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THE CANADIAN STATE AND STAPLES: AN EAR TO WASHINGTON

THE CANADIAN STATE AND STAPLES: AN EAR TO WASHINGTON

By

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ABSTRACT

Canada has long been viewed by social scientists as either an advanced industrial society or as a dependent neo-colony. Neither of these two frameworks were deemed appropriate for contemporary analysis of the peculiarity of Canadian development based on a new kind of staple and the role of the state in that process. Both advanced and dependent features are apparent in the Canadian case; both autonomy and the lack of it characterize the Canadian state's role in development. Canadian integration into the world system, and more specifically within the North American continental context, has produced a "semi-industrial", unevenly developed society which continues to provide primary resources to more advanced industrialized societies while exporting manufactures on a "gobetween" basis to less developed ones. It remains a captive of the staples trap. As Canada has industrialized, new "industrial staples"--semi-fabricated energy, mine, and forest resources in particular -- have become a peculiar core of indigenous production, a critical link in its dependency vis-à-vis the United States, and the material basis of a continental development of industrial resources in the postwar era. These new staples and the role of the Canadian state in facilitating their corporate growth are key in understanding the peculiarity of Canada's "semi-industrial", dependent development in a more general sense. The core of the thesis examines in detail the state's role in the postwar development of three industrial product sectors: mine, energy, and forest staples by way of a series of hypotheses concerning the characteristics of the state's role. The data base consists of archival materials drawn from the federal civil service and from various continental and international forums concerning

resources.

An overall strategy on the part of the state which maintains and facilitates "continental industrial resource capitalism" in Canada is identified. This strategy is characterized by an "ear to Washington" stance on the part of Canadian policy makers and a "coattailing" of U.S. foreign and domestic policy regarding the priorities of resource development. Beyond the simple presence in productive sectors of massive amounts of U.S. direct investment and the power exerted by large multinational corporate entities on their own, the Canadian state plays a crucial, and previously inadequately described, role in the continuation of such dependent development. The thesis examines important elements of the socio-political maintenance and facilitation of such a continental resource policy within the federal bureaucracy and by way of its representations to the United States and its activities in furthering the international interests of resource capital. The Canadian state is found to reflect unequally the interests of U.S. and Canadian corporations both large and small within the three resource sectors in question. An examination of the interplay between resource strategies and the increasing concentration and centralization of control over capital and technology in the internationalized corporate capitalist phase indicates that in all three cases the Canadian state has fostered the growth of monopolistic corporations at the expense of smaller, predominantly competitive corporations. Canadian resource firms are not fostered as an alternative to development of resourses by international capital. Nor does state participation in large-scale resource development projects act as a countervailing force vis-à-vis foreign capital, but rather is complementary to it and

underwrites its risks. The state has not attempted to maintain a check on monopoly in these sectors but has, on the contrary, substantially facilitated its growth.

The evidence thus challenges several current characterizations of the Canadian state which have proposed either absolute autonomy from special corporate interests or opted for a state model which over-simplifies the nature of the expression of corporate interests within the state. The evidence indicates neither autonomy from particular fractions of the continental capitalist class nor crude instrumentality in this regard by the Canadian state. Rather, the state's role, as seen in federal policy and the activity of federal personnel, involves the representation and filtering of corporate interests on an unequal basis and in a manner which operationalizes a continentalist as opposed to a nationalist alternative in developing industrial resources and which most often champions the larger (whether American or Canadian) at the expense of smaller corporations. The implications for industrial development entail continuing linkages to the U.S. economy and in certain instances to European and Japanese markets such that less and less forward processing of industrial resources takes place in Canada and fewer avenues for the generation and export of indigenous technology remain open. As such forward linkages are forsaken, the vulnerability of resource dependency is increased. An addiction to staples export prevails, but it is a malady which is actively facilitated by the role of the Canadian state.

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ABBREVIATIONS

AEC: Atomic Energy Commission (U.S.)

AID: Agency for International Development (U.S.)

A.P.P.A.: American Pulp and Paper Association

b/d: Barrels per day

BMC: British Metal Corporation

B.P.: British Petroleum

C.I.P.: Canadian International Paper Company

C.M.M.A.: Canadian Metal Mining Association

CPA: Canadian Petroleum Association

C.P.P.A: Canadian Pulp and Paper Association

C.P.R.: Canadian Pacific Railroad

CZ: Crown Zellerbach Corporation

DDP: Department of Defense Production (Can.-U.S.)

DND: Department of National Defense

DMP: An American stockpile contract code. (Also see S&CM)

DNP: Department of National Production

ECAFE: Economic Commission for Asia and the Far East (International)

EXIMBANK: Export-Import Bank (U.S.)

FAO: A U.N. food and agriculture organization.

FPC: Federal Power Commission (U.S.)

G.S.A.: General Service Administration (U.S.)

IAPPA: Independent American Petroleum Producers Association

ICPPA: Independent Canadian Petroleum Producers Association

IMC: International (Raw) Materials Conference

ITRB: International Trade Relations Branch (Can., Dept. of Trade & Commerce)

MB: Macmillan Bloedel

MPAB: Military Petroleum Advisory Board (U.S.)

NAC: Newsprint Association of Canada

NATO: North Atlantic Treaty Organization (International)

NDP: New Democratic Party (Can.)

NEB: National Energy Board (Can.)

Abbreviations (Cont'd)

NEMAC: Newsprint Export Manufacturers Association of Canada (a cartel)

NPA: National Production Authority (U.S.)

OCDM: Office of Civilian and Defense Mobilization (U.S.)

ODM: Office of Defense Mobilization (U.S., same as OCDM)

OECD: Organization of Economic Cooperation and Development (International)

OEEC: Organization of European Economic Cooperation

OIA: Oil Import Agency (U.S.)

OPEC: Organization of Petroleum Exporting Countries (International)

S&MC: An American stockpile contract code. (See also DMP)

In footnotes:

PAC: Public Archives of Canada

RG 20: Record Group 20 contains Industry Trade and Commerce materials.

RG 39: Record Group 39 contains Forestry materials before these were filed under RG 20.

CHAPTER ONE

INTRODUCTORY THEMES AND ISSUES

1.1 The Paradox of Canadian Growth: Centre or Periphery?

...a central contemporary dilemma conditions the questions Canadians want answered when they study their history. How can Canada be so rich and at the same time so dependent on an outside country - the United States? Or to ask the obverse question: if Canada is so dependent on the United States, why is it so well off compared to other countries in the American empire? 1.

Within the global perspective Canada presents itself as a paradox in its most essential characteristics. It is rich as well as dependent, but it is the peculiar nature of this richness and dependency which is so provocative and which becomes the nexus for a number of important issues and themes relating to the development of its resources. It seems to fit neither the "advanced" nor the "underdeveloped" paradigms of development. The specificity of its historical development between two overpowering empires provides the minimal spatial focus of contemporary debates about Canada's enigmatic dependent development. To account for the dominance and persistance of primary resources as well as the predominance of external control in certain of these sectors, and much of its more recently developed manufactures, sociologists, politicaleconomists and historians turn to the past to discover the formative forces of this structure. They attempt to explain the interrelatedness of contemporary structural imbalances to Canada's economic formation and its social structure.

Canada, as a producer of primary exports, might more accurately be described in relation to other developed and developing nations as a "semi-peripheral" or "semi-industrialized" nation, a "go-between" nation, in the midst of centre and periphery nations. Canada appears to share this semi-industrial status with countries like Australia and Argentina. Such possibilities may prove fruitful, for Canada seems to elude the existing categories put forward by developmental and dependency theorists of both liberal and Marxist persuasions, despite the insights their models bring to the discussion of neo-colonial development in general.

1.2 Predominance of Primary Exports and Highly Processed Imports

From a purely descriptive economic perspective, Canada's overdeveloped tendency to export primary resource products like peripheral
nations is irrefutable, despite the fact that its overall rate of domestic capital formation has been relatively high since the middle of the
19th century and its gross national product per capita is one of the
highest in the world, a feature shared with "centre" nations. Unlike
some primary resource producers, Canada has a somewhat diversified resource export base. But, as Pierre Bourgault has emphasized, Canadians
have become increasingly "hewers of wood and drawers of water"-- a
structural feature of underdevelopment most readily demonstrated in a
peculiar split in trade balances. 3.

Canada has the most positive trade balances in a variety of unprocessed or primary exports: pulp and paper, lumber, copper, wheat, nickel, aluminum, iron ore, asbestos, fertilizer, petroleum and natural gas. It continues to import and sustain a negative trade balance in

highly processed, technology and capital-intensive products: machinery, chemical products, transport, scientific and communication equipment, computers and their parts, photographic goods and film, electrical products, etc. These latter products are those identified as typically important secondary industrial sectors in advanced industrial nations and constitute the most rapid growth sectors in the world economy.

At the same time that Canada's natural resource exports have become increasingly "industrial" raw materials, their most processed forms are re-imported.

...(Canadians) are the world's largest producer(s) of nickel, but we are net importers of stainless steel and manufactured nickel products...; we are the world's second largest producer of aluminum, but we import it in its most sophisticated forms... we are the world's largest exporter of pulp and paper, but we import much of our fine paper and virtually all of the highly sophisticated paper, such as backing for photographic film and dielectric papers for use in electronic components...; we are large exporters of natural gas and petroleum, but we are net importers of petrochemicals; and, although we are the world's foremost exporter of raw asbestos fibre, we are net importers of manufactured asbestos products. 4.

1.3 The Historical Importance of the International Context

The present-day structural features of Canada's trade imbalance are a striking indictment of Canada's persistent resource dependency as well as a measure of its technological dependency, two themes which are taken up by Third World "dependency theorists" and which go back through Canada's political economy to its origin as a colony. In the 1930's Harold Innis, a major proponent of the indigenous "staples theory", realized Canada's dependent growth could not be separated from its international context since it derived from and reinforced the advance of

industrial growth in imperial centres.

The economic history of Canada has been dominated by the discrepancy between the centre and the margin of western civilization. Energy has been directed toward the exploitation of staple products and the tendency has been cumulative. The raw material supplied to the mother country stimulated manufactures of the finished product and also of the products which were in demand in the colony. 5.

Dependency theorists of the Latin American structuralist school would in the 1960's sharpen the focus of the international context of development even more to analyze the extension of capitalism itself in draining capital from the margin to the centre, by creating both development and underdevelopment. This established dependency became institutionalized, pervasive, self-reinforcing as well as externally reinforced by continued infusions of technology and investment from the centre industrialized nation. The internal socio-economic and political fabric of the staple-producing country become distorted, as Innis remarked: "Agriculture, industry, transportation, trade, finance and governmental activities tend to become subordinate to the production of the staple for a more highly specialized manufacturing community."

Canada's dependency on primary products is inseparable from the western world's process of industrialization and the expansion of capitalism in creating a world market. Although the locus of the centre of the most advanced industrial development might shift from Britain to the United States, and Canada might become a politically independent state and semi-industrialized economy, she would not overcome the institutionalized constraints and the internal regional conflicts introduced by her earlier integration into the world economic system. Canada would continue to produce staples whether commodities such as fur, fish, or

timber for mercantile Britain, or industrial products such as wheat (for Britain) and later industrial minerals, fuels, and pulp and paper for the United States.

1.4 New Aspects of Technology

A major feature of dependency on staples production is structured on imported technology. Innis describes the various dependency techniques of staples extraction and emphasizes the importance of improvements in transportational infrastructures, both privately and publicly funded, in the rapid movement of products to distant markets. There is a structured technological dependency which goes beyond the fortuitous discovery and implementation of such improvements however; also transcends the dividing of epochs into transportation ít eras - wooden ship, steamship, railroad, automobile - and noting the direction of pulls these exert on the socio-economic fabric. Dependency theorists have had to take technology out of the abstract as well as the simply descriptive realms and look at new ways in which it is organized. Technology as a kind of capital which can be accumulated and as a kind of product requires a receptive market. In terms of technology's research and development and in the alienation of its ownership the Canadian state played a particularly interventionist The rise of new capital formations, so important in new staples production, has greatly altered its availability and socio-economic impact.

1.5 Structural Changes in Capital Formation

The Multinational

The mechanisms of integrating Canada's resource base into the world system have transcended and incorporated those described in the staples literature with the new importance of direct investment, concentration of ownership within resource sectors and the rise of the multinational enterprise at the centre. Such structural changes in capital formation with the growth of corporate capitalism have led to increased centralization within global enterprises. Decision-making, research and development, the generation and concentrated acquisition of both capital and technology, and the continued though perhaps altered role of the state in facilitating these trends in the extraction of resources by both multinational and national enterprises must be addressed.

To include and incorporate changes in a more comprehensive model of staples growth, it is necessary to turn to the dependency literature of the neo-Marxist, structuralist school. These theorists provide a model of the "subsidiarization" and "dis-integrating" structural effects such transnational organizations have on capital formation and suggest a dependent role for the state whose resource sectors are penetrated.

Direct Investment and Alienation of Control

Post-World War One and particularly post-World War Two changes in the patterns of investment in Canada show increasing predominance of U.S. direct investment in Canada's industrial resources. H.G.J. Aitken has documented this feature of increasingly alienated ownership and

control and linked it to the prominence of U.S. markets for such resources. This phenomenon presents a new dimension in the debate over the nature of Canadian resource dependency. The influx of U.S. direct investment into the productive sectors of the economy (manufacturing and resources) appears to remove control, in part, from the Canadian capitalist class. In contrast, the earlier predominance of British and U.S. portfolio investment, often in the infrastructural transport systems, facilitating circulation of staples and manufactured goods, left ownership of the productive spheres in the hands of the Canadian bourgeoisie (however entrepreneurial or merchant-like it might be.) What implication does such alienation of control in the capital-producing sectors have for the ability of Canadian capitalists and the Canadian state to affect the course of resource extraction and retain secondary processing in Canada?

1.6 Internal Social Relations: Capital and Labour

The nature and evolution of the Canadian bourgeoisie and its external alliances with centre bourgeoisies become a focal point in attempts to explain the internal social relations that have shaped and been shaped by the development of Canada within the world economic system. Historians and social scientists from Donald Creighton and Stanley Ryerson to Tom Naylor and Wallace Clement have attempted to clarify and offer various versions of the role of the capitalist class or fractions within it. This class and the roles of the state it created are crucial to an analysis of the formation of an industrial or semi-industrial resource-exporting capitalist nation. Very few

social historians, S. Ryerson and H.C. Pentland being notable exceptions have specifically addressed the character and formation of a capitalist or industrial wage-labouring class. However, the latter two have not indicated in what ways the characteristics of the labour force have been affected by the shift to industrial staples productions particularly. If the "company town" has been an early feature of industrial staples production which has served to maintain local and somewhat "captive" free-wage labour sectors, in what ways has the state facilitated the employment or control of labour in what are increasingly non-labour intensive resource sectors? Can we assume that the "rationalization" of production in the form of large-scale multinational enterprises has been similarly accompanied by a fully rationalized labour force, or are there built in vulnerabilities divergent from expected free-labour market characteristics?

1.7 Five Components of Staples and Dependency Models

The issues and themes outlined above are both complex and wideranging; they indicate however, both the centrality of resource staples
production to the problem of Canada's socio-economic dependency and the
necessity for a coherent new staples theory of development. The issues
revolve around the changing nature of five fundamental components: (1)
the influence and structure of the world market; (2) capital formation
(including changes in types of investment, source of investment and new
crganizational forms of capital accumulation); (3) the role of the
state of the resource-producing country in sustaining capital accumulation
within the staples sector; (4) the nature of technological

dependency and the control and accumulation of <u>technology</u> as a form of capital in the staples sector; and (5) the changing characteristics of the relation between <u>classes</u> that emerge from the staples mode of production. Classes shape the policies of the state in their attempts to regulate production. We have thus chosen to focus our attention on the role of the state, with reference to the other four components, since it is this social institution which is central in negotiation of long-term strategy and affecting the social results of resource policies. The state has an increasingly important role in facilitating capital accumulation in the advanced monopoly stage of capitalism. It is in the institutional and ideological realms of state policy making that class interests are reflected and filtered.

Unsatisfied with the explanatory power of either the staples approach or dependency theories designed to account for Third World integration into the world system of contemporary capitalism, we evaluate the important contributions of both approaches in Chapter Two. Our general thesis is that the role of the Canadian state in formulating class-biased policies of capital accumulation and in legitimating such policies has been crucial in sustaining dependency upon industrial resource export in the postwar era. This development strategy is characterized by an open-door policy toward international direct investment and an acceptance of the notion that external markets are to be fostered by the largest monopolistic enterprises. The resulting "junior-partner" position that Canada has assumed vis-à-vis the imperial policies of the United States is translated into deepened dependency on imported technology and capital-intensive manufactured goods as well as a

continental division of labour and decision-making control which effectively reduces Canadian sovereignty generally.

While the amount and type of American investment in resource sectors has provided an important foundation for such policies, it is the representation of allied Canadian class interests in the Canadian state that sustains the strategy. It is not only the continental context that creates the conditions for Canadian dependency, however. Alternative strategies within the international context have been rejected consciously and such examples have been drawn upon by state policy makers only to solidify the ideological foundations of a continental industrial resource capitalism. Balkanization has been a result within Canada and the possibility of alliance with other resource producing countries in an effort to bargain over the conditions of such development has been rejected at the international level.

CHAPTER TWO

A NEW STAPLES THEORY: HISTORICAL AND CONTEMPORARY ROOTS

Chapter Two constitutes a critical review of the theoretical literature deemed important as background for our analysis of Canadian industrial resource dependency and the contemporary state's roles in its perpetuation. It will be evident from the selection of theoretical materials that an interdisciplinary approach has been chosen. For a number of reasons, however, we focus on the state and the way this institution co-ordinates Canadian resource development. The state has grown significantly in size and in the scope of its intervention in the postwar era of advanced capitalism. More specifically, it facilitates the accumulation of capital and legitimates this process. It has, thus, become the crucial and visible component of analysis for an understanding of the linkages between dependent economic development and the socio-political, for it is a kind of mirror or concentrating lens of the power relationships that sustain patterns of uneven development. Focusing on the roles of the state in directing important aspects of development corrects, as well, an unfortunate tendency in some of the staples and dependency literature toward economic determinism.

The political economic analysis of Canada as a staples producer with a satellite position <u>vis-à-vis</u> metropoles links Harold Innis, in general perspective, to a school of thought called "dependency theory"

which emerged from Latin America in the 1960's. Innis' realization that Canada's position in the world system was not adequately addressed by either traditional liberal or Marxist economic thought eminating from these metropoles makes his contribution the logical starting point in our endeavour. The dependency theorists' description of the multinational as a new element in capital formation and control in advanced capitalism makes their work essential to a revision of his thesis as well as that of traditional Marxists. For contemporary neo-Marxist analysis of the alienation of control that multinational penetration brings to the resource-exporting nation state, we turn to J. Petras, A.G. Frank, G. Kay, P. Baran and H. Magdoff. Where Innis fails to analyze the dynamics of class and state in the process of Canadian staples dependency, D. Creighton, S. Ryerson, H.C. Pentland, R.T. Naylor and W. Clement are examined for specification of these social relations. We then provide an appraisal of the applicability of general contemporary Marxist analyses of the state to the Canadian case. We come, by this route, to the formulation of a theoretical model of postwar strategies of capital accumulation which we characterize as "continental industrial resource capitalism," which Chapter Nine lays forth in greater detail.

2.1 Innis: An Early Model of Staples Dependency

We will turn first to the staples approach as put forward by Harold Innis to delineate those elements most useful in his treatment of the five dimensions of research outlined in Chapter One (the world market, capital formation, the state, technology, and class), and determine what interrelationships, if any, he has emphasized. Subsequently

an analysis of the nature of the Canadian bourgeoisie as treated by Creighton, Ryerson, Naylor and Clement, will indicate certain features of those social relations of production which are underemphasized in Innis' treatment.

Of the early staples theorists, Innis has made the most unique contributions to an understanding of resource dependency. W.A. Mackintosh, though influential in the trends of "new economic" measurement of incremental growth based on the wheat staple, viewed staple production as leading to industrial autonomy, a stance incompatible with the realities of Canada's contemporary dependency. A.R.M. Lower, recognized that staples production meant "demand centres calling on supply centres" but did not add substantially to the Innesian model which is based on the notion of unequal exchange of manufactures for raw materials. 1.

Innis attempted to clarify the history of transportation and trade relations between Canada and older countries by focusing on the economic history of individual staple industries, emphasizing as his "motor force" their characteristics, and describing extractive techniques and forms of capital organization. Staples were developed in response to exterior world markets, the starting point in his model. The characteristics of this exterior market are not investigated critically by Innis, however. He suggests instead the acceptance of given models of the world market which do not question the nature of capitalism saying, "Economists will be safe in following the political scientist and the historian in their studies of the relationship of Canada to other countries."

The sequencing of the production of major staples is linked to

the accessibility of water transport (or geographical opportunity) and the progressive improvement of transport via technology. In fact, imp= roved transport seems to correspond, in Innis' mind, to "Technology" per se, in the trans-specific sense of an overall accumulated body of applied knowledge, a general gauge of the development of the mode of production, as opposed to "technique" which Innis describes on the minute staple-specific level. Innis' "technique" comes closer to the notion innovation characterized by a measure of serendipity and limited by the material peculiarities of each staple commodity. While both are referred to as "techniques", the analytical discontinuity between two conceptions allows Innis to ignore or trivialize the these important links between the social organization of capital accumulation and technology as a means to this end and as a type of capital itself. Innis proceeds, thus, on the macro-level, to divide Canadian economic history into two technological periods - water and land transport - with fish, fur and lumber trades in the first and wheat, minerals, lumber, and pulp and paper in the railway or second era. Either market destination or type of investment however, as an era demarcation, would put wheat in the first era of East-West trade to British markets and the last three staples in the American, North-South trade axis.

Labour in Innis' model is one of the least analyzed features of staples production. While we are treated to a wealth of detail on the material techniques of production of each staple, we are given no sense of labour's fundamental relationship to capital. For classes in his model are shaped by the character of the staple; they are not a motor force or dynamic in and of themselves. The material characteristics of

the staple itself are given credit for the appearance or lack of a labour fource. A wheat economy required small entrepreneurs rather than plantation slaves. Bulky, heavy staples such as timber involved "unused capacity" on returning ships - hence immigration to Canada and a labour force for wheat production. We do not have an analysis of the state's role or the monopolies' roles in creating or maintaining a docile work force, agricultural or industrial, nor a sense of the economies of surplus extraction from this labour force as a class. Innis indicates, for instance, in Settlement and the Mining Frontier, that placer gold mining could attract thousands of small entrepreneurs or individual workers while mining that required large-scale machinery required corporate organization and less labour. But the cause rests with the physical properties of the staple; exploitation of either form of labour by large-scale trading companies in the first case and mining companies in the second is absent from the analysis. Similarly, the state's role in facilitating both capital accumulation and employment are insufficiently analyzed.

The emergence of the Canadian state, as a strong interventionist (though peculiarly impersonal, "objective") force in the Innis model coincides with the transition from one transport mode to another, and from one mode of production or "trade" to another (mercantile to "free-trade"), resulting in a shift of the financial burden of staples circulation to the Canadian state. However, this observation is not connected, for Innis, to class interests. The state's primary function appears to be the public subsidization of the infrastructure including, indirectly, of course, technological subsidization through financing

railways.

The difficult period of transition from water transport which dates roughly from the canals of the 1840's to the completion of the Canadian Pacific in 1885 is marked by the struggle for responsible government, the decline of the mercantile system, and Confederation, and these developments were more than coincidence. 3.

The precursors of the state, in terms of both capital organization the staples trade and consolidation of "technique" in both of of Innis' senses, were the fur companies and the extension through them of French and British rivalries. The initiative of these companies in consolidating technological innovations to capture markets is consistently noted but not theoretically analyzed and explained as a measure of their concentrated economic power to monopolize trade. It is noted, in passing, that the introduction of the york boat, for instance, allowed the Hudson's Bay Company to siphon off the fur trade from the French companies' Montreal metropole to ports on the Bay. 4. But Innis shies away from drawing explicit links between the general or class interests behind these events, or from specifying the links between the monopolies, the C.P.R., and the Canadian state. He persists in an avoidance of the issue of whose interests the state served, by explicitly dismissing such existing documentary attempts of these linkages as unscholarly or hopelessly biased. 5. Instead, Innis' explanation of the connections between such institutions of wealth and the state is rather weak: that institutions have a certain measure of inertia; they persist because they are there; monopolies and large interventionist state bureaucracies serve the function in a new country of overcoming the effects of vulnerability to external shifts in demand for staples by making it possible to shift from one staple to another with greater

flexibility.

Innis seems to have been aware of the heavy burden placed on the consuming and labouring public (and on the Maritimers in particular) by railway subsidization and tariff juggling. 6. Bringing the West and the East into a transcontinental and international market based on wheat production sparked industrialization in central Canada at the expense of those areas reliant on manufactures and subject to heavier transport costs. He stops short of explaining the structural basis of these regional disparities by portraying the state's role in creating this transport infrastructure as purely 'neutral'. In his model, the state operates on behalf of "capital accumulation" for Canada in general as opposed to reinforcing highly uneven private capital accumulation by certain class sectors in certain regions at the expense of others.

Similarly, the policy of nationalization takes place in a social structural vacuum within Innis' model. It is seen as necessary to the maintenance of efficient staples circulation, but whether the private owners of similar enterprises benefit or not is left unaddressed. The accurately noted increase in state intervention is inaccurately attributed to "new countries" only.

Government ownership in Canada is fundamentally a phenomenon peculiar to a new country, and an effective weapon by which the government has been able to bring together the retarded development and the possession of vast natural resources, mature technique, and a market favourable to the purchasing of raw materials. It was... the only means of accomplishing the task and retaining a substantial share of the returns from virgin natural resources... Private enterprise was not adequate to the task... 7.

The notion that private enterprise might refuse to carry out such socially needed projects, is another conclusion that Innis avoids making.

The state as a creation of a particular class is not part of his problematic. Denial of the "predatory" nature of capitalist development in Canada is, thus, important to Innis' conception of the state as a "neutral" supporter of "the cummulative spread of industrialism to new countries." 8. This denial is implicit in his model throughout, starting with his uncritical acceptance of liberal versions of the workings of the world market and accounting, perhaps, for his own over-emphasis on the material aspects of staples production as opposed to the social relations of that production. Hence, an investigation of the world market structure via the social relations of capitalism, the draining of capital out of Canada and its hinterlands on an unequal class basis, is not undertaken. Clearly, the notion that the state might have a role in facilitating such underdevelopment cannot be part of the problematic either. For Innis, in confusing the factors with the forces of production, the accumulators of capital nameless and classless. leaves

Dependency, while recognized as a condition of staples production, is thus described without being <u>explained</u>. It becomes a question of "circumstantial" dependency rather than of "structural" dependency. Within the limits of such a model, Innis cannot sufficiently explain the role of the bourgeoisie and the state in maintaining external dependence and engineering not only those internal regional disparities (which Innis does observe) but internal social divisions of a class nature upon which these regional disparities are based.

Innis became acutely aware that the Canadian economy had been realigned by the American demand for new staples, and that "American imperialism has replaced and exploited British imperialism" 10.

United States had become the new market for mineral and forest staples and a source of new regional conflict in Canada. But Innis' notions about the nature and concrete reality of American imperialism were rather befogged. He limited his analysis of imperialism on the economic level to the realm of commerce and trade, or what he termed "market pull". He did not analyze the impact of direct controlling investment or the structural difference in dependency that it brought. Though he mentioned in passing the existence of branch factories, he did not attempt to explain their structural importance in American imperialism, which he mistakenly thought consisted of some disembodied cultural and military ties. Though relevant, he was never able to relate these components to one another because he never saw imperialism as logically extended from capitalism. 11.

2.2 The Nature of the Canadian Bourgeoisie and of Capital and Class Formation in Canada

There are general limitations on the usefulness of historical accounts such as those of the Laurentian school, especially if the intent is to extract and critically examine the analysis of the social relations of production portrayed in these works. Historical writings not only have their theoretical limitations in that the historian's intentions are not necessarily primarily theoretical, but, the form of the presentation may cause what theories he <a href="https://doi.org/10.1001/jac.2001-jac

of the St. Lawrence and Stanley Ryerson's The Founding of Canada and Unequal Union are essential to understanding the social relations less discussed in Innis' staple histories. Their importance, for us, is for the purpose of clarifying the nature of the Canadian bourgeoisie and the state it founded. Finally, it is necessary to look at the heirs to such analysis, particularly R.T. Naylor and Wallace Clement, in order to further specify the uniqueness of the Canadian case, a necessary step in evaluating the validity for Canada of premises of dependency theorists who wrote in the 1960's and whose data were not based in Canada.

Creighton: Merchant Capital Ascendency

Donald Creighton traces the formation of a commercial class and the emergence of its state in relation to the history of British imperial and free-trade policies in North America. His major premise is that economic activities (trade in staples) and the interests that emerged from these were represented and reflected in the state, which in his view was not a neutral or non-sectarian institution of the type Innis presented. Creighton does incorporate central Innesian themes, however: the organization of the political economy around staples production based on a network of internal waterways and external metropolitan markets; the inherent instability and vulnerability of such reliance on external demand; and the tendency toward centralized institutions such as the fur companies which were mirrored in a centralized state. His main focus, however, is the successive political attempts of the Canadian commercial class to build a continental mercantile empire and his

lament that this "dream" was shattered by shifts in British policy from mercantile preferential treatment of staples to free-trade policies. Similarly, the competition of American trade routes drove the Canadian merchants to push for more and more costly infrastructural supports -- first canal and then railway improvements in the circulation of staples. It was the merchant class that saw, in the act of Union and the Confederation, in the creation of a state, the means of shoring up its empire and distributing the costs to other classes, particularly the agrarian community.

Thus the link to the metropole is a merchant bourgeoisie in Creighton's account, but for him it is the embodiment of progressive nationalist instincts and the seeds of industrialism, the survivor of the attacks of semi-feudal agrarianism represented in the defeat of the 1837 Rebellions. For Tom Naylor the account is similar, but the merchants represent the suppressors of a rising industrial bourgeoisie that might have delivered Canada from staples dependency. The commercial class' "dream" of the St. Lawrence empire becomes, for Naylor, the "nightmare" of a parasitic class, unable and unwilling to transform staples dependency to independent industrialization. This class siphons off profits from the overbuilt infrastructure of staples circulation and invites American entrepreneurs to industrialize the productive sectors of Canada. The state thus becomes an important element in the perpetuation of dependency after independence.

Naylor: Merchant Capital Dependency

Tom Naylor's characterization of the role of the Canadian bourgeoisie links it definitively to both staples trade dependency and the weakness of indigenously controlled industry. His analysis extends beyond Confederation to the First World War and modifies Donald Creighton's thesis. Capitalist class interests and the structure of capital formation are the central factors in the explanation of Canada's dependency, rather than the character of the staple itself. Canada's uneven development is attributed to its "hinterland" or colonial status in the mercantile empire of Britain and the Canadian merchant bourgeoisie's external links to metropolitan markets.

The strength of commercial capitalism in Canada was the result of the British colonial connection, and together they served to lock the Canadian economy into the staple trap. The domination of the Montreal commercial community in the colonial economic and political structure was the outgrowth of the pattern of dependence, and the stultification of industrial entrepreneurship followed from their control of the state and state policy... the resulting vacuum led directly to the reliance on American industrialism, in the form of entrepreneurs, patents, or direct investments. 12.

Ryerson and Pentland: Industrialization and Labour Transformation

It is argued by Stanley Ryerson and other Naylor critics ¹³. that a conflict between merchant and industrial capital has been exaggerated by Naylor. We will look into the broader international outlines of the antagonism that may exist between these two types of capital as well as their mutual dependence and the types of class fractions within the bourgeoisie which may be representative of these two types of capital in the developing country and in Canada particularly. First, let us look at what appears to be a more substantive criticism of Naylor's work which indicates new directions to be taken in an analysis of the transition to industrial staples production. Ryerson claims that by including both staples and railways in the

"commercial" sector, Naylor underestimates the degree to which industrialization and mergers of financial and industrial capital have taken
place.

The transformation of the staple from a commodity to an industrial product involves a transformation in the formation of an industrial labour force as well as transitions in capital formation and the capitalist class. It implies the creation of a "free" wage-labour force and the extraction of surplus value in a resource extraction industry.

14.

Thus, while Canadian capital may be over-developed in sectors of circulation, we need to explain aspects of the transformation of labour, as well as capital in the sectors of production. It may be that specific vulnerabilities are created for the industrializing labour force which mirror uneven transformations of merchant to industrial capital.

H.C. Pentland points to the persistence of and the late transformation from a "pre-capitalist" to a "capitalist" labour market in Canada. Despite the fact that Canada had been incorporated early into world capitalist trade, and was in this sense part of the capitalist system, it was not until the mid-nineteenth century that "feudalistic" labour relations, predominant in early staples production, began to be transformed to "free" wage-labour relations characteristic of industrial capitalism on a substantial scale. This was accomplished by the importation of masses of dispossessed British and especially Irish peasants for the construction of Canadían canals and railroads-- projects which engendered new industries and machinery production as well as provided the transport infrastructure for staple circulation. 15.

This feature makes Canada's social structure and degree of industrial-

ization substantially different from those of Third World countries.

Because early staples were drawn from an extensive area, often involved seasonal activities, and were subject to abrupt shifts in price and profit, they were unfavourable to the early development of a capitalist labour market governed by impersonal monetary relations and reduced responsibility for social overhead costs on the part of the owner. Instead their production involved the maintenance of personal ties and the absorption of overhead costs by either "entrepreneur" or the petty commodity producer. Unlike slavery, independent commodity production and its relations of employment could make use of the required non-routinized or semi-skilled labourer and accomodate seasonality of work activities at less expense than either wage or slave labour.

The fur trade required such contractual dependence; its use and abuse of indigenous Indian labour coincided with independent commodity production by French-Canadian labour. Early timbering operations were either the seasonal work of farmers clearing land (who would then be outside the control of a free wage-labour market) or the more "quasifeudally" recruited logging gangs of the parish system in Quebec. Because of a deficiency of "free" labour, military labour had to be used in the early canal and road building days despite the greater suitability of "free" labour. Similarly, the St. Maurice iron forges were maintained for 150 years on the basis of "semi-feudal" labour. 16. In these last two cases, family ties and family-based recruitment characterized the labour pool.

The Canadian state and its precursor colonial administrations played a substantial role in immigration policies that helped create

such a free labour force and in land policies which kept this labour force off the land for some time. Requiring as it did a variety of skills subject to seasonal shifting of activity, a wheat economy was inimicable to plantation - routinized labour. This was another feature production that caused Canada's social structure to differ of from that of many Third World countries. However, a capitalist labour force was created, albeit late, and it coincided with the existence of various forms of independent commodity production labour, as well as a strong state role in regulating the flow of labour. Thus, interpretations by Ryerson and Naylor alike, about the extent of industrialization appears to oversimplify the course of industrialization. What is required is an analysis of the peculiar labour force transitions and role of the state in the establishment of these with regard to the development of industrial resources. Neither citing the numbers of saw and grist mills in the 1851 census (Ryerson) 17. nor Naylor's dismissal of such establishments as simply "staples" production, and hence presumably commercial, describes or analyzes those transitional forms of labour which, it is our suggestion, may go hand-in-hand with the unevenness of the transformation from merchant to industrial and from competitive to monopolistic capital in Canada. For, it may be that the transition of the staple from commodity to industrial product entails uneven changes in both capital and labour formation which new forms of dependency reinforce.

Our own concern will be limited in scope to the state's role in facilitating and legitimating capital accumulation in largely capital-intensive industrial resources whereby public subsidization plays

an important role. Nonetheless, the corresponding promise of future employment used to rationalize such subsidization is rarely fulfilled and thus constitutes a feature of potential social conflict and overdevelopment strategy. Similarly, the subsidization of capital-intensive industrial staples may create a built-in propensity for technology, in the form of automation, to eliminate jobs and create structural unemployment through attrition. Both of these mechanisms make for a peculiarly vulnerable working class in a staples economy, a feature to be detailed more fully in Chapter Eight. And finally, the very "strengthening" of Canadian multinationals, so that they too can seek resources anywhere in the world and cheap labour outside of Canada, may add a further element of weakness to the bargaining power of the Canadian industrial resource labour force.

The Shift from Merchant to Industrial Capital: Canada in the International Context

The early and persistent dominance of merchant capital in Canada, involved in commodity trade at the expense of early industrial capital formation, is a phenomenon Canada has in common with many underdeveloped Third World countries and one that must be explained in relation to transitions in the world economy as a whole. Before industrial production emerged, the world economic system was based on merchant or commercial capital. The transition to industrialization in the most advanced centres transformed this mercantile trade so as to serve the needs of factory production (particularly in Britain, but soon after in the United States) by shifting the demand from early staples to industrial staples (wheat, minerals, pulp and paper, and fossil energy).

Portfolio investment exported in the colonial period served as credit to improve the infrastructure of staple production, transport and financial services. When industrial and commercial capital merged in the advanced centres, there was a transformation from competitive to corporate capitalism and a shift to the export of direct, controlling capital investment abroad. The targets of such investment were the colonial states, and particularly Canada where proximity and early openness to American industrial expansion was reflected in early and increasingly extensive direct investment in both resources and manufacturing sectors.

Though the transition from commercial to industrial capital had occurred by the 1850's in Britain, it was slower and less even in developing countries. The combined effect of foreign investment and an already strong indigenous commercial fraction in Canada's bourgeoisie facilitated the entry of large-scale foreign enterprises at the expense of smaller-scale indigenous ones. Part of the reason for this is related to the "ambiguous", if not conflicting, interplay of merchant and industrial capital.

Geoffrey Kay has suggested that merchants and later financiers tend to operate in the sphere of circulation rather than production of commodities and have "progressive" as well as "retarding" influences. Merchant capitalists became the "agents" of industrial capitalists in the centres and gained profits primarily through unequal exchange rather than through the organization of production and extraction of surplus value. Eventually, they encouraged commodity production and the division of labour, but tended to maintain surplus in the

sphere of circulation. 18.

Canadian merchants appear to have "transformed" themselves into industrial capitalists in particular sectors; early on, they moved into the sphere of production by way of transport activities, encouraging canal and railway building with the aid of both British portfolio investment and the Canadian state's guarantees of loans and provision of an immigrant "free" wage-labour fource. Capital could be siphoned away from the financial and transport needs of small-scale indigenous industries, meeting the needs of staples export instead; at the same time the domestic market was filled with industrial imports from larger-scale foreign operations which enjoyed the resources of merged merchant-industrial capital. Canadian merchant capital was transformed, secondly, in its role as financial capital by creating banks, insurance, trust and mortgage houses. Both these functions - finance and transport - are essential to industrial production, hence, they are not inherently "antagonistic" to the growth of industrial capital.

Clement: Disarticulation of the Capitalist Class

In the Canadian case, Wallace Clement has argued the over-development of these two sectors (finance and transport or utilities) has led to a reliance on foreign, particularly U.S., investment in the productive sphere outside these sectors.

19. An alliance between fractions of the bourgeoisie and between Canadian finance and American industrial capital occurs internationally. This illustrates, on the one hand the "agent" role of merchant capital vis-à-vis industrial capital which Kay underlined, as well as the unevenness of the transition from one to the other outside the centre.

Of particular interest in this debate about the nature of the Canadian bourgeoisie is the degree to which Canadian financial capital participated in industrial staple development, and at what stages: exploration, on-going production, or just speculation merger or acquisition. Was their role, as Naylor suggests, marginal - treating staple industries as "commodities" to be bought or sold? Was their role different with regard to early versus later-developed industrial staples (pulp and paper or iron versus oil, for instance)? What was the extent of internal Canadian alliance between financial and industrial capital in new staples production and were alliances more likely to be made between internal finance and external resource capital? There may be one or the other pattern emergent but, if either is discernable, we must admit the existence of some form of merger of "merchant" and "industrial" capital in the monopoly capitalist phase of resource development. The particular route to this merger, internal or transnational, is of interest, for it takes us beyond Naylor's impasse. We must admit, also the possibility of shifts in such patterns, since corporate capitalism is formed continually.

Clement argues "disarticulation" ²⁰ or over-development of finance, transport and utilities sectors vis-à-vis industrial sectors under Canadian control has been reinforced by the "subsidiarization" ²¹ effects of American continental and later multinational corporate expansion, a phenomenon analyzed by dependency theorists such as Baran, Sunkel, Galtung, and Petras with reference to Third World countries.

2.3 Dependency Theorists: New Dimensions in the Organization of Dependency

Resources or raw materials of a strategic and industrial nature become major outlets for investment in the post-World War Two era, a phenomenon to be detailed further in Chapter Three. However, the requirements of intensive technology and capital for their extraction and access to foreign-controlled markets for their sale, means that large-scale and vertically-integrated corporations (of the type created typically as a result of the fusion of financial and industrial capital) will be the principle investors in this "new staples" sector.

The Multinational and the Subsidiarization Effect

As Baran and Sweezy have indicated, the structural and organizational hallmark of the monopoly capital or finance capital phase is the giant corporation or multinational which contributes to new forms of dependency. It has interests which differ from those of either individual financiers or industrialists, for it may produce both domestically and in a number of foreign countries, thus its policies on protectionism may vary. Secondly, such corporations may and often do comprise both productive and circulation functions in one organization. Its immense power derives from a number of possibly integrated functions. These give flexibility in market control, access to numerous sources of capital, cheap labour and raw materials, as well as a strong capacity to develop technology, utilize or withhold it from use. While it may export large sums of capital, on the whole it drains capital to the parent base. Another source of flexibility is the centralization of management's decision-making powers in terms of integrated marketing, production and research alternatives open

to it anywhere in the world. Since its initial resources are greater than those of small-scale corporations and its interests are in long-run profitability, it has greater staying power in unpropitious markets, presenting a threat to the initiation or continuation of smaller-scale national enterprises.

The Multinational and State Policies of Capital Accumulation

Such concentrated economic power gives multinational or continental corporations greater flexibility in dealing with state controls either in the parent or subsidiary country. The subsidiary-based state can be threatened by capital flight with the back up of possible plant, mine, or resource project shut-downs, in order to bargain for more favourable investment climates. Similarly, the multinational can utilize its power with its home-base state in the creation of "favourable climates" abroad, via credit manipulation or military coercion if necessary. Tariffs can be used to maintain refining of raw materials in one country, for instance the home-base country, at the expense of the resource-exporting country; the corporation may seek and obtain tax benefits, depreciation allowances, research and development subsidies, infrastructural support and the like from home or subsidiary-based states.

For the resource company, the added "strategic" value of certain minerals, metals, or fuels ties its interests even more closely to the state whose security policies entail resource planning strategies that may then be the basis for greater aid in the acquiring of "secure" foreign resources.

23. The power to limit penetration of foreign corporations or their flexibility in decision making is thus limited, even if we are to assume that such a strategy suits the interests of the dominant bourgeoisie

of the state in question. If there are alliances (cross-national) within the resource company we cannot assume the state will take a "nationalist" stance on maintaining processing within its borders. Even where processing may be established, its linkages and lines of command will frequently be external. Thus, import substitution merely facilitates the disarticulation and subsidiarization processes. For, as Sunkel and Galtung have pointed out, the transnational conglomerate reinforces not only a general international polarization between developed and underdeveloped nations through the workings of unequal exchange of primary for manufactured products, but internal polarization and disintegration of economic 24. Eventually unequal exchange becomes and political cohesion as well. located in the differential exploitation of labour for surplus value and the multinational makes all national labour forces less secure by assuring employment only so long as cheaper labour forces cannot be found This structural disarticulation is reflected not only in processing gaps based on the internationalization of certain sectors and class fractions within the economy penetrated by direct investment, as noted by Sunkel and Galtung, but by the increasingly important role of the state in reproducing these social and economic relations. Such penetration and capital accumulation is supported by state-owned as well as private firms within resource sectors. Thus, as James Petras suggests,

Unlike dependency studies which centered on the growth of productive forces and how the external ties 'blocked' growth, the focus on the conditions of accumulation and its impact on class relations allows us to focus more concretely on the nature of the state ultimately involved in both accumulation and class formation, as well as internal class relations as they emerge from, as well as shape capitalist development. 25

"Disarticulation" becomes a structural phenomenon in the monopoly capitalist phase of resource extraction under the aegis of international capital. The non-revolutionary state of the resource-producing
country collaborates in this process by filling in infrastructural
supports and reproducing these features on the basis of satisfaction
of international capital's needs, which dovetail in part with the legitimation functions of the state:

... the needs of the metropole for strategic raw materials and investment outlets as well as the constant search for new revenues to sustain the national state in the dependent neo-colony led to the diversification of economic activity within the periphery beyond administrative and economic enclaves to increasingly lock-in the entire network of local economies... 26.

of three strategies for capital accumulation by ex-colonial states outlined by Petras, it would appear that Canadian state policy has not been "national popular". It may be somewhere between "national developmentalist", in which the concentration of surplus is in the hands of the state or private national entrepreneurs, and the more internationally "stable" "dependent neo-colonialist" pattern where capital accumulation is from above and outside. In the latter case, the state allies itself with imperial firms and regimes, aiding the intensification of surplus extraction from labour and concentration of this wealth and power at the top in both national and foreign hands. Thus, nationalization of certain firms generally in utilities or transport sectors, and even the creation of Crown corporations and public-private joint ventures in the resource sectors, need not be seen as limiting the power of either foreign or national capital in these sectors. Rather, it is a more efficient means of facilitating the

continuation and strengthening of existing capital formations and transnational class alliances of the type we have suggested evolved in Canada.

2.4 The Structural Relationship Between the State and Capital: Implications for State Resource Policy

Having critically, and selectively, reviewed those staples,
Laurentian School, dependency, and neo-Marxist theorists most helpful in analyzing capitalist development and class formation in countries similar to Canada, we turn now to a discussion of the theoretical
implications of the relationship between state and capital, with a

view to deriving a series of hypotheses about the nature of Canadian
postwar development. We leave analysis of the potential implications
of such policy for labour and technology to Chapter Eight, since in
focusing on the role of the state we have chosen to refer to labour and
technology only insofar as they are directly or indirectly affected by
such policies.

The structural relationship between the state and capital and its implications for change in state roles of capital accumulation and legitimation will be discussed here in general theoretical outline. This will be followed, in Chapter Three, by a more specific delineation of the state's role in maintaining capital accumulation in industrial resources exported to American markets, as opposed to its earlier role in maintaining commodity staple production for European markets. We characterize what we suggest is an attendant shift in state development policy as a movement away from what H.G.J. Aitken termed "defensive"

expansionism" to what we term "continental resource capitalism".

In Chapters Four through Seven, dealing with case studies of three industrial staples, we examine historical data as evidence of this "new" state role in continental development coordination. The latter we choose to investigate at the level of the federal bureaucracy (especially policy making and decisive action by the Department of Trade and Commerce) as well as in continental and international resource forums — composed of personnel from both state and industry.

General hypotheses concerning state policy outlines will be offered in the present section since we propose their derivation from the structural relationship between the state and capital in modern capitalist societies in general. Further hypotheses which derive from the specificity of the Canadian economy's post-war linkages to the U.S. economy and foreign policy will surface in Chapter Three.

The most fundamental structurally based role of the state in a capitalist society is to protect private property rights in the course of coordinating and reproducing the means of private capital accumulation. Whether one lauds, as Creighton does, or despises, as Naylor does, the control a dominant class has in its creation of a nation state, Marx and Engels remind us, as early as 1845, that the creation of a state in its own image is a necessary task of a bourgeoisie:

By the mere fact that it is a <u>class</u> and no longer an estate, the bourgeoisie is forced to organize itself no longer locally, but nationally, and to give a general form to its mean average interest. Through the emancipation of private property from the community, the State has become a separate entity, beside and outside civil society; but it is nothing more than the form of organization which the bourgeois necessarily adopt both for internal and external purposes, for the mutual guarantee of their property and interests. 28.

In ensuring the rights and continuing operation of private capital, the state may take on a variety of roles in order to regulate possible conflict between and among classes or class fractions, who may dispute the specific inequality of particular forms of private capital accumulation involving land, technology, labour, capital, and market control or access. Thus, one way of gauging the extent of state support given to a particular class or fraction is by investigating the conditions of such access established by the state on behalf of large or small, domestic or foreign capital.

As O'Connor and Clement have noted, the increase in the size and scope of capital accumulation in contempory capitalist societies has necessitated an expansion of the state's roles. We would add that, where the state is subject to overpowering external influences (such as the interests of foreign states and class fractions) the roles of the state become more complex, as our review of neo-Marxist dependency literature has suggested. As both Wallace Clement and Leo Panitch note in their discussions of the Canadian state, the particular character of the state is, thus, inherently variable at the same time that it invariably operates in the long-run in the interest of the dominant class.

We might add that this variability requires a measure of "autonomy", but there are other aspects of autonomy with regard to the Canadian state that are at issue and will be analyzed later in this section.

Leo Panitch has stressed the importance of delineating the specific institutions of the state, linkages between the state and the dominant class interests, and the general functions of the state. While H.G.J. Aitken was aware of the multiplicity of state institutional

levels --locating the Canadian state at all levels between the British government and municipal Canadian governments before Confederation -his observations on increased American economic impact on the Canadian economy, particularly on resource sectors, did not translate themselves into an understanding of the permeation of American class interests into the Canadian class structure and state policy. continued to perceive such interests as something "outside", hence presumably not direct agents of change in state policy composition. Part of this error might be attributed to his narrow conception of the state as mere "government" and his notion of influence as mere legal representation at the governmental level. We suggest the permeability of the Canadian state to external forces has increased, particularly at the bureaucratic level, coincident with those increasing capital and market connections between Canada and the United States in the postwar period which Aitken did quantify and which are discussed in the following chapter.

Ralph Miliband specifies the institutional limits of the modern capitalist state by including: The executive, legislative, bureaucratic, judicial military, and para-military institutions at central and subcentral levels. He also includes in his notion of the state: public corporations, central banks and regulatory commissions, but excludes what he terms the political realm such as churches, pressure groups and parties, privately-owned media, educational institutions and the family.

