,29}, the dividing point for offshore and domestic crude that served Exxon's best interest would have been somewhere between Toronto and Montreal. This, indeed, was where the dividing occurred and where it was drawn, when the National Oil Policy was eventually announced in 1961.

The response of the Canadian government to the various industry proposals and to the Royal Commission's recommendations was announced in February of 1961, and has been entitled the National Oil Policy. The policy was purely voluntary. It was not enacted in any legislation and the National Energy Board was not given formal powers to enforce it. The government recommended output targets for the industry and indicated that it foresaw production growth coming from two sources: increased exports and the displacement of the foreign crude still entering Ontario. In connection with the latter goal, the Minister of Industry, Trade, and Commerce announced that he considered a line drawn

1. See the volume on international linkages for a detailed discussion of the control exerted over the Canadian subsidiaries of multinational companies by their parents.

TABLE 3
PROFIT TO EXXON ON EACH BARREL OF IMPERIAL AND CREOLE PRODUCTION, 1960
(\$ per barrel)

	Imperial			Creole			
	Average Basis	Incremental Basis		Average Basis		Incremental Basis	
				Posted	40¢ / Bbl. Discount	Posted	40¢ / Bbl. Discount
Average Wellhead Realization	2.50	2.50		2.22	1.82	2.22	1.82
Replacement Cost							
Finding	.50	—		.03		—	
Operating	.40	.09		.27		.05	
Development	.40	.02		.10		.01	
Total	1.30	.11		.40		.06	
Royalty @ 12.5%	.31	.31	20%	.44		.44	
Total Replacement & Royalty	1.61	.42		.84	.84	.50	.50
Income Before Tax	.89	2.08		1.38	.98	1.72	1.32
Income Tax @ 32%	.28	.67	47.5%	.66	.47	.82	.63
Profit After Tax to I.O.L.	.61	1.41		.72	.51	.90	.69
Jersey (Exxon)							
Share of Profit After Tax @ 70%	.43	.99	95%	.68	.48	.85	.65
Tax on Profit — .61 @ 54%	= .33						
Credit 61/89 × .28	= .19						
70% of	= .14						
Jersey (Exxon) Profit After Tax	.33	.77		.68	.48	.85	.65

Source: Document # 111968, Imperial²⁷

approximately from Ottawa to Kingston to divide the country into a westerly portion that he thought would be properly served by Canadian production and an easterly section that would be served by imported crude and products.

This was the pattern that Imperial and Exxon had favoured. It was also the pattern that had gradually evolved prior to the decline of world crude prices in 1958. Therefore, the policy, as first announced, was no more than an acknowledgement of the status quo. If competition in the world crude market had not broken out and the United States had not imposed import quotas, it would not have been necessary to enforce it. As late as 1960, Imperial predicted that the division of Canada into two areas — one served by domestic crude, the other by foreign crude — would be the natural outcome in light of its parent's interests (Document # 111958-70).³⁰ The following excerpt shows that in 1960 Imperial predicted that the industry would adopt by 1962 the pattern that was to be sanctioned by the National Oil Policy in 1961:

"Up to 1962 a portion of the product requirements in Ontario will be met from Montreal refinery runs, being transported into the Ontario market via Trans Northern Products Line. Imperial forecasts that this line will be split at Farran's Point beginning in 1962 and that after that date products refined in Ontario from Canadian crude will replace the Montreal foreign crude products that formerly moved west of this point."

(Document # 111960, June 6, 1960, Imperial)³¹

The National Oil Policy, therefore, when announced in 1961, did little more than recognize the supply pattern that had been developed by the leading firm — Exxon's Canadian subsidiary. Of course, certain changes were required of those firms that had chosen not to supply eastern Canada in exactly the same fashion as Imperial. Some companies — such as Sun Oil — had to reduce or eliminate imports of crude into their Ontario refineries if they were to follow the guidelines exactly.¹ Others, such as Shell and British Petroleum, which had supplied much of their Ontario market from Montreal refineries, either built or acquired new refineries in Ontario. Nevertheless, these changes were relatively minor since the National Oil Policy chose not to alter drastically the supply patterns that had evolved in the post-war era.

3. *The Pricing Dilemma*

While the accessibility of Canadian oil to American markets and the issue as to whether Montreal markets were to be reserved for Canadian production was resolved by the announcement of the National Oil Policy, the domestic industry's pricing problem, which arose from the increasing discrepancy of United States domestic prices from foreign prices, was not. Resolution of the latter problem was given added impetus when the United States made clear

1. The natural dividing line for a company like Sun Oil with foreign production but little domestic Canadian production was further west than for Exxon.

that, while Canadian imports were to be given special consideration, they were not to expand at too rapid a pace.¹ This reduced the industry's incentive to price Canadian crude very much below United States' levels. At the same time, the Americans indicated that progress in expanding Canadian exports to the United States would depend upon the extent to which Canadians continued to supply their own domestic markets. In April of 1961, discussions between the Chairman of the National Energy Board and the President of Imperial indicated that:

"U.S./Canada relations on Canadian exports seem to be quite healthy but one of the principal keys is what progress Canada makes in displacing imports (other than unbalanced requirements) into Ontario."

(Document # 115906, April 17, 1961, Imperial)³²

The United States, in permitting Canadian exports to earn the high American price, felt that, if Canada in turn opened its borders to increased imports, both Canadian consumers and producers would benefit at the expense of American producer and consumer interests. K. Dam explains American attitudes on this issue:

"Canada was regarded as increasing its exports to the United States at the same rate that it was increasing its imports from abroad, to the benefit of Eastern Canadian consumers and at no expense to Western Canadian producers. Although no crude oil was actually trans-shipped, the effect on the U.S. quota system was the same as if the crude oil were simply funneled through Canada."²

The American attitude on this latter point meant Canadian crude would either have to be priced competitively with foreign crude in Ontario or restrictions would have to be placed on the use of foreign crude.

Once the National Oil Policy had been announced, few changes in both American and Canadian policy were made during the nineteen sixties. In 1964, the Canadian government reviewed the concept of the National Oil Policy and announced it would continue. However, contrary to the 1961 announcement, no new Canadian production targets were set. On the American side, changes were made, after the initial exemption, in the way Canadian oil was to be treated within the quota system. These changes reduced but did not eliminate the advantage which Canadian imports enjoyed over imports from other countries.³ Throughout this period, the American authorities exercised 'moral suasion' to prevent Canadian exports of crude from expanding too rapidly.

1. See K. Dam, "Implementation of Import Quotas", p. 30 and U.S. Dept. of Interior, *Press Release* (Feb. 2, 1961) referenced therein.

2. K. Dam, "Implementation of Import Quotas", pp. 31-32.

3. See A.R. Plotnick, *Petroleum, Canadian Markets and United States Foreign Trade Policy*, (Seattle: University of Washington Press, 1964), pp. 121-2.

See D. Bohi and M. Russell, *Limiting Oil Imports, An Economic History and Analysis*, published for Resources for the Future, (Baltimore, Johns Hopkins Press, 1978), pp. 127-130.

4. *The National Oil Policy and the Combines Investigation Act*

The effects of the National Oil Policy extended both to product and raw material markets. An analysis of the behaviour of the petroleum industry cannot ignore the existence of the National Oil Policy or the National Energy Board. The extent to which the industry was able to exploit its new environment will be dealt with in the following two sections. Before this is done, it must be emphasized that the existence of the National Oil Policy did not sanction all acts of the industry and that the performance of member firms continued to be subject to the purview of the Combines Investigation Act. The National Oil Policy was only a statement issued by the Minister of Industry, Trade, and Commerce in the House of Commons. No legislation was ever enacted making the policy law, nor was the industry given exemption from the Combines Investigation Act. Similarly, the National Energy Board was not, during the nineteen sixties, granted regulatory status over the petroleum industry. The National Energy Board had only advisory powers with respect to petroleum. That this was deliberate can be adduced from the fact that clause 87 of the NEB Act that would have given it such powers was not proclaimed until 1970.¹

Those responsible for enforcing combines legislation continued to emphasize to those responsible for implementing the national oil policy the importance of abiding by the Combines Investigation Act. As early as 1951, The Hon. C.D. Howe had gone on record in the House of Commons to the effect that any industry, before entering into arrangements purportedly approved by the government, which might contravene the anti-combines legislation, would do well to see that the arrangement was defined and placed on record under the Emergency Powers Act. Otherwise, it would be amenable to all the processes of the Combines Investigation Act.

While the objective of the National Oil Policy — the use of more Canadian crude in Ontario — might have been achieved via an arrangement among industry members that did not violate competition laws, there was always the possibility that ancillary understandings on other matters such as price might develop that would violate Canadian Combines laws. Therefore the Director of Investigation and Research repeatedly brought to the attention of both industry participants and the National Energy Board the necessity of observing the provisions of the Combines Investigation Act. In this respect, concern was expressed on the possibility that price increases might occur and that leadership by some members of the industry would be essential to the implementation of the policy and that this might lead to breaches of the statute.

The Minister of Trade and Commerce also adopted the position that the National Oil Policy was not meant to reduce competition. In a meeting with Shell Oil in 1964, he indicated that acquiescence to Shell's request for tighter

1. A. Lucas and T. Bell, *The National Energy Board*, pp. 26, 150.

control over transfers across the NOP line “could result in material reduction in competition” and “expressed concern as to where this small, independent gasoline reseller could look for supplies if he were denied product from imports” (Document # 45309).³³

That the National Oil Policy did not sanction anti-competitive agreements or consequences was recognized by Mobil. At the time the policy was implemented, a Mobil document stated:

“Thus, the N.O.P. will in time create a distinct market for domestic crude and isolate it from the pressures of world-wide crude oil competition.

“If the government considers the N.O.P. as static, once achieved, relying on the growth of the presently allocated market to domestic crude, the price of Canadian crude may tend to rise to come more in line with U.S. domestic crude prices. This would put Canadian exports to the U.S. on a parity price basis which would overcome most of the present objections to Canadian crude by U.S. independent producers.

“However, we believe that the government envisaged a dynamic N.O.P. which will allow some price competition other than the one with U.S. domestic crude. . . . Western Canadian crude oil may be isolated from some of the minor fluctuations in world prices as a result of the N.O.P. but the N.O.P. as it stands at present cannot forestal [sic] any fundamental price changes.”

(Document # 18025, December, 1961, Mobil)³⁴

This quotation emphasizes that the National Oil Policy had no inexorable consequences; the results would be determined, by the rigidity of the restrictions imposed by the Policy and the industry’s response to these restrictions. The latter point bears emphasizing. Since the policy was voluntary, both the actions of the industry and its resulting performance were the result of the decisions taken by the industry — not of formal regulatory prescription.

C. The Course of the National Oil Policy in the Nineteen Sixties

1. The Threat of Foreign Competition Under the National Oil Policy

The National Oil Policy did not completely isolate the Canadian market from world events for two reasons. First, the policy was voluntary. Therefore it could only be as effective as the National Energy Board’s use of moral suasion. Secondly, it was impracticable to meet all of Canadian demand using domestic refinery capacity. Because of the type of refineries that existed in eastern Canada, the nature of Canadian crude, and the distribution of demand for various crude products, a minimum amount of imported product — primarily middle distillates — was required in Ontario (Document # 117970).³⁵ Imperial noted:

"... certain volumes of refined products *must* be imported into this country because of unbalanced demand compared to refinery yield limits and, therefore, cannot be produced by local refining of crude oil regardless of sources."

(Document # 117986, July 20, 1960, Imperial)³⁶

It was recognized that this would make a complete isolation of the Canadian market from price trends in world markets difficult. As early as 1960, Imperial observed that imports could cause a pricing problem in Ontario; imports "can cause serious marketing difficulties if they are in the form of either gasoline and/or distress-price distillate" (Document # 117970).³⁷ Texaco noted the same problem three years later:

"There is concern about the ability of Ontario refineries to produce sufficient distillate to satisfy market demand after cessation of product transfers from Montreal. If imports are needed and permitted they will have an adverse effect on the price at which the refiners sell to the big jobbers — particularly Liquifuels, which controls about 25% of the market."

(Document # 46431, February 21, 1963, Texaco)³⁸

Imports of product threatened to have a serious impact on the Canadian market for two reasons. First, as Shell pointed out to government officials, the Canadian subsidiaries of the multinational companies tended to be charged more for their imported crude oil and refined imported product than independent companies (Document # 45314).³⁹ Competitive forces outside the group of majors were driving the price of crude towards competitive levels — though the majors attempted to mislabel the cheaper imports brought in by others as 'distress' crude or product. Secondly, the source of offshore supply threatened to break down the inefficient marketing system that characterized the Canadian petroleum industry in the post-war period. Much of the product that was imported into Ontario across the National Oil Policy Line found its way into the 'discount' market and, therefore, threatened the product price structure of the majors. The following excerpt outlines Imperial's perception of the impact of this product as of 1970:

"We estimate that 100 MMG moved over this N.O.P. line in 1969 and that the volume has grown from a level of 25 MMG in 1965.

...

Thus not all this movement goes into the 'discount' market; our estimate is that about 50% of the volume is imported for ultimate sale through private brand outlets who comprise less than 12% of the Automotive gasoline market. Combining these various volume estimates would mean that less than 30% of Private Brand segment is supplied by off-shore imports. The total volume moved into Ontario represents less than 5% of the market, however, since this product enters the market in the area from Kingston to Windsor and concentrates on the population centres its sale could represent as much as 10% of a particular market area."

(Document # 120054-5, April 20, 1970, Imperial)⁴⁰

The impact of this offshore product lay not so much in its relative price compared to the domestic refined product as in its availability. The majors used their discretionary power at the refinery level to restrict supply to independent marketers¹ Because of the lower retail/wholesale costs of the independents, if they were able to obtain supply, they were able to price product below the majors and to increase their market shares.

The threat offered by the independents had developed as early as the late nineteen fifties when the ability of discounters to import foreign product first caused problems for the majors' high cost distribution network. For instance, fuelled by offshore product, a price war developed in 1959 in Toronto since the dealer margin had grown to a level of 8.5 cents per gallon, which, in Imperial's words, was "excessive" (Document # 127298).⁴¹

Imperial, in a study of the outbreak of competition at this time, concluded that the independent marketers, when they were able to get gasoline at wholesale prices that did not include the majors' marketing costs, offered intense competition:

"In appraising the situation which brought about the reduced dealer margins, it must be borne in mind that the intense price cutting developed partly because unbranded gasoline vendors were able to secure supplies at below tankwagon price, partly because they combined these low-cost supplies with large volume outlets which they could operate profitably on a retail mark-up of less than 8¢ a gallon."

(Document # 127290, July 1959, Imperial)⁴²

Imperial was not alone in appreciating the advantage that independents possessed if they could obtain supply. A Shell comparison, done in the early nineteen sixties, of its own branded system to a large independent marketer revealed that the latter had lower expenses. The comparison is summarized in Table 4. The independent marketer had lower investment charges per gallon (3.0 cents vs. 4.6 cents per gallon). It also had lower wholesale and retail expenses (7.0 cents vs. 10.9 cents per gallon).

The extent to which the independent or 'discounter' was able to charge lower prices as a result of its cost advantage is revealed in Table 5. Taken from a report that was prepared by Imperial on the price/cost relationships for the major brands and for the discounters, it reveals that independents were able to operate on lower marketing margins than the majors. This table also shows that the differential in pump prices between the majors and the independent marketers was not just the result of a differential in acquisition costs². The normal private brander who priced only 6 cents per gallon below the majors accomplished this through reduced retail and wholesale margins. The discounter

1. See the volume on refining for a description of the actions taken by the major refiners to restrict supply to the independents.

2. This point is developed at greater length in the volume devoted to the marketing of gasoline.

TABLE 4

SHELL'S COMPARISON OF ITS BRANDED COSTS TO THOSE OF
A NATIONAL UNBRANDED GASOLINE RETAILER, 1962 or 1963
(¢ per gallon)

<i>Profitability Analysis</i>	<i>National 'Unbranded' Company</i>		<i>Shell</i>	
	<i>Premium</i>	<i>Regular</i>	<i>Premium</i>	<i>Regular</i>
1962 Premium Ratio	10%		29%	
Pump Prices	44.90	39.90	44.90	39.90
Less Taxes	<u>15.40</u>	<u>14.90</u>	<u>15.40</u>	<u>14.90</u>
Pump Prices ex Taxes	29.50	25.00	29.50	25.00
Less Product Costs	<u>17.30</u>	<u>12.80</u>	<u>14.00</u>	<u>14.00</u>
Gross Gasoline Margins	12.20	12.20	15.50	11.00
Wtd. Gasoline Margin	12.20		12.30	
Fr. and Delivery	<u>—</u>		<u>0.60</u>	
	12.20		11.70	
Expenses				
Dealer Commission			6.80	
Retail Expenses			1.30	
Wholesale Expenses			<u>2.80</u>	
Total	7.0		10.90	
Cash Income From Gasoline	5.2		0.80	
Annual Charge Sufficient to Amortize Investment	3.0		4.60	
Excess (Deficiency)	2.2		(3.80)	

Source: Document # 44887-8, Shell.⁴³

who charged 11 cents per gallon less than the major brands had only a 0.9 cents per gallon advantage in terms of its acquisition costs. Thus, to the extent that imports provided the discounters with a supply they would not otherwise have had, imports threatened the majors' high cost branded networks.

The difficulty the major brands faced with competition from independent marketers is emphasized in another study done by Imperial's marketing department. Table 6 uses this study to show the difference in efficiency of Imperial's marketing network and that of 'Private Brands'. The marketing margin being earned by Imperial is estimated as 11.1 cents per gallon while the private brand is seen to be receiving only 7.7 to 9.3 cents per gallon mark-up. According to the Pricing Coordinator, Business Analysis for Imperial, this latter figure allowed "room for more discounting based on an estimate of a

TABLE 5

IMPERIAL'S PERCEPTION OF PRICE/COST RELATIONSHIPS FOR
DIFFERENT SEGMENTS OF THE GASOLINE MARKET, 1970
(¢ per gallon)

<i>Prices and Costs</i>	<i>Major Brands</i>	<i>Normal Private Brand</i>	<i>Discount Private Brand</i>
Pump Price	50.9	44.9	39.9
Road Tax	18.0	18.0	18.0
	32.9	26.9	21.9
Retail Margin	9.5	6.0	5.0
	23.4	20.9	16.9
Sales Tax	2.1	2.1	1.6
	21.3	18.8	15.3
Wholesale Margin	7.9 ¹	5.1 ²	2.8 ³
Product Cost	13.4	13.7	12.5

Notes: 1. 0 per cent return included.

2. Jobber Price.

3. Imports.

Source: Document # 120066, Imperial⁴⁴

Private Brander's costs at the 5-7½ c.p.g. level" (Document # 90990).⁴⁵ On the other hand, the major brand's margin of 11.1 cents was insufficient to cover its costs. In the words of the Pricing Coordinator:

"The dealer margin in Quebec City is currently 8.3 c.p.g. thus the resulting wholesale margin for a major brand equals 2.8 c.p.g. We consider an efficient wholesaler's costs plus return to be in the order of 3½ to 4 c.p.g. This does not include any provision for service station costs or return."

(Document # 90990, November 10, 1969, Imperial)⁴⁶

In summary, foreign competition had a two-fold effect on Canadian prices. First, falling world crude prices placed pressure on Canadian wholesale or refinery prices because of product imports. Secondly, the availability of product on world markets associated with the emerging competition therein allowed access to supply by Canadian independents. In turn, this caused an even greater pressure on retail prices than the slight product cost advantage enjoyed by this segment would have suggested. For the marketing/wholesale costs of the independent marketers were well below those of the majors.

2. Industry Pressure for Protection

The industry reacted to competition from independent marketers by implementing predatory or disciplinary pricing schemes to constrain the

TABLE 6

IMPERIAL'S CALCULATION OF THE MARKETING MARGIN
FOR 95 RON MOGAS IN QUEBEC CITY, 1969
(c per gallon)

<i>Prices and Costs</i>	<i>Esso</i>	<i>Private Brands Using</i>	
	<i>Montreal Refinery</i>	<i>Caribbean</i>	<i>Imports From Italy</i>
Assumed Pump Price*	46.9	41.9	41.9
Road Tax	19.0	19.0	19.0
Net	27.9	22.9	22.9
Product Cost (No Trader Effect)	16.8	14.2	12.6
Importer Margin	—	1.0	1.0
Marketing Margin	11.1	7.7	9.3

Note: *Private Brand assumed at 5 cents per gallon discount.

Source: Document # 90995, Imperial ⁴⁷

independents¹ and by approaching the government to suggest that additional restrictions be placed on imports. In 1960, Imperial's solution was to suggest that anti-dumping duties be applied (Document # 117975).⁴⁸ In 1962, Imperial considered the use of import quotas which would be imposed on all products being imported into Canada (Document # 115872).⁴⁹ Quotas would have removed the downward price pressure emanating from those products imported across the National Oil Policy Line to satisfy Ontario demand that could not be met purely from refining domestic crude oil. It would also have affected prices east of the National Oil Policy Line.

The majors were generally in favour of modifying the National Oil Policy to reduce the pressure being put on the Canadian market from downward price trends in world markets. However, the incentive to do so varied by company since the National Oil Policy did not benefit each company equally. The benefits accruing to each resulted from two sources — the higher level of domestic crude prices and the higher level of domestic production attained as the result of the National Oil Policy. The costs were the result of having to make additional investments in refining capacity or product acquisition to serve Ontario. The following quotation summarizes Texaco's evaluation of the position of the major companies with regard to the increased costs associated with the National Oil Policy:

1. This is discussed in the volume on the marketing of gasoline.

"In the over-all picture, the National Oil Policy most seriously affects refiners who have no plants in Ontario or who have insufficient capacity to satisfy their market demand. Fina, B.P., and Shell are in the former category, being mainly dependent on Montreal for supplies. Fina and B.P. will endeavour to negotiate exchange, processing, or purchasing agreement; Shell Oil is currently building a 31 M B/D refinery at Bronte.

"Texaco Canada even with its Port Credit plant expanded to 35 M B/D and having avails from Sun Processing at Sarnia will be hardpressed to meet its distillate requirements and may need to import into the Ontario west market.

"Imperial Oil and B.A. were self-sufficient in Ontario West prior to the government's edict."

(Document # 46430-1, February 21, 1963, Texaco)⁵⁰

Information from Texaco shows that for this company the advantages of the National Oil Policy more than offset the disadvantages. Its increased crude acquisition costs in 1964 due to the National Oil Policy were estimated by Texaco at 50 cents per barrel, which when allowance was made for pipeline charges and the higher revenues derived from heavy fuel oil left it with a net cost of \$1.7 million (Document # 46168).⁵¹ On the other hand, a first approximation of increased production earnings that ignores the effect of the National Oil Policy in creating higher crude prices was about \$1.3 million (Document # 46169).⁵² Table 7 reports Texaco's estimates of what would have been its production with and without the National Oil Policy. In fact, the benefits on the production side were greater than Table 7 indicates since the National Oil Policy reduced the need for the industry to have to respond to falling world prices. Between 1960 and 1964 the price paid by the Canadian majors for foreign crude fell by at least 20 cents per barrel compared to Canadian prices.¹ Adding this to the benefits of increased production, then the benefits to Texaco are increased by about \$740,000² and Texaco's net position as the result of the National Oil Policy was positive.³

Not all of the majors had the same degree of domestic self-sufficiency. Table 8 summarizes the manufacturing and production position of the four major companies. Shell's production was smaller than that of either Gulf or Imperial during the late nineteen fifties or early nineteen sixties. In addition, its crude production was a lower percentage of its total refinery runs than was the case for either Imperial or Gulf. Comparison of Shell to Texaco is complicated by the omission of Texaco Exploration's (Texex) production figures. However,

1. Imperial, in 1960, indicated that Canadian crude prices would have had to fall by at least 40 cents per barrel to compete with offshore crude (Document # 117957).⁵³

2. 20¢ x 3.7 MMB.

3. Since Texaco Canada's production was a small percentage of its U.S. parent's Canadian production, the benefits for the organization as a whole would have been even greater.

TABLE 7

TEXACO'S EVALUATION OF THE EFFECT OF THE
NATIONAL OIL POLICY ON ITS PRODUCTION AND EARNINGS

Effect of Oil Policy On	With the NOP		Without the NOP	
	1960	1964	1960	1964
Industry Production (MMB)	199.05	311.0	199.0	238.0
Tex. Can. Production (MMB)	2.0	3.7	2.0	2.9
% Share	1.0%	1.2%	1.0%	1.2%
Tex. Can. Revenue (MM)	\$ 3.6	\$ 7.6	\$ 3.6	\$ 6.0
Tex. Can. Expenses (MM)	\$ 2.8	\$ 3.3	\$ 2.8	\$ 3.0
Tex. Can. Earnings (MM)	\$.8	\$ 4.3	\$.8	\$ 3.0

Source: Document # 46169, Texaco⁵⁴

Table 9 corrects this problem. This table shows the impact of a Canadian crude price increase in the late nineteen sixties and summarizes the production position of the Texaco organization as a whole. As can be seen from this table, Shell was the least self-sufficient of the major firms. Shell described its own position as follows:

“...Shell had made the largest contribution of any refiner to implement the National Oil Policy and because of Shell's lower percentage participation in Alberta production, Shell had less to gain from the Policy than the other major refiners.”

