

Intl. Journal of Political Economy, vol. 35, no. 2, Summer 2006, pp. 54–71.
© 2006 M.E. Sharpe, Inc. All rights reserved.
ISSN 0891–1916/2006 \$9.50 + 0.00.
DOI 10.2753/IJP0891-1916350203

EDWARD HARRY SHAFFER

Canada's Oil and Imperialism

“He who owns the oil will own the world. . . . Who has oil has empire.”

—Senator Henri Bérenger
Director, Comité Général du Pétrole
France, World War I (O'Connor 1962: 79)

Oil's Early History

During most of the nineteenth century, coal fueled the world's most technologically advanced economies. Oil began to displace coal at the onset of the twentieth century when the British recognized its military potential. Marcus Samuel, the head of Shell, began campaigning to convert the British Navy from coal to oil (Sampson 1976). Initially, the admirals resisted his proposal, suspecting that it had been motivated by self-interest. They also had doubts about the technical feasibility of using oil. Nevertheless Samuel managed to convince the First Sea Lord, Admiral Fisher, of the soundness of his ideas. Whether Samuel's offer of a Shell directorship played a role in his conversion is still a matter of conjecture (*ibid.*).

Fisher found an ally in Winston Churchill, who became First Lord of the Admiralty in 1911. Fearing the growing strength of the German Navy, Churchill wanted to ensure the supremacy of the British fleet in the war that he knew was sure to come. In 1912 he established the Royal Com-

Edward Harry Shaffer is Professor Emeritus of Economics, University of Alberta, Edmonton, Canada.

mission on Oil Supplies, headed by Lord Fisher, to examine the advantages of oil (O'Connor 1962). Not surprisingly the Commission came out in favor of oil. This decision turned out to be a sound one because it gave the British Navy a distinct advantage over Germany in World War I.

Though the Royal Commission showed that the technical objections to oil were groundless, it still had to deal with the problem of security of supply. Britain had ample coal but no oil. Unless secure oil supplies were obtained, the British fleet could be rendered inoperative in a conflict. Shell was the obvious supplier. Marcus Samuel had, after all, initiated the idea. But there was strong opposition to Shell among members of the Commission and in Parliament. Shell had increased the price of oil, arousing a great deal of popular resentment. Also, because Samuel was Jewish, anti-Semitism may have been a factor (Sampson 1976).

More fundamental was the fear that Shell was not under complete British control. Several years earlier Rockefeller attempted to buy out Shell. Though Samuel rejected this offer (Sampson 1976), he merged his company with Henri Deterding's Royal Dutch Petroleum to form Royal Dutch-Shell. Under the terms of this 1906 agreement, the Dutch interests obtained 60 percent of the shares with British interests holding the remainder (*ibid.*).

Churchill actually regarded Shell as a Dutch company and suspected that Deterding was under German influence.⁷ He did not want such a company to be the main supplier for the British Navy. As it turned out, Churchill's fears were ill-founded. During the war the company, despite the proclaimed neutrality of the Netherlands, sided with Britain. It did not overcharge the British Navy, even though it was in an excellent position to do so (*ibid.*).

Another objection was that Shell's producing properties were not part of the British empire. They lay in Borneo and in the Dutch East Indies. The British could not be sure that these supplies would be available to them in a war. They wanted to be supplied by a company with reserves within the empire. The only such company was Burmah Oil, which had been operating in Burma since 1886 (O'Connor 1962). Burma was, then, part of the empire.

Burmah's real wealth however lay not in Burma but in Persia. In 1905, Burmah Oil, at the instigation of the British government, gave financial assistance to William D'Arcy, a British speculator, who in 1901 obtained a concession covering 500,000 square miles from the Persian government. Unsuccessful in his early attempts to find oil, D'Arcy was

on the verge of bankruptcy when the British government asked Burmah Oil to bail him out. In 1905 Burmah Oil founded the Concessions Syndicate to handle its Persian venture. When oil was finally discovered in 1908, Concessions Syndicate formed the Anglo-Persian Oil Company (Stork 1975). This company changed its name to Anglo-Iranian in 1935 and to British Petroleum in 1954, the name by which it is presently known (Tugendhat and Hamilton 1975).

Though technically this oil was outside the British Empire, it was well within the British sphere of influence and could be defended from bases in India. In fact the British had already sent a gunboat and a detachment of Bengal Lancers to Persia to protect the company's properties against attacks by marauding tribesmen (O'Connor 1962).