31. While this appears to be a reasonable outline of state institutional levels, including but not limiting itself to governmental bodies, we do not necessarily subscribe to Miliband's instrumentalist

view of the state whereby various class fractions are characterized as controlling various state institutions. Instead, it seems more accurate to suggest that to account for what Gramsci called the "relative autonomy" of the capitalist state, we must bear in mind that the structure of class representation is not static or mechanical, but a product of class struggle within each social formation. Because in its concrete specifity the advanced capitalist state consists of a complex matrix of institutions and agencies, and the Canadian state is further complicated by federalism, one is forced to focus on one researchable level. research, the focus will be primarily the federal civil service. while the party system, cabinet and legislature, as well as the federalprovincial network of representation are important, substantial literature on policy formation in Canada underlines the key role of the federal bureaucracy and more particularly, the importance of the departments of Finance, External Affairs, and Industry, Trade and Commerce. Our particular interest in industrial resources led to our concentration on the Department of Industry, Trade and Commerce.

To analyze the creation of public policy, centralized authoritative decision making in the increasingly key executive (including senior civil servants), Rianne Mahon suggests the dynamic of an "unequal structure of representation" throughout the state bureaucracy. It permits the state to organize hegemony and intervene on behalf of the bourgeoisie with the consent of subordinate classes.

33. This organization of hegemony would be impossible if the state were in fact the simple "instrument" of any one class fraction.

Thus, the state's "relative autonomy" from classes exists in terms of the short-term interests of the dominant classes and is a result of the contradictory relations between dominant and subordinate classes reflected in the state. It is necessary to demystify the notion of "national interest" so that it can be seen as a negotiated (occasionally coerced) resolution, within the state of such class contradictions to coincide with the general or long-term political and economic interests of the dominant class or its hegemonic fraction. A power hierarchy among agencies and departments of the bureaucracy reinforces the values of that hegemonic fraction. Representation occurs as sub-units within the civil service form relations with particular sections of society, carry out specific functions, sympathize with the needs of "their" group and represent these when negotiation between conflicting interests occurs with the state. 34. Many of the most important decisions sustained at bureaucratic levels or federal-provincial conferences with regard to resources are so centralized that only certain state officials and major corporations may be involved in the "negotiation", is undertaken exclusive of any direct popular influence. which Thus, the capitalist class' influence within the state is structurally insulated from possible opposition or class criticism.

Since the Second World War, senior civil servants have been encouraged to spend periods of their careers in corporations to learn how to represent corporate needs with intimacy and accuracy. The proliferation of advisory councils to departments and regulatory boards in both Canada and the United States further represent corporate interests on a continuous basis.

35. Thus, dominant class interests are represented

via personal or kinship ties of state and corporate officials, career switching, advisory functions and unequal structured representation within the state. The importance of understanding the way the "particular interests" are translated into the "general" or "national" interest is underlined by Wallace Clement:

The importance of the close relationships between the Canadian state elite and the capitalist class is not that all positions in the state elite are 'snatched up' by members of the capitalist class...(but) that an understanding of the ties between economic elite and the state as a whole challenges the postulate that the state performs an unbiased role as manager of society for the benefit of all...the state in Canada does not operate autonomously from the capitalist class. 36.

This representation may not operate to exclude foreign capitalists from the Canadian economy, however, and more particularly from the development of industrial resources. Rather, it may encourage the entry of foreign capital since the largest Canadian capitalists appear to be in alliance with international capital.

The changing roles of the Canadian state must be analyzed, we suggest, with reference to the major contemporary functions of an advanced capitalist state, as outlined by James O'Connor. He suggests that the state in capitalist society has two major functions: assuring private accumulation of capital (subsidizing it where necessary), and legitimating this process, that is, buffering the social relations of inequality attendant on unequal access to the social product. The latter includes the state's role in extending social welfare programmes and ideologically legitimating its policies through the use of policy statements, legislation, regulatory bodies and the like (to be specified in greater detail presently).

third function: coercion of an internal or external nature involving either the police or military in such a way as to maintain the process 38. of private capital accumulation. It should be noted however, that it is a defining feature of all states, capitalist or other, that they monopolize the means of coercion. Capitalist states are characterized by their expanded roles in accumulation and legitimation in the post-war era, however. O'Connor suggests an increasing contradiction has occurred for all advanced capitalist states between the first two functions, accumulation and legitimation, since fostering greater accumulation (frequently through mechanization of production) produces greater inequality and unemployment, thus straining the legitimation capacities of the state. The contradiction is, in the last analysis, implicit in the very nature of capitalism, as Clement has pointed out:

The paradox of the state in capitalist society is that it must strive to maintain its legitimacy and with that the legitimacy of capital by portraying itself as representing the common will of all its citizens, while at the same time upholding the right of some to extract the surplus created by others. 39.

Unlike the analysis of the workings of the state presented by the liberal or capitalist ideology, C.B. Macpherson has suggested a view similar to that of Clement and O'Connor:

... political power, being power over others, is used in any unequal society to extract benefit from the ruled for the rulers. Focus on the <u>source</u> of political power puts out of the field of vision any perception of the necessary <u>purpose</u> of political power in any unequal society, which is to maintain the extractive power of the class or classes which have extractive power. 40.

The state is not, then, a neutral "sounding board" for all societal interests, for interests are responded to in an unequal fashion.

It is this unequal response to interests that requires both empirical sociological and historical documentation. In this attempt, it must be kept in mind (as Panitch warns) that the state acts on behalf not at the behest of capitalist interests. It acts in the capitalist class' general interest, but not at its direct command. Since, as we have noted, the capitalist class in Canada is fractionalized in terms of both control and size, we will need to determine how these general interests are served when resource strategies are formulated.

Similarly, the nature of industrial resources, particularly their capital intensity, may add further strain to the legitimation capacity of the state. Large-scale resource projects do not provide large-scale employment of Canadian workers. We suggest therefore that there may be an attempt by the Canadian state to counter these conflicts of legitimation through institutional and ideological mechanisms specific to Canada. Thus, an implicit tendency for such structural conflict to become highly divisive, even potentially revolutionary, would perhaps be lessened by increasingly centralized decision-making, by additional legitimation apparati, or by the indulgence by state officials in ideological rhetoric of a nationalist sort that "suggests" social unity.

Although contradictions between accumulation and legitimation functions of the state are, thus, present, we suggest that the two functions are frequently mutually reinforcing. Regulatory commissions and investigative bodies set up by the state may serve as important legitimating devices for disruptive structural changes in the allocation of social wealth as the mode of production shifts from the competitive to monopoly stage, with increasing concentration and centralization

of capital and control. Though Panitch, for instance, interprets the ineffectiveness of Canadian anti-combines legislation as evidence of the underdevelopment of this legitimating function in Canada, we suggest the opposite: it demonstrates the effectiveness of state legitimization. It is true that the inadequacy of its use to stop merger and monopoly has been repeatedly documented by social scientists, (Reynolds, Thorburn, Young, Gonick, Kierans, Goff and Reasons). 41. It may be. however, that like the propensity the Canadian state displays for invoking Royal Commission inquiries when conflict arises (a practice perhaps useful in diffusing public antagonism against big business and the state), anti-combines is a useful mechanism of dealing with consumer and small producer antagonism in the face of the long-term consolidation of big capital. The fact that such methods of legitimating larger-scale capital accumulation (by condoning monopoly) may be transparent in the long run to historians and social scientists does not mean the same mechanisms are ineffective diffusers of social conflict in the short run. There is more logic to be found in interpreting the ineffective but continued use of anti-combines and inquiries by Royal Commissions as legitimating, since these allow the state to appear to be neutral in the process of consolidating big capital. These mechanisms are the logical precursors of contemporary open state appeals (for example, the Bryce Commission) for more mergers to create "viable" Canadian multinationals (i.e. greater concentration in certain economic sectors). The extent of this concentration in various resource sectors will be addressed in the chapters to come and we will be particularly interested in the influence of this factor on state policies in those resources chosen for analysis.

Our general thesis is that the role of the Canadian state involves its aiding capital accumulation in the industrial resource sectors. This strategy will be affected by changes in the external forces (resource markets) and changes in internal forces (capital concentration and control) in the postwar period. This leads us to specify two general hypotheses regarding the Canadian state's changing role via its capital accumulation and legitimation functions.

Hypothesis 1. (Accumulation)

- As large-scale firms come to be a common feature in major sectors of the economy (a trend widely accepted as characteristic of corporate capitalism), the Canadian state will tend to foster their growth at the expense of that of smaller firms, whether the leading firms are foreign (especially American) or Canadian in terms of ownership and control.
- B. Where concentration in resource industries is lower, we expect industry associations to be more active than the state bureaucracy in consolidating and representing such capital interests.

Hypothesis 2. (Legitimation)

A. We expect that where anti-combines legislation, Royal Commission inquiries or reports, and other legitimation media are brought into play (whether effectively or not), the results will be detrimental to the practices of firms in resource sectors characterized by low to medium concentration rather than to firms in industries characterized by high capital concentration. This we propose on the basis of two factors: the state's fostering of large-scale capital accumulation (Hypothesis I. A.), and the fact that large, will-integrated firms can

resort to less visible means of market and production control without being legally culpable, whereas smaller firms must rely on meetings and coordinating mechanisms that leave a trail of evidence of collusion, according to the terms of anti-combines legislation. Both the state and international firms can also appeal to international market forces or foreign states' policies for justification of monopoly practices.

B. We would not expect the state to use anti-combines or other legitimating mechanisms (income redistribution or subsidization of capital aside) in a whole-hearted attempt to maintain small firm competition in industrial resources. The interests of dominant corporations in each sector will, we suggest, be legitimated where necessary by the state.

A major change in "external forces" impinging upon Canadian state policy in the era since the Second World War has been the increasing importance of the American Defense Department's role in policy making having to do with capital accumulation and legitimation. This, we suggest, involves the continental impact of American Cold War policy or policies of imperialism more generally. Part of these strategies was the stockpiling of "strategic" materials (predominantly industrial resources) and part involved the general build up of war and space programmes, again requiring the import to the United States of massive quantities of raw materials. The details of this strategy of growth will be analyzed in terms of their relevance to Canadian development policies in Chapter Three, where the Paley Report is discussed.

While a capitalist state's accumulation function does not "normally" rely on the state's coercive function in liberal democracies,

given the assumption of a free, wage-labour market, we suggest that the tremendous influence of defense in economic strategies of the United States in the postwar "peace-time" period is a major exception to the rule. The Defense Department's (and other agencies') stress on the strategic (coercive) need for ready access to foreign, including Canadian, industrial resource materials served both an ideological and direct accumulation function in the postwar period. The American state's accumulation policies regarding resources became linked to its coercive (defense) functions in both the foreign and domestic policy realms. The state raised the "threat of communism" as the legitimation for its more active role in capital accumulation at home and abroad. Two specific legitimation functions, then, accompanied the conjuncture of the general accumulation and coercion functions: maintaining employment at home through the massive processing of raw materials that did not require direct consumption and disguising economic expansion abroad by American multinationals backed by the military and its social control agencies as safeguarding "democracy", "free enterprise", or "good investment climates" against the dual threats of communism and nationalism. Both communism and nationalism, as alternative development policies to the American one, would exclude or limit American (indeed international) investment, market access, and capital accumulation in general on an international scale. These two ideological "isms" threatened that of imperialism, or the continuation of a world-wide division of labour, unequal exchange of capital goods for raw materials, and capital drains to the United States and other "home-bases" of multinational corporations.

We therefore suggest a series of linked hypotheses related to the growth of American interest in industrial resources in the postwar period, particularly with regard to Canada. For, such an external market force would, it is proposed, have considerable effect on Canadian resource policies as well as on Canadian state autonomy in the international context. More specifically, we would expect these external forces to be, in large part, the impetus for the closer coordination of capital accumulation policies within the North American or continental context.

Hypothesis 3. (External Market Forces)

- A. The steady depletion of American resources achieved "strategic" or "political" consideration and hence extremely active state attention because of the conjuncture of the American state's accumulation, legitimation, and coercive functions in the realm of industrial resource access. We suggest this "crisis" spurred intervention became a "crisis" because the strategy encountered resistance in many parts of the world in the form of socialist and nationalist ideology and policy. Thus, the creation of closer ties between the United States and Canada at the state level would accompany the ongoing penetration of U.S. capital into Canadian industrial resources. In other words, closer "continental" coordination of state policies would follow the depletion effects of heavy American resource consumption and U.S. recognition that nationalism abroad threatened U.S. access to raw materials in the long run.
- B. In the coordination of a continental resource development policy (including the stockpile programme), we would expect American policy makers to <u>lead</u> and Canadian bureaucrats to <u>follow</u>. The latter would act

to gain advantages for the dominant industrial resource producers rather than for the even development of the Canadian economy as a whole, since agreement on policy would centre on the ready access of Canadian resources to U.S. markets (rather than the increased processing of such resources in Canada), and an open door for American capital to Canadian resource development. Thus, an "ear to Washington" rather than "initiative" stance on the part of the Canadian state would reflect the socio—economic realities of dependence on American markets and capital.

- C. Because such resource strategies would favour certain fractions of the Canadian capitalist class and not others, we would expect access to decision making in this realm to be limited. Decision making as regards industrial resource development would be or become highly centralized, and fractions representing big or small capital would have unequal access to state power.
- D. The influence of American postwar policy on Canadian resource development would be strong, though perhaps uneven in its effects, on the three sectors we choose to analyse: forest, mine and energy staples. We would expect mine and energy sectors to be most strongly affected by Cold War policies of a "strategic" nature, because of these industries historical use and linkages with defense. However, such policies might influence the development of the newsprint staple, because of the latter's possible importance as an ideological tool in the fight against communism and nationalism. The access of "American" multinational oil companies to vast quantities of petroleum supplies in the Middle East and Latin America, would, we expect, have an influence on the course of a continental energy policy.

Hypothesis 4. (Canadian Autonomy and Legitimation)

The structural conflict between capital accumulation and the creation of jobs (legitimation) in capitalist societies would be all the sharper in Canada. This follows from the above hypotheses concerning the emphasis of the Canadian state on "resource capital accumulation which implies capital rather than labour intensity. As raw or semi-finished goods are exported wholesale, so are jobs and future prospects of establishing secondary industry. This situation, we suggest, could eventually present an ideological crisis of a "nationalist" sort, since the development policy is "anti-nationalist" in character. We would expect the state to involve itself in special efforts to legitimate its policy as "nationalist" in the face of such criticisms. These efforts might be both rhetorical and organizational in form, and would have the common purpose of "buffering" conflicts of interest.

When we speak of the development of a continental resource policy or strategy of capital accumulation on the part of the Canadian state, we ground this thesis on the suggestions that both Naylor and Watkins have made in recent years about the nature of the original "National Policy" of the founding fathers:

...Canada moved to a high protective tariff... a policy not of creating infant Canadian firms but rather industrialization by invitation - to American companies to establish branch plants. The tariff itself was only one part of a broader National Policy including railway subsidies - a constant inflow of British portfolio capital as infrastructure for the branch plants; an open door to immigration -- and hence a pool of labour and an expanding domestic market for the branch plants; a patent system which, like the tariff, compelled American companies previously exporting to Canada to manufacture in Canada; subsidies to foreign

corporations via competitive bonussing by municipalities; and provincial give-aways or rights to lumber and to mine Crown land, where Americans with prior experience in raping and looting at home tended to have an advantage. 42.

We have insisted, however, in undertaking a theoretical analysis of postwar Canadian development policies, on explaining the structural underpinnings of such policy and the necessary institutional refinements in the maintenance of such programmes of development that postwar capitalist accumulation on a world scale has brought to the fore. We rely, therefore, on neither the supposed ignorance of state policymakers, nor the supposed "deformation" of the Canadian bourgeoisie for an explanation of Canadian resource capitalism. While a recognition of the fractionalized nature of the Canadian bourgeoisie is implicit in our analysis, we have sought to view Canada and explain its state policies in an international context and not seek to reduce social history to a discussion of mutant capitalist class formation in one country. It is not our contention that a "nationalist" bourgeoisie could have avoided the situation we address, given the stage of corporate capitalism sofar delineated and the general nature of any capitalist state in contemporary society.

2.5 Considerations Regarding the Role of Technology and Labour in Industrial Resource Development

Neo-Marxist Contributions on Technology: The Relationship of Technology to State Policy

Neo-Marxist theorists of capitalist development have contributed to a re-evaluation of the basis of technological dissemination and technological dependency. They have rejected the widespread notion that the general mode of production follows automatically from the techniques of material production, and from a technical division of labour. They have rejected the Innesian notion of a taxonomy of technological eras.

Rather, technology is viewed as one aspect of the social organization of capital and of labour. Capital and labour relations dominate or shape the development and use of technology. In a capitalist system, technology becomes a form of capital or a more restricted category of capital goods. While "advanced technology" provides the potential for overall economic development, it provides this potential, as both Geoffrey Kay and Harry Magdoff have suggested, only to those who own it.

It appears, from what research has been done on innovation of technology in Canada, that Canada's technological dependency problem is not caused by a dearth of indigenous innovation, but is linked instead to the problem of translating "Canadian" innovation into commercially viable "Canadian" enterprises. 44. The problem, then, is not where technology has been developed, but who ends up owning and controlling its use. Neither is the problem merely "the banishing of Canadian ideas to other countries" as J.J. Brown has simplisticly concluded from his 45. Ownership of patents facilitates and is facilitatwealth of data. ed by large-scale capital accumulation within private enterprises and particularly oligopolistic enterprises. As Sunkel, Petras, Galtung, Baran, and Frank have pointed out in the dependency literature, multinational enterprises tend to concentrate not only capital but technologygenerating capacities in their parent organizations, a feature which could account for much of the "banishing of Canadian ideas" to which Brown refers.

Companies which are fully integrated vertically and comprise both Canadian resource extraction and first-stage processing as well as product fabrication often do all or most of their product development, research and design, in countries other than Canada. For example, Alcan (aluminum) does product development in the United Kingdom, Inco (nickel), Englehart (platinum), Johns Mansville (asbestos), and Handy and Harman (silver) do theirs in the United States. 46.

"Subsidiarization" is reflected in technology, as well as capital drains.

It would be reasonable to expect that corporate concentration in general would result in the concentration of technological generative capacity within Canada as well in the larger Canadian firms. The most obvious and tangible expression of such concentrated control of technology-as-capital could be demonstrated in the accumulation of patents within large corporations, and particularly within new staples industrial sectors. We suggest, however, that corporate control of technology and the implications of that control for further corporate concentration is a reminder that technology cannot be separated from the general context of contemporary capital accumulation and the state's role in facilitating capital accumulation in resource production. With this overall framework in mind, it makes as little sense to bemoan the fate of the individual innovator (as Brown does) as to bemoan the declining importance of small-scale family enterprise and individual mining prospectors.

While we suggest that future research on the type and extent of such monopolization of patentable technology in Canadian resource and other sectors would provide additional and interesting evidence of the sort of dependency we address in this undertaking, we regret that a workable methodology for such data collection was not available to us.

It would require both a specific knowledge of the most important patents in each sector and a tracing of their intercorporate use and sale. Instead, we have limited our aim—in researching the impact of the state on the disemmination of technology to evidence, where available in those materials consulted in the archives, of attempts by the Canadian state to facilitate the export of technologically complex equipment and processes developed in the resource sectors under analysis. Similarly, we would consider the facilitation of capital equipment importation into these resource sectors additional evidence of a foreign technology and capital-dependent strategy of development.

In the past, as Innis and other staples theorists noted, Canada depended on the importation of technology for the extraction and export of raw materials. Early importation of technology was, however, through means which tended to "Canadianize" the techniques and process involved. Through the theft of techniques, the immigration of British or American entrepreneurs and skilled workers, full-scale enterprises, as opposed to branch plants, were set up. By the 1870's licencing and patenting of techniques became the typical form of technological transfer. Naylor suggests, for instance, that the 1872 Patent Act resulted in a significant drop in Canadian patenting and a much greater influx of American patent licencing. With the later importance of direct investment and the rise of the transnational conglomerate, branch plants and joint-ventures meant the kinds of technological transfers which militated again st "Canadianization" of the techniques.

47.

Such transfers of technology have produced dependency on continuous inputs from the original source of the techniques. As opposed to licensing agreements which involve a given "technological package", direct investment involves fully detailed, continuous flows of specifications from the technology supplier to the recipient. This is not easily adaptable, and thus foreign parts and supplies become built in and domestic supplies shut out of the process.

48. As one corporate executive put it, "Every penny of patent or licence income from a ... country creates a market for up to a dollar's worth of goods from the country in which the new technology originated."

Dependency shifts, not to a new category, "technology" per se, but to a more restricted set of capital goods which form an important basis of monopoly. ^{50.} Since only the largest, most monopolistic resource extracting corporations have and are prepared to apply massive capital-intensive techniques necessary for the exploitation of large-scale energy sources in the tar sands and the Arctic, the new resource "frontiers" become "conglomerate-only" frontiers. These organizations become what Aitken refers to as "the command centres that direct the advance of the resource frontier." ^{51.} Access to capital accumulation, markets, and technology go together and are interdependent, "the pull of American markets is reinforced by the corporate linkages that result from heavy dependence on American capital and technology." ^{52.}

James Laxer suggests, for example, that enormously increased profits in the last lew years have not meant proportional increases in exploration capital expenditures and research and development for Imperial Oil. ⁵³. The "parental" control over technology generated in Canadian affiliates and subsidiaries is a feature of subsidiarization outlined in Exxon's Standard Research Agreement which is clearly indicated in published correspondence between Exxon's Research and Engineering Company and

Imperial Oil. 54.

We have, thus, chosen to treat "technology" as another form of "capital", the expansion or accumulation of which we suggest the state has the power to affect. While control of technological capital goods and processes affords additional control of markets, we will treat this component of dependency as a secondary one, interesting ourselves primarily in the effects of state policy on technological control. where evidence arises of the difficulty or success of Canadian or other multinationals using Canadian resources in exporting (finding a market for) Canadian-derived technology, we will attempt to analyze the specif-Finding causes of such access or lack of it. export markets for indigenously created technology allows it to survive. The practice by multinational subsidiaries of buying capital goods and processes solely from their parent corporations may create a built-in or structural limitation on the development of Canadian technology even in those sectors of its economy which are "overdeveloped", such as the industrial resource staples sectors.

Labour Anomalies: Theoretical Considerations Regarding the Vulnerability of Single Industry Communities

A major component of capital accumulation is, of course, the extraction of surplus value from labour. It would make little sense to discuss the historic role of the Canadian bourgeoisie in amalgamating small-scale corporations within new staples industries without addressing at least the consequences of this process for labour. Class conflict and a systematic delineation of the point of surplus value extraction is not our major focus, however; this consideration, as well as the capital-intensive nature of resource industries, necessitates a

briefer and circumscribed approach here to labour formation within these industries. We propose to examine only what we have termed "anomalies" in labour utilization, that is, deviations from the free wage-labour ideal type which may co-exist with advanced corporate capital structures like the fully-integrated multinational enterprise.

Two characteristics specific to new staples production are important explanatory factors in the appearance of vulnerability of labour in the staples economy. One is a characteristic of the staples and the other a structural characteristic of the corporations involved:

a) The distance of large-scale resource deposits or timberlands from metropolitan areas means socio-political isolation of the labour force utilized; b) Though large-scale corporate enterprises might be expected to have the most "modern" free-wage labour formations, their concentrated international power may in fact relate to their ability to use to advantage various kinds of seemingly "pre-capitalist" labour patterns.

As with the preceding two components of our analysis, regional disparity and conflict will surface as an effect of those state policies which are the central focus of our concern. We consider the dependency of Canada's labour force, including its vulnerability to unemployment, as well as the dependency of Canada's technological base on external markets to stem from the strategies of growth undertaken in the name of the dominant bourgeoisie. Similarly, the resulting unequal and uneven development that such strategies of growth give rise to is of a class nature as well. It is not, for example, Premier Joseph Smallwood or other representatives of regional capital that we would

have expected to present fundamental critiques of the Federal Government's resource development policies. Certainly the draining of capital and resources from such hinterlands creates a legitimation problem for those responsible for such regional disparities of income, however. We suggest that the increased and complexly articulated impact of postwar continental markets and capital accumulation flows might exacerbate such strains, however, since the promises of growth would be fulfilled in the form of greater regional income and employment disparities. While huge projects might indeed capture the imagination of those in a position to benefit, the general working population of those provinces in which projects were undertaken but jobs were few or temporary might pose the threat of "separatism" to the legitimacy of policies viewed as "Federal" in origin.

In the next chapter, we provide a transition from theoretical to practical historical research on the development of a continental resource capitalism in the postwar era. Having formulated a number of interrelated hypotheses on the nature of Canadian state strategy in this regard, we will fill in some of the existing literature on differential capital concentration in various sectors of the Canadian economy, the impact of postwar American investment on these, and a more specific analysis of the "external" forces at play as delineated in the Paley Report on American resource strategies. We also explain in Chapter Three why we have chosen to focus exclusively in our archival investigation on the three new staples sectors analysed in Chapters Four, Five, Six and Seven.

CHAPTER THREE

CONTINENTAL INTEGREGATION AND THE RISE OF NEW STAPLES DEPENDENCY

3.1 The Nature of New Staples

If "new staples" were simply a contemporary version of "old staples", so impressively detailed by Harold Innis in his case histories of the latter, there would be little reason to make distinctions regarding the timing of their appearance, the nature of their markets, their capital formation, and the kinds of dependency and state policies which have surfaced with the rise of their importance. There are crucial differences between the two types of staples and between our premises of analysis, as elaborated in Chapter One, and those of an economic historian using the traditional staples approach. In this chapter, we will detail the analytically salient differences between old and new staples, some economic and political implications of continental integration under U.S. strategies of development, and our reasons for choosing the forest, mine and energy staples of the postwar period for our analysis of state policies in the chapters that follow.

The most striking difference between production of old and new staples has been a gradual reorientation away from export to European commodity markets toward export to American industrial markets. This orientation was evident for Canadian nickel and pulp and paper before the First World War, but during the early 20th century, the wheat

staple overshadowed these two in its importance for the Canadian economy as a whole and had its infrastructure indirectly financed and its markets in Britain and Europe. The axis of Canadian development remained predominantly East—West. The "great divide" that John Dales noticed between old and new staples dated from the introduction of hydro electricity, subsidized by state ownership. Hydro was the energy source for many new staples, especially industrial mining and newsprint.

1. This tended to subsidize raw and semi-processed export to U.S. markets and to make aluminium a major "Canadian" export.

The later orientation to U.S. markets occurred for staples, the more likely U.S. direct controlling investment and corporate integration to such markets became the dominant pattern. For as portfolio investment was outstripped by direct industrial investment, the United States became a dominant influence on Canadian resources.

Aitken observed about 70 per cent of the massive postwar influx of U.S. direct investment went into petroleum, mining, and pulp and paper in 1946-1955. ^{2.} Such investment was spurred by actual and projected depletion of U.S. materials, a feature consciously transferred to U.S. foreign policy in the form of the <u>Paley Report</u> of 1952, which we shall discuss in greater detail in Section Five of this chapter. Corporate integration is most evident in petroleum since U.S. corporations had already carved up world markets and the introduction of new productive sources depended to a great extent on such firms' provision of capital, technology, and market access. The post-Second World War timing of Canadian petroleum production and the overall increase in American investment in industrial resources at this point are the major reasons

for studying new staples in this time-period. For, as Canadian sociologist Wallace Clement remarked, "Nowhere and at no time (except by military conquest) has the increase in control from outside been so rapid as it was in Canada following the War." 3.

The form of control accompanying U.S. investment becomes socio-politically important since it implies a shift to the monopoly capitalist phase of capitalism characterized by multinational corporate expansion and penetration. It is linked to both a change in the roles of the state and increasing limitations on the effective mechanisms of Canadian sovereignty in maintaining the manufacturing condition. Our evidence will show that maintenance of the manufacturing condition becomes a less discernable aim of state policy in the postwar period, as Canadian officials accept the premises of Canada's integration into the world system. The mechanisms that might have been effective are not the tariff manipulation that helped bring "forward processing" of newsprint to Canada in the first decades of the century. In the case of Canadian nickel, already a U.S. organized monopoly at that time, we can see that it required the threat of nationalization to bring refining to Canada. 4. The capital-intensive nature of new staples also raises the costs of entry into production, making greater concentration of ownership the more likely. Such large enterprises have a greater stake in shaping state policy which protects large-scale capital accumulation on a continental rather than simply national basis.

Besides such market and capital formation transformations which affect the role of the state <u>vis-à-vis</u> new staples, a third fundamental difference between old and new staples is technological in nature. Old

staples were not only marketed in Europe and subsidized through noncontrolling or portfolio investment (predominantly from Britain), but were "non-industrial" or commercial in character. They were either luxury commodities (fur), simple construction materials (timber), or basic foodstuffs (fish and wheat). It was primarily transport or "circulation" sectors that were characterized by capital and technology intensity, but these sectors were not vertically linked through capital control to production. The latter control remained independent and small-scale. This was true, for example of wheat production, which was initiated and sustained by family-based production. The farm implements industry that grew up was not vertically linked to either production or use phases. Newsprint, on the other hand, was called forth by corporate capital's need to expand consumer markets through mass advertising and required costly, heavy machinery for mass production. Newspapers reached back to take control of cheap resources by extending corporate or contract control to Canadian newsprint plants. Production and consumption became vertically controlled in the same firm or through exclusively inter-firm long-term contracts, a feature even more marked in petroleum export. Industrial staples are characterized then by massive capital and technology input and increasingly vertical control from market to production. Thus, where multinationals are prominent, technology is perhaps innovated locally but becomes bought and controlled by head offices such that technology-generating capacities are easily stifled in the resource source country. Dependency on capital imports in the form of technology is thereby created rather than being an indigenous condition of the staple-exporting country.

Fourth, and directly related to capital formation, the production is both less labour-intensive and increasingly likely to be characterized by free wage labour forces rather than independent commodity production or intermediate forms such as contract work. transformation of the labour force has been slow, however, and vestiges of early or transitional forms are present in nickel and pulpwood production into the 1960's. The mobility and "insecurity" of a free wage labour force is used, but for extraction of minerals or wood in unsupervisable or uninhabited areas contract or bonusing systems have sometimes been retained affording greater corporate control. The company or single-industry town has frequently characterized such industries. It is not so much the character of the individual staple as the logic of flexible capital accumulation schemas relying on cheap resource extraction for external markets and final processing that has meant capital and technology emanate from the market source and the labour force is vulnerable to the vicissitudes of such externally-based decision making. Again, the phase of capitalism is the distinguishing feature.

In our own investigation of new staples, the role of the state in facilitating large-scale capital accumulation will be of fundamental importance. The vulnerability presented in terms of amount, type, and shifts in employment will be addressed only briefly for the forest and mine sectors (Chapter Eight). The development of an incapacity to generate and export technology from Canada will be analyzed with reference to the energy sector, and related to the market constraints that multinational corporations present within the international petroleum industry (Chapter Seven).

Finally, the differences between the staples Innis described in such detail and those we shall analyze can be visually summarized as follows. The axis of trade, indeed the very division of labour and capital control has shifted from a West-East line of development fostered by shipping, transcontinental railways, British portfolio capital, and European markets. In the post-World War Two period the general pattern or dynamic has been replaced by a North-South axis of development fostered by American markets, direct controlling investment, and continental energy and transport grids running North-South. While the former pattern allowed for the development of considerable industrial autonomy as the British empire declined, the latter pattern, we suggest, has implied the decline of certain kinds of industrial and state autonomy as capital has become internationalized and more specifically continental. meant increasing regionalism and integration with and vulnerability to American economic and political decision-making - the feature our investigation focuses upon most directly.

3.2 Defining the Field: New Staples to be Investigated

Though there are a variety of industrial staples, we have narrowed our field of investigation to what we consider the three most important and representative ones of the period under consideration. Table 1 ranks the relative importance of a broad list of principal Canadian minerals (including fuels) and the pulp and paper industry on the basis of the following criteria: Canada's rank as a world producer; the percentage of total world production accounted for by Canadian production Canadian consumption as a percentage of production; value of exports; primary markets; and, province or region of major producing

TABLE 1: New Staples Positions in Canadian and World Production

	World Rank	% World Production	Canadian Rank	% Total Mineral Value	Consumption as % of Production	Export Value Rank (Minerals)		Markets	Producing Provinces
Nickel	1	42.5	3	9.5	3.9	3	US,	Br.	Ont, Man.
Zinc	1	21.2	4	7.9	9.8	6	US,	EEC, Br.	Ont, Man.
Asbestos	1	40.7	7	2.9	-	7	US,	EEC, Br.	Qué.
Silver	1	15.5	10	1.5	34.5	~		· _	Ont.
Gypsum	2	13.5	12	0.3	-	-		-	N.S., Ont, Nfld.
Platinum	3	6.4	11	0.4	_	-		-	Ont.
Gold	3	4.9	8	2.2	-	-		-	Ont, Qué., N.W.T.
Uranium	3	18.0	-	_	-	6	US,	Br.	_
Copper	3	10.6	2	13.9	28.3	2	US,	Br., Jap.	Ont, Qué., B.C.
Aluminum	4	8.1	N/A	_	33.0	5	US,	EEC, Jap.	N/A
Iron Ore	6	5.1	5	7.4	-	4		-	Ont, Qué., Nfld.
Petroleum	-	-	1	27.3	94.1				
Natural Gas	-	-	6	5.9	39.0	1	US,	EEC, Jap.	Alta. B.C. Sask.
Coal	-	-	9	2.2	137.1				
Pulp and Paper	-	-	· —	-	25.0		US		Ont, Qué., N.S., B.C.
Newsprint	1	40.0	*; - *;	-	10.0	1 Mfg.	US		85% East- ern Can.

Note: World Rank figures are for 1972. All others are for 1973 except paper figures which are 1974.

Values of exports: Copper, \$1,070,512,000; "Fuels", \$2,310,782,000; Pulp and Paper, \$4,000,000,000 (included under manufacturing). Copper is produced with nickel and several other metals including silver, platinum, gold and iron ore. Aluminum is refined but not mined in Canada.

Sources: Canadian Minerals Yearbook 1973, Information Canada, 1975, for mineral world rank 1972 (p. 570); % contribution to world production and Canadian mineral production (pp. 570, 568); reported consumption in relation to production (pp. 582-583); export value rank and market destination (p. 581); province of leading production, (pp. 566-567); data on pulp and paper are from: Philip Mathias, Takeover, 1976, pp. 179.

importance in Canada.

It is evident from this data that nickel is of major importance as a new staple mineral export. Canada ranks first in world production accounts for 42.5 per cent of world nickel production. Canadian and fuels rank much lower since major world exports are from Latin America and the Middle East, but their importance to the Canadian export picture is substantial. At the same time nickel ranks second in Canadian production of metallic and non-metallic minerals, with only copper (and petroleum of the fuels) accounting for larger proportions of total Canadian production. Nickel is mined in combination with copper and precious metals in Canada. The major nickel producers are major producers of platinum and metals used in high technology aircraft, as well as substantial producers of copper, silver and iron ore. Hence, focusing on nickel producers includes these important metal and mineral exports to an important degree. As with almost all other products listed, important primary markets are predominantly in the United States, and unlike most other products, regional production is located in the West

and East for both nickel and copper. These indicators, we feel, justify selecting nickel as our new mining staple for representative purposes.

Both nickel and petroleum are high-technology industries of both consumer and military character further supporting their choice here.

Of the fuels shown in Table 1, petroleum ranks first as a contributor to total Canadian production, though natural gas appears to account for larger exports. Petroleum is massively exported and imported at the same time, making it a particularly important example with regard to state policies of development. Both of these originate primarily in the same wells and western provinces (Alberta, Saskatchewan and British Columbia). It would be difficult, therefore, to treat them separately. Market destinations are similarly the United States, Europe and Japan, with U.S. markets being the dominant force in their production. Table 11 shows the two are unique in that their large-scale production and importance in Canada came only after the Second World War.

Neither nickel nor petroleum and natural gas were extensions of earlier staples of a pre-industrial era, as was newsprint. Newsprint is the only "transformed" old staple among the new and therefore presents a particularly interesting case for analysis. The pulp and paper industry in Canada is not only the oldest resource-based manufacturing sector in Canada, but it is one which has remained predominantly Canadian-controlled (umlike nickel, petroleum and natural gas). It has long been Canada's leading industry in terms of capital invested, wages paid, and value of exports. It therefore provides a crucial comparison with other new staples. Its outgrowth from the square timber and lumber trades of earlier eras links it in an organic sense to both staple eras, but it

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TABLE 11: Characteristics of Three New Staple Industries

Nickel (& related ores)	"Old" - 1880's. Copper nickel matte post 1918 refined export mainly to U.S. & major military usage.	Ownership High Foreign (U.S.) not totally integrated to U.S. based operations, except thro' long term contracts.	Capital * Concentration High "Monopoly" - 2 major corps. ranked 1&4 of top metal mining (3 productors of nickel). - concentration from outside & inside.	Level of Technology High early refining patents & much equipment U.S.	Pre-1947 State Policy - importance bring- ing refining 1918 hydro development inaction on mono- poly close ties to Amer- ican & European de- fense industries.
Petroleum & Gas	"Young" - 1890's import- ed only post-1947 pr- oduction & export mainly to U.S.	High Foreign (U.S.) - Canadian ownership mainly in production. - Integrated to U.S. based operations.	High "Oligopoly" 8 dominant corp acct. for 90% assets, 94% sales in petro- leum. concentration from outside, multination in- tegration after 1947. less concentrat- ion in product- ion than refin- ing distribution.		- inactive in foster- ing competition in distribution.

	Export History	Ownership	Capital * Concentration	Level of Technology	Pre-1947 State Policy
Pulp & Paper	"Oldest" - 1860's exist- ence 1900-1914 wood- pulp export post-1914 news- print export mainly to U.S.	Low Foreign (Canadian) - Sometimes corp orate integra- tion to U.S. operations, usually long- term contr- acts.	Low "Competition" - few producers 6 dominant corps., acct. for 52% assets 57% sales concentration from within (increasing).	Lower - older technolo recent automa extraction U. equipment.	ting ing", 1913.

*Note:

W. Clement defines "dominant" as having assets greater than \$250 million and sales greater that \$50 million. 1975.

In the 1930's, 71% of nickel output was controlled by one firm, 55% of oil output was controlled by one firm, but five firms in the pulp and paper sector controlled 90% of output, Reynolds, p.5. The terms "monopoly", "oligopoly", and "competition", are used by Reynolds for the 1930's period.

Sources

K. Burley, The Development of Canada's Staples 1867-1939: A Documentary Collection, Toronto, 1967; L.G. Reynolds, The Control of Competition in Canada, Cambridge, 1940; W. Clement, The Canadian Corporate Elite, Toronto, 1975.

had a transition which required particular state policy nuturing to bring processing of newsprint to Canada. Newsprint is still the major semi-fabricated new staple export. Though semi-manufactured, newsprint is an industrial resource for this export and becomes a major input to the American newspaper industry. New staples technology-intensiveness is a characteristic, in this case less with extraction than with final processing. As with aluminum, the development of hydro was crucial to the existence of the industry as a low grade Canadian "manufacture", but unlike the latter, the forest staple relies on indigenous raw material.

Table 11 compares the general historical characteristics of the chosen three staples in terms of industrial beginnings, ownership, capital concentration, and technological intensiveness, and early or pre-World War Two state policies of general significance. Though our case studies begin with the postwar era, so as to make the chosen three chronologically comparable, Innis' works and that of Kevin Burley, The Development of Canada's Staples 1867-1939: A Documentary Collection, 1959, are the sources of greatest interest for the pre-war period. There are additional reasons for a postwar focus. The salient economic characteristics of this period have been the impact of American markets, direct investment on resource sectors of the Canadian economy and on capital formation and control in these sectors. Equally important have been the policies of the American state which arose with its 1952 recognition of depletion of U.S. strategic and industrial resources. Our justification to this point concerning our choice of the three staples (forest, mine and energy), has been in terms of market and capital

characteristics and these staples' importance in Canadian development
as indicated in production and export figures. These factors make them
representative "staples" in the Innesian sense and underline their industrial character. They are distinguished from "old" staples by capital phase.

We are concerned with the persistence of the above mentioned economic factors and the role of the Canadian state in facilitating this kind of capital accumulation. While Canadian state policy in early years of newsprint and nickel export may have attempted to modify the tendency for later stages of processing or refining to be located in the United States, it also helped subsidize continental capital accumulation through the development of hydro and railroads. It aided the creation of an industrial labour force and performed various types of legitimating functions, especially regarding sanctions related to capital control and monopoly. We suggest the role of the state in new staples production in the postwar period has been altered and expanded by the trends and events outlined so far which emanate from integration to American industrial markets in the monopoly capitalist phase. A vastly closer liason between U.S. and Canadian economies has developed. This new degree of continentalism may be a spur to greater complicity by the Canadian state in resource-dependent development. The development of an "ear to Washington" stance at the political, strategy-making and maintaining level is necessitated by and facilitates the reproduction of this continental mode of production based on new staple export.

3.3 The Impact of American Investment on Canadian Resources

Increasing continental integration of the Canadian and American economies can be shown in terms of both gross trade and investment

figures over time and in terms of the enormous impact of American direct investment in Canadian industrial resources in the post-Second World War period. These statistics indicate not only the peculiar interlocking of the two economies but the persistence, despite complexity in the Canadian economy, of staples production and export as H.G.J. Aitken noted in his review of such overall trends in capital formation:

indeed, its viability as a nation, — has turned upon the conditions under which a relatively small number of commodities could be produced and marketed... it is still true that the pace of development in Canada is determined fundamentally by the exports that enable Canada to pay its way in the world. And among these exports the staples trades, particularly the new staples, the products of Canada's twentieth century resource industries, hold pride of place.

From the time of Confederation to the First World War period, British portfolio investment was the prominent form of foreign investment in Canada. U.S. investment (direct and portfolio) gradually overtook British investment between World War One and World War Two. The impact of American direct investment became much heavier, in the "early postwar boom" of 1946-1952, followed by an even more intense influx in a "late postwar boom", as Table 111 indicates. American investment began to lessen and even out between direct and portfolio types in the 1960-1965 period. While the total international inflow of investment in the 1867-1964 period was \$29,507 million, about two-thirds of that, \$19,123 million, came in the postwar period of 1952-1964. The majority of this is accounted for by U.S. direct investment, \$9,408 million, and U.S. portfolio investments, \$5,899 million. 6. By the 1950's, Canada was the prime world target for American investment and by the 1960's per cent of all foreign investment in Canada was American. 75 Canada was not only an important market outlet but a major source of raw

materials for the United States.

TABLE 111: Total Book Value of U.S. Foreign Direct Investment 1929 to 1970 - Selected Years (\$ billions)

	1929	1946	1950	1957	1963	1970
Canada	2.0	2.5	3.6	8.6	13.0	22.8
Latin America	3.5	3.1	4.6	8.1	9.9	14.7
Europe	1.4	1.0	1.7	4.1	10.3	24.5
Other	0.6	0.6	1.9	4.4	7.5	16.1
Total	7.5	7.2	11.8	25.2	40.7	78.1

Source: R. Vernon, Manager in The International Economy, 2nd, ed., p. 205, Table X.1.

A second indication of continental integration is found in trade statistics. The value of world trade increased twenty-fold over the period 1867 to 1960, while that of Canadian-American trade increased eighty fold. Canada's imports from the United States increased from one-third of its total in 1870, to two-thirds in 1914, to over 70 per cent in 1960. Canada's exports to the United States have similarly grown to 60 per cent of its total exports since World War Two, with about 70 per cent of these accounted for by raw materials for industry.

The most significant characteristic of this integration of the two economies, for our purposes, is the structural nature of the integration, the sector specificity of the impact of American controlling investment in Canada. For, as Clement has noted, "the difference between trade and foreign ownership is the difference between independence and dependence."

9. As early as the 1914-1925 period, when American investment first predominated in Canada, Aitken noticed it had already taken

on a sector-specific character. Seventy per cent was already concentrated in industrial raw materials, including pulp and paper. This became translated over time into substantial American control in many industrial resource sectors. By 1939, two-fifths of Canadian mining had become controlled by American capital. During the postwar surge of American direct investment, American dominance in these sectors emerged, as the following table indicates.

TABLE 1V: U.S. Sector-Specific Control in Canada, Selected Years

	Percentages 1939	Percentages 1954	Percentages 1957	
Manufacturing	32	37	43	
Mining/Smelting	38	47	52	
Petroleum/Gas	N.A.	57	71	

Source: H.G.J. Aitken, American Capital in Canadian Resources, 1961, pp. 50,68, and 69.

Beyond the strong pressure that American investment exerted toward economic integration, the impact on secondary manufacturing caused Canada to become a northward extension of the American domestic market, which could be served either by shipments from the United States, or when the tariff obstructed this, by the purchase or establishment of branch plants in Canada. The impact on Canadian resource industries was different, however, and Canada's role became that of a convenient and secure source of raw materials. The fact that these resources have played the same dominant role in Canada's postwar development that older staples played in earlier periods is linked by Aitken to the coincidence of American capital and market access:

...the resource industries which provide the bulk of Canada's exports to the United States are the industries that have shown the most remarkable increases in output in the postwar years, that have absorbed much of the inflow of United States capital, and that tend to be controlled by United States corporations. Apart from secondary manufacturing, which is almost entirely a matter of servicing the Canadian domestic market, United States direct investment capital has been placed predominantly in those sectors of the Canadian economy that generate exports to the United States. 11.

Wallace Clement has shown that the sector-specific continental integration noted by Aitken remains the pattern of corporate linkages in the 1970's. Bearing in mind that American ownership constitutes the vast majority of foreign control, the data in Table V indicate the validity, as shown in 1978 CALURA statistics, of the Aitken thesis. The amount of foreign ownership is extremely low in utilities, wholesale and retail trades, beverages, clothes and leather goods. But in newer high-technology industries such as rubber, electrical and chemical industries it is much higher, as it is in petroleum and coal. U.S. investment accounts for about 50 per cent of total mining, about 30 per cent of paper, and over 70 per cent of petroleum and coal, according to 1972 CALURA figures.

3.4 Concentration and Control of New Staples

The degree of Capital concentration within industrial sectors is vastly understated by Table V, for though each corporation with assets of \$250,000 or more is counted, their ownership links are not. Thus, Clement found in 1975 that four dominant mining corporations, together with their subsidiaries, control over 56 per cent of all assets and 64 per cent of all sales in the metal mining industry. Cominco has its own subsidiaries and affiliates and is itself vertically linked to the conglomerate, Canadian Pacific, which has oil, mine, and forest

affiliates. Imperial has about forty separate subsidiaries, as well as consortia ownership in many pipelines and the Syncrude tar sands project. Cross-resource industry links are increasingly taking the conglomerate form as CP Ltd., Power, and Argus corporations' holdings indicate, but this is not shown in the Financial Post listing of the top 300 corporations The first thirty listed for 1977 show the predominance of either. both U.S. manufacturing branch plants and new staples resource companies in the most concentrated enterprises of the Canadian economy (new staples underscored): General Motors, Ford Motor, Imperial Oil, Canadian Pacific, Bell Canada, Chrysler, Massey-Ferguson, Alcan Aluminum, Inco, Gulf Oil, Canadian Packers, MacMillan-Bloedel, Trans Canada Pipelines, Steel Company of Canada, Brascan, Noranda, Seagram, Moore, Texaco, Dominion Foundries and Steel, Genstar, Domtar, Abitibi, Canadian General Electric, IBM, Canadian International Paper, Consolidated-Bathurst, Burns Foods, Imasco.

Table V does show, however, that the new industrial staples are among the most concentrated of productive sectors, matched only by public utilities in circulation sectors. Of firms accounting for at least \$25 million in assets each, those in metal mining own 95 per cent of the sector's assets. In mineral fuels such firms own 83 per cent, but in this case the total number of firms is more than four times the number for metal mining. Of the 525 paper firms, only 71 hold assets over \$25 million, but these control 91 per cent of all assets. Primary metals are even more concentrated, with 19 of 506 firms controlling 91 per cent of the industry assets. The greatest concentration exists in petroleum and coal products where 18 of 53 firms control 99 per cent of all assets.

TABLE V: Proportion of Total Assets in Industrial Sectors Held

by Largest Corporations and Percentage of Foreign

Ownership, 1975

Industrial Sector	Total No.	No. with Assets \$25 Mil. & Over	% All Assets Owned By Firms in \$25 M Class	No. For- eign Own -ed Firms in \$25M Class	Overall Z Firms Foreign Control -led
Agriculture, Forestry, Fishing	10,839	2	*	1	9
Mining: metal mineral fuels others	218 875 2,818	51 61 24	95 83 45	28 42 <u>16</u>	44 71 55
Total Mining:	3,911	136	82	41	57
Construction Public Utilities WholeSale Trade Retail Trade Services	33,353 12,666 31,727 46,882 48,789	57 136 86 50 51	24 91 31 33 *	22 27 42 18 27	74 8 28 21 23
Manufacturing: food beverages	2,887 391	52 18	55 72	34 9	50 30
tobacco rubber leather	19 122 377	6 8 1	95 84 *	6 8 0	100 93 23
textiles knitting clothing	802 289 1,894	14 0 0	54 * *	10 0 0	59 24 16
wood furniture paper	2,330 1,345 525	10 2 71	33 * 91	6 2 35	29 23 41
printing, pblsh. primary metals metal fabricating	3,420 506 3,4260	10 19 23	33 91 36	1 6 16	12 14 43
machinery transp. equipment electrical prod.	1,192	23 38 33	50 78 71	19 28 25	67 78 66
non-metallic min petro. & coal chemicals		24 18 41	66 99 70	19 16 33	66 92 75
miscellaneous	2,949	12		6	50
Total Mfg.:	27,473	423	69	279	56
Total Non-Finance Industries:	1 <u>a1</u> 215,640	941	64	502	33

TABLE V (Cont'd.)

* Assets not divulged where numbers of companies might permit individual identification.

Source: Table 2,3 and 5, CALURA, Part 1, 1978, pp. 61-210, in Patricia Marchak, In Whose Interests: An Essay on Multinational Corporations in a Canadian Context, 1979, pp. 38-39.