(Document # 45305, September 21, 1964, Shell)⁵⁵

Not only was Shell the least self-sufficient of the majors but it was also the first to build new facilities in Ontario in order to comply with the National Oil Policy. Shell appealed to the Canadian government for protection against falling world prices during the nineteen sixties. Shell stated its case in the following terms:

“In designing our Oakville refinery we were very cognizant that if the National Oil Policy were to be effective and all light products were to be produced from Canadian crude, we would have to do our share and build a refinery to make a high yield of distillate fuels. *We naturally assumed the forces in the market-place would operate to provide at least a minimal return for distillates so produced and sold in Ontario.*”

(Document # 45280-1, March 1966, Shell, emphasis added)⁶⁰

Shell continued to lobby for increased protection as the increase in product imports, which the industry had forecast, gradually began to effect the price structure in Ontario. In 1964, when gasoline prices declined in Ontario as a result of unbranded independents' pricing activity, Shell indicated that it would not observe the National Oil Policy Line unless others were forced to do the same (Document # 45292).⁶¹ The government indicated to the industry that

TABLE 8
SELF-SUFFICIENCY RATIOS, IMPERIAL, GULF, SHELL, AND TEXACO, 1956-68
 (Canadian Production over Canadian Refinery Runs)

Year	Imperial			Gulf			Shell			Texaco ^x		
	Refinery Runs (10 ⁵ bbl.)	Cdn. Prdn.* (10 ⁵ bbl.)	Self- Suffi- ciency %	Refinery Runs (10 ⁵ bbl.)	Cdn. Prdn. (10 ⁵ bbl.)	Self- Suffi- ciency %	Refinery Runs (10 ⁵ bbl.)	Cdn. Prdn. (10 ⁵ bbl.)	Self- Suffi- ciency %	Refinery Runs (10 ⁵ bbl.)	Cdn. Prdn. (10 ⁵ bbl.)	Self- Suffi- ciency %
1956	100.4	38.3	38.1	37.8	6.9	18.3	24.2	.2	.8	23.1	2.2	9.5
1957	97.5	35.4	36.3	40.2	13.2	32.8	26.7	.2	.7	29.6	2.0	6.8
1958	98.2	28.1	28.6	41.7	11.3	27.1	26.8	4.5	16.8	28.9	1.4	4.8
1959	105.5	30.7	29.1	45.6	12.4	27.2	26.2	4.7	17.9	34.6	2.0	5.8
1960	104.0	28.9	27.8	43.4	12.5	28.9	31.8	7.0	22.0	33.4	2.0	6.0
1961	106.2	35.4	33.3	46.4	15.0	32.3	33.0	9.3	28.2	33.4	2.7	8.1
1962	111.3	39.4	35.4	51.9	18.0	34.7	34.4	12.4	36.0	33.7	3.3	9.8
1963	116.4	39.8	34.2	54.7	20.6	37.7	51.4	15.4	30.0	39.0	3.4	8.7
1964	114.9	41.7	36.3	55.9	22.5	40.3	60.7	17.1	28.2	38.4	3.6	9.4
1965	121.2	42.0	34.7	57.1	23.4	41.0	61.8	18.3	29.6	39.0	4.0	10.3
1966	126.3	46.4	36.7	66.5	24.7	37.1	62.3	19.7	31.6	41.4	4.5	10.9
1967	127.8	51.5	40.3	69.9	27.1	38.8**	62.3	20.0	32.1	45.8	5.2	11.4
1968	131.0	54.8	41.8	71.3	29.3	41.1	66.7	21.6	32.4	48.4	6.0	12.4

Notes *Crude and Gas Liquids.

**B.A. producing Co. Sold to Gulf, July 27, 1966.

xTexex prdn. not included.

Sources: Documents # 48996, # 49001, # 49003, Texaco^{55, 56, 57}

TABLE 9

EFFECT OF 25¢/BBL. CRUDE PRICE INCREASE ON CANADIAN MAJORS, 1969, 1971, 1972
(Assuming no Price Recovery for Petroleum Products)

	<i>Imperial</i>			<i>Gulf</i>			<i>Shell</i>			<i>Texaco Total</i>		
	1969	1971	1972	1969	1971	1972	1969	1971	1972	1969	1971 ²	1972
Estimated Net Production — MB/D ¹	154.0	204.0	242.0	86.0	116.0	134.0	63.0	85.0	98.0	78.0	105.0	118.0
Producing Income — \$MM/YR												
— B. Tax	14.1	18.6	22.1	7.8	10.6	12.2	5.7	7.8	8.9	7.1	9.6	10.8
— A. Tax	9.4	12.4	14.7	5.2	7.1	8.1	3.8	5.2	5.9	4.7	6.4	7.2
Estimated Canadian Crude Runs — MB/D	237.0	250.0	255.0	131.0	134.0	157.0	116.0	141.0	141.0	124.0	144.0	168.0
Manufacturing Cost — \$MM/YR												
— B. Tax	21.6	22.8	23.3	12.0	12.2	14.3	10.6	12.9	12.9	11.3	13.1	15.3
— A. Tax	10.8	11.4	11.6	6.0	6.1	7.2	5.3	6.5	6.5	5.7	6.7	7.7
Net Income — \$MM/YR — A. Tax	(1.4)	1.0	3.1	(0.8)	1.0	0.9	(1.5)	(1.3)	(0.6)	(1.0)	(0.2)	(0.5)
% Canadian Crude Run Owned ³	65.0	82.0	95.0	66.0	86.0	85.0	54.0	60.0	70.0	63.0	73.0	70.0

Assumptions:

All taxable & charged 1/3 rate on Producers income

Texaco includes Texaco Canada and Texaco Exploration

Net Production Interest

IOL 12.0%

Gulf 6.7%

Shell 4.9%

Texaco 5.9%

Assumption based on
1969 percentages

Notes: 1. Based on total production 1969—1283.1 MB/D

1971—1726 MB/D (Export 900 MB/D)

1972—2001 MB/D (Export 1100 MB/D)

2. Texaco total prorated on plants running Canadian crude (1970 data).

3. Break even at 75% crude runs owned.

Source: Document # 124219, Imperial¹⁸

it did not intend to make the line mandatory; however, it did issue a Privy Council Order on December 15, 1964 to become effective on June 30, 1965 (Document # 45283).⁶² This order set a price of 10 cents per gallon on imported gasoline for dumping purposes.¹

Notwithstanding the likelihood that some gasoline may have been dumped from such sources as Italy or Russia (these were two of the countries said to be engaging in this exercise), the problem with assessing the extent to which product was being dumped in Canada lay in trying to assess the correct level of crude prices that existed in world markets. Shell pointed out to government officials that, with the surplus of oil in existence, world prices were bound to fall and product prices would decrease as well. Shell argued that the large Caribbean refineries were producing product at prices well below Shell's Canadian refinery transfer prices:

"We pointed out that whereas European prices were lower than in the Caribbean, products were, in fact, freely available in the Caribbean at prices which could enable an importer to bring in product cheaper than it could be marginally refined at Montreal, and certainly we could not be competitive in Ontario when using Canadian crude."

(Document # 45304, September 21, 1964, Shell)⁶⁴

It was difficult to argue that the majors who owned these refineries were pricing crude at unreasonably low levels. Dumping was, therefore, not the real problem that the majors faced. Shell recognized that, while world prices were falling and product prices reflected this, the large integrated companies were charging their subsidiaries more than independents had to pay for crude (Document # 45314).⁶⁵ Equally important, the state of the market indicated to Shell that the price independents were paying was not going to increase and this "disruptive" influence was not going to disappear (Document # 45317).⁶⁶

1. This was one of the policies that Imperial had advocated in the early nineteen sixties (Document # 117975).⁶³

Other evidence suggests that certain firms made requests of the government as a quid pro quo for compliance with the National Oil Policy. In the early nineteen sixties, the Department of National Revenue began an investigation of the extent to which Canadian companies were paying more than fair market value for their imported crude.¹ Texaco's response to the investigation stressed to the government that the investigation had serious implications for the National Oil Policy (Document # 57521).⁶⁸ Texaco pointed out that its compliance with the National Oil Policy was voluntary (Document # 57525)⁶⁹ and that if assessments that were being proposed by the Canadian taxation authorities were implemented, then this would be "bound to create pressures which would make it difficult to continue our National Oil Policy on a voluntary basis" (Document # 57526).⁷⁰ In light of Texaco's perception of the effect of lowering crude prices on competition, the fact that crude import prices continued at higher than world levels throughout the nineteen sixties² may be adjudged to have had ramifications on the performance of eastern Canadian markets.

Initially, the implementation of dumping duties prevented a further erosion in product prices. Shell noted that the Ontario retail market in 1965 was somewhat firmer than the previous year:

"In 1965, even though imports and transfers of both gasolines and distillates had increased over the previous year, the Order-In-Council gasoline duty appeared to provide a stabilization of prices in Ontario as compared to the disrupting effect of the imports in the previous year."

(Document # 26123, May 27, 1970, Shell)⁷¹

However, the dumping duty did not prove to be the desired panacea that was sought. In early 1966, the president of Shell Oil Ltd. wrote to the National Energy Board threatening "retaliation" unless imports to Canada west of the National Oil Policy Line were terminated (Document # 57426).⁷² Texaco, aware of Shell's position, also brought pressure to bear to force the government to change the voluntary nature of the National Oil Policy (Document # 57426).⁷³

Shell wanted to move to a mandatory quota system. In March 1966, Shell Canada went on record with the National Energy Board stating that:

"In our opinion, the only effective solution to the continuing deterioration of the National Oil Policy is to limit imports and transfers of foreign-derived motor gasoline and distillates into Ontario West of the Ottawa Valley, with the objective of their early elimination."

(Document # 45291, March 1966, Shell)⁷⁴

1. The volume on international linkages examines the extent to which the majors generally imported crude into Canada at 'unrealistically' high transfer prices and its effect on Canadian product prices.
2. See the volume on international linkages.

The petroleum companies, therefore, continued to pressure the regulatory agency to limit offshore competition. Two events momentarily reduced this pressure. The 1967 Middle East War disrupted oil supplies and briefly interrupted the downward price movement that had characterized world petroleum markets since the late nineteen fifties. In addition, refinery capacity limits in Ontario were being strained as of 1967 (Document # 91766)⁷⁵ and it was, therefore, more difficult for the majors to insist that traditional importers replace their imports with domestic product.

Nevertheless, the major oil companies continued to favour the continuation of the National Oil Policy. Exxon (formerly Standard Oil of New Jersey) observed that "in Canada it is believed that the prospects for maintaining the present National Energy Policy are fairly good and its continuation is in Jersey's interest" (Document # 109015).⁷⁶ Moreover, plans were made to consolidate and extend the effects of the National Oil Policy. With continuing excess capacity in the producing sector, the issue of the extension of the National Oil Policy Line east to include the Montreal market arose once more.

Gulf prepared a study of the benefits that it would gain from a policy that forced high priced Canadian oil into Montreal. This 1969 study compared the additional producing profits that would be provided to the higher costs that would accrue to the refining section of the company. Table 10 summarizes the results. In this study it was assumed that the crude costs of Montreal refineries would increase by 93 cents per barrel and product prices would not change (Document # 59869).⁷⁷ In the calculation used, production profits in Alberta were assumed to be 87 cents per barrel by Gulf, production increases per company were shared in proportion to ownership of reserves, and refinery usage was apportioned by refinery capacity. As is evident from Table 10, Gulf and Imperial would have been the beneficiaries of a policy of extending the National Oil Policy Line eastward.

The net short run benefits to the Canadian subsidiaries of multinational petroleum companies from a Montreal pipeline extension would, therefore, have been positive — though, as the table indicates, unequally distributed. But total benefits to Exxon, or the parent Gulf organization differed from those accruing to the Canadian subsidiaries, and the above analysis omits consideration of the loss of offshore profits that would result from an eastward extension of the line. If this is considered, as Table 3 did for Exxon, it would have been in the interests of the multinationals to continue supplying Montreal with foreign crude.

Even if this factor is ignored, it would only have been in the interests of the Canadian producing sector to supplant imports to the Montreal area with domestic production if this had resulted in a permanent increase in sales. A Gulf study noted that with a rapidly expanding American demand for Canadian

TABLE 10
GULF ESTIMATES OF THE SHORT RUN BENEFITS
OF FORCING 350MB/D OF CANADIAN
CRUDE INTO MONTREAL, 1972
(\$000 Cdn.)

	<i>Industry</i>	<i>Gulf</i>	<i>Imperial</i>	<i>Shell</i>
Impact on Production Earnings				
Production (daily bbls.)	350	21	61	16
Gross Revenue	325,762	19,546	56,776	14,892
Expenses	(158,410)	(9,428)	(27,609)	(7,242)
Gross Profit	167,352	10,118	29,167	7,650
Income Tax	(55,784)	(3,373)	(9,724)	(2,551)
Net Profit	111,568	6,745	19,443	5,099
Impact on Refined Product				
Refinery Capacity (bbls./day)	700	68	92	110
Cdn. Crudes Share (bbls./day)	350	34	46	55
Gross Revenue	586,372	56,962	77,066	92,144
Expenses	(559,545)	(54,356)	(73,540)	(87,928)
Additional Expense of				
Cdn. Crude	(118,807)	(11,541)	(15,615)	(18,670)
Gross Loss	(91,980)	(8,935)	(12,089)	(14,454)
Tax Credit	45,990	4,467	6,044	7,227
Net Loss	(45,990)	(4,467)	(6,044)	(7,227)
Overall Impact on Earnings				
Net Profit or Loss	65,578	2,278	13,399	(2,128)

Source: Document # 59871, Gulf⁷⁸

crude oil, the building of a Montreal pipeline would have increased Canadian sales only in the short run; on the other hand, it would have permanently increased the Montreal refiners' costs (Document # 59874-5).⁷⁹ The correct way of evaluating the two alternatives is to compare the present discounted value of the crude production with and without the pipeline, but with the assumption that the Alberta wellhead price decreased to make Alberta crude competitive with offshore crudes in Montreal. In the first case, the wellhead price would be \$2.55; in the latter, \$1.62 (Document # 59872-5).⁸⁰ Table 11 gives Gulf's estimates, as of 1969, of what production would have been with and without the pipeline and the value of production in each case using these two prices. As is evident, the increase in demand envisioned by an extension of the National Oil Policy Line eastward was not sufficient to offset the decrease in price needed to make Canadian crude competitive. This analysis shows why the majors continued to argue for the status quo throughout most of the nineteen sixties. If offshore profits were included in the above analysis, the thrust of the argument would not be changed.

TABLE 11

GULF ESTIMATES OF WESTERN CANADIAN CRUDE
OIL SALES WITH AND WITHOUT A PIPELINE TO MONTREAL,
1972-85
(MB/D)

<i>Year</i>	<i>Without Pipeline to Montreal</i>	<i>With Pipeline to Montreal</i>
1972	1,074	1,424
1973	1,064	1,439
1974	1,159	1,559
1975	1,280	1,705
1976	1,540	1,990
1977	1,780	2,180
1978	2,080	2,129
1979	2,283	2,091
1980	2,226	2,061
1981	2,186	2,021
1982	2,139	1,989
1983	2,103	1,966
1984	2,035	1,912
1985	1,975	1,851
Present Discounted Value at 5% (\$M/D) (rounded)	\$43,000 ¹	\$29,000 ¹

Note: 1. Uses \$2.55 for no pipeline and \$1.62 with pipeline.

Source: Document # 59874-5, Gulf⁸¹.

3. *The Changing Environment of the Late Nineteen Sixties*

By the late nineteen sixties new political considerations changed the desirability of forcing Canadian oil further eastwards into Canadian markets. The major oil companies appreciated, as early as 1966, the upcoming energy shortages that eventually turned into a crisis in the nineteen seventies. In a joint paper (Document # 111232- 69),⁸² Gulf, Imperial, Shell, Texaco, and Interprovincial forecast that Canadian producers expected to sell large quantities of Canadian oil to the United States in the nineteen seventies. As early as 1966, these companies were predicting that American production would peak by 1971 (Document # 111245).⁸³

Imperial's estimates were based on those of the Exxon organization, which in the late nineteen sixties had predicted a deficiency of American production and, therefore, the possibility of increased Canadian exports of crude oil to the United States (Document # 90915).⁸⁴ Imperial noted that the "industry is anticipating substantial increases in the demand for Western Canadian crude in the mid 1970's" (Document # 107656).⁸⁵ Exxon favoured

Canadian imports over alternate crude sources because this source of imports offered Exxon the greatest profit — provided that the United States import quota system was not radically changed (Document # 108988).⁸⁶ Table 12 reproduces Exxon's estimates of the profitability of various sources of crude imports showing Exxon's preference for Canadian imports over those from Venezuela and the Middle East.

As a result, Exxon formulated a strategy to promote Canadian exports to the United States by making certain that new pipelines were constructed from Canada to the United States. In this way, when increased demand developed in the United States for crude imports as American domestic crude production declined, Canadian crude imports rather than overseas imports would have increased most rapidly (Document # 109023).⁸⁸ The construction of the Interprovincial loop to Chicago was meant to attain this objective. In addition, it was recommended that Exxon would attempt to pursue, through its Humble organization, the following:

"... in the course of crude and product purchase and exchange negotiations to draw domestic supplies away from the Northern Tier, i.e., reflect in the economics of these studies that the industry replacement may be Canadian crude with an appropriate Jersey incentive (around 10¢/B)."

(Document # 109023, December 22, 1967, Imperial)⁸⁹

Imperial's function was to:

"Work now with Humble to develop maximum benefit from increased availability of Canadian crude in Michigan, Ohio, areas (i.e., tie a Canadian oil delivery to a U.S. quota trade. The Canadian crude is more than marginally attractive and imports to the U.S. are informally restricted by the government. Imperial can exert some control as to who receives the Canadian crude.)"

(Document # 109027, December 22, 1967, Imperial)⁹⁰

While increased Canadian exports were, therefore, favoured by Exxon, they were by no means a certainty because of possible political intervention by U.S. authorities. Increased export levels in the early nineteen sixties required the restriction of imports into eastern Canada as a quid pro quo. The quantum jump in Canadian exports that American shortages promised would, if U.S. policy had remained unchanged, have required the continuation of the National Oil Policy. In addition, as early as 1968, Imperial felt that the United States would require an extension of this policy to include Montreal in the protected area (Document # 109574-8).⁹¹ Indeed, the U.S. Presidential Task Force that had been given the mandate to consider modifications in the American import quota system did raise the issue as to the security of the imports received from

TABLE 12
RELATIVE INCENTIVE TO EXXON OF INCREASING SUPPLY FROM ALTERNATIVE SOURCES

<i>Supply Component</i>	<i>Bases For Economics</i>	<i>Economics Per Affiliate Barrel</i>				<i>Economics to Exxon Per Industry Barrel¹</i>	
		<i>Supply Source</i>	<i>Investment Required \$/B/D</i>	<i>Operating Cash Flow \$/B</i>	<i>Average Cash Flow/Barrel Above Cutoff Return² \$/B</i>	<i>Share of Industry Economics Realized by Exxon %</i>	<i>Average Cash Flow to Exxon/Industry Barrel Above Cutoff Return \$/B</i>
U.S. Crude	Acceleration of Production Against Limited Reserves	Prorated Crude	—	1.70	1.08	15-22 ⁴	.20
Canadian	Current Production Replaced by Acquisition and Development Investment Deferred 2-7 Yrs.	Prorated Crude	2,600	1.26	1.00	13	.13
Overseas Imports	Average Barrel of Exxon Imports	Creole Purch.	460	.97	.87		
	Half Own Quota, Half Purchased	Quota Avg.	460	.40	.30		
			460	.68	.58	13	.08 Without Product Price Effect .02 With Product Price Effect ⁵
Synthetics	Grass Roots Initial Investment	Coal	2,600	0.78 ³	0.12	11	.01
		Shale	2,200	0.78 ³	0.10	11	.01

Notes: 1. Assumes affiliate's economics are typical of industry.

2. 8% in the case of all but overseas import which is 15%.

3. Established as that cash flow required to generate 10% DCF on the investment shown.

4. Increasing share of production through 1974.

5. Assuming industry cost savings on increased percentage of imports are passed to customers through price reductions; average savings valued at tickets worth \$1.15/B.

Source: Document # 108088 Imperial⁸⁷

Canada'. Its report pointed out that should Canada continue to bring imports of foreign crude into Quebec and the Maritime provinces, then in the event of an emergency she might direct what would ordinarily be exported to the United States to her own threatened eastern markets.

The discovery of large new sources of oil in Alaska added a new dimension to the situation — as Imperial recognized. Imperial noted a distinct possibility existed that large reserves would be found in Eastern offshore regions. This increased the urgency of ensuring the continued access of Canadian crude to American markets (Document # 115986).⁹² Imperial prepared plans for interim coverage of eastern Canada with North American crude oil (Document # 117804-9).⁹³ Should Imperial and the industry have been able to cut off eastern Canada completely from offshore imports, they would also have guaranteed a protected market for any crude found in offshore eastern Canada.

4. *Industry Pressure for a "Continental Energy Policy"*

As a result, Imperial prepared plans for a harmonization of Canadian oil policy with that of the United States. This policy was an extension of what had been accomplished already and was referred to as the "continental oil policy". Imperial prepared recommendations that a licensing procedure be established to restrict imports of both crude and product into eastern Canada (Documents # 111067-9, # 111070-4).^{94, 95} In August 1969, Imperial proposed to the National Energy Board that the regulatory body implement import licences for both crude and product (Documents # 115969-71, # 115972-6).^{96, 97}

Imperial's recommendations were not without force. The relationship between Imperial and the National Energy Board was a unique one. At the time the National Oil Policy was implemented, the President of Imperial Oil noted:

"We have been confidentially requested to help the NEB devise a discriminatory licensing system."

(Document # 101184-5, February 6, 1961, Imperial)⁹⁸

Another Imperial document noted that in the United States, Exxon led the way in coordinating and even in writing government policy and that, in Canada, "Imperial is in somewhat the same position in its relations with Ottawa" (Document # 92937-9).⁹⁹ Again, in late 1969, the President of Imperial wrote:

"... the NEB have been looking to industry, and, we suspect, primarily to Imperial for advice both on general policy aspects and on specific volumetric questions and industry evaluations."

(Document # 96546, November 28, 1969, Imperial)¹⁰⁰

1. The Cabinet Task Force on Oil Import Control, *The Oil Import Question* (Washington: 1970).

What had become paramount by 1969, as far as Imperial was concerned, was the development of a policy that would extend the area served by Canadian production to eastern Canadian refinery markets. Other firms also believed that some type of protection for Canadian crude was required. Gulf, in April of 1969, noted that the National Oil Policy had to continue in effect; otherwise, Canada's bargaining position in its upcoming negotiations with the United States authorities would be weakened (Document # 80850).¹⁰¹ Shell also noted that the future of Canada's National Oil Policy was bound up at this time in the much larger framework of "Continental Energy Supply" (Document # 26125).¹⁰² The objective of the 'continental energy policy' was stated by Imperial — in a document which, although already quoted, bears repeating:

"... what is it? [the Continental Oil Policy] Basically it is a scheme under the guise of 'protecting the citizen's interests' to increase the production and hence profits of Canadian producers."

(Document # 99890, February 20, 1969, Imperial)¹⁰³

The extent to which protection had enhanced producers' profits is provided by a quotation taken from a March 1969 Imperial study entitled "Western Canadian Crude Oil Price". Imperial noted that the National Oil Policy had permitted the industry to exploit its protected position in such a way that it was vulnerable to the charge that crude prices had been maintained at inordinate levels:

"Western crude has required the protection of the N.E.B. to find a market and overcome a disadvantage estimated at 90¢/Bbl. in Toronto. ... Also the producing industry is vulnerable to the accusation that they are hiding behind the price protection of the N.O.P. line in order to obtain inordinate profits."

(Document # 99799, March 6, 1969, Imperial)¹⁰⁴

At the same time as the majors began planning for an extension or a hardening of the Canadian guidelines on imports, these same companies were increasing the domestic price of gasoline. Retail/wholesale margins reached new highs in 1969 and 1970 across Canada.¹ This ran counter to developments in world markets. Table 13 presents a history of the f.o.b. prices of imported crude and product. During the late nineteen sixties, the prices of imported product continued to fall. Generally the trend in crude prices was the same.

As a result of these two opposing trends, the spread between the majors' gasoline prices and those of discounters increased. In Table 14, data prepared by Gulf shows the spread between the majors' pump prices and the lowest discounters in Quebec — that sector whose prices were most influenced by import prices. As can be seen, this spread widened between 1969 and 1971.

1. The marketing volume elaborates upon this development at greater length.

TABLE 13

UNIT VALUE OF CANADIAN IMPORTS — CRUDE AND PRODUCT, 1957-73

Year	(\$ per barrel) Crude Oil			(\$ per gallon) Mogas	(\$ per barrel) Light Fuel # 2 & 3		(\$ per gallon) Heavy Fuel	
	Venez.	Kuwait	Iran	Neth. Antilles	Neth. Antilles	Venez.	Neth. Antilles	Venez.
1957	2.74		1.83	.13	.107	.105	.068	.070
1958	2.76		1.98	.13	.098	.094	.059	.060
1959	2.56		1.85	.13	.095	.086	.051	.051
1960	2.40	1.60	1.98	.12	.083	.088	.049	.049
1961	2.35	1.58	1.80	.13	.086	.090	.049	.049
1962	2.43	1.64	1.78	.16	.086	.087	.050	.049
1963	2.44	1.58	1.77	.09	.090	.087	.048	.050
1964	2.37	1.58	1.80	.10	.087	.086	.048	.049
1965	2.34	1.57	1.68	.11	.077	.073	.046	.046
1966	2.31	1.44	1.60	.11	.074	.073	.046	.047
1967	2.24	1.42	1.56	.11	.073	.069	.046	.046
1968	2.24	1.45	1.55	.11	.072	.077	.046	.045
1969	2.21	1.37	1.55	.12	.067	.076	.044	.044
1970	2.15	1.33	1.70	.11	.073	.071	.044	.044
1971	2.37		1.86	.11	.089	.086	.056	.057
1972	2.64	1.75	1.95	.10	.093	.092	.057	.058
1973	3.19	2.42	2.34	.23	.187	.109	.096	.070

Source: Statistics Canada, Catalogue # 65007¹⁰⁵.