Thus, the Anglo-Persian Oil Company, controlled by British interests and with reserves within the British sphere of influence, was looked upon as the ideal company to supply the Royal Navy.

By 1913, when the Royal Commission concluded its hearings, Anglo-Persian was having financial difficulties. Though it had invested large sums in Persia, it still had not sold a single barrel of oil (Tugendhat and Hamilton 1975). There was a danger that it might fall into foreign hands, especially those of John D. Rockefeller's Standard Oil. Churchill was determined that this would not happen. He therefore proposed to a somewhat shocked Parliament that the British government buy a controlling interest in the company to ensure that it would always remain in British hands.

We must become the owners, or at any rate the controllers at the source, of at least a proportion of the supply of natural oil which we require . . . and obtain our oil supply, so far as possible, from sources under British control, or British influence. (Great Britain 1913: 1475, 1477)

After considerable debate, intermingled with accusations of "socialism," Parliament in 1914 approved the purchase by an overwhelming vote of 254 to 18 (O'Connor 1962). The government paid £2 million for a 51 percent share in the company. It stipulated that Anglo-Persian must always remain a British concern and that every director must be a British subject. Though the government acquired the majority of shares, it obtained the right to appoint only two of the company's seven directors. Furthermore, the government assured the companies that these directors, who had the right of veto, would exercise that right only in matters involving foreign or military policy or Admiralty contracts (Sampson 1976).

Oil Imperialism

The veto promise is one that the government kept. Neither that government nor any subsequent one has ever exercised the right to veto (Tugendhat and Hamilton 1975). In other words, the British permitted private interests to have free rein with public funds. This marriage of private and public interests marked a new era in the development of British capitalism. As Hartshorn remarked

What is germane in this context is that the decision to buy control of this company represented the first open manifestation of the vital interest to the government of a country lacking indigenous oil supplies of securing a source of supply that it recognized as strategically vital. But it was the prototype. Britain sought and gained command of secured “tied” supplies of oil from a promising source that later turned out to be part of the richest oil-bearing region yet discovered. Over the years it extended that command in the region. (1962: 233)¹

What Hartshorn described is the policy of oil imperialism adopted by Churchill, that is, a deliberate policy of acquiring oil reserves in foreign lands. No longer was Britain the traditional bastion of free trade, content to rely on the marketplace to provide it with this vital commodity. In its quest for oil, it abandoned laissez-faire capitalism in favor of a state-owned company buttressed by the full might of the Empire.

It was inevitable that other nations would follow Britain’s path. World War I underscored the strategic importance of oil. Not only was it used to power the ships, but it was also used in the new instruments of warfare: the tank, the airplane, and the lorry. French president Georges Clemenceau recognized this new reality when he wrote U.S. president Woodrow Wilson that oil was “as necessary as blood” (Tramerye 1924: 106). After the war ended the French government followed a policy similar to England’s. It bought shares in CFP (Compagnie Française du Pétrole) in order to guarantee for itself a portion of that company’s reserves in Iraq (U.S. Federal Trade Commission 1952).

The war also brought home the significance of oil to the United States. That country furnished 80 percent of the Allies’ petroleum needs (U.S. Fuel Administration 1921). In order to do so, it imported oil from Mexico and instituted a program of “gasless Sundays” in which people voluntarily refrained from using their automobiles except for “errands of necessity” (U.S. Fuel Administration 1921: 271).

These wartime shortages gave rise to fears that the United States might not have sufficient oil reserves to see it through another war. Oil thus began to be a matter of special concern to U.S. policymakers. Mark Requa, director of the oil division of the U.S. Fuel Administration, advocated a policy of encouraging “every way possible . . . the acquisitions by our nationals of reserves in foreign lands” (U.S. Fuel Administration 1921: 272). These foreign reserves were to be considered part of the U.S. oil supply.

It is interesting to note that U.S. oil policy differed somewhat from the policies of England and France. The latter countries used companies in which the governments had invested whereas the United States relied wholly on privately owned companies to achieve the same end—the attainment of a secure source of oil.² This difference stemmed from the varying structures in the industry. In the United States there were a large number of firms. If the government wanted to ensure domestic control through assuming equity positions, it would either have to buy control of all of them or select only a limited number for this purpose.