If ranked separately, Alcan would be eighth and Aluminium Company of Canada thirteenth, while MacMillan-Bloedel, Domtar, and ConsolidatedBathurst are linked to the three aforementioned conglomerates. (See
Table of cross-industry linkages in the forest staple).

Concentration has a regional dimension which tends to balkanize Canada into metropoles of industrial processing and hinterlands of resource extraction. Ontario and Québec account for the vast majority of manufacturing in Canada, while the East and West coasts, the North, and the Prairies have traditionally been the forest, mine, and energy extraction areas that attract little refining or smelting.

The historical role of different fractions of the capitalist class in both the initiation of enterprises in resource production and the centralization and concentration of capital within new staples industries is of interest in explaining why certain resource sectors are more monopolized than others. "Canadian" capital participates more substantially in some sectors than others and those sectors exhibiting greater foreign control also exhibit greater concentration.

Depending on the dominance and role of fractions of the bourgeoisie, capitalist industrial development and particularly concentration of
capital in large-scale corporate organizations can take more than one
path. The path predominantly noted in advanced industrial societies

involves the internal growth of handicraft industries, the reinvestment of profit, and industrial leadership and concentration (through mergers etc.) orchestrated by industrial-finance capital. A second path is characterized by the representatives of "merchant capital" (large import-export interests or bankers) reaching back to take control of key productive sectors, sometimes implying "outside" investment in the industry and/or the buying and selling of enterprises like "commodities". 12.

In either case, the end result entails some mingling of industrial and banking capital in modern corporate capital enterprises. The process of integration merges enterprises within the same general industry, local and regional enterprises and enterprises in supply and marketing industries are brought under central control. However, some social scientists have suggested the first path, characteristic of the ascendency of industrial capital and its dominance over commercial capital, was not predominant in Canada, that the second path was more typical and was responsible for a retarded transformation to full-scale industrialism and a tendency to rely on external financing and control in productive sectors. This general tendency is one measure of dependency and "underdevelopment". If the transformation from commercial to corporate capitalism takes on specific forms in each particular instance, Canadian industrialization and development being one among many, then we need to understand the impact of this transformation in terms of concentration and control of capital industrial staples production.

Jorge Níosi, líke Tom Naylor, suggests Canada does not fit the European or early American model of finance capital in which banks actively take part in industrial enterprises. Rather, Canada follows

the British, "conservative" model of banking which avoids heavy investment in and direction of industry. Canadian bankers concentrated on
commercial as opposed to industrial credit, rarely founding companies,
merging or reorganizing industrial enterprises. The conservative tendency and the link to the metropole oriented them toward the financing
of staple extraction and export, leaving substantial control of manufacturing and mining to U.S. capital.

Today, Niosi finds Canadian chartered banks merely hold shares as liquid assets or control profit-making firms related to finance. Though investment companies promoted mergers in the past, it was more to diversify stock and stabilize companies; with the exception, then, of holding companies such as Power, Argus, and C.P. Investments (modelled, he suggests, on the U.S. system), financial institutions are not in a position of control over non-financial corporations. Of the 136 dominant Canadian companies he studied, Niosi found a variety of kinds of control characterize the boards of directors. Far from being a linear progression successive types of control over time as outlined by Berle and Means (individual, family, internal management, and financial institutional control), Niosi finds several kinds present. About one-third of the companies were "management controlled", meaning no individual or group of shareholders had minority or majority control of shares. Family capitalism remains strong, and holding companies are simply one legal mechanism among many by which individual capitalists or groups exercise control over a collection of companies in a pyramidal fashion.

Of the 136 major Canadian-controlled corporations Niosi studied, the following indicates the variety of types of control found in some new staples corporations. Foreign subsidiaries are not listed, since these are generally under firm control, absolute or majority, of the parent abroad.

TABLE V1: Control of Canadian Industrial Companies (1975)

	Assets (\$millions)	Type of Control	Holder of Control (and % of vote)
Abitibi Paper Co.	871	Managerial	Board holds (0.8%)
Alcan Aluminium	3,012	Managerial	Board holds (0.3%)
Inco Ltd.	3,026	Managerial	Board holds (0.15%)
Irving Oil Co.	150	Semi-Absolute (private)	K. Irving (100%)
Kruger Pulp & Paper	149	Semi-Absolute (private)	Kruger family
Maclaren Power & Pape	r 105	Minority	Maclaren family (19.6%)

Control in Canadian Industrial Subsidiaries (1975)

	Assets (\$millions)	Initial Control (and ultimate)	Parent Company (and % of vote)
B.C. Forest Products	369	Joint Majority (minority)	Noranda Mines (28.5%) Mean Group (15.3%) Brunswick Pulp & Paper (26.6%)
Brunswick Mining & Smelting	151	Majority (minority)	
Cominco	870	Majority (managerial)	Noranda Mines (64.1%) C.P. Invest. (54%)
Consolidated-Bathurst	662	Minority (minority)	Power Corp. (38.1%)
Hollinger Mines	148	Minority (minority)	Argus Corp. (21.3%)
Home Oil Co.	398	Minority (managerial)	Consumers' Gas (49.75)
MacMillan Bloedell	1,198	Minority (minority)	C.P. Invest. (13.4%)

TABLE V1 (Cont'd.)

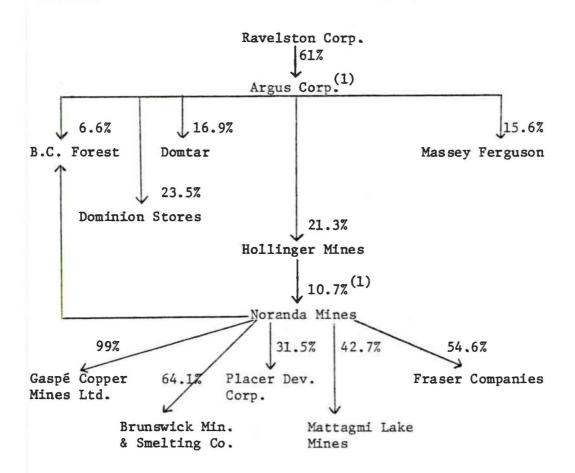
(Assets \$million)	Initial Control (and ultimate)	Parent Company (and % of vote)
Mattagami Lake Mines Ltd	. 164	Joint Majority (minority)	Noranda Mines (34.1% directly plus 8.6% indirectly) Placer Development (27% indirectly)
Noranda Mines	1,980	Minority (minority)	Hollinger Mines (10.7%)
Pan Canadian Petroleum	382	Majority (managerial)	C.P. Invest. (87.1%)
Placer Development	242	Minority (minority)	Noranda Mines (31.5%)
Price Co.	356	Majority (managerial)	Abitibi Paper Co. (50.7%)

Source: Jorge Niosi, The Economy of Canada, 1978, pp. 110-11, 114, 118.

Niosi's data do not appear to improve on Clement's evidence, however. His catagory "managerial" becomes a catch-all for situations in which he can not determine controlling interests. It does not particularly discriminate between companies on the basis of how major decisions might be made either. Furthermore, it should be remembered that "managerial" control does not mean that middle or lower level managers are in control. Rather it means a substantial bloc of shares can be traced to members of the board of directors. As Clement has shown, the links of members of the board to financial institutions have important functions at particular junctures in the corporation's growth. It may be less important to discover that such personnel do not control.

The following figure indicates the recent pyramiding of new staple and other firms under holding-company control of companies like Power, Argus, and C.P. Investments.

FIGURE 1: The Argus Corporation Group



Note (1): Including the 815,310 shares of Noranda Mines held by Labrador Mining and Exploration Co., a subsidiary of Hollinger Mines.

Source: Financial Post Director of Directors, 1975, Tables 2 & 3.

We concern ourselves with the following features of concentration in the ongoing process of capital accumulation and monopolization in new staple sectors in the case-studies chapters:

- (a) The extent to which foreign or Canadian industrialists or financiers initiated large corporate organization and merger in the creation of dominant new staple firms.
- (b) The postwar role of the Canadian state in facilitating and legitimating such concentrated and perhaps monopolistic accumulation of capital at the expense of small firms.

As Table VII indicates, both petroleum and nickel sectors of the Canadian economy have had consistently high concentration where refined products are concerned. Production of crude petroleum developed only after 1947 on a large scale, however, and here a proliferation of smaller Canadian companies has combined with increasing activity by foreign "major" oil companies producing lower concentration in the production phase of the industry. Integrated foreign firms still account for the most sales, however, and for control of much of the refining, distribution pipeline network and all importation of foreign petroleum. (It should be born in mind that these firms are usually incorporated as "Canadian" in state documents and statistics.)

The pulp and paper sector has much lower concentration and less foreign, particularly American control among the dominant firms. Since concentration data are based on varying criteria for different years, it is difficult to find wholly comparable models over time for each industry. The 1948 and 1964 data, for example, may underestimate concentration by treating each company discretely, with no consideration

of wholly-owned subsidiaries, and by basing judgement on employment and shipments rather than on assets and sales. The data for 1954, on the other hand, may show higher concentration by using "value-added" as the criterion; however, where the number of top firms is constant (as in pulp and paper for 1954 and 1971) the data appear to be closely correlated.

Though metal mining and mineral fuels are both capital-intensive sectors, they date from two different eras. Nickel became important around the turn of the century for use in fine equipment and military hardware, but plastics from petroleum exports not until after World War Two. Similarly, the two staples differ with regard to U.S. ownership and control patterns. Though both show high degrees of American control, the metal mining sectors in general are less vertically integrated with U.S.-based operations. Petroleum, however, represents a direct extension large-scale, vertically integrated U.S. firms into Canadian resource bases, with each dominant firm in this sector being a subsidiary of a U.S. parent firm operating continentally, and world-wide. transition to large-scale petroleum as well as pipelines in the postwar era makes 1947 the logical beginning for our investigative purposes. The only exception to the dominance of Canadian control in utilities is in the petroleum and gas pipeline sector, in which only Trans Canada Pipeline is Canadian controlled. Clearly pipelines tend to be integrated to major oil and gas operations which are predominantly U.S. controlled. Each of the major oil producers has become affiliated with at least one of the key pipelines. These are even newer as an "industry", dating from the early 1950's, and this factor may, combined with general state strategy,

account for the dominance of U.S. capital in pipelines.

TABLE V11: Concentration and Control in Petroleum, Nickel,
Pulp & Paper

Industry	1930 ^a	1948 ^b	1954 ^c	1964 ^b	1971 ^d
	(top 5)	(Concen.)	(top 6)	(Concen.)	("dominant")
Crude Petroleum	N.A.	N.A.	68% 5 U.S. 0 Can.	"fairly low"	5 U.S. firms account for 40% sales of "mineral fuels"
			o ourr		manutur room
Petroleum Refining	1 U.S. firm = 55% output	•	93% 4 U.S. 1 Can.	"high"	8 firms (4 U.S., 1 Can.) account for 94% sales "petroleum"
Nickel					
(refined)	1 U.S. firm = 71% output		100% 3 U.S. 3 Can.	"very high"	4 "metal mining" firms (2 U.S., 2 Can.) account for 64% of sales. ("Nickel" unchanged)
Pulp & Paper (Mfg'd)	5 firms (Can. predom- inantly) = 90% output	low"	46% 1 U.S. 4 Can.	"fairly low"	6 firms account for 50% "paper products" sales. (1 U.S., 4 Can.)

Notes and Sources:

- a) 1930 cumulative per cent of total sector <u>output</u> controlled by 1 to 5 firms. Source: L.G. Reynolds, <u>The Control of Competition in Canada</u>, 1940, Tables 1-5.
- b) 1948 and 1964 concentration compares manufacturing and mining industries on the basis of the number of largest firms accounting for 80% of employment or value of shipments. Very high = 1-4 firms; high = 4-8; fairly high = 8-20; fairly low = 20-60; low = over 60 firms. Source: Max D. Stewart, Concentration in Canadian Manufacturing & Mining Industries, Economic Council of Canada, August 1970, pp. 21-23 and 37.
- c) 1954 shows percent value-added accounted for by 6 largest firms.

 Source: Gideon Rosenbluth, "Concentration & Monopoly in the Canadian Economy" in Michael Oliver, Social Purpose for Canada, 1961, p. 207.

TABLE V11 (Cont'd.)

d) 1971, CALURA sales statistics and financial control from Financial Post Survey of Mines, Oils, Industrials (1972). Source: Wallace Clement, The Canadian Corporate Elite, 1975, pp. 145-8 and 413-19. "Dominant" firms have assets in the \$250 million or above range and have income greater than \$50 million, (Clement, 1975:128).

Though Table V11 does not indicate increasing concentration in the pulp and paper sector over time, evidence suggests that since 1950 concentration has increased, since the dominant six companies shown in Clement's data account for thirteen companies identified earlier by John Porter. This is the oldest resource-based industry in Canada and the predominance of Canadian control is linked to its early origins when portfolio investments were the predominant form of financing, as opposed to U.S. direct investment which entered the manufacturing and resource sectors later on.

Concentration has, thus, differed in intensity in the three staples. It has been the product of two forces - foreign and indigenous, both of which have squeezed out smaller firms in the pulp and paper sector over the years. Foreign concentration eliminated smaller firms from the mining sector (especially nickel) at an early date. In the case of petroleum, it involved the creation of subsidiaries rather than independent enterprises at the refining and distribution levels.

As L.G. Reynolds noted, concentration in many industries, especially automobiles, tires, gasoline, tobacco, rayon, and aluminium (among others) was imported from the U.S. market into Canada. Such was Imperial Oil, formed in 1880 as a subsidiary of Standard Oil to service the Canadian market with American products. 17. Remaining in this

distribution phase until after the Second World War, the Canadian oil industry was a near monopoly. American subsidiaries in Canadian production, refining, and transport of petroleum in the postwar phase represent the importation of concentration by virtue of American majors' control of world markets and alternative productive sources.

Concentration within the pulp and paper sector represented both the movement north of American newspaper interests and newsprint companies seeking sources of pulp-wood and newsprint, but also the indigenous merger movement of 1909-1912 and again in the late 1920's in which Canadian commercial interests facilitated consolidation and sustained an indigenous growth of corporate capitalism.

18. The postwar period shows further consolidation has been via indigenous financial conglomerates such as Power, Argus, and C.P. Investments, as well as via indigenous industrial merger, for example that of Price-Abitibi.

The nickel industry's concentration has stemmed from the "monopsony" (control of the market by the customer) created by the United States' steel trust (U.S. Steel), under the guidance of the powerful financier, J.P. Morgan, forming the combination known as the International Nickel Company in 1902. Canadian resources in the form of the American producing company, Canadian Copper, were joined with two American refining companies, Orford and Joseph Warton, and several other mineral owning companies. INCO's power to fend off entry of competitors into production of nickel was based not only on its financial connections with the principal industrial user, U.S. Steel, but also on those financial interests' ability to stop the necessary financial backing for potential competitors. Military markets provided by long-term contracts

with the U.S. Defense Department and the U.S. Government's tariff protection against imported refined nickel were a form of exclusive access which dated from the founding of Canadian Copper Company in the late 1880's. ¹⁹. In a larger sense, however, the concentration within the nickel sector stems from the monopoly or trust era of the 1890's when so many of the major U.S. corporations of the present got their all important edge over competitors by combining entrepreneurial talent and banking finesse in the joint-stock company. The uniqueness of the case is that in the nickel industry this process took place across national borders and at such an early date that neither American nor Canadian firms could challenge the monopoly for a long time.

As Harold Innis pointed out in his histories of early staple production in Canada, surplus capacity and monopoly have plagued these sectors throughout their development. Such problems have, Innis asserted, been related to the general vulnerability and instability imposed by production for external markets. We suggest that monopoly was further spurred by the general context of capitalist accumulation imperatives and the role of modern capitalist states. From 1890's on, large vertically-integrated and financially-connected corporations would edge out or merge with smaller family firms. Gradually governments ceased to enforce the legislative paraphenalia that was designed to protect smaller firms and the public from many of the "evils" of early monopoly. Once high concentration and centralization of capital became the dominant corporate form, however, it would secure the protection it required de facto if not de jure from states. We suggested

in Chapter Two that trade associations and price-fixing agreements would play an important role in coordinating the interests of corporations where concentration of capital was lower, as in the pulp and paper sector. Here price-fixing would be more visible, if not more frequent, than in staples sectors where agreements could be coordinated between fewer large producers and directly with the aid of state officials. Thus, we have hypothesized, concentration is indirectly furthered by the "archaic" or half-heartedly applied anti-combines legislation which is increasingly incompatible with big business' interests. We suggest both the problem of surplus capacity and the coincidence of corporate and state interests in creating "stability" in the form of control by large corporate bodies generates a climate for greater merger activity, particularly in the pulp and paper sector. Further, external forces or market circumstances to be delineated in the next section of this chapter affect the timing of such concentration and the maintenance of export dependency.

Since the pulp and paper sector appears to be undergoing mergers, joint ventures and consortia (sometimes involving state participation) may have been an important element in capital accumulation in new staples of the postwar period. Similarly, diversification of operations within petroleum and mining sectors may be a pattern since concentration and centralization of capital was already high in these sectors. External forces (especially U.S. foreign policy) are, we suggest, important factors in facilitating concentrated capital accumulation on a continental basis in these sectors. The role of the Canadian state becomes a crucial factor in linking external economic and political forces to this Canadian development strategy.

3.5 The Paley Report: Implications for Canadian Development Strategy

At the same time that certain dependency theorists have pointed to the international "disintegration" of the nation state's autonomy under the impact of the internationalization of capital via the multinational enterprise, Canadian social scientists have noted a tendency toward "continental integration" of the Canadian and American economies accompanying dramatic increases in American direct investment in the postwar period. The impact of the latter on the autonomy of the Canadian state is problemmatic. U.S. strategies of resource acquisition and expansion abroad involve substantial state intervention on behalf of resource multinationals. Economic integration and sectoral interdependenhave thus brought a return to Canada's historic pattern of development - staples dependency, or "growth" through the application of sophisticated technological and capital imports from advanced areas to virgin resources. The role of the Canadian state in this process is affected by American development policies.

One of the general political forces behind continental integration noted by Aitken, in American Capital and Canadian Resources, involved formal economic and political reorganization of world trade in the postwar period. This led to the breaking down of tariff barriers and the formation of satellites in regional associative patterns world-wide. Aitken suggested the primary objective behind this trend was the elimination of nationalism in trade policies.

21. We can hardly interpret this strategy as generally espoused, however, (as Aitken does), since the breaking down of nationalistic protection was clearly in the interest of the "metropole", the United States, rather than in the interests of

the satellites to which he refers. Furthermore, the rise of nationalism itself in the postwar period can be explained as a reaction to the increasing penetration of American capital and influence. While Aitken describes the economic penetration of Canada, he does not make this all-important political link. The question becomes whether Canada has or has not sustained nationalist strategies in the face of such penetration. If anti-nationalism was an American, rather than a "universal" value, then we must explain the convergence or divergence of other state policies with this ideology. The premises of The Paley Report both substantiate our contention that anti-nationalism was an American policy and link this policy to increasing U.S. demands for cheap world resource materials, to be sought most actively in "friendly", non-nationalistic satellites.

On July 1, 1952, U.S. President Harry S. Truman disseminated the five volume Report of the President's Materials Policy Commission, directing government agencies to carry out its recommendations to assure mounting supplies of materials and energy which, he said, "our economic progress and security will require in the next quarter century." It was to be an important foundation for state domestic and foreign policy—making, for along with strengthening the U.S. materials position, it was designed to strengthen "the free world's economic security." 22. The policy premises of what was usually called The Paley Report (after its chairman) are further detailed in Volume 1, "Foundations for Growth and Security." Here the writers demonstrated the interdependence of American state—spurred economic expansion and anti-communism and anti-nationalism abroad, or in structural terms, what we have called the

unity of the capital accumulation, coercion, and legitimation functions of the American state. Page one of the report affirmed this unity of purpose:

The United States...is today throwing its might into the task of keeping alive the spirit of Man and helping beat back from frontiers of the free world everywhere the threats of force and of a new Dark Age which rise from the Communist nations....Indeed, the interdependence of moral and material values has never been so completely demonstrated. 23.

The Paley Report enumerated several sources of urgency-- domestic and international, political, military, and economic --for such a long range resource policy:

- The shift from export to importation of basic materials of production in the U.S. trade picture in the decade preceding <u>The</u> <u>Report.</u>
- 2) Similar difficulties in Western Europe characterized not only by higher consumption and greater depletion of basic materials, but also by weak or severed ties with their colonies.
- 3) Nationalism, or the "rising ambitions of resource-rich but less developed nations, especially of former colonial status, which focus on industrialization rather than materials export."
- 4) Communism, or the split between "totalitarian and democratic nations" which disrupted "normal" trade patterns and "made necessary costly measures of armed preparedness."
- 5) The need for the U.S. state to assure capital accumulation and employment to forestall depression by stimulating resource development. "The lingering fear from the Great Depression of future market instability and possible collapse dampens the willingness of private investors and resource-rich countries to develop resources"... 24.

The Commission concluded from these considerations the critical need for a long-range, interventionist, state-led, resource policy, asserting: "the job must be carried on cooperatively by Government and private citizens, not periodically at wide-spaced intervals, but day by day and year by year." 25. Though the threat of war was to be a power-

ful legitimating feature of such a policy, the absence of war was to be an inadequate argument against either full-scale mobilization or spurring the increased import of raw materials. "Today's rearmament emergency... can be of the greatest usefulness to us in emphasizing the problem we shall face and the actions we must pursue, war or no war," 26.

Faith in "private enterprise" and the "price system" as the best way to achieve this "growth" strategy was asserted as the guiding principle. At the same time, state intervention was seen as "not only desirable but essential to (U.S.) preservation". In foreign policy, isolationism was to be buried once and for all. For, gaining international advantage from massive import of cheap raw materials would require an open door abroad for U.S. direct investment and manufactures. The Commissioners proposed:

...the United States and other free nations...must coordinate their resources to the ends of common growth, common safety, and common welfare...the United States must reject self-sufficiency as a policy and instead adopt the policy of the lowest cost acquisition of materials wherever secure supplies may be found...if the United States is to increase its imports of materials it must return in other forms strength to match what it receives. 27.

These were the ideological and economic premises of what U.S. sociologists and economists were to promote in the 1950's as "development" through "diffusion" abroad of capital and technology, or the notion of trade by "comparative advantage". In the 1960's, such status—quo—serving ideologies would be reevaluated by radical members of these diciplines in the United States and abroad. The latter analysts, including neo—Marxist dependency theorists, would characterize the above outlined strategy as part of American imperialism, "unequal

exchange", or the American perpetuation of "resource dependency" in maintaining the process of underdevelopment in resource-rich countries.

Developing countries, the Commissioners insisted, should use "their own capital" and borrowings from other countries and international agencies to develop socially needed services and the infrastructures necessary to export resources. They should concentrate on attracting "private", especially American, capital into raw materials 28. extraction and export. Thus, import substitution policies abroad would guarantee the flow of natural resources to the United States. Should developing countries not appreciate their "need" for expensive "heavy imports of capital, technology and trained management abilities from other areas" 29. the Report suggested a bit of financial blackmail might change their ideology: "A country's willingness to support effective resource development might be an important factor in assessing the country's ability to service additional loans for economic development." 30.

The main targets for investment in twenty-two key resource materials were Canada, Latin America, Africa, the Near East, South and Southeast Asia. Canada, particularly, could provide a dozen of these. By 1950, the United States was totally import-dependent on forty of seventy-two "strategic and critical" materials, and partially import-dependent on the rest. Increasing demand for critical materials over the next thirty years was projected to average 64 per cent for all raw materials except agricultural products and gold. Meanwhile, American direct investment in world off, mining and smelting already accounted for 75 per cent of the \$13.5 billion U.S. foreign investment in 1951.

In Canada, the Commissioners noted, American investment was already larger than in the whole of Latin America or any other "free country", and two-thirds of this investment was in mining, smelting and oil.

To increase direct investment in "critical and strategic" resources internationally, the Commissioners recommended the concerted action of international banks and development agencies, tariff negotiators—
and U.S. governmental encouragement of investment by U.S. resource companies. The American state would engage in the following actions to increase domestic and foreign production of resources by American firms: lower tariffs on raw materials, facilitate both import and domestic production through long-term government purchasing contracts at premium prices to American companies, subsidize production through loans, guarantees of loans, and special tax considerations for depletion, expensing, exploration and expansion of productive capacities.

32.

Such private American companies would be encouraged to make their own "special resource agreements" with resource source governments covering tax laws, regulations on foreign ownership and management, administration of labour codes, exports, exchange restrictions, import permits, and transport facilities.

33. This lobbying burden would favour large firms. Similarly, if criteria for special contracts were to involve past performance or share of the market, large firms would again be favoured by the strategy. The extent of American direct investment in Canadian resource sectors thus implies a structural vulnerability toward involvement in this strategy.

Obstacles to such an all-encompassing international plan arose from nationalism and the sc-called "bad investment climate" that it

entailed. The Commissioners listed the signs of the disease which were cropping up around the world:

...policies and attitudes toward investment which may take the form of demands for nationalization... creeping expropriation... requirements for extensive local participation in management...limitations on convertibility of capital and earnings.loss of confidence in governments... 34.

Mindful of the recent experience of U.S. oil interests in the Middle East, especially in Iraq and Iran, the Commissioners warned against any such policies, in language usually reserved for the communist "menace":

In the Near East, a fanatical nationalism has cast its shadow over the future expansion of foreign investment ... In Latin America...governments increasingly resent the stigma of economic colonialism that they often attach to the idea of heavily orienting their economies toward materials exports. 35.

No such obstacles or "bad investment climate" existed in Canada, it seems, as far as our review of the increases and extent of American investment in this period indicates. As far as the authors of The Paley Report were concerned, Canada was not only a prime source of critical materials, a Western Hemispheric nation (hence strategically close-by), but also a "friendly", that is "non-nationalistic", source country. In Chapters Four through Seven, we shall examine the complicity or deviation of the Canadian state in terms of resource policies affecting the development and export of pulp and paper, mine and energy resources, to see if Canadian nationalism presented any obstacles to U.S. penetration and receipt of such materials.

Beyond the general advantages of such policies to U.S. capital accumulation and the maintenance of employment by keeping processing

stages in the United States, was the material necessity to import resources as a result of long-term depletion of industrial resources. Between 1900 and 1950, The Paley Report estimated, the U.S. population had doubled and national output had increased five fold, but the greatest increase in consumption had occurred in minerals and fuels, which had multiplied six times over the figure for 1900. Increases in consumption of food, agricultural, fishery, and wildlife products were much less, on the other hand, only two and a quarter times the 1900 figure. Energy consumption had the most striking increase; twenty-six times more natural gas and thirty times more crude oil were being used by 1950. This reflected the massive use of non-renewable industrial minerals in an increasingly mechanized economy. "Renewable resources" 36. such as forest products were suffering from depletion as well. Projected figures for increases in demand by 1970-80 for the United States and "other free world" countries are shown below. Starred resources are important Canadian exports.

TABLE VIII: Increases in U.S. Demand for Strategic Resources,

1950 to 1980

(U.S. / Other Free World, Percentages)

Tin 18/50	*Petroleum	109/275
*Zinc 39/61	Tungsten	150/150
*Copper 43/54	Fluorspar	187/260
*Iron Ore 54/73	*Aluminium	291/415
Rubber 89/203	*Nickel	100/100

Source: The Paley Report, Vol. 1, 1952, p. 9.

All of the above materials were placed on the U.S. stockpile list, but the following table indicates the importance of Canada as a source for ten of twenty-two "key materials" listed in the <u>Report</u>. Not included, but similarly important are: natural gas, newsprint, and aluminium (listed for Guyana) making a baker's dozen to be sought primarily in Canada.

Of the strategic resources listed in Table VIII, the United States was totally dependent on nickel imports coming predominantly from Canada. Even though most of its aluminium came from the Caribbean, the bulk of this was refined in North America and particularly in Canada where enormous amounts of hydro electricity were most cheaply available. Similarly Canada could be counted upon for zinc, copper, and iron ore, though the foreseeable requirements would not increase as much by 1980 for these, and the United States was a substantial producer of her own ores. Even though the United States continued to be one of the world's largest petroleum producers, this resource appears over and over again in its strategic resource lists. Though Canada was a comparatively new petroleum producer and produced only one per cent of the "Free World" allotment, this too featured among the materials in Table IX that Canada could be expected to provide in future.

Thus, the very choice of materials to be stockpiled or sought in increasing proportions from Canada seems to have been dictated in part by political considerations. Nationalism or the lack of it was key in the choice of Canada as provider of many of these resources. Nor were Canada's domestic needs accounted for in the general plan.

TABLE 1X: Canada's Production of Ten of Twenty-Two Key Materials (1950)

Commodity	Amount Produced in 1950	% of Total Producable Free World Outside U.S.	% of Total Produced Free World Outside U.S.
Nickel (metal)	111,600 tons	94	94
Copper (metal)	237,600 tons	16	10
Lead (metal)	154,100 tons	14	10
Zinc (metal)	283,600 tons	20	15
Asbestos (fibre)	794,000 tons	68	66
Iron Ore	3.3 million tons	2.5	2.5
Sulfur	107,000 long tons (from pyrites)	3	1
Titanium (concentrates)	91,000 tons	1	1
Colbalt (metal)	284 tons	4	4
Petroleum (crude oil)	29.1 million barrels	2	1

Source: The Paley Report, Vol. 1, 1952, p. 91.

Since reliance on Western Hemisphere production was stressed, and the Middle East was seen as "unstable", Canadian production of oil and tar sands would receive greater attention. ³⁸ Energy sites of the St. Lawrence, the Niagara, and the Columbia rivers were noted as the "best sites remaining to the (U.S.) nation for developing

hydro-power in the lower cost range." ³⁹ A continental transportation system should be facilitated to achieve adequate flows of bulky materials such as coal, iron ore and petroleum. ⁴⁰ Even though both Canada and the United States produced quantities of these latter resources sufficient to their respective needs, the plan called for ease of transport back and forth from either source on a long-term basis. The St. Lawrence Seaway project was considered additionally essential for reducing the shipping distance of iron ore to be brought from new Labrador deposits to the inland "industrial defense triangle", which, it appears, included the southern Ontario industrial belt. ⁴¹

To operationalize the purchasing and coordination involved in this strategy, the Economic Cooperation Administration, the General Services Administration, and the Defense Materials Procurement Agency would encourage production for the National Stockpile through long-term contracts, (up to twenty years in the case of ECA, up to 1962 for DMPA, and for an unlimited period under GSA.) 42. The Commissioners emphasized the importance of the stockpile as an indefinite and crucial tool in the overall plan: "The task of increasing production of materials for security purposes -- both to provide for stockpiling, and of equal importance, to provide a continuing and expansible flow of scarce materials-- does not, in the Commission's view, have a foreseeable end." 43. Since some of these agencies would be terminated, the Commission recommended successor agencies fund loans to projects of resource development. These generous subsidies would provide as much as 50 to 75 per cent of total capital per project, with governmental profit sharing being a possibility only where loans exceeded 75 per cent of total

investment. 44. This indicates the importance of state subsidization of private capital accumulation in the overall resource plan.

To prevent the interference in this project of artificial shortages attendant on international cartels, as well as the instability in markets and prices which were common in materials such as copper, lead, zinc, tin, nitrate, wood pulp, newsprint, and rubber, the Commissioners stressed the importance of the International Materials Conference as the machinery to be used to allocate scarce materials internationally. The IMC, active since 1951, was made up of a central core of eight countries, principally from the Organization of American States and the Organization for European Economic Cooperation. Countries represented here were producers or consumers of 80 to 90 per cent of the following commodities which had vertical committees in the IMC: copper-lead-zinc; manganese-nickel-cobalt; tungsten-molybdenum; sulfur; wool; cotton-cotton linters; and pulp-paper.

Canadian involvement in and agreement with this general policy would indicate official acceptance of a resource export road to Canadian development, as outlined in the general premises of The Report and Canada's answer, the Gordon and Borden Reports of the 1950's. In evaluating the impact of The Paley Report and the general elements of this American resource policy on Canadian state policy in the postwar period, we shall focus particularly on Canadian bureaucratic facilitation of corporate involvement in stockpile production and in international materials allocation organizations. We shall be particularly interested, as well, in whether Canadian officials cooperated extensively with new staples corporate executives in the implementation of these policies,

and if so, whether those firms represented tended to be the larger firms, predominantly Canadian or American controlled. 46. We attempt to determine in general whether Canadian state involvement was as an "equal partner" or took a more reactive, "ear to Washington" form. As indicated in Chapter Two, we expect involvement of businessmen in Canadian resource policy was crucial, on the basis of the structural relationship between state and capital; that the largest firms would be most consistently involved, whether Canadian or American; and that the Canadian state's involvement would not be as an equal partner in this U.S.-sponsored policy. Collusion with the Paley strategy indicates a "subordinate", or less autonomous, position for the Canadian state in the continental resource policy and a source of weakness in initiating alternative policies. The large-scale stockpiling of resource could have forbidding long-term consequences for resourceproducing countries in the overdevelopment of such sectors and great vulnerability to the threat of such stockpiles being loosed on the international market. It will be of interest to note the consequences of dismantling and the differential impact on the three staples industries. The latent purposes of the overall continental resource strategy, and stockpiling in particular, appear to favour large resource companies with American links and the establishment of secondary processing in the United States rather than Canada -- hence the crystallization of Canadian-resource dependency.

3.6 Conclusions

The postwar period of Canadian development has been characterized by many Canadian social historians by renewed dependency on the export of staples, this time in a North-South flow of industrial resources as opposed to the earlier pattern of an East-West flow of capital and commodities—in that case food, luxury, and simple construction materials to Britain and Europe. The shift in trade axis coincides with a new division of control, of labour, and a new form of dependency, however. We suggest Canada's technology—generating capacity and ability to link this extraction of industrial resources to extensive manufacturing within Canada has been seriously reduced. In addition, multinational corporate extraction of new staples is the present dominant form of exploitation. The external decision—making that it implies is a geographically divisive rather than unifying element in Canada's contemporary development. The capital formation of new staples and their transport and energy grids imply corporate, frequently foreign, control as well.

It is the rise of both corporate capitalism and U.S. political and economic hegemony at the international level that has brought deeper penetration of Canada's productive spheres (resources and manufacturing) through direct, controlling investment, at the same time that it has meant the penetration of state apparatuses and policy by external, U.S. strategies of growth. We suggest the highly instrumental role of the Canadian state in the maintenance of such dependent development stems from both the nature of monopoly capital and its requirements and the extensive continental integration of the two economies outlined in this chapter. Consolidation and centralization of capital has been intensified by the impact of American direct investment in the productive spheres, as this review of ownership and concentration in Canadian industrial sectors has shown.

In the early 1950's a strongly interventionist U.S. state laid forth a development strategy that stimulated U.S. corporate expansion abroad to garner cheap industrial resources for processing at home in an effort to accumulate capital at both ends while maintaining employment and replenishing rapidly depleting domestic resources. Canada became a key postwar source for industrial and military materials in this struggle to stoke the American industrial machine and establish surveillance over the economies of "safe" or non-communist and non-nationalist regimes. Indeed, the surety of Canada as a potential producer of so many resources would serve as a level in extracting Third World countries resource wealth all the faster. The bargain made by the Canadian state traded secure industrial resources for secure U.S. markets and opened the door permanently to both direct investment and military-political influence from the United States. In short, it would solidify continental integration at both the economic and political/ideological levels, resulting in a non-nationalist ideological stance in Canadian strategies of development. Thus the continental context of Canada's postwar development linked Canada to the world capitalist system by way of built-in limitations and unevenly distributed benefits which, we contend, are visible in the overall state strategy of development as it effects capital accumulation in industrial resources and legitimates the increasingly international aspects of this accumulation. The limitations on autonomous trade, maintenance of manufacturing, and growth and survival of technology-generating capacities stem, our evidence will demonstrate, from the interplay of this structural and political dependency on U.S. policy as well as from

the extremely close correspondence between state policy and the interests of largest corporations. For, in the monopoly phase of capitalism, it is capital representing large-scale market access or technological superiority that succeeds in controlling the production of world resources, unless state policies are founded on the importance of blocking or limiting the terms of its access. We suggest the Canadian state never attempted to do so, but on the contrary facilitated the conditions of big and particularly, therefore, foreign capital access to its resources, indifferent if not antagonistic to "nationalism" at this basic level. It would favour the largest enterprises' access to new staples, for these could assure "rational" control of production and marketing (through monopoly) where glut and low prices (the "irrational" aspects of resource dependency) were ever present. It is an instrumental state that takes, at the same time, an "ear to Washington" stance on the premises of development and the day-to-day facilitation of that strategy involves close rapport between high civil servants and big industrial resource capitalists.

Forest, mine, and energy staples are truly representative of the modern industrial resources, the material bases, upon which Canada has become so export dependent for its postwar trade balance and by which it has become so bound to the continental context both economically and politically. All industrial staples require large amounts of capital and technology for both their extraction and final processing phases, whereas old staples required these to a much lesser extent and predominantly in the transport and circulation phase. The investment that brought them to British and European industrializing markets did not carry with it control, but consisted of portfolio credit and state

subsidization of railroads, canals and hydro. Secondary industrialization up around these transport and energy-producing systems in the 19th century under Canadian control, but as U.S. investment became direct in form and Canadian financiers avoided the kind of financial backing that American industrial giants received increasingly under American control. The fact that it is direct rather than portfolio investment that brings new industrial staples and high-technology manufactures alive severely limits the ability of small Canadian firms to survive in either sector and encourages both concentration and monopoly through continental integration of these productive sectors. Forest, mine and energy staples best represent Canada's world rank in production, the national profile of its heaviest exports and new U.S. market orientation. They demonstrate substantial but varying degrees of capital concentration and foreign (especially American) control, as well as particular patterns of regional dispersal. The forest staple, the oldest, contrasts sharply with the newest energy staple in amount of employment, manufacture before export, and concentration and foreign control of capital. Nickel corporations represent a variety of industrial mining and export within the same enterprises. And all three would become "strategic" to U.S. Cold War development and expansion plans. Thus, their production would be subsidized in a variety of ways and the conditions for capital accumulation in these sectors carefully monitored by the Canadian state. All three represent the general new staple type, being capital and technology intensive, relying predominantly on a wage labour force rather than independent commodity production, and representing semi-processed resource sources of the second industrial revolution.

Yet, they differ sufficiently in the history of their capital formation and consolidation to allow a broad view of the state's roles in facilitating their postwar production, undertaken in the archivally researched case studies that follow.

CHAPTER FOUR

THE FOREST STAPLE AND THE INTERVENTIONIST STATE

4.1 Some Historical Features of the Structuring of Dependency in the Canadian Forest Staple

The Canadian state has never developed a policy of national integration comprising the production, secondary processing, and distribution of forest products within its national boundaries based upon domestic demand. The history of the forest staple until Confederation was directed by the demands of external markets, first French, then British, and the legal and tariff mechanisms established by such mercantile states. Indeed, the Crown Land system facilitated their access to choice timberlands which built the military and civilian shipping foundations of these European empires. Indigenous markets were never the raison d'être of Canadian production. Nor has the involvement of the Canadian state itself been "neutral" in the sense of managing the forest lands "in the interest of the general public", for despite the democratic appearance of the land tenure system, large blocks of choice public timberland were alienated to private Canadian and American ownership or to monopolistic institutional ownership by such companies as the C.P.R. and the Hudson Bay. 1. Thus, a mercantile legal and tariff framework sustained independent commodity production for heavy export of timber to Europe, at a high during the Napoleonic Wars and tapering off by the 1850's.

The Civil War and U.S. industrializing needs for construction materials brought tariffs favouring massive export of lumber to the North

and Midwest of the United States. The Canadian National Policy (1878-1895) welcomed increasing U.S. investment in Canadian resources and manufacturing, including paper production, as did the attitude of the Canadian Manufacturers Association, which suggested, "The market is reserved for Canadian manufacturers. The way for our Yankee friends to obtain a percentage of the Canadian trade is to establish their works in Canada." 2. Northeastern American forest depletion, combined with this Canadian welcome, influenced large U.S. firms to buy up or lease large tracts of Canadian timberland, most of it exported to the United States in raw form. By the 1890's, Dominion and provincial laws countered U.S. import restrictions sufficiently to bring acceleration of U.S. capital to Canadian pulp and paper plants, again to serve U.S. metropolitan consumption as corporate capital expanded its domestic markets through the large circulation daily. Thus, newsprint production greatly expanded in Canada between 1900 and 1920, and a new staple was born with a new market orientation.

Until the twentieth century, Canadian state facilitation of capital accumulation in the industry featured tariff, waterway, hydro, and land subsidization. By the turn of the century a new organizational and management subsidy was added. Dominion, Quebec and Ontario governments provided forest services and shortly thereafter, a pulp and paper institute was begun to research commercial uses and improvements for the industry. Both conservation and aid to manufacturing had become inextricably related to the needs of the U.S. market and pulp and newsprint production in Canada.

Between 1925 and 1930, however, capacity had doubled while U.S.

consumption had increased by only 20 per cent. The industry suffered 50 per cent surplus capacity, and seven large companies, representing 58 per cent of productive capacity, went into receivership. $^3\cdot$ A wave of capital consolidation, 231 mergers between 1925 and 1930, hit Canadian industries, among them the paper industry. Two structural trends in the newsprint industry were reinforced: U.S. East coast capital further penetrated both midwestern and Canadian production and both Canadian and U.S. capital attempted to buy up surplus plant capacity to gain control over price and production. The solution was part of the problem. The demand by U.S. metropolitan newspapers for cheap, secure supply meant eagerness to keep price low and production high in newsprint. Large-scale production meant inflexibility in an industry where shut-downs and start-ups are costly. Greater capital and market integration to production brought increasing monopoly. Surplus capacity and monopoly were not, as Innis had thought, characteristic of the staple but of its development within the continental context. Canadian financial capital led consolidations in the late 1920's and early 1930's, leaving the small-scale entrepreneur of the 1880's far behind the new corporate conglomerate of the pulp and paper industry. By the late 1930's, three newsprint producers dominated Canadian production: Consolidated Paper (formerly Canadian Power and Paper), Abitibi, and International Power and Paper. 4. These, in turn, bought controlling interests in a large number of independents to reduce productive capacity and increase their control over operating conditions and price.

Once in Canada, companies like International Paper Company signed long-term newsprint contracts with huge U.S. newspaper chains

such as Hearst Publications and proceeded to destroy existing price structures and to flout governmental attempts to organize the industry as a whole and implement production and price arrangements. Such contracts allowed I.P.C. to operate at nearly 100 per cent capacity while others shouldered the burden of 40 to 60 per cent surplus capacity during the Depression. Thus, the consolidation of U.S. capacity and corporate expansion into Canada brought a rigid division of labour and uneven monopolization.

The Canadian state not only fostered consolidation as a means of reducing surplus capacity but, in addition to price-fixing during both World Wars, attempted to organize the industry into cartels such as the Canadian Newsprint Company and the Newsprint Institute. These were replaced by the Newsprint Association of Canada (a cartel masquerading as a trade association) and the Newsprint Export Manufacturers Association of Canada (an outright cartel). The latter cooperated with the American National Recovery Agency in the 1930's; at the same time it constituted the international sharing of markets. Provincial governments allocated tonnage until World War Two, when both Canadian and U.S. federal governments fixed prices in concert as they had during the First World War. This spirit of continental governmental cooperation was expressed by the Canadian government in an inquiry into international newsprint cartels in 1945: "...it might be necessary to attempt agreement with the Government of the United States, as representing the main consumer, along the lines of the intergovernmental commodity agreements...as the solution to the problem of temporary demoralization in basic industries."

These trends toward greater industry-state and U.S.-Canadian state cooperation would broaden in the postwar period to include international joint planning of market expansion through U.N. industry forums and stockpiling mechanisms. A recognizable continental network of industry and state personnel would crystallize, in addition, for the purposes of combatting attacks on monopoly. Thus by the midtwentieth century, the following features would characterize the industry and the state's strategy in facilitating capital accumulation within it:

- (1) Ownership and marketing were interlocked continentally, either through vertical corporate integration or through long-term agreements between major publishers and newsprint producers.
- (2) A division of labour and capital on a continental basis meant low-processed production in Canada and diversion of capital to finer manufacturing of paper in the United States.
- (3) The emphasis on large-scale plant construction meant lack of flexibility. Plant shut-downs could be devastating because equipment took months to reactivate. Surplus capacity thus served the interests of external large consumers and operated at the expense of non-integrated producers.
- (4) The U.S. state added newsprint and pulp to its "strategic materials" lists in the early 1950's making this industry one of the defense-related continental concerns to be developed in concert with U.S. Cold War plans. Stockpiling and international allocation of "emergency" newsprint would aid the industry in eliminating surplus capacity and expand its international markets.

- (5) The Canadian federal bureaucracy would become increasingly active in aiding the dominant corporate interests, whether Canadian or American, since it associated glut and low price with small producer competition and saw consolidation and linkages to U.S. markets or European markets through capital equity as the route to stability and market security.
- (6) Contradictions arising in Canadian and U.S. sections of the industry would surface in continuous anti-trust battles that reflected not a nationalist struggle for greater manufacturing in Canada but rather continental coalition of big against small producers and consumers in the monopoly capitalist phase.

The forest staple remained extremely important to the course of Canadian development in the postwar period. One in twelve of Canada's workers were in this sector and over one third of its total export earnings came from logs, paper, woodpulp, lumber and related products. The industry remained a trade balance mainstay and major source of employment, first in wages paid, new investment, and net value of output. The forest staple's dollar value had surpassed that of the wheat staple and was double the value of the mining staple.

7. Nonetheless, the reinforcement of the economic and political division of labour on the North American continent would mean the least processed products were located in Canada. (See Appendix A 6.) The largest international movement of forest products continues to be from Canada to the United States in forms which constitute the indirect export of manufacturing employment, a feature of dependency which Russian and Scandinavian producers of forest products do not share. Our investigation of the state's

role in the postwar period suggests that such dependency is not a necessary condition of forest production for export, but one which reflects instead a continental resource strategy.

4.2 Direct Industry-State Cooperation: The Role of Trade Association

The accomplishment of corporate capital concentration and the implementation of long-term industry goals in general depended upon the creation of organizational mechanisms which facilitated direct industry-state cooperation in policy making. Both the Canadian Pulp and Paper Association (C.P.P.A.) and its American counterpart, the A.P.P.A., were industry responses to surplus capacity, attempts to organize and rationalize capital and to shape state policies. They became significant vehicles for the rationalization accompanying corporate capitalism, organizing the industry under large company hegemony. A.P.P.A. executives had drawn up and administered National Recovery Act regulations affecting the industry in concert with C.P.P.A. and Newsprint Manufacturers Association of Canada executives. Together they were instrumental in blocking newsprint production in the American South while cutting excess capacity in Canada. "Self-regulation" was the operative model.

In the postwar period C.P.P.A. activity broadened beyond control of market prices of newsprint and federal level state bureaucracies actively intervened on its behalf in the redirection of unemployed labour to the industry and state-run forestry programmes, as well as supplementing its fight against U.S. anti-trust efforts. With the memory of the Depression close at hand, the Canadian Government took an active role in fostering closer contact and policy coordination with such trade associations.

A. Koroleff, forester for the C.P.P.A., and E.H. Finlayson,
Director of Forestry at the federal level, had organized conferences
of the woodlands and forestry sections of the industry and state.
Representatives of the respective counterparts in the United States
attended as well, and a long history of British empire organizational
influence on Canada's forest bureaucracy was replaced by continentalism.Due to budgetary difficulties in this new endeavour, the Canadian
Defense Department could provide only free tents for the participants,
who met at the Petawawa experimental forestry station, but regal culinary accommodations were made for this outing in the "bush". Koroleff
remarked that the usual fare for the "relief labourers" at the camp
would not be adequate, and so he sent the Defense Department a menu of
roast beef and claret, concluding with strawberries and fresh cream.
The remainder of the conference was to take place in the Capital's
Chateau Laurier.

The C.P.P.A. hoped stronger industry-government links would follow from such conference initiatives, "that the arrangements for summer meeting...are only the beginning of a closer contact and greater co-operation between the Dominion Forest Service and this Section."

General McNaughton, Chief of General Staff, Department of National Defense, so active in organizing the use of the unemployed and welfare recipients in dominion forestry stations as cheap labour during the Depression (a practice extended to private logging during the War), featured strongly in these liaisons. His retirement to position of President of the National Research Council of Canada was noted with interest by the C.P.P.A. since the Council could be useful in future

subsidization of industry-related research. 11. In an address to the C.P.P.A., McNaughton boasted of the use Government had made of the unemployed in maintaining woodlands for industry. 12.

More frequent and consistent coordination of the Canadian forestry services with those of the United States was part of the plan in the
postwar period. This was a natural outgrowth of economic links between
the two industries. Provincial aid was still a mainstay of the industry,
and Quebec's Prime Minister Duplessis frequently assured the C.P.P.A. that
welcoming foreign, especially U.S. capital, was a major state policy
priority at the provincial level as much as the federal level:

The capital in the pulp and paper industry today is 60% American and the balance, English and Canadian. Quebec is looking to cooperate with 'honest capital'...Foreign capital will be protected in Quebec...United States capital came into Canada because of our natural resources; we must have a policy not to antagonize the United States. 13.

The first priority was to get existing mills working at capacity, but he believed government's role should be one of "non-interference" -- meaning, it appears, non-interference with combines and facilitation of American capital import. An "anti-nationalist" provincial stance would, he thought, keep U.S. markets open, whereas direct governmental interference with price might result in retaliation by the United States.