TABLE 14

SPREAD BETWEEN MAJORS' AND DISCOUNTERS' PRICES, QUEBEC, 1969-71
(\$ per gallon)

	1969	1970	1971
Majors	.459	.469	.499
Lowest Discounter	.369	.369	.379
Spread	.090	.100	.120

Source: Document # 71462, Gulf¹⁰⁶.

Not surprisingly, imports as a percentage of sales, which had averaged about 5 per cent in the mid-nineteen sixties, rose to about 11 per cent in 1970. Table 15 shows the trend in the percentage of the market captured by imports during this period.

TABLE 15
CANADIAN IMPORTS AS A PERCENTAGE OF
PERCENTAGE SALES, 1958-71
 (%)

<i>Year</i>	<i>Quebec</i>			<i>Ontario</i>
	<i>Gasoline</i>	<i>Light Fuel #2 & 3</i>	<i>Heavy Fuels #4, 5 & 6</i>	<i>Light Fuels #2 & 3</i>
1958	2	18	8	10
1959	3	25	21	11
1960	0	20	24	9
1961	1	30	16	5
1962	1	22	23	3
1963	5	22	29	3
1964	4	25	39	2
1965	5	20	47	4
1966	7	15	45	4
1967	8	13	44	5
1968	9	17	39	7
1969	9	18	41	4
1970	12	15	39	2
1971	9	15	35	2

Source: Statistics Canada, Catalogue # 45-204¹⁰⁷

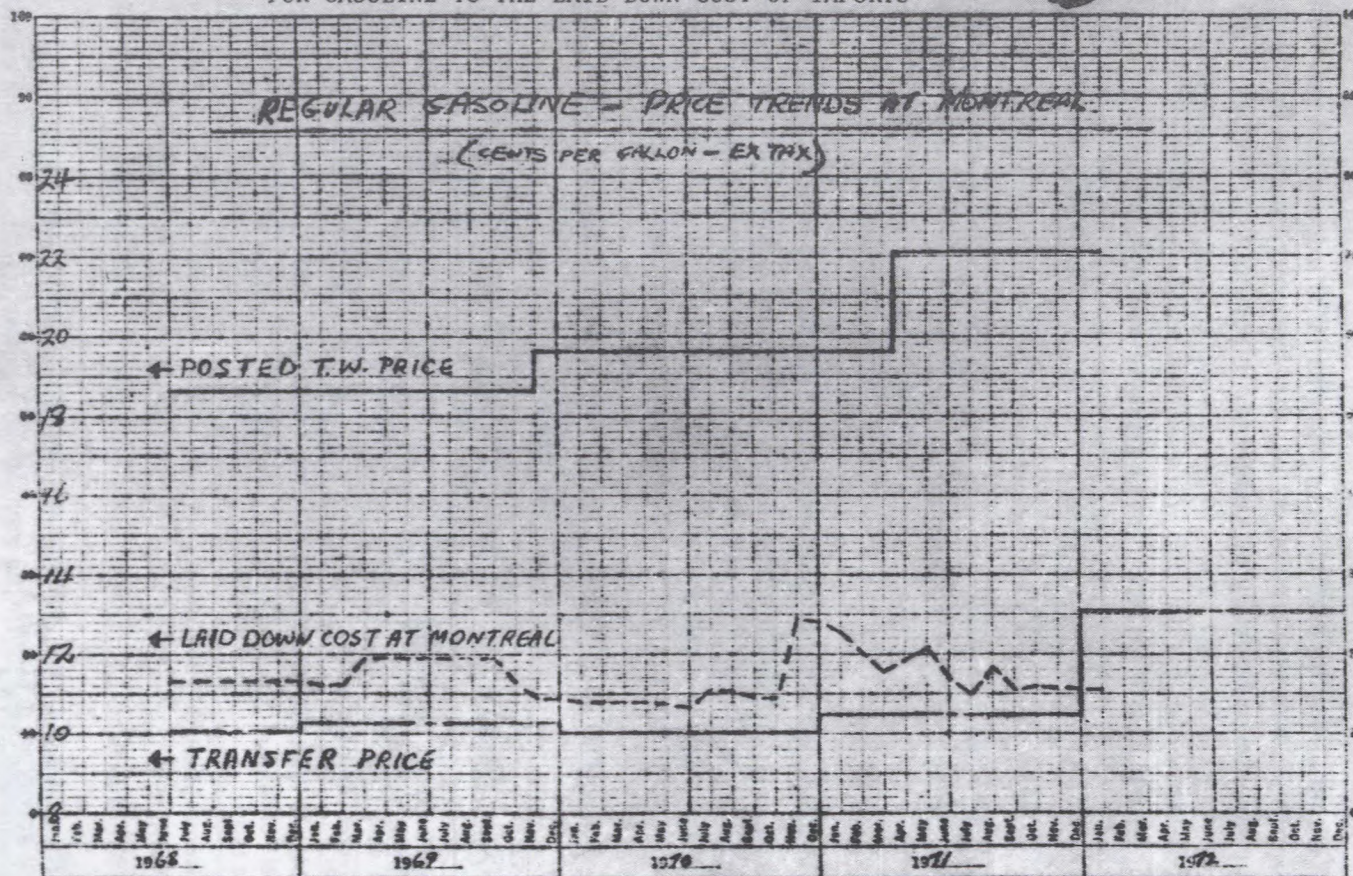
The majors' problem with imports of gasoline had originally stemmed from their forcing domestic product prices to high levels relative to the cost of imported product; however, their lack of competitiveness was exacerbated in the early nineteen seventies by the crude transfer pricing policy of their parents. The majors had lagged in following crude price trends downward during the nineteen sixties. In the early nineteen seventies, they tended to force up the price that their Canadian subsidiaries were paying at a faster rate than was reflected in product prices.¹ Gulf noted, as of 1972, that its transfer prices at the refinery had exceeded the landed cost of imports (Document # 71461).¹⁰⁸ Figure 2 traces out the course of these two price series during this time. Table 16 shows that the disadvantage this created for a major refiner like Gulf was about 82 cents per barrel or about 3 cents per gallon by early 1972. The difference in the efficiency of the major versus the independent marketer accounted for the other 9 cents per gallon of the some 12 cents differential (see Table 14) that developed at the retail level.²

The industry reacted to the growing competition from independents, as was described, not only by recommending that imports be licensed, but also by

1. See the volume on international linkages.

2. This point is more fully developed in the marketing volume.

A COMPARISON OF GULF'S TRANSFER PRICE
FOR GASOLINE TO THE LAID DOWN COST OF IMPORTS



Q.2
Jc. 27/72

(Reproduction of Document #71455
'Figure 2' and title added)

threatening to frustrate the National Oil Policy unless this occurred. Imperial observed that Gulf, in early 1970, intended to move cargoes of gasoline into Toronto from Montreal unless the National Energy Board reduced imports into Ontario (Document # 112963).¹⁰⁹ On May 8, 1970, regulations governing the importation of gasoline were issued by the National Energy Board and the Board implemented a licensing procedure for importers.

TABLE 16
DIFFERENCE BETWEEN GULF REFINERY TRANSFER PRICES
AND IMPORT PRICES, 1972
(¢ per barrel)

<i>Product Type</i>	<i>Characteristics</i>	<i>Jan. 31, 1972</i>	<i>Feb. 29, 1972</i>
Gasoline —	100 RON:	88	55
Gasoline —	95 RON:	82	48
Diesel —	-25° :	12	46
Residual —	2.5/3.09:	52	37

Source: Document # 65319, Gulf¹¹⁰

TABLE 17
TORONTO/MONTREAL CRUDE PRICE DIFFERENTIAL, 1969-72
(Cdn. \$ per barrel)

<i>Basis for Calculation</i>	<i>1969</i>	<i>1970</i>	<i>Early 1971</i>	<i>Late 1971</i>	<i>Est. 1972</i>
37° Alberta crude at Edmonton	2.75	2.75	3.00	3.00	3.01
IPPL tariff to Toronto	0.53	0.52	0.51	0.51	0.50
Price delivered Toronto (A)	3.28	3.27	3.51	3.51	3.51
Imported crude f.o.b. (31°)	2.03	1.98	1.95	2.41	2.58
Freight to Portland	0.40	0.46	0.57	0.50	0.45
Pipe Line tariff	0.11	0.11	0.11	0.11	0.11
Price delivered Montreal (B)	2.54	2.55	2.63	3.02	3.14
Gravity adjustment (6° at 2¢/°)	0.12	0.12	0.12	0.12	0.12
Price for 37° equivalent (C)	2.66	2.67	2.75	3.14	3.26
<i>Differential</i>					
—Without gravity adj'm't (A-B)	0.74	0.72	0.88	0.49	0.37
—With gravity adj'm't (A-C)	0.62	0.60	0.76	0.37	0.25

Source: Document # 21244, Shell¹¹¹

Table 17 indicates that the differential in crude prices in world as opposed to Canadian markets, which prices had given the major oil companies so much difficulty in separating the two segments of Canada, continued until mid 1971, but began to abate thereafter. The price differential for imported crude delivered to Montreal versus Canadian crude increased between 1969 and early 1971. However, by late 1971, foreign crude price increases had outstripped domestic crude price increases. At the same time as this was occurring, the National Energy Board's import licensing scheme served to consolidate and to protect the major companies by giving them control over imports. This was the scheme that had been recommended by Imperial in 1969. Texaco, for instance, noted that, in conversations it had with the National Energy Board about the manner of implementation of the new regulations, it was told that:

"The specific objective of the Government is to prevent marketers who are not manufacturers or who do not have processing agreements, from moving foreign gasoline into Ontario."

(Document # 55617, May 8, 1970, Texaco)¹¹²

This would have served to protect the major from the independent marketers who had made such inroads because of their superior efficiency.

Table 18 shows that the licensing scheme had this effect. Between 1970 and 1971, the pattern of National Energy Board licences effectively cut off third parties while permitting existing refiners to maintain their position.

TABLE 18

MOVEMENTS OF PRODUCT ACROSS THE NATIONAL OIL POLICY LINE, 1970-72
(barrels)

<i>Company Type</i>	<i>Jan. - Nov. 1970¹</i>	<i>Jan. - Nov. 1971¹</i>	<i>Jan. - July 1971²</i>	<i>Jan. - July 1972²</i>
Ontario Refiners	-359,911	-35,399	-1,112	399,788
Quebec Refiners	1,599,108	1,487,275	828,604	960,605
Importers	1,540,451	164,252	216,731	160,454
Others	487,926	337,636		

Sources: 1. Document # 83948-9, Sun Oil¹¹³

2. Document # 24734, Shell¹¹⁴

In addition, the National Energy Board placed pressure on domestic marketers who had to enter product exchanges with Ontario refiners to accept higher transfer costs in Ontario. An Imperial representative wrote in April of 1970:

"I had a call from Mr. N. VanSon of Petrofina in Montreal yesterday, inquiring as to Imperial's interest in entering into some type of mogas exchange or purchase/sale arrangements between Ontario and Quebec. *Because of the pressure from the N.E.B.*, Mr. VanSon now recognizes that any such arrangement would have to include some sort of differential advantage in favour of Imperial's Ontario sale."

(Document # 112964, April 22, 1970, Imperial, emphasis added)¹¹⁵

Other methods were also used to restrict movement of product into Ontario. The following quotation indicates restrictions were placed upon the two new entrants to the industry in return for government subsidies:

"When queried about their confidence relative to movements by Golden Eagle and Newfoundland Refining, Mr. Stabback (NEB) replied that both companies had received Federal aid in the construction of their refineries but only after signing documents committing them to not transfer across the Energy Line."

(Document # 85902, February 2, 1971, Sun Oil)¹¹⁶

As a result, by late 1972, the Ontario refiners were providing the incremental source of supply in that province.

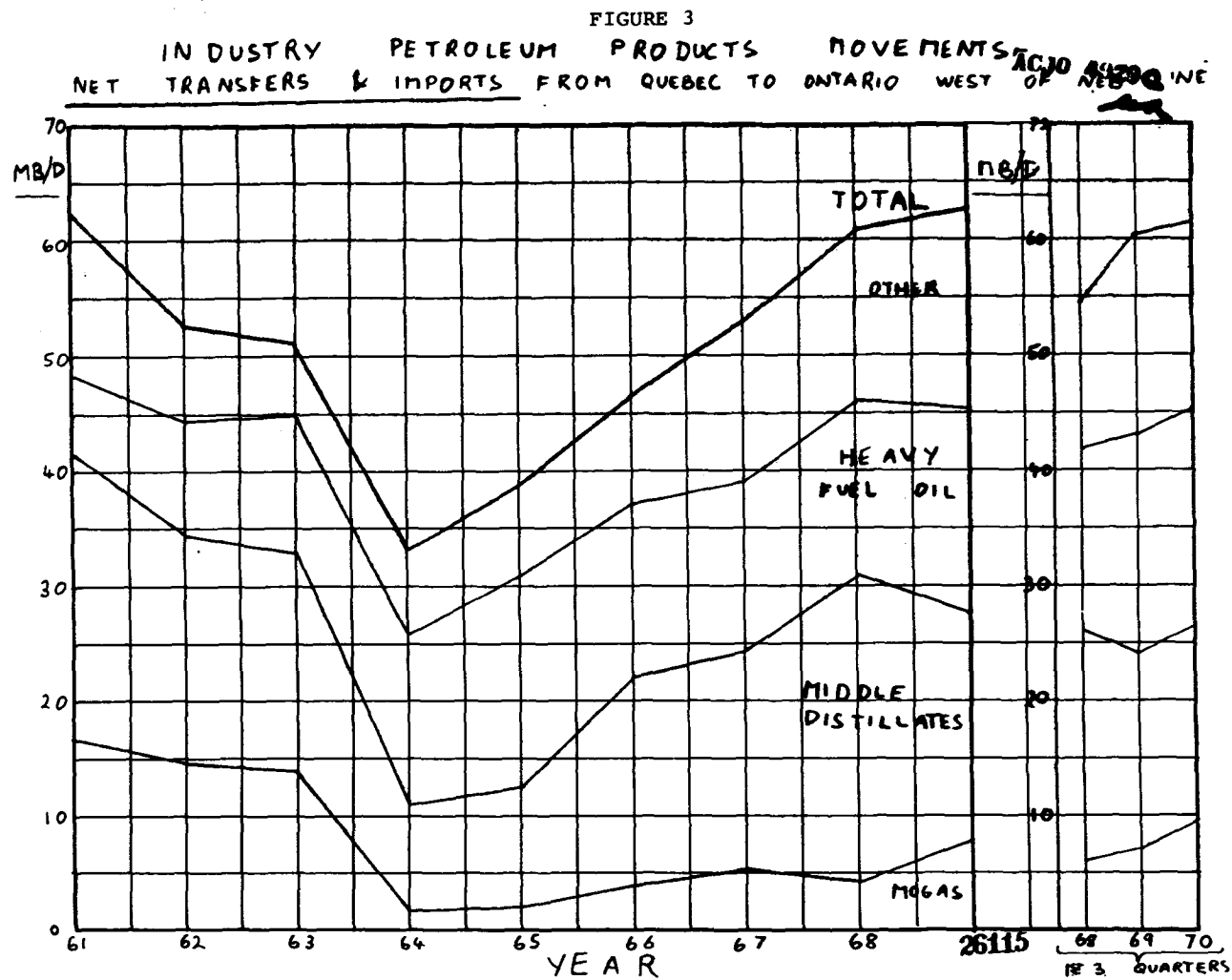
Even though 'distress' product imports were the justification given by the majors for the success of the independents, competition at the retail level developed at this time in Prairie markets — markets that were not influenced by imported product — and to which this agreement was not applicable. As the National Energy Board pointed out to Shell, this situation made it difficult for the Energy Board to 'police the [NOP] line'. Shell reported that at a September meeting between itself and the National Energy Board:

"NEB tabled a breakdown of transfers (Attachment 1) which indicates that the recent increase in gasoline transfers is almost entirely attributable to the Ontario refiners. NEB recognise the anomaly of price declines in a tight supply situation but find it difficult to blame the independents in light of their transfer levels. They also point to similar recent price problems in Calgary (Turbo/Mohawk) *'which do not help policing the line'*."

(Document # 24732, September 20, 1972, Shell, emphasis added)¹¹⁷

5. Summary

In 1960, Mobil predicted that the National Oil Policy would be a dynamic and flexible instrument (Document # 18025)¹¹⁸ and would not completely isolate Ontario markets from the influence of offshore imports. This was indeed the case. Following the announcement of the National Oil Policy, imports and transfers of motor gasoline, middle distillates, and heavy fuel oil across the National Oil Policy Line began to decline; but they were never completely eliminated. As Figure 3 indicates, they reached a trough in 1964 following the opening of Shell's Oakville refinery. The major companies — Imperial, Gulf, Texaco, Shell, British Petroleum and Sun Oil — reduced their



(Reproduction of Document # 26115
'Figure 3' added)

imports and transfers of both motor gasoline and middle distillates. The rest of the industry was less accommodating. Tables 19-21 outline the difference in the reactions of these two groups. It is clear that, because of the dominance of the major companies, it is their actions that are mirrored in the total. It is also evident that it was one company — Fina in the case of motor gasoline and Liquifuels in the case of middle distillates — that was responsible for the major portion of imports and transfers accounted for by the second group of companies in the early nineteen sixties. By the end of the nineteen sixties, other firms had expanded their share of imports. These figures also demonstrate that the impact of the National Energy Board's gasoline licensing programme, implemented in 1970, fell heavily upon this latter group. Between 1970 and 1972, Group I — the majors — was allowed to increase its imports of gasoline from zero to 2,249 barrels per day. Simultaneously, imports by the minor firms were cut in half from 10,482 to 5,485 barrels per day. Significantly, Fina, included in the latter group, actually increased its imports and transfers slightly. The full decrease was therefore borne by the non-refiners — the fringe group that was transmitting competitive trends in the world markets to Canada.

TABLE 19

IMPORTS AND NET TRANSFERS OF GASOLINE ACROSS THE NOP LINE, 1960-72
(barrels per day)

<i>Year</i>	<i>Group I</i>	<i>Group II</i>	<i>Total</i>
1960	18,644	1,282 (1166)	19,926
1961	15,911	675 (497)	16,586
1962	13,138	1,399 (465)	14,537
1963	11,760	2,171 (1540)	13,931
1964	-93	1,938 (1477)	1,845
1965	-127	2,189 (1477)	3,907
1966	1,451	2,439 (1004)	3,890
1967	1,659	3,716 (2235)	5,375
1968	220	6,464 (1432)	6,684
1969	-556	8,814 (3123)	8,258
1970	-987	10,482 (3300)	9,495
1971	-91	5,740 (2917)	5,649
1972	2,249	5,485 (3434)	7,734

Notes: Group I: Gulf, B.P., Imperial, Shell, Texaco and Sun.
Group II: Other (Fina in brackets).

Thus the National Oil Policy never completely isolated Canadian markets from world petroleum markets. It was a policy — purely voluntary until 1970—that was aimed at enhancing the prospects of increased Canadian energy exports to the United States without invoking price protection for the

Canadian domestic market. Nevertheless, it is clear that the industry attempted throughout this period to use the policy to protect itself both east and west of the National Oil Policy Line from the downward trend in world petroleum prices. Ironically, regulation was not sanctioned and the first preliminary protectionist measures were not taken until the early nineteen seventies when world prices had bottomed out and had begun to rise. Nevertheless, with the intent of the major petroleum companies clearly established, their success in exploiting whatever market power that they possessed requires examination. The next two sections indicate that the industry successfully exploited this market power.

TABLE 20

MIDDLE DISTILLATES IMPORTS AND TRANSFERS ACROSS NOP LINE, 1960-72
(barrels per day)

<i>Year</i>	<i>Group I</i>	<i>Group II</i>	<i>Total</i>
1960	12,906	13,213 (10951)	26,119
1961	12,158	12,751 (10294)	24,090
1962	10,233	9,768 (7110)	20,001
1963	10,167	8,438 (7089)	18,905
1964	525	8,611 (7467)	9,136
1965	1,373	9,095 (7244)	10,468
1966	6,175	10,119 (7448)	16,294
1967	8,555	10,468 (7650)	19,023
1968	9,673	14,576 (11323)	24,249
1969	5,114	14,594 (10879)	19,708
1970	5,666	12,619 (8277)	18,357
1971	3,184	10,125 (6627)	13,309
1972	3,073	11,791 (8816)	14,864

Note: Figures in brackets for group II refer to Liquifuels (CFM).

D. *A Pricing History of Canadian Crude Oil*

The pricing policies and the pattern of trade flows that were adopted by the industry were influenced not only by the existence of the Canadian National Oil Policy, but also by events both in the United States and the Middle East. These events changed the demand curves facing the Canadian producing industry in its two major sub-markets, thereby causing a basic change in its pricing policy in the late nineteen fifties.

With the advent of substantial competition in world crude markets in the late nineteen fifties, prices in world crude markets decreased substantially. As Figure 4 indicates, posted prices for Light Arabian crude decreased by over 45 cents per barrel between 1957 and 1963. The United States had, throughout

TABLE 21

HEAVY FUEL OIL IMPORTS AND TRANSFERS ACROSS NOP LINE, 1960-72
(barrels per day)

<i>Year</i>	<i>Group I</i>	<i>Group II</i>	<i>Total</i>
1960	4,010	4,225	8,235
1961	1,860	4,885	6,745
1962	3,221	6,411	9,632
1963	5,428	6,483	11,911
1964	3,985	10,856	14,841
1965	6,459	11,814	18,273
1966	5,721	11,243	16,964
1967	3,642	10,206	13,848
1968	5,078	9,996	15,074
1969	4,372	13,302	17,674
1970	10,322	12,601	22,923
1971	9,743	11,665	21,408
1972	11,003	14,892	25,895

the early nineteen fifties, experimented with various voluntary import quotas on crude petroleum as imports began to penetrate their domestic market. With the post-1957 reductions in foreign crude prices, the American voluntary quota system broke down and was replaced with a mandatory quota system in 1959. This action isolated the American market from the forces that were causing crude and product prices to fall elsewhere. Figure 4 shows that American crude prices stayed at their 1957 high for a longer period than did posted Middle East prices. When they were reduced, the decrease was less than occurred elsewhere.

The market for Canadian crude consisted of both domestic purchases in provinces from British Columbia to Ontario as well as exports to the United States' west coast (District V) and the central states of the United States (Districts I-IV). From 1951 to 1958, the Canadian price of crude oil had been set so as to make Canadian crude competitive with American crude at Sarnia (see Table 22). In 1959, the controlling influence changed from United States markets to offshore markets as the foreign price of crude delivered to Ontario markets fell below the equivalent American price. The material in Table 23 was prepared as part of a May, 1959 study by Imperial Oil and compares the price of domestic and foreign crude laid down at Toronto. Venezuelan crude laid down at \$2.92 (Cdn.) versus \$3.12 (Cdn.) for Canadian Redwater crude at Toronto. Thus, foreign prices had begun to undercut Canadian delivered prices in Ontario in 1959.

Evidence from Shell documents confirms this advantage. Taken from a study dated December, 1959, Table 24 indicates that Middle East crude had established an advantage over Alberta light crude in both Vancouver and Ontario by this year.

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EXHIBIT 4. *llh*

U.S. \$/BBL.