The first alternative would have been quite costly. In addition it would have been viewed as a step toward the nationalization of the oil industry, a step that would have been politically unacceptable. The second option would have involved the government in the politically embarrassing choice of selecting which companies to purchase. Furthermore, it would have placed these government-controlled companies in competition with the privately controlled ones, again leading to political difficulties. Thus, the government, instead of selecting a single or small group of companies to use as its agent, assigned that role to all private oil companies operating abroad. At the end of the war it adopted a policy of encouraging U.S. oil companies to explore in other countries. Their foreign reserves were to be considered part of its domestic reserves.

The dilemma facing the technologically advanced countries stemmed, at least in part, from the uneven development of capitalism. Both industrial production and wealth were concentrated in a few countries. The wealth gave them the ability to adapt readily to the technological change spurred by the invention of the internal combustion engine. Their economies became highly dependent on oil. But, with the exception of the United States, they had insufficient oil to feed their economies.

This is still the dilemma facing the wealthiest states today, 100 years later. The world’s most affluent nations are members of the Group of Seven (G-7). As Table 1 shows, these countries, with approximately one-

Table 1

GDP, Population, and Military Outlays in G-7 Countries, Non-G-7 Countries, and the World, 2004

	GDP			Population			Military Outlays		
	Dollars (in billions) ^a	Share (%)	Per Capita ^b	No. (in millions) ^c	Share (%)	Dollars (in billions) ^d	Share (%)	Per Capita ^b	
G-7 Countries									
United States	11,733	28.9	39.9	294	4.7	455	46.7	1,549	
Germany	2,707	6.7	32.8	83	1.3	34	3.5	410	
France	2,018	5.0	33.6	60	1.0	46	4.7	770	
Italy	1,681	4.1	29.1	58	0.9	28	2.8	480	
Japan	4,668	11.5	36.5	128	2.0	42	4.4	332	
U.K.	2,126	5.2	35.6	60	1.0	47	4.9	794	
Canada	996	2.4	31.2	32	0.5	10	1.1	328	
Total	25,929	63.8	36.3	714	11.3	663	68.0	929	
Non-G-7 Countries	14,742	36.2	2.6	5,587	88.7	312	32.0	56	
World	40,671	100.0	6.5	6,301	100.0	975	100.0	155	

Notes: The conversions from local currencies to U.S. dollars were based on the market exchange rates. GDP = gross domestic product.

^aInternational Monetary Funds, *World Economic Outlook Database*, April 2005. ^bIn U.S. thousand dollars. ^cPopulation Reference Bureau, *2004 World Population Data Sheet*. ^dStockholm International Peace Research Institute (SIPRI), *Military Expenditure Database*, 2005.

tenth of the world's population, garnered nearly two-thirds of the world's GDP in 2004. Their per capita GDP was over \$36,000 as compared to less than \$3,000 in the rest of the world. This disparity also existed in military expenditures. The G-7 countries accounted for slightly more than two-thirds of these outlays and the rest of the world less than one-third.

An important link between this concentration of wealth and militarism exists, stemming from the relationship between interclass and intraclass struggles. The "haves" constantly fear that the "have-nots" will seize their wealth. At the same time, the large enterprises feel that they must constantly expand to prevent their rivals from driving them out of business. Because businesses can only expand at the expense of both their rivals and the "have-nots," the world is engaged in series of zero sum games, which many feel can only be resolved by the exercise of military power. This, in turn, requires the use of oil. Napoleon's dictum that an "army travels on its stomach" has been replaced by the dictum that says "the military travels on its oil."

The ability to acquire oil is hampered by the geographic separation of users and suppliers. Table 2 shows that in 2004 the G-7 nations consumed slightly more than 36 million barrels per day but produced only 12 million, forcing them to import about 24 million. Orthodox economists would see nothing unusual about this. Specialization resulting from comparative advantage leads to trade, which increases economic efficiency and improves the welfare of the participants.

What these economists fail to recognize is that oil is both a commodity and an instrument of control. A gun is also such an instrument. Those possessing these instruments can force others to acquiesce to their demands. These economists do not acknowledge that in the economic jungle, euphemistically called "the market place," there is a strong motivation for the powerful predators to gobble up their weaker prey. This means taking steps to seize control of the oil outside the boundaries of the powerful oil deficient nations. It also provides an incentive for the possessors of oil to act in their own defense by denying oil to these predators. Such a denial could wreak havoc on the industrialized world.