The president of the C.P.P.A. expressed industry's desire for closer government-industry cooperation to consolidate continental capital in the industry and guard against over-capacity and low prices, which they said were caused by "excessive" competition. Though the Depression had brought an end to mill expansion, further consolidation within the industry must now be achieved through cooperation with the state:

It was found that the growth up to 1929 had been on an individualistic basis. It is now realized that the industry is face to face with greater problems relating to a sound, sane, economical development in the future. This can only by solved by cooperation with all other interests affiliated with the industry. The executives must plan wisely for a common objective...The officers of the Association want to cooperate with the Dominion and Provincial Governments and with all other associations. 14. (Emphasis ours)

Two goals additional to intra-industry cooperation and consolidation of capital and production had surfaced for the C.P.P.A.: making governmental intervention at home and abroad work for the largest interests in the industry; and cutting labour costs through both enlistment of governmental managerial services (including liason work, engineering and research) and through the importation of new machinery at the logging end. (The last is discussed in Chapter Eight). C.P.P.A. personnel were active in creating the bases for the necessary top-level cooperation, insisting: "contact between foresters and men of high standing in the Government needs to be further promoted...(via) some Dominion Ministers, perhaps some members of Parliament...and some other men, contact with whom we should cultivate to promote the cause of sound forest management." 15.

The use of terms like "forestry", "conservation", "forest management" and the like served to colour the pulp and paper industry's coordination of activities with the popular terminology of a conservation movement and to camouflage the more basic interests of the industry.

There was no conflict between state and industry on this aspect of capital accumulation. It was important to make every effort in public relations, however, since the major postwar aim, larger-scale capital accumulation, was at the expense of employment and of smaller enterprises

or independent pulpwood producers.

The collusion of state and industry in these endeavors might appear contradictory at first, since one of the state's functions is to maintain employment or extend welfare to legitimate as well as facilitate capital accumulation. However, as large capitalists were to convince their confreres in the state policy-making branches that "bigger was better", they were also to make use of the state's aid in facilitating the shift to more capital-intensive means of extracting value from resources. This meant the state would prepare to facilitate either the transfer of large segments of the labour force to other sectors or the increasing extension of welfare to the victims of this policy. As in the United States, cooperation between these organizations and the new "welfare state" would mean less regulation of the industry and more aid to capital goals. When such trade associations found themselves confronting U.S. anti-trust attacks on monopoly capital, the Canadian state took their side and supplemented their lobbying networks at the middle levels of U.S. power where anti-trust arose.

The Canadian Government regretted the fact that the Newsprint Association, for example, had to keep a low profile when questions of cartels were at issue — for the Association was an important organizer of monopolistic agreements. Conflict with small consumer interests thus required more direct support of large newsprint interests by the government bureaucracy whenever the Associations' hands were somewhat tied; as one official put it:

The Newsprint Association of Canada, by its very nature cannot step into a matter of this kind willy-nilly with-out endangering punitive actions from many directions. It must be remembered that the Newsprint Association styles

itself as having for its purpose 'to gather statistical material concerning the production and shipment of newsprint made in Canada,...statistics on (U.S.) consumption ...and try to form some general view of the world newsprint programme of supply and demand'. 16.

While both the C.P.P.A. and the N.A.C. liked to style themselves as merely housekeeping at the data collection end of the industry, in reality, they were trade associations that performed many of the functions of _ _ cartels. In addition, when it was inappropriate for some of the larger corporations or for the state to issue ideological statements, these associations could play the role of legitimation. Clearly such institutions could perform their functions in rationalizing the industry and legitimating that trend much better when the state helped them maintain the neutral façade described in the above quotation. Both the state and the larger interests in the industry (as represented in such trade associations) would attempt to use quiet forms of persuasion. For example, members of one U.S. investigating committee (the Brown Select Committee on Newsprint and Paper Supply of the U.S. House of Representatives) were invited to a three-day "conference" at the Royal York Hotel in Toronto. The Newsprint Association had its appropriate forum and its "informal luncheons" at same, to show that its industry had done a "magnificent job for its major customers". 17. As the increasingly ineffectual course of anti-trust investigation and Brown's reversal will show, this activity bore fruit.

4.3 The Ideology of the Interventionist State

The legitimation of the necessary state-industry cooperation for such capital accumulation projects as took place under stockpiling and international paper allocation required an ideology with international

implications. It would consist in general outline of the imminent and constantly reiterated threat of conventional war with the "communist menace" or potential nuclear holocaust. Thus "strategic" needs, which, as we shall demonstrate, were largely ficticious, were ideologically utilized to camouflage a new structure of large-scale capital accumulation and a unity at the political level between big business and the state in both the United States and Canada. The rationalization of the Canadian paper industry along monopoly capital lines required such a unifying ideology and a new justification for the increasingly close ties between big capital and its state servants. This ideology was in large part imported from the United States.

Postwar U.S. efforts to maintain wartime levels of production and expand markets abroad demanded the construction of a vigorous ideology of expansion to make such self-serving moves as the reconstruction of Europe and counterrevolutionary intervention in the Third World appear palatable and indeed necessary for the continuation of "free enterprise". The notion of external political and military threat served to justify domestic and international attempts by the U.S. state to facilitate large-scale capital accumulation in a more active manner and to soft-pedal the domestic conflict and criticism that accompanied the resulting domination of monopoly. New mechanisms for aiding the largest industrial firms could be implemented once the ideology of Cold War "crisis" was firmly established in the public mind.

This rather flexible ideological tool was soon put to use by Canadian industry spokesmen, especially the heads of the C.P.P.A., N.A.C., and NEMAC, as well as by state officials to justify continental intra-

industry collusion, state support of monopolistic practices under antitrust attack by small business, and artificial expansion of markets in North America and abroad. The traditional non-interventionist view of the state's role was renovated to coincide with the requirements of corporate capital giving rise to a new cooperative and interventionist view. Those industrial spokesmen called upon to defend the continental industry during the constant barrage of U.S. anti-trust suits reflect this new unity of purpose among big U.S. publishers, big Canadian paper producers, and the upper level bureaucrats in the Trade and Commerce Department of the Canadian state. The network of representation and lobbying which they created to deal with that threat to monopoly can be traced through the correspondence of these personnel who are informal conduits of big business interest. That sense of "we-ness" and identity of interest so necessary for the implementation of a strategy of resource development along dependent monopoly capital lines surfaces. Unity of purpose itself required ideological justification and received it in the form of Keynesian economic theory which lay forth the need for a more economically interventionist role of the state. An additional source of external rationalization came from international spokesmen from U.N. agencies who lent the aura of "neutrality" to Cold War ideology while they emphasized the importance of Canada's providing (selling) more paper abroad in order to assure "free" and "democratic" presses around the world.

In 1949, the Director General of UNESCO had called for compliance in international newsprint allocation for ideological reasons, during an agricultural conference at Montreal, pointing to "new needs resulting from political upheaval and social interventions in the world over

the last few years" and "inequality" of former distribution patterns. UNESCO was a spokespiece for use of newsprint for "instructional" purposes and "freedom of the press". This ideological component became, in practice, (as we will demonstrate later in this chapter), a concerted effort by the International Materials Conference to keep conservative and moderate governments in power throughout the world via "emergency" newsprint allocation during elections or crisis sit-Even U.S. Congressman Cellers, who led many of the anti-trust investigations against the monopoly in newsprint agreed that there was indeed a "crisis" in which newsprint played an ideological role. He cited the concern of the U.N. and the International Federation of Publishers and Editors in this regard, "The availability of newsprint is particularly important to this country as it has embarked on an international program to help democracies regain their strength and rebuild their economies." 19. Cellers even claimed. for example, that Russia was supplying some unnamed South American countries with newsprint with the proviso that the papers obtaining it print communist propaganda. Those best able to use newsprint effectively as an ideological tool were not, however, the small unintegrated publishers he defended.

As Fowler put it during this era of anti-newsprint investigation, the defense ploy made it sacred to collude and prosperity depended upon it:

I have never been able to understand why there is so much noise and bitterness in the relations between the American publishing industry and the Canadian newsprint industry. There is every reason why the two industries should be cooperative and friendly. They are closely related and interdependent and, indeed, are really part of the same

industry. Your press rooms are, in some measure, an extension of our newsprint mills...Our woods operations and mills are part of your production line. There is every reason why we should understand each other's operations and problems. Whatever reason or justification there might be in normal times for a state of feud between these two great industries, it surely must be clear to most of us today we should put an end to it. We are faced with a great common danger. 21.

He tried to impress American publishers with the idea that freedom of the U.S. press depended upon Canadian newsprint flowing abroad to drown the Communist press. He was busy, along with Canadian and U.S. state officials in selling the same idea in the OEEC and OECD vertical pulp and paper committees. Abroad monetary exchange problems and war devastation meant high demand; he wanted that demand filled by Canadian newsprint. In 1947 Canada exported 7000,000 tons overseas, while in 1950 this had dropped to 215,000 tons. Fowler warned, referring to both Europe and the Third World: "Their supplies of newsprint are insufficient to give any complete or adequate picture of world events to democratic peoples that we expect to be our partners in the struggle against Communism."

At the time of the 1947 anti-trust suits in the United States Fowler espoused both the notion of the need for unity in the continental pulp and paper community and for a "non-interventionist" state -- or at least one which would not regulate to the extent of imposing competition on the industry. His argument reduced to a warning to anti-trusters to leave the industry alone, since it was so unprofitable that American consumers were lucky to have as much newsprint as they did. So Fowler insisted, "government interference" (of the type that anti-trusters wanted) would threaten the great American "free

enterprise" system. Such rhetoric was handy in this era of Cold Warism: "...a free and prosperous newsprint industry is a necessary foundation for their (U.S. publishers') own enterprises and for the system in which they believe." 24. While other industries might be subjected to wage and price controls by the U.S. Congress, newspapers and magazines would be exempted. Fowler stressed the peculiar ability of the publishing and newsprint industry to maintain a state of "mobilization" without resort to "government interference", as the public knew it. His plea for a "truce" in the industry just as it was being investigated for monopoly was hardly spontaneous, but had been coordinated in advance with both the Canadian and American states. Fowler had written M.W. Mackenzie, Deputy Minister of Trade and Commerce, of his intended speech before the U.S. publishers and had "cleared" the contents of the address with Mr. De Salle in Washington ten days earlier. This call for unity mirrored the reality of continental policy making in the pseudocrisis atmosphere of the Cold War. Here was a way to soft-pedal the small business critique of monopoly by limiting it to the halls of Congress, while grander strategies were conceived and carried out at higher levels.

Throughout and after disclosures of international cartel activity on the part of Canadian newsprint giants, the Canadian Government congratulated Fowler, for having weathered the storm of U.S. "middle level" state investigation and having succeeded in flouting attempts to break the continental newsprint monopoly. Five years after the investigations, W.F. Bull, Deputy Minister of Trade and Commerce, wrote Fowler:

I recall very well all the difficulties you have experienced with Congressman Celler (head of the investigations), and I

hope the fact that this year he is Chairman of the House Judiciary Committee will get him no further with his Bill H.R. 642 (on producing company documents on request) than he did with his previous Bills. 26 (parentheses ours)

In his reply to a request by Fowler to "take what steps are needed to watch the progress of this matter in Washington through official Canadian government channels" 27., Bull assured the industry spokesman that the Canadian Commercial Counsellor in Washington, R.G.C. Smith (1955), would "keep us (the Government and the industry) posted." 28. Such "we" awareness on the part of state officials should not be confused with "nationalism", since this "we" constitutes the international collusion of the largest segments of the continental industry and the state's identification with such capital interests. The Government of Canada openly approved the silence by companies involved in the U.S. anti-trust cases and itself assumed a major part of the burden of legal and ideological combat:

The companies named in the projected American anti-trust case must of necessity play a very quiet game and those companies not directly involved see no reason to jump into the fire. This would seem to leave the Canadian Government pretty much the defender of the situation. 29.

Canadian International Paper made it known to government officials that it was "more than a little worried" about its position and felt the Government should take a stronger stand. 30. C.I.P. jumped from threatening the Canadian Government with the conditions of U.S. anti-trust laws when C.I.P. refused to hold an industry price line in the 1920's, to this stance of warning the Canadian Government to aid it in another anti-trust suit in the United States. Such switching exposes the rhetoric of sovereignty as convenient cover for international capital. Neither anti-trust cases nor the rhetoric of sovereignty

should be seen as attempts by either the American or Canadian states to lessen the power of such a multinational. Rather, the Canadian Government takes on a servant role in Canada, defending international capital in the United States as well.

Publicity and governmental policy statements on U.S. anti-trust were to draw heavily on the contents of a letter sent to the Newsprint Association of Canada by a significant U.S. supporter of their cause, W.G. Chandler of the large Scripps-Howard newspaper chain. He indicated his rather interested concern for the "sovereignty" of Canadian industrialists, bankers, and government officials when he privately "polled" them in a demonstration of what he called "international goodwill". The following portions of his highly selective impressions of public opinion were submitted to the Newsprint Association for its ideological campaign of legitimation and found their way throughout the policy-making echelons of Trade and Commerce officialdom from there:

Canadians regard the Department of Justice action as an invasion of Canadian rights. One Canadian said 'Your Washington authorities seem to think we're some fourth-rate little country which they can push around as they like'. Another man borrowed Winston Churchill's words and said, 'What kind of people do you think we are?' These feelings are by no means limited to Canadian newsprint executives. They are to be found with equal or greater force among Canadian Government people, among people in Canadian banks and financial institutions and among Canadians in general who know what is going on. 31.

It is indeed ironic when an American capitalist points so clearly to the sources of class interest in another country, where he knows exactly who counts and whose opinion to poll. It is also instructive when his role in such public relations efforts is so transparent that it exposes the so-called "nationalism" of the Canadian bourgeoisie at

the very moment he attempts to protect his own and their international interest. Chandler made Robert Fowler's pleas for him and for the largest interests in the newsprint industry, suggesting the appropriate threat that Canadian policy makers might use — the flight of capital when either profits are threatened or industry's rights to monopolistic capital accumulation are investigated:

One effect is that any group with money for new enterprise is going to say, 'Well, let's keep out of newsprint anyway; its always being badgered by Washington politicians; let's go into pulps or containers or some other industry that can be operated in an ordinary business way'...(or), 'Yes the U.S. will probably always be our biggest market but we'd better fill up as much as we can with some good solid business in other markets where we aren't persecuted all the time.' 32.

These investigations were to have important effects on the ideology to be used by the state to protect large firms' interests and on industry-state relations generally in this sector. Thus, during the 1950 investigations, the C.P.P.A., was informed by the Deputy Minister of Trade and Commerce in Ottawa that henceforth part of the defense of the industry would include a new argument based on: "...a change in the economy and in the place that government occupies in business affairs since the original (anti-trust) statutes were conceived." 33: In other words, the reality of corporate capitalism was no longer to be a matter of embarrassment to the state but to be admitted and ideologically defended on Keynesian principles. Robert Fowler, C.P.P.A. president, was relieved to have new amunition in his defense of government-industry alliances; replying that he had done his best with traditional arguments meanwhile:

In my evidence given before the Commissioner I did not really get down to this basic general point but I did try to put the

argument that the pulp and paper industry was in a peculiarly close relationship with Canadian Government policy. This arises mainly from two facts, one that a public natural resource is being used and the other that the products manufactured are very important in Canada's export picture. 34.

4.4 Monopoly and Rationalization of the Forest Staple

In the post-Second World War period the pulp and paper, especially the newsprint, industry was subjected to an uninterrupted series of anti-trust, antimonopoly attacks in the United States. The evidence from these inquiries is supplemented here by a network of correspondence and commentary on these emerging from Canadian federal bureaucratic levels involving the Department of Trade and Commerce, the Canadian Embassy in Washington, D.C., industry trade association executives, and U.S. supporters of the newsprint monopoly. Inquiry evidence demonstrates that the structure of newsprint distribution and sale had long been dominated by vertically integrated companies, many of which produced in Canada and consumed in the United States, or established the same security of market access for themselves via long-term contracts with major U.S. newspaper chains. This structure exacerbated a series of problems associated with surplus capacity and its distribution. Newsprint companies without such integration either suffered high levels of shutin capacity or sold to the U.S. "spot market" where free lance wholesalers made 100 per cent profit on selling to small non-integrated newspapers. The resulting "dislocation" of supply within the U.S. market meant the large newspaper chains had an additional and highly effective tool for squeezing out small newspaper competition and further "rationalizing" the consumer end of the industry. As we shall demonstrate in this section, the results were decimation of small consumers in the

United States and small pulpwood producers in Canada. An additional feature of such continental consolidation of capital and control appears in the merger spate within container and packaging sectors of the forest industry. Throughout all these moves toward rationalization, key federal officials played important roles as a group in facilitating such trends and in legitimating them.

Anti-Trust and Newsprint Monopoly

In 1947 two U.S. investigations of the newsprint industry threatened large Canadian newsprint producers with accusations of supply
control, cartel agreement, and price-fixing. One was launched by the
Senate Small Business Committee, the second by the U.S. Department of
Justice. These followed immediately on a ten year period of CanadianU.S. state regulation of industry production and prices. The Canadian
state reaction to anti-trust investigation was open support for its
major export industry, disguising its defense of monopoly in the rhetoric
of "Canadian sovereignty".

The Canadian Trade and Commerce Department gave the widest publicity to industry spokesmen's statements, particularly those of Robert Fowler in its efforts to combat small business' campaign.

Fowler submitted a lengthy brief on March 8, 1947 to the Senate Committee setting forth the industry's outrage at an "ungrateful" consumersponsored investigation.

35. Fowler cited formerly depressed conditions and increased operating costs in defending the industry's price policies and reminded the investigators that both the American and Canadian governments had condoned every price increase since 1938 during governmental price control.

ing to make appropriate profits, he continued, while U.S. mills were fleeing the newsprint sector for more profitable commodity production like fine and packaging papers. Though U.S. publishers complained that small publishers lacking supplies were going out of business, Fowler maintained the problem lay not with big Canadian mills, but with small U.S. merchants and jobbers who profiteered in "spot" (or short-term) newsprint markets. He claimed U.S. publishers had been receiving more supply than ever before and more than those around the world.

The testimony of Samuel Galewitz, Vice-President of Clinton

Paper Company, a U.S. newsprint wholesaler, lent credibility to Fowler's

contentions about profiteering. Galewitz told the inquiry his company

had bought 10,500 tons of newsprint at \$82.50 a ton and resold it at

\$160.00 a ton, a profit based as he said on "whatever the market can

bear".

The two major problems affecting supply cited in a survey of the opinions of the American printing industry were, however, increased consumption and dislocation of supply via vertical integration and long-term, exclusive contracts. Ineffectual mechanisms of intervention were still suggested: tariff manipulation to encourage pulp imports, and greater investment in U.S. and Canadian mills.

38. The latter "solution", had, in part, created the problem.

As soon as the Senate Committee had absolved the Canadian newsprint industry of blame in connection with newsprint shortages and called for an investigation of wholesalers and jobbers, the U.S. Department of Justice took up the cudgels again. Subpoenas were issued to three Canadian newsprint companies. As in the metal industry (see Chapter Five), the Canadian state would again protect its "own".

International Paper Company officials refused to produce the records of their two Canadian subsidiaries, Canadian International Paper and International Paper Sales Company. Abitibi, Spruce Falls, and Consolidated were the other subjects of investigation.

39. The Canadian Government protested the subpoenas which the U.S. State Department requested on the grounds these companies' documents were, ".... in the custody of wholly-owned Canadian subsidiaries of U.S. newsprint firms, or in the custody of Canadian newsprint firms doing business in the United States through wholly-owned United States subsidiaries." 40.

The inquiries discovered the existence of cartel agreements with European producers, but no punitive steps were taken. While warning the Canadian Government of the need to eradicate restraint of trade, the U.S. State Department also assured it, "...every effort (would) be made to avoid any interference with the maintenance and expansion of the Canadian newsprint industry."

41. Again the Canadian Government stood firm, delayed, and left the industry spokesmen to plead their case in the press.

A number of supporters of the U.S. anti-trust campaigns against newsprint interests hoped the American Armed Service would subsidize newsprint production in Alaska to attract population and lessen dependence on Canadian newsprint production. If newsprint was such an "unprofitable" commodity, they argued, they had no objection to "government intervention" to assure supply of a "native" sort. 43. While this form of state intervention to preserve, or rather create

competition, within the newsprint industry was frequently raised as a solution by small publishers at the Congressional level, it was hardly on the agenda of either the larger capital interests or those representing them at the upper levels of U.S. state.

It was difficult for the public to question why a multinational such as I.P.C. did stay in such an all-of-the-sudden "unprofitable" business. When I.P.C. handed out figures during investigations to prove how unprofitable newsprint production was, one never knew just what operations in a fully-integrated company had shown the profit. For, profit could be disclosed or concealed at will in whichever 44. The fact that sector of the paper trade was under investigation. many other interests had given up producing newsprint in the United States was not necessarily a feature of inherent unprofitability but of the successful control exerted by the largest companies. major U.S. newsprint producers in 1947 were Great Northern in the East and Crown-Zellerbach in the West. These too planned future diversions of investment to non-newsprint lines of production. 45. Consolidation of ownership through vertical integration had made expansion of production to more profitable lines easier for monopolists and also meant that such action could produce visible "shortages" in newsprint output at will. The price alone would hardly have been cause for investigation (if it had not continuously been arrived at in concert). Ninety dollars per ton, delivery in New York was low compared with prices in any other country. 46. Consolidation and governmental production allocation in the period just prior to the Second World War had influenced price to fluctuate much less, in terms of commodity

indices, in the period 1939-1947 than it had in the period 1914-1924.

No information was ever elicited from the Canadian companies subpoenaed by U.S. investigators. The Department of Justice finished by referring the whole matter to the Federal Trade Commission, which had earlier conducted a similar futile inquiry. 48. Accusations of monopoly returned in 1950, when The New York Sun folded and the New York Newspaper Guild attributed this to rising paper costs "forced by the Newsprint Trust". 49. The Monopoly Subcommittee of the U.S. House Judiciary Committee took on newsprint, steel, Dupont, Lever Brothers, Unilever, the theatre and distilling businesses. Again the Canadian Government backed newsprint companies with mills in Canada in their refusal to testify, confessing that "the American firms, of course, have no option but to appear before the Committee and make the most vigorous defence which they can." 50. For the third time since the war, Fowler and Vining of the C.P.P.A. and Newsprint Association, as well as individual executives of major Canadian newsprint companies, mobilized their lobbying and public relations skills.

Chairman Celler of the House Judiciary Committee charged this time that six Canadian manufacturers dominated newsprint supply and that their collusion was responsible for high prices. However, he acknowledged in advance the futility of these anti-trust investigations, given the international character of newsprint capital and organizational structures: "Our anti-trust laws, of course, can't touch these Canadian manufacturers, but our Government should take heed and act in an effort to force down the impossible prices that American newspapers and periodicals are forced to pay." 51. He accused American-owned

Canadian newsprint companies of having moved records across the border to avoid exposure of price-fixing and control of supply, a tool continental mining corporations also made use of.

Robert Fowler, then General Manager of the Canadian Pulp and Paper Association, immediately telephoned appropriate rebuttals to the Canadian authorities including the assertion that Canadian newsprint producers were not answerable to federal, provincial, or U.S. governments in marketing policies. This attempted to remove Canadian governments from the target area of investigation and deflate attacks from 52. Such criticisms within Canada of industry-government collusion. had been launched by an independent Canadian lumberman, E.E. Johnson, owner of Great Lakes Lumber and Shipping Ltd., attempting to expose collusion between provincial government and the "pulp and paper monopoly" to reduce logging operations in Northeastern Ontario. He called for support in a "fight to break up a vicious monopoly". 53. Both Quebec and Ontario Prime Ministers, Duplessis and Frost, denied participation in price-fixing, and Duplessis asserted that no newsprint combine or cartel existed except in the "imagination of some badly-informed or badly-inspired persons".

Both U.S. Senator, Paul Malone, and Southam Newspapers' Washington correspondent, Charles Nichols, joined Fowler in aiding the Canadian
Department of Trade and Commerce and the Canadian Embassy in Washington
in a defense of the largest interests in the industry by supplying these
governmental departments directly with daily Congressional and media
releases on the investigation of the industry. Voluminous notes on the
testimony of government officials, industry personnel, etc., were relayed

to Trade and Commerce via the Canadian Embassy by these two agents. 55.

The "informal" continental network was fully mobilized.

Spokesmen for International, Bowaters, and several other multinational newsprint companies testified. The Canadian Embassy reported, with vigour, the "rebuttals" of Mr. Meyer, President of Bowater Paper Company, New York, an important producer in Canada: "Bowaters was expanding as far as possible...with the idea in mind to build another mill in Canada...in all cases (it) was able to answer the charges and prove that such accusations with reference to price fixing and marketing agreements were without foundation." 56. Mr. Hinman, President of International and his colleagues, also in the opinion of the Embassy, "completely refuted any of the charges and accusations made against the newsprint industry" and, "branded as completely untrue...the suggestion that Canadian International Paper Company was organized in Canada so that in some vague way the International Paper Company's papers and records could be spirited across the border." 57. Such assertions were sufficient for the Canadian governmental bureaucracy, which, after all, recognized the inability of anti-trust legislation to do multinationals economic harm, and also appreciated the fact that the whole charade required bravado and appropriate public relations releases on the part of the big companies.

On the American side, testimony broke down into two fronts:

newspaper publishers who supported the Canadian newsprint companies

(many of these integrated to them via long-term contracts), and those
who stood outside and opposed to that network. At the governmental

level there were some attempts to get the facts of monopoly out, but,

for the most part, there was an attitude of compliance with the results of corporate integration and an inability on the part of lower-level bureaucrats to launch a more effective attack without upper-level approval. At upper levels of power, especially in the State Department, no cooperation would be forthcoming.

There were those whose testimony was not a song of praise for the plucky Canadian war effort or the competitive record of the newsprint industry. John H. Perry, President of the (American) Western Newsprint Union and owner of twenty-five southern newspapers, complained of his inability to obtain newsprint, claimed that Canadian newsprint mills had limited production in the first five months of 1950, and charged price-fixing, saying, "...it did not stand to reason that all Canadian mills should quote the same price and that all Canadian mills should demand 25 year contracts, if no monopoly or pre-arrangements exists..." 58. Similarly, House Representative, McKinnon, of California, who before election was a newspaper publisher, testified that he had made a three-year contract with the Powell River Company for newsprint, included in which was the statement that price would periodically be set by International Paper of New York.

Only Donald C. Cook, of the American government officials testifying, testified on the monopolistic structure of the industry. He asserted the entire newsprint industry was interrelated via a common interlocking directorate (with the exceptions of Blandin and Crown-Zellerbach) and showed by means of a chart that International Paper was central in this power network. Chairman Celler suggested that if the industry were trying to avoid being branded as a monopoly it would take steps to see

that such interlocks were eliminated. 60. The new corporate structure made possible "collusions" without concrete, visible evidence of such. Cook added that half of all North American newsprint production was controlled by U.S. newsprint companies, even though 80 per cent of newsprint was produced in Canada. When Celler asked if he thought a common directorate had been a means to by-pass anti-trust laws, Cook said he did not know.

A.R. Graustein of New York, gave a long and complimentary history of Canadian International Paper and his own efforts to make it a "Canadian" corporation with prominent Canadian directors. He also asserted that if officials of different companies wanted to collaborate on anything they did not need directorate meetings, but could do so in the privacy of hotel rooms or clubs. 62. We might take this as some indication that the important people in pulp and paper knew each other so well that even the mechanism of interlocking directorates was somewhat superfluous—yet it did provide a structural framework for on-going dialogue and decision—making.

Joseph Donohoe of the U.S. Tariff Commission testified that he found no restrictions involved in price-zoning, which was, he felt, done in any case solely as a matter of economic convenience. He did think it likely that in the past agreements on price had been made between the Premiers of Ontario and Quebec and the International Paper Company of New York. In shifting the responsibility to governmental bureaucracy, he could suggest only bureaucratic solutions, however. He said the Tariff Commission had not investigated and that if such agreements were proven then even worse results could be expected: "It would mean that

the Tariff Commission would have no alternative but to exclude Canadian newsprint from the United States. In other words, the newspapers of the United States would have (had) to close down."

The Tariff Commission, thus, continued to be less than whole-hearted in

its "investigations" of monopoly practices. This traditional tool of state control of industry had, it seems, ceased being a tool of regulation where large-scale, continentally integrated firms were concerned.

Congressman Clarence Brown, whose Congressional Committee had met with Canadian executives and civil servants at the Royal York Hotel of Toronto in 1947, was highly critical of what he now called "ill-timed and ill-advised" Department of Justice investigations of the newsprint industry. He felt these had strained Canadian-U.S. relations unnecessarily and further intimated that the U.S. State Department would not permit an investigation of this sort to cause a rift in these close ties. 64. We have here an example not only of a former chairman of a regulatory inquiry going over to the side of the investigated, but an important indication of state policy-making channels. The State Department could disallow such investigations.

Within this framework of policy priorities, Celler's Committee had no teeth. It again recommended anti-trust prosecution, this time of U.S. newsprint customers, a review of the ten per cent roll-back in price recently undertaken under the Defense Production Act of 1950, (that is, on the price previously established by Powell River Paper Company), and called for a reopening of hearings on the newsprint industry, if only for nuisance value.

65. Celler went on to try to initiate an international combines investigative body. Despite a few

dissenters, the Canadian cabinet came to "a clear understanding that the Canadian Government may not accept the (Celler) Committee's findings (and suggestion)", should any such international investigative organization be instituted.

The Canadian newsprint industry maintained its friendly relations with major American customers and high officialdom alike, coming out of the rounds of anti-trust investigation in the 1950's and 1960's unscathed. In 1957, when the U.S. Federal Trade Commission decided to consult with the Restrictive Trade Practices Commission on the "possibility" of price-fixing by Canadian and U.S. newsprint mills, the story was becoming a bit worn. 67. The formal hearings this time were to be held by the Senate Interstate and Foreign Commerce Committee. As in the past, these followed a general newsprint price hike, and the same threats of possible Alaskan production. Again the survival of "freedom of the press in the Free World" was trotted out by both sides. Again a long address by Fowler, now of the Newsprint Association of Canada, was submitted to the investigating committee. Fowler was now an old hand at this work, so governmental officials relied on his techniques rather than other volunteers' such as P.M. Fox of the St. Lawrence Corporation. Fox's commentary was too offensive in tone; the Canadian Minister in Washington thus screened him out of the lobby: "It is not that I do not agree whole-heartedly in what Mr. Fox had to say...but the somewhat emotional attack against the United States publishing industry and the unflattering reference to the members of the Committee are certainly not designed to persuade the Committee..." 68.

In May 1958, the U.S. Attorney General's report on newsprint

contained only newsprint industry statistics and the Canadian industry's place in "the future North American newsprint picture". No mention nor action was contemplated by the U.S. Government on newsprint pricing or marketing control. 69. The battle of big capital had again been successful and the continental corporate structure preserved.

In May 1963, another investigation was begun by the House Anti-Trust Subcommittee, again under the chairmanship of Celler, the Democratic Representative of New York. This time its focus was on competition among news media. The main concern before the committee was the steady erosion in the number of metropolitan dailies. The effects of monopolization and structural continental linkages between Canadian supply and American newspaper chains had damaged—the small and medium sized newspapers of the United States.

Meanwhile, Stanford Smith, General Manager of the American Newspaper Publishers' Association, claimed it would be unconstitutional for Congress to pass legislation restricting newspaper mergers. He refused to supply Celler with the names of publishers in the Association who had acquired interests in Canadian newsprint plants, and he asserted Congressmen should instead direct their investigations to the power of unions. Having reflected on American and Canadian state blocking of access to company files in 1950, as well as the failure of the U.S. State Department to press the investigation, Celler complained help-lessly:

We just can't find out anything. And I'm sorry to say our own State Department did <u>not</u> give us much help at that time. They were conspirators so to say in balking our efforts... Regardless of supply and demand, the price is fixed in Canada by a group of willful men... 70.

The important feature of looking into these investigations for our purposes, is the fact that the very real trends of concentration of ownership and continental control patterns do emerge from the nebulous exterior of failed attacks on these mechanisms of maintaining control The socio-political mechanisms marshalled by the largest multinationals and the upper echelons of the state are only made visible through a careful review of the lobbying mechanisms that go on outside what C. Wright Mills called "the middle levels" of power, the Congress and Parliament. These mechanisms have surfaced in the kinds of evidence put forward above. Even such participants in these investigations of monopoly as Cellers could see clearly that monopoly in a new form did exist, that the socio-political linkages between such corporations and the state did get exercised. He also recognized, however, that the machinery set up to control in the interests of competition was totally inadequate to the task, was obsolete in fact.

The Decline of the Small U.S. Newspaper

The long-term results of rationalization of the corporate structure of the pulp and paper industry along continental lines produced the decline of both the small newspaper and the small pulpwood producer. Thus, the evidence presented here on the decline of the U.S. newspaper in favour of a few monopolistic chains elucidates the contradictions created by such concentrations of power in the newsprint industry so avidly investigated.

The newspaper chains had formed solidly enough to further strengthen the American publishers' leverage on suppliers, American or Canadian. By 1943, forty-one publishers controlled fifty-two newspapers that accounted for 55 per cent of all newsprint consumption in the United States. 71. The Hearst newspaper chain alone accounted for 12 per cent of U.S. newsprint purchases, and Scripps-Howard used 4 per cent of the total in 1948. 72. Two hundred of the largest American newspapers used 68 per cent of total North American newsprint production by 1950.

In essence, a few large metropolitan chains came to account for the clout in what had traditionally always been a "buyers market".

Over the period 1900 to 1956 there had been a serious decline in the total number of operating periodicals in the United States, as the following table indicates:

TABLE 1X: Decline of the U.S. Periodical (1900-1956)

Year	No. of Periodicals	Year	No. of Periodicals
1900	2,120	1940	1,878
1920	2,042	1950	1,772
1930	1,942	1956	1,760

<u>Source</u>: N.W. Ayer, "Guide to Periodical Literature", in Stewart Ewen, <u>Captains of Consciousness</u>, 1976.

Over the same period there had been an extensive concentration of control in the monopolization of information. The following shows the per cent of American cities in the years listed where the press was controlled by a monopoly:

TABLE X: Monopolization of the Press (1910-1954)

Year	% Control	Year	<pre>% Control</pre>
1910	42	1944-45	91.6
1940	87.3	1953-54	94

Source: R.B. Nixon, "Concentration and Absenteeism in Daily News-paper Ownership", Journalism Quarterly, June 1945 and 1954.

Just as the small U.S. daily was a casualty of corporate capitalism in the newsprint and paper industry, so was the farmer-settler small pulpwood producer in Canada eliminated in the process of rationalization of pulpwood acquisition by the largest firms in Canadian newsprint production.

Monopolization of Pulpwood Acquisition and the Decline of the Farmer-Settler Pulpwood Producer

Complaints had reached the House of Commons at the beginning of 1955 that various pulp and paper companies were combining to fix prices paid farmers and other small producers of pulpwood. Pulpwood buyers discussed and estimated the total cordage they wanted cumulatively from given areas, transferred demand elsewhere if necessary, set offering prices by district and thus maintained given prices with the help of C.P.P.A. statistics on these factors. Independent suppliers consisted of many powerless, unorganized and scattered farmers who generally maintained small woodlots throughout Ontario, Quebec, and the Maritimes, in subsistence farming areas. The effect of export sales on pulpwood was minimal, but when foreign firms did enter the market to buy for export, the price structure was occasionally weakened, providing

an important basis for Canadian pulp and paper company support for tariffs and embargoes on pulpwood export. This in turn held small pulpwood producers at the mercy of the largest companies. Given the unorganized supplier versus centralized and organized buyer structure, written and verbal agreement between buyers, though superfluous, became common practice within the industry in the postwar period. It substituted for government sponsored price controls.

The leading companies, Canadian and American, in such combine agreements included the largest in the pulp and paper sector. Besides constituting the sole buyers, or even meeting to ascertain "demand" and price, there was a second feature of control the companies exerted. Most of these companies not only had access to their own timber limits, but these limits were capable of sustaining most or all of their pulpwood needs at any particular time. Thus, the practice of buying a minority of their needs from small farmers or settlers meant boycotts or holding back production on the part of these small producers could have no affect. On the other hand, most small producers depended to some extent on income from wood production in order to remain marginal farmers; in some districts pulpwood was a major farm product.

(See Appendix A 4, and Note, for the extent of such reliance.)

In the period 1948 to 1955 the proportion of pulpwood purchased from contractors, farmers and settlers ranged from 26.7 per cent to 34.6 per cent in Quebec and from 30.9 to 39.9 per cent in Ontario.

77. The dependence on various sources of pulpwood varied greatly for individual mills and companies, however:

...an analysis of some seventeen companies or groups of affiliated companies representing the principal users of pulpwood in Eastern Canada for the woodland years 1948-49, 1951-52, and 1953-54 indicates that two companies were using purchased wood entirely; four companies were drawing over half of their requirements from purchased wood; three companies were using from 40 to 50 per cent purchased wood; one company was using only limit wood; and the others were using less than 40 per cent purchase wood. 78.

Appendix A 5 shows the average extent of company reliance on purchased versus limit wood in various provinces. The fact of substantial (though company specific) variation in reliance on purchased wood indicates the stake large companies had in coordinating efforts to control small producers of pulpwood.

Heaviest farmer dependence on pulpwood production existed in these districts in Quebec and Ontario where the companies cited for combination were active buyers in the postwar period. It is probable that pulpwood production was one of the extra-agrarian activities that sustained marginal farming in these areas. Control over the market structure and pulpwood prices was accomplished through a variety of mechanisms. Frequently, subcontracting and piece-rate arrangements were used by buyers. This allowed companies to increase or decrease productivity at will and maintain control over widely scattered and isolated producers.

Evidence during the combines investigation inquiry of the late 1950's indicated that pulp and paper companies exercised supervision over intermediary brokers' and dealers' activities, as well as their commissions in buying pulpwood from small producers. Prices of pulpwood were fixed in terms of specific wood types and specific commission levels. In most areas brokers and dealers mediated, but in

Northern Ontario many settlers got licenses to produce from Crown lands, and these "hundred corders" dealt directly with pulp and paper companies. ⁷⁹ In general, pulpwood brokers ranged from independent merchandizers at one extreme to procurement agents at the other, with pulp and paper companies implementing a scale of super-broker, broker, and dealer commissions. ⁸⁰

When stabilizing prices through price-fixing and short-term contracts was insufficient, companies pooled wood between themselves so that none would be tempted to break price levels. Generally, graphs were drawn up at meetings which established a common purchase point, price, mutual list of brokers, and set price increments for additional handling components such as: financing brokers, loading, unloading, stowing, maximum shipping and trucking allowances per distance per recognized district.

81. Meetings also served to establish the date on which buying would begin in particular districts at particular offering prices, and to maintain "gentlemanly" relations among pulp and paper executives.

Again, it was R.M. Fowler of the C.P.P.A. who attempted to make monopoly practices in the pulpwood sector in Canada appear acceptable in his representations at the investigation of such practices. He pleaded a generalized executive fear of governmental controls which had been "enforced" during World War Two and which he feared would be called for during the Korean War as well. As the coordinator of government-industry policy on price-control, he asserted the necessity for such deals between companies in the interests of "stability" and in a context he chose to call a "crisis".

material production, and from a technical division of labour. They have rejected the Innesian notion of a taxonomy of technological eras.

Rather, technology is viewed as one aspect of the social organization of capital and of labour. Capital and labour relations dominate or shape the development and use of technology. In a capitalist system, technology becomes a form of capital or a more restricted category of capital goods. While "advanced technology" provides the potential for overall economic development, it provides this potential, as both Geoffrey Kay and Harry Magdoff have suggested, only to those who own it.

It appears, from what research has been done on innovation of technology in Canada, that Canada's technological dependency problem is not caused by a dearth of indigenous innovation, but is linked instead to the problem of translating "Canadian" innovation into commercially viable "Canadian" enterprises. 44. The problem, then, is not where technology has been developed, but who ends up owning and controlling its use. Neither is the problem merely "the banishing of Canadian ideas to other countries" as J.J. Brown has simplisticly concluded from his wealth of data. 45. Ownership of patents facilitates and is facilitated by large-scale capital accumulation within private enterprises and particularly oligopolistic enterprises. As Sunkel, Petras, Galtung, Baran, and Frank have pointed out in the dependency literature, multinational enterprises tend to concentrate not only capital but technologygenerating capacities in their parent organizations, a feature which could account for much of the "banishing of Canadian ideas" to which Brown refers.

When I went to Ottawa and was told what the situation was I tried to alert the members of the industry that controls of all parts of their activities were impending, and that they should first of all get ready to participate in the controls, as was done in the preceding war, and was the intention again... and (I) told the industry of the need to keep their costs and their prices down if they were to avoid...the imposition of detailed governmental control - which this industry, as most industries in Canada, regarded as a bad thing. 85.

"Government control", such as it was, was to be administered, however, by and for the largest companies. Thus, on April 18, 1951, (through October 1952), Fowler was appointed Director of the Pulp and Paper Division, Department of Defense Production, and on the same day pulp and newsprint were designated "essential material" under the Defense Production Act. It was in this manner that pulp and paper, and particularly newsprint, received much the same stockpiling attention as nickel, a situation which in both cases was to be most beneficial for the largest corporations in each industry. (The importance of stockpiling is further analyzed in Section 4.5 of this chapter.) This gave a governmental seal-of-approval to the industry's combinesupported price structure and bolstered domestic buyer control of pulpwood. Two days after his appointment, Fowler sent every Canadian newsprint and pulp manufacturer a letter which gave the go-ahead for continued price-fixing via governmental administration:

In view of the declaration of pulps and newsprint as essential commodities and the desirability of avoiding the imposition of detailed controls, you are now requested not to make any changes in your prices of these commodities to any markets, without first discussing such changes and the reasons therefore with the department. 84.

Fowler attempted to deny that his coordination within the industry and his key position in stockpiling helped fix pulpwood prices, telling the investigating commission:

I did not want you to get the impression...that I told these people to go out and make agreements for the price of pulpwood...that I know is impossible. I tried for three years to fix the price of pulpwood...All I did want was...to tell people to use all the influence they possibly could. I certainly expected they would meet together. 85.

Similarly, Mr. Pepler of the C.P.P.A. argued that the Industry Advisory Committee, filled by industry executives he had selected, did not "fix prices" but merely "recommended prices" to the Administrator in Ottawa 86. who did fix the price. At the same time (1951) a Pulpwood Procurement Committee was set up by the C.P.P.A. to recommend controls on wages and allocation of pulpwood supplies, on the pretext that "an abnormal demand for both wood and labour...would affect costs on limit operations". 87. The intrusion of competitive pricing could thus be translated into a situation of "crisis". Another committee organized at this time, and more directly concerned with pulpwood price control was the Abitibi District Pulpwood Committee. Its formation was undertaken by senior executives of the largest pulp and paper companies buying wood in the Abitibi district, where the largest volume and value of pulpwood was purchased from small producers. At the January 31, 1951 meeting, the following executives attended: G. Hobart of Consolidated, S.L. DeCarteret of C.I.P., Ned Smith of Howard Smith, Gordon Brown of Brown Corporation, Percy Fox of St. Lawrence, W. Soles of Anglo, and W.A.E. Pepler of the C.P.P.A. They decided to fix prices in the Abitibi district at \$17.50 with some companies holding a \$17.00 price level until the next meeting. The minutes of another meeting of the group, on February 16, 1951, recorded the following system of registration for contracts which allowed companies to predict and control

overall demand:

It was agreed unanimously that the group should continue to stabilize pulpwood market conditions...To co-ordinate present efforts it is felt desirable to register all contracts with brokers and dealers, and, if possible, producers' contracts, indicating quantity, location and price. This information to be compiled by Mr. Pepler who will meet with Company representatives as a committee to study the information disclosed by the contracts. 89.

At a third meeting on May 14, 1951, the companies agreed to a boycott on wood purchasing for two months to "stabilize conditions and establish next year's market on a sound basis." 90. The registration control system of wood price and purchase was maintained for at least a year. The companies found such practices highly successful, particularly considering the high interest small producers of the district would have had in instituting competitive pricing. G.H. Hobart of Consolidated indicated how effective the committee's "boycott" had been in his report of the July 17, 1951 meeting:

...the purchase price of pulpwood in the Abitibi district for the season 1950-51 ended up considerably lower than in any other district...To avoid inflationary influences and a boom market, it was recommended by this committee that commitments be limited to 20% of the total requirements from that district. 91.

In an October 31, 1951 meeting of the group, G.W. Phipps of the Spruce Falls Company noted the prevailing price agreement and quoted Pepler as suggesting there was now more wood than the companies wanted, that production should be limited, though the number of men working was "okay". Both the amount produced and the employment pool itself was, thus, controlled by the companies without their being directly involved in hiring or firing a man. At a November 27 meeting, the Spruce Falls representative suggested, and it was agreed, that the

companies form a pool allowing 10 per cent of wood purchased to be shipped to any company not obtaining its requirements at the fixed prices. 92. Such measures would have been unnecessary where all companies carried out previous "gentlemen's" agreements, but mistrust had led to the necessity of constantly dogging members on the phone and frequently meeting to reestablish a united front. All agreed, however, on the benefits they gained through cooperation, as recorded by one participant, "Adequate men in the woods operations and high production coupled with large mill inventories has made the whole group much more ready to cooperate and bury old differences."

A review of evidence relating to meetings of organizations created by the pulp and paper industry as well as by the Federal Government to affect prices during the 1950-51 Korean War period thus indicates that the general nature of activities was monopolistic. Distribution on the basis of urgent need was not resorted to, since supply was not actually tight for either wood or labour. Nonetheless, company executives and trade association officials involved in pricefixing attempted to link its "necessity" to the general government policy of seeking to lessen so-called "inflationary" trends. clear from Fowler's activities that price control was his intention and inflation his excuse. In contrast with most other commodities, pulpwood prices had declined sharply in 1948-49 and 1949-50, such that increases in price at the beginning of the Korean War left pulpwood price levels relatively low in comparison. Pricing agreements effectively kept prices of pulpwood from rising along with other commodities, as Appendix A 2 indicates.

Joint corporate ability to affect such prices was furthered in turn by the fact that those companies named consumed about 74 per cent of the total production of pulpwood of private lands and about 80 per cent of the production from Crown lands in Quebec, Ontario, and New Brunswick.

94. Clearly buyers from other companies for export could have little affect in a situation where local production markets were wrapped up by a few companies. Referring to a meeting of August 21, 1953, Robert Chapleau of Richmond Pulp and Paper indicated the concentration of power he and his fellow industrialists wielded: "Last Friday we had a meeting in Howard Smith's office here in Montreal, of the various Wood Buyers of Eastern Canada. Nineteen company representatives attended the meeting, representing approximate-ly 95% of the Wood Buyers."

The information on pulpwood "demand" and "supply" was entirely unavailable to producers of Pulpwood since demand only existed in the form of contracts offered by the pulp and paper companies. While statistics on these projected company needs were compiled by the C.P.P.A. Woodlands Section and issued to corporate members, small pulpwood producers were not among the recipients.

Though evidence was available to substantiate collusion on each price change, a few examples will suffice. A decline of about \$2.25 between 1947-48 and 1948-49 is recorded in the Ste. Anne's company report, for instance, referring to districts bordering on the St. Lawrence, "In taking advantage of the market and in keeping with an inter-company recommendation, the base price to Brokers was lowered from \$16.25 to \$14.00 per cord, f.o.b. car..."

96. In the Abitibi district, the reduction was \$2.50, and it varied in other districts

according to transportation distances for an average reduction of \$2.37 for the year. The following table shows the outcome in price of these company efforts.

TABLE X1: Average Price of Rough Spruce and Balsam, F.O.B. Cars
Shipping Point to Dealers and Year-to-Year Change in
Average Price, 1947-48 to 1953-54

Year	Average Price Per Cord Rough Spruce & Balsum	Year-to-Year Change Per Cord
1947-48	\$14.79	
1948-49	12.42	-2.37
1949-50	10.89	-1.53
1950-51	16.04	5.15
1951-52	19.00	2.96
1952-53	14.20	-4.80
1953-54	14.30	0.10

Source: Report Concerning the Purchase of Pulpwood in Certain Districts in Eastern Canada, Restrictive Trade Practices Commission, Ottawa, 1958, p. 198.

On the basis of what he termed a bit of "elementary economic conjecture or theorizing", Petrie, the economist representing the companies under investigation, advanced the notion that without intercompany meetings the farmers would have suffered even more, since companies would have switched to reliance on company limits. With this sleight of hand, he intimated that such rationalization of price by buyers actually enhanced prices to farmers. 97. It appears, however, from evidence submitted, that price decreases (or lack of increase) resulted not only from companies pulling out of purchase

wood and relying on limit wood, but from managing to keep each company from breaking agreed upon price offers. In 1953, for instance, companies agreed to seek more purchase wood but to offer the same price, as L.L. Wetmore of St. Lawrence indicated, "...all agreed to hold to last year's prices and try to make our contracts for Farmer's wood on that basis."

The remarkable stability of price between 1952-53 and 1953-54 shows the success of that strategy. Curtailment of purchases was influential in lowering prices paid farmers, but the structure of the market, constant consultation between buyers, and the legitimacy offered such practices by the Government allowed "demand" to be increased without corresponding increases in price. Whether or not a particular company had a stake in a particular district, the company found it advantageous to attend such district meetings in order to hold the price line in its own purchasing areas, as an Abitibi committee meeting document of September 2, 1949 records:

I do not believe we are particularly interested in the purchase of pulpwood in the Abitibi District...However, it is our intention to attend the meeting in order that other operators do not decide to establish any 'fancy' purchase wood prices. 99.

The federal commission investigating such practices found "that the arrangements were intended to have an effect on the prices which would be paid for pulpwood and did in fact have some real effect on such prices." 100. It further decided that the practices constituted a "disadvantage" to the "public consisting of settlers and farmers", but was mild in its warnings and sanctions: ..."there should be definite

and complete abandonment of arrangements and practices among pulp and paper companies which restrain competition among them with respect to the purchase price of farmers' pulpwood." 101.