FIGURE 4

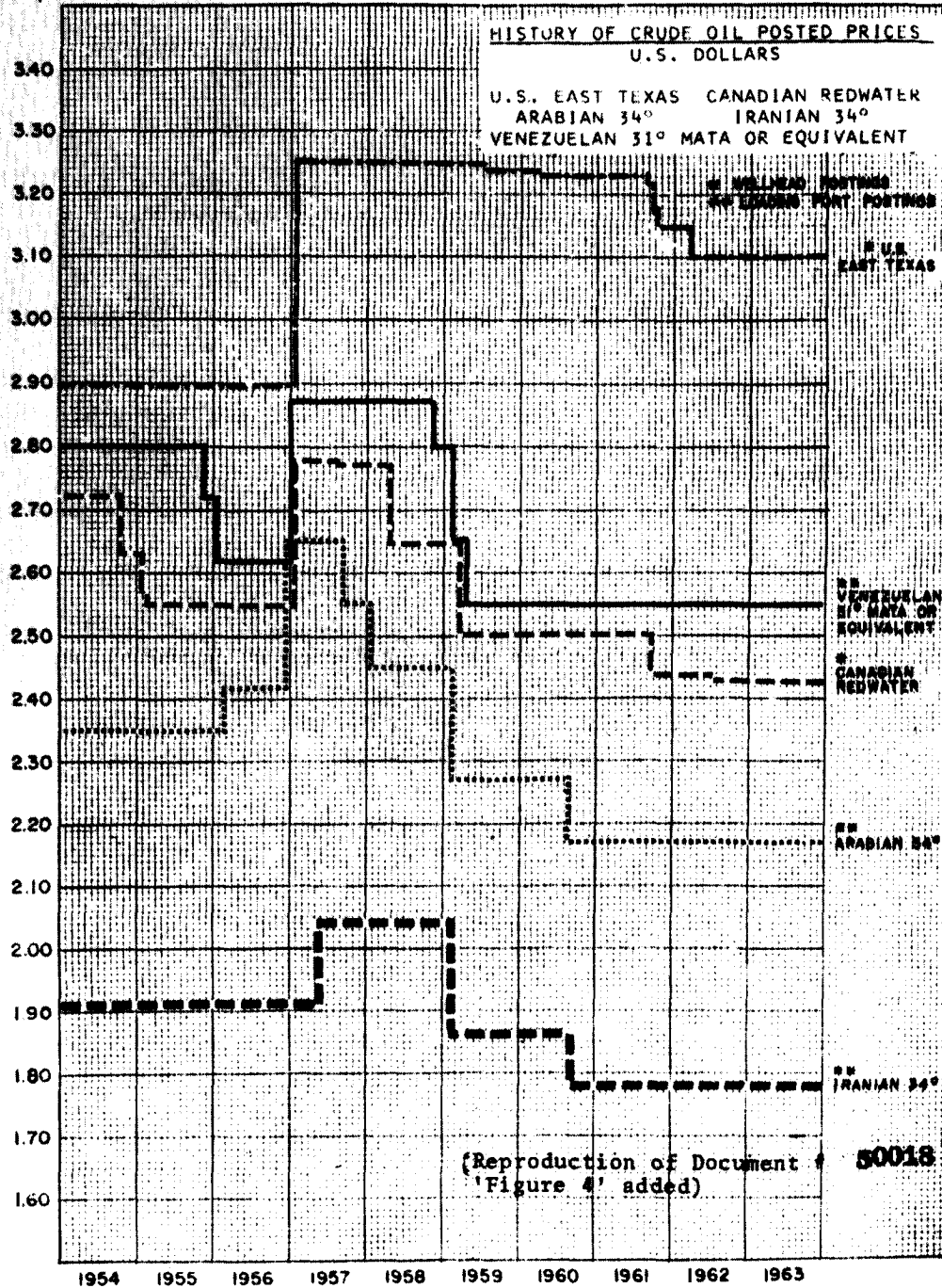


TABLE 22

CHANGES IN POSTED FIELD PRICES FOR REDWATER CRUDE OIL 1948-73

<i>Posted Price Year</i>	<i>Dates</i>	<i>Dollars Per Barrel</i>	<i>Major Reason for Changes in Well-head Price</i>
1948	Jan.-Nov.	3.20	
	Dec.	2.68	To make Alberta crude competitive at Winnipeg.
1949	Sept. 24	2.88	Devaluation of the Canadian dollar.
1950	Oct. 16	2.73	Alteration of exchange rate (Freeing of Canadian dollar).
1951	April 24	2.44	To make Alberta crude competitive with Illinois crude at Sarnia.
	June 1	2.46	Reduction in local pipe line tariff.
1952	April 23	2.315	Alteration of exchange rate and meeting competition at Sarnia.
	Oct. 15	2.325	A reduction in Interprovincial Pipe Line tariff to the Lake-head, offset by currency adjustment.
1953	Mar. 19	2.385	Alteration of exchange rate meeting competition at Sarnia.
	July 21	2.645	Increase in world crude prices reflected at Sarnia and an alteration of exchange rate.
1954	Oct. 15	2.555	Alteration of exchange rate.
1955	Jan. 7	2.485	Price change in Illinois crude and some adjustment for alteration of exchange rate.
	Feb. 1	2.49	Adjustment to local Alberta pipe line tariff change.
1957	Jan. 16	2.67	General world price increase reflected at Sarnia.
	Aug. 30	2.63	Alteration of exchange rate.
1958	April 12	2.56	Alteration of exchange rate and change in Illinois prices.
1959	Mar. 24	2.42	Reductions in world posted prices and their impact on crude and product prices in Canadian markets.
1961	Sept. 11	2.52	Alteration of exchange rate.
1962	May 10	2.62	Alteration of exchange rate.
1970	Dec. 15	2.87*	Increase in world and United States crude prices.
1972	April 1	2.88*	Decrease in pipe line tariff and adjustment for quality.
	Nov. 6	2.98*	To bring price more into line with that of competing crude in major United States markets.

TABLE 22—Cont.

CHANGES IN POSTED FIELD PRICES FOR REDWATER CRUDE OIL 1948-73

<i>Posted Price Year</i>	<i>Dates</i>	<i>Dollars Per Barrel</i>	<i>Major Reason for Changes in Well-head Price</i>
1973	Jan. 9	3.18*	Parallels price increases in major producing countries outside North America.

Note: *This crude "field-gated". Relevant values at Dec. 15, 1970 and April 1, 1972 were \$2.92 and \$2.93 respectively.

Source: Document # 124650-1, Imperial ¹¹⁹

The changing nature of competitive forces caused the price leader — Imperial — to adopt a new basis for pricing Canadian crude.¹ During the late nineteen fifties, Canadian crude was still being priced to make it competitive against United States crudes in Ontario. However, in 1959, American crude prices lost their importance as a pricing base. As product prices in Ontario began to reflect the changing nature of the offshore crude market, an excerpt from an Imperial document noted that keeping Canadian crude competitive with foreign crude became the overriding objective:

"While the decline in product prices started back in 1957, it continued throughout the debate on national oil policy and showed no change in trend even after the implementation of the National Oil Policy early in 1961. In short, we have this kind of condition; from 1957 until late in 1958 Canadian crude was still being priced against such reference crudes as Illinois Basin in the Ontario market. At about this point the impact of low-cost offshore crude oil via Montreal became predominant and in the succeeding period up until the spring of 1961, Imperial was in a difficult position of trying to bring the cost of Canadian crude in Ontario into better line with foreign crude or products, while at the same time extra pressures were exerted by the premium on the Canadian dollar. . . ."

(Document # 118723, June 7, 1962, Imperial)¹²³

Thus the price of Canadian crude lost its traditional relationship to American crudes in 1959. Following decreases in Venezuelan posted prices by some 25 cents per barrel, the laid down cost of Alberta crude at Toronto was reduced by the same amount (14 cents per barrel posting plus 11 cents per barrel tariff reduction). By 1961, Alberta Redwater (35° API) laid into Toronto at \$3.18 (Cdn.) while Illinois crude, which had not changed in price since 1957, would have cost \$3.49 (Cdn.) (Document # 18012).¹²⁴ Canadian prices had fallen until they had about a 30 cents advantage over the delivered

1. See the volume on the production sector for a description of the price setting process used for Canadian crude.

TABLE 23
COMPARISON OF CANADIAN CRUDE AND IMPERIAL
FOREIGN CRUDE COSTS AT TORONTO, 1959
(\$ per barrel)

<i>Cost Components</i>	<i>Foreign Crude Guanipa At Toronto</i>	<i>Canadian Crude Redwater At Toronto</i>
<i>Charges in U.S. Funds</i>		
FOB Ship (Posted Price)	2.650	
Ocean Tanker (USMC-40%)	.418	
Outturn	.015	
Penalty on Montreal Takeoffs	.011	
Pipeline Tariff		.329
Sub Total — U.S. Funds	3.094	.329
— Can. Funds	3.017	.321
(\$1 U.S. — \$.975 Can.)		
<i>Charges in Can. Funds</i>		
Wellhead		2.420
Gathering Allowance		.012
Gathering		.040
Pipeline Allowance		.025
Pipeline Tariff		.291
Marketing Charge		.010
Seaway Tolls & Ins.	.085	
Sub Total — Can. Funds	.085	2.798
<i>Total Laid Down Cost</i>		
—Can. Funds	<u>3.10</u>	<u>3.12</u>
<i>Quality Differential</i>		
—VS Redwater	.01	
Difference Between Posted Price FOB Ship and IOL Crude Contract	.195	
<i>Competitive Value</i>		
—VS Redwater	<u>2.92</u>	<u>3.12</u>

Source: Document # 122501. Imperial¹²⁰

price of American crude in Canadian markets. Canadian crude also opened up an advantage over United States crudes in American markets. As Figure 4 indicates, the Canadian price fell by about 34 cents (U.S.) per barrel while East Texas crude prices fell by about 15 cents (U.S.) per barrel. If the 11 cents per barrel reduction in Interprovincial tariffs that occurred at this time is included,

TABLE 24
COMPARISON OF LAID DOWN COST OF
DOMESTIC AND FOREIGN CRUDE OIL IN TORONTO AND VANCOUVER
 December 1959

<i>Source</i>	<i>Type</i>	<i>Gravity</i>	<i>Price</i> <i>(Freight -50 ATRS)</i> <i>(\$ Cdn.)</i>
<i>Bronte (Toronto)</i>			
Venezuela	Mesa	30	2.98
Middle East	Kuwait	31	2.79
Alberta	Leduc-Woodbend	38	3.24
Saskatchewan	Weyburn	29	2.52
<i>Vancouver</i>			
Venezuela	Mesa	30	3.02
Middle East	Kuwait	31	2.61
Alberta	Leduc-Woodbend	38	3.04

Note: Mobil notes Arabian does not become competitive at Vancouver until freight rates of USMC — 50% are used (Document # 18008)¹²¹

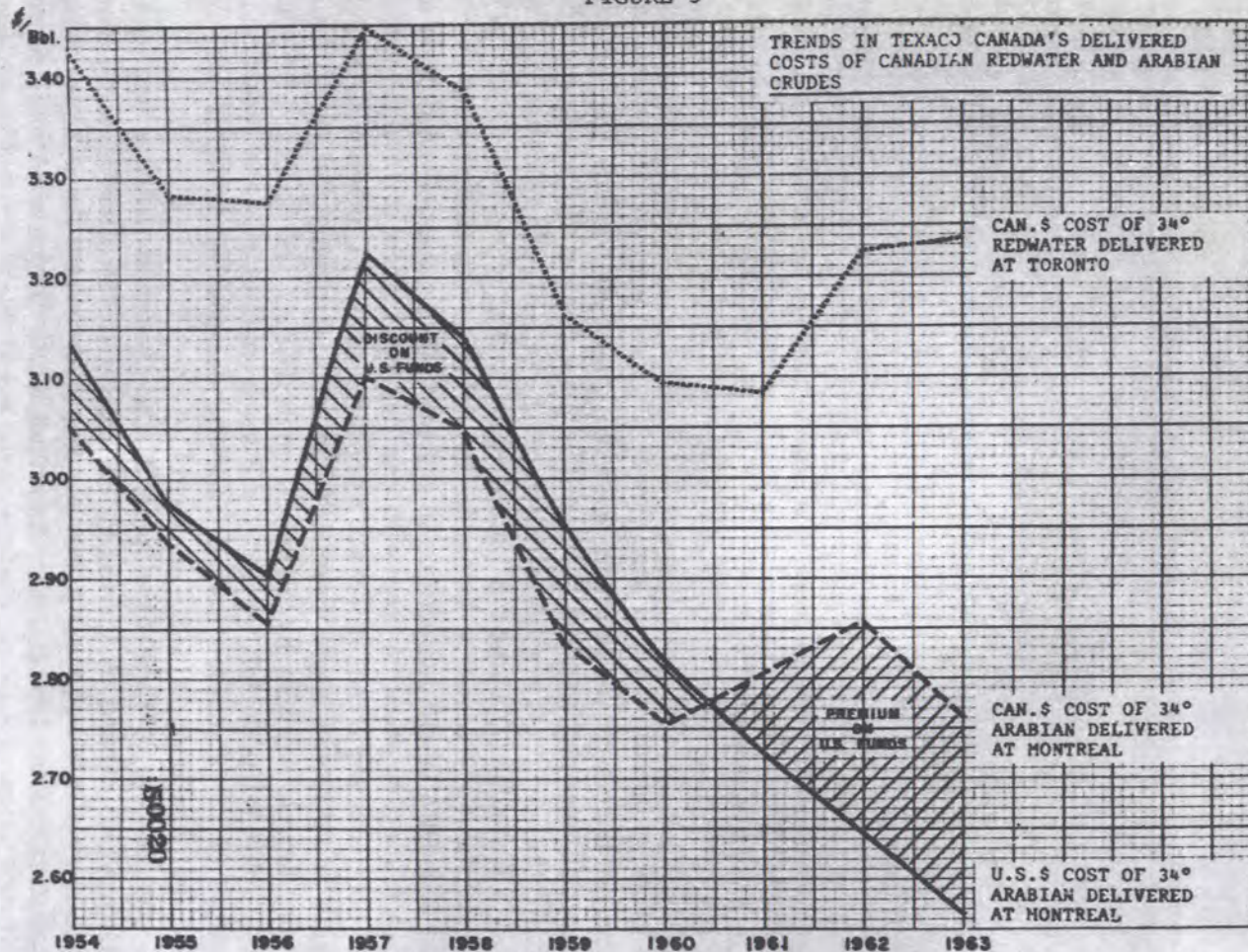
Source: Document # 44533, Shell¹²²

then a gross reduction occurred of about 30 cents per barrel in delivered Canadian prices relative to American wellhead prices. As a result, by 1961, in American mid-west markets, the "competitive price margin of Canadian crude [was] more than 20 cents per barrel based on the present 3% exchange rate in favour of U.S. funds" (Document # 18016).¹²⁵

In the 1959 round of Canadian crude price reductions, which were designed to meet offshore competition in eastern Canada, the delivered price of Canadian crude decreased in step with the delivered price of foreign crude. Figure 5 compares the trends in Texaco's delivered costs of Canadian Redwater at Toronto and Arabian crude. From 1957 to 1961, Redwater fell by 37 cents (Cdn.) per barrel, Arabian by about 30 cents (Cdn.) per barrel. That the Canadian delivered price fell by about the same amount was the result of a depreciation of the Canadian dollar, since the decrease in delivered cost of Arabian Light was 51 cents (U.S.) per barrel.

In the face of these developments, the Canadian industry had even more incentive to expand by increasing its exports to the United States. The American market offered higher prices because of the protection afforded it by the mandatory quota. Initially, the American quota programme had placed Canada in the same category as the rest of the world. However, the mandatory oil quota programme had been implemented only after invoking national security requirements. Therefore it was suggested that since Canada was as

FIGURE 5



(Reproduction of Document # 50020
'Figure 5' added)

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EXHIBIT 5

secure as the United States, the failure to grant Canada an exemption might be construed as evidence that the programme had the protection of the domestic industry as its sole objective.¹ Partially as a result, the mandatory quotas were withdrawn from Canadian crude and voluntary guidelines were established.

Nevertheless, the United States objected to granting Canada free access to American markets. Permitting Canada unlimited access to the American market, while allowing it to continue to import cheaper foreign crude, was opposed by the American authorities. As a *quid pro quo* for exempting Canada from its import quota, the United States indicated that if Canada replaced domestic usage of crude with foreign supplies, then the voluntary guidelines as to the amount of Canadian crude that could enter the United States would either be strictly enforced or, at worst, Canada's exemption would be withdrawn.

The National Oil Policy was the government's reaction to the American position. By stating that it did not want foreign crude displacing domestic crude usage in Ontario, the government attempted to create the political conditions that would permit continued Canadian crude exports to the United States.

With the implementation of the National Oil Policy, Imperial exploited the change in the elasticity of the demand curve so occasioned. Now, when choosing a price for Canadian crude, it could afford to pay less attention to world prices in the Canadian markets protected by the National Oil Policy. What concerned it most was the relationship between Canadian and U.S. prices:

"Since the NOP was established it was necessary to once again change the reference point for Canadian crude. In this case, the Canadian exemption from U.S. import quotas and by corollary, our access to the large export market, depended to a great extent on ensuring that the cost of Canadian crude laid down at U.S. import points could not be considered as 'distress' sales. In short, the delivered costs had to be reasonable in terms of competitive supply of U.S. domestic crudes."

(Document # 118723, June 7, 1962, Imperial)¹²⁷

The difficulty with this approach was that taking realizations in different American markets and netting them back to Alberta did not provide a single price. Therefore, Imperial's pricing policy had to consider the competitiveness of Canadian crudes in different U.S. markets. The factors that Imperial considered were:

- "a) A delivered cost into Puget Sound which would be roughly comparable to the cost of marginal supplies of domestic crude such as Four Corners after correcting for the cost of the District V refiner of a proportional loss of his offshore quota.

1. Several leading American newspapers raised this argument (Document # 111942).¹²⁶

- b) A delivered cost of Canadian crude oil in North-Central United States which would be approximately competitive to Williston Basin or Rocky Mountain crude sources and/or refined product supplies from group three.
- c) A delivered cost of Canadian crude oil in the lower Great Lakes area roughly comparable to marginal supplies from the Mid-Continent, Gulf Coast, or Rocky Mountain areas through a variety of owned or partially-owned pipe line systems to a range of refineries from Buffalo to Detroit with individual connections. In this case, however, there would be an advantage to U.S. crude resulting from a gain in quota to the extent that the individual refiner could dispose through trade or sale of his import allowance."

(Document # 118723-4, June 7, 1962, Imperial)¹²⁸

About one year after the National Oil Policy was announced, in 1962, the Canadian dollar depreciated substantially — a change of "12.5 percentage points" which was equivalent to "almost 40 cents per barrel" (Document # 118724).¹²⁹ Exports of Canadian crude to the United States had already doubled between 1959 and 1961 (Document # 89363).¹³⁰ With the increased competitiveness of Canadian crude that resulted from the depreciation of the dollar, it was felt that there was a danger that exports would expand too rapidly and that Canada's exemption from the American quota system would be revoked. In order to prevent this, Imperial increased Canadian crude prices by a portion of the change in the exchange value:

"Under these circumstances Imperial's increase of 10¢ per barrel last year and a further 10¢ per barrel this year reflected our best judgement after consideration of all factors of a level which balanced all the considerations involved."

(Document # 118725, June 7, 1962, Imperial)¹³¹

The effect of this action was to squeeze the refinery margins in Ontario that had been forced by the National Oil Policy to use Canadian crude:

"It must be emphasized that the decline in net product prices realized in Ontario had persisted all through 1961 and has continued in 1962 despite the changes in supply and crude costs that I have outlined."

(Document # 118725, June 7, 1962, Imperial)¹³²

"Secondly, restoring in part the price of Canadian crude put a further squeeze on Ontario refiners already badly hit by the steady decline and erosion in market prices over a period of several years."

(Document # 118724, June 7, 1962, Imperial)¹³³

With the two Canadian price increases—10 cents per barrel on September 11, 1961 and 10 cents per barrel on May 10, 1962 (Document # 104603)¹³⁴ (see Table 22)—the gap between the delivered cost of Canadian crude in eastern Canada and the landed cost of foreign crude widened. As Figure 5 shows, the price of Redwater crude delivered to Toronto increased by 20 cents per barrel, while Texaco's cost of Light Arabian crude at Montreal

decreased by about 5 cents per barrel in Canadian funds during this period. Even though the Canadian dollar had depreciated, the rate at which foreign crude costs were decreasing offset the devaluation.

On the other hand, with the 1961-62 price increases, the advantage of Canadian crude in U.S. markets was stabilized. By 1964, Canadian crude could be purchased at Toledo, Ohio at 24 cents per barrel below the price of Oklahoma crude (Document # 18509).¹³⁵ If posted prices are used, Canadian crude was about the same as Middle East crude at Toronto (Document # 18509).¹³⁶ However, discounts of between 15 and 50 cents per barrel on Middle East crude were common;¹ thus Canadian crude was overpriced by this amount in Ontario.

Mobil, another major producing company, had the same appreciation of the factors governing the price of Canadian crude as Imperial. Mobil viewed Imperial as the "leader" in setting the domestic crude price and felt that offshore prices had some effect on Canadian crude prices as set by Imperial:

"Both Canadian and U.S. Governments control the level of overseas foreign imports into their respective countries. However, there appears to be a more direct relationship between the laid-down price of overseas versus domestic crude in Canada than in the U.S. *Imperial Oil (Jersey Standard's Canadian subsidiary), the Canadian price leader, appears to consider this relationship when setting the price of light reference crude.*"

(Document # 18512, 1964, Mobil, emphasis added)¹³⁷

However, as Mobil noted, by 1964, with the National Oil Policy in effect, Canadian prices were "more closely" equated with United States prices than with foreign prices:

"Because of the National Oil Policy and the fact that price increases in 1961 and 1962 were geared to the U.S. exchange rate and, therefore, to the price of U.S. domestic crude, Canadian crude prices more closely equate to U.S. domestic crude prices than overseas foreign crude prices."

(Document # 18520, 1964, Mobil)¹³⁸

Therefore the Canadian industry, led by Imperial, had taken advantage of the National Oil Policy to increase domestic crude prices.

In summary, during the nineteen sixties, the price of Canadian crude was determined by dual considerations. The first involved the extent to which too low a price would have led to the American demand for Canadian crude expanding too rapidly, thereby exceeding the United States voluntary guidelines and leading to the possibility of having mandatory quotas imposed upon Canadian crude. The United States made it clear to the Canadian industry via

1. The volume on international linkages presents evidence on the extent of discounts on Middle East crude during this time period.

its communications with the National Energy Board that Canadian exports were directly related to the amount of Canadian oil consumed in Canada. In April of 1961, the Chairman of the National Energy Board informed the President of Imperial that:

"U.S./Canada relations on Canadian exports seem to be quite healthy but one of the principal keys is what progress Canada makes in displacing imports (other than unbalanced requirements) into Ontario."

(Document # 115906, April 17, 1961, Imperial)¹³⁹

This position remained unchanged throughout most of the decade. For instance, Imperial recorded the fact that in 1966 the Chairman of the National Energy Board indicated that: "In the past it has been necessary to show officials in Washington that growth in Canadian crude sales is split about 50/50 between Canadian and U.S. markets" (Document # 89214)¹⁴⁰ and that in the future (post 1966) "much more rigid enforcement of the National Oil Policy Line was essential" (Document # 89215).¹⁴¹

The second consideration in setting the Canadian price was the extent to which too high a price for domestic crude would have caused the National Oil Policy Line to deteriorate. As a result of these two forces, the price of Canadian crude was set so as to permit adequate penetration of the United States market without significant loss of the Canadian market. In the early period, this policy priced Canadian crude with United States crudes. It was able to ignore offshore influences. However, as the decade progressed, the influence of offshore prices became more important and Imperial, in setting the Canadian crude price, permitted a differential to develop between Canadian and United States prices. Nevertheless it continued to keep Canadian prices above the level that would have equated them to foreign competition in the Ontario market.

Prior to the price increases in the United States that occurred in the late nineteen sixties, Canadian crude was priced so that its laid down cost advantage was minimal. Table 25 summarizes the competitive position of Canadian crude in 1966 at three refining centres in U.S. District II. Compared to West Texas Intermediate Sweet, Canadian crude had less than a 10 to 15 cents per barrel advantage.

Some of the factors that required a competitive discount for the penetration of Canadian crude in American markets are listed in Table 26. They are taken from a 1970 Imperial study and they are applicable to an 'average' firm. Since the market for crude is not homogeneous, each American refiner's incentive to use Canadian crudes would have varied somewhat from this average. An integrated refiner with production in both countries and pipeline interests would have required some 30 cents per barrel difference before using Canadian crude; a non-integrated refiner would have needed no more of

TABLE 25

COMPETITIVE POSITION OF CANADIAN CRUDE IN
U.S. DISTRICT II REFINING AREAS, 1966

Crude Type	Gravity	Laid Down Cost (U.S. \$ per barrel)		
		Toledo	Detroit	Chicago
Cdn. Mixed Blend ¹	39°	3.31-3.40	3.31-3.40	3.23-3.32
W. Texas Int. Sweet	37°	3.39-3.50	3.53	3.36
W. Texas Sour	33°	3.25	3.25	3.22
Southern Louisiana	32°	3.46	3.48 ²	3.44-3.46

Notes: 1. Includes \$0.105 import duty and \$0.06-\$0.15 adjustment for value of import quota lost.

2. 36° rather than 32°.

Source: Document # 111259, Imperial¹⁴²

an incentive than a 20 cents per barrel difference between Canadian and United States crude prices before Canadian crude would be considered. The latter was the differential apparently chosen during this period.

TABLE 26

FACTORS THAT PROVIDED CANADIAN CRUDE WITH A DISADVANTAGE
AT CHICAGO, 1970
(\$ per barrel)

Quality Factors ²	Cost Disadvantage
Quality Factors Other than Gravity	(.14)
Quota Debits	(.06)
Pipe Line Interest	(.13)
Producing Credits in Louisiana	(.05)
Producing Credits in Alberta	(.08)
	(.30) ¹

Notes: 1. Weighted average for seven refiners varies between 51 cents per barrel and 6 cents per barrel. Therefore advantage for Canadian crude varies between 14 cents and 59 cents per barrel.