An example of this occurred when some Arab nations imposed an embargo on shipments to the United States, the Netherlands, Portugal, South Africa, and Zimbabwe (then Rhodesia) as punishment for their support of Israel in the *Yom Kippur* war of October 1973. At the same time they reduced production to prevent oil firms from breaching the embargo through third party transactions. OPEC members cut their pro-

Table 2

Consumption, Production, and Reserves, 2004

	Consumption			Production			Reserves ^a	
	Population (in millions)	B/d (1,000)	Per capita	B/d (1,000)	Per capita	Difference B/d (1,000)	Bbls.	R/P years
G-7 Countries								
United States	294	20,517	70	7,241	25	-13,276	29.4	11.1
Germany	83	2,625	32	0	0	-2,625	0.0	0
France	60	1,975	33	0	0	-1,975	0.0	0
Italy	58	1,871	32	104	2	-1,767	0.7	19.3
Japan	128	5,288	41	0	0	-5,288	0.0	0
U.K.	60	1,756	29	2,029	34	273	4.5	6.0
Canada	32	2,206	69	3,085	97	879	16.8	14.9
Total	714	36,238	51	12,459	17	-23,779	51.4	11.3
Non-G-7 Countries	5,587	44,519	8	67,801	12	23,282	1,137	44.1
World	6,301	80,757	13	80,260	13	-497	1,189	40.6

Source: *BP Statistical Review of World Energy*, June 2005.

Notes: B/d = barrels per day; Bbls. = billions of barrels.

^aThe reserve estimates can vary widely. They consist of the oil that has been discovered and can be extracted with current technology and under current economic conditions. An improvement in technology or a price rise would increase the reserve estimates.

duction from 31.3 million barrels per day in 1973 to 31.1 million in 1974 and to 27.5 million in 1975 (Jenkins 1985, 74).

These reductions helped bring about a sharp increase in prices. The market price of crude oil Arabian Light crude in Rotterdam rose from \$22.10 per ton in the second quarter of 1973 to \$81 in the first quarter of 1974, an increase of 267 percent. Though the embargo ended in March 1974, this price fell by only \$2 by the end of the year (*ibid.*, 9–10). This price rise had a negative impact on both the U.S. economy and the rest of the industrialized world. Between 1973 and 1975, for instance, imports to the United States fell from 6,256 to 6,056 barrels per day and GDP, measured in 1996 constant dollars, declined from 4,123 to 4,084 billion dollars (U.S. Bureau of Economic Analysis 1929–1997). GDP also declined in many countries not subject to the embargo.

It would, however, be simplistic to conclude that oil was the only factor responsible for this decline. Capitalist economies are cyclical and subject to downturns. There is evidence that a decline probably would have occurred even if oil prices had remained stable. The rise in prices nevertheless made the downturn more severe. Oil, after all, is the nutrient of an industrial society. A sharp rise in its price is bound to have a negative impact on its economic activity.

This use of oil as a weapon has prompted the oil-deficient nations to use diplomatic, economic, and, as in Iraq today, military measures to attain their goals. In short the story of oil is one of conflict over the control of this instrument of control.

Canada's Role

Canada is destined to play an increasingly important role in this struggle. As can be seen in Table 2, Canada and the United States are the only G-7 countries with substantial oil reserves. The U.S. reserves of approximately 29 billion barrels are almost twice as large as those of Canada's 17 billion. Despite its relatively large reserves, the United States imports about two-thirds of the oil it consumes. Canada, on the other hand, is a net exporter. In addition, at the 2004 rates of production, the U.S. reserves will last only eleven years while the Canadians' oil will last fifteen years.

In reality, Canada probably has much larger reserves than that indicated in Table 2, which is based on British Petroleum's estimate. That estimate does not take into account the potential of Alberta's oil sands. In a report

issued in February 2005 the U.S. government's Energy Information Agency (EIA) stated that the *Oil and Gas Journal* claimed that Canada had "178.8 billion barrels of proven oil reserves in 2005, second only to Saudi Arabia" (U.S. Department of Energy 2005: 2). The report, however, points out that "the bulk of these reserves (over 95%) are the oil sands deposits in Alberta. The inclusion of the oil sands in official reserve estimates is not without controversy, because they are much more difficult to extract and process than conventional oil" (U.S. Department of Energy 2005: 2).