It was not until 1966, eight years later, that the Combines

Investigation Branch investigated as large a trade agreement; the 1958

paper case was also rather unique in that it involved more than two

large corporations, instead of less prestigious victims. 102. These

companies convicted and penalized (to a total of \$250,000) are listed

below:

TABLE X11: Imposed Penalities in the Pulpwood Case

Company or Corporation Charged	Penalty
Canadian International Paper Co.	\$25,000
Howard Smith Paper Mills Ltd.	25,000
St. Lawrence Corporation Ltd.	20,000
The E.B. Eddy Company	20,000
Anglo-Canadian Pulp & Paper Mills Ltd.	20,000
Consolidated Paper Corporation Ltd.	20,000
Abitibi Power and Paper Company Ltd.	15,000
Gaspesia Sulphite Company Ltd.	15,000
St. Anne Power Company	10,000
The Ontario Paper Company Ltd.	10,000
Donnacona Paper Ltd.	10,000
The KVP Company Ltd.	10,000
Richmond Pulp and Paper Co. of Canada Ltd.	8,000
The James McLaren Company Ltd.	8,000
Armstrong Forest Company	8,000
Gair Company of Canada Ltd.	8,000
Spruce Falls Pulp and Paper Company Ltd.	8,000

Source: Goff and Reasons, Corporate Crime in Canada: A Critical Analysis of Anti-Combines Legislation, 1978, p. 84.

Such penalties are easy for such giants to absorb, considering their past abilities to control pulpwood costs alone. The structural integration of these companies remained untouched, however, and this,

for our analysis, is of far greater importance. For, this case involved two corporations (C.I.P. and Consolidated) and fifteen companies, thirteen of which were subsidiaries of eleven corporations identified in the following table. Goff and Reasons have found:

An investigation of the intercorporate holdings of the 13 corporations involved in this case reveals that they are interwoven through joint ownership of various companies (not necessarily those convicted). This fact dispels the notion that these corporations may have joined together for a 'one-shot' agreement to practice restraint of trade. The investigation also exposed the fact that other pulp and paper corporations were closely related to those involved, specifically the Reed Paper Group, Crown Zellerbach (Canada) Limited, MacMillan Bloedel Limited, Brown Forest Industries Limited, and the New York Times Company. 103.

It becomes quite clear, then, that major Canadian lumber and pulp and paper corporations have effective channels to continue to control to a large degree what they managed to control formerly through "agreement". Specific to this case, as well, is the fact that the cartel mechanism, Canadian Overseas Paper Company, was jointly owned by seven corporations, of which, MacMillan Bloedel and C.I.P. each controlled 14.1 per cent, and Consolidated, Domtar, Associated Newspapers, Abitibi, and Crown Zellerbach (Canada) controlled 14.3 per cent each. All of the corporations mentioned in Table XIII, except the Tribune Company and McLaren, are directly or indirectly related to only seven companies, as shown in Figure 2.

A combination of mechanisms, thus, allow for monopolistic or oligopolistic control to be exerted. Agreements or combines for specific purposes, long-term cartels, interlocking directorates, informal meetings, price leaders, trade associations, or cooperation by governments in price or production fixing can serve the same ends.

TABLE X111: Investigated Corporations And Their Subsidiaries

Name of Corporation

Abitibi Paper Company Ltd.
Abitibi Paper Company Ltd.
Associated Newspapers Ltd.
Domtar Ltd.
Domtar Ltd.
George Weston Ltd.
Tribune Company
Kimberly-Clark Corp.
Continental Can Co. Inc.
McLaren Power & Paper Co.
KVP Sutherland Co.
Kruger Organization Ltd.

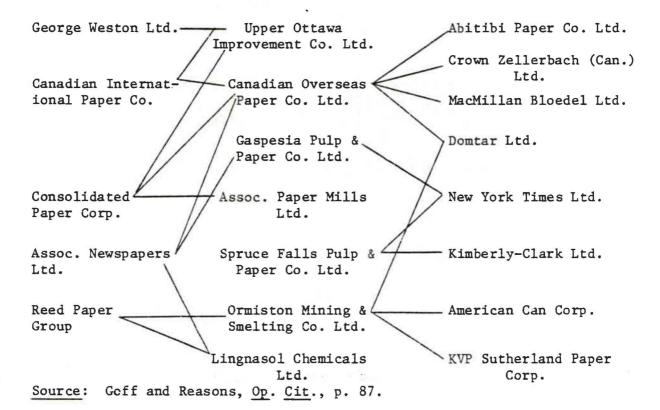
American Can Corp. Ltd.

Subsidiary Convicted

Abitibi Power and Paper Co.
St. Anne Power Co.
Gaspesia Sulphite Co. Ltd.
St. Lawrence Corp. Ltd.
Howard Smith Mills Ltd.
The E.B. Eddy Co.
Ontario Paper Co. Ltd.
Spruce Falls Pulp & Paper Co.
Gair Co. of Canada Ltd.
The James McLaren Co. Ltd.
The KVP Company Ltd.
Richmond Pulp & Paper Co. of Canada Ltd.
Anglo-American Pulp & Paper
Mills Ltd.

Source: Goff and Reasons, Corporate Crime in Canada: A Critical Analysis of Anti-Combines Legislation, 1978, p. 86.

FIGURE 2: Intercorporate Relations of 13 Canadian Corporations
Related to the Pulpwood Case



The evidence assembled in this section indicates that consolidation of interests of large corporations in the pulpwood, pulp and paper industry through both agreement to price-fix and control of large tracts of private and public timberlands resulted in part in the decline of the independent farmer-pulpwood producer. The latter follows from the extent of reliance of these farmers on alternative sources of cash via small-scale pulpwood harvesting. Thus, it is not solely the advance of agri-business nor the "pull" of "higher paid" industry jobs that has decimated many rural areas in Ontario, Quebec, and the Maritimes. The monopolistic effort of large corporate enterprises has destroyed the simplest competitive bargaining levels of small-scale production and marketing. The point we wish to emphasize here is that in discussing the rare exception where anti-combines legislation found such companies "guilty" of such collusion, we see as well the total inadequacy of such legislation in the face of increasing structural integration. Both combination in restraint of trade and interlocking directorates and subsidiarization are simply different mechanisms that accomplish the same goal of monopolistic control. That control makes large-scale capital accumulation possible at extremely low "risk" to capital and with disastrous effects to classes such as the petty bourgeois farmerpulpwood producer. It is the state's compliance with the overall goal and its refusal to interfere with structural bases of such control which relegates anti-combines legislation to the realm of legitimation in an era of corporate capital accumulation. It is the very rarity of its application against large monopolies as well as the limited use of sanctions that indicates such intent.

A third type of evidence of the effects of monopolization involves the merger movement of the 1950's and 1960's in the Canadian container-board and packaging products sector. The postwar division of labour had indeed permeated all sectors of the continental pulp and paper industry.

Consolidation of Capital in Non-Newsprint Forest Products

In 1952 the domestic U.S. newsprint capacity was only 1,165,000 tons, less than in any year for which statistics are available between 1926 and 1934. From a total of seventy-five mills in 1910, the number had dropped to twenty by 1940 and to thirteen by 1952. Meanwhile U.S. consumption had grown from 44 per cent of the world total before World War Two to 57 per cent by 1952. 105. Appendix A 8 indicates the dramatic increase of American reliance on Canadian newsprint which occurred during the Second World War and was maintained thereafter through international organizational mechanisms to be addressed later. These shifts in U.S. supply dependency were achieved through closer coordination of the industry with the state, via the trade associations, stockpiling, international supply allocation, and impunity in consolidating capital and markets continentally and internationally. The federal government's "inability" to identify with small interests, corporate or public, can be seen in the laxity of application of anticombines legislation to similar consolidation of monopoly power within Canada. During the 1950's and 1960's mergers and acquisitions became prominent in paper products other than newsprint. In Canada, these included shipping containers, boxes, and speciality papers such as 106. napkins, towels, tissues, bags and wrapping paper.

This acquisition of Wilson Boxes Limited by Bathurst Power and Paper Limited in 1960, for instance, crowned a long series of consolidation moves of paperboard container companies. This created monopoly, particularly in the Maritimes, by putting the manufacture, distribution and sale of shipping containers under vertically-integrated corporate control, and hence eliminating the necessity to enter combine agreements subject to investigative scrutiny. Attempts to block such acquisition moves under the merger, trust, or monopoly stipulations of the Combines Act were to prove fruitless. In 1964 the act itself was rewritten, making it even more difficult to obtain conviction in such cases.

In the Wilson-Bathurst case, "detriment to the public" was alleged to be the excessive price paid by Bathurst for Wilson. Between 1945 and 1959 a series of mergers and acquisitions of other companies in this line had taken place. In each case, a formerly independent shipping container manufacturer was acquired by a board mill and became part of an integrated operation, progressively eliminating competitive safeguards for shipping container users and the consuming public. Importers and other significant purchasers of containerboard were brought under the ownership and control of the same manufacturers, such that future competition was practically eliminated.

Two companies, Bathurst and St. Lawrence, accounted for 60 per cent of the total volume of shipping containers in Eastern Canada in 1958, as well as being important Prairie producers. 107. The same companies led in production of containerboard. In 1954 they, Hinde, and Dauch (later wholly-owned by St. Lawrence) supplied 77 per cent of domestic shipments in Canada as a whole. In 1958, Bathurst acquired

minority stockholdings and an option on future majority control in Maritime Paper Products Limited, which operated a shipping container plant in Halifax. Wilson was then the only other shipping container manufacturer in the Maritimes, and already secured its supplies from Bathurst.

In 1959 and 1960, Canadian International Paper Company came under combines investigation for its merger and acquisition activities in shipping container manufacture in Ontario and across Canada. eliminate Hendershot Paper Products Ltd. as a non-integrated competitor, C.I.P. bought 85 per cent control, paying a price greatly in excess of Hendershot's equity of assets. C.I.P. thus saddled itself with this overhead knowing it would be borne by the public, and asserting that this was the cost of "good will". In addition, C.I.P. bought monopoly access to technology-patents, trade names and contracts Hendershot held as exclusive Canadian licensee of a \$45,000 American process. total equity of common stock was \$256,581, but C.I.P. paid \$1,555,980 for 85 per cent control, or six times the book value. Since Hendershot's former suppliers were St. Lawrence and Abitibi, C.I.P. managed to cut out important competition by other integrated multi-product companies, as well as avoid the cost of building a new plant. C.I.P. calculated that Hendershot would break even by 1960 and the profit C.I.P. would show would surely justify the price of this outlet. 110. The investigative commission accepted the C.I.P. argument even though its market share rose from 15 per cent to 18.5 per cent and to third largest producer in Ontario and Quebec. The four largest producers now accounted for 77 per cent of total in 1960. To deal with such integrated

monopoly, the Commission recommended the already bankrupt policy of tariff manipulation for competition. Nane of these anti-combines cases brought penalty to the companies involved. Such monopolistic mergers could or would not be stopped.

Just as consolidation of capital on a continental basis in the newsprint industry had facilitated control of markets and of production capacity (or glut), so the consolidation of non-newsprint lines in the 1950's and 1960's allowed newsprint giants to "diversify" production and control without adding new capacity. The results are monopolistic control of many paper product lines and increasing powerlessness for the individual consumer and labourer. The action of exogenous market control reaching into Canadian product supply combined monopolization and surplus capacity in a death grip which had long held the Canadian newsprint industry in bondage to the American newspaper chains. Now other products were consolidated by extending horizontal corporate control. In the case of containerboard, speciality papers and other more highly manufactured products, the corporate strategy was market control, reduction of surplus capacity by refusal to build and preference for buying productive capacity.

Cross-border capital and market integration of the largest elements in the pulp and paper industry had become the dominant corporate form, such that older mechanisms of capital accumulation like combine and direct state support of price (during wars) were overtaken by intra-company achievement of market and price control, production diversification and rationalization. As we have demonstrated, this process brought small U.S. publishers and small Canadian pulpwood

producers under the control of such corporations, which combined forces when necessary, and which sought and achieved close representation of interests in the federal bureaucracy. In similar manner, non-newsprint production was consolidated, in part to newsprint corporations, as Canadian anti-combines cases show. Small threatened elements of a fast-disappearing competitive period of capitalism failed in attempting to enforce the existing legal sanctions in an effort to survive such decimation. These received representation only at "middle levels" of power in Canada and the United States.

Most important for our purposes is demonstration of the sociopolitical mechanisms which achieved this rationalization. We have demonstrated the existence of a community of interest and shared responsibility between the large monopolistic continental producers, consumers, and the U.S. and Canadian levels of federal officialdom in waging this war at the political level. Here the role of trade association officials was crucial because of their past expertise in organizing cartels and in dealing with middle and upper levels of power in the United States on behalf of the Canadian producers. Within Canada, these same trade association officials were a key element in installing domestic control of price through their involvement in Canadian stockpiling departments set up by the Federal Government. In this translation of structural conflict resulting from economic rationalization of the continental industry to the political arena, our contention that the Canadian state has facilitated large-scale at the expense of small-scale capital accumulation in the forest staple sector is given strong support.

Such conflict required, as did the task of planning generally, not the "non-interventionist" state of the past, but an increasingly active state working in cooperation with the dominant corporate interests. The shifting of ideological premises which this new role required relied on the formulation of an international crisis ethic to camouflage these domestic social and economic contradictions.

Thus, it is the international arena of stockpiling and raw material allocation forums to which we now turn. It is this dimension of the overall post-war strategy of North American development which elucidates the interlock between legitimating, crisis rhetoric and attempts to extend large-scale capital accumulation via international markets for newsprint and U.S. manufactures.

4.5 <u>International Industry Forums and Stockpiling: State Mechanisms</u> of Accumulation Supplement Cartels

In the postwar period the active, interventionist state involved itself in new means of influencing capital accumulation in the newsprint staple. We suggest that the long-standing industrial organization of the world newsprint market in the form of cartels was supplemented, as a result of U.S. Cold War foreign policies, by the use of stockpiling and international newsprint allocation forums. The latter though spurred and permeated by ideological attempts to combat both communism and nationalism abroad, were basically new features of state aid to large-scale capital accumulation and market expansion in particular. The Canadian state appears, on the basis of the evidence presented on these three aspects of international industrial organization to have facilitated this kind of accumulation in the shadow of

U.S. foreign policy, and with exclusive reference to the participation and gain of the largest producers.

International Cartels

International newsprint cartels in which large Canadian producers were involved demonstrate a high degree of collaboration of the largest newsprint interests in allocation of foreign markets, just as North American markets were jointly allocated in the continental context. The 1950 U.S. Subcommittee on the Study of Monopoly Power cited evidence in correspondence between U.S. agents and Scandinavian producers, "that prices for newsprint sold in the United States are discussed and agreed upon at meetings held in Canada that are attended by newsprint manufacturers." 111. For shipments to the Orient, Powell River and Crown Zellerbach's Canadian subsidiary, Pacific Mills, had formed the Export Sales Company. This marketed the newsprint of both mills to Japan, China, Korea, and Manchukuo in agreed-upon percentages, and handled paper from eastern Canadian mills of these companies at the same time. "The objective of Export Sales Company was to 'control competition' and prices charged by Export Sales Company for the oriental market were to be 'fixed by Powell and Pacific mills'." 112.

Similarly, the "Seven Suppliers Agreement", which had operated since 1939, divided up sales of newsprint to Australia and New Zealand among seven manufacturers in the following percentages.

Though

Canadian International Paper did not always have the largest share in such cartels, they could hardly have operated without its participation.

TABLE XIV: Seven Suppliers Agreement (Percentages)

Canadian International	12.5	Powell River	15.0
Consolidated Paper Co.	17.5	St. Lawrence	10.0
Mersey Paper Co.	12.5	Price Bros.	20.0
Pacific Mills (C.Z.)	12.5		

Source: The Newsprint Problem, Final Report, 1950, pp 23-24.

Prices to Australia and New Zealand were determined by the New York price and discussions occurred frequently among the producers as to the appropriate additional percentages on the base price. In 1948, six of the firms organized the Overseas Newsprint Company to accomplish the same task.

The plan for India involving overseas Canadian newsprint sellers tied up India, like Australia, before European producers could get a foot in the door after the Second World War. When St. Lawrence, Consolidated, Price, International, and Bowaters of Newfoundland met to discuss the India plan, one company representative expressed sentiments and the potential destructive power of cartels as follows:

I do feel that if anything is to come of this Indian business in the future and mills are to build up good will and put themselves in a position to resist Scandinavian infiltration, they must take a strong line, get their five-year contracts fixed up with the best newspapers in the way that they have been fixed up in other British overseas dominions, and make the small fry who are not to be trusted pay through the nose. It would probably be a good thing if some were put out of business altogether. 114.

Hundreds of Indian papers suspended publication after the War because of this orchestration of newsprint supply shortages and prices. 115.

Latin American countries, West Germany, Australia, Belgium, Egypt,

Britain, France and Turkey were similarly treated.

A South American plan of newsprint sales was discussed by officials of the International Paper Company and the Newsprint Association

of Canada to divide the markets of South and Central America, Mexico, Cuba, the British West Indies and other Caribbean islands with 22.34 per cent for International, 18.53 per cent for Consolidated, 45.01 per cent for Price Brothers and 14.12 per cent for St. Lawrence.

The Newsprint Export Manufacturers Association of Canada was a centre for coordination of such agreements. The Newsprint Association's president, Charles Vining, had been the trustee of the Seven Suppliers Agreement. The Association, under either name, was recognized within the industry as "expounding export prices and conditions of sale", as well as caring for other common industry interests, according to a Scandinavian emissary's evidence before the U.S. Senate Subcommittee on Monopoly. Similarly, according to the U.S. Department of State, a Scandinavian newsprint cartel "Scannews" consisting of producers in Finland, Sweden, and Norway, fixed prices, production and marketing quotas. Attempts had been made by Scannews and NEMAC to divide world markets between the two organizations, but it is unclear whether this continued to be successful in the postwar period.

Continental Stockpiling and Cold War Ideology

The machinery for coordination of a united front of American and Canadian newsprint interests had been in place since 1949 at the state level in the form of joint U.S.-Canadian wood pulp surveys which were then published by both the American and Canadian pulp and paper associations. These formed the statistical basis and organ through which stockpiling and international allocation of newsprint for ideological as well as economic reasons was accomplished.

By the late 1950's, despite the Cold War, trade in forest products between communist and non-communist countries was already common and the influence of Soviet wood pulp exports was stronger in Western To get statistics on this economic threat to American markets. and Canadian exports required the industry and states to cooperate with foreign governments. The Canadians set about attempting to get Chinese statistics by diplomacy, part of which entailed getting the Americans to drop references to "Free World" versus "Russia and 119. Satellites", for example. Canadian newsprint was edged into Cuba, by 1962 constituting the majority of newsprint imports. Due to the Canadian Government's efforts on the OEEC, OECD, and FAO pulp and paper committees both American and Canadian producers obtained access to important statistics necessary for expanding exports in Europe and elsewhere. The Canadian industry openly thanked the Trade and Commerce Department for its role in aquiring statistics from "iron curtain countries", though External Affairs had played as active a role in this Cold War information-gathering network designed to help continental newsprint compete abroad more strongly than before the War.

As early as 1951 there is direct evidence of "stockpiled" or state preempted newsprint being used by the United States to combat communism abroad, under the National Production Authority. Four hundred tons of newsprint were shipped to Burmese government officials, direct from U.S. mills, "with the aim, presumably, of assisting the Burmese to counter Communist propaganda there". 121. The U.S. State Department had earmarked 109,000 tons of newsprint for its anticommunist stockpile, intending to increase it to 125,000 tons, held

at option for quick dispatch to whatever free foreign government or anti-communist agency in a foreign country may need it. 122. Such concern for freedom of the press was, of course, limited to foreign countries where anti-U.S. policies might take hold. At home, the massive fold-down of dailies, two hundred in 1950, was of no concern to the U.S. State Department.

In 1953, the Canadian Government had its ambassador provide the United States with detailed data on Canada's "critical" raw materials. Data on "strategic commodities" included pulp and paper and the location, quality and extent of proven Canadian resources of many kinds. Such sharing of details with the U.S. State Department was more than an act of defense coordination. It was part of an overall continental economic programme, as can be seen from the implicit assumption that production of Canadian materials could only be estimated in relation to availability of U.S. markets:

...it has, in the case of potential Canadian production, been necessary to make certain assumptions concerning size and nature of the future markets accessible to Canadian producers of these strategic materials. If some of these prospective markets were to be reduced, or to undergo dislocation as a result of the reorientation of Canadian trade, our figures on potential production would have to be modified accordingly. 123.

Newsprint was considered no less nor more "strategic" than nickel, silk, opium, or natural hog bristles - all of which were on the "strategic materials" list of the U.S. state. The strategy involved artificial boosting of continental industrial growth in the absence of a real war, and provided large stocks of materials which could be manipulated by the United States on a world-wide basis-- dumped or bought up-- via a plethora of U.S. and "international" agencies.

Viewed from any other perspective, Cold Warism appears to be simply irrational behaviour or hysteria. We contend it was neither. The economic and political elements of the plan were both economically rational and international in scope. Canada's role was riddled with the contradictions inherent in playing handmaiden to U.S. policies and aspiring to imperial power in its own right.

An alarm was sent through the Canadian civil service when the U.S. Office of Price Stabilization turned its attention to pulp and paper, but not because of the implications of collusion, only through fear of possible price cuts. 124. Canadians learned the U.S. National Production Authority was working on a "restrictive end use Morder to apply to pulp and paper." The Canadian Ambassador in Washington thus alerted the Department of Defense Production, External Affairs, Trade and Commerce and the Newsprint Association's president, Robert Fowler, to act as trouble-shooter. The Canadians were always last to be consulted, or rather "informed".

Along with its origins in <u>The Paley Report</u>, as outlined in Chapter Three, the continental strategy was based on the following joint economic and defense agreements signed by Canada and the United States on October 26, 1950:

- (1) In order to achieve an optimum production of goods essential for the common defense, the two countries shall develop a coordinated program of requirements, production and procurement.
- (2) To this end, the two countries shall,...institute coordinated controls over the distribution of scarce raw materials and supplies.
- (3) Such United States and Canadian emergency controls shall (involve)...consultation prior to the institution of any system of controls in either country which affects the other.

- (4) In order to facilitate essential production, the technical knowledge and productive skills involved...shall...be freely exchanged.
- (5) Barriers which impede the flow...of goods essential for the common defense effort should be removed as far as possible.
- (6) The two governments...will consult concerning any financial or foreign exchange problems which may arise as a result of the implementation of this agreement. 126.

Whatever "Canadian" defense needs there may have been were calculated after any American ones. Both American and Canadian industry tended to fill American defense-rated orders and contracts first, creating shortages in both defense and civilian required materials in many sectors. As artificial shortages were created, American firms bought more and more of their raw or semi-processed materials in Can-127. And costly capital imports of U.S. goods were built into the plan. The Controlled Materials Plan of NPA never even scheduled meetings in Canada whereby industry could discuss the issues; rather, it held meetings in twenty American cities and both Canadian industry and state officials had to go to Detroit. 128. State assistance was handed out to industry for production of such resources and war-time 129. Though the line of command emanated bureaucratic forms were used. from the U.S. state, the financial aid came from the Canadian government, or taxpayer. The plan was "closed end", meaning the Government decided who got which contracts, favouring big corporations.

The programme can be seen to have had greater importance for creating productive capacity out of glut and maintaining price support than strategic, or defense significance. For example, the U.S. Department of Commerce announced that strategic and short-supply materials would not only continue to be exported, but a "positive

export floor", as opposed to a "permissible export ceiling" was established. In addition, the assured access to detailed Canadian information on all aspects of production related to seventy-six specific commodities meant any notions of the desireability for Canadian economic "sovereignty" were hence forfeited from the start-- we have suggested, willingly. 130.

Whatever <u>real</u> shortages American publishers were experiencing in terms of availability of Canadian newsprint were in part due to this artificial stockpile and defense production which, for example, had cut sulphur by 20 per cent (a material essential in paper production).

Meanwhile, Fowler tried to camouflage the real profitability of sending the product abroad— even suggesting costs would rise since labour might be more attracted to other defense—related jobs. Here was the occasion to make domestic price increases palatable since they could be blamed on so-called crisis "shortages" in newsprint— an achievement it took stockpiling to create.

Such stockpiled materials were used, as the following analysis of international forums suggests, in "emergency" allocation of newsprint for both ideological and economic advantage to the United States in its Cold War efforts to expand political influence and markets abroad. The difference between newsprint and other "strategic" materials, however, is that this was the material embodiment of the ideological wedge which could expand all other markets.

International Forums: Tools for North American Expansion Abroad

A major means of coordinating and implementing the policy of the largest continental newsprint interests, especially as regards the acquisition or maintenance of world markets, was participation in

various postwar international forums connected with the UN or NATO. These had become essentially an extension of U.S. economic policy not only as a wedge against communism, but as a means of extending markets for American products. Within this framework, Canadian industry and state personnel often played a prominent role in furthering both American and Canadian goals, when the two were in agreement. When they did not agree, the United States withdrew organizational support and these organizations were dissolved. In the vertical (industry specific) committees of the OEEC and OECD, the role of the Canadian state was two-fold: representing the largest Canadian corporations in their quest for European markets and coordinating these interests with those of American world hegemony. European influence was reduced on such committees, giving way to the North American united front. Canada's presence was important not only because it was the largest newsprint producer, but because its committee personnel were a good camouflage for American policy influence.

The International Raw Materials (IMC) Pulp, Paper, and Newsprint Committee was staffed by civil servants with experience in
industry supply-control (G.J. Ticoulat, NPA Director of Pulp and Paper,
and S.V. Allen, Assistant Materials Coordinator of DDP, Canada, for
example).

131. Ticoulat was the chairman, and continued at the
Canadian representative's request. Their efforts were supposed to
control world distribution of forest products, to allocate newsprint
in the course of "reconstruction" of Europe, and "to develop
communication avenues for the masses of the world."

132. The official
intention included increasing production in a decentralized, intensive

fashion in formerly non-producing countries and using agricultural waste inputs instead of wood products. While the three latter aims of the paper committee were officially drawn up, the major activities of the committee were other than these. 133. The major concern seems to have been "emergency deliveries of newsprint", an ideological weapon, and probably the reason all committee documents and minutes were classified "restricted". Like the copper, zinc, lead, nickel and other materials committees, this one considered its doings so confidential that non-member countries should not be informed of how world allocation was taking place. 134.

The reason was simple and ideological. Countries having elections, with the possible free use of press this might entail, would be allotted extra newsprint via the government in power. At the suggestion of its North American and other NATO members, Indonesia, Pakistan, Ceylon, Malaya, and Singapore would be rushed newsprint to make sure communists and nationalists did not gain ground through the press. More surprisingly, the French and British governments would receive similar "ammunition" in the fight against communism.

The representative of France had pointed out that elections would be held in his country in the very near future and that the present level of stocks (of newsprint) was abnormally low. He had, therefore, recorded urgent requirements amounting to about 35,000 tons for the balance of 1951. 135.

"Special election" conditions alone accounted for some 2,500 tons of these requirements. Fighting communism abroad via supply allocation of newsprint had become one of Canada's important tasks as junior partner to American policy in Europe and elsewhere. Such an endeavor was not to be undertaken as a charity, however, for the task went

hand in hand with maintaining and expanding Canada's markets for newsprint, a medium which fostered U.S. expansion of markets abroad for other more costly commodities. Canadian representatives, ignoring unkind comments by European members about prices, averred:

If the Committee were to recommend an allocation to France, Canada would be prepared to supply its share at the current North American price, plus whatever extra charges might be necessary to meet any special conditions arising from the sale...to facilitate the Committee's approval toward assisting France in meeting its special needs. 136.

Similarly the United Kingdom insisted it needed, and was granted, 11,000 tons of newsprint to meet increased needs "in case of a general election in 1951". Italy and Germany, not contemplating general elections, were allotted special emergency increases for "general consumption". While the Swedish representative seemed unconvinced of the "urgency" of all these cases, the American chairperson trounced objections immediately.

Here was a material as well as ideological basis for the activities of the IMC, for legitimation at its root is always related to capital accumulation. There was a drastic postwar supply situation for most consumer nations and all but the North American producer nations. Appendix A 7 shows the unique position of a few countries in terms of supply in this period. Most countries, other than Australia, Canada, Brazil, Sweden, the United States and the Soviet Union, were producing less in 1950 than before the War. West Germany produced only 113 thousand metric tons in 1949 as opposed to 464 in 1938. Japan's production had fallen from 272 to 132 thousand metric tons, and the United Kingdom's fell from 865 to 480 thousand metric tons between 1938 and 1949. Unique in this, Canada was the largest producer to begin

with and its production nearly doubled, from 2,624 to 4,789 thousand metric tons by 1950, accounting for about one half world production.

The combined production of all others decreased during this period.

Within the world market, European pulp and newsprint supplies had been eliminated from the American market during the War, but more importantly, after recovery and reconstruction, these suppliers were never allowed to regain prominence in the North American market. Far from being a "natural" course of events, this latter achievement required active government-industry policy coordination within the continental context as well as in the various international industry-government forums which included European producers and users of newsprint. The Canadian pulp and paper industry was to reap both the benefits and the long-range inequity of such structured dependency on semi-processed exports to secure markets.

Even after world production met demand figures in 1952, the IMC committee justified its continuation on the basis of ideological reasons, that is the possibility of continued need for "emergency allocation". ¹³⁸ In effect, the IMC Pulp and Paper Committee had become part of the wedge that North American paper interests were using, along with similar OEEC and OECD committees to break into European and other world markets and thwart nationalist, protectionist measures against a more general market onslaught that newsprint, through both political content and advertising could maintain.

Although Canadian and U.S. representatives were merely observers on the paper committee of OEEC, they attempted to lay the foundation of North American dominance through the solicitation of statistical

information. ¹³⁹. The main thing was to maintain industry contacts through these meetings and edge into the European market at the expense of the Scandinavians, who were strengthening their position via vertical corporate integration.

The OEEC and OECD committees reflected a war for markets. general trends in both Europe and North America was similar: 1) increased domestic demand for finished paper products; 2) the wish by governments to balance trade budgets and provide employment by hosting paper manufacturing rather than raw or semi-finished production and export; and 3) the wish by governments to accomplish these aims through the creation of fully-integrated, "strong" multinational corporations. The North Americans would attempt to stem the tide in Europe toward competition of this kind, for vertical integration and protectionist state measures had been an important part of the North American success story. 140. Similarly, the North Americans had no interest whatsoever in having non-conventional products turned into paper by countries which might then import less wood-produced newsprint. The financial integration between the industries in the United States and Canada had been strengthened by war-time interruption of supplies from Europe which allowed for extensive expansion of the Canadian industry and drastically changed the pattern of North American imports for the whole postwar period, as the following table indicates. Although such arrangements were very likely worked out with the help of both tariff protection and pressures linked to the use of the Marshall Plan, we do not have specific evidence to that effect.

TABLE XV: Sources of U.S. Pulp Imports (1937-45) (Percentages)

Year	Sweden	Norway	Finland	Other European Countries	Total for Europe	Canada & Nfld.
1937	47	4	12	7	70	30
		-		,		
1938	47	4	15	6	72	28
1939	43	5	$16\frac{1}{2}$	4	68 1	$31\frac{1}{2}$
1940	23	1	8	$\frac{1}{2}$	38 ½	67½
1941	_	_	1	_	1	95
1942	_	-	-	-	_	100
1943	-	-	-	-	-	100
1944	-		_	_	_	100
1945	38	_	-	_	38	62

Source: United States Pulp Producers Association

Even before the War, American firms near the Canadian border had set up pulp mills in Canada producing exclusively for them. The War doubled such production, filling the vacuum left by European newsprint. By 1952, OEEC countries' exports to Western Hemisphere countries were down to the following percentages of their production: 5.5 per cent (total paper pulp), 5 per cent (total woodpulp), 5 per cent (newsprint), 2 per cent (craft paper), 2 per cent (total paper and paper board). They were instead importing 2 to 3 per cent more than their export figures in each of these categories. The United Kingdom was now importing 16 per cent of its pulp imports from North America, while the general figure for other European countries was 5 per cent. Meanwhile, the Scandinavians had had to reduce output of chemical pulp by 200 thousand tons in 1949 and by 400 thousand tons by 1952 because of being shut out of European markets by the War and then by the North Americans. Only Finland was allowed to build up capacity, receiving Western aid

through International Bank loans, most likely because of its proximity to the Soviet Union. ¹⁴¹. Questionnaires sent out by OEEC asking about restrictions affecting importation and consumption and whether state measures on these were legal, statutory or other "restraints" of "free" trade, show the influence of the North Americans in this organization as well against protectionist attempts by Europeans. ¹⁴².

The campaign was continued in the heavily military atmosphere of OECD in the NATO building in Paris, which inherited the OEEC committee's functions and where Canada and the Americans were full-status members. The first step of the North Americans was to "upgrade" the membership in order to make it a "worthwhile" committee by insisting it be a forum for international pulp and paper businessmen, not government bureaucrats. Only in this way would the multinationals have their say and way. Now that Europe truly constituted a large market opportunity, the president of one of Canada's large paper companies advised the Trade and Commerce Department:

...as other countries, including the United States, seem to favour the establishment of a pulp and paper committee in OECD, we think it is essential that Canada participate in it. As a major producer, we can make a positive contribution...and equally important, try to prevent the committee from making findings which ignore or damage the interests of Canadian trade in pulp and paper.(emphasis ours.) 143.

An important item on the unwritten agenda would be to keep Europe from expanding its pulp and paper capacity and hence its ability to supply its own markets. It would be necessary as well to keep consumer countries from discovering the real extent of Canadian surplus capacity, if price was to be maintained. Thus there was an unspoken law by Canadian businessmen against supplying useful, or "damaging",

productivity statistics. The Chief of Forest Products in Trade and Commerce corroborated this in letters to the C.P.P.A., "I am mindful that we took the position at the June (1962) meetings (about OECD) that much of the information on Canadian productivity would not be available." 144. Any statistics provided were screened by the C.P.P.A. and its president, Fowler, the first Canadian industrial representative to the committee, saw that only certain kinds of statistics would be of use to the North American industry. "Canada has an opportunity", he said, "to influence these studies to the benefit of Canadian export trade. This is doubly desirable if the United States is participating actively as it apparently is." 145.

North Americans also attempted to censor other participants' potentially damaging input into the committee:

...the U.S. delegate to the meeting in November (said) that the Swedes and Finns had attempted to include in the report a statement that Europe could supply its entire needs and that North American suppliers should revert to their level of shipments in 1959. The American delegate was somewhat critical of the fact that he had no support from Canada, but he was able to prevent this statement, damaging to both the Canadian and American position, being included in the report. 146.

Besides beefing up representation by handing it over to the largest industry representatives, Canada ousted the Scandinavian chairperson when D.W. Ambridge, President of Abitibi Power and Paper Co. Ltd., told Trade and Commerce to make W.E. Soles, President of Anglo Canadian, the Canadian representative and hopefully the next chairperson. Industry then informed state officials of what went on in the committee. Since Canada could not openly chair both the FAO and OECD United Nations paper committees, the North Americans picked the German industrialist,

Vogt, for the OECD job, and Trade and Commerce officials did a letter campaign for his election. Now that the committee had conformed to industry's idea of "seriousness" and "usefulness" by representing big business only and by being chaired by Canadians (after Vogt), state officials could relax and play a quieter coordination role.

147.

In 1964 the Canadians invited the Americans to make policy with them "to develop a uniform North American approach" to the committee's work.

They set about insisting all other representatives by large industrialists of the same magnitude. A clear statement of the state's role in these forums came from Trade and Commerce:

...the Department's role is one of supporting Canadian industry's interest in making this committee a useful instrument for the industry's purposes. Our industry will be working through the 'pulp and paper network' with leading industrialists in other member countries... 149.

The Canadian industrialists had no interest in participating in two projects already underway in the committee during the 1960's on the structure and productivity of the industry worldwide. The two related and "delicate" issues involved surplus capacity in the Canadian industry and the fact that world capacity was continuing to expand. 150. In order to maintain markets for Canadian output and keep Europeans from expanding capacity in a flexible way, the Canadians raised the issue of "technological suitability" of European industrial expansion activities. The point was not solicitude about appropriate technology but opportunism about markets. Civil servants attempted to make it look like a matter of expertise. "In the field of technology, it is the Canadian industry's view that available fibres and wood materials are being put to unsuitable uses in the situation which is being

generated on the Continent." 151. This concern with "suitable" technology, like those about Scandinavian "vertical integration", was a disguise for attempts to flout European competition. Like the Americans, the Canadians resorted to the rhetoric of "comparative advantage" as an ideological battering ram against European nationalism:

There is a similar trend in the pulp and paper field to that observed in metals in the endeavour on the part of the Italian industry to expand without regard to domestic supplies of raw material and consequently efficiency. The Italians are now importing pulpwood and conceivably will be concerned to protect themselves with the expanded industry. In a similar sense the French in conversion of their existing facilities are moving towards a somewhat uncompetitive situation. 152.

The OECD committee activities were to provide the complement to the Kennedy Rounds of tariff reductions designed to eliminate protective barriers to U.S. trade. The Canadian civil servants hoped for crumbs:

...Canada would much like to see pulp and paper included in the...Kennedy Round, as this is one industry in which Canada is competitive in world markets...It is on account of the above...that we are anxious (for) the continuation of the OECD Special Committee for Pulp and Paper. 153.

Coattailing the Americans promised to pay off for the Canadian pulp and paper multinationals in South East Asia as well as in Europe. Price Brothers' executives were already staking out the Lower Mekong Basin area with contacts set up for them by the Canadian civil service during the Vietnam War. 154. The Americans perhaps thought they could achieve more through military clout and Kennedy Round diplomacy than through the OECD committee structures, so they withdrew support in 1965. Canadian officials sought U.S. "permission" to continue strong support for retention of the paper committee for the 1965-70

period. ¹⁵⁵. Since the integrated structure of the continental industry came into even so petty an issue, industry was divided and told Trade and Commerce to make this plea without regard to past industry statements, giving instead an "objective" appraisal to justify a break from American policy. The committee's mandate was extended, including in its goals the promotion of Canada's export expansion to supply increasing world demand for pulp and paper.

4.6 Conclusions

Although the extent of capital consolidation and the scale of accumulation within the forest staple is less than in the mining and energy staples, it is substantially affected by the Canadian state's interventionist activities and its cooperation with industry trade associations in the postwar period. Historically shaped by the demands of external markets, today's forest staple demonstrates in its structure and functioning the impact of the American market, U.S. capital, and U.S. resource policies that affect capital accumulation in the continental and international contexts. The North American industry, or at least the dominant firms in it, can and do function as one integrated industry.

Our analysis of anti-trust and anti-combines investigations in both countries indicates it is large firms which are most favoured by upper levels of state power and that such firms combine to exert a high degree of control over supply, price, and allocation of product at home and abroad. The mechanisms used are not solely those of combine, cartel, and interlocking directorate, however, but include new means of capital accumulation and ideological legitimation

provided by the state. A community of interest is sustained at both economic and political levels. A coalition has been forged in the postwar period among the largest integrated U.S. consumers, Canadian producers, and key federal bureaucrats. It functions to the detriment of small, independent producers and consumers in both countries (and foreign countries, when international cartels are considered). Small independent producers and consumers become caught in the backwash of emerging corporate capital interests and their allies within the state. They suffer a painful but noisy demise. Thanks to the details of their unsuccessfully fought battles with archaic anti-trust tools, we have been able to trace the avenues of power and its legitimation that tie large industry interests to effective state power.

The success of the large continental corporations in the forest sector in consolidating the North American industry and extending its markets abroad has rested in large part on the exclusivity of their access to and shared values with important political personnel within the Canadian and American states, as in international resource forums dominated by these. Canadian state officials adopted the same interventionist state model that the U.S. state reflected in the postwar period and fit the forest staple into the defense and capital accumulation plans of the United States. Cold War ideology not only strengthened the chain of command between the two states but facilitated the expansion abroad of North American manufactures during the reconstruction of Europe and the penetration of Third World markets. Newsprint played the role of ideological wedge and physical embodiment of this strategy. The contradictions and dislocations attending

these processes, such as newsprint shortages in the United States and abroad, could, through this state-industry network, be directed against the smaller consumers who refused to or could not afford to link themselves to the largest producers, or whose ideology did not match that of the United States.

CHAPTER FIVE

CANADA'S MINING STAPLES IN THE CONTINENTAL CONTEXT: THE CASE OF NICKEL

Unlike the forest staples, nickel and other mine products were rarely, if ever, subjected to much investigation by either Canadian or American anti-combines law. Those investigations which did take place ended in "agreements" not to combine or monopolize, in which no effective divestiture took place. Since nickel, copper, aluminium, and other metal mining industries were, for a long time, more concentrated and vertically integrated in corporate structure, it appears to be the case, even more clearly in this staple industry than in forest products, that the state made less than "whole-hearted" efforts to maintain competition.

The role of the state in fostering capital accumulation within the largest corporate structures is more immediate in the present case than in newsprint at both provincial and federal levels, though it is the latter that concern us in establishing the outlines of the continental resource strategy. First, because stockpiling most directly affected minerals, it is easier to find clear evidence of the coordinating mechanisms in policy-making used on a continental basis in stockpiling programmes. Second, when meetings between federal state officials and industry representatives were required to forge policy with regard to such contract maintenance or with regard to the dismantling of stockpiles, we find clear evidence of direct coordination

involving about seven companies' executives funneling policy to civil servants. In the case of forest products, the greater number of corporations involved meant that trade associations had to serve a more constant liason function representing the major interests of the industry before antagonists in Canada and the United States. Thus, we notice slightly different emphases on the mechanisms most frequently used for the representation of dominant corporations in the different resources, though in all three staples it is the dominant corporations which are effective in shaping the agenda and the parameters of capital accumulation. Finally, it is our suggestion that stockpiling and defense contracts formed the most important basis in the postwar period for capital accumulation and expansion of productive capacity within the mining sector. It is therefore the lines of command forged in carrying out those programmes to which we turn in this chapter.

Regarding the timing and shape of corporate concentration and agglomeration, the mine, energy and forest industries differ. Like the energy staples, nickel has always been oligopolistic. In terms of markets, both nickel and energy products have been in constant contact with defense departments. Nickel's "strategic" usage has led its capitalists to forge stronger links with the coercive agencies of the state, particularly those in the United States.

5.1 Corporate Concentration in the Nickel Industry: The Case of "Monopsony" and American Entreprenurial "Talent"

The Canadian mining industry has long fostered the image of the romantic, risk-taking prospector as founder of the industry, thus

implying sturdy, small business, "Canadian" capital, management, and origins, as well as sustaining the myth of mining as a high-risk undertaking that merits large-scale government subsidization in the form of tax benefits and other growth supports. In the case of nickel, Canadian prospectors played a role in finding the original ore-bodies and received compensation for these efforts when larger interests, predominantly foreign, bought them out and developed the stakes. 1.

Canadian mining law of the late Nineteenth Century meant government sale of mining land for a dollar an acre, constituting not only a prospector's, but more specifically a speculator's and monopolist's Canadian prospectors, their compatriot speculators, and steel entrepreneurs never developed the nickel industry of Canada as an integral part of the Canadian industrial structure. Instead, it rested on American financiers' and industrialists' ability to create a corporate structure or "trust," like U.S. Steel and Standard Oil, based on their vital connections with American steel industry and military markets and the ability of J.P. Morgan to curtail the international financing of competitors. 2. The ability of these to monopolize Canadian nickel was a crucial feature of corporate organization which benefitted by the leniency of the Canadian state in this regard. Non-nationalist governmental policy fostered this path of American-sponsored consolidation by maintaining that mining lands should be open to Americans without reservation or royalty. As early as 1890, half of Ontaric's mines were already in American hands.

The American and Canadian Governments' roles in the formation of the early International Nickel monopoly have been documented by

O.W. Main, H.V. Nelles, and others, but several features are stressed here: the American-sponsored monopolization proceeded with Canadian governmental approval, and the aid of secure American naval contracts and research subsidies. Thus, from the inception of this corporation the roles of both states were crucial. Markets were from the beginning military and international, but particularly American. The predecessors of INCO, the American founded Canadian Copper Company and Orford Copper Company, were sustained by U.S. naval contracts and secure markets protected by U.S. tariffs against refined nickel imports.

With such state protection they proceeded to join forces to maintain refining in the United States and secure markets there and in Europe, where the first international nickel cartel with the French Le Nickel was created in 1895.

The only "nationalist" response of this period was initiated by the American ex-president of Canadian Copper who called for a refinery in Canada and export taxes on ore and copper-nickle matte, (a pre-refined concentrate.) While both the Laurier and Ontario governments enacted such legislation, it was never effected, presaging a common "shuffle" response at state levels when confronted with American corporate power. 4.

While Canadian Copper threats to shut down nickel operations were undoubtedly a bluff (since no economic or technical factors actually tied refining to New Jersey), Orford president, Thompson's "nationalism" played a political role as he assured American officials that maintaining U.S. tariffs would maintain jobs in the United States. 5.

Evidence of stock payoffs to Laurier and significant Canadian legislators indicate more personal forms of persuasion were also at work. Even

when Orford allowed its refining patents to lapse in Canada in 1900,
Ottawa ignored the advice of the Ontario legislature to refuse
renewal and allow competitors to work them.

6.

Canadian capitalists' efforts were doused and Canadian refinery capacity put off until after World War One. American corporate control was consolidated by the reorganization of the nickel industry in 1902 by J.P. Morgan in the creation of International Nickel Company, with the same trust proportions as his earlier success, U.S. Steel, and many common directoral interlocks. The International Nickel Company combined Canadian Copper's holdings and those of several other companies in Sudbury ores, with the refining capacity of the U.S. Orford and Wharton companies, and holdings in the other major nickel source, New Caledonia ores. U.S. Steel appointees to the board assured Morgan control and firm market connections with its major U.S. customers.

This alliance of major steel markets, U.S. refining capacity, and Morgan financial control of those capital markets large enough to sustain or eliminate competitors made Canadian governmental leverage in the form of tariff manipulation forever ineffectual as a tool to minimize Canadian losses in both profits and jobs. What we have described goes beyond "bigness" to the logic and structure of capital accumulation in the finance capital stage.

Having beaten back competitors with price wars and Morgan financial power, only Mond Nickel remained (with International's blessing it appears). Both Mond's capital sources and markets were in Britain, hence, this firm provided the appearance, if not the reality, of

competition. In preparation for buying out even this "competitor",
International moved its head office to Canada to avoid certain antitrust proceedings in the United States in 1928. In the same year,
Falconbridge was founded as an outgrowth of Ventures Limited, a
minerals exploration holding company created by Canadian entrepreneur
and geologist, Thayer Lindsley, and backing from a New York group.
Like Mond, Falconbridge's early concentration on European markets
presented no immediate threat to International.

During the Second World War, International refined the products its "rivals", Falconbridge and Le Nickel, both of which had of their European refineries seized by the Germans. The only other "free world" nickel supply during the war was the U.S. government-owned Cuban production of Nicaro. The cartel implication of such "pluralism" is evident. The strategic risks implied in dependency on one company and one source led American policy makers to seek, officially at least, to diversify sources and perhaps lessen INCO's grip on markets, as part of a broader postwar politico-economic strategy of growth. The result, in terms of concentration in the nickel industry, would be support of three Canadian producers and two American producers in the postwar era. Whether this "diversification" of control of the industry would affect the relationship between state and industry remains to be investigated.

It can be seen from the preceding sketch of corporate growth in the nickel industry that international markets and capital have been crucial in the concentration and monopolization of capital within the industry. The great expansion of productive capacity in Canada and the enormous profits involved in stockpiling and defense contracts in the postwar period would be, we suggest, accompanied by two important features: a) diversification would be accomplished to the extent that Falconbridge and Sherritt Gordon might become important nickel-producing multinationals, but b) concentration of capital within the dominant companies of the metal mining industry would remain the dominant feature as consolidation (despite minor diversification) proceeded along with the internationalization of capital and the postwar diversification of big company nickel deposits.

The typical dominant mining company in Canada has become a multinational conglomerate, vertically integrated, and involved in a diversity of activities including not only mining, but also oil exploration, manufacturing, investment and finance, agriculture, forest products production, and real estate, for which mining constitutes the nucleus of operations. Multinationals such as Noranda, Falconbridge and INCO now have networks of subsidiaries and affiliates that involve production of several metals. As we have noted in Chapter Three, this diversification of types of production accounts for much of the concentration of capital within the metal mining industry (which company - discrete calculations ignore) and particularly for the three nickel producers which are among the dominant seven metal mining companies: INCO, Noranda, Cominco, Falconbridge, Hudson Bay Mining and Smelting, Sherritt Gordon, and Iron Ore Company of Canada.

The largest mining firm, INCO, accounted for about 27 per cent of the total assets in metal mining and about 30 per cent of total sales in 1974, while the seven dominant firms in metal mining together

accounted for about 72 per cent of assets and about 88 per cent of sales. ⁸ All of the top five metal mining firms are now enmeshed in networks of subsidiaries and affiliates. The amount of monopolization and concentration within the top three and top six companies as aggregates has increased dramatically in terms of assets and sales within the period 1963-1974 alone.

TABLE XV1: Increasing Concentration of Dominant Canadian Metal Mining Companies (1963-1974)

		Top 3 as Percentage	Top 6 as Percentage	
Total Assets		Total Sales		
28.8	36.2	47.4	57.0	
50.4	63.5	65.5	81.2	
	Total Asser	Total Assets 28.8 36.2	Total Assets Total Sal 28.8 36.2 47.4	

Source: William Moore, "The Canadian Mining Industry and International Capital", Department of Sociology, McMaster University, Feb. 1976, p. 10, selected years.

Links with international financial capital as well as Canadian financial capital abound, the former generally in the form of joint ventures and consortia, the latter in the form of bank, insurance company and trust company interlocks. These interlocks increase with the size and power of the firms.

9. It is therefore inadequate to speak of the failure of financial and industrial capital to merge in the development of Canadian industry, for in the resource sectors especially, it has done so. While INCO's share of world markets was reduced from a one-time high of about 90 per cent to about 40 per cent in the 1970's, its control of world nickel deposits and its integration

with international finance capital has greatly increased its scope of control and power, we suggest, in the postwar period. The same applies to Falconbridge.

5.2 The Importance of "External" Market Characteristics: Nickel as Strategic and Essential to American Growth

The Paley Report, discussed in Chapter Three, indicated the appreciation by the U.S. Government of the "strategic" nature of nickel, despite the intrusion of peace. Since nickel would sustain "cold" as well as "hot" wars, it came closest to being what the American military termed "a true war metal".