2. A description of some of these factors can be found in Plotnick, *Petroleum*, p. 121.

Source: Document # 101538, Imperial¹⁴³

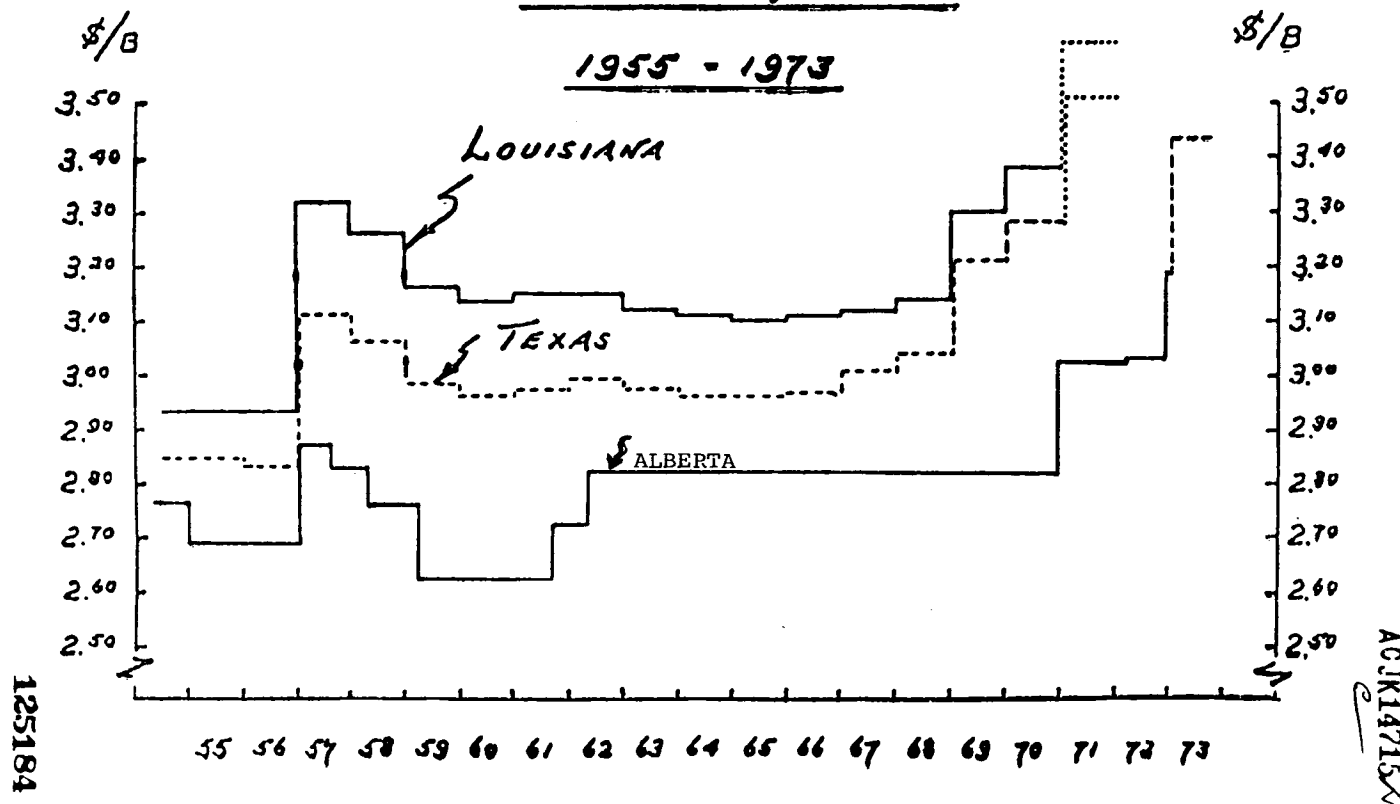
In 1966, American prices began to creep upwards. From December 1965 to October 1966, prices in many of the central United States regions increased by 6 to 7 cents per barrel (Document # 91108).¹⁴⁴ Figure 6 illustrates the nature of the divergence that developed between Canadian and American

FIGURE 6

ALBERTA LIGHT CRUDE PRICE

39.0° A.P.I., 0.4% S

1955 - 1973



(Reproduction of Document # 125184
'Figure 6' and 'Alberta' added)

crude prices. At first, this did not lead Imperial to contemplate a price increase. In 1966, the Transportation and Supply Division of Imperial examined the new relationships and recommended that no change be made in Canadian crude postings because of Imperial's net purchaser position, the need to encourage exports, and the necessity of minimizing product imports into Ontario (Document # 91108).¹⁴⁵

By 1968, a study done for Interprovincial Pipe Line Co. Ltd. by the Stanford Research Institute noted that Canadian crude had an advantage in the United States of about 20 to 30 cents per barrel over offshore Louisiana crude for non-pipeline owners and was said to be about equivalent in cost to Louisiana crude for pipeline owners (Document # 2467).¹⁴⁶ Interprovincial noted, in August of 1967, that the advantage of Canadian Mixed Blend crude over similar United States crudes was about 20 to 24 cents per barrel depending on the market (Document # 4991).¹⁴⁷ Imperial analyzed the situation in much the same fashion. At a December 9, 1968 meeting of Imperial's Transportation and Supply Department, the advantage of Canadian crude in U.S. District V area or Puget Sound was put at 10 to 20 cents per barrel (Document # 89721).¹⁴⁸ In Districts I-IV, the price advantage was calculated to range from 1 to 24 cents per barrel (Document # 89722).¹⁴⁹ Imperial observed that no reduction in demand would be expected in exports to District V (the West Coast) should the Canadian price be moderately increased, while a moderate decrease would be expected (80 MB/D) from District I-IV (the Eastern U.S.) (Document # 89722).¹⁵⁰

As has been indicated previously, the division of Canada into two parts — one served by domestic crude, the other by imported crude — accorded with the goals of Imperial throughout this period. Indeed, in the late nineteen sixties, an Imperial study suggested the area served by domestic crude might be extended eastward to include Montreal (Document # 104629).¹⁵¹ As already outlined, there were two reasons for this. First, discoveries were expected both in the Canadian Arctic and in the offshore Atlantic. Imperial felt domestic protection would help prevent any large discoveries from causing prices to collapse. Secondly, one of the logical markets for Canadian crude was the United States and this country was increasingly taking the position that Canada should be supplying more of its eastern markets with domestic crude if it were to continue exporting to the United States. Since Jersey's preferred source of imports was from Canada, the Exxon organization favoured continuation of the National Oil Policy:

"... in Canada it is believed that the prospects for maintaining the present National Energy Policy are fairly good and that its continuation is in Jersey's interest."

(Document # 109015, December 22, 1967, Imperial)¹⁵²

The position of Imperial regarding the desirability of the National Oil Policy is succinctly stated in the following:

“A departure from a continental oil policy would result in that the controls would serve as a road block to the free movement of petroleum between Canada and the U.S.A. In addition, the pressure to serve Montreal with W. Canadian crude would increase considerably.”

(Document # 90870, Undated, Imperial)¹⁵³

The industry — led by Imperial — found itself with a dilemma. Mandatory American controls would curtail Canadian exports; forcing production into Montreal would have caused greater profit losses to the parent organization on offshore production that was displaced than would have been gained from increased domestic production. However, with the growing disparity between foreign and United States crude prices, the problem of setting the price of Canadian crude became more acute and led to pressures to implement increased government protection in eastern Canada.

As Figure 6 shows, major increases were posted in United States crude prices in 1969 and 1970 raising the differential in favour of Canadian crudes in American markets. Imperial, in examining the need for a Canadian price increase, noted that, in the past, a price advantage of about “20¢/bbl. for Canadian crude in Chicago provided an incentive for existing and new customers (non-integrated refiners) to maximize their take” (Document # 99799).¹⁵⁴ However, with average prices in Districts I-IV increasing by about 15.8 cents per barrel (Document # 91129)¹⁵⁵ in 1969, the advantage of Canadian crudes began to exceed this figure — ranging from 1 cent to 24 cents per barrel at Chicago and 4 to 36 cents per barrel at Detroit compared to West Texas Intermediate crude¹ (Document # 90876).¹⁵⁷ In District V, Canadian crude was estimated to have a 15 to 25 cents per barrel advantage (Document # 90868).¹⁵⁸ Imperial’s sales staff felt a nominal increase would not have reduced existing exports to either district (Document # 90870)¹⁵⁹ but would have reduced the rate of expansion. This was particularly important since the rapid expansion in Canadian crude exports to the United States was threatening the collapse of the voluntary quota system. In referring to the American price increase, Imperial noted:

“If we do not follow, then the incentive to use Canadian crude in the U.S. is increased and even some integrated refiners might desire to become customers. To maintain political limitations some form of mandatory control (likely tickets for Canadian crude) would have to replace the present voluntary arrangements for the export market.”

(Document # 99800, March 6, 1969, Imperial)¹⁶⁰

1. Clark Oil estimated the advantage of Canadian oil to be 40 cents per barrel in April, 1969 (Document # 97095).¹⁵⁶

However, the problem with this course of action was that Canadian crude already suffered a 90 cents per barrel disadvantage at Toronto and any price increase would have increased the movement of product westward across the National Oil Policy Line (Document # 99799).¹⁶¹ As a result, Imperial's Transportation and Supplies Department recommended that the National Oil Policy Line be more rigorously enforced:

"If the U.S. crude price stabilizes at a higher level we would recommend that the Canadian price follow and steps be taken to rigidly enforce the National Oil Policy."

(Document # 99800, March 6, 1969, Imperial)¹⁶²

In March of 1969, a formal presentation on crude pricing policy was prepared by Imperial's Transportation and Supply Department for presentation to Imperial's Executive Committee. Exports for 1969, it appeared, were going to exceed by 100 MB/D the voluntary quotas of 300 MB/D that had been set by the United States Department of the Interior (Document # 89972).¹⁶³ It was concluded that Canadian crude prices would have to be increased by about 25 cents per barrel to suppress burgeoning American demand (assuming the 1969 round of United States price increases stabilized at 10 cents per barrel). The effect of a Canadian crude price increase would have been to reduce the demand for Canadian crude oil in Districts I-IV by about 20 percent and in District V by 16.6 percent (Documents # 89969-70, # 89973, # 89986).^{164, 165, 166} This would have decreased imports from Canada to a level more tolerable to American authorities. The financial effect on Imperial of the crude price increase was critically dependent upon the extent to which Canadian prices could be increased in the downstream products sector. For, a crude price increase, in and by itself, would have decreased the profits of most of the vertically integrated majors. Table 27 outlines Imperial's estimates of the effect of a straight price increase as of 1969.

Imperial estimated that, in order to break even, the price of Canadian products would have had to increase by 15 percent of the amount of the crude price increase (Document # 89982).¹⁶⁷ Since this was below the estimate of the amount by which Imperial's Marketing Department felt it could increase prices, the net gain to Imperial of a crude price increase necessary to restrict exports was estimated at between \$2.5 and \$5.5 million per year after tax. However, one major uncertainty existed — the extent to which higher domestic prices would increase the flow of product across the National Oil Policy Line. Imperial estimated that if the flow increased by 20 MB/D of crude equivalent over the 45 MB/D (excluding heavy fuel oil) which had flowed across the National Oil Policy Line in 1968, the effect on marketing would be to decrease profits by \$2.0 million after tax (Document # 89984-5).¹⁶⁸ In this case, the possibility existed that no increase in profits would result from a crude price increase.

The possibility of increased flows across the National Oil Policy Line had become acute because of the size of the differential between Canadian crude costs and the landed price of foreign crude in eastern Canada. According to Imperial, the laid-down cost in Ontario of Canadian crude was \$3.10 (U.S.) per barrel while Middle Eastern crude could be landed in Montreal at \$2.43 (U.S.)—with a quality advantage in Montreal in favour of Eastern Hemisphere crudes (Document # 101540).¹⁶⁹ The estimate of the difference made by Imperial is almost identical to that made by Texaco. In 1970, the difference between 35° Redwater at Toronto and 34° Light Arabian at Montreal was estimated by Texaco to have been about 65 cents per barrel¹ (Document # 48786).¹⁷¹

TABLE 27

EFFECT OF 25¢/BBL. GENERAL CRUDE PRICE
INCREASE ON CANADIAN MAJORS, 1969
(MMS/Year Profit (Loss) A.T. Excluding Marketing)

	<i>Canadian Operations</i>		<i>Net Canadian</i>	<i>Net Including U.S. Refining</i>
	<i>Producing¹</i>	<i>Refining²</i>		
Imperial	8.7	(10.3)	(1.6)	(1.6)
Gulf	4.3	(5.7)	(1.4)	(2.1)
Shell	4.0	(5.2)	(1.2)	(3.0)
Texaco	3.8	(2.7)	1.1	(1.6)
Sun	2.5	(1.5)	1.0	0.5
Pacific	1.5	(0.3)	1.2	1.2
B.P.	1.2	(1.5)	(0.3)	(0.3)
S.O.B.C.	2.7	(1.0)	1.7	1.7
Mobil	4.3		4.3	0.8

Notes: 1. Producing profits are based on 1968 net production of crude and equivalent with an adjustment made to Sun and Shell for the estimated 1969 G.C.O.S. production of 40 MB/D. Income tax is assumed to be 43 percent.

2. Canadian and U.S. refining debits are based on first half, 1968 crude running.

Source: Document # 89995, Imperial ¹⁷²

The differential at this time between Canadian and U.S. crudes in American markets remained relatively stable. As of April, 1970, the crude marketing section of Imperial observed that Canadian crudes enjoyed an advantage of 30 to 40 cents per barrel in Puget Sound and Chicago (Document # 101541).¹⁷³ Canadian crude actually laid down in Chicago at 65 cents per

1. Texaco's estimate assumed a 30 cents per barrel discount off Arabian posted prices and a WS-45 per cent marine freight rate (Document # 48784).¹⁷⁰

barrel less than Southern Louisiana crude (Document # 101538),¹⁷⁴ but other factors — quota debits, pipe line interest, producing credits — reduced this to about 35 cents per barrel. In late 1970, another round of price increases began in the United States (Document # 37608-10).¹⁷⁵ By early 1971, the Canadian price advantage as calculated by Interprovincial Pipe Line still stood at 35 to 40 cents per barrel over West Texas Sweet and Louisiana Delta crude in Chicago (Document # 4983).¹⁷⁶

That the Canadian advantage over United States crudes did not widen appreciably in 1969 and 1970 was due to the appreciation of the Canadian relative to the American dollar. The upward revaluation of the Canadian dollar served to increase Canadian prices in American markets as the following excerpt indicates:

"PRICES

Canadian crude prices, although not competitive in the world market, characteristically have been substantially below competition in some U.S. markets. However, this competitive differential has recently been narrowed significantly, as a result of the revaluation of the Canadian dollar from 92.5 U.S. cents to the current level of 97 U.S. cents. For U.S. purchasers, this is equivalent to an increase in the posted price of 42° API crude of about 14 cents per barrel including proportionate increases in transportation costs. The following table illustrates a comparison of the delivered cost of Canadian versus Gulf Coast crude in the Chicago market before and after the change in exchange ratios.

	<i>Delivered to Chicago (\$/bbl.)</i>		
	<i>Gulf Coast (30° API)</i>	<i>Canadian¹ (42° API)</i>	<i>Advantage of Canadian Crude</i>
Previous Exch. Ratio (0.925)	3.60	3.25	.35
Current Ratio (0.97)	<u>3.60</u>	<u>3.39</u>	<u>.21</u>
Change Due to Upward Valuation of Canadian \$	—	.14	.14

(1) Includes quota penalty of 4 cents per barrel."

(Document # 13472, Undated, Hudson's Bay Oil and Gas)¹⁷⁷

The course of the advantage enjoyed by Canadian crude from 1969 to 1972 is depicted below in Table 28. It is evident that the gap between Canadian and U.S. prices during 1969 and 1971 narrowed partially because of the appreciation of Canadian currency relative to American.

While the appreciation of the Canadian dollar brought the landed price of Canadian crude closer to U.S. prices in American markets, it had the opposite effect on the relative price of Canadian and foreign crudes in eastern domestic markets. However, with the implementation in 1970 of the section of

TABLE 28

CANADIAN PRICE DIFFERENTIAL WITH AMERICAN CRUDE AT CHICAGO, 1969-72
(U.S. \$ per barrel)

<i>Price Calculation</i>	<i>1969</i>	<i>1970</i>	<i>1971</i>	<i>May 1972</i>
37° Alberta crude at Edmonton	2.55 ¹	2.64 ²	3.00 ³	3.01 ³
IPPL Edmonton/Chicago	0.44	0.45	0.45	0.44
U.S. import duty	0.11	0.11	0.11	0.11
Price delivered Chicago (A)	3.10	3.20	3.56	3.56
31° Louisiana crude at wellhead	3.27	3.35	3.57	3.57
Gathering charges	0.05	0.05	0.05	0.05
Capline tariff	0.26	0.26	0.26	0.26
Price delivered Chicago (B)	3.58	3.66	3.88	3.88
2¢ per degree gravity adjust. to 37°	0.12	0.12	0.12	0.12
37° crude equivalent (C)	3.70	3.78	4.00	4.00
Canada/U.S. differential				
— without gravity adjust.	0.48	0.46	0.32	0.32
— with gravity adjust.	0.60	0.58	0.44	0.44

Notes: 1. Cdn. \$2.75 — 1.08 (currency conversion)

2. Cdn. \$2.75 — 1.04 (" ")

3. Assumes par for currency conversion.

Source: Document # 21245, Shell ¹⁷⁸

the National Energy Board Act that permitted detailed regulation of imports, the National Energy Board implemented a products licensing system that reduced the effect of offshore competition.

At the same time, foreign prices began to firm as OPEC began to exercise its new-found power. The difference between laid-down costs of crude at Montreal and Toronto began to narrow over the same period as foreign markets felt the impact of the first successful attempt by OPEC to raise crude prices. In 1969/70, 34° Arabian Light laid into Montreal at \$2.30 U.S.; 39° Western Canadian at Toronto was \$3.35 Cdn. By 1971, the two were \$3.00 and \$3.60 respectively (Document # 114736).¹⁷⁹ The difference between the two was, however, still substantial.

As a result of both U.S. price increases and foreign price increases, the price of domestic Canadian crude was increased by 25 cents per barrel in December of 1970. In the following two years, the differential between Canadian and U.S. crude at Chicago remained relatively constant. Shell calculated that the gross differential between 37° Interprovincial Mixed Blend and 31° Louisiana NLS crude at Chicago was 35 cents in 1970, 32 cents in 1971, and 28 cents in 1972 (Document # 28072).¹⁸⁰

It has already been noted that the majors, as early as 1966, were planning for the period in the early nineteen seventies when American production would start to decline. In this situation it was expected that Canadian prices would equate with United States prices. In 1971, long range forecasts were being made by Shell that Canadian crude oil, then underpriced in the U.S. market by 35 cents per barrel in Chicago,¹ would eventually equate with the delivered price of Louisiana crude in this market (Document # 21293).¹⁸²

In April of 1972, Imperial's Crude and Light Hydrocarbons Sales Department prepared recommendations for a crude price increase of at least 8 cents per barrel (Documents # 113661-2).¹⁸³ One objective was to move Canadian crude prices to parity with United States domestic crudes at Chicago—"coincident with the arrival of free access to U.S. export markets for Canadian crude" (Document # 113665).¹⁸⁴ The Sales Department estimated that with "a 15¢/B refiner advantage minimum over U.S. domestic marginal crude (34° API South Louisiana)" (Document # 113661),¹⁸⁵ no sales would be lost in this market. Puget Sound was recognized as being somewhat different — as being the key to the desirability of a price increase. Canadian crude was less competitive in this area and a loss of up to 30 MB/D was envisaged (Document # 113662).¹⁸⁶ However, as long as the total loss did not exceed 40 MB/D, Imperial stood to see its profits increased. This Imperial analysis was based on the assumption that Imperial could fully recover the crude cost increase by raising Canadian product prices (Document # 113664).¹⁸⁷

By the end of 1972, a decision was made to bring Canadian prices more closely in line with United States prices and Canadian wellhead prices were increased:

"Canadian crude prices were recently increased by 30¢/bbl, 10¢/bbl in November 1972 and 20¢/bbl in January 1973. This was the first increase in Canadian crude price independent of U.S. crude price increase. One of the primary purposes of the increase was to bring Canadian prices closer to American prices. Prior to November 1972, Canadian prices were approximately 40¢/bbl less than U.S. crude, at Chicago. This differential had been required previously as a marketing incentive, but it became completely unwarranted as a shortage of crude developed in the U.S."

(Document # 31102, April 13, 1973, Shell)¹⁸⁸

Thus the long period during which Canadian crude was priced at a discount relative to United States crude had ended. With no excess pipeline capacity and with demand shortages, Canadian crude along with offshore imports became the marginal supply source in the American market. After the November Canadian price increase, the differential between Canadian crude and Louisiana crude at

1. Shell (Document # 21241)¹⁸¹ reports that an import ticket for Canadian crude into District II was worth about 30 cents as of May 11, 1970.

Chicago fell to only 25 cents per barrel (Documents # 21210, # 21214).^{189, 190} By mid-1973 the Vice-President of Transportation and Supplies for Shell predicted that Canadian crude prices would be set on the basis of landed Iranian costs at Chicago:

"The new U.S. oil import policy allows unlimited imports of offshore crudes (on payment of the appropriate licence fee), i.e., officially recognises overseas oil as the 'balancing oil' in the U.S. system. This is a very significant development from a pricing standpoint, as it means that, unless regulated by government control, U.S. and Canadian crude prices will now be determined by overseas oil supply and price premises."

(Document # 21210, May 25, 1973, Shell)¹⁹¹

With foreign crude predicted to provide the marginal source, the majors recognized it would determine the U.S. price level. Equating Canadian prices with prices in American markets would, therefore, equate Canadian and foreign prices. The difference in the two prices faced by the Canadian crude production sector — one in Ontario from foreign landed crude costs, one in the United States higher than foreign landed crude costs — was fast disappearing.

That Canadian prices would equate with foreign crude delivered at Chicago was also recognized by Imperial. While Shell noted that Canadian crude laid into Chicago at 45 cents per barrel less than Middle East crude (Document # 21210),¹⁹² Imperial observed a 30 to 50 cents per barrel differential (Document # 103396).¹⁹³ Imperial also commented that "*Canadian Crude Pricing Both Export and Domestic Selling Prices Should Reflect International Values*" (Document # 103397).¹⁹⁴

Indicative of the new basis of crude pricing was Imperial's approach to the pricing base for Canadian crude. By 1973, the Crude and Light Hydrocarbon Sales Department compared the laid-down crude costs of sweet mixed blend not to U.S. crudes but to Light Arabian crude at Chicago (Document # 125116).¹⁹⁵ Using this as a standard for comparison, Canadian crude was underpriced by between 34 and 48 cents per barrel (Document # 125116).¹⁹⁶ On the basis of forecast prices of Middle East crude, Imperial's Sales Department concluded "that a further strengthening of 30¢/B in Canadian price would be indicated..." (Document # 125114).¹⁹⁷ Shortly thereafter, the Canadian government stepped in to prevent Canadian domestic prices from equating with international values.

In summary, Imperial's pricing policy during the nineteen sixties was succinctly stated as follows:

"Up until 1972 both the U.S. and offshore sources had some spare crude capacity and hence Canadian crude pricing was set by the need to meet U.S. crude competition in the Chicago area and offshore crude competition in the Puget Sound area. The Canadian National Oil Policy and the N.O.P. line tended to protect Canadian crude prices in Ontario against offshore crude competition via Montreal.

"For practical purposes, in the above pricing environment, offshore crude competition in the Puget Sound area tended to be controlling and set the posted prices for Canadian crude."

(Document # 117361, July 19, 1973, Imperial)¹⁹⁸

E. *An Evaluation of Industry Performance in Crude Markets*

The National Oil Policy altered the environment that shaped the decisions of the producing industry. As competition caused world market prices to decrease from their post-war high between 1959 and 1961, Canadian crude had to compete without protection with foreign crude in Ontario. Canadian crude prices could not be set at inordinately high levels without the loss of Canadian sales. The National Oil Policy changed this. By drawing a line between Ontario and Quebec, the policy reduced the area where the two crudes competed. The policy would, therefore, have had the effect of making the demand curve faced by the domestic producing industry less elastic. At least in Ontario, the likelihood of losing markets to imports of foreign crude was reduced. Whether or not the industry used its market power to exploit this change is the issue that must be answered.

The National Oil Policy essentially divided Canada into two spheres. This division corresponded to the interests of the multinationals as of 1961; however, world events were to make the 1961 division untenable without a government intervention. As the volume on international linkages demonstrates, world petroleum prices had begun to drop from 1958. This continued throughout the nineteen sixties. Initially, the Canadian crude price structure was forced to recognize offshore competition. In 1959, the delivered price of Alberta crude in Ontario was reduced by 25 cents per barrel in response to a decrease in Middle East and Venezuelan posted prices. However, this reduction in Canadian crude prices threatened to be only temporarily successful. While the posted price of crude in the Middle East was generally not reduced further, actual transaction prices continued to fall during the nineteen sixties. This inevitably placed pressure on prices in those areas that continued to permit foreign oil access to their markets.