Chastko is more optimistic about the prospects for the oil sands. In his book on Alberta's oil sands, he claims

It holds more oil than Iraq's proven reserves of 112 billion barrels. It even holds more oil than Saudi Arabia's 250 billion barrels. In fact, Alberta's oil sands deposit contain between 1.75 and 2.5 *trillion* barrels of oil—approximately 200 billion barrels of which are recoverable with present technology. (2004: xiii)

His conclusion was based on data in a 2001 report by the EIA. He may, however, be too optimistic because little is known about its environmental impact and the cost of extraction from the deep reservoirs. Nevertheless there seems to be little doubt that the oil sands will play an increasingly important role in both Canada's and the world's energy future.

There are a number of reasons for this. First, the production of conventional oil in the United States is steadily falling. As Table 3 shows, U.S. production fell from 8.4 million barrels per day in 1994 to 7.2 million in 2004, a decline of 14 percent. During the same period, oil production outside the United States rose by 24 percent. Furthermore, as Table 4 indicates, the U.S. ranking fell from being the world's second-largest producer in 1994 to that of the third in 2004. Its place was taken by the Russian Federation, which rose from third to second place. The United States, which in the early years of the twentieth century was a major exporter of oil, has become highly dependent on oil imports.

This dependence makes the United States vulnerable to the demands of those who have control of oil, thus threatening to undermine its role as the world's only superpower. The acquisition of Canadian resources will help it to preserve and expand this role. Its chief interest lies in the Alberta tar sands. If the optimists prove right, those who control these sands will receive a bonanza.

The United States may encounter political problems if it wants to gain complete control over both the tar sands and conventional oil in Canada. In 1930, the federal government transferred the subsurface min-

Table 3

Changes in World Crude Oil Production, 1994–2004 (millions of barrels per day)

	1994	2004	Change	% Change
North America				
United States	8.4	7.2	-1.1	-14
Canada	2.3	3.1	0.8	36
Mexico	3.1	3.8	0.7	22
Total	13.8	14.2	0.3	2
South and Central America	5.3	6.8	1.4	27
Europe and Eurasia	13.7	17.6	3.9	29
Middle East	20.1	24.6	4.5	22
Africa	7.0	7.9	2.3	32
Asia Pacific	7.2	9.3	0.7	10
Total Without U.S.	58.7	73.0	14.3	24

Source: BP Statistical Review of World Energy, June 2005.

Table 4

Change in Crude Oil Output by Leading Producers, 1994–2004 (millions of barrels per day)

	1994	2004	Change	Rank	
				1994	2004
Saudi Arabia	90.8	105.8	15.0	1	1
United States	83.9	72.4	-11.5	2	2
Russia	64.2	92.9	28.7	3	3
Iran	37.3	40.8	3.5	4	4
Mexico	31.4	38.2	6.8	5	5
China	29.3	34.9	5.6	6	6
Totals	336.9	385.1	48.1		

Source: BP Statistical Review of World Energy, June 2005.

eral rights on all land not settled by nonaboriginals³ to the provinces. Since most of Alberta was unsettled by that time, the province received ownership of the subsurface mineral resources within its boundaries. Oil companies operating in Alberta had to deal with the provincial government. That government has always had friendly relations with the companies. This relationship has often caused conflict between the province and the national government. It has made it especially difficult for Canada to have a consistent policy on foreign ownership and exports. This is a problem that has yet to be resolved.

Through its tax and other regulations, the United States provides incentives for its corporations to invest in other countries. Therefore many private companies have sought and will continue to seek profits abroad. This policy raises an important question rarely, if ever, discussed by traditional economists. Are these companies acting as agents of the U.S. government, or is the U.S. government acting as their agent? This is an important question because it reveals the incompatibility between capitalism and democracy.

In a democracy each citizen has one vote. Presumably the prince and the pauper have an equal voice in determining policy. But this is not the rule in the corporate sector, where the votes of the owners are based on the amounts invested. In that sector each dollar has one vote. This rule is based on the principle that those who assume the greatest risk by investing the most money should have the greatest say. No corporation could attract investments without such a rule.