Despite the vigorous marketing and sales efforts of INCO in the twenties and thirties which had broadened nickel uses to include most new high-technology industries of industrialized countries, the nickel industry was to retain its close material and political links with the American military establishment. These links had already prove fruitful in terms of profits, absorption of excess capacity, and even in expansion of civilian markets, since much of the most sophisticated technology relied on the extension of military-based research to industrial use. The military industrial complex of which Eisenhower warned was in large part the socio-political extension of broadening military markets for mine and energy industries in conjunction with the growing role of the state in maintaining capital accumulation in both war and peacetime.

Nickel had become "essential" in both heavy industry and consumer sectors of advanced economies. Its uses had been extended from armaments, coinage and jewelry to stainless steel, heating elements,

construction, rolling stock, automotive, aeronautic, chemical and space technology, nuclear plants, desalinization plants and petroleum refining equipment. Petroleum refining alone uses sixty-four million pounds of nickel annually in the contemporary capitalist world.

Commercial four-engine jets use 4,000 pounds, Boeing 747 jets use 11,000 pounds, and supersonic transports about 18,000 pounds.

The early postwar American growth strategy of the 1950's featured attempts to expand markets in Europe for American (Middle Eastern) oil and hardware, particularly military hardware, creating many new or expanded markets for nickel producers in the process. Evidence of the direct effects of this "reconstruction" of Europe for companies like INCO and Falconbridge is documented later in this chapter in terms of profitability. A second capital accumulation strategy of the late 1960's and the 1970's has linked the fortunes of oil and nickel even more closely with American economic and strategic concerns vis-à-vis the Middle East, however. It was not enough to get the oil out as rapidly as possible while the getting was good and cheap for American and any other of the oil majors operating in the Third World. The rise of nationalism and of OPEC meant inevitably higher future costs for oil. Thus, an American conceived necessity to "recycle" these Middle Eastern incomes from resources back to the U.S. economy 12. This was accomplished through massive arms sales, as well as other forms of heavy equipment and capital goods marketing which not only drained capital out of these countries but created ever expanding markets for nickel and other resource inputs in such goods. The "Energy Crisis" meant greater efforts by the Americans,

(for whom it was equally important to guard Third World areas for strategic and ideological reasons), to take not only the oil, but as much of the proceeds from it as possible. This is where the Canadian resource industries, especially metals, would receive the "spin-offs", in terms of market access, of American postwar imperialistic programmes. In the post-Vietnam era, in which it was made clear that American soldiers could no longer police the Third World directly, the strategy became twofold: to arm "friendly" states to the teeth and make them pay through the nose. A simple rundown of the amounts and prices of American and other Western (nickel and aluminium intensive) arms sales to Iran from 1968 to 1979 is instructive in this regard, particularly in terms of the great leap in these following the "energy crisis":

TABLE XVII: American and Western Military Sales to Iran 13.

1968	\$125 million
1969	\$175
1971	\$365 "
1972	\$1.1 billion
1973	\$2.6
1979(originally planned)	\$19 "

It must be remembered that figures, such as \$19 billion are only a kind of "downpayment", since the latter represented \$50 billion to come. The internal military and police suppression that the Nixon Doctrine represented is far more evident to us today, as Iran erupts, than are the important implications of such "spin-offs" to Canadian capitalists in resource and aircraft industries. The "little brother"

position of Canadian market and production expansion on the coattails of American foreign policy is an important outgrowth of a continental resource strategy. It will become more carefully sketched in the case of Canadian nickel production's expansion abroad in Chapter Eight, and in several aspects of state policies concerning energy development, in Chapters Six and Seven. In short, indirect and differential access of Canadian industrial resources to markets in Third World countries has been vastly expanded through the export of "modernization through militarization" programmes of development to these countries.

5.3 The Importance of Stockpiling to U.S. Postwar Development Strategies: Official and Unofficial Aims

Before delineating the details and impact of American postwar stockpiling on Canadian state resource policies, we shall outline briefly the primary motives behind such activity for the American state and major corporate interests (both American and Canadian) involved. World demand for nickel in the 1950's and 1960's, for the first time, outstripped peacetime productive capacity. This feat was largely the result of "artificial" stimulation— U.S. government—subsidized expansion of productive capacity in selected materials, and absorption of surplus capacity through stockpile procurement. This programme was officially designed to create a series of enormous strategic and critical materials stockpiles sufficient to provide all U.S. requirements for five, later three, years of conventional war, and finally for post nuclear attack survival.

To achieve such rather nebulous "strategic" goals, a whole battery of mechanisms for increased capital accumulation in both resource and resource-processing corporations of the largest kind were set in motion by the American state and indirectly by the Canadian state.

The stockpile programme makes sense only if conceived as an "unofficial" attempt to increase capital accumulation on a selective basis. This goal, we suggest, was the unofficial "cause" of stockpiling as part of an overall development strategy, but one that had important ramifications for Canada's development.

Just as strategic stockpile "goals" (the needed amount of any particular stockpiled resource) shifted ever upward in the 1950's and early 1960's, so separate defense spending on similar resources increased as the United States embarked on the Cold War space, missile and armaments race. For materials like nickel, aluminium, copper and the like which were used in defense production and were produced in either the United States or Canada the historic "problem" for capitalists, surplus capacity, would be solved by heavy U.S. defense spending, stockpiling, and sale of armaments abroad. As "excess capacity" was diminished in such industries, ever higher prices could be gained; employment could be maintained and production expanded, since such products did not require "natural" expansion of the market through general consumer use, but instead could be in large part "removed from the market" via stockpiles -- an "artificial" demand mechanism. scenario would suit large producers of such raw materials perfectly, provided such caches were not unloosed on the market in a "disorderly" fashion, through marketing structures which they could not control. The latter threat would become part of the programme, however, and would provide evidence of additional "unofficial" goals or causes for

implementing the stockpile programme. The American state maintained considerable control over the mechanisms for unleashing such materials on the world market, not only to support domestic prices, but to affect other countries' trade in these materials and to counter the efforts of striking workers to affect political and economic change. Thus, such an interventionist foreign policy would of necessity have substantial influence on world market features for industrial resources, on corporate concentration in these industries, on profit, and on Canadian and other foreign states' political and economic autonomy vis-à-vis the United States.

Governmental stockpile contracts meant prices for nickel and other "critical" materials rose, amounting to state subsidization of both productive expansion and profit. The wish to diversify nickel sources may have been a second "strategic" motive for stockpiling, but this would not differ from the motives of the largest producers unless it limited their access to these new sources of nickel ores. The fact that it was those companies highly verticalized in corporate structure already and highly subsidized via stockpile contracts and expansion programmes that succeeded in obtaining control of such new ore bodies was not coincidental. No flood of new companies would invade traditional marketing and producing structures, a fact that must be explained by differential corporate access to stockpiling programmes and not simply the advantages of corporate integration. For Keynesian economics was blossoming in Washington and the interventionist role of the U.S. particularly relevant to the international production state was and distribution of raw materials by large corporations. As we shall

demonstrate, politico-economic domestic and foreign policy strategies which included stockpiling, came to dominate U.S. policy with regard to world hegemony in the Cold War.

We suggest, in the evidence which follows, that stockpiles and surplus stockpile disposals appear to have been designed or utilized to accomplish the following "unofficial" goals and objectives which underlay the continental resource strategy and U.S. domination of Third World countries' economies and political formations:

- (1) Extraction of raw materials by private U.S. capital overseas and in Canada was to be combined with processing, refining and stockpiling of these materials in the United States.
- (2) Artificially high levels of capital accumulation were to be fostered in resource and agricultural sectors as well as manufacturing sectors—the first by incentive to capital investment in resources at home, in Canada, and abroad (by American multinationals). Agriculture would be stimulated and surpluses reduced by governmental price supports and barter of wheat, tobacco and other products for hard, metallic, storable materials from abroad. Manufacturing and the employment associated with it would again be centered in the United States.
- (3) Foreign regimes could be manipulated through the terms of resource material acquisition, capital flows, control of major sectors of the economy via corporate penetration, and through the ability of the U.S. state to dump materials at will on the international market.
- (4) Labour at home and abroad in resource industries could be controlled through the maintenance of processing in the United States and the threat of dumping, such that strikes could be rendered

ineffective as supply was manipulated.

The above outlined analysis characterizes stockpiling as one of the weapons in extending U.S. hegemony abroad, maintaining high growth at home, and fostering capital drains as well as resource drains out of foreign countries including Canada. We propose in this chapter to marshall evidence to this effect, but to leave until Chapter Nine the task of evaluating the ramifications of this process for Canadian state autonomy in the more general sense of the word.

5.4 The Bureaucratic Mechanisms of Stockpiling

Three major stockpiling devices existed in the postwar period for the purpose of strategic materials aquisition: the National Stockpile, the Defence Materials Procurement Agency, and the Supplemental Stockpile, the first two involving direct and substantial 14. contracts with Canadian resource, particularly nickel, producers. The general target for materials was valued at \$8.3 billion, not including incentives for expansion. Between 1950 and 1957, the U.S. Government spent about \$789 million on nickel expansion programmes, including \$655 million in direct purchases. 15. By mid 1953 DMPA had production expansion contracts in effect for over 562 million pounds of nickel (to be delivered over the next ten years), whereas annual U.S. consumption before the Korean War was only 200 million pounds. About 320 million pounds of nickel were contracted with three Canadian producers, INCO, Falconbridge and Sherritt Gordon by 1954. It was under DMPA that extensive loans, guarantees, long-term contracts, floor and premium prices and rapid tax amortization incentives were offered to expand production, much of it in nickel. Up to 1959 alone, 22,312 certificates of tax amortization were issued for facilities

costing \$39 billion, of which over \$23 billion worth received rapid tax amortization benefits over five year periods. 17.

The "task force" that carried out these domestic and foreign policy objectives extended throughout the following U.S. agencies, but centralized command rested with the Office of (Civilian and)

Defense Mobilization, attached to the Executive Office of the President; the Departments of State, Treasury, Interior, Commerce and Agriculture, the Budget, the General Services Administration, the International Cooperation Administration, the Development Loan Fund, the Export-Import Bank, and the Agency for International Development (AID).

As early as 1951, the General Services Administration maintained stockpile purchasing agencies around the world. The State Department advised it and individual corporations on foreign political and economic development factors conducive to getting materials from "dependable" and "friendly" sources and to keeping easy U.S. corporate access to these. It also maintained similar links to the international resource forums such as the IMC and the OECD vertical committees, for the purpose of increasing "free-world" production of resources.

Similarly, the Export-Import Bank provided loans and established credits favouring the largest resource companies, domestic and foreign, in their efforts abroad. AID became the major means for bartering rapidly deteriorating agricultural products for long-lasting Third World minerals and metals. The programme's bureaucratic flexibility and centralized decision-making features in manipulating production and exchange made it central to U.S. foreign policy to maintaining

domestic growth, and to shaping continental growth patterns in the 1950's and 1960's.

Corporate executives and shareholders gained direct economic benefits in windfall profits and expanded facilities. Politically and socially they gained both informal and formal access to the decision-making heights in the United States and Canada, because of the crucial place stockpiling came to have in policy-making. The American State Department directly fostered such links between government and industry. OCDM, for example, launched a "National Defense Executive Reserve Program", which recruited and trained executives for positions in the Federal Government, in case of an "emergency". By 1961, it involved eighteen U.S. federal departments and agencies and 2,600 "reservists".

19. Bureaucratic links were profitable and careersustaining for executives, again, on a selective basis.

It would be a mistake to separate the bureaucratic mechanisms from the effect on the social structures involved. The general effect was greater centralization of decision-making regarding resource policy in the continental context. The explicit or "official" policies stemming from stockpiling were to find general approval and a high degree of cooperation between major Canadian resource industries, the Canadian federal bureaucracy, and other policy-making forums.

Contradictions would arise for the Canadian state, because the latent American goals were protectionist and hegemonic in nature.

Coming steadily to the fore, these could occasionally make legitimation of such policies in Canada difficult. The power and control of the American state would not be lost on the Canadians, and both

embarrassment and conflict (in relation to the Canadian state's own functions and duties, which require a degree of structural autonomy) could potentially have surfaced. As American protectionism proceeded at the expense of Canadian manufacturing and Canadian balances of trade with markets in the Third World suffered, the contradictions of this continental division of labour would be felt. Nonetheless, we suggest, the costs of the programme to the Canadian taxpayer and worker, though substantial, would go unrepresented. In settling for a junior partnership in the continental resource policy, the Canadian state accepted the benefits and limitations with little attempt to shift the major emphasis away from resource dependency. We turn now to evidence of Canadian officialdom's acceptance of these roles and reactions to such contradictions.

5.5 Official Acceptance of a Junior Partnership in Resource Capitalism: Opening the Storehouse to the Biggest Customer

C.D. Howe is probably the most important of Canadian politicalindustrial czars in the extension of this American resource programme
to Canada. Having served under both MacKenzie King and Louis St.

Laurent, Howe was the minister in charge of wartime production, which
had brought industry-government personnel links to an all time high.

In the immediate postwar period, Howe became Minister of Trade and
Commerce. The architect of Canada's modern economic strategy based
on continental integration to U.S. markets, he was the leading force
behind the defense production agreements of 1950 which called for
Canada and the United States to cooperate on all fronts in the interests of common defense and economic development. In ideological terms

such cooperation would mean a whole-hearted embrace of the American Cold War ethic, blurring any distinction between peacetime and wartime economies and justifying expensive and selectively profitable military and stockpile spending programmes in Canada as well as the United States. Howe believed Canada should bargain for its share of American military spending by maintaining an open door policy for U.S. investment in exportable Canadian resources. It was he who spearheaded tax concessions and subsidies to defense and resource related corporations to fulfill U.S. requirements. 20. He pushed for more raw material development, greater exploitation of Canadian energy in large projects, and attempted to breakdown what little protectionist resistance existed in the United States to the southern flow of Canadian resources. In correspondence with U.S. Secretary of Commerce, Sawyer, in 1950, Howe lobbied the continentalist case: "We fully agree with the need for increased productive capacity of aluminium on this continent...take into consideration the contribution that Canada is capable of making in supplying this strategic metal." 21. Howe, in the same correspondence, offered the aluminum of several mammoth projects, complete with government-sponsored hydro and capacities to deliver whatever aluminium the Americans could possibly require for stockpiles during the 1951-53 period.

George Humphrey, Secretary of the Treasury under Eisenhower, was a key U.S. advocate of the continentalism; deeply enmeshed in Hanna Mining contracts for stockpiled nickel, he was also the man that had most to do with developing Labrador iron ore.

Like Humphrey,

Howe was central at the Canadian end. Below Howe, however, were civil

servants who faithfully executed the day-to-day functions of this general resource policy, establishing the network of liaisons necessary to aid the largest Canadian resource companies in gaining as much as possible from stockpiling contracts. These hailed from the Canadian Embassy, Departments of Defense, Finance, the International Trade Relations Board, Trade and Commerce, and External Affairs. As Prime Minister Diefenbaker assured the Canadian Metal Mining Association, the very highest official concern was being directed to the maintenance of an "ear to Washington" stance:

I can assure you...that we follow with continual and close interest here in Ottawa and in our Embassy in Washington the activities of the Office of Civilian and Defense Mobilization whenever reports reach us that the stockpiles might be reduced. 23.

Two officials in particular, however, turn up time and again throughout the correspondence pertaining to these activities — the same two who feature so prominently in the forest and energy plans. N.R.

Chappell moved from one important position to another (Director of the Department of Defense Production, Commercial Counsellor, Canadian Embassy in Washington, etc.) always formulating and implementing the details of Howe's policy and representing large company interests vis—

a-vis Washington. Denis Harvey, (likewise moving from one key position to another, but within the Trade and Commerce Department) did the same in Ottawa for big resource businessmen. Midway into private industry-U.S. Government negotiations about stockpile surplus disposals, the President of the C.M.M.A. was to write the Minister of Trade and Commerce to specially commend the job Harvey was doing for the Canadian mining industry:

I write particularly to express the keen appreciation of our Board of the excellent service...which has been performed both on behalf of the Government of Canada and in the interests of the Canadian mining industry by your Assistant Deputy Minister, Mr. Denis Harvey (who)...has taken great pains to consult representatives of Canadian mining companies so that the Government of Canada in its official policy and statements is well aware of the industry's views. We appreciate the efforts made to keep in close touch, both with industry opinion and with Washington developments. 24.

It was Harvey who arranged the many Canadian government-mining industry pow wows during the time of U.S. stockpiling and disposal of surpluses. Alcan, Cominco, Falconbridge, INCO, Noranda, and Sherritt Gordon were the mainstays of these conferences located at either the Department of Trade and Commerce or at INCO offices in Toronto. These gatherings were means of formulating state policy on the basis of a few producers' opinions, indeed mirroring the very words such executives used in their follow-up written memos to Harvey.

Whenever action was called for on shorter notice or through extrabureaucratic channels, however, the largest resource companies, such as INCO and Falconbridge, could set their directoral interlocks with American seats of power and finance into motion to derive special consideration in Washington. Falconbridge's stockpile "babysitter" was Robert Anderson, former U.S. Deputy Secretary of Defense and an Eisenhower favorite, who had major connections with big Texas oil interests and could make sure Falconbridge got its share of stockpile profits.

25. INCO had its stockpile "babysitters" as well. It should be remembered that its most powerful links were much longer established, however, INCO had always had strong financial and political representation on its board of directors in the form of Lawrence Rockefeller or his Sullivan and Cromwell law office representatives. John Foster

Dulles, later U.S. Secretary of State, had been on INCO's board for decades. He gave the final eulogy for Robert C. Stanley (INCO's Chairman of the Board 1937-1951 and President 1922-1949), in which Dulles spoke of their thirty-five year old friendship and of Stanley's foresight in developing civilian markets to match INCO's military ones. Dulles praised him for having consolidated marketing to steel, electrical, chemical, and automotive industries of the world, and for having consolidated ownership of the Sudbury mines and rationalized corporate structure by merging the "competitor", Mond. Stanley had done a superb job of increasing capital accumulation, for under his reign INCO nickel sales had shot from 13 million pounds in 1921 to 240 million pounds in 1951. 26. Clearly Dulles would help carry the ball in the era of windfall stockpiling days, if not in Stanley's shoes, then in an even more useful capacity in Washington. These political contacts in the upper echelons of U.S. state power would prove invaluable. Furthermore, these links to John Foster Dulles and his brother Allen Dulles-- head of the CIA during the period both INCO and Falconbridge would benefit from a strong American political and military hand in the Third World-- far outshone the importance of C.D. Howe as direct avenues to the shaping of policymaking on an international basis with regard to resource capitalism. We suggest, then, that the directoral interlocks of such major resource companies are frequently far more efficient than the day-today influence such corporations foster with the Canadian governmental bureaucracies. Both mechanisms for exercising power are essential; however, we concentrate on the latter type in order to demonstrate the

complicity of the Canadian state and its active role in representing these interests' over time.

Besides assisting in this babysitting function, Canadian civil servants performed important organizing functions for the largest producers, creating a united position out of individual corporate interests. They also monitored American Congressional moves of an anti-trust, stockpile investigative or protectionist nature which threatened the aluminium and nickel interests during this period.

In the "gravy days" of 1950 to 1953 there was little to do but facilitate contracts, but soon American protectionism and foreign policy aspects of the programme created minor conflicts that kept the Canadian civil service busy. Canadian officials began to have misgivings about the secrecy surrounding stockpile decision making, and in 1954 the Canadian Commercial Secretary in Washington marvelled to discover that materials in the stockpile by 1953 equalled Canada's total export values, and still the goals were unspecified and objectives increased, as the Supplemental Stockpile and bartering abroad began. An "Availability of Critical Raw Materials" report was submitted to the United States in the hope of maintaining Canada's "most favoured nation" status in production for the stockpiles, despite the threat inherent in these noted by the Secretary. "It (the stockpile) acts as a steadying influence on prices of so-called strategic materials in times of acquisition and will have the opposite effect if world tensions let up." 27. The temptation for industry to cash in was overwhelming, however, as he explained; "Canadian producers of strategic materials are directly affected by stockpile activities

whether or not they are selling to the stockpile. Any Canadian businessman is affected by it, or will be in future." 28 .

Stockpiling discriminated against Canada during both the acquisition and disposal periods, by stimulating manufacturing and processing in the United States rather than Canada. American companies could get larger supplies of "defense rated" nickel to export high-technology equipment to Canada for the purpose of building pipelines for equally "defense rated" petroleum development.

Yet, Canadian civil servants never questioned the logic of this technological dependency.

Canadian "nationalism" among these officials consisted in maintaining and expanding the export of raw materials, not in facilitating the domestic processing and secondary manufacturing of these. Such discriminatory aspects were downplayed or ignored as N.R. Chappell, Director of the Department of Defense Production, recalled:

...when some of these programs were first set up there was a suggestion that they might be considered as discriminating against Canada and other producers of these metals and minerals. The agencies which administer the programme pointed out at that time that the programmes were established by Congress for the specific purpose of stimulating production...in the Unites States... 30.

Canadian policy makers saw continentalism as the guiding, "pragmatic" or non-nationalist policy for a resource-dependent Canada. As

Chappell put it, "...if one had to say what is the Canadian policy with regard to the 'continental concept' it would be the realistic attitude 31. of the storekeeper to one of his big customers."

5.6 Big Mining Interests Receive Exclusive State Attention Despite Continental Contradictions

Business for the "storekeeper's" three major nickel producers was booming by the mid 1950's, and stockpiling and defense acquisition had eliminated surplus capacity in nickel, copper and aluminium, though not in U.S. domestic lead, zinc, and of course agriculture. Shortages on the commercial market led small U.S. metal manufacturers to complain of discriminatory nickel allocation, since 1953 controlled by INCO instead of the U.S. Government. Small business spokesman, U.S. Senator Sparkman, thus complained that government officials had "delegated their policing responsibilities to the very people they should be policing - the primary producers..." 32. However, there was no plan to reimpose controls unless "...the International Nickel Company said that it was no longer willing to allocate nickel... among nondefense users," 33. an unlikely voluntary transfer of power on INCO's part. As a result of U.S. and Canadian governmental assistance, premium stockpile prices, and its own manipulation of supply, INCO was able to raise world prices 4.5 cents to a high of 64.5 cents a pound in 1954, with 120 million pounds of its own production headed for the stockpile at even higher prices between 1953 and 1958. This constituted direct state assistance to capital accumulation for the largest mineral and metal producers.

While shortages became more acute for small U.S. metal manufacturers, U.S. stockpile officials raised nickel objectives and advised INCO to "continue to supply our defense needs first, then allocate on a 'fair and equitable' basis, the remaining supply among U.S. civilian users." 35. Stockpiles, by creating artificial shortages, aided

large producers in manipulating civilian supply and further increasing monopolistic control over markets, accomplishing the same aims as newsprint leaders.

Minor conflicts arose for big producers such as INCO in attempts to maintain market control via artificially created shortage, since the U.S. Government had the means of loosing either small or flood-gate proportions of its life blood on the market, perhaps not through INCO-integrated channels. Small U.S. customers nurtured vain hopes that the Government would take their side against this giant. The solution sought by the big three Canadian nickel producers was to have Canadian officials represent their case for diversion of nickel from their stock-pile contracts to the commercial markets while prices were soaring. This policy allowed these and other Canadian resource multinationals to benefit from stockpile-boosted prices of non-ferrous metals without allowing artificially created shortages to do real damage to their civilian markets.

INCO president, H.S. Wingate got Howe to intervene in Washington, and Wingate managed to get A.S. Flemming, Director of the Office of Defense Mobilization in the United States, to admit privately, "that the current stockpile take, indeed, the stockpile programme was purely arbitrary and bore no relation to military usage current or future."

36. Publicly, however, Flemming was prepared to stop INCO from diverting nickel under option to the stockpile stating, "INCO is interfering with the national security of the United States". Flemming preferred to divert nickel from government-owned Cuban Nicaro production or perhaps to edge Hanna and Falconbridge into INCO's commercial markets.

C.D. Howe met with the U.S. Secretaries of the Navy and Commerce and Director of ODM, Flemming to plead the case of the Canadian three. 38.

N.R. Chappell followed up this plea in writing with an appeal to "continental security" by return to "free enterprise". The same argument used to sustain stockpiling he now used to allow major producers to get off the hook:

Are not the interests of both the United States and Canada best served in peace as well as war if nickel producers are encouraged to develop markets...so that the full capacity of the industry may be available if required in a serious emergency? 39.

Eventually INCO worked out its own compromise with Flemming, agreeing to refine Sheritt Gordon stockpile-contracted nickel in return for the privilege of diverting nickel commercially—a bit of non-competitive behaviour which characterized this genre of "free enterprise".

Canadian civil servants intervened successfully for stockpile producer, British Metal Corporation, when it sought to divert copper commercially as prices peaked. Strikes in the United States and Chile thus lost their impact and corporate profits soared.

41. President Creery of BMC justified this sort of special intervention on the basis of the whole fabric of government-industry and industry-industry collusion that stockpiling had intensified in North America:

There is hardly any need of my stressing the close relationship which has existed between the United States and Canada insofar as the supply of non-ferrous metals is concerned, not only on the Government level, but also on the Producer level. This Corporation and its Principals (including Noranda) were one of the first to supply...the Stockpile and we have always been ready to cooperate...therefore I feel justified in asking assistance in this matter. 42.

The difficulties which arose for Canadian state officials pleading such interests rested not only on the exclusive, or anti-democratic aspects of representing such special interests, but on the fact that American political and economic motives required the use of stockpiling to support American domestic producers and an imperialistic foreign policy first and foremost. Hence, real power in these matters rested in Washington. Canadian officials were not ignorant of the potential threat to major Canadian suppliers that such ulterior motives implied. The Canadian Commercial Counsellor in Washington D.C., S.V. Allen, confided to Denis Harvey that he was well aware the stockpile programme was being used to cure a number of different ills in the U.S. domestic economy and affect politics at home and abroad in ways that might prove difficult for the Canadian interests.

It is assumed here that the basis of this policy is not necessarily Defense Mobilization objectives as such, since the programme offers an 'out' for several current administrative problems. In the case of all these materials there is a strong flavour of support for foreign economic and political objectives. 43.

Those in the Canadian International Trade Relations Branch of Trade and Commerce were equally alarmed at the ramifications of the policies abroad insofar as they might threaten major Canadian interests, particularly in agriculturals and metals.

(The United States) undertook a programme to support the market for lead and zinc...Beyond this they are bartering agricultural surplus for base metals. This leads to the question, how long will it be until the United States Government becomes an uneasy holder of surplus metals and starts to dump them? The prospect is frightening because the quantities involved are very large. 44.

The United States had stockpiled lead and zinc far beyond goals in order to sustain domestic producers (a programme partially detrimental to Cominco); the tungsten goals were surpassed twenty times over in order to maintain the South Korean regime; and \$60 million stockpile

contracts to Anaconda and Kennecott helped force better capital repatriation out of Chile. Copper from Canada was considered less "essential" to the Americans and tended to maintain its strength in Europe, while Chilean copper was drained by these two U.S. multinationals. In other words, the windfalls might be substantial to certain Canadian resource companies, but the ability to facilitate orderly capital accumulation in any sectors not demanded for the stockpile (in the context of the U.S. state's hegemonic plans abroad and selective subsidization of resource industries in the United States) vastly decreased for the Canadian state. Export markets for Canadian wheat and other agricultural products could be damaged by American manipulation of agricultural surpluses in barter deals abroad, just as aluminium, copper, lead, and zinc markets could be manipulated via the mechanisms previously outlined. Canadian officials were well aware of this increasing vulnerability of the Canadian economy to American strategies of stockpiling.

On the sector specific level of overall production, it became clear that the stockpile caches had reached dangerous proportions.

When total "free world" production of nickel for 1958-59 was estimated at 460 million pounds per year, Canadian nickel contracts to the stockpile represented 320 million pounds for the year. The Canadian state sought to maintain this type of lucrative capital accumulation that favoured the largest resource producers in the metal industry, yet it feared the possible disposal of stockpiles would threaten this particular strength at the same time and overall programme was crushing other sectors' expansion. Having opted for a continental plan of resource capital accumulation, it had lost the autonomy to effect

changes that might have balanced the economy's strengths. 46. The bureaucracy expended substantial energy attempting to avert the dangers of disposals during the late 1950's and early 1960's via "ear to Washington" or "shuffle" diplomacy tactics.

The Canadian state had committed itself, in terms of a variety of subsidies, to facilitating a resource emphasis in capital accumul-The whole Canadian economy was being shaped by the upsurge in spending on strategic resource production, including metallic minerals, petroleum and natural gas, hydro electricity, pulp and paper, and chemicals, which together accounted for double the capital expenditures on construction and housing and equalled Canada's total purchases of consumer durables and its total defense procurement expenditures of about \$1.4 million by 1952. In Canada, as in the United States, resource spending rose with defense spending. Up from 12 per cent of public and private investment in 1946, investment in strategic resources reached 26 per cent by 1952 in Canada, and \$3.4 billion were slated for projects until 1955, not including petroleum, gas, and the St. Lawrence Seaway project. Expenditure on investment in this sector increased two and one-half times between 1945-50 and 1950-55. Meanwhile technological dependency was keeping pace, with the amount of imported heavy equipment and other capital goods increasing more for strategic resource industries than for any other sector of the economy.

The protection the Canadian state afforded the nickel giants went far beyond lobbying for special market access in the United States, for the contracts INCO, Falconbridge, and Sherritt Gordon held and the value of their exports made them a very important group of resource companies. C.D. Howe admitted that the Federal Government had paid half the cost of Sherritt Gordon's railroad to Lynn Lake properties, and had granted the nickel producers allowances and "foregone taxes running into many millions of dollars."

48. The Government was similarly concerned to protect the nickel industry's investment of about \$150 million in expansion projects over the period 1952-54, much of it linked to stockpile contracts.

5.7 The Results of Stockpiling: "Unconscionable Profits" for Some

In 1962, U.S. Senator Symington's investigations of stockpiling activities were to uncover only the tip of the iceberg in this longterm redistribution of income upward to the largest resource firms. He and his colleagues were only looking for a few witches to burn for "unconscionable profits", however, in a plan whose real purposes were not to be questioned. After all, Symington himself had been one of the authors of the programme, so what safer way to have the procedures investigated than by one of its long-time adherents? He very conservatively placed the losses to taxpayers through "irregularities" at \$1 billion. A less conservative State Department estimate by Harlan Bramble, U.S. Deputy Director of the Office of International Resources, called the total cost of stockpiling a "write-off" to taxpayers. billions of dollars invested in stockpiled materials were not needed, he said, for either Korean-type wars or nuclear conflict, when raw materials would be "running out of (Americans') ears" but the facilities to process them would be destroyed. 49. In other words, the strategic reasons for stockpiling, as we have indicated, were admittedly a rhetorical front for the purposes of capital accumulation. Needless

to say, the taxpayers, whether American or Canadian, were never to collect on this debt of well over \$8 billion for the purchase of the materials alone, not to speak of the losses through escalating prices, through subsidies to productive expansion projects, and through diversion of public wealth away from socially needed services and a firm employment strategy.

Similarly, the notion that the great concentration of decision—making power that the stockpiling programme gave rise to could have had anything to do with these "irregularities" and profits over an eleven year period, was never part of the state—launched "critique" of the programme. The investigations did, however, give rise to decisions to unload part of the stockpile in the form of disposals. The "critique" by Symington and company was simply a Kennedy regime tactic to blacken a few Republicans, let a bit of blood, and continue with the latent features of the strategy in tact. It was, in essence, a legitimation move to dispel public outcry. It was hardly a matter of "irregularity" that led to the expenditures on nickel alone, outlined in the following table.

TABLE XVIII: Nickel Stockpiling Expenditures

DPA and S&CM Nickel Programs SUMMARY OF EXPENDITURES As of June 30, 1962 (In Thousands of Dollars)

Defense Production Act:

Contract Purchases		\$297,918
Nicaro Nickel Plant Operation		
Facilities & Operating Expenses	\$216,759	
Less Transfers from Other Sources	44,104	172,655
Accessorial Costs		2,744

TABLE XV111 (Cont'd.)

TOTAL INVENTORIES:

Contract Termination Expenses Investment in National Lead Co Facilities Research, Pilot Plant & Other Costs Other Unallocated Expenses	\$ 26,355 10,794 5,987 1,228		
TOTAL EXPENDITURES - DPA:		\$517,681	
Strategic and Critical Materials Act:			
Contract Purchases	72,354		
Rehabilitation of Nicaro & Other Expenses	10,882	83,236	
TOTAL EXPENDITURES - S&CM: TOTAL EXPENDITURES - DPA and S&CM:		\$600,917	
RECEIPTS			
Sales (exclusive of transfers from DPA to S&CM):			
Defense Production Act Strategic and Critical Materials Act	\$239,509 1,092		
TOTAL RECEIPTS - DPA and S&CM: NET EXPENDITURES:		240,601 \$360,316	
INVENTORIES (March 31, 1962)			
Thousands of Pounds		Market Value	
DPA 334,538 S&CM 127,855			

PAC; RG 20, Box D, 3-890, Vol. 10, from Materials released in 1962 by the U.S. Senate Investigation.

462,393

\$369,691

Falconbridge's success in moving from one of several minor producers (like Hanna, Freeport Sulphur, and Sherritt Gordon) to number two nickel producer in the world, rested primarily, we suggest, in its

stockpile nickel contracts. The 1951 DMP contract for 50 million pounds over ten years at market prices and the 1953 DMP-60 contracts for 100 million pounds over nine years (with options for an additional 50 million) accounted for 98 per cent of its U.S. sales by 1961. The sweetest part was a 40 cent per pound premium under DMP-60, an outright gift of \$4 million which covered the entire cost of massive productive expansion. (See Appendix B 3 for details of all nickel contracts for stockpiles.) Falconbridge profits (even after cost-padding) rose from \$2.5 million in 1952 to \$16.9 million by 1961. Sontrolling interests in the company managed to take up stock-buying options on 75,000 shares just as the contracts were signed, taking full advantage of the subsequent stock value rise from \$11 to \$22 ranges in 1952 to \$73 per share in 1961, and further concentrating ownership that was 88 per cent accounted for by 172 individuals. These windfalls also provided the temptation for takeover and consolidation which led by the mid 1960's to U.S. Superior Oil and Howard Keck control, succinctly summarized in President Marsh Cooper's comment, "Howard Keck and I, in that order, run Falconbridge". 51.

While INCO's sales and dealings with the stockpile never received the same notoriety in the investigations of 1962, it appears these were as substantial if not more lucrative than those of Falconbridge. The following table outlines the contracts INCO held with the U.S. Government between 1946 and 1962. Although the size of such contracts is overwhelming, it is typical of the privileges certain large resource corporations had in the supply of materials to the stockpiles. Even the cancelled portions of such contracts turned substantial profit.

TABLE X1X:	INCO Sales	to the U.S.	Government	(1946-1962)
TUDDED WINE.	THOU DATES	LO LIIC O.D.	OO A CT ITHICITE	(1)40 1)01)

Contract	Pounds of Cut Electro Nickel	Price Per Lb.	Total
Various (1946-55)	65,916,713	46.12 cents	\$30,401,100
DMP-80 (54-55)	55,172,700	91.09 "	\$50,252,642
Premium on cancel (1959-60)	led portion of DMP-80).	\$ 7,340,400
	121,089,413	72.67	\$87,996,142

Source: Statement by INCO before U.S. Senate, Nov. 14, 1962; PAC, RG 20, Box D, 3-890, Vol. 11.

INCO thus appears to have received over \$7 million outright on the cancelled portion of its DMP-80, premium price contract, as well as over \$1 million in premiums on the fulfilled portions of the contract. These super-profits were of course down-played by INCO in its U.S. Senate testimony in which it boasted of having helped both supply and dispose of nickel for the U.S. stockpile. It had repurchased from the various stockpiles 125,675,994 pounds of nickel in various forms during the disposal days up to 1962, and INCO claimed that on the whole it had lost a great deal in all these dealings. This claim was sustained at the investigation, and only Hanna and Falconbridge were afforded bad publicity in stockpile deals.

In 1962, there were still 462,393,000 pounds of nickel in the combined DPA and National stockpiles with a market value of \$369,691,000.

Over \$600,917,000 had been spent on purchasing and stimulating such production. Meanwhile disposals of about \$360 million dollars worth

of nickel (mostly form the DPA) had already taken place.

Only about 41 million pounds of stockpiled nickel had come from the U.S. government-owned (National Lead-run) Nicaro plant in Cuba (much of its production having been diverted to industry during "shortages"), acquired at \$.45 per pound, well below the average at which INCO and other "private" enterprises sold nickel contracted to the government. Compared to INCO's deliveries of over 121 million pounds. Sherritt Gordon delivered only about 36 million at an average price of \$.67 per pound. Le Nickel delivered about one million pounds at \$1.00 per pound, and the 271 million pounds that Freeport Nickel had contracted to sell at \$.74 per pound were never delivered. National Lead delivered about 4.5 million pounds at \$.65 per pound. Thus, the largest producers in the programme were INCO, Falconbridge and Hanna. Falconbridge's total inputs by 1962 were 159.5 million pounds at \$1.11 per pound on over 99.4 million pounds of this, and prices averaging between \$.72 and \$.84 on the rest. Hanna's 108 million pounds were delivered at about \$.91 per pound. contracts were more lucrative than the National Stockpile ones, at the same time that they presented a greater potential threat, because of the flexibility of disposal that the executive branch wielded in contrast to Congressional control over other disposals. By the time the stockpile investigations took place, the market price had been pushed up to slightly more than the \$.72 per pound INCO had, on the average, received for its contracted nickel, the basis for INCO's claim that it had actually "lost" profits in the stockpiling era, and had "patriotically" agreed (actually insisted) to repurchase more than it

had supplied as disposals took place. Its testimony and gallantry was praised by the American Government and the Canadian civil service alike.

In reality, the stockpile programme had sustained massive capital accumulation for INCO, as well as the largest expansion and exploration of deposits in its history, specifically into Manitoba. During the ten-year period 1951 to 1961, one can observe the diversion of substantial amounts of profit to these ends:

TABLE XX: INCO Financial Profile (1951-1961)

<u>Year</u>	Nickel Ore Deliveries (M. 1bs.)	Net Earnings (M. \$)	Exploration Expenditures (M. \$)	Depreciation Depletion (M. \$)	Capital Expends. (M. \$)
1951	246	62.9	2.6	9.1	23.7
1953	251	53.7	6.1	12.9	21.1
1955	290	91.6	5.2	19.1	26.9
1957	290	86.1	8.9	20.3	43.9
1959	317	85.2	8.0	14.6	66.9
1961	372	38.8	7.4	19.9	46.0

Note: Shares had been split on a two-for-one basis in 1960.

Source: Annual Report 1965, The International Nickel Company of Canada, Ltd.

No investigation of stockpiling, state-sponsored or emanating from other critics, could have explained the selective successes of certain corporate sectors convincingly as the result of "irregularities" in an essentially democratic or even competitive capitalist policy framework. The policy can only be understood as a whole strategy when its foreign as well as domestic goals are taken into account as part of a larger growth strategy of an imperialistic nature. Nor could the

strategy be limited in its scope by attaching it to the activities of one or another political party or individuals within those parties.

For the features we have been analyzing spanned Republican and Democratic, Liberal and Conservative regimes in both the United States and Canada.

The successes of INCO and Falconbridge in this period had thus rested on several important features of corporate planning: sociopolitical maintenance of the stockpile contracts; the profits such contracts afforded; simultaneous expansion of domestic resource deposits; and maintenance of civilian markets and prices for nickel in the face of both artificially created shortage and potential "glut" by surplus disposals. Most importantly, for the 1960's and 1970's, this carefully navigated course had placed these two multinationals in a position to expand into exploitation of Third World lateritic deposits, not only because of the capital accumulation afforded by previous stockpiling contracts, but because the subsidization of technical research on lateritic ores had been an important part of U.S. Government policy and respective company policies. This plunge into Third World ores would be both financially and politically risky, however, as detailed in Chapter Eight. It would require heavy reliance on U.S. political and military intervention abroad, as well as on joint ventures with U.S. and other foreign capital (both financial and industrial.) It is not only profit but the power structure that

these contracts represented which is of importance to our study.

5.8 The Expansion of Foreign Markets: Marshall Plan Complementarities

Another aspect of the success of postwar policies of resource capitalism for the charmed few such as INCO and Falconbridge was the European market factor. Stockpiles removed "surplus" from the market, just as the United States was attempting to expand its markets in Europe through "reconstruction" programmes as wartime economies shifted to peacetime production. Both INCO and Falconbridge were in excellent positions, because of subsidization of expansion, to maintain their shares of European civilian consumption, which rose from 260 million pounds in 1951 to 640 million pounds by 1964.

Expansion of European markets was facilitated by the American Marshall Plan. INCO fully appreciated the potential of such American political and economic hegemony in the postwar period, telling its shareholders in 1948:

...demand for nickel will increase as the Plan progresses toward its objective of revivifying European industry and business and increasing European economic unity. Worldwide rehabilitation will call for many new plants. This should maintain a substantial demand for nickel-containing products for some time in the future. 54.

It was the combination of expansion of European markets and Cold War mobilization that allowed INCO to utilize "full production" capacities by 1950. ⁵⁵ Similarly, the International Materials Conference meant INCO cooperated closely with the U.S. Government in allocating its nickel worldwide between 1951-1953, after which INCO managed what had become "scarce" nickel internationally.

The effect of such market control, sustained by draining off of surplus to stockpiles, was a series of price hikes initiated by INCO to \$.50 per pound in 1950, \$.56 in 1951, \$.60 in 1953, and \$.79 to \$.81 by 1961 and 1962 when disposals began on a large scale.

the same time, INCO laid off about 4,000 workers and began its plans for expansion abroad.) Most of its production and price boosts were linked to the enormous security that U.S. defense and stockpile contracts afforded, as indicated in the Company's 1952 report:

Under (N.P.A.) direction, somewhat less than one-half of the supply which the Company provided in the United States was delivered for direct defense and atomic energy requirements. A portion of the balance was for the national stockpile and industrial which gave support to defense production. The amount remaining...has been delivered to the civilian economy in accordance with Government instructions. 57.

The maintenance of control over the civilian international market required careful coordination of the socio-political networks and liaisons that existed between government and nickel industry producers in Canada and representation by both contingents to U.S. policy-makers responsible for stockpile disposal. This was complicated by the desires of U.S. policy-makers to continue disposing of agricultural surpluses in exchange for Third World metals and minerals, as well as the desire to dump surplus metals and minerals on the international market without disturbing the market structures so carefully maintained by the major multinationals. In this process, different policies would be worked out for different metals and minerals. In general the Canadian export of agricultural products suffered more than its markets for metals and minerals as the U.S. pursued its foreign "aid" policies abroad. Thus the dismantling of the stockpile would not dismantle the Canadian nickel producers' control over markets. We suggest, that the wish to lessen monopoly and cartel activity in the nickel industry, if indeed it was ever a serious American aim, was neither forcefully pursued in anti-trust legislation,

in stockpiling, or reconstruction programmes. Instead, the wish to control Third World and European development in a manner profitable to American and by extension, Canadian multinationals, at the expense of domestic and foreign labour, played a much larger role in the U.S. resource policy. This was reflected in Canadian resource policies and sustained through constant consultation and coordination with U.S. officials (in the interests of the "big three" nickel producers) of the type we shall outline below.

5.9 Industry-State Coordination of Stockpile Disposals

Despite the increasing vulnerability and instability for the Canadian economy that closer continentalist resource policies meant by the late 1950's, Prime Minister Diefenbaker maintained a death-grip on the policy. Puzzled outrage such as that expressed in the following editorial of the Montreal <u>Gazette</u>, May 6, 1958, surfaced:

What, then, is to happen to these new Canadian (resource) communities? They are too remote to be turned to other uses. Are they, then, to be left to wither away...? Much the same story may be told of Canadian crude oil, or of lead and zinc. When the United States needs these things, it creates a market for Canada. But no sooner have the facilities to meet demand been developed, than the demand is pulled away, and tariffs are put on the U.S. border. Under these circumstances, Canada is denied a reasonable economic stability. 58.

The answer was to be "forebearance" with the United States as Diefenbaker put it.

There must be no cleavages in our unity, no unresolved difficulties. At all costs— as differences which exist from time to time among friends, neighbours, even among close relations, must be resolved— our peoples must act with infinite forbearance in order to assure the removal of existent differences. We must understand each other. 59.

It is the nature of this understanding and the mechanisms for sustaining this unity which we have been investigating. Again, in the disposal period, a unity of purpose was to evolve between Canadian state and producer officials and between Canada and the United States at the federal policy levels.

The primary concern of the Canadian nickel companies was that piece-meal, disruptive, governmental disposals of nickel be called off. If long-range disposal was to be undertaken, it should occur with full consultation between industry and government and result in recycling the surpluses through major producer channels. Objection to the use of such disposals in U.S. "foreign aid" programmes was an objection less in principle than to potential manipulation of industrial markets abroad. Major Canadian producers sent American officials word via Canadian civil servants that:

Disposals outside the United States are harmful to Canadian industry who are developing these markets through the establishment of fabricating plants, etc... (This brings) reduction of commercial purchases by recipient countries... (affects) competitive metals...(and negates) the tax incentive programmes to stimulate investment in U.S. industry. It would be impossible for the United States to dispose of stockpile metals in offshore markets, unless they sold at a price which was less than the high U.S. price. 60. (additions ours)

Agreement to dispose through major producers was achieved over a period of months through various mechanisms. Jess Larson, the first head of the U.S. General Services Administration, for instance, presented big producers' position in INCO's magazine, a position with which Denis Harvey took the time to express his agreement.

61. Meanwhile, INCO sent American officials its own plan for nickel disposals.

The Canadian Metal Mining Association had its Washington

consultants (including Larson) summarize the above mentioned premises, suggesting that if materials were to be released, such disposals should proceed only with major industry approval and recycling.

63. Both the CMMA and its American counterpart trade organization lobbied (the former frequently citing the latter) at local, Congressional, Parliamentary, and civil servant levels of government. Piece-meal disposals of some materials continued to pose a threat throughout the late 1950's, but nickel was in large part recycled through the major Canadian producers, especially INCO. The amounts considered excess had become enormous, after much vacillation in stockpile "objectives". The following indicates the extent of such shifts in goals which reflected, of course, economic, political and "strategic" manipulation of programmes.

TABLE XX1: U.S. Government Stockpile Objectives for Nickel (Pounds)

Nov. 20, 1944	236,000,000
July 27, 1950	548,000,000
Nov. 9, 1950	580,000,000
Oct. 9, 1952	900,000,000
Feb. 8, 1955	675,000,000
June 30, 1958	323,000,000
July 19, 1963	100,000,000

Source: R.A. Cabell, Vice President, International Nickel Co., Inc., N.Y., "Statement to Chairman of the U.S. House Judiciary Committee," Aug. 4, 1965.

The companies that gained most from the policies sometimes helped the Canadian state perform a legitimation role, not necessarily by providing more employment, but by merely alluding to it in public. So

close were government-industry perspectives on the problem of nickel disposal, that constant consultation and individual company lobbying (though continued) was hardly necessary. The following is an example of it, however, in which Falconbridge used its role as an employer as leverage to pressure the Canadian Government to intervene on its behalf in the disposal of nickel:

Since the Canadian nickel industry is such a large employer of labour, we hope the Canadian Government will urge the U.S. Government to take no steps toward freeing the sale and export of government nickel before the end of some reasonable time. 64.

Because it was clear to the Canadian Government that disposals of U.S. stockpiled materials could not easily be shown to affect Canadian producers forms' profits, officials suggested the nickel producers stress other possible damage to the Canadian economy, particularly to employees. Denis Harvey suggested INCO, Sherritt Gordon and Falconbridge executives meet at INCO offices in Toronto to assemble appropriate data on the "impact of disposal" to facilitate a unified stance before the U.S. Government:

(I) suggest that you consult each other respecting the information being assembled to ensure that data is comparable but regard it desirable that you measure cost in terms of employment, wages, earnings, taxes, and foreign exchange to Canada, measuring also lost by-product. 65.

They settled on very general projections of employee displacement and wage displacement. Since INCO and Sherritt Gordon executives did not want U.S. authorities to have a breakdown of by-product production in government files, only the sales value of lost production was submitted. INCO also hesitated to produce possible lay-off statistics, since its own private stockpiling and "other factors" affected this,

implying that disposals would not necessarily affect employment.

United presentation of heavily company-censored statistics was thus arrived at with the aid of federal bureaucrats.

It seems that INCO was more prepared for disposals than Falcon-bridge was— thus Falconbridge's plea for time. The Canadian state's concern over the effect of disposals on markets and employment would not, however, blind it to the utility such surplus materials might have in controlling workers in the nickel and copper industries at home and abroad. The vulnerability occasioned by disposals could have use for the Canadian state, for as one economist in the Department of Mines and Technical Surveys remarked,

I cannot agree (with certain officials) that this D.P.A. copper should be transferred to the strategic stockpile and thus be subject to release only by consent of the United States Congress in time of national emergency. If maintained in its present status, under the jurisdiction of the O.C.D.M., this metal could be released in controlled amounts during times of world wide shortages of copper due to strikes or other causes. If properly administered, in conjunction and cooperation with industry and other interested factors (i.e. Canada, Mexico, Chile, etc.), the D.P.A. copper could be used to prevent run-away prices such as prevailed in 1955 and 1956. The recent situation in Washington has demonstrated that control over the release of this material can be exercised by a strong government and industry lobby. 67.

It was thus decided that in consultation with American officials, such features of non-strategic control as pressure on domestic or foreign labour would become legitimate uses for surplus stockpile materials. Canadian officials were well aware of the American use of these materials for "economic warfare". They also espoused the above mentioned kind of "class warfare", useful in weakening the negotiating position of labour vis-à-vis management and strengthening

company executives' positions in maintaining orderly private capital accumulation.