Evidence that the Canadian producing industry exploited the opportunity presented to it by the National Oil Policy need not be found in any upward movement of Canadian prices. The existence of market imperfections can be examined by comparing Canadian and world market crude prices. However, while it is this differential between crude prices that serves to measure imperfect performance, the impact of excessive domestic crude prices on other sectors cannot be ignored. If domestic crude prices were kept above world prices, two quite different effects might have developed in the retail markets west of the National Oil Policy Line. In areas like the Canadian Prairie provinces where imports of product were not available, high domestic crude prices could have

served to keep product prices above world levels. In areas like Ontario, where offshore product (or product refined from offshore crude) was available, Canadian product prices may have been influenced by world prices — though not necessarily equated to these prices. In these areas, to the extent that high domestic crude prices were not completely reflected in product prices, then the refining and marketing margin would have been reduced. This would either have made entry more difficult or would have resulted in exit by the smaller refineries who could not have subsidized their operations from profits earned on crude production. The consequences of this squeeze are more important in the long run rather than in the short run since consumer prices would at least have been reduced — although not necessarily to the competitive levels found in world markets. In the long run, the higher concentration levels engendered by these developments would have increased the possibility of coordination of refining and marketing activity. In turn, this would have meant there would have been less competition than if the fringe firms had not been eliminated.

The critical question is whether the industry exploited its market power after the implementation of the National Oil Policy. With imports of crude and of products into Ontario severely restricted, the elasticity of demand for Canadian crude would have been substantially decreased. With a falling price in world crude markets during the nineteen sixties, deteriorating performance in domestic markets would have been manifested by a widening differential between Canadian and world market crude prices.

This is what happened. The price of Canadian crude, after an initial increase immediately following the implementation of the National Oil Policy in 1961, was held constant until December 15, 1970 (see Table 1). In light of the continuing decline in world prices that occurred, this resulted in a widening differential between the domestic crude price and foreign crude prices.

Table 29 provides one estimate of the effects of the industry's exploitation of the protection afforded it by the National Oil Policy. Taken from a National Energy Board study, it compares the average cost of crude at an Ontario refinery using domestic crude and a Quebec refinery using imported crude. Unfortunately, the differential reported in Table 29 understates the true differential. Many of the Canadian subsidiaries of the multinational petroleum companies paid 'unrealistically' high prices for foreign crude. Therefore the crude costs reported for Quebec are above world or arm's-length prices and the difference in crude prices reported in Table 29 is biased downwards. Nevertheless it provides a lower bound on the difference. As Table 29 indicates, the industry managed to increase the spread of the domestic price of crude over foreign crude by some 46 cents per barrel between 1962 and 1970.

As indicated above, the use of actual landed costs reported in Table 29 is incorrect and biases the results. The extent of the bias can be derived from a comparison done by the National Energy Board of the difference between the

TABLE 29
A COMPARISON OF CRUDE PRICES IN ONTARIO AND QUEBEC
 (\$ per barrel)

	<i>Average Crudes Cost at Refinery in Ontario¹</i>	<i>Crude Cost at Refinery in Quebec¹</i>	<i>Differential Using 15¢ Transport Cost¹</i>	<i>Differential Using 25¢ Transport Cost</i>
1962	3.06	2.84	.07	-.03
1963	3.14	2.80	.19	.09
1964	3.13	2.74	.24	.14
1965	3.14	2.63	.36	.26
1966	3.12	2.57	.40	.30
1967	3.14	2.55	.44	.34
1968	3.13	2.59	.39	.29
1969	3.14	2.52	.47	.37
1970	3.13	2.45	.53	.43
1971	3.45	2.83	.47	.37
1972	3.46 ²	3.12 ²	.19	.09

Source: 1. From, National Energy Board, "Crude Oil Price History at Ontario and Quebec Refineries";¹⁹⁹ Document # 57366, Texaco.²⁰⁰

2. F. J. Anderson, "Price Formation in the Canadian Crude Oil Sector", Discussion Paper No. 74-03, Dept. of Economics, Lakehead University, p. 8.²⁰¹

cost of domestic crude in British Columbia refineries and estimated foreign crude costs. Table 30 reports these estimates. In 1967, these estimates yielded a domestic disadvantage versus Middle East crude of 16 cents per barrel. Yet, Imperial indicates that, in Vancouver, domestic crude had a 63 cents per barrel disadvantage versus 35° Arabian Light in 1967 (Document # 112281).²⁰²

Evidence suggests the increase in the gap between domestic and foreign crude prices was much larger during this period. In 1960, Imperial reported that "Canadian crude would have to take a 30-35¢/bbl. cut in price at the wellhead to compete with foreign sources of supply in Montreal" (Document # 111959).²⁰⁴ Another Imperial document noted the disadvantage of Canadian crude in Montreal at this time was "at least" 40 cents per barrel (Document # 117957).²⁰⁵ By 1965, Gulf estimated the difference in Montreal as 45 to 60 cents per barrel (Document # 59907).²⁰⁶ By 1967, Imperial estimated that the price difference between 40° Canadian Mixed Blend and 35° Arabian, with corrections for relative quality, had reached 78 cents per barrel (Document # 112278).²⁰⁷ In 1968, comparing the same two crudes, Imperial calculated the difference as 75 cents per barrel (Document # 91723).²⁰⁸ In both cases the foreign price is that which Imperial was paying and not the arm's-length price. In 1969, Imperial noted that Canadian crude would cost \$1.10 per barrel more than foreign crude in Montreal (Document # 117084).²⁰⁹ In the same year, Gulf calculated the difference in price of a 38° gravity Middle East or Venezuelan crude and 38° Alberta mixed blend crude at Montreal as 93 cents (Cdn.) per barrel (Document # 59869).²¹⁰

TABLE 30
COST OF DOMESTIC AS OPPOSED TO MIDDLE EAST CRUDE
OIL AT BRITISH COLUMBIA REFINERIES, 1962-71
 (\$ per barrel)

<i>Year</i>	<i>Domestic¹</i>	<i>Estimated Middle East</i>	<i>Difference Domestic — Foreign²</i>
1962	2.98	3.25	(.27)
1963	3.01	3.20	(.19)
1964	3.02	2.93	.09
1965	3.02	2.86	.16
1966	3.02	2.63	.39
1967	3.03	2.87	.16
1968	2.98	2.70	.28
1969	2.99	2.47	.52
1970	3.05	2.71	.34
1971	3.30	3.01	.29

Notes: 1. Data from Statistics Canada.

2. Distance from Vancouver to inland refineries and quality differences ignored.

Source: Document # 57362, Texaco²⁰³

Comparisons based on Toronto correspond closely to those for Montreal. In 1969, Imperial noted that "Western crude has required the protection of the N.E.B. [National Energy Board] to find a market and overcome a disadvantage estimated at 90¢/B. in Toronto" (Document # 99799).²¹¹ Hudson's Bay Oil and Gas, in 1969, compared costs of comparable crudes in Toronto and found Canadian crudes were overpriced by some 94 cents per barrel (Documents # 15954-5).²¹²

The National Energy Board's method of using the reported foreign crude costs of the majors (Table 29) yielded a change in the price differential of some 46 cents between 1962 and 1970. Using Imperial's 1960 and 1969 estimates of 30-35 cents and \$1.10 per barrel respectively for the price difference in Montreal yields a change in the differential of between 75 and 80 cents per barrel. The difficulty in evaluating whether the first estimate (46 cents per barrel) or the second (80 to 85 cents per barrel) is closer to the figure that represents the degree to which the industry exploited its market power arises because of the unrealism of the transfer prices used by the multinational petroleum companies to price crude imported into Canada.¹

One way to overcome this problem is to use the arm's-length prices for crude reported in the volume on international linkages. Two estimates are available of what the 'competitive' level of crude costs would have been in

1. See the volume on international linkages.

Quebec if the subsidiaries of multinationals which were importing crude into Canada had been paying competitive prices rather than 'unrealistically' high transfer costs to their parents. The first can be derived from estimates of third-party transactions in the crude market. The second can be derived from Adelman's estimates of realizations from competitive European markets netted back to the Middle East of deducting refining and transportation charges.¹ The landed Canadian cost derived from both series is presented in Appendix A, Table A-1. The difference between these 'competitive' landed costs and the average cost of crude at Ontario refineries after deducting a 25 cents per barrel transportation charge increased between 1962 and 1969.² For the 'competitive' landed cost derived from transactions in the crude market, the difference increased from 48 cents (Cdn.) in 1962 to 88 cents (Cdn.) per barrel in 1969. For the 'competitive' landed cost derived from Adelman's European product market series, the difference increased from 24 cents (Cdn.) in 1962 to 81 cents (Cdn.) per barrel in 1969.

If the effect of the National Oil Policy is judged simply by the increase in the difference between the crude cost in Ontario as opposed to Quebec, then it can be seen to have been 40 cents (Cdn.) per barrel or 57 cents (Cdn.) per barrel depending upon the crude price used. However, there is some evidence to suggest that the effect of the Policy should be adjudged as the entire difference between Ontario crude costs and 'competitive' landed costs. The National Oil Policy, in that it reduced the Canadian market available for imported crude, would have reduced the incentive for entry in this market. This in turn would have placed less pressure on the multinationals to reduce their reported crude costs to equal world 'competitive' prices.

Prior to the implementation of the Policy, the difference between reported landed costs and competitive landed costs was declining for Texaco.³ After the Policy came in effect, it increased once again. If one concludes from this that without the National Oil Policy, Canadian crude costs in Ontario would have equated not with reported crude costs but with 'competitive' crude costs, then the effect of the National Oil Policy can be estimated as 88 cents (Cdn.) or 81 cents (Cdn.) per barrel by 1969, depending upon the estimates of 'competitive' crude costs chosen.

The various methods outlined above yield different estimates of the cost of the National Oil Policy — 46 cents (Cdn.), 75 to 80 cents, 40 to 57 cents (Cdn.) or 81 to 88 cents (Cdn.). Whichever measure is chosen, the existence of detriment is not in doubt. An Imperial document reached the same conclusion without attaching estimates to the effect:

1. Adelman, *The World Petroleum Market*, pp. 183-190.

2. See Appendix A, Table A-2.

3. See Appendix A, Table A-4.

"... the producing industry is vulnerable to the accusation that they are hiding behind the price protection of the N.O.P. line in order to obtain inordinate profits."

(Document # 99799, March 6, 1969, Imperial)²¹³

Therefore the pricing policy followed by the Canadian producing sector resulted in the exploitation of the domestic market served by Canadian crude.

F. *The Performance of Product Markets in the Presence of the National Oil Policy*

An evaluation of the performance of the petroleum industry requires more than just an analysis of whether Canadian crude prices were set at high levels. The full impact of the division of Canada into two supply areas — foreign and domestic — extended beyond crude markets to downstream product markets. Since the National Oil Policy's success in reducing crude imports across the National Oil Policy Line was greater than in reducing product imports, the course of the product market could have differed from that of the crude market. Nevertheless, Shell recognized that the National Oil Policy line provided "price protection" to Ontario markets (Document # 27937).²¹⁴ The degree to which the industry exploited its protected position in the product market is investigated below.

Before the performance of the various Canadian regional markets can be analyzed, an appropriate standard must be chosen and the results expected from a competitive market specified. One measure that might be used for comparisons is the profitability of different markets. Unfortunately, consistent time series of rates of return for the entire downstream petroleum products function are not available. Even if they were, such a series for eastern Canada would suffer from the fact that crude transfer prices to Canadian subsidiaries of multinational petroleum companies were, in many cases, 'unrealistically' high. This would bias the rates of return in eastern Canada downward. In the absence of acceptable profitability figures, price data must be primarily relied upon. Several series are available; each is different and each requires a different interpretation.

On the one hand, there are wholesale price series for individual petroleum products. In order to use these series for the purpose of comparing prices, differences in the refinery yields in different areas must be taken into account. An area such as the Maritimes that has a higher yield of middle distillate, which sells for lower prices than gasoline, generally must charge higher prices for gasoline in order to achieve the same net return per barrel of refined crude. Problems occasioned by differences in yield can be overcome in two ways. First, providing there are universal pricing standards for some products, the relative cost of the remaining products can be calculated. Because both heavy fuel oils and middle distillates were widely traded, the import price

of these products provides the base price needed for this calculation — as the petroleum companies themselves sometimes recognized. Secondly, the problem of differing yields can be solved by comparing the aggregate realization received on all products. The industry reports value of shipments from the refinery and this series is meant to reflect the performance of the wholesale markets. This too will be used to compare the performance of each geographic market.

In addition to wholesale prices, retail prices can be used for a comparison of the performance of regional markets. However, the problem with using retail prices for a comparison is that there may be differences in costs that might account for higher prices in one market as compared to another. For instance, distribution costs or provincial taxes may be higher in some areas than others. This problem can be handled by using what are referred to as netbacks. Netbacks are average retail realizations after deduction of wholesale and retail costs. In a well functioning market, these are comparable to wholesale prices — as should be the concept of the value of refinery shipments if it was properly reported. While each of these measures differs somewhat, an analysis using each produces similar conclusions — that at least part of the crude differential between the domestic and offshore markets was passed on to the product markets.

Between 1960 and 1969, the difference between laid-down crude costs in Montreal and Toronto increased from some 30-35 cents per barrel to over \$1.00 per barrel. To translate this to product costs, a method of allocating this across products is required. One way this can be done is to use costing routines adopted by the industry. Texaco, for instance, used the transfer prices reported in Table 31 for Montreal and Toronto. Using its costing routine, regular gasoline should have cost about 2.2 cents per gallon more as a result of a 63 cents per barrel difference in crude oil prices between the two cities.¹

TABLE 31

TEXACO REFINERY TRANSFER PRICES, MONTREAL AND TORONTO, 1966
(\$ per barrel)

<i>Price</i>	<i>Montreal Budget</i>	<i>Toronto Budget</i>	<i>Difference</i>
Crude Price	2.6740	3.3000	.6260
Price: Fire Chief Gas	0.1015	0.1230	.0215
Diesel Chief	0.1035	0.1210	.0175
Furnace Oil	0.0940	0.1140	.0200
Fuel Oil 6-C	0.0610	0.0730	.0120

Source: Document # 55135, Texaco²¹⁶

1.

The Texaco costing method spreads the increased crude costs across all the products reported. Alternately, it could be assumed that import product prices prevailed in the wholesale market for all but gasoline in Ontario and the gasoline market, therefore, was used to recoup the total difference. Table 32 contains the calculations necessary to estimate the effect of higher crude costs on gasoline prices using this assumption. Column (A) contains Imperial's interdepartmental product values and the product yield distribution used in a 1960 study. These numbers yield a return of 9.5 per cent — what was considered acceptable for a downstream refining investment. Column (B) contains the prices of imports of each grade of product laid into Toronto. In column (C), it is assumed that import product prices prevailed for middle distillate and residual, but total realizations from all products were large enough to yield the rate of return that was used to establish Imperial's interdepartmental transfer values in column (A)—\$4.17 per barrel. In order to accomplish this, pooled (premium plus regular) gasoline would have had to realize \$5.93 per barrel — an increase of 69 cents per barrel over the average import prices of gasoline listed in column (B). Therefore, in order to increase total realizations by 31 cents per barrel above what would have been obtained if Canadian prices had equated to import product prices (\$3.86—column (B)) to a level that yielded Imperial a normal rate of return (\$4.17 per barrel — column (A)) while paying inflated prices for Canadian crude, gasoline prices would have had to have been 69 cents per barrel higher.

Imperial's data indicates that, if the difference of 31 cents per barrel between import realizations at Toronto and the total needed for a 9.5 per cent rate of return using Canadian crude costs was extracted entirely from the gasoline market, then gasoline prices would have had to have been some 69 cents per barrel higher than import realizations. If import product prices to Ontario were therefore readily available, this is the difference between domestic product realizations and import product prices in Ontario that would indicate that higher domestic crude prices had been passed through to the domestic gasoline market — assuming only a 31 cents per barrel differential at Toronto. However, it is product prices in Toronto and Montreal that are available for comparison. Since transportation costs from Montreal to Toronto were between 25 and 40 cents per barrel, import realizations should have been that much lower in Quebec (compared to the figures listed for Toronto in Table 32) and so too would gasoline prices in Quebec if they had reflected import prices. Therefore, a 31 cents per barrel increase in total domestic realizations in Toronto over import product prices at that point is equivalent to between a 56 cents and 71 cents per barrel (adding estimated transport costs) increase over total import realizations at Montreal. Imperial's data indicates that should gasoline in Toronto have borne the brunt of the price distortions, gasoline prices would have been 69 cents per barrel higher than import realizations in Toronto

or some 94 cents to \$1.09 per barrel higher than in Montreal (adding estimated transport costs and assuming import parity in Montreal). Therefore, if total realizations had differed by between 56 cents to 71 cents per barrel, gasoline realizations would have been 94 cents to \$1.09 per barrel (or 2.4 cents to 3.1 cents per gallon)¹ higher to recover the higher crude costs. This compares to the costing method used by Texaco, which translated a 63 cents per barrel difference between the two cities to about a 77 cents per barrel (2.2 cents per gallon)¹ differential for gasoline. Evidence has already been presented to show that by the mid-nineteen sixties the crude cost differential had reached these levels. The extent to which these crude costs were passed on to consumers is the focus of subsequent paragraphs.

TABLE 32

CALCULATION OF THE POSSIBLE EFFECT OF HIGHER
CRUDE COSTS IN ONTARIO ON GASOLINE PRICES, 1960

			Case A	Case B	Case C
			\$/bbl.	\$/bbl.	\$/bbl.
Realization					
Grade 1 gasoline	—	9.8%	5.85	5.31	5.93
				5.24	
Grade 2 gasoline	—	29.5%	5.64	5.09	
Mid. Dist.	—	39.3%	4.03	3.80	3.80
Residual	—	15.3%	2.26	2.26	2.26
Ref. fuel	—	5.5%	—	—	—
Loss	—	.6%	—	—	—
		100.0%	4.17	3.86	4.17
Cost of prod.					
Crude			3.10	3.10	3.10
Manuf.			.65	.65	.65
			3.75	3.75	3.75
Margin			.42	.11	.42
% Return			9.5	2.5	

Notes: 1. Case A represents Imperial Product Values.

2. Case B represents Import Values.

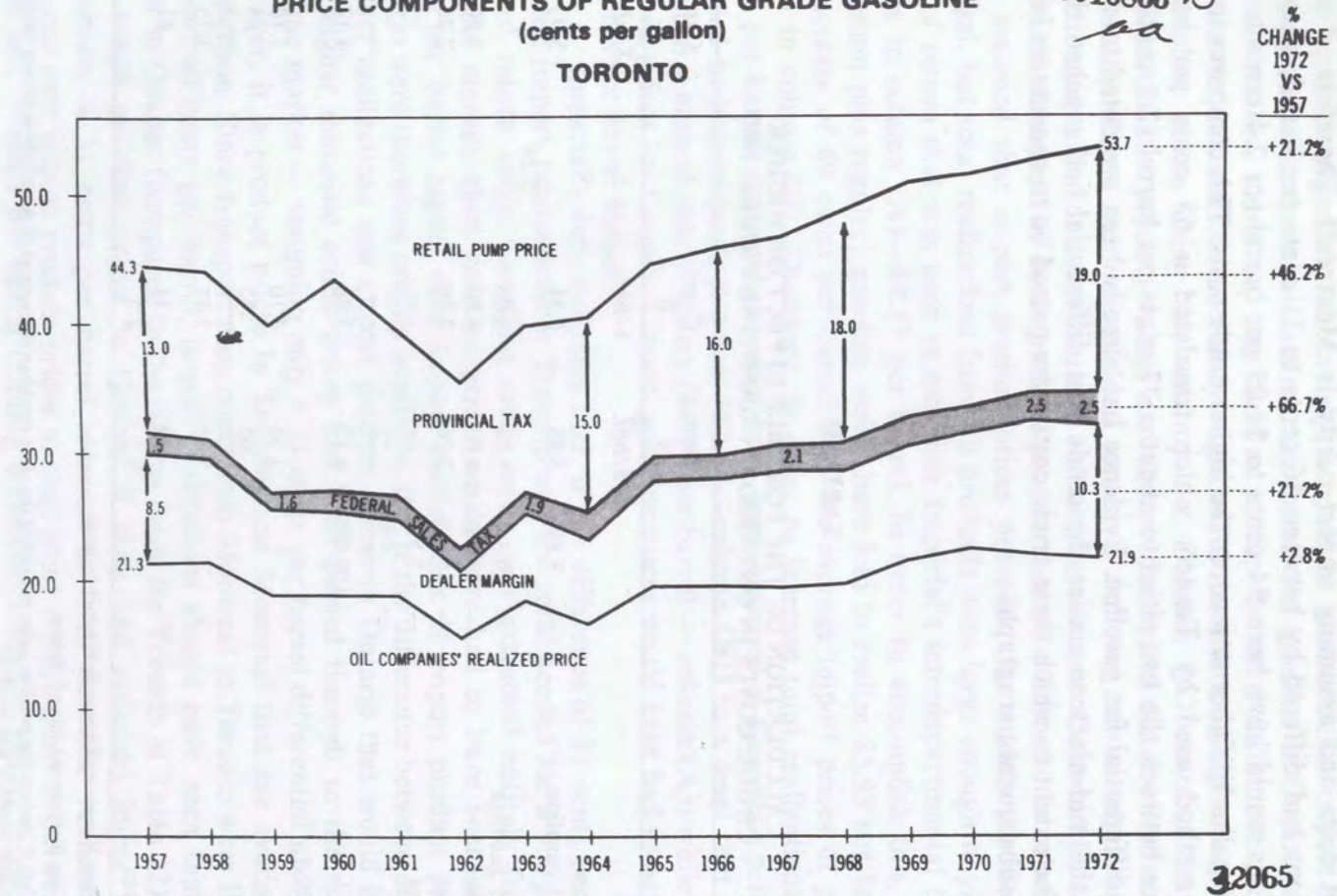
3. Case C derives the gasoline price by forcing the same total barrel return as in A, assuming import values for middle distillate and residual.

Source: Columns A and B — Document # 117872, Imperial²¹⁷

1. This was 35 gallons per barrel conversion factor.

FIGURE 7
PRICE COMPONENTS OF REGULAR GRADE GASOLINE
(cents per gallon)
TORONTO

ACJ010866 B
aa

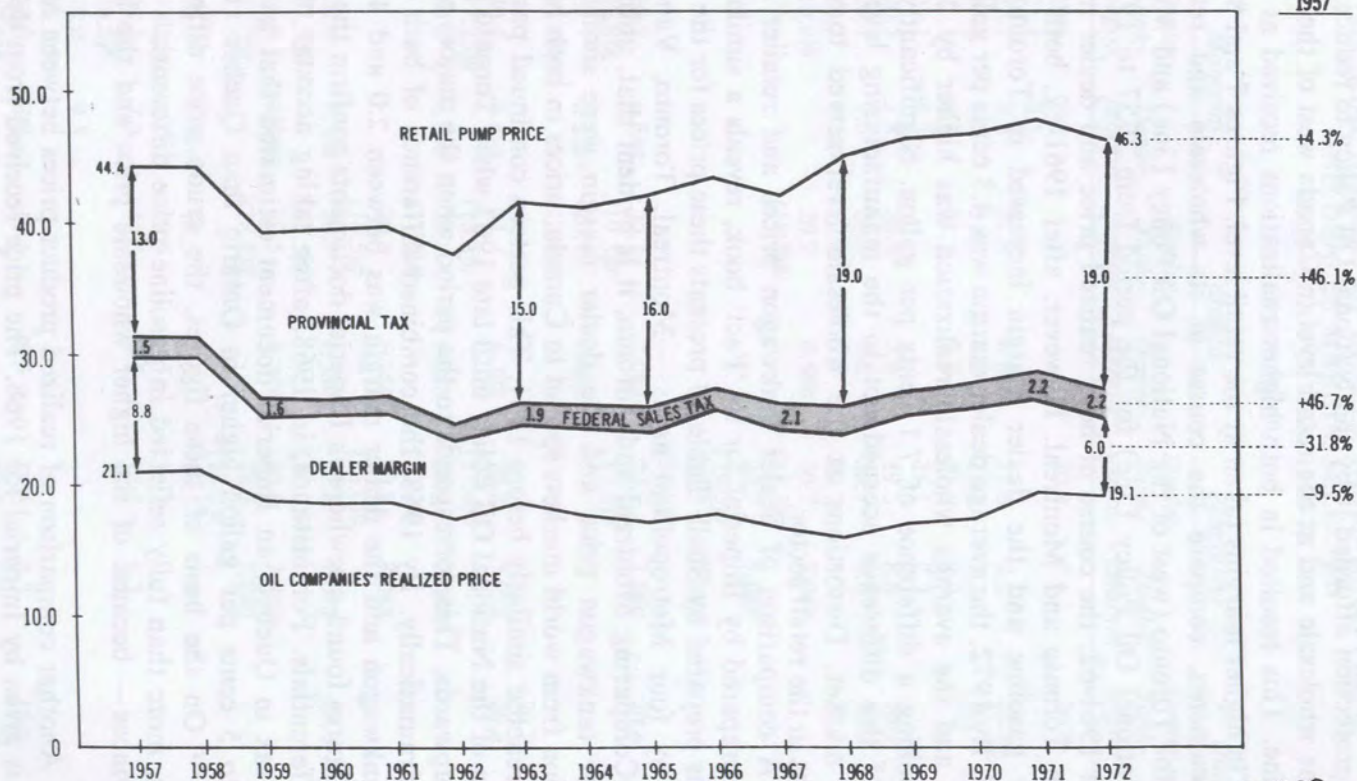


SOURCES: Retail Pump Prices are industry averages compiled by Statistics Canada as of approximately December 1 of the year indicated.
Provincial and Federal Taxes as established by the respective governments.
Dealer Margins are industry averages estimated by Shell.