This raises the question about the relationship between these two forms of governance. Traditional theory holds that they are distinct and independent bodies. The interaction between these two entities is often ignored. What is essential here is the ability of one of the sectors to dominate the other. In the public sector, where one person has one vote, that vote is based on the individual's interpretation of the alternatives. For a democracy to function efficiently the individual voter must know the full implications of his or her choices.

However it is very difficult, if not impossible, for most citizens to have access to all the relevant data. Most of their information comes from the media. Since the media's main source of income is advertising, the media are reluctant to air anything damaging to their patrons. When it comes to discussing policy issues, the media, using an economic analogy, create an imaginary demand curve, which conveys a perception of reality that only vaguely resembles reality. People make choices based

on this perception, choices that may not correspond to their interests. As a result, they often elect candidates who represent the wealthy.

This also raises the question of whether the government's support of foreign investment by the oil companies stems from national security considerations or from the desire to protect the profits of that industry. Whatever the answer, there is no doubt that there has been a close relationship between the oil industry and the U.S. government through most of the twentieth century and in the early years of the twenty-first.

In Canada, this relationship became clear in the early years of the oil industry. Oil was discovered in Oil Springs, Ontario, in 1857, two years before its discovery in Titusville, Pennsylvania, in 1859 (McQuaig 2004). A group of refinery owners in Sarnia, Ontario, founded Imperial Oil in 1880. After running into financial difficulties, the owners sold the majority of their shares to Rockefeller's Standard Oil Company in 1898 (Sawyer 1985). This transaction occurred around the time of the Spanish-American War, when the United States was annexing former Spanish colonies, like Puerto Rico and the Philippine. These annexations provoked a fierce debate in the United States.

This skepticism was perhaps best expressed by Carl Schurz, one of the country's most influential political leaders, who probably would have been president had he not been born in Germany.⁴ In a famous article, "Manifest Destiny," written for *Harper's* in 1893, he argued against colonialism of any kind, stating that the United States could gain its economic objectives "without taking these countries into our national household" (Williams 1969: 365). Sometime later, President Howard Taft gave official blessing to this view in a 1912 speech on "dollar diplomacy." He said

The policy of the present administration has sought to respond to modern ideas of commercial intercourse. This policy has been characterized as substituting dollars for bullets . . . It is an effort frankly directed to the increase of American trade upon the axiomatic principle that the government of the United States shall extend all proper support to every legitimate and beneficial American enterprise abroad. (Williams 1956: 494–95)

The United States is still pursuing this policy. Since most oil firms operating in Canada are U.S. owned, it has the potential of creating serious problems in Canada–United States relations. The largest oil company in Canada is Imperial Oil. Its major shareholder is the ExxonMobil Corporation, which holds 69.6 percent of its shares.⁵ Imperial is also the

Table 5

Syncrude's Owners

Owner	Shares (%)	Nationality
Canadian Oil Sands Ltd.	37	46% non-Canadian
Imperial Oil Resources	25	American
Petro-Canada Oil and Gas	12	Mixed
Conoco-Phillips Oil Sands Partnership II	9	American
Nexen Oil Sands Partnership	7	Mixed
Murphy Oil Company Ltd.	5	American
Mocal Energy Ltd.	5	Japanese
Total U.S.-owned companies	39	

Source: *Syncrude Report* (www.syncrude.com/who_we_are/01_01.html).

second largest shareholder in Syncrude Canada Ltd., the world's largest producer of crude oil from the oil sands as well as the largest single source producer in Canada. Syncrude currently supplies 13 percent of Canada's petroleum requirements.⁶ As Table 5 indicates, Imperial, together with other U.S. firms, controls at least 39 percent of Syncrude's shares.

The portion of American interest may be even higher, depending on the distribution of share ownership in Petro-Canada. In 2004 the Canadian government decided to sell 49 million shares in the company to the private sector. Petro-Canada then filed the preliminary prospectus with securities regulatory authorities in Canada and a registration statement with the U.S. Securities and Exchange Commission (SEC) (Petro-Canada 2004a). The filing with the SEC indicates that the Canadian government is actively courting U.S. investors. If the American investors, presumably oil companies, gain control of Petro-Canada, then the United States will have an even tighter grip on the oil sands.