Where disposals were to be made in the North American market, the U.S. General Services Administration had made it clear (by refusing below-market-price industry bids) that dumping would not be an indiscriminant weapon and certainly not one to be turned against major producing companies' market control. Those materials that could not be sold without disturbing traditional producer markets would go into a U.S. government "kitty" to be used by various agencies in "international foreign aid programs".

After several state and major producer sessions in Canada, followed by official state-to-state pow wows in Washington, the U.S. Government passed a formal ammendment to the Defense Production Act of 1950 to assure disposal through original producers, in May 1962. This formal resolution does not indicate the mending of long-standing contradictions between the groups participating in major policy making, for there had never been serious conflict. It shows, rather, the success of the strong government-industry lobby that had been created within the continental context to represent major raw materials producer interests within the continental and foreign spheres. Agreement of this sort was most effectively achieved through private industry-civil servant and state-to-state consultation at the upper echelons on a regular basis. Here interests were communally understood, whereas, if policies of such importance had been left to legislative levels in either country, small producer interests might have interfered with orderly procedures conducted in the interest of

big multinationals.

Even within international raw material forums such as the OECD vertical commodity committees and the international lead and zinc study group, Canadian civil servants opposed democratization of policy making, indicating that parliamentarians' attempts to infiltrate the latter forum constituted "a dangerous precedent". 70. Similarly, Congressional investigations, whether of an anti-trust nature or investigation of stockpile activities were considered both annoying and dangerous, for such investigations could concievably threaten the overriding continentalist resource programme, if allowed to delve too deeply. Canadian officials may well have feared stockpile investigations might threaten Humphrey/Hanna interests in huge Quebec and Labrador iron ore projects, "embracing the building of a 360 mile railroad, opening of several iron mines, building of a shipping port, and construction of two good-sized towns..." 71. Though recycling was being guided into the hands of big nickel producers, Canadian officials still had overall concerns for the fate of the resource policy in general. They therefore continued to lobby in Washington for fear of the impact of investigations on continued resource investment, expansion, and export:

> ...the Canadian Government is increasingly concerned about the possible impact of U.S. policies and the effect of existing enquiries on investor confidence, on long-term resource development programmes, on the orderly conduct of trade in stockpiled commodities in overseas markets and ultimately on the balance of international payments. 72.

Surplus capacity, the eternal enemy of major producers, returned as another primary concern of Canadian state officials representing these interests to Washington:

a result of the sustained investment in productive capacity is now reflected in substantial excess of such capacity at current levels of demand which themselves represent record levels of consumption - for nickel, cobalt, tungsten, copper, lead, zinc, asbestos, aluminium, etc...substantial unused capacity...threatens the major raw material exporting countries such as Canada. 73.

Investigations were to result, however, in dead bills in Congress and mild wrist slaps for only two nickel producers (Hanna and Falconbridge.) The bogey-man spectre of Americans operating a "state trading agency" which might threaten big resource companies was soon laid to rest. The Symington stockpile investigation, lacking teeth, and headed as it was by a long-time stockpile supporter, was soon seen by major producers and Canadian officials alike as a mere "witchunt".

Falconbridge's non-compliance with the investigation was condoned by Canadian officials and INCO's "patriotic" stockpiling and disposal grandstand before the U.S. hearings was lauded. 75. Canadian giants were to emerge economically and politically unscathed in ideological investigative battles which were like those affecting forest products, merely the dying moans of small business throughout the continent, and the forums whereby the emerging monopoly capital style of accumulation was legitimated.

While small firms had been excluded from decision-making in either stockpiling or disposals, the bias toward subsidization of large producers was frequently affirmed by U.S. officials, who considered subsidization of small mining firms to be self-defeating charity. Similarly, they rejected the tariff route in favour of disposals, which Western American mining interests termed "Federal price-fixing by the back door".

76. Disposals had become one more subsidy to the largest mining companies.

Despite this conflict of interests between subsidized and nonsubsidized firms, among the major producers there had been consistent cooperation at all times, whether in supplying or dismantling stockpiles. Sherritt Gordon and Le Nickel secretly shared disposed nickel with each other, just as INCO had earlier agreed to refine "rival" Sheritt Gordon concentrates headed for the stockpiles. INCO cancelled its contracts with G.S.A. and received the premium price differentials in sinter products, there was an unpublished three-way deal in which INCO paid Falconbridge the contract price on its cancellation of stockpile contracts and was reimbursed again by G.S.A. The agreement with G.S.A. included INCO commitments to market the sinter in the U.S. domestic sphere-- all with Canadian civil servant knowledge and approval. In fact, Denis Harvey remarked, "We appreciate having been consulted. We have no objection whatsoever, because it was obviously in the interests of a Canadian company to obtain additional material." 78. In another closely guarded bit of cooperation, U.S. government officials used Falconbridge to recycle 100,000 pounds of nickel into European markets in return for cancelling Falconbridge's stockpile cobalt contract. 79. Barter and dumping were acceptable to the Canadian Government when "Canadian" multinationals benefitted.

The Canadian Government worked hard at representing such producer interests in Washington, frequently drawing up internal lists of its detailed objections to specific material disposals and noting bureaucratic successes. Certainly producers large enough to benefit were grateful, as we have noted. When surface appearance fails to

uncover the importance of the federal bureaucracy's support of particular raw materials, producers, inter-company links, especially with large nickel producers, have proved crucial. In the midst of stockpile disposals, for instance, Canadian civil servants used every means possible to sustain Canadian tungsten's defense and stockpile contracts. It appears to be less the 90 employees (some of them native) in the North West Territories that brought state sympathy than the sizeable chunk of the company's shares controlled by Falconbridge.

So favourable were such Canadian state policies and activities to the largest producers that the latter had to legitimate their positions in terms of the most fundamental ideological values. Lest the public forget the importance of "risk-taking", amidst all this governmental subsidization of profit and aid to market control, INCO occasionally found it necessary to reiterate industry's ideological claims to private capital accumulation. Resources must not be seen as public wealth on deposit, but rather "valueless" until the ingenuity of the entrepreneur "created" their value:

...it is not generally recognized that no mineral deposit great or small, has any real value until the metals in the ground have been brought to the surface, refined, and sold with profit...even after the nickel is refined and ready for sale there is no large ready market except the one which has been, in large part, created by this Company. 80.

Not only had stockpiling and defense spending allowed the nickel companies to expand production and market outlets generally, but expansion abroad would be undertaken in an organized fashion just as market development had been carefully planned on the basis of geographical and product diversification. Production diversification had proceeded to its logical (profitable) extreme in Canada with the exploitation

of both Sudbury and Manitoban ores on the basis of the "artifically induced" levels of high demand. By 1964 INCO no longer feared "glut":

Nickel markets are international in scope, and even the largest...motor vehicle manufacturing or petroleum and chemical equipment manufacturing...accounts for a relatively small portion of the total nickel demand. Our industry has arrived at a new high plateau of nickel demand which we believe in very large part reflects real consumption. 81.

The proof of this sturdiness of demand was the internal and external financial interest in undertaking expansion abroad in the mid 1960's - investor confidence that both American and Canadian governmental officials had succeeded in maintaining despite a peacetime economy. INCO would acknowledge the importance of Canadian tax incentives, as well as consultative aid in making such moves possible, saying, "the incentives which Canada offers mining ventures have greatly encouraged and aided us in making these expenditures." 82.

5.10 Conclusions

As in the case of forest products, the continental resource strategy as it affected the mining staple constituted a gigantic bonusing scheme. Orchestrated at the highest state levels in both Canada and the United States, this strategy was carried out through bureaucratic channels, agencies, and ad hoc industry-state forums with international as well as continental control over the terms of resource production and distribution. Unlike the forest industry, however, the mining industry had even closer ties to defense agencies and had already undergone greater capital concentration such that a handful of conglomerate-like firms could more directly consult with Canadian civil servants on a continual basis, funnelling their demands

through this monitoring and lobbying network to the Canadian Embassy in Washington and the Office of Defense Mobilization, attached to the U.S. Executive Branch where the chain of command ended. Also active in the facilitation of stockpiling from the U.S. side were the Departments of State, Treasury, Interior, Commerce, Agriculture, the Budget, the General Services Administration, the International Cooperation Administration and Development Loan Fund, the Export-Import Bank, and AID. In Canada we have found at least the following agencies were active in carrying out the programme: the Canadian Embassy, the Departments of Defense Production, of National Defense, of Finance, of Trade and Commerce, of External Affairs, and its International Trade Relations Branch. The operative network included the Prime Minister, C.D. Howe (Minister of Trade and Commerce), N.R. Chappelland Denis Harvey at the official levels of federal power. However, the largest resource producers for the stockpile had directors on their boards who constituted more immediate links to the political and financial heights in the United States, or stockpile "babysitters". Their exclusive representation therefore, had its formal and informal state and corporate sides.

The strategy consisted in closed-bid contracting by U.S. governmental agencies for three stockpiles of varying size and flexibility in terms of the ease of materials shifting or disposal. Such contracts involved premium prices, large loans and grants for productive expansion, and other investment incentives such as rapid tax amortization and political aid in repatriating profits from foreign producing countries. Beyond the veneer of strategic goals, lay the

more fundamental aims of the programme: the acquisition of large caches of cheap foreign industrial materials, the maintenance of processing and hence employment in the United States, the bolstering of selected multinational's profits, and the ability to use bartering, dumping and contracting to manipulate foreign regimes and labour. While an interventionist state was the <u>sine qua non</u> for this strategy, its activities were not designed to unduely regulate or compete with private capital, but to subsidize its dominant fractions. In Europe, the programme's complement was the Marshall Plan. Designed to "reconstruct" European war-torn economies, this succeeded in securing expanded markets for American manufactures and Canadian raw materials, particularly nickel; just as the international forums affecting the forest staple were utilized to maintain control of international market expansion in the hands of the largest resource companies.

We have detailed the role of Canadian state officials in monitoring, organizing, and representing the interests of the dominant resource firms in the mining sector such that these received exclusive and substantial benefit from such bonusing. The coattailing of U.S. policies had, of necessity, disarticulating effects on the Canadian political economy as a whole. It tended to strengthen lines of command to the Departments of State and Defense in the United States, further contralizing decision making on a continental and international basis. Most sectors of the Canadian economy were dragged into the strategy willy nilly as Canadian officials opened the storehouse to the "biggest customers". Windfall profits, the elimination of surplus capacity and the building of new capacity in participating firms, and the subsidies

undertaken by the Canadian state skewed the Canadian economy ever more sharply toward industrial resource production for export. Other markets for Canadian goods were damaged by American bartering of surplus agricultural goods and the dumping of metals on the international market. As defense and stockpile spending rose, resource spending kept pace, increasing the vulnerability of the Canadian economy to external markets and decreasing the emphasis on building domestic manufacturing. Imported capital goods received the added support of U.S. and Canadian defense ratings, a most effective means of subsidizing U.S. manufactures and securing Canadian markets for them. We have suggested that such economic and political dependency these features evidence was neither incidental nor a feature of a strategy of which Canadian officials were ignorant. Their role was not only as agents of such large-scale accumulation of capital for the largest producers but also legitimators of this state of affairs. As with the energy staple, analyzed in Chapters Six and Seven, they actively sought to fit the Canadian economy into the American imperial plan.

CHAPTER SIX

CANADIAN ENERGY POLICY 1:

THE CONTINENTAL CONTEXT

Unlike the mine and forest staples, Canada's energy staple made its debut in the postwar period when the markets and capital structures of world energy multinationals were already in place and already threatened by the rise of nationalism in developing countries. Canada was to be the "safe" supplier of the future in this uncertain context. We analyze in this chapter the impact of the powerful petroleum cartel on the domestic production and marketing of Canadian energy and the development of an anti-nationalist National Energy Policy linking Canadian crude to U.S. markets.

This strategy was accomplished by way of the forging of links between the Canadian state and the energy representatives of international capital at the continental level. A continental decision-making network affecting the terms of access to continental markets evolved with its major headquarters in Washington's military-petroleum and oil import agencies. Beyond the existing federal bureaucracy, whose key personnel would be as active with regard to facilitating energy as other staple exports, the Canadian mechanisms and agencies for decision-making were only in the making. We contend that the National Energy Board, the Borden Commission, and the public policy statements of federal, especially Trade and Commerce, ministers served to legitimate

an energy policy consistent with the interests of Imperial Oil and other multinational firms. The latter treated Canada, according to their international marketing schemas, as two separate countries—a large—scale energy importer in the East and the home of vast energy export potential in the West. Our examination of the emergence of a national policy of disarticulation suggests that alternatives to this continental strategy of energy development existed, propounded most consistently by the plethora of new producers whose production was blocked by the vertical integration and monopolistic policies of multinational subsidiaries in Canada and by the National Energy policy's elimination of the Montreal pipeline option.

In Chapter Seven we examine the complement to this process: the international context, in which another series of nationalist alternatives were presented, and rejected. Neither the international marketing of Canadian oil nor its independent indigenous development, models abroad so carefully monitored by the Canadian state, were to be emulated. In both the North American and international contexts public debate and opinions alternative to that of the multinational firms were submerged through the differential representation of these interests at state decision-making levels. It is to the process of such legitimation on the continent and the contradictions inherent in this strategy for domestic producers in both the United States and Canada that we now turn.

6.1 The Structure of the Canadian-International Oil Industry

World Energy Marketing and Distribution

In order to understand the international and domestic context in which a Canadian state strategy for energy development occurred, we

must outline briefly the quantifiable and structural aspects of that world energy system into which Canadian petroleum made its entry when oil was discovered at Le Duc, Alberta in 1947. Let us look then at some early statistics which were available to and used by the state in the creation of the National Energy Policy to be discussed in subsequent sections of the present Chapter. The following material sketches the world supply, consumption and source distribution of petroleum products and outlines the extent of control which major multinational oil companies exerted over these features in the 1952-53 period.

Table XX11 indicates the massive importance of the United States as a world consumer, absorbing over seven of the more than twelve million barrels of world petroleum consumed, or about 57 per cent of world demand. At the same time it supplied about 52 per cent of world domestic supply. This in and of itself constituted a market "pull" of enormous importance, especially given the power of this nation and of its oil multinationals. World crude reserves, estimated in World Oil, January 1, 1953, indicated that even then the United States was considered to be a major source of future petroleum, having about 24 per cent of the total world reserves. (See Table XXIV.) This compared favourably with the total for North America of 28 per cent, and was outshown only by Middle Eastern reserves which constituted about 54 per cent of the total. Asia and the Far East, like Canada, were thought to hold only about 2 per cent. Thus, Canadian resources were not considered to be of great importance in world production, present or future, at the time the National Energy Policy began, but were sufficient for domestic markets.

TABLE XX11: World Consumption of Petroleum and Products in 1952 (Crude Equivalent Basis)

Thousands of Barrels Percentage of Total World

Country	<u>Daily</u> Average	Domestic Demand	Domestic Supply
Canada United States Other N. America	455 7,281 196	3.56 56.96 1.53	1.30 52.53 1.84
TOTAL NORTH AMERICA:		62.05	55.47
S. America & Carribbean Europe (excl. USSR) U.S.S.R. Africa Middle East Far East & Oceania	820 1,822 943 336 239 690	6.42 14.25 7.38 2.63 1.87 5.40	16.13 2.31 7.38 0.38 15.88 2.45
TOTAL WORLD:	12,782	100.00	100.00

Note: Total World Consumption for 1952 was 4,665,795,000 barrels. World Increase in Consumption (1945-51) was 5.3 per cent. U.S. Increase 1945-51 was 47.6 per cent; European Increase (1945-51) was 50.0 per cent. Estimated daily world consumption for 1975 would be 20-27 million barrels with about half that feeding U.S. consumption. U.S. petroleum consumption was about 16 barrels for 1953, or 672 gallons per capita per annum. Canadian consumption in 1951 was 10.7 barrels or 450 gallons per capita per annum. For the rest of the world consumption average was one barrel per capita. For China, less than a gallon per capita.

Source: World Oil, Aug. 15, 1953; PAC, RG 20, 588, T-3-2738.

TABLE XX111:	Cumulative Oil Production (In Billions of Barrels)		1953)
	U.S.	45.4 7.2	
	Russia		
	Venezuela	6.8	
	Middle East	5.5	
	Other Countries	9.5	
	TOTAL:	74.4	

Source: World Oil, Aug. 15, 1953; PAC, RG 20, 588, T-3-2738.

TABLE XXIV: Estimated World Crude Reserves, Jan. 1, 1953
(Thousands of Barrels)

	Estim. Reserves	Percent- age of World Total	Annual Production 1952	No. of * Years Supply
Canada	2,000,000	1.74	61,240	32.7
U.S.	27,965,600	24.43	2,291,997	12.2
Mexico	2,200,000	1.92	77,068	28.5
Others, N.A.	2,500		100	25.0
Total North America:	32,168,100	28.09	2,430,405	13.2
Venezuela	9,453,600	8.26	660,223	14.5
Others S.A.	1,303,000	1.13	105,578	13.0
Total South America:	10,756,600	9.39	765,801	14.2
Europe (Excl. USSR)	631,000	.55	47,985	13.1
U.S.S.R. including	6,930,000	6.05	379,059	18.0
satellites			101	
Total Europe:	7,561,700	6.60	427,044	17.7
Africa (Egypt)	214,000	0.19	17,345	12.3
Iran	13,000,000	11.34	7,777	1,671.6
Iraq	11,000,000	9.61	140,663	78.2
Kuwait	18,000,000	15.72	273,439	65.8
Qatar	1,250,000	1.09	25,249	49.5
Saudi Arabia	18,000,000	15.72	301,861	59.6
Bahrein	300,000	0.26	11,004	27.3
Turkey	75,000	0.07	113	663.7
Total Middle East:	61,625,000	53.81	769,106	80.1
British Borneo	550,000	0.48	38,251	14.4
Indonesia	1,400,000	1.22	62,514	22.4
India	28,000	0.02	1,990	14.1
China	15,000	0.02	732	20.5
Burma	45,000	0.04	1,000	45.0
Japan	30,000	0.03	2,134	14.1
Sakhalin	100,000	0.08	7,000	14.3
Others	22,500	0.02	1,400	16.0
Total Asia, Far East:	2,190,500	1.91	115,021	19.0
TOTAL WORLD:	114,516,000	100.00	4,515,730	25.4

TABLE XXLV (Cont'd.)

Note: Number of years supply is the ratio of estimated reserves to annual production.

Source: World Oil, Aug. 15, 1953; PAC, RG 20, 588, T-3-2738.

It would seem then, despite the inaccuracy of certain estimates, that like Russia, Canada as a moderate producer and a moderate consumer ought to have thought of itself as potentially self-sufficient. This is more or less what Russia did. The single most important deterrent would have been the marketing arrangements which the "Seven Sisters" already had firmly in place. Each had reserves or shared crude from the Middle East, South America (especially Venezuela), Indonesia, and the United States. Each had postwar marketing arrangements which they had agreed upon whereby, for the most part, their Middle Eastern oil went to Europe; their Venezuelan oil went predominately to the United States; and the rest of the world that imported oil was similarly marketed oil by these "majors". They had built and maintained an extensive fleet of tankers, though they preferred to lease these from foreign countries such as Greece (Onassis) and Liberia so as to avoid troubles with labour and insurance that American flagged and registered vessels might entail.

The assumption that Canada might be expected to develop its energy resources for national domestic consumption might also have found support in the fact that there was a world "glut" of "cheap" oil on the market especially from the Middle East, and "high cost" oil in North America appeared to be threatened because of its increasing availability via the majors. The battle of domestic producers in the United States was already being defined as one against excess capacity or shrinking

markets while the majors battered down such preserves with cheap oil. Canadian producers might well have expected some of the same problems in finding markets, especially when it is remembered that most Canadian markets were Ontario and East, and the majors had long been supplying these with foreign oil.

There is a socio-political context to such decision making which goes beyond the economic rationale we have just sketched, however. The control exerted by the majors internationally, was strictly in their own interests. Many consuming or producing countries felt the stifling grip of these Seven Sisters. Foreign exchange and currency problems were in large part adversely affected by their investment, pricing and marketing control. National control over the future of socio-economic development, whether based on oil or not, was severely restricted by the world energy cartel. As we detail in Chapter Seven, these major oil companies had and used the power of boycott, capital strike, and influence in the U.S. and U.K. Governments and in international financial institutions to bring any nation's development policies into line with the interests of corporate capital accumulation. Majors cultivated monopoly control of all petroleum sources, of refining, of distribution, and of marketing. There were alternatives, however. These took the form of either communist or nationalist policies of development -- anathema to both American and Canadian officialdom. State ownership of national energy sources facilitated the creation or acquisition of the technology and capital equipment required for development and further processing within a country and allowed oil to be developed to meet the requirements of national industry outside the

petroleum sector. Canada shared such problems with other developing nations and energy producers.

Major Consolidation and Control of Canadian Energy

From the beginning of Canada's large energy finds in the postwar period, however its energy plan was being shaped by the energy cartel's distributive control over world energy and its access to Canadian and American state power. The influx of American investment into the Canadian petroleum industry over the period 1945 to 1951 was enormous. It is clear from figures on ownership and book values, however, that much of this investment represented not so much "new financing" as the purchasing of outstanding securities from Canadian holders. American control was increasing through vertical integration accomplished in part through the purchasing of controlling stock shares in formerly "Canadian" companies. Not all the inflow of American investment is thus reflected in increases of book value of U.S. investment, for much of this buying out took the form of stock prices far in excess of book values. Also included in book values are the earnings created in 2. While increased Canadian investment Canada but owned by Americans. went primarily into drilling and production, American investment went more heavily into capital consolidation through vertical integration, buying and leasing of lands, refining and pipelines-- assuring control of market access.

Thus, the overall figures do not tell the story of vertical integration that made Imperial Oil, for example, the largest company, representing about one-third of the total investment in the industry, owned by Standard Oil of New Jersey, and the giant of refining in every

province. Such figures indicate only the relative decline of Canadian as compared with American book values, as well as the relative decline of those of other countries active in the industry.

TABLE XXV: Ownership of the Petroleum Industry in Canada

	1945		<u>1951</u>	
	Book Value (million	s) <u>%</u>	Book Value (millions)	<u>%</u>
Canada	172	58	578	47
United States	115	39	636	52
U.K. et. al.	9	_3	_11	1
	296	100	1,225	100

Source: "International Distribution of Ownership of the Petroleum Industry in Canada", Department of Trade and Commerce, Ottawa, 1952, pp. 1-7.

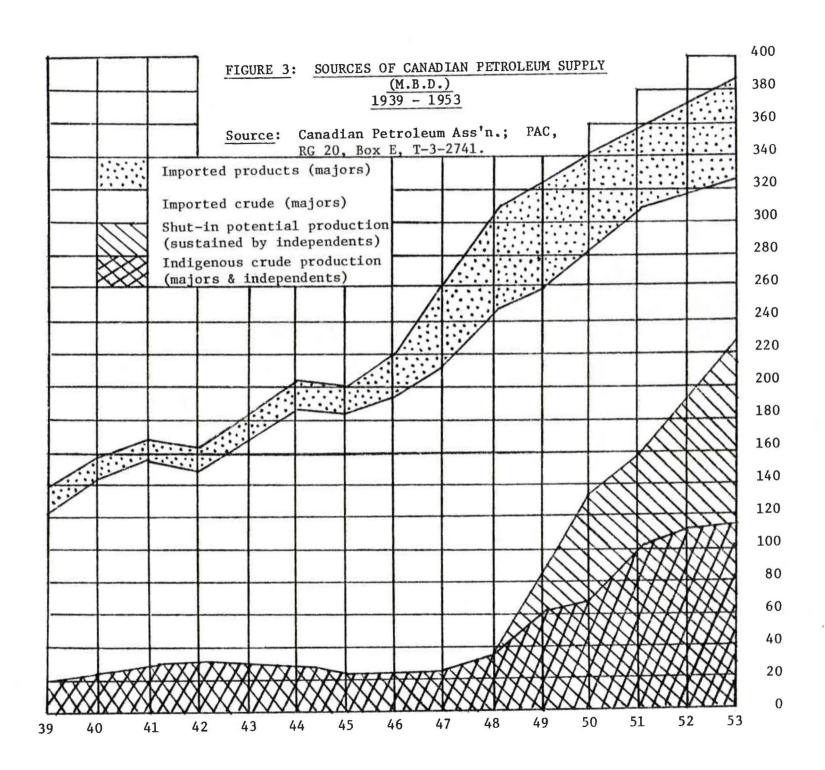
While \$212 million of the total \$400 million directed to exploration and development was Canadian, only \$143 million of the \$689 million directed to refining was Canadian investment, the rest being American, in 1951. Only when all activities are merged into broad statistics does the "Canadian" component appear as large as in the above figure of 47 per cent, book value, and 37.6 per cent control in Canada.

The vertical control held by major oil multinationals at the time oil was discovered in Canada's West, extending internationally as power over world markets allowed them to have the very <u>least</u> shut-in capacity and to be hurt least by that they did have. In contrast, the industry as a whole and the independents in particular suffered this block between production and markets. The majors' exclusive control

over cheap imported oil and the refineries in which it was broken down into marketable products gave them leverage of the strongest kind, as shown in Figure 3, allowing them to buy out or squeeze out independents. Between 1953 and 1956, for example, the number of oil firms proper engaged in the petroleum industry in Alberta dropped from 341 to 195.

Since the majors controlled the cheap imported petroleum which their cartel power allowed them to price at high North American prices (or what the market would bear), it was the state's compliance in this monopoly pricing and in the refusal to build an East-West Pipeline to Montreal that further solidified their supremacy over the multitude of indigenous producers that had sprung up in the West. Shut-in capacity was an important weapon or the "squeeze-power" used against competition both at home and abroad against independent producers. The accompanying figure indicates the magnitude of this shut in capacity. The majors had additional power in terms of their own domestic share in Canadian production.

Majors with such control could show profit margins like those we shall indicate later for Imperial, while other domestic producers went bankrupt or were forced to sell out. These profits allowed the majors to build new refineries assuring future control of markets in Canada and the United States for Canadian oil and construct the pipelines (with the help of the state's legitimation) wherever they liked. They acquired lands at an amazing rate, and in fact a disproportionate amount of their capital expenditures went to this end. Exploration expenditures included land acquisition in the 1952 industry statistic of \$93,100,000. By 1956 the figure for exploration was only \$46,590,000,



while nearly \$99,672,000 went into land expenditures. These latter were then the largest of industry expenditures in Alberta.

The massive increase in refinery capacity up until the 1960's went disproportionately to major multinational control, especially to Imperial Oil control. Between 1947 and 1957 total Canadian refining capacity in barrels per day rose from 261,925 to 767,850. The number of refineries increased from thirty-three to forty-three in the same period. 5. Of these refineries, the largest in every province were owned by Imperial. Of the forty-three refineries, eleven were in Alberta, nine were in Saskatchewan, six in Ontario, five in British Columbia, five in Quebec, four in Manitoba, and one each in Nova Scotia, New Brunswick and the North West Territories. 6. In 1957, 767,850 barrels were refined daily. Of this, Imperial Oil refined at least 299,550 barrels per day, if one goes only by those refineries specifically carrying the Imperial name. Of this Imperial take, 115,500 barrels per day came from Venezuela, from Standard's subsidiary there. Those refineries which relied on imported oil from Venezuela, the Middle East, and Trinidad were in Quebec and Nova Scotia. The total amount of imports refined in Canada was 299,500 barrels per day. Thus, the influence of Imperial's domestic and foreign take and the take of the other majors amounted to 597,850 barrels per day of the total 767,850. Though the amount of domestic oil used in Canada approached the amount of foreign oil used, the power represented by the majors in terms of both kinds combined was overwhelming. This is the type of extraordinary power Imperial brought to bear on federal energy policy. The power and profitability behind imported oil, sustained through

vertical integration back to production and including refining and distribution throughout Canada was the economic foundation of this socio-political power.

8. This gave Imperial and its sister majors the power to dictate which projects would be undertaken and when, whether one speaks of pipelines in the 1960's or big energy development projects in the tar sands, the Mackenzie Valley, and the Artic of the 1970's and 1980's. We shall demonstrate in the following that the state consistently legitimated this power of monopoly control.

6.2 Rejection of a Nationalist Energy Policy in the 1950's

The structure of dominance of the world energy corporations itself is not sufficient to explain the role of the Canadian state in the development of Canada's energy resources. We must examine the social relations and the legitimation of the ideology which was necessary to sustain and increase that dominance in Canadian institutions of policy making. There are four basic premises in the sociological explanation of why a truly nationalist energy policy did not evolve in Canada in the decade immediately following the major Canadian oil discoveries. Alternative choices could have taken Canadian resource policy in a nationalist direction, were it not for the constant reproduction of the social relations of dominance that stemmed from the international structure of oil investment and control as well as from the indigenous Canadian structures of policy making. These latter structures were, as we shall demonstrate, formed in an undemocratic fashion, consistently linked to counterpart structures in the United States, and resulted in increasing capital accumulation by major multinationals at the expense of the Canadian public and indigenous

Canadian oil producers. The four premises indicate features that were being institutionalized in the Canadian state even before the creation of the National Energy Board in 1958, and before the opening of substantial access for Canadian oil and gas to American markets. The seeds of non-nationalist, or "continentalist" energy policy-making perspectives took root in this decade and have characterized government policy and institutions in the energy sphere until the present. The first of the four premises sets the logic for the other three, and together they created the foundation for a dependent, resource capitalist strategy of development, which would in reality bring further underdevelopment to Canadian society:

- (1) The major oil companies, particularly Imperial Oil (majority owned and controlled by Standard Oil of New Jersey) consistently and nearly exclusively had the ear of the Canadian state policy-makers on important energy issues. They thus constituted the overriding element in the "definition of the situation" fundamental to a coherently created and applied energy policy.
- (2) Decisions concerning the timing and direction of energy-carrying pipelines, the supplying of Canadian or American markets with Canadian or foreign oil, and even the pricing of oil, both Canadian and foreign, appear to have been made by and for the majors.
- (3) Smaller, independent Canadian producers and individual critics were thus frequently in opposition to the majors' and the Canadian state's policies. However, though these interests frequently expressed alternative views of what a national energy policy should be and called for alternative energy data gathering public bodies, they almost never

received serious consideration by government policy makers. Hence, an alternative definition of the situation was filtered out.

(4) Foreign investment and technology importation (as well as the importation of foreign oil) were actively facilitated by state policy, lessening the future feasibility of an independent oil structure and hence energy policy in Canada, as well as retarding the growth of secondary manufacturing in this sector or in sectors related to it.

The Canadian state was extending the same continentalist-styled dependency on American markets and capital which had characterized so many of its other resource industries in the twentieth century. The evidence to be reviewed in support of the above premises and our earlier more general but related hypotheses about the role of the Canadian state, outlined in Chapters Two and Three, give no support to the alternative hypothesis that ignorance on the part of policy makers or silence on the part of alternative interest groups within the industry explain the development of or the continuance of non-nationalist energy policies. Nor can we sustain, in the face of such evidence, the notion that the structure of the international oil industry itself completely overwhelmed policy makers and hence eliminated alternative courses of action. For we shall see that the continental context was at this early stage only being formed and its formation was an active project of the Canadian state as much as of the multinational oil corporations and of the American state. In the first postwar decade, the continental context, in terms of social relations and a physical "energy grid" North-South, was in the construction phase. Canadian oil was not a viable entrant into the American market until the last few

years of the 1950's, and even then only through a difficult process of negotiation were such markets secured in return for an open-door policy toward American capital and manufactures. Even then access to American markets was the most precarious element of the continental energy policy.

We turn now to five important policy-making areas and one farreaching "scandal" or crisis of legitimation for the Canadian state,
which, we believe, provide substantial evidence for the rather unorthodox views sofar presented on the role of the Canadian state in energy
resource development. These indicate the close and exclusive forms of
consultation that occurred in the 1950's between Canadian government officials of major energy-policy-related-departments and Imperial
Oil officials. The fact that it was Imperial policies that prevailed
in these instances belies the "neutrality" of the Canadian state
apparati and shows that whether solicited or unsolicited, Imperial Oil's
view was considered of the highest relevance in defining both the broad
outlines and the specifics of energy policy.

6.3 An Ear To Imperial

Imperial Oil came to define "reality" as it would be viewed in the Federal Government (and to some extent in the government of Alberta) in terms of the following five facets of energy policy:

- (1) The pricing of Alberta oil.
- (2) The economic feasibility, terms, and timing of the supply of certain major eastern and western Canadian markets with Canadian oil.
- (3) General "appraisals" or "prospects" of the Canadian energy industry through the presentation of statistics, reports and briefs, as

well as through intimate informal exchange of ideas with policy makers.

- (4) The lobbying for and successful attainment of greater governmental subsidization of capital accumulation in the oil industry through changes in exploration and depletion tax deductions.
- (5) The necessity of a carefully worked out "continentalist approach" for obtaining access to American markets (instead of Montreal and Eastern markets) for Canadian-produced oil.

In what we have termed a "crisis of legitimation", (1958-59), Imperial Oil was able to sustain governmental favour and monopoly access to the Canadian defense and other state department markets for Imperial's foreign oil at the expense of smaller domestic oil producers who wanted to compete for these markets with prairie oil. The state had to support the rights of both oil contenders while sustaining Imperial contracts. This scandalous behaviour, as well as the "resolution", presented a legitimation crisis for the Canadian Government, which had clearly colluded at various levels with the Imperial monopoly. It showed the degree of strength of Imperial's power and influence throughout the various structures of federal energy policy control and the value of ties to military-petroleum agencies in the United States. In fact, this "crisis", had its seeds in the basic contradictions which a "continental approach" entailed: the hastening of the demise of independent as opposed to major oil producers as the former were squeezed out of markets, and the latter received exclusive representation within the state. This legitimation role of the state in conjunction with mounting contradictions produced by the other five Imperial policies necessitated the placation of smaller producers. The creation of the National Energy Board had an ideological use in the short and long term as mechanism for diffusing

public sentiment against Government/Imperial policies. The NEB also served to further centralize policy making in the hands of a very few civil servants and to operate as a lobbying instrument to maintain access to U.S. markets for Canadian oil.

6.4 The Pricing of Alberta Oil and the Supply of British Columbia and Ontario Markets

In August 1950, Imperial Oil supplied civil servants in the Trade and Commerce Department with an explanation of why Alberta oil could not (or would not) compete with Texas oil in American midwest markets and why it was more profitable for such Canadian producers (including of course Imperial) to sell their oil to refineries in Sarnia and Toronto while bypassing midwest markets. By "coincidence", Imperial had large-scale refining capacity in the Sarnia-Toronto areas, and midwest markets were already being supplied by one of Imperial's American affiliates. The notion of the unfeasibility of such markets would subsequently be nullified by the active struggle for and acquisition of American midwest markets for Canadian prairie oil in the late 1950's.

Even given the time reference of Imperial's explanation, its logic was so contradictory that Denis Harvey of Trade and Commerce required considerable "clarification" and a personal briefing by Imperial Oil officials. (This "logic", it should also be noted, was directly contradicted by Imperial in its resistance to supplying British Columbia markets with Canadian oil unless westcoast American markets could be obtained at the same time.) Civil servants worried over the problem of legitimating Imperial's position, attempting to justify it

by reference to possible U.S. policies. "...it seems illogical to expect that Western crude should by-pass the Minneapolis and Chicago areas to back mid-continent crude out of Ontario, except, of course, for the (U.S.) import tariff."

9. They tried harder to make Imperial's policy on this matter, which would lead to Ontario consumers paying higher prices for oil, sound like "economic necessity". The reader can judge whether or not this succeeded:

Oil flowing from Alberta towards the oil fields in Texas and Oklahoma brings a lower price at the well-head as it moves south. This is not only because it costs more to move it over the additional distance but also because oil from alternative mid-continent sources does not have to carry this cost of movement and its competitive price is reduced by a corresponding amount. On the other hand, as this Western oil moves eastward it tends to run along lines parallel to those which the mid-continent crude must follow. Prices at refineries in Southern Ontario are, therefore, higher than those in Chicago and an outlet at refineries, such as those at Sarnia and Toronto, is more remunerative than one in the Minneapolis or Chicago areas... This would be true even if there were no tariff operating against Canadian crude entering the U.S. 10.

If "economic necessity" rather than bloated profits at the expense of Canadian consumers had actually been the underlying logic here, then Imperial would have been acting entirely inconsistently when it came to its explanation about the unfeasibility of serving British Columbia markets with prairie oil. We suggest Imperial's logic was consistently one of maintaining monopoly profits and market control. Imperial's economic "expert", John F. Fairlie, explained at a public conference in 1952 that it was not economically feasible to supply Vancouver with Canadian oil unless U.S. markets were simultaneously opened to Imperial's Canadian-produced oil on the west coast:

"It is only with expansion of throughput that the laiddown cost of crude in Vancouver is reduced and the shareholders obtain a return on their investment. The expansion of the throughput of the line depends on whether a market for Canadian crude develops on the United States' west coast. The maximum permissible tariff of about 60¢ does not provide an adequate return to the shareholder who is providing the capital...Because with this tariff the price of crude is unchanged from its present cost in Vancouver, there is no immediate advantage to the consumer. 11.

In effect, in both cases— pricing of Alberta oil in Ontario and in British Columbia markets— federal government policy would follow Imperial policy and interests. In the movement of oil inter-provincially the federal, as opposed to provincial, government ruled. No supplies would be made, regardless of supply or demand, unless the price was higher in Canadian than nearby U.S. markets, and then only if Imperial decided to use Canadian as opposed to imported foreign oil. Thus, Imperial's parent, Standard Oil of New Jersey, enforced policies of market allocation (concerning its Mid-East, Venezuelan, Canadian, or American oil) which provided the outlines for both Imperial and Canadian pricing-policy in general during this period. Federal officials not only allowed this to take place, despite the monopolistic aspects, but were active in rationalizing each new twist of such rationales.

John Davis, a key economic consultant in federal policy on energy and major writer of federal energy industry appraisals and Canadian American Committee reports (an organization which played a strong role in the creation and ideological maintenance of the continental approach) frequently legitimated and translated oil company perspectives into policy for civil servants. His reports always sustained the importance of continuing to depend for future development on the exploitation of Canada's resources and doing so within the continental

context. It was from talking to Davis in 1953 that Denis Harvey became convinced of the necessity of the continental approach; Harvey noted "that the U.S. market is coming to have more importance to the Canadian oil industry than is usually admitted publicly by major firms in the industry." 12. Once the plan to push for supplying American rather than Canadian markets had become ideologically established at the upper levels of policy making, the concern by majors for American markets could be more open. In the early 1950's it was still not part of the common logic, and flew in the face of common sense. A "higher logic" was in the process of being established. Meanwhile the majors established in state policy new terms of access to oil and the foundations for greater capital accumulation in future.

6.5 Depletion and Exploration Subsidies

The major weapon of capital vis-à-vis the state is capital flight, or a capital strike. It is this weapon in the hands of the majors that was used to reduce to nil the "risk" involved in exploration and pass the costs on to the Canadian taxpayer. Aside from the pricing of Alberta oil and the related question of the "economic feasibility" of supplying Ontario or British Columbia markets, Imperial was the strongest lobby for public subsidization of oil depletion and exploration costs through changes in the Canadian tax system. Here again the argument emphasized the continental context as the only valid frame of reference for Canadian tax policy. Prices as well as public subsidies must meet or surpass those in the United States, said Imperial, or capital flight and a strike by capital against further exploration in Canada would ensue.

W.O. Twaits of Imperial Oil outlined for the Canadian Government how it could improve its relationship with the oil industry by extending tax and depletion subsidies similar to those of the United States.

Imperial executives personally and in letters to the Deputy Ministers of Finance and Trade and Commerce complained that it was not worth exploring for oil without such give-aways:

Under existing regulations, exploration costs must be deducted from gross producing earnings before determining the income on which depletion is allowed. Consequently, the company who devotes earnings from Canadian producing operations to further exploration is penalized in the amount of depletion by one third of every dollar so spent for exploration. Under U.S. law there is much greater incentive given to exploration than under Canadian law. We estimate that the proposed change in depletion allowance would represent a revenue loss to the Federal Government of not more than \$11 or \$12 million per year. 13.

The plan amounted to getting double tax deductions on the same items --first deductions for exploration costs (successful or not, producing or not) and then counting these again under depletion for further tax benefits. These letters were requested by the Deputy Ministers to reconfirm what had been discussed in a luncheon with Twaits a month earlier. The threats of capital flight were alternated with appeals for the health of the whole oil industry, the interests of "the national economy", and "the defense of Canada" itself. Imperial was not opposed to using nationalist sentiments when it was a bread and butter issue for Imperial profit margins and those of its parent. Here the continental context was underlined:

We are competing, in the final analysis, with the worldwide producing industry within which the largest factor is the U.S. domestic producing industry. It is essential therefore, that Canadian operators have an incentive to explore which is competitive to the U.S. operator or development will be retarded 14. (emphasis ours.)

By "Canadian operators," Imperial meant itself and any other

American multinational producing, distributing or refining in Canada.

Twaits attempted to give more authority to his argument by quoting from

The Paley Report, Volume V, Part 1V, so influential in the creation of
a continental context for state and industry resource policy-making,

"On balance considering all aspects of the income taxes as they apply
to the mineral industries, it appears that oil and gas industries received
more generous treatment under the U.S. than under Canadian law." 15.

Such appeals could have been dealt with as one more opinion except for the fact that by the 1950's the most successful corporations in the oil industry were <u>international</u> in scope and could thus pressure any government to meet their demands concerning the conditions for capital investment. The only alternative for a state was a protectionist stance which would limit the entry of foreign capital into all or certain sectors, put conditions on its operation, or nationalize energy properties. The Department of Finance was undoubtedly familiar with <u>The Paley Report</u>. Certainly if this spirit of continentalism was to become reality, Imperial (and other multinationals) would demand that all doors to a truly nationalist (protectionist) orientation be banished from state policy and that "proper weight" be given in Canadian policy to tax breaks that would facilitate capital accumulation internationally in an unrestricted fashion.

In case the complexity of such tax computations should hold the Covernment back from implementing the scheme, Twaits thoughtfully offered a plan for "the necessary incentive under Canadian regulations without adding to the Federal Government administrative burden." As

evidence of how helpful such incentives would be in fostering exploration, Twaits cited the glorious record of U.S. companies' expansion at home and abroad, and corroborating statements by General Thompson, Chairman of the Texas Railroad Commission (oil conservation body of that state) before the U.S. House Ways and Means Committee. In these ways the notion that what was good for big-time American oil interests was good for Canada was implanted. The fact that U.S. depletion allowances had provided capital to the multinationals aiding them in obtaining control of world energy resources was undeniable, but hardly a basis for a national energy policy in Canada, where no incentives should have been needed. International capital could not afford not to get control of Canadian resources, incentives or no incentives. If Standard Oil of New Jersey did not continue to be active in controlling as many new sources of energy as possible, it would lose out to other capital interests (foreign or domestic Canadian). In other words, Canadian officials had the option of playing one capitalist off against another, instead of throwing all their support to Imperial and other multinationals.

Twaits further argued that the \$1.2 million investment in Western Canadian oil "would seem to justify a tax structure adjusted to the needs of the industry", as opposed to the public; and he resorted to the tired argument that the Canadian industry was "geographically handicapped." He suggested that the \$12 million to be lost to the public could be provided by other industries that might grow up around oil production, thus proposing penalizing secondary manufacturing to further subsidize primary resource extraction. Any forward linkages that might arise from exploitation of Canadian oil in a period of world glut would therefore be

handicapped from the start.

Twaits suggested (his word being the only proof the Government had to go on) that there had been a decline in activity in western Canada and that this would deepen if the Government did not succumb to these demands for tax breaks. He ended his lobbying letter with a "respectful" hoist of the national banner, lest special corporate interest appear too obvious:

We respectfully submit that the revision of the Department's regulations is a matter of extreme urgency and in the best interests of our country (that is, Canada). The search for oil is not only necessary to maintain a healthy industry, but to assist in balancing our Nation's economy and to develop indigenous products so necessary for National defence. 17.

Since international capital was not a simple monolith and was begging to invest in Canadian oil, incentives or no incentives, common logic might have led the Government to reject such pleas and consider the implications for overall development, especially for the secondary processing alluded to by Twaits. Imperial in particular would not have risked its lead in exploration of Canadian oil by actually carrying out such strike threats. But no such logic was to be brought to bear. As the Government met each of these Imperial demands, it also sent to the World Petroleum Report and to all Canadian commercial counsellors around the world notice of the new incentives it offered to domestic and foreign capital alike. Foreign capital was not only actively attracted by legal tax changes made by the Canadian state, but such policy was exported as an example to developing nations of what an energy policy should be. The Canadian state was thus active in the wholesale exporting of the legal and ideological framework of resource dependency and anti-18. nationalist perspectives.

6.6 Imperial Drafts National Energy Policy

In a letter to E.C. Manning of Alberta, Twaits of Imperial, outlined a full scale Imperial plan for the future development of the Canadian oil industry, sending copies to Deputy Minister of Trade and Commerce (in 1957), Mitchell Sharp. Twaits again said a "continental approach" was needed, but one that would require extreme "delicacy" and perhaps delay. The timing of entry into American markets was something that Imperial wished to work out carefully, without public debate. The future of Canada's energy policy could not be left to the rough winds of democratic discussion or even the representative weighting of the views of alternative interests within the industry. The continental approach for oil would be worked out slightly differently than for other resources such as nickel, aluminium, paper, etc., which had been amenable to a stockpiling type of programme, something that American producers of oil and the American state would find difficult to implement, considering the notorious glut of both domestic and foreign oil in the 1950's and Imperial's intention to maintain imports in eastern markets. Such an approach would imply what Twaits called:

...a defense basis and/or some sort of customs union agreement. It would seem difficult to confine it to one type of resource rather than all strategic materials. In addition in the case of gas and oil, the continental security concept would require a protective fence, to put it bluntly, to preserve a higher price structure on North American oil, in order to maintain incentive for exploration and development of a large excess M.E.R. (an Imperial term meaning maximum "efficient" producing capacity). Obviously this has a great many implications and certainly depends on a 'guns versus butter' (to borrow a Samuelson term) philosophy. 19. (Emphasis and parentheses ours. See Appendix C 2 for full text.)

The public would, of course, pay for the "gums" rhetoric in any case and the multinationals would garner the "butter"— whether the high price structure was maintained for defense or other reasons. It is apparent from memos between Twaits and Sharp that the outlines of a special "continental approach" for oil would achieve a "special status" for Canadian oil in the U.S. market using the defense argument accompanied by different mechanisms that were being used for stockpiling in general. This policy was being drafted in private luncheon meetings between Imperial oil executives and top civil servants, with Imperial setting out both the continental perameters of the alternatives to be considered and suggesting which of these alternatives should be acted upon.

The long-term odds for entry of Canadian oil were definitely positive, but the short-term required careful manipulation and secret diplomacy for two reasons: Imperial and other multinationals would need time to rearrange their marketing and distribution structures to maintain control of the flow of Canadian oil into U.S. markets; and the American state would need to legitimate allowing in Canadian oil to compete with threatened domestic producers who were themselves struggling to maintain U.S. markets against the onslaught of the majors at home. Imperial did not want an uncontrolled, free-for-all rush by western Canadian producers on the carefully maintained majors' marketing structure in the United States, nor an increase in the strength of American domestic producers' ideological position. Threatening them might cause them to organize more tightly and perhaps succeed in legitimating their case in the United States. Imperial decided its most expedient course (and that of Canada by extension) would be to edge

Canadian oil slowly and imperceptibly into the U.S. midwest market.

Special status for Canadian oil would be justified on the grounds that pipeline transported oil was safer, and would mean Canadian oil would be considered "second only to American" in preferred access to markets. But the stockpile approach was out because that would mean a move to cut off reliance on Venezuelan or mideast oil in North America.

"American" would sometimes include Esso's and other multinational companies' "foreign" oil in the sense that wherever they chose to use foreign oil they would do so, manipulating price to undercut both "American domestic" and "Canadian".

Canadian policy-making officials hung on every word that Imperial spokesmen uttered. First, because these officials had allowed Imperial to define reality in such a way as to present American markets as the only viable long-term markets in sight. And, second, because the charmed elite of the several governmental agencies and departments which made policy were in constant contact with Imperial spokesman. Third, they knew that Imperial had similar sway in those institutions of Washington that made policy on oil. The Congressional and Parliamentary levels of government, where alternative interests got a hearing in both countries were not the levels where such policy would be made. For Canadian policy-making officials, Imperial apparently represented the voice of power and influence, the "insider" that could manipulate the proper channels in Washington to open American markets. In this assumption they were probably correct; the option to seek American markets was, however a "choice" not a "given" means of developing Canadian resources.

Twaits warned Manning in 1957:

Only the question of time is involved...if Canadian oil is allowed access to 'economic' markets in the U.S. without becoming involved in considerations of continental defense, we believe that the soundest continuing argument rests on the following three points: (a) Importation of Canadian crude into U.S. represents no economic threat to the producer. (b) Exemption of Canadian oil moved by 'pipe line' into the U.S. provides a security reason for discrimination in favour of Canadian against other Western Hemisphere sources of supply. (c) Canadian oil is a commodity which the U.S. needs in the long run and which decreases the trade deficit without harm to domestic U.S. manufacturing groups. 20.

The above makes clear just what limitations would surround this dependency on U.S. markets. It would mean, as in the past and for other industrial resources, that Canada would be given markets only so long as this did not harm American manufacturing groups. Since the bilateral trade balance for the United States required that American manufacturers either put branches in Canada or export directly to Canada, it meant that in the long run Canada (in adopting Imperial's policy) would forfeit secondary Canadian manufacturing opportunities once again. In other words, these dependency effects were clearly explicit, not implicit, at the time when such policies were being formulated and adopted in the 1950's.

In the same correspondence, Imperial let slip the extent of its stake in this policy while trying to cover up the same:

No buying policy or area restriction governs our actions. In fact, it might be recalled that the (our) original movement of Western Canada crude to our Sarnia Refinery displaced thousands of barrels a day of mid-continent crude produced by Cater Oil Company, a Jersey (Esso-Imperial) affiliate. 21.