(Reproduction of Document # 32065
'Figure 7' added)

32065

FIGURE 8
PRICE COMPONENTS OF REGULAR GRADE GASOLINE
(cents per gallon)
MONTREAL



SOURCES: Retail Pump Prices are industry averages compiled by Statistics Canada as of approximately December 1 of the year indicated.
Provincial and Federal Taxes as established by the respective governments.
Dealer Margins are industry averages estimated by Shell.

32066

(Reproduction of Document # 32066
'Figure 8' added)

A comparison of realizations on gasoline received by the industry and of dealer margins between Montreal and Toronto indicates that the industry used the protection afforded it by the National Oil Policy to reduce competition both at the wholesale and at the retail level in Canada west of the National Oil Policy Line. This resulted in both higher realizations received at the refinery level and in higher margins taken at the retail level. Figures 7 and 8, taken from Shell documents, compare the course of its wholesale and retail gasoline margins for Toronto (west of the National Oil Policy Line) and Montreal (east of the National Oil Policy Line) for the period from 1957 to 1972. Between 1957 and 1961-62, the course of both realized price and dealer margins were similar in Toronto and Montreal. However, after 1961-62, both the realized price for gasoline and the dealer margin increased in Toronto relative to Montreal. By 1972, the average dealer margin was 4.3 cents per gallon higher in Toronto, and the average wholesale realization was higher by 2.8 cents per gallon making a difference of 7.1 cents per gallon. Significantly, the major portion of this difference accrued not to the manufacturing level but to the retailing market. Distortions at the wholesale level served to magnify the distortions in the retail sector.

A comparison of dealer tankwagon prices and retailer margins for gasoline, prepared by Imperial for its 'Fact' book, reveals a similar pattern to the graphs prepared by Shell. Table 33 presents these prices for the period 1956 to 1973 by four Metropolitan areas — Montreal, Toronto, Vancouver, and Halifax. Comparing Montreal and Toronto, it is evident that, until 1961, both the dealer tankwagon price and the dealer margin were similar. As price competition from world markets spread to Canada, prices in both Montreal and Toronto reacted similarly before 1961. This pattern continued past the implementation of the National Oil Policy until late 1963 when Toronto prices began to move upwards. This corresponds to the period when the majors reduced their imports dramatically. By 1968, the combined difference of both the realized dealer tankwagon and the dealer margin was between 2.0 and 4.5 cents per gallon. Figures found elsewhere in Imperial documents confirm the existence of these differentials. For instance, in 1968, after taking account of the higher gasoline tax in Quebec, an Imperial document estimated that gasoline prices were 4 to 5 cents per gallon higher in Ontario than Quebec (Document # 109748).²²² On the basis of these figures, the crude price differential was, therefore, more than fully reflected in gasoline price differentials between the two provinces — because of the higher wholesale price and the larger dealer margins.

Another comparison of realized product prices between Montreal and Toronto is given by Imperial for 1968. The price received from dealers (net of allowances) is given as 3.5 cents per gallon less in Montreal for motor gasoline, 1.6 cents per gallon less for furnace oil and .8 cents per gallon less for industrial

TABLE 33

IMPERIAL HISTORY OF DEALER TANKWAGON PRICE
AND DEALER MARGIN, SELECTED
CANADIAN CITIES, 1956-73
(c per gallon)

	<i>Montreal</i>		<i>Toronto</i>		<i>Vancouver</i>		<i>Halifax</i>	
	<i>Dealer Tank- wagon</i>	<i>Dealer Margin</i>	<i>Dealer Tank- wagon</i>	<i>Dealer Margin</i>	<i>Dealer Tank- wagon</i>	<i>Dealer Margin</i>	<i>Dealer Tank- wagon</i>	<i>Dealer Margin</i>
1956	19.6	8.2			20.9	7.6	20.7	6.0
	21.1	8.5						
1957	22.1	8.5	21.8	8.6	21.6	7.2	22.1	6.0
	21.1	8.5	21.3	8.6	21.1	7.2	20.7	6.0
1958	21.1	8.3	21.3	8.2	21.1	8.0		
	21.1	8.3			21.1	8.3		
1959	20.5	7.8	20.5	7.8	19.5	8.8	20.1	6.0
	20.7	7.6	20.7	7.6	20.7	8.6	20.3	6.0
	20.7	6.5##	12.8	5.5	20.7	8.1	20.3	7.0
	(18.8)#		20.7	6.5##	20.7	7.0##		
			(18.8)#		(17.3)#			
1960					20.7	7.0##		
					(19.3)#			
					20.7	7.0##		
					(18.3)#			
1961	20.7	6.5##	20.7	7.0##	20.7	7.0##	20.4	7.0
	(19.8)#		(19.3)#		(17.3)#			
	20.7	6.25##	20.7	6.8##				
	(19.05)#		(18.6)#					
1962							20.7	7.0
1963	20.4	5.8##	21.4	6.3##	20.8	7.0##	20.4	7.0
	(17.25)#		(16.8)#		(17.4)#			
	20.8	6.5##	20.8	6.5##	20.8	7.0##		
	(17.9)#		(17.9)#		(17.0)#			
			20.8	6.5##	20.8	7.0##		
			(18.5)#		(16.0)#			
1964	20.8	6.5##	20.8	6.5##	20.8	7.0##	18.5	7.0
	(17.5)#		(18.5)#		(17.0)#			
	18.5	6.5##	19.5	6.5##	20.8	7.0##		
	(17.5)#		(18.5)#		18.5	7.0##		
					(18.0)#			
1965	18.5	6.5##	19.5	7.5	18.5	7.5		
	(17.5)#		19.5	8.5				
1966	18.5	7.5	19.5	8.5	18.5	8.5		
	(16.5)*							
	18.0	9.5						
	(16.5)*							
1967	18.0	8.8	19.5	8.3	18.5	8.3	18.5	8.5
	(17.0)*				19.5	9.0		
	18.0	7.8	20.3(19.5)	9.3	19.5	9.3		
	(16.0)*							

TABLE 33 (cont.)

	<i>Montreal</i>		<i>Toronto</i>		<i>Vancouver</i>		<i>Halifax</i>	
	<i>Dealer Tank-wagon</i>	<i>Dealer Margin</i>	<i>Dealer Tank-wagon</i>	<i>Dealer Margin</i>	<i>Dealer Tank-wagon</i>	<i>Dealer Margin</i>	<i>Dealer Tank-wagon</i>	<i>Dealer Margin</i>
1968	18.0 (16.0)*	7.8	19.5 20.3(19.5)	8.3-9.3 8.3	19.5	9.3-10.3	18.5	8.5
1969	18.0 (16.5)* 18.0 (16.5)*	7.8 8.3	19.5 20.9 21.3	8.3 8.9 9.5	19.5 20.2	10.3 10.6	18.5	8.5
1970	18.0 (16.5)* 19.0 (17.3)*	8.3 8.5	21.3 21.3	9.5 10.5	20.2 21.2	10.6 10.6	18.5 19.5	8.5 8.5
1971	22.0 (20.0)*	8.8	22.3 21.8	9.5 10.5	21.2 21.2 21.7	10.6 11.6 11.6	21.8 21.3	8.5 8.5
1972	22.6 (20.6)*	8.8	21.8	10.5			22.2	8.5
1973	23.7 (21.7)* 24.5 (23.5)* 24.4** 26.2	8.8 8.8	22.8 23.7	10.5 10.5	22.8 23.7	11.6 11.6	24.3 24.2 26.0	9.5 9.5 9.5

Notes: * Temporary competitive allowance.

Return to company when dealer is on consignment.

Commission to dealer on consignment.

** 1¢ per gallon allowance.

Source: Document # 116378-81,²¹⁸ # 116387-90,²¹⁹ # 116425-8,²²⁰ # 116369-71,²²¹ Imperial.

TABLE 34

SHELL COMPARISONS OF MONTREAL AND TORONTO
RETAIL GASOLINE PRICES, 1968
(¢ per gallon)

<i>Price</i>	<i>Toronto</i>	<i>Montreal</i>
Realized Market Price	46.9	41.9
Commission	9.3	7.8
Tax (Provincial)	16.0	16.0
Net Realized Price	21.6	18.1

Source: Document # 26206, Shell²²⁵

diesel fuel (Document # 109794).²²³ At the same time the Imperial study noted that gasoline dealer margins in Toronto were also .5 cents per gallon higher (Document # 109795).²²⁴ The total effect of differences in the performance of both wholesale and retail markets was a differential of 4.0 cents per gallon for gasoline between the two cities.

Table 34 gives a similar picture of the difference between Toronto and Montreal gasoline markets as perceived by Shell in 1968. The difference in realized gasoline pump prices was 5 cents per gallon; the difference between the net price realized by the company after deduction of dealer margin and provincial road tax was 3.5 cents per gallon as of 1968.

Between 1968 and 1972, product prices increased substantially more in that area of Canada served by offshore crude than in the domestic orbit. Table 35 indicates the increase in average realized prices was greatest in Montreal and Halifax, least in the Toronto market. Margins, however, still remained highest in those areas served by Canadian crude. Once more, this indicates that the detrimental effects of the lack of competition at the domestic production and refining sectors were passed on and magnified in the marketing sector. In referring to marketing margins in the domestic crude orbit, Gulf noted: "These margins are already too high by comparison with discounters . . ." (Document # 62070).²²⁶ Therefore the data on wholesale prices and dealer margins shows that at least 2 cents per gallon of the crude price differential was passed on to the gasoline product market west of the National Oil Policy Line.

Shell's netback figures for the late nineteen sixties confirm these differences between the market served by offshore crude and domestic crude. Netback is a net realization figure (gross realizations less costs) and for Shell was calculated both before and after an arbitrary capital charge. Table 36

TABLE 35
GULF DEALER MARGINS, 1972 AND INCREASE IN AVERAGE
REALIZATION, 1968-72 BY METROPOLITAN
AREA FOR #2 MOTOR GASOLINE
(\$ per gallon)

<i>City</i>	<i>Increase in Realizations</i>	<i>Dealer Margins</i>
Halifax	.0389	.095
Montreal	.0316	.090
Toronto	.0134	.105
Calgary	.0212	.112
Vancouver	.0243	.116

Source: Document # 62070, Gulf²²⁷

TABLE 36

**SHELL NETBACKS ON POOLED MOGAS BY COMPLEX BEFORE
AND AFTER (IN BRACKETS) CAPITAL CHARGE, 1966-70**
(¢ per gallon)

<i>Year</i>	<i>Eastern Complex</i>	<i>Central Complex</i>	<i>Western Complex</i>
1966	15.63(11.18)	16.48(12.09)	16.38(11.55)
1967	15.14(10.63)	16.44(11.90)	16.55(11.21)
1968	14.58(10.13)	16.90(12.48)	17.09(11.75)
1969	14.73(10.06)	17.68(12.92)	16.95(11.34)
1970	15.13(10.46)	18.54(13.68)	17.99(12.34)

Source: Document # 30442, Shell²²⁸

TABLE 37

**SHELL NETBACKS ON REGULAR BY COMPLEX GASOLINE
BEFORE AND AFTER (IN BRACKETS) CAPITAL CHARGE, 1966-70**
(¢ per gallon)

<i>Year</i>	<i>Eastern Complex</i>	<i>Central Complex</i>	<i>Western Complex</i>
1966	13.86(9.55)	15.44(11.31)	15.15(10.58)
1967	13.27(8.91)	15.26(11.02)	15.21(10.24)
1968	12.69(8.44)	15.59(11.52)	15.68(10.63)
1969	12.70(8.34)	16.25(11.86)	15.48(10.28)
1970	13.11(8.61)	17.07(12.48)	16.50(11.25)

Source: Document # 30443, Shell²²⁹

TABLE 38

**SHELL NETBACKS ON FURNACE OIL BY COMPLEX
BEFORE AND AFTER (IN BRACKETS) CAPITAL CHARGE, 1966-70**
(¢ per gallon)

<i>Year</i>	<i>Eastern Complex</i>	<i>Central Complex</i>	<i>Western Complex</i>
1966	10.42(8.04)	10.63(8.62)	11.66(9.65)
1967	10.22(8.16)	10.89(8.98)	11.98(10.13)
1968	9.90(8.03)	11.47(9.32)	13.69(11.73)
1969	10.22(8.21)	11.80(9.67)	12.23(10.24)
1970	10.58(8.64)	12.23(10.30)	12.41(9.90)

Source: Document # 30446, Shell²³⁰

compares Shell's netbacks for pooled (regular and premium) gasoline, in each of Shell's three reporting complexes — Eastern (Quebec and the Maritimes), Central (Ontario), Western (Prairies and B.C.). Tables 37 and 38 do the same for regular gasoline and for heating oil. The difference in netbacks calculated before capital charges between eastern and central complex increases between 1966 and 1970 from about .8 cents per gallon to over 3.4 cents per gallon. For regular gasoline this difference increases from 1.6 cents per gallon to 3.96 cents per gallon. For furnace oil, the difference increases from .2 cents per gallon to 1.7 cents per gallon. A comparison using the after capital charge netbacks yields broadly similar results.

The netbacks calculated by Gulf Oil also indicate that, from 1969 to at least 1972, the sector of eastern Canada served by domestic crude had its higher crude costs passed on to produce higher product prices. Table 39 compares the netback by region for motor gasoline between 1969 and 1974. In 1969 and 1970, the net realization on motor gasoline was some 3 cents per gallon higher in Ontario than Quebec. The net realization for furnace fuel reported in Table 40 in the two provinces, did not, however, differ as much. This indicates that competition from product imports had a greater effect on the Ontario market for furnace fuel than for gasoline.

TABLE 39

GULF NETBACKS ON #2 MOTOR GASOLINE BY REGION, 1969-74
(¢ per gallon)

<i>Year</i>	<i>Atlantic</i>	<i>Quebec</i>	<i>Ontario</i>	<i>Prairie</i>	<i>Pacific</i>
1969	18.43	15.10	18.05	17.73	18.19
1970	19.15	15.42	18.55	18.21	19.05
1971	20.59	16.90	18.63	18.95	20.39
1972	21.49	17.60	18.72	19.35	20.50
1973	23.75	20.29	20.62	21.55	22.34
1974	31.36	31.71	29.58	28.29	29.23

TABLE 40

GULF NETBACKS ON FURNACE OIL BY REGION, 1969-74
(¢ per gallon)

<i>Year</i>	<i>Atlantic</i>	<i>Quebec</i>	<i>Ontario</i>	<i>Prairies</i>	<i>Pacific</i>
1969	14.81	14.07	14.15	14.86	15.54
1970	14.81	12.95	13.99	15.05	16.15
1971	16.34	14.83	15.10	16.11	18.31
1972	17.41	22.60	16.05	16.54	19.34
1973	22.59	18.46	18.65	19.27	19.26
1974	27.36	27.59	25.09	23.21	26.39

The evidence provided above from both Shell and Gulf that the National Oil Policy resulted in higher prices was based on netback statistics for individual products such as gasoline and fuel oil. Data is available on a more aggregate basis for Imperial Oil demonstrating that net sales income for all products west of the National Oil Policy Line reflected the higher crude costs in this region. Table 41 compares the net sales income, the cost of product, and the margin between these for Imperial's operations in Ontario as opposed to Quebec. This table shows that the difference in the cost of product was more than reflected in net sales income since the margin between the two was always greater in Ontario than in Quebec. As was the case with both Shell and Gulf, the protection afforded Imperial by the National Oil Policy Line was exploited to permit the extraction of high prices at the product level.

TABLE 41

A COMPARISON OF NET SALES INCOME AND COST OF ALL PRODUCT
FOR IMPERIAL OIL IN ONTARIO AND QUEBEC, 1959-67
(¢ per gallon)

Year	Ontario			Quebec		
	Net Sales Income	Cost f.o.b. Supply Point	Margin	Net Sales Income	Cost f.o.b. Supply Point	Margin
1959	20.31	14.93	5.38	17.65	12.79	4.86
1960	19.97	14.93	5.04	17.30	12.47	4.83
1961	19.82	15.06	4.76	17.89	13.19	4.70
1962	19.53	15.08	4.45	17.55	13.39	4.16
1963	19.31	15.13	4.18	17.72	13.72	4.00
1964	19.91	15.16	4.75	17.18	13.42	3.76
1965	19.94	14.65	5.29	17.33	13.42	3.91
1966	20.81	14.64	6.17	17.79	13.20	4.59
1967	21.03	14.88	6.15	17.75	13.32	4.43

Note: Margin is calculated by subtracting the Cost of Product (f.o.b. supply point) from Net Sales Income.

Source: Document # 174621-7811,²³¹ Profit Analysis Summary of Imperial Oil.

The realizations and netbacks of both Shell and Gulf, indicate that the competitive environment was determined by factors other than the existence of just the region's access to offshore product. The Atlantic and Prairie markets were generally less competitive than Quebec or Ontario because the size of the central Canadian markets made entry more attractive therein. Imperial, for instance, noted that when product prices deteriorated in eastern Canada in the early nineteen sixties, "The prairies are not as much affected because of the low density of population, the smaller proportion of industrial consumer business" (Document # 118723).²³²

Shell provided a similar view of the lack of competition on the Prairies when evaluating the purchase of North Star Oil in the late nineteen fifties. Shell noted that the Prairies were regarded as relatively stable because "the Prairie cities have small populations and low gasoline potential. This type of market does not attract the unbranded reseller" (Document # 41820).²³³ In addition, the large farm market was not highly competitive and "it acts, because of the size in relation to the total market, as a stabilizing force on prices in the area" (Document # 41790).²³⁴

As markets firmed in the early nineteen seventies, the industry was able to exploit its market power in these regions. As documentary evidence from Gulf showed (Table 35) gasoline realizations went up more between 1968 and 1972 in Halifax than Montreal even though both were served by foreign crude and, therefore, subject to similar crude cost escalations. Similarly, they increased more in Calgary than Toronto even though both were served by domestic crude (Document # 62070).²³⁵

This pattern can also be found in the relative degree of competition that developed in the marketing sector. A lack of competition at the wholesale level resulted in higher wholesale and retail margins. Table 42 compares Gulf's wholesale and retail margins in Halifax and Calgary to those in Montreal. The latter had a strong independent sector compared to the other two cities. It is evident from Table 42 that consumers in the Maritimes and Prairies had to pay higher margins.

TABLE 42
GULF COMBINED WHOLESALE AND RETAIL MARGINS
FOR REGULAR GASOLINE BY CITY,
1960-68
(c per gallon)

<i>Year</i>	<i>Halifax</i>	<i>Montreal</i>	<i>Calgary</i>
1960	13.4	13.0	16.7
1961	13.6	13.1	16.1
1962	12.7	12.2	15.2
1963	12.5	10.0	19.2
1964	16.2	11.2	13.2
1965	15.2	12.0	12.7
1966	15.1	14.1	14.8
1967	16.7	15.9	16.8
1968	15.9	13.8	17.0

Source: Document # 74557-8, Gulf²³⁶

TABLE 43
IMPERIAL RETURN ON CAPITAL EMPLOYED BY REGION, 1971-72
 (%)

<i>Region</i>	<i>Year</i>	<i>Sales</i>	<i>Supply</i>	<i>Pet. Products</i>
Atlantic	1971	7.4	9.0	8.0
	1972	17.2	24.4	19.0
Quebec	1971	4.5	17.9	6.9
	1972	4.5	13.0	7.0
Ontario	1971	3.7	1.4	2.6
	1972	2.7	(2.0)	0.0
Prairie	1971	14.0	13.0	13.7
	1972	16.9	3.9	12.7
Pacific	1971	6.9	15.8	9.1
	1972	8.9	17.2	11.2

Notes: 1971 — actual
 1972 — first 9 months & update of last 3 months

Source: Document # 124639, Imperial²³⁷

Imperial's evidence on rate of return in these different markets in 1971 and 1973 substantiates this interpretation of the relative exploitation of market power by the industry in the Atlantic and Prairie markets. Table 43 compares Imperial's rate of return by region for its refining (supply) and marketing (sales) divisions. By 1972, rates of return were as high as 19 per cent in the Atlantic region and 12.7 per cent on the Prairies while between 0 and 7 per cent in Ontario and Quebec. In planning price increases for 1973, an Imperial document noted that its proposals would increase the profitability of these markets even further:

"Overhead margins in *Atlantic* and *Prairie* regions are very attractive today and this plan increases them."

(Document # 112524, January 5, 1973, Imperial)²³⁸

The pattern of higher profitability in the Atlantic and the Prairie Markets was one that had existed since the late nineteen fifties. Each was characterized by greater returns on capital employed than other Canadian regions served by the same crude source. Table 44 summarizes the excess of Imperial's rate of return in the Atlantic region as compared to Quebec and in the Prairies as compared to Ontario. The excess enjoyed by the Prairies increased to a peak between 1959 and 1963 and declined but remained positive thereafter. In the Atlantic region, the excess as compared to Quebec increased steadily from 1959 to 1967.

The effect of the National Oil Policy can be discerned by comparing Imperial's profitability in Ontario as opposed to Quebec and the Prairies as opposed to the Atlantic regions. This is done in Table 45. Ontario is chosen for comparison to Quebec because both were large markets and had an independent marketing sector. The Prairies and the Atlantic markets are compared because both markets were less dense and enjoyed less competition from independent marketers. If profitability in Ontario is compared to Quebec, it is apparent that

TABLE 44

A COMPARISON OF IMPERIAL OIL RATE OF RETURN IN ONTARIO VERSUS THE PRAIRIES AND THE ATLANTIC VERSUS QUEBEC, 1959-67
(%)

<i>Year</i>	<i>Excess of Prairies over Ontario</i>	<i>Excess of Atlantic over Quebec</i>
1959	5.19	2.92
1960	5.74	3.72
1961	6.50	3.61
1962	8.04	4.48
1963	10.93	5.56
1964	10.12	7.06
1965	9.27	9.73
1966	8.24	8.99
1967	6.78	10.57

Source: Document # 174621-7811,²³⁹ Profit Analysis Summary of Imperial Oil.

TABLE 45

A COMPARISON OF IMPERIAL OIL RATE OF RETURN IN ONTARIO AS OPPOSED TO QUEBEC AND THE ATLANTIC AS OPPOSED TO PRAIRIES, 1959-67
(%)

<i>Year</i>	<i>Excess of Ontario over Quebec</i>	<i>Excess of Prairies over Atlantic</i>
1959	-1.56	0.71
1960	-2.17	-0.15
1961	-1.39	1.50
1962	-0.57	2.99
1963	-0.92	4.45
1964	0.86	3.92
1965	2.73	2.27
1966	3.52	2.77
1967	4.65	0.86

Source: Document # 174621-7811,²⁴⁰ Profit Analysis Summary of Imperial Oil.

the former went from a position of being less profitable to one of being more profitable. If the Prairies are compared to the Atlantic region, it is apparent that the former gained in profitability as well. Thus both 'protected' regions may be said to have performed poorly relative to the 'unprotected' regions.

TABLE 46

IMPERIAL ATLANTIC REFINERY REALIZATIONS AND COSTS, 1957-66
(\$ per barrel)

<i>Year</i>	<i>Estimated Realization at Refinery Level²</i>	<i>Refinery Cost¹</i>	<i>Cost of Crude²</i>	<i>Refinery Margin</i>	<i>Realization Less Crude</i>
1957	4.76	4.00	3.10	.76	1.66
1958	4.39	3.90		.49	
1959	4.31	3.43		.88	
1960	4.15	3.23		.92	
1961	4.30	3.24		1.06	
1962	4.14	3.39	2.65	.75	1.49
1963	4.10	3.36	2.66	.74	1.44
1964	4.05	3.37	2.62	.68	1.43
1965	4.08	3.30	2.54	.78	1.54
1966	4.16	3.30	2.45	.86	1.71

Sources: 1. Document # 120994, Imperial²⁴¹

2. Document # 121010, Imperial²⁴²

TABLE 47

HOME OIL SALES OF REFINED PETROLEUM PRODUCTS,
1953-63

	<i>Regular Gasoline Other Gasoline & Naphtha</i>				<i>Total Refined Products</i>			
	<i>M\$</i>	<i>M Gallons</i>	<i>\$/Gal.</i>	<i>\$/Bbl.</i>	<i>M\$</i>	<i>M Gallons</i>	<i>\$/Gal.</i>	<i>\$/Bbl.</i>
1953	3197	12,534	.255	8.93	10,818	49,069	.221	7.72
1954	3197	13,084	.244	8.55	11,448	53,165	.215	7.54
1955	3513	14,797	.237	8.31	13,056	61,132	.214	7.47
1956	3853	16,028	.240	8.41	14,316	64,967	.220	7.71
1957	4040	16,402	.246	8.62	14,842	65,116	.228	7.98
1958	4581	19,074	.240	8.41	13,576	60,737	.224	7.82
1959	4939	21,169	.233	8.17	13,688	62,926	.218	7.61
1960	5028	21,972	.229	8.01	13,378	62,127	.215	7.54
1961	5523	22,127	.250	8.74	13,702	60,286	.227	7.95
1962	5455	22,492	.243	8.49	13,820	62,050	.223	7.80
1963	5363	21,852	.245	8.59	14,234	63,164	.225	7.89

Source: Document # 131648, Imperial²⁴³

The performance of the industry west of the National Oil Policy Line can also be studied by contrasting the price trends in Nova Scotia, which was served by foreign crude, and British Columbia, which was included in the domestic production orbit. Table 46 contains Imperial's Dartmouth, Nova Scotia aggregate refinery realizations and costs. Table 47 presents the yearly realization on gasoline sales and on total refined products for Home Oil, a marketing subsidiary of Imperial Oil located in British Columbia. Between 1957 and 1960, the realizations in both markets were declining. With the devaluation of the Canadian dollar, they briefly rose in the early nineteen sixties but then declined again in Nova Scotia. However, in British Columbia they moved upwards after 1960. The petroleum industry, therefore, was able to exploit its newly enhanced market power after 1960 in the British Columbia market that was protected by the National Oil Policy.