The sale of the Petro-Canada marks the reversal of a government policy to keep the ownership of Canadian oil in Canadian hands. Given the vagaries of capital markets, it was believed that government ownership was the only sure way to accomplish this end. Thus, in 1975, Parliament passed the Petro-Canada Act, establishing a Crown corporation to create a strong Canadian presence in the oil industry and identify new Canadian energy resources. In 1991, following the trend in Great Britain, the government took steps to privatize the company by selling off

shares of common stock, reducing its interest to 20 percent (Petro-Canada 2004b). With the 2004 sell off of this 20 percent, the company now is completely privatized.

The implications of this privatization are enormous. Assuming that economical ways can be found to extract the oil sands and that its ecological damages can be significantly reduced or completely eliminated, then Canada can become another Saudi Arabia. This will provide an incentive for the United States to gain complete control over Canada's oil. It has already gained considerable control through the International Energy Program (IEP) and the North American Free Trade Agreement (NAFTA) between the United States, Canada, and Mexico.

In the wake of OPEC's oil embargo in the 1970s the United States took the lead in establishing the International Energy Agency (IEA) in 1974. The IEA members drew up the Agreement on an International Energy Program (IEP). The signatories were Austria, Belgium, Canada, Denmark, Germany, Ireland, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, Turkey, and the United Kingdom. Since then, the following countries acceded to the Agreement: Australia, Czech Republic, Finland, France, Greece, Hungary, Korea, New Zealand, and Portugal. Norway participates in the agreement as a member under a special agreement.⁷

This agreement calls for energy sharing if "the group as a whole or any Participating Country sustains or can reasonably be expected to sustain a reduction in its oil supplies."⁸ Its provisions spell out the responses needed to counteract an "emergency" reduction of supplies to a member state. The responses are determined by votes of the member states. But, as in a corporation, these votes are not equally distributed. As Table 6 indicates, the United States, one of the 25 signatories, has 26 percent of the vote, far more than any other member, while Japan, the second most powerful nation in the group, has slightly less than 10 percent. Canada has wound up with a mere 4 percent.

This distribution of voting power gives the United States considerable leverage in determining what constitutes an emergency reduction. It protects the United States against future oil embargos, regardless of the reason for that embargo. An oil embargo, it should be noted, may be the only weapon that the weaker nations can use against the more powerful ones. The provisions of the IEA would force Canada to oppose all embargos against the United States or any other member of the IEA, regardless of the reasons for them.

In the case of Iraq, the provisions of the IEA could cause a dilemma

Table 6

International Energy Agency Voting Rights

	Voting Weights			%
	Oil General	Consumption	Combined	
1 Australia	3	1	4	2.3
2 Austria	3	1	4	2.3
3 Belgium	3	1	4	2.3
4 Canada	3	4	7	4.0
5 Czech Republic	3	1	4	2.3
6 Denmark	3	1	4	2.3
7 Finland	3	1	4	2.3
8 France	3	6	9	5.1
9 Germany	3	8	11	6.3
10 Greece	3	0	3	1.7
11 Hungary	3	1	4	2.3
12 Ireland	3	0	3	1.7
13 Italy	3	5	8	4.6
14 Japan	3	14	17	9.7
15 Korea (Republic of)	3	1	4	2.3
16 Luxembourg	3	0	3	1.7
17 Netherlands	3	1	4	2.3
18 New Zealand	3	0	3	1.7
19 Portugal	3	0	3	1.7
20 Spain	3	2	5	2.9
21 Sweden	3	2	5	2.9
22 Switzerland	3	1	4	2.3
23 Turkey	3	1	4	2.3
24 United Kingdom	3	5	8	4.6
25 United States	3	43	46	26.3
Total	75	100	175	100.0

Source: Agreement on an International Energy Program, Article 62, p. 23.

for Canada. It refused to support the U.S. invasion of that country, an invasion not sanctioned by the United Nations. Let us assume that in response to this invasion, Iraq was able to convince its allies to stop all oil shipments to the United States. Let us further assume, that as a result of this decision the members of the IEA voted to share energy

with the United States. Canada would then have to reduce its oil consumption to help the United States in a war that it opposes. Canada's participation in the IEA therefore deprives it both of its right to pursue an independent foreign policy and to use its energy resources for its own interests.

Another constraint on Canada's policy options is NAFTA, which came into force in 1994. Annex 608.2 of the treaty reinforces the IEA provisions by stating that "Canada and the United States intend no inconsistency between this Chapter and the Agreement on IEP. In the event of any inconsistency between the IEP and this Chapter, the IEP shall prevail as between Canada and the United States to the extent of that inconsistency." Mexico, however, is exempt from this restriction.

It is interesting to note that, while the oil firms operating in Canada are mostly American-owned, the oil industry in Mexico is nationalized. There are no foreign private firms in Mexico that can act like Trojan horses to pressure the Mexican government to adopt measures favorable to their home governments.

Conclusion

Canada is the only member of the G-7 that has considerable oil reserves. If the oil sands can be developed, Canada will become a major oil power, possibly greater than Saudi Arabia. Situated next door to the United States, its oil would be a tempting target for those who want to fuel America's war machine.

America's leaders are well aware of Bérenger's dictum shown at the beginning of this paper that "he who owns the oil will own the world. Who has oil has empire." The question Canadians will have to ask themselves is to what extent they will permit this instrument of control to be used to build an American empire as opposed to the promotion of their own interests.

Notes

1. It should be noted that when Margaret Thatcher became prime minister in 1979, she began selling off the government's shares. The last sale took place in 1995. BP has been a completely private company since then.

2. The British, despite their misgivings about the mixed nationality of Shell, regarded its reserves as part of Britain's reserves. In this instance, their policy was exactly the same as that of the Americans. See Hartshorn (1962).

3. In most of its land policies, the Canadian government assumed that the native population did not exist.

4. The U.S. Constitution limits the presidency only to those born in the United States. No naturalized American citizen can become president.
5. See www.imperialoil.com/Canada-English/ThisIs/Profile/TI_P_CorporateProfile.asp.
6. See www.syncrude.com/who_we_are/index.html.
7. *Agreement on an International Energy Program*, November 18, 1974.
8. *Agreement*, ch. 4, Article 12.

References

- Chastko, P. 2004. *Developing Alberta's Oil Sands*. Calgary: University of Calgary Press.
- Great Britain. 1913. *5 Parliamentary Debates* (Commons), LV.
- Hartshorn, J.E. 1962. *Oil Companies and Governments, An Account of the International Oil Industry in its Political Environment*. London: Faber & Faber.
- Jenkins, Gilbert. 1985. *Oil Economics Handbook—1985*. London: Elsevier.
- McQuaig, L. 2004. *It's Crude, Dude*. Toronto: Doubleday Canada.
- O'Connor, H. 1962. *World Crisis in Oil*. New York: Monthly Review Press.
- Petro-Canada. 2004a. "Historical Overview." Available at www.petrocanada.com.
- . 2004b. "Petro-Canada Files Prospectus Related to Sale of Government of Canada Shares." News Release, September 16.
- Sampson, A. 1976. *The Seven Sisters: The Greatest Oil Companies and the World They Shaped*. New York: Viking Press.
- Sawyer, D.C. 1985. "Imperial Oil Limited." In *The Canadian Encyclopedia*, vol. 2. Edmonton: Hurtig.
- Stork, J. 1975. *Middle East Oil and the Energy Crisis*. New York: Monthly Review Press.
- Tramerye, P. L'Espagnol de la. 1924. *The World Struggle for Oil*. New York: Knopf.
- Tugendhat, C., and A. Hamilton. 1975. *Oil, the Biggest Business*. London: Eyre Methuen.
- U.S. Bureau of Economic Analysis. 1929–1997. *National Income and Product Accounts*. Washington, DC: Government Printing Office.
- U.S. Department of Energy, Energy Information Agency. 2005. *Country Analysis Briefs, Canada*.
- U.S. Federal Trade Commission. 1952. *The International Petroleum Cartel*. Washington, DC: Government Printing Office.
- U.S. Fuel Administration. 1921. *Final Report of the United States Fuel Administration, 1917–19*. Washington, DC: U.S. Government Printing Office.
- Williams, W.A., ed. 1956. *The Shaping of American Diplomacy: Readings and Documents in American Foreign Relations*. Vol. 2. Chicago: Rand McNally.
- Williams, W.A. 1969. *The Roots of the Modern American Empire: A Study of the Growth and Shaping of Social Consciousness in a Marketplace Society*. New York: Random House.

Copyright of International Journal of Political Economy is the property of M.E. Sharpe Inc. and its content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder's express written permission. However, users may print, download, or email articles for individual use.