Comparisons of realizations at the refinery level are also available for the industry as a whole, east and west of the National Oil Policy Line. Realizations at the refinery or value of shipments are meant to reflect the state of the wholesale market. Providing this market adequately reflects developments in the retail sectors, changes in realizations at the refinery would also reflect the performance of this market.¹

Tables 48 through 51 provide values of refinery shipments between 1959 and 1972 for the industry by region. Table 49 contains a weighted average price for most products and, therefore, provides a comparison for overall performance. Table 49 pertains to gasoline, Table 50 to light fuels, and Table 51 to heavy fuel oil.

From Table 48, it appears that the differential in total realizations between Ontario and Eastern Canada — Quebec and the Maritimes — grew by 57 cents per barrel between 1960 and 1969 for the market as a whole. This corresponds to the widening differential in crude costs, which grew from some 30-35 cents per barrel to over \$1.00 per barrel during this period. Elsewhere west of the National Oil Policy Line, the overall performance also failed to match that of Eastern Canada. In Manitoba and Saskatchewan, the average realization actually increased. In Alberta, British Columbia and the Northwest Territories it decreased, but by no more than half of that enjoyed by eastern Canada.

1. The problem with refinery realizations as reported to Statistics Canada under the category of "value of shipments of own manufacture" is that they may not relate to realizations but rather to costs because of the reporting methods allowed. Even if there are distortions in the wholesale realizations because of this, as long as the distortions do not differ over time, a comparison across markets will permit an evaluation of relative performance.

TABLE 48

VALUE OF REFINERY PRODUCT SHIPMENTS¹, 1959-72
(\$ per barrel)

Year	Que. & Marit.	Quebec	Marit.	Ontario	Man. & Sask.	Alta.	B.C. & NWT.
1959	4.18			4.34	4.48	4.55	4.26
1960	4.12			4.27	4.44	4.51	4.31
1961	4.04			4.24	4.42	4.55	4.28
1962	4.12			4.44	4.57	4.13	4.38
1963	3.93			4.35	4.55	4.17	4.40
1964	3.96	3.88	3.82	4.38	4.47	4.08	4.32
1965	3.75	3.71	3.65	4.33	4.30	4.18	4.29
1966	3.49	3.57	3.65	4.28	4.42	4.09	3.97
1967	3.51	3.60	3.70	4.29	4.44	4.13	4.25
1968	3.54	3.49	3.76	4.39	4.52	4.21	4.19
1969	3.65	3.32	3.46	4.27	4.55	4.28	4.17
1970	3.58	3.44	3.36	4.32	4.69	4.29	4.16
1971	3.98	3.90	3.58	4.85	4.85	4.45	4.54
1972	4.11	4.09	3.63	4.89	4.90	4.22	4.53
1959-60	4.15			4.31	4.46	4.53	4.29
1968-69	3.60			4.33	4.54	4.25	4.18
	-0.55			+0.02	+0.12	-0.28	-0.11

Note: 1. This figure contains Motor Gasoline, Aviation Turbine Fuel, Diesel Fuel, Light Fuel Oils, Heavy Fuel Oils and Kerosene which in 1972 accounted for 93.8% of the total value of refinery shipments in Canada.

TABLE 49

VALUE OF REFINERY PRODUCT SHIPMENTS: MOTOR GASOLINE, 1959-72
(\$ per barrel)

Year	Que. & Marit.	Quebec	Marit.	Ontario	Man. & Sask.	Alta.	B.C. & NWT.
1959	5.22			5.22	5.22	5.22	5.22
1960	5.14			5.13	5.14	5.14	5.14
1961	5.16			5.16	5.17	5.17	5.17
1962	5.11			5.27	5.13	4.58	5.26
1963	5.00			5.14	5.16	4.55	5.28
1964		4.83	5.14	5.08	4.99	4.44	5.05
1965		4.56	5.05	5.05	4.83	4.41	4.84
1966		4.45	4.90	5.01	4.88	4.46	4.81
1967	4.57	4.48	5.01	5.03	4.90	4.51	4.79
1968	4.61	4.44	5.01	5.13	5.04	4.56	4.82
1969	4.58	4.16	4.66	4.92	4.98	4.61	4.78
1970		4.29	4.54	5.00	5.12	4.65	4.72
1971		4.86	4.86	5.44	5.27	4.76	5.10
1972		5.12	5.11	5.39	5.35	4.55	5.09
1959-60	5.18			5.18	5.18	5.18	5.18
1968-69	4.60			5.03	5.01	4.59	4.80
	-0.58			-0.15	-0.17	-0.59	-0.38

TABLE 50

VALUE OF REFINERY PRODUCT SHIPMENTS: LIGHT FUEL, 1959-72
(\$ per barrel)

<i>Year</i>	<i>Que. & Marit.</i>	<i>Quebec</i>	<i>Marit.</i>	<i>Ontario</i>	<i>Man. & Sask.</i>	<i>Alta.</i>	<i>B.C. & NWT.</i>
1959	4.14			4.20	4.14	4.14	4.14
1960	4.00			4.06	4.06	4.00	3.98
1961	3.88			4.01	4.01	4.01	3.55
1962	4.02			4.11	4.29	3.95	3.91
1963	3.97			4.11	4.36	3.90	4.00
1964		3.99	3.85	4.21	4.34	3.68	4.19
1965		3.70	3.39	4.08	3.99	3.85	4.15
1966		3.50	3.37	4.03	4.35	3.84	4.22
1967	3.47	3.45	3.51	4.04	4.04	3.85	4.24
1968	3.54	3.48	3.74	4.24	4.07	3.84	4.27
1969	3.56	3.53	3.67	4.14	4.03	3.85	4.33
1970		3.58	3.51	4.18	4.12	3.84	4.29
1971		4.02	3.89	4.70	4.30	4.10	4.73
1972		4.20	4.33	4.67	4.31	4.12	4.66
1959-60	4.07			4.13	4.10	4.07	4.06
1968-69	3.55			4.19	4.05	3.85	4.30
	-0.52			+0.06	-0.05	-0.22	+0.24

TABLE 51

VALUE OF REFINERY PRODUCT SHIPMENTS: HEAVY FUEL OIL, 1959-72
(\$ per barrel)

<i>Year</i>	<i>Que. & Marit.</i>	<i>Quebec</i>	<i>Marit.</i>	<i>Ontario</i>	<i>Man. & Sask.</i>	<i>Alta.</i>	<i>B.C. & NWT.</i>
1959	2.27			2.27	2.27	2.27	2.25
1960	2.30			2.29	2.29	2.29	2.28
1961	2.21			2.21	2.21	2.21	2.38
1962	2.09			2.47	2.01	1.30	2.45
1963	2.08			2.47	2.05	1.46	2.56
1964		2.05	2.17	2.56	1.85	1.45	2.49
1965		2.08	2.00	2.70	1.90	1.47	2.70
1966		2.10	2.03	2.67	1.91	1.60	2.66
1967	2.17	2.24	1.97	2.66	2.01	1.61	2.71
1968	2.06	2.08	2.00	2.55	1.76	1.52	2.58
1969	1.82	1.85	1.76	2.47	1.97	1.51	2.49
1970		2.09	1.84	2.46	2.07	1.52	2.53
1971		2.50	2.35	3.03	2.68	1.84	2.88
1972		2.87	2.65	3.36	2.81	2.02	3.04
1959-60	2.29			2.28	2.28	2.28	2.27
1968-69	1.94			2.51	1.87	1.52	2.54
	-0.35			+0.23	-0.41	-0.76	+0.27

The pattern in individual product markets differed somewhat from that of the overall market. In the case of Ontario, the performance of gasoline, light fuel oils, and heavy fuel markets was equally poor. However, in Alberta's case, the value of gasoline and heavy fuel oil shipments decreased by about the same amount as those in Eastern Canada. Manitoba and Saskatchewan did not suffer relative to Eastern Canada with regards to heavy fuel oil, but did for gasoline and light fuels. In British Columbia, the course of the value of heavy fuel oil reflected a relative deterioration, but in gasoline the market did relatively well—38 cents decrease relative to 58 cents in Eastern Canada.

All the evidence presented in this section indicates that the industry was able to exploit its market power. Prices in that area of Canada reserved for domestic crude were held above levels that would have been established if world price trends had been more perfectly transmitted to Canada. However, it should be pointed out that even though Ontario prices were maintained at high levels this does not imply that offshore prices did not have some influence upon those in Ontario. The fact that they had an influence, however, only means that Ontario wholesale prices may not have been raised to levels that completely offset the higher crude costs in the domestic orbit.¹ The result would have been that the margin between crude costs and refinery realizations declined, making it generally unprofitable to operate a refinery.

Imperial, for instance, noted that between 1958 and 1961, refined product prices fell more than domestic crude costs in eastern Canada:

"This price deterioration has been most drastic in eastern Canada, although the west coast has been affected to almost as great a degree. The prairies are not as much affected because of the low density of population, the smaller proportion of industrial consumer business.

...

"Consequently in this period from 1958 through to the spring of 1961 refined product prices in central Canada and the west coast lost direct relationship to crude prices and because of extreme competitive pressures changed independently of any change in crude price."

(Document # 118723, June 7, 1962, Imperial)²⁴⁴

As another example of the decrease in margins that resulted for one company, Gulf's operating data for 1959-64 is presented in Table 52. Between 1959 and 1961 its netback declined by 31 cents per barrel while its crude costs fell by only 14 cents per barrel, decreasing its gross profit margin from 61 cents per barrel to 44 cents per barrel.

1. The evidence adduced earlier showing a full offset involved comparisons of both wholesale and retail margins.

TABLE 52
FINANCIAL OPERATING DATA: GULF, 1959-64
(\$ per barrel)

<i>Financial Data</i>	<i>1959</i>	<i>1960</i>	<i>1961</i>	<i>1962</i>	<i>1963</i>	<i>1964</i>
Sales Realization	6.32	6.24	5.92	5.91	5.87	5.74
Marketing Expense & Freight	1.40	1.35	1.31	1.30	1.31	1.26
Netback to Supply Point	4.92	4.89	4.61	4.61	4.56	4.48
Cost of Product	4.31	4.25	4.17	4.27	4.21	4.15
Gross Profit	.61	.64	.44	.34	.35	.33
Corporate Overhead	.22	.28	.23	.28	.24	.24
Net Before Tax	.39	.36	.21	.06	.11	.09

Source: Document # 64850, Gulf²⁴⁵

An estimate of the possible effect of this squeeze in refinery profitability — a squeeze that was the result of the domestic price of crude being maintained at high levels — can be obtained from Table 53. Taken from data prepared by Imperial's Refining Co-ordination Division in 1960, it compares the profitability of refining operations using the interdepartmental transfer prices in effect for 1960-61 in Imperial (Case A), import prices (Case B) and wholesale prices (using Supertest and Liquifuels as standards). While interdepartmental prices yielded a 9.5 per cent return, if realizations declined to either import price levels (Case B) or approached the netbacks being received from large wholesalers (Case C), refinery operations would no longer have met breakeven return levels. Since earlier evidence indicates netbacks for Shell and Gulf on middle distillates were similar in Ontario and Quebec, the import price levels were probably most closely attained at least in these products.

The issue, then, becomes one of the extent to which margins were squeezed because of the maintenance of domestic crude prices at inordinately high levels. By the end of the nineteen sixties, both Shell's figures on estimated refinery realizations from gasoline and Gulf's netbacks suggest gasoline realizations were between 2 and 3 cents per gallon higher in Ontario than Quebec. Since middle distillate and heavy fuel oil netbacks were approximately the same in the two provinces, gasoline would have had to bear the burden of equalizing profitability. Since 2.4 to 3.1 cents per gallon was the estimate derived from Imperial estimates in early 1960 that was required to raise total realizations in Toronto 56 cents to 71 cents per barrel above import levels in Montreal, and since the spread between foreign and domestic crude costs between Montreal and Toronto had reached at least 90 cents per barrel by the late nineteen sixties, the resulting gasoline increase would not have been sufficient to maintain the profitability of refining investment in Ontario. Indeed, this was the case.

Imperial's own estimates show that the profitability of its marketing and refining division in Quebec was about 7 per cent in 1971 and 1972 (Document # 124639),²⁴⁷ but in Ontario it was between 0 per cent and 2.6 per cent in 1971 and 1972.

TABLE 53
ECONOMICS OF REFINING IN TORONTO AREA, 1960

		<i>Case A</i>	<i>Case B</i>	<i>Case C</i>
<i>Realizations</i>	<i>%</i>	<i>\$/bbl.</i>	<i>\$/bbl.</i>	<i>\$/bbl.</i>
<i>Product</i>				
Grade 1 Gasoline	9.8	5.85	5.31	4.93
Grade 2 Gasoline	29.5	5.64	5.09	
Mid. Distillate	39.3	4.03	3.80	3.71
Residual	15.3	2.26	2.26	2.26
Ref. Fuel	5.5			
Loss	.6			
Total	100.0	4.17	3.86	3.74
<i>Cost of Production</i>				
Crude (Mix Blend)		3.10	3.10	3.10
Manufacturing (Ex Fuel)		.65	.65	.65
		3.75	3.75	3.75
Margin \$ Per Barrel		.42	.11	(.01)
M\$/Year Before Tax		1,150.	301.	(27)
M\$/Year After Tax		567.	148.	(13)
Investment \$800/DB				
% Return		9.5	2.5	negative
Basis: 1. Process 7,500 B/D and supply products. 2. Process Western light crude laid down Toronto at current P.L. tariff. 3. Manufacturing costs estimated @65¢/bbl. (comparable to Sarnia actual adjusted capacity operation) including lead & additives & exclusive of fuel. 4. Gasoline ratio 25% Grade 1, & 75% Grade 2 meeting 1961 quality. 5. Middle distillate meets pool quality of minus 5 pour. 6. Gasoline middle distillate ratio 50/50.				

Notes: Case A: Product Values—Forecast Interdepartmental Prices—average year 1960-61 @ USMC minus 27% and par \$—residual @ Creole imports to Toronto via T₂. (Document # 117872)

Case B: Product Values—Estimated imports including .60¢ gal. storage cost—laid down—@ USMC minus 27% and par \$—residual at Creole imports to Toronto via T₂. (Document # 117872)

Case C: Gasoline obtained by using Supertest realization sales for gasoline/middle distillate of \$4.61 in 1959 on 74/26 split and using Liquifuels netback of \$3.71 to derive implicit gasoline price. (Document # 117872-3)

Source: Document # 117872-3, Imperial²⁴⁸

Imperial Oil's profitability during the nineteen sixties in Ontario had also been low. As Table 54 indicates it rarely exceeded 2 percent between 1960 and 1967 and for three years was negative. Table 54 also presents the profitability of Sun Oil's operations in Ontario during the sixties. As one of the smaller integrated firms, its performance may be taken as representative of this group. It too showed low rates of return in Ontario.

TABLE 54
RETURN ON CAPITAL IN THE ONTARIO MARKET FOR
IMPERIAL AND SUN OIL, 1960-67
%

<i>Year</i>	<i>Imperial</i>	<i>Sun</i>
1960	1.87	2.2
1961	0.10	2.5
1962	-1.61	0.6
1963	-3.23	-1.6
1964	-1.65	0.0
1965	0.51	4.4
1966	2.09	4.2
1967	1.66	4.5

Note: Return is defined as profit after tax plus interest on average capital employed for Sun Oil. Return is defined as net earnings after tax on capital employed for Imperial Oil.

Sources: Imperial Oil: Document # 174621-7811.²⁴⁸ Sun Oil: Information collected by the Petroleum Inquiry.

With low or negative rates of return on refining in Ontario, the smaller companies possessing refineries in Ontario had disappeared by 1970. Regent Refining was taken over by Texaco, Cities Service by British Petroleum, and Canadian Oil by Shell. Therefore it may be argued that the effect of price distortions served to eliminate that sector of the refining industry which, in other countries, was a crucial source of supply to the dynamic and efficient independent marketer.

G. Conclusion

This volume has focused on the events, external to the Canadian industry, that helped shape both its behaviour and its performance. There is a tendency to argue that these events are sufficient to explain both the behaviour and the performance of the industry. In one sense this is a truism. Certainly the environment affects the variables considered in any firm's decision-making process. But there is a difference between arguing that these events affected performance and that they legitimized all resulting behaviour. Any industry is subject to exogenous shocks. Where these are frequent, a tightly-knit oligopoly may have difficulty in coordinating behaviour. Where they are not, the ability

of an oligopoly to exploit market power and to engage in anti-competitive behaviour is enhanced. This chapter has focused on the nature of the external environment, the pricing decisions taken by the industry in the production sector, and the ramifications this had on marketing.

The Canadian petroleum industry has faced a different environment in that part of Canada served by domestic crude as compared to that section of the country served by foreign crude oil. The location of the dividing line was influenced by the National Oil Policy. But this policy did not dictate a pricing policy nor a behavioural format to the industry. The Combines Investigation Act was not set in abeyance for the industry. Equally important, at the time the National Oil Policy was implemented, it was made clear by competition authorities that anti-competitive behaviour and activity inimical to the public interest was not sanctioned by the National Oil Policy.

The evidence presented in this volume indicates that in the domestic sector the industry responded to the reduction in the competitive environment, which accompanied the implementation of the National Oil Policy, by enhancing Canadian crude prices. These higher crude prices were passed on to consumers of gasoline in the form of higher prices. Because of the nature of vertical integration in the industry, the increase in retail prices was a multiple of the increase exacted at the crude level. Not only were wholesale gasoline prices increased, but retailer margins were enhanced.

The way in which this was done can only be appreciated by a detailed study of the behaviour and the performance of the industry at each stage of this vertically integrated industry. The succeeding volumes deal with the international sector, the domestic production sector, the refining sector and the marketing sector in turn. While the study of the production sector shows the methods that were used to prevent domestic crude prices from equating to world levels, the way in which this action was translated into higher product prices requires a detailed analysis of the behaviour of the majors in all three areas. Only by appreciating the complexity of the arrangements used in each area and their interrelationships can the anti-competitive activity of this industry be comprehended fully.

APPENDIX A

This appendix contains the tables needed to evaluate the effect of the National Oil Policy upon the level of crude prices in Ontario. These tables permit calculation of the difference between the cost of crude in Ontario refineries and the landed cost at Montreal of 'competitively priced' crude.

There are two somewhat different standards that can be used to measure 'competitive' world crude prices. The first is the crude price involved in third-party or arm's-length transactions. The second is the implicit crude price obtained by subtracting refining and transportation costs from product realizations in a competitive market. Table A-1 constructs a series of landed crude costs at Montreal using estimates derived from each of these two concepts of a 'competitive' world price. The landed costs are calculated by taking the estimate of competitive crude costs f.o.b. the Middle East and adding to it an estimate of competitive freight rates (taken from the Appendix to the volume on the international sector) and the Portland/ Montreal pipeline tariff.

Table A-2 compares the average crude costs of Ontario refineries to the two estimates of Montreal landed costs derived from Table A-1. A differential of 25 cents per barrel transportation between Toronto and Montreal is used to make the crude cost series in the two areas comparable. Table A-2 shows that following the implementation of the National Oil Policy, the crude differential increased no matter which method of estimating 'competitive' landed crude costs is used.

Table A-2 could only compare crude costs for 1962 to 1970 because the average cost of Ontario crude used therein (from Table 29) did not include figures for the year 1960 and 1961. Table A-3 rectifies this gap. It uses information from Texaco to compare this firm's landed costs at Toronto and Montreal. It too shows that the effect of the National Oil Policy was to increase the difference between crude costs in Ontario and the reported landed costs in Quebec.

Since Texaco's Montreal landed costs for crude were above world levels, a comparison of just the difference between Ontario and Quebec will bias the real difference downwards. Therefore Table A-4 presents, for the years 1960-63, the difference between Texaco's reported Montreal crude costs and the two estimates of 'competitive' landed crude costs derived in Table A-1. In addition, the difference between industry average landed cost in Quebec and the two estimates of 'competitive' landed costs for the years 1962 to 1970 is also included in Table A-4. These figures suggest that the National Oil Policy may have served to maintain the difference between reported crude costs and 'competitive' crude costs. The first two columns show that relative to third-party prices for Middle Eastern crude, landed reported costs continued at the same relative disadvantage. But columns III and IV demonstrate that relative to 'competitive' crude prices derived from European product markets, Canadian costs were declining in the early part of the decade but regained their disadvantage towards the end of the period.

TABLE A-1

ESTIMATION OF 'COMPETITIVE' LANDED CRUDE
COSTS AT MONTREAL, 1960-70
(\$ Cdn./bbl.)

Year	<i>Estimate of Third- Party Prices for Light Iranian Crude \$ U.S./bbl.</i>	<i>Adelman Implicit F.O.B. Netback for Middle East Crude \$ U.S./bbl.</i>	<i>Landed Cost at Montreal</i>	
	<i>I</i>	<i>II</i>	<i>Third-Party \$ Cdn./bbl. III</i>	<i>Adelman Implicit \$ Cdn./bbl. IV</i>
1960	1.43	1.50	2.19	2.26
1961	1.43	1.50	2.28	2.35
1962	1.38	1.61	2.33	2.57
1963	1.38	1.59	2.37	2.59
1964	1.34	1.29	2.22	2.17
1965	1.34	1.17	2.22	2.04
1966	1.34	1.27	2.20	2.13
1967	1.34	1.23	2.17	2.05
1968	1.34	1.83	2.16	2.69
1969	1.20	1.27	2.01	2.08
1970	1.20	1.44	1.95	2.20

Notes: I: Table 32, International Volume.

II: Table F-1, International Volume.

III: Column I; Table A-5, International Volume, plus Portland/Montreal Pipeline tariff.

IV: Column II; Table A-5, International Volume, plus Portland/Montreal Pipeline tariff.

TABLE A-2

DIFFERENCE BETWEEN CRUDE COSTS AT ONTARIO REFINERIES AND
LANDED 'COMPETITIVE' FOREIGN CRUDE
COSTS AT MONTREAL, 1962-1970
(\$ Cdn./bbl.)

Year	<i>Average Crude Cost at Refinery in Ontario</i>	<i>Landed Cost at Montreal</i>		<i>Differential Using 25¢/bbl. Transportation Charge</i>	
	<i>I</i>	<i>II</i>	<i>III</i>	<i>IV</i>	<i>V</i>
1962	3.06	2.33	2.57	.48	.24
1963	3.14	2.37	2.59	.52	.30
1964	3.13	2.22	2.17	.66	.71
1965	3.14	2.22	2.04	.67	.85
1966	3.12	2.20	2.13	.67	.74
1967	3.14	2.17	2.05	.72	.84
1968	3.13	2.16	2.69	.72	.19
1969	3.14	2.01	2.08	.88	.81
1970	3.13	1.95	2.20	.93	.68

Sources: I: Table 29, Column I.

II: Table A-1, Column III.

III: Table A-1, Column IV.

IV: Column I-II 25¢/bbl.

V: Column I-III 25¢/bbl.

TABLE A-3

TEXACO'S CANADIAN CRUDE COSTS AT TORONTO AS OPPOSED TO ITS
LANDED CRUDE COSTS OF ARABIAN AT MONTREAL, 1959-63
(\$ Cdn./bbl.)

	<i>Canadian Redwater at Toronto</i>	<i>Arabian at Montreal</i>	<i>Difference Using 25¢/bbl. transportation</i>
<i>Year</i>	<i>I</i>	<i>II</i>	<i>III</i>
1959	3.17	2.83	.09
1960	3.10	2.76	.09
1961	3.09	2.81	.03
1962	3.23	2.86	.12
1963	3.24	2.76	.23

Sources: Columns I & II: Document # 50020, Texaco.²⁴⁹
Column III : Column I — Column II — 25¢.

TABLE A-4

DIFFERENCE BETWEEN AVERAGE LANDED CRUDE COSTS REPORTED
BY CANADIAN IMPORTERS AND ESTIMATES OF 'ARM'S-LENGTH'
LANDED COSTS AT MONTREAL, 1960-1970
(\$ Cdn./bbl.)

	<i>Difference Using Third-Party Crude Prices for Iranian Crude and</i>		<i>Difference Using Adelman Implicit Nethacks and</i>	
	<i>Texaco Landed Cost of Arabian</i>	<i>Industry Average Cost in Quebec</i>	<i>Texaco Landed Cost of Arabian</i>	<i>Industry Cost in Quebec</i>
<i>Year</i>	<i>I</i>	<i>II</i>	<i>III</i>	<i>IV</i>
1960	.57		.50	
1961	.53		.46	
1962	.53	.51	.29	.27
1963	.39	.43	.17	.21
1964		.52		.57
1965	.41			.59
1966	.37			.44
1967	.38			.50
1968	.43			-.10
1969	.51			.44
1970	.50			.25

Sources: Column I : Column II, Table A-3; Column II, Table A-2.
Column II : Column III, Table A-1; Column II, Table 29.
Column III: Column II, Table A-3; Column III, Table A-2.
Column IV: Column IV, Table A-1; Column II, Table 29.

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