Lest Manning think ownership had anything to do with the control of markets or the timing of access of Canadian oil to those markets, Twaits

hastened to assure him that Esso ownership had nothing to do with Imperial policies. Access to cheap foreign oil was enough excuse to use it Twaits suggested:

In fact, if we had no major shareholder (Esso), with other producing interests, our thinking on markets and our crude oil purchasing policy would be exactly what it is today... no changes in our company policy could contribute to a solution of the present problem. 22.

Imperial was too closely linked with, in fact part of, the problem, to want to relinquish control of markets in order to solve the development dilemma differently. In the final analysis, it was a question of survival and profit. Control of marketing meant greater profits, of course. Thus, Twaits also admitted that Imperial policy would support keeping the Ontario market for Canadian oil, having laid the foundation for this in the appropriate pipeline control: "(We will)... encourage the growth of (our) refining capacity in Ontario and... assure this market for Canadian crude, which can be done at much less hardship (to us) than moving the crude to Montreal." 23. (parenthetical observations ours.)

In reference to pressure by western producers to open up the Montreal market to Canadian oil, Twaits assured Manning that such a project was "unfeasible", that if it were feasible, Imperial would have done it by undertaking a pipeline to Montreal itself. Nor could Imperial support the idea of the Federal Government's undertaking the pipeline, for the company preferred to have such energies directed toward opening up American markets. In short, Twaits called the Montreal market "sub-marginal" and any attempt to supply Montreal with Canadian oil "harmful to the industry". "We continue to feel that the

Montreal market is not the best long-run outlet in comparison with other areas and could well represent a handicap to ultimate growth in the industry." 24 .

In what amounted to an admission of the falseness of oil company statistics (from which Government statistics derived), Twaits asserted that economic calculations of cost had little to do with the policy, "Regardless of any comparisons that are calculated on posted prices and estimated transportation costs, Canadian crude is at a very large transportation disadvantage compared to offshore crude." 25. For a multinational like Imperial's parent, costs were extremely relative. While "offshore" oil might be cheaper to extract, the price Imperial could charge in the Montreal market (by banning a pipeline) was higher than for most other cities whether supplied by offshore or Canadian oil. Additional arguments were offered, equally suspect, but interesting for the emphasis they give to Imperial's stake in the matter and in defining the situation with or without benefit of statistics. The Federal Government, and apparently the Alberta Government, listened to such arguments intently, despite mounting evidence and criticism from other quarters in the oil industry.

Thus far we have reviewed evidence which shows Imperial Oil was very active in defining the framework for the so-called "national energy policy"; state practice coincided to the letter with Imperial's continentalist policies. The pricing of Canadian oil; decisions on which Canadian markets to serve with Canadian or foreign oil; decisions on when, where, and how to enter American markets; and the decision to stonewall the building of a Montreal pipeline ——each was carefully

linked to Imperial's needs as an American-based multinational with vertically integrated, centrally controlled activities. Each was also formulated to sound like a "national" policy, meeting the need to maintain close coordination with the Canadian state and offer legitimation of this exclusive situation. Rapid exploitation of Canadian resources by American capital in return for entry into American energy consuming markets was to be the basis of such policy. As long as the Federal Government attended to Imperial's analysis rather than to that of competing interests or critics, the "success" of such a continental policy seemed assured. The weeding out of alternative plans was essential in the organization of this begemony at the ideological level.

6.7 Rejection of Alternatives to Imperial Policy

Alternative Data Sources Stifled

Substantial public, provincial, and smaller company demands were being made in the 1950's for alternative bases of decision making, particularly alternatives to major oil company statistics on supply, demand, reserves, stocks, and the feasibility of serving particular markets with Canadian oil. The Federal Government rejected these pleas for alternatives or leverage against Imperial's hold over energy policies. Calls for an alternative statistical agency as well as the demand for entry of Canadian oil to Canadian Defense Department markets and Montreal consumer and industrial markets were rejected.

Minister of Trade and Commerce, C.D. Howe, vetoed any attempt to found an alternative governmental agency to gather cil industry statistics in 1951. An official statement to that effect was issued on Canada's behalf by the Departments of Trade and Commerce and Mines and Technical Surveys, in which the creation of such an agency was said to undermine the very basis of "free enterprise":

...the Federal Government is of the opinion that it is not necessary or desirable to create a new Federal agency to undertake work which, in a free enterprise economy is essentially the function of individual firms or trade associations. 26. (See Appendix C 1 for full text.)

Leaving the provision and accuracy of industrial statistics up to the whims of oil companies (whose statistics the Dominion Bureau of Statistics reiterated) was thus a conscious decision. It led to an underinformed and misinformed public, ill able to muster statistics to support alternative policies on energy. This served Imperial's interests quite well, since its statistics were never questioned by the Government, and thus its word on what was "economically feasible" could only be disproved with great difficulty by its critics.

Secondly, any overall studies of the industry were to be conducted by the industry's closest governmental allies and long-time advocates of continentalism in other sectors: the Department of Defense Production and the Department of Trade and Commerce. 27. The former was a major customer of Imperial's (as will be shown subsequently). A few economic consultants like John Davis and Walter Levy would write up the major reports on the industry. Davis had a long career in both DDP and T and C, and both consultants favoured big oil and continentalism in their writings for the Government, the Canadian American Committee, the majors, Foreign Affairs magazine, the oil producing provinces, and other governments and trade associations. Besides insisting that a pipeline would require huge imports of American capital and

equipment, Davis' analysis for the Government, "Canadian Energy Prospects" concluded, not surprisingly, that "bringing Canadian oil into Montreal would have disastrous results in the 1960's". For, allowing in what Davis considered to be "subsidized" oil along with subsidized coal and gas would be unthinkable.

In the same breath that he refused an alternative statistical agency, Howe asserted the importance of Canadian oil as a "strategic material in our defense plans," and he thus limited access to industry surveying to studies "undertaken by the Petroleum Division of the Department of Defense Production and the Economic Divisions of Defense Production and of Trade and Commerce." 29. In these divisions, Imperial's definition of reality was being firmly maintained. The ideological linking of oil (like nickel) to strategic and defense plans was a means of backing up the arguments for continentalism and for the secrecy that would allow such a policy to be constructed by a few executives of major companies and a few government officials on both sides of the border. Thus, the solicitation of major oil company executives' "expertise" in forming a "national policy" went hand in hand with the deliberate limiting of general access to the factual bases and process of policy making. It was, unfortunately, not the result of ignorance or exasperation in government circles.

A third mechanism of information limitation and legitimation has traditionally been the Royal Commission inquiry and report in Canada. Those attended to in the Royal Commission on Energy, the Borden Commission, were those who represented the continentalist approach. Other opinions were downplayed or ignored outright. It was Walter Levy who

prepared the Canadian Petroleum Association's submission to the Commission, a prepublication copy of which was earlier solicited by Minister of Trade and Commerce, Gordon Churchill in January 1958.

It was Imperial Oil's "Prospects for Canada's Oil Industry, 1955-1980" which figured most prominently of all entries for informing the public on the directions to be taken in the Canadian energy sector. The Borden Report became the rough draft of the "national energy policy". For its own reports on supply and demand, the Government relied on Imperial forecasts and statistics such as those provided in the 1950 report, "Canadian Petroleum Supply and Demand," by an Imperial Oil economist.

It is of interest, as well, that Walter Levy was prominent in designing American ECA policies for Europe that fostered access to European markets for the Mideast oil of major U.S. oil companies.

Levy was frequently hired by Esso and other majors and continued to formulate oil policy in the international context as seen in his continuing articles for Foreign Affairs, the journal of the American Council on Foreign Relations (The more recent "conflict of interest" caused by Peter Lougheed's hiring him at the same time Syncrude companies were using him as a consultant is not a new pattern.) Meanwhile, other opinions being voiced to the Canadian Government and the Borden Commission were being given short shrift.

The Borden Report: Federal, Industry, and Other Reactions

Adverse reactions to proposed national energy policy ranged from dissenters within the Borden Commission itself, to criticisms of either the structure of control in the oil industry or of the policies contained in the Commission's Report. Major and independent oil businessmen in

the West, individual critics such as George Lewis (a vocal ex-executive of Imperial Oil), and even American editorial opinion were received by policy makers. There were undoubtedly other sources of criticism, but the correspondence of those groups mentioned has accumulated in the memos and files of the Trade and Commerce archival materials and indicates that varied opinion and criticism was at least brought to the attention of policy makers of the time. Before detailing such reactions, let us summarize briefly the thrust of the Borden Commission reports.

The Borden Commission's Report called for the following "national energy policy" guidelines:

- (a) It should be national policy to encourage the export of Canadian crude oil without license.
- (b) Canadian crude should be made accessible to refinery areas in Canada only via existing pipeline facilities, (in other words, no Montreal line should be built.)
- (c) Implementation of these policies was to be left to the voluntary action of companies concerned.

The Report specified:

...that no Government action should at this time be taken to ensure the construction of pipe line facilities to transport Canadian crude oil to the Montreal refinery area and that before any such action is taken...the oil industry...demonstrate that it can find markets elsewhere in Canada and the United States sufficient to sustain a healthy and vigorous Canadian oil industry with the incentive for further exploration and development. 32.

Thus, the Commission supported the Imperial plan of continentalism, as it had been presented since 1950, and vetoed the construction of a Montreal pipeline that would have connected Canadian oil with eastern national markets. The latter were reserved for foreign oil, and a North-South rather than an East-West energy grid was laid in policy terms. The Commission saw the job of the newly created National Energy Board as keeping track of sales and production to determine when the industry might be producing and selling enough to merit the rethinking of this decision on a Montreal pipeline.

One important Federal policy maker, G.W. Green, of the Energy Studies Branch of Trade and Commerce, noted that the Government delayed reaction to the Report because of the unseemly dissent within the ranks of the Commission itself, not because it disagreed with the final reports or sought to bring the debate into the open:

The fact that the members of the Commission did not agree among themselves on some of the more basic issues involved makes it rather dangerous at the moment for the government to give an opinion on the appropriateness of the recommendations. 33.

The majority of the Commissioners, he said, agreed with "independent" Canadian producers that incentive for Western production was being endangered, and that perhaps a Montreal market was the answer. Both economists on the Commission disagreed however, and their opinions prevailed in the reports. They claimed that "growth" would continue without special "interference" of that nature, and supported increasing export to American markets as the solution to glut. Dissenters were cast as "dangerous protectionists." The Government saw little problem in overriding Western Canadian oil opinions or those of Commission dissenters. It was concerned, said Green, only with possible disagreement by the American Government on licencing Canadian exports and linked this to an open door for foreign oil entering Canada:

...any implication that the government would consider the imposition of quotas in the near future would cause unnecessary alarm in Venezuela and the United States, at a time when such alarm would be very unlikely to bring any

offsetting concessions (American markets) to ourselves. 34. (Parenthesis ours.)

The maintenance of Canadian markets already served by pipeline with Canadian oil was the same policy suggested in Walter Levy's Canadian Petroleum Association brief. Every one could agree with this half-hearted step, including Imperial Oil. Thus, to override the Montreal option, the Government needed to do nothing at all, except fail to licence its construction, withdrawing both political and material support from its proponents. Instead, clearance would be extended by the Department of Justice to refining companies to cooperate with each other in cutting off foreign oil products from the Ontario market. Government assistance in opening up American markets then became a problem of sheer implementation. The alternatives here, as Green saw them, were either continued pressure on the U.S. Government for import concessions, or the readjustment of methods of calculating such import allocations, allowing the U.S. Government to avoid the public embarrassment before domestic producers of opening the floodgates to Canadian oil.

N.R. Chappell, director of the Washington office of the Department of Defense Production, collected editorial opinions on the Borden Reports and circulated these to the Department of State, to A.E. Ritchie of External Affairs, to D.M. Fraser and to G.W. Green of the Energy Studies Branch at Trade and Commerce. In line with independent oil opinion, the Calgary Herald ran the following editorial on August 24,1959:

...it is now pretty obvious that the U.S. action in lifting import bars on Canadian oil was agreeable to U.S. internationals as a ruse to protect the greater Montreal market for their imported oil. They could not import this oil to the United States; they wanted to import it to their Montreal

area refineries rather than use Canadian oil Canadian oil companies were thrown the very small bone of export dribbles to U.S. markets while the internationals with Montreal refineries enjoyed a substantial feast on Canadian markets. 35.

The editorial further called on the Canadian Government to take action to assure the Montreal market would be supplied by Western Canadian oil as a fundamental basis of national policy, "The Canadian Government cannot refuse to do for Canadians what other governments are doing for their national interests."

Mail and various oil majors who stood firmly behind the most conservative interpretation of the Borden Report. The Globe and Mail editorial, August 31, 1959, feared only that U.S. domestic producer resistance to competition by Canadian oil might douse the flames of continentalism, and suggested: "The continental approach...will have to come through treaty arrangements between the two governments concerned." 37. To implement the continental approach, it urged the creation of an Energy Department in Ottawa, or a greater role for the newly created National Energy Board in carrying out the Borden Report's recommendations. Similar opinions of Cities Service, Sun Oil and the like were faithfully cited, though the Canadian Petroleum Association still witheld comment.

Also available were the numerous letters to the Borden Commission, to various department ministers, to Imperial Oil and to Prime Minister Diefenbaker, by George A. Lewis, a strong nationalist supporter of a Montreal pipeline and an ex-executive of an Imperial Oil company. To the Borden Commission, Lewis wrote:

I have followed the pros and cons of the pipeline, and have sent many letters in regard to same. I notice once again the Imperial Oil brief, and I pay no attention to what Mr. White has to say; he has already had his instructions from Standard Oil of N.J...let him tell us how much money Standare Oil has invested in Venezuela. The total help by the 'Giants' in the field amounts to \$3,000,000,000...Our country does not interest Standard Oil or Imperial; they are interested in profits at both ends of the line...The government holds the keys to show the Imperial Oil Co. and the other major companies what is necessary for our country, and that is to build a pipeline, without the Imperial Oil Co.'s help, and put a duty so heavy that Venezuela crude will not reach Canada. 38.

Lewis supported independent Canadian company positions and took a decidedly anti-communist position on Canadian development in general, adding, "We have got to develop our oil resources, and be independent of Communist countries."

39. He proposed the Canadian Government follow its historic role of extending transcontinental transport systems like the railways to develop "vital resources". The state should relieve overproduction in the Western oil industry by undertaking the Montreal pipeline, in the tradition of the National Policy.

Needless to say, such direct attacks on the Imperial Oil network as Lewis launched in newspapers and to officials, concerning the ownership of Imperial by Standard Oil of New Jersey (85 per cent) and its control of Venezuelan crude, were not accorded serious audience by policy-makers. Imperial was the only company openly opposed to the pipeline at the time, and had \$40 million invested in other "independent" companies across Canada. Yet such questions as Lewis raised about conflict of interest were answered by the briefest of acknowledgments from those recipients of his letters. Lewis asked for no alliance with Venezuela or other producers, contending in fact that they too might lean toward Communism. He asked merely for a bourgeois nationalist energy

policy, a policy which was not on the agenda however. 40. The route of letter writing that Lewis took and urged on the general public, had, it appeared long ceased to be effective when it came to oil policy.

A final example of opinion on the Borden recommendations available to policy-makers was an article published in the American Reporter and reprinted in The Calgary Herald. The author exposed a basic contradiction in the Canadian petroleum industry: with proven reserves of at least 3.5 billion barrels at the end of the 1950's and productive capacity of one million barrels per day, the industry had long been producing at 45 to 47 per cent capacity. Canada imported 45 per cent of its crude requirements from Venezuela and the Middle East, paying out \$300 million per year for oil Alberta could easily have produced if it had had access to the market. In explaining this paradox, he cited the anonymous words of a Canadian oil executive speaking "most unofficially" for the majors: "Suppose you had one dollar on deposit in a bank in Toronto and one dollar on deposit in a bank in Kuwait...or Iraq, or Saudi Arabia: you want to spend one dollar and save one safely. My friend, which dollar would you draw out?" 41. The majors wanted to profit from overseas concessions while the getting was good, or, as the author put it, "before Arab nationalism or Latin pride spoils the fun." Canada, as a well-behaved, non-nationalist energy producer would "keep", for under the soil reserves were even safer than money in the bank. The Montreal, eastern Canadian market, though one third of the total Canadian market, presented no incentive for the majors, because nationalism abroad goaded them to use foreign oil wherever possible regardless of price considerations. Nonetheless, the author applauded the "pragmatism" of the Borden Commission, calling the Western independent producers "unrealistic". His solution, like that of policy makers, was to leave such decisions, including a Montreal pipeline, up to the majors. 42. This sort of endorsement through impotence met with approval and was circulated widely among civil servants.

Despite the unrepresentative nature of whatever opinions energy policy makers attended to, there was remarkable agreement about the structure of the industry, in particular the dominance of majors and their ability to manipulate markets. The notion that these interests would therefore prevail at the political and ideological level was translated by observers into the notion that whatever influence they exerted was actually a question of pragmatism or "economic reality." Public opinion as reflected in these few examples was even further filtered through officials' already formulated frame of reference. Though only an extremely small minority was against the Montreal pipeline, those that were received wider audience.

More direct evidence of the state's general policy of supporting disproportionate capital accumulation by the largest, particularly multinational, petroleum corporations at the expense of smaller independent Canadian companies can be seen in the handling of the Churchill-Imperial Oil marketing scandal of the late 1950's.

6.8 The Churchill-Imperial Marketing Monopoly: Legitimation Crisis and the Debut of the National Energy Board

Until 1957 or 1958 the Churchill area was being supplied with petroleum products from Canada by Canadian National Railway. A shift to offshore Venezuelan oil supply was made with the construction of a

stockpile nickel contracts. The 1951 DMP contract for 50 million pounds over ten years at market prices and the 1953 DMP-60 contracts for 100 million pounds over nine years (with options for an additional 50 million) accounted for 98 per cent of its U.S. sales by 1961. The sweetest part was a 40 cent per pound premium under DMP-60, an outright gift of \$4 million which covered the entire cost of massive productive expansion. (See Appendix B 3 for details of all nickel contracts for stockpiles.) Falconbridge profits (even after cost-padding) rose from \$2.5 million in 1952 to \$16.9 million by 1961. Sontrolling interests in the company managed to take up stock-buying options on 75,000 shares just as the contracts were signed, taking full advantage of the subsequent stock value rise from \$11 to \$22 ranges in 1952 to \$73 per share in 1961, and further concentrating ownership that was 88 per cent accounted for by 172 individuals. These windfalls also provided the temptation for takeover and consolidation which led by the mid 1960's to U.S. Superior Oil and Howard Keck control, succinctly summarized in President Marsh Cooper's comment, "Howard Keck and I, in that order, run Falconbridge". 51.

While INCO's sales and dealings with the stockpile never received the same notoriety in the investigations of 1962, it appears these were as substantial if not more lucrative than those of Falconbridge. The following table outlines the contracts INCO held with the U.S. Government between 1946 and 1962. Although the size of such contracts is overwhelming, it is typical of the privileges certain large resource corporations had in the supply of materials to the stockpiles. Even the cancelled portions of such contracts turned substantial profit.

TABLE X1X:	INCO Sales	to the U.S.	Government	(1946-1962)
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Contract	Pounds of Cut Electro Nickel	Price Per Lb.	Total
Various (1946-55)	65,916,713	46.12 cents	\$30,401,100
DMP-80 (54-55)	55,172,700	91.09 "	\$50,252,642
Premium on cancel (1959-60)	led portion of DMP-80).	\$ 7,340,400
	121,089,413	72.67	\$87,996,142

Source: Statement by INCO before U.S. Senate, Nov. 14, 1962; PAC, RG 20, Box D, 3-890, Vol. 11.

INCO thus appears to have received over \$7 million outright on the cancelled portion of its DMP-80, premium price contract, as well as over \$1 million in premiums on the fulfilled portions of the contract. These super-profits were of course down-played by INCO in its U.S. Senate testimony in which it boasted of having helped both supply and dispose of nickel for the U.S. stockpile. It had repurchased from the various stockpiles 125,675,994 pounds of nickel in various forms during the disposal days up to 1962, and INCO claimed that on the whole it had lost a great deal in all these dealings. This claim was sustained at the investigation, and only Hanna and Falconbridge were afforded bad publicity in stockpile deals.

In 1962, there were still 462,393,000 pounds of nickel in the combined DPA and National stockpiles with a market value of \$369,691,000.

Over \$600,917,000 had been spent on purchasing and stimulating such production. Meanwhile disposals of about \$360 million dollars worth

of nickel (mostly form the DPA) had already taken place.

Only about 41 million pounds of stockpiled nickel had come from the U.S. government-owned (National Lead-run) Nicaro plant in Cuba (much of its production having been diverted to industry during "shortages"), acquired at \$.45 per pound, well below the average at which INCO and other "private" enterprises sold nickel contracted to the government. Compared to INCO's deliveries of over 121 million pounds. Sherritt Gordon delivered only about 36 million at an average price of \$.67 per pound. Le Nickel delivered about one million pounds at \$1.00 per pound, and the 271 million pounds that Freeport Nickel had contracted to sell at \$.74 per pound were never delivered. National Lead delivered about 4.5 million pounds at \$.65 per pound. Thus, the largest producers in the programme were INCO, Falconbridge and Hanna. Falconbridge's total inputs by 1962 were 159.5 million pounds at \$1.11 per pound on over 99.4 million pounds of this, and prices averaging between \$.72 and \$.84 on the rest. Hanna's 108 million pounds were delivered at about \$.91 per pound. contracts were more lucrative than the National Stockpile ones, at the same time that they presented a greater potential threat, because of the flexibility of disposal that the executive branch wielded in contrast to Congressional control over other disposals. By the time the stockpile investigations took place, the market price had been pushed up to slightly more than the \$.72 per pound INCO had, on the average, received for its contracted nickel, the basis for INCO's claim that it had actually "lost" profits in the stockpiling era, and had "patriotically" agreed (actually insisted) to repurchase more than it

had supplied as disposals took place. Its testimony and gallantry was praised by the American Government and the Canadian civil service alike.

In reality, the stockpile programme had sustained massive capital accumulation for INCO, as well as the largest expansion and exploration of deposits in its history, specifically into Manitoba. During the ten-year period 1951 to 1961, one can observe the diversion of substantial amounts of profit to these ends:

TABLE XX: INCO Financial Profile (1951-1961)

<u>Year</u>	Nickel Ore Deliveries (M. 1bs.)	Net Earnings (M. \$)	Exploration Expenditures (M. \$)	Depreciation Depletion (M. \$)	Capital Expends. (M. \$)
1951	246	62.9	2.6	9.1	23.7
1953	251	53.7	6.1	12.9	21.1
1955	290	91.6	5.2	19.1	26.9
1957	290	86.1	8.9	20.3	43.9
1959	317	85.2	8.0	14.6	66.9
1961	372	38.8	7.4	19.9	46.0

Note: Shares had been split on a two-for-one basis in 1960.

Source: Annual Report 1965, The International Nickel Company of Canada, Ltd.

No investigation of stockpiling, state-sponsored or emanating from other critics, could have explained the selective successes of certain corporate sectors convincingly as the result of "irregularities" in an essentially democratic or even competitive capitalist policy framework. The policy can only be understood as a whole strategy when its foreign as well as domestic goals are taken into account as part of a larger growth strategy of an imperialistic nature. Nor could the

strategy be limited in its scope by attaching it to the activities of one or another political party or individuals within those parties.

For the features we have been analyzing spanned Republican and Democratic, Liberal and Conservative regimes in both the United States and Canada.

The successes of INCO and Falconbridge in this period had thus rested on several important features of corporate planning: sociopolitical maintenance of the stockpile contracts; the profits such contracts afforded; simultaneous expansion of domestic resource deposits; and maintenance of civilian markets and prices for nickel in the face of both artificially created shortage and potential "glut" by surplus disposals. Most importantly, for the 1960's and 1970's, this carefully navigated course had placed these two multinationals in a position to expand into exploitation of Third World lateritic deposits, not only because of the capital accumulation afforded by previous stockpiling contracts, but because the subsidization of technical research on lateritic ores had been an important part of U.S. Government policy and respective company policies. This plunge into Third World ores would be both financially and politically risky, however, as detailed in Chapter Eight. It would require heavy reliance on U.S. political and military intervention abroad, as well as on joint ventures with U.S. and other foreign capital (both financial and industrial.) It is not only profit but the power structure that

these contracts represented which is of importance to our study.

5.8 The Expansion of Foreign Markets: Marshall Plan Complementarities

Another aspect of the success of postwar policies of resource capitalism for the charmed few such as INCO and Falconbridge was the European market factor. Stockpiles removed "surplus" from the market, just as the United States was attempting to expand its markets in Europe through "reconstruction" programmes as wartime economies shifted to peacetime production. Both INCO and Falconbridge were in excellent positions, because of subsidization of expansion, to maintain their shares of European civilian consumption, which rose from 260 million pounds in 1951 to 640 million pounds by 1964.

Expansion of European markets was facilitated by the American Marshall Plan. INCO fully appreciated the potential of such American political and economic hegemony in the postwar period, telling its shareholders in 1948:

...demand for nickel will increase as the Plan progresses toward its objective of revivifying European industry and business and increasing European economic unity. Worldwide rehabilitation will call for many new plants. This should maintain a substantial demand for nickel-containing products for some time in the future. 54.

It was the combination of expansion of European markets and Cold War mobilization that allowed INCO to utilize "full production" capacities by 1950. ⁵⁵ Similarly, the International Materials Conference meant INCO cooperated closely with the U.S. Government in allocating its nickel worldwide between 1951-1953, after which INCO managed what had become "scarce" nickel internationally.

The effect of such market control, sustained by draining off of surplus to stockpiles, was a series of price hikes initiated by INCO to \$.50 per pound in 1950, \$.56 in 1951, \$.60 in 1953, and \$.79 to \$.81 by 1961 and 1962 when disposals began on a large scale.

the same time, INCO laid off about 4,000 workers and began its plans for expansion abroad.) Most of its production and price boosts were linked to the enormous security that U.S. defense and stockpile contracts afforded, as indicated in the Company's 1952 report:

Under (N.P.A.) direction, somewhat less than one-half of the supply which the Company provided in the United States was delivered for direct defense and atomic energy requirements. A portion of the balance was for the national stockpile and industrial which gave support to defense production. The amount remaining...has been delivered to the civilian economy in accordance with Government instructions. 57.

The maintenance of control over the civilian international market required careful coordination of the socio-political networks and liaisons that existed between government and nickel industry producers in Canada and representation by both contingents to U.S. policy-makers responsible for stockpile disposal. This was complicated by the desires of U.S. policy-makers to continue disposing of agricultural surpluses in exchange for Third World metals and minerals, as well as the desire to dump surplus metals and minerals on the international market without disturbing the market structures so carefully maintained by the major multinationals. In this process, different policies would be worked out for different metals and minerals. In general the Canadian export of agricultural products suffered more than its markets for metals and minerals as the U.S. pursued its foreign "aid" policies abroad. Thus the dismantling of the stockpile would not dismantle the Canadian nickel producers' control over markets. We suggest, that the wish to lessen monopoly and cartel activity in the nickel industry, if indeed it was ever a serious American aim, was neither forcefully pursued in anti-trust legislation,

in stockpiling, or reconstruction programmes. Instead, the wish to control Third World and European development in a manner profitable to American and by extension, Canadian multinationals, at the expense of domestic and foreign labour, played a much larger role in the U.S. resource policy. This was reflected in Canadian resource policies and sustained through constant consultation and coordination with U.S. officials (in the interests of the "big three" nickel producers) of the type we shall outline below.

5.9 Industry-State Coordination of Stockpile Disposals

Despite the increasing vulnerability and instability for the Canadian economy that closer continentalist resource policies meant by the late 1950's, Prime Minister Diefenbaker maintained a death-grip on the policy. Puzzled outrage such as that expressed in the following editorial of the Montreal <u>Gazette</u>, May 6, 1958, surfaced:

What, then, is to happen to these new Canadian (resource) communities? They are too remote to be turned to other uses. Are they, then, to be left to wither away...? Much the same story may be told of Canadian crude oil, or of lead and zinc. When the United States needs these things, it creates a market for Canada. But no sooner have the facilities to meet demand been developed, than the demand is pulled away, and tariffs are put on the U.S. border. Under these circumstances, Canada is denied a reasonable economic stability. 58.

The answer was to be "forebearance" with the United States as Diefenbaker put it.

There must be no cleavages in our unity, no unresolved difficulties. At all costs— as differences which exist from time to time among friends, neighbours, even among close relations, must be resolved— our peoples must act with infinite forbearance in order to assure the removal of existent differences. We must understand each other. 59.

It is the nature of this understanding and the mechanisms for sustaining this unity which we have been investigating. Again, in the disposal period, a unity of purpose was to evolve between Canadian state and producer officials and between Canada and the United States at the federal policy levels.

The primary concern of the Canadian nickel companies was that piece-meal, disruptive, governmental disposals of nickel be called off. If long-range disposal was to be undertaken, it should occur with full consultation between industry and government and result in recycling the surpluses through major producer channels. Objection to the use of such disposals in U.S. "foreign aid" programmes was an objection less in principle than to potential manipulation of industrial markets abroad. Major Canadian producers sent American officials word via Canadian civil servants that:

Disposals outside the United States are harmful to Canadian industry who are developing these markets through the establishment of fabricating plants, etc... (This brings) reduction of commercial purchases by recipient countries... (affects) competitive metals...(and negates) the tax incentive programmes to stimulate investment in U.S. industry. It would be impossible for the United States to dispose of stockpile metals in offshore markets, unless they sold at a price which was less than the high U.S. price. 60. (additions ours)

Agreement to dispose through major producers was achieved over a period of months through various mechanisms. Jess Larson, the first head of the U.S. General Services Administration, for instance, presented big producers' position in INCO's magazine, a position with which Denis Harvey took the time to express his agreement.

61. Meanwhile, INCO sent American officials its own plan for nickel disposals.

The Canadian Metal Mining Association had its Washington

consultants (including Larson) summarize the above mentioned premises, suggesting that if materials were to be released, such disposals should proceed only with major industry approval and recycling.

63. Both the CMMA and its American counterpart trade organization lobbied (the former frequently citing the latter) at local, Congressional, Parliamentary, and civil servant levels of government. Piece-meal disposals of some materials continued to pose a threat throughout the late 1950's, but nickel was in large part recycled through the major Canadian producers, especially INCO. The amounts considered excess had become enormous, after much vacillation in stockpile "objectives". The following indicates the extent of such shifts in goals which reflected, of course, economic, political and "strategic" manipulation of programmes.

TABLE XX1: U.S. Government Stockpile Objectives for Nickel (Pounds)

Nov. 20, 1944	236,000,000
July 27, 1950	548,000,000
Nov. 9, 1950	580,000,000
Oct. 9, 1952	900,000,000
Feb. 8, 1955	675,000,000
June 30, 1958	323,000,000
July 19, 1963	100,000,000

Source: R.A. Cabell, Vice President, International Nickel Co., Inc., N.Y., "Statement to Chairman of the U.S. House Judiciary Committee," Aug. 4, 1965.

The companies that gained most from the policies sometimes helped the Canadian state perform a legitimation role, not necessarily by providing more employment, but by merely alluding to it in public. So

close were government-industry perspectives on the problem of nickel disposal, that constant consultation and individual company lobbying (though continued) was hardly necessary. The following is an example of it, however, in which Falconbridge used its role as an employer as leverage to pressure the Canadian Government to intervene on its behalf in the disposal of nickel:

Since the Canadian nickel industry is such a large employer of labour, we hope the Canadian Government will urge the U.S. Government to take no steps toward freeing the sale and export of government nickel before the end of some reasonable time. 64.

Because it was clear to the Canadian Government that disposals of U.S. stockpiled materials could not easily be shown to affect Canadian producers forms' profits, officials suggested the nickel producers stress other possible damage to the Canadian economy, particularly to employees. Denis Harvey suggested INCO, Sherritt Gordon and Falconbridge executives meet at INCO offices in Toronto to assemble appropriate data on the "impact of disposal" to facilitate a unified stance before the U.S. Government:

(I) suggest that you consult each other respecting the information being assembled to ensure that data is comparable but regard it desirable that you measure cost in terms of employment, wages, earnings, taxes, and foreign exchange to Canada, measuring also lost by-product. 65.

They settled on very general projections of employee displacement and wage displacement. Since INCO and Sherritt Gordon executives did not want U.S. authorities to have a breakdown of by-product production in government files, only the sales value of lost production was submitted. INCO also hesitated to produce possible lay-off statistics, since its own private stockpiling and "other factors" affected this,

implying that disposals would not necessarily affect employment.

United presentation of heavily company-censored statistics was thus arrived at with the aid of federal bureaucrats.

It seems that INCO was more prepared for disposals than Falcon-bridge was— thus Falconbridge's plea for time. The Canadian state's concern over the effect of disposals on markets and employment would not, however, blind it to the utility such surplus materials might have in controlling workers in the nickel and copper industries at home and abroad. The vulnerability occasioned by disposals could have use for the Canadian state, for as one economist in the Department of Mines and Technical Surveys remarked,

I cannot agree (with certain officials) that this D.P.A. copper should be transferred to the strategic stockpile and thus be subject to release only by consent of the United States Congress in time of national emergency. If maintained in its present status, under the jurisdiction of the O.C.D.M., this metal could be released in controlled amounts during times of world wide shortages of copper due to strikes or other causes. If properly administered, in conjunction and cooperation with industry and other interested factors (i.e. Canada, Mexico, Chile, etc.), the D.P.A. copper could be used to prevent run-away prices such as prevailed in 1955 and 1956. The recent situation in Washington has demonstrated that control over the release of this material can be exercised by a strong government and industry lobby. 67.

It was thus decided that in consultation with American officials, such features of non-strategic control as pressure on domestic or foreign labour would become legitimate uses for surplus stockpile materials. Canadian officials were well aware of the American use of these materials for "economic warfare". They also espoused the above mentioned kind of "class warfare", useful in weakening the negotiating position of labour vis-à-vis management and strengthening

company executives' positions in maintaining orderly private capital accumulation.

Where disposals were to be made in the North American market, the U.S. General Services Administration had made it clear (by refusing below-market-price industry bids) that dumping would not be an indiscriminant weapon and certainly not one to be turned against major producing companies' market control. Those materials that could not be sold without disturbing traditional producer markets would go into a U.S. government "kitty" to be used by various agencies in "international foreign aid programs".

After several state and major producer sessions in Canada, followed by official state-to-state pow wows in Washington, the U.S. Government passed a formal ammendment to the Defense Production Act of 1950 to assure disposal through original producers, in May 1962. This formal resolution does not indicate the mending of long-standing contradictions between the groups participating in major policy making, for there had never been serious conflict. It shows, rather, the success of the strong government-industry lobby that had been created within the continental context to represent major raw materials producer interests within the continental and foreign spheres. Agreement of this sort was most effectively achieved through private industry-civil servant and state-to-state consultation at the upper echelons on a regular basis. Here interests were communally understood, whereas, if policies of such importance had been left to legislative levels in either country, small producer interests might have interfered with orderly procedures conducted in the interest of

big multinationals.

Even within international raw material forums such as the OECD vertical commodity committees and the international lead and zinc study group, Canadian civil servants opposed democratization of policy making, indicating that parliamentarians' attempts to infiltrate the latter forum constituted "a dangerous precedent". 70. Similarly, Congressional investigations, whether of an anti-trust nature or investigation of stockpile activities were considered both annoying and dangerous, for such investigations could concievably threaten the overriding continentalist resource programme, if allowed to delve too deeply. Canadian officials may well have feared stockpile investigations might threaten Humphrey/Hanna interests in huge Quebec and Labrador iron ore projects, "embracing the building of a 360 mile railroad, opening of several iron mines, building of a shipping port, and construction of two good-sized towns..." 71. Though recycling was being guided into the hands of big nickel producers, Canadian officials still had overall concerns for the fate of the resource policy in general. They therefore continued to lobby in Washington for fear of the impact of investigations on continued resource investment, expansion, and export:

> ...the Canadian Government is increasingly concerned about the possible impact of U.S. policies and the effect of existing enquiries on investor confidence, on long-term resource development programmes, on the orderly conduct of trade in stockpiled commodities in overseas markets and ultimately on the balance of international payments. 72.

Surplus capacity, the eternal enemy of major producers, returned as another primary concern of Canadian state officials representing these interests to Washington:

a result of the sustained investment in productive capacity is now reflected in substantial excess of such capacity at current levels of demand which themselves represent record levels of consumption - for nickel, cobalt, tungsten, copper, lead, zinc, asbestos, aluminium, etc...substantial unused capacity...threatens the major raw material exporting countries such as Canada. 73.

Investigations were to result, however, in dead bills in Congress and mild wrist slaps for only two nickel producers (Hanna and Falconbridge.) The bogey-man spectre of Americans operating a "state trading agency" which might threaten big resource companies was soon laid to rest. The Symington stockpile investigation, lacking teeth, and headed as it was by a long-time stockpile supporter, was soon seen by major producers and Canadian officials alike as a mere "witchunt".

Falconbridge's non-compliance with the investigation was condoned by Canadian officials and INCO's "patriotic" stockpiling and disposal grandstand before the U.S. hearings was lauded. 75. Canadian giants were to emerge economically and politically unscathed in ideological investigative battles which were like those affecting forest products, merely the dying moans of small business throughout the continent, and the forums whereby the emerging monopoly capital style of accumulation was legitimated.

While small firms had been excluded from decision-making in either stockpiling or disposals, the bias toward subsidization of large producers was frequently affirmed by U.S. officials, who considered subsidization of small mining firms to be self-defeating charity. Similarly, they rejected the tariff route in favour of disposals, which Western American mining interests termed "Federal price-fixing by the back door".

76. Disposals had become one more subsidy to the largest mining companies.

Despite this conflict of interests between subsidized and nonsubsidized firms, among the major producers there had been consistent cooperation at all times, whether in supplying or dismantling stockpiles. Sherritt Gordon and Le Nickel secretly shared disposed nickel with each other, just as INCO had earlier agreed to refine "rival" Sheritt Gordon concentrates headed for the stockpiles. INCO cancelled its contracts with G.S.A. and received the premium price differentials in sinter products, there was an unpublished three-way deal in which INCO paid Falconbridge the contract price on its cancellation of stockpile contracts and was reimbursed again by G.S.A. The agreement with G.S.A. included INCO commitments to market the sinter in the U.S. domestic sphere-- all with Canadian civil servant knowledge and approval. In fact, Denis Harvey remarked, "We appreciate having been consulted. We have no objection whatsoever, because it was obviously in the interests of a Canadian company to obtain additional material." 78. In another closely guarded bit of cooperation, U.S. government officials used Falconbridge to recycle 100,000 pounds of nickel into European markets in return for cancelling Falconbridge's stockpile cobalt contract. 79. Barter and dumping were acceptable to the Canadian Government when "Canadian" multinationals benefitted.

The Canadian Government worked hard at representing such producer interests in Washington, frequently drawing up internal lists of its detailed objections to specific material disposals and noting bureaucratic successes. Certainly producers large enough to benefit were grateful, as we have noted. When surface appearance fails to

uncover the importance of the federal bureaucracy's support of particular raw materials, producers, inter-company links, especially with large nickel producers, have proved crucial. In the midst of stockpile disposals, for instance, Canadian civil servants used every means possible to sustain Canadian tungsten's defense and stockpile contracts. It appears to be less the 90 employees (some of them native) in the North West Territories that brought state sympathy than the sizeable chunk of the company's shares controlled by Falconbridge.

So favourable were such Canadian state policies and activities to the largest producers that the latter had to legitimate their positions in terms of the most fundamental ideological values. Lest the public forget the importance of "risk-taking", amidst all this governmental subsidization of profit and aid to market control, INCO occasionally found it necessary to reiterate industry's ideological claims to private capital accumulation. Resources must not be seen as public wealth on deposit, but rather "valueless" until the ingenuity of the entrepreneur "created" their value:

...it is not generally recognized that no mineral deposit great or small, has any real value until the metals in the ground have been brought to the surface, refined, and sold with profit...even after the nickel is refined and ready for sale there is no large ready market except the one which has been, in large part, created by this Company. 80.

Not only had stockpiling and defense spending allowed the nickel companies to expand production and market outlets generally, but expansion abroad would be undertaken in an organized fashion just as market development had been carefully planned on the basis of geographical and product diversification. Production diversification had proceeded to its logical (profitable) extreme in Canada with the exploitation

of both Sudbury and Manitoban ores on the basis of the "artifically induced" levels of high demand. By 1964 INCO no longer feared "glut":

Nickel markets are international in scope, and even the largest...motor vehicle manufacturing or petroleum and chemical equipment manufacturing...accounts for a relatively small portion of the total nickel demand. Our industry has arrived at a new high plateau of nickel demand which we believe in very large part reflects real consumption. 81.

The proof of this sturdiness of demand was the internal and external financial interest in undertaking expansion abroad in the mid 1960's - investor confidence that both American and Canadian governmental officials had succeeded in maintaining despite a peacetime economy. INCO would acknowledge the importance of Canadian tax incentives, as well as consultative aid in making such moves possible, saying, "the incentives which Canada offers mining ventures have greatly encouraged and aided us in making these expenditures." 82.

5.10 Conclusions

As in the case of forest products, the continental resource strategy as it affected the mining staple constituted a gigantic bonusing scheme. Orchestrated at the highest state levels in both Canada and the United States, this strategy was carried out through bureaucratic channels, agencies, and ad hoc industry-state forums with international as well as continental control over the terms of resource production and distribution. Unlike the forest industry, however, the mining industry had even closer ties to defense agencies and had already undergone greater capital concentration such that a handful of conglomerate-like firms could more directly consult with Canadian civil servants on a continual basis, funnelling their demands

through this monitoring and lobbying network to the Canadian Embassy in Washington and the Office of Defense Mobilization, attached to the U.S. Executive Branch where the chain of command ended. Also active in the facilitation of stockpiling from the U.S. side were the Departments of State, Treasury, Interior, Commerce, Agriculture, the Budget, the General Services Administration, the International Cooperation Administration and Development Loan Fund, the Export-Import Bank, and AID. In Canada we have found at least the following agencies were active in carrying out the programme: the Canadian Embassy, the Departments of Defense Production, of National Defense, of Finance, of Trade and Commerce, of External Affairs, and its International Trade Relations Branch. The operative network included the Prime Minister, C.D. Howe (Minister of Trade and Commerce), N.R. Chappelland Denis Harvey at the official levels of federal power. However, the largest resource producers for the stockpile had directors on their boards who constituted more immediate links to the political and financial heights in the United States, or stockpile "babysitters". Their exclusive representation therefore, had its formal and informal state and corporate sides.

The strategy consisted in closed-bid contracting by U.S. governmental agencies for three stockpiles of varying size and flexibility in terms of the ease of materials shifting or disposal. Such contracts involved premium prices, large loans and grants for productive expansion, and other investment incentives such as rapid tax amortization and political aid in repatriating profits from foreign producing countries. Beyond the veneer of strategic goals, lay the

more fundamental aims of the programme: the acquisition of large caches of cheap foreign industrial materials, the maintenance of processing and hence employment in the United States, the bolstering of selected multinational's profits, and the ability to use bartering, dumping and contracting to manipulate foreign regimes and labour. While an interventionist state was the <u>sine qua non</u> for this strategy, its activities were not designed to unduely regulate or compete with private capital, but to subsidize its dominant fractions. In Europe, the programme's complement was the Marshall Plan. Designed to "reconstruct" European war-torn economies, this succeeded in securing expanded markets for American manufactures and Canadian raw materials, particularly nickel; just as the international forums affecting the forest staple were utilized to maintain control of international market expansion in the hands of the largest resource companies.

We have detailed the role of Canadian state officials in monitoring, organizing, and representing the interests of the dominant resource firms in the mining sector such that these received exclusive and substantial benefit from such bonusing. The coattailing of U.S. policies had, of necessity, disarticulating effects on the Canadian political economy as a whole. It tended to strengthen lines of command to the Departments of State and Defense in the United States, further contralizing decision making on a continental and international basis. Most sectors of the Canadian economy were dragged into the strategy willy nilly as Canadian officials opened the storehouse to the "biggest customers". Windfall profits, the elimination of surplus capacity and the building of new capacity in participating firms, and the subsidies

undertaken by the Canadian state skewed the Canadian economy ever more sharply toward industrial resource production for export. Other markets for Canadian goods were damaged by American bartering of surplus agricultural goods and the dumping of metals on the international market. As defense and stockpile spending rose, resource spending kept pace, increasing the vulnerability of the Canadian economy to external markets and decreasing the emphasis on building domestic manufacturing. Imported capital goods received the added support of U.S. and Canadian defense ratings, a most effective means of subsidizing U.S. manufactures and securing Canadian markets for them. We have suggested that such economic and political dependency these features evidence was neither incidental nor a feature of a strategy of which Canadian officials were ignorant. Their role was not only as agents of such large-scale accumulation of capital for the largest producers but also legitimators of this state of affairs. As with the energy staple, analyzed in Chapters Six and Seven, they actively sought to fit the Canadian economy into the American imperial plan.

CHAPTER SIX

CANADIAN ENERGY POLICY 1:

THE CONTINENTAL CONTEXT

Unlike the mine and forest staples, Canada's energy staple made its debut in the postwar period when the markets and capital structures of world energy multinationals were already in place and already threatened by the rise of nationalism in developing countries. Canada was to be the "safe" supplier of the future in this uncertain context. We analyze in this chapter the impact of the powerful petroleum cartel on the domestic production and marketing of Canadian energy and the development of an anti-nationalist National Energy Policy linking Canadian crude to U.S. markets.

This strategy was accomplished by way of the forging of links between the Canadian state and the energy representatives of international capital at the continental level. A continental decision-making network affecting the terms of access to continental markets evolved with its major headquarters in Washington's military-petroleum and oil import agencies. Beyond the existing federal bureaucracy, whose key personnel would be as active with regard to facilitating energy as other staple exports, the Canadian mechanisms and agencies for decision-making were only in the making. We contend that the National Energy Board, the Borden Commission, and the public policy statements of federal, especially Trade and Commerce, ministers served to legitimate

an energy policy consistent with the interests of Imperial Oil and other multinational firms. The latter treated Canada, according to their international marketing schemas, as two separate countries—a large—scale energy importer in the East and the home of vast energy export potential in the West. Our examination of the emergence of a national policy of disarticulation suggests that alternatives to this continental strategy of energy development existed, propounded most consistently by the plethora of new producers whose production was blocked by the vertical integration and monopolistic policies of multinational subsidiaries in Canada and by the National Energy policy's elimination of the Montreal pipeline option.

In Chapter Seven we examine the complement to this process: the international context, in which another series of nationalist alternatives were presented, and rejected. Neither the international marketing of Canadian oil nor its independent indigenous development, models abroad so carefully monitored by the Canadian state, were to be emulated. In both the North American and international contexts public debate and opinions alternative to that of the multinational firms were submerged through the differential representation of these interests at state decision—making levels. It is to the process of such legitimation on the continent and the contradictions inherent in this strategy for domestic producers in both the United States and Canada that we now turn.

6.1 The Structure of the Canadian-International Oil Industry

World Energy Marketing and Distribution

In order to understand the international and domestic context in which a Canadian state strategy for energy development occurred, we

must outline briefly the quantifiable and structural aspects of that world energy system into which Canadian petroleum made its entry when oil was discovered at Le Duc, Alberta in 1947. Let us look then at some early statistics which were available to and used by the state in the creation of the National Energy Policy to be discussed in subsequent sections of the present Chapter. The following material sketches the world supply, consumption and source distribution of petroleum products and outlines the extent of control which major multinational oil companies exerted over these features in the 1952-53 period.

Table XX11 indicates the massive importance of the United States as a world consumer, absorbing over seven of the more than twelve million barrels of world petroleum consumed, or about 57 per cent of world demand. At the same time it supplied about 52 per cent of world domestic supply. This in and of itself constituted a market "pull" of enormous importance, especially given the power of this nation and of its oil multinationals. World crude reserves, estimated in World Oil, January 1, 1953, indicated that even then the United States was considered to be a major source of future petroleum, having about 24 per cent of the total world reserves. (See Table XXIV.) This compared favourably with the total for North America of 28 per cent, and was outshown only by Middle Eastern reserves which constituted about 54 per cent of the total. Asia and the Far East, like Canada, were thought to hold only about 2 per cent. Thus, Canadian resources were not considered to be of great importance in world production, present or future, at the time the National Energy Policy began, but were sufficient for domestic markets.

TABLE XX11: World Consumption of Petroleum and Products in 1952 (Crude Equivalent Basis)

Thousands of Barrels Percentage of Total World

Country	<u>Daily</u> Average	Domestic Demand	Domestic Supply
Canada United States Other N. America	455 7,281 196	3.56 56.96 1.53	1.30 52.53 1.84
TOTAL NORTH AMERICA:		62.05	55.47
S. America & Carribbean Europe (excl. USSR) U.S.S.R. Africa Middle East Far East & Oceania	820 1,822 943 336 239 690	6.42 14.25 7.38 2.63 1.87 5.40	16.13 2.31 7.38 0.38 15.88 2.45
TOTAL WORLD:	12,782	100.00	100.00

Note: Total World Consumption for 1952 was 4,665,795,000 barrels. World Increase in Consumption (1945-51) was 5.3 per cent. U.S. Increase 1945-51 was 47.6 per cent; European Increase (1945-51) was 50.0 per cent. Estimated daily world consumption for 1975 would be 20-27 million barrels with about half that feeding U.S. consumption. U.S. petroleum consumption was about 16 barrels for 1953, or 672 gallons per capita per annum. Canadian consumption in 1951 was 10.7 barrels or 450 gallons per capita per annum. For the rest of the world consumption average was one barrel per capita. For China, less than a gallon per capita.

Source: World Oil, Aug. 15, 1953; PAC, RG 20, 588, T-3-2738.

TABLE XX111:	Cumulative Oil Productio (In Billions of Barrels)		1953)
	U.S.	45.4 7.2	
	Russia		
	Venezuela	6.8	
	Middle East	5.5	
	Other Countries	9.5	
	TOTAL:	74.4	

Source: World Oil, Aug. 15, 1953; PAC, RG 20, 588, T-3-2738.

TABLE XXIV: Estimated World Crude Reserves, Jan. 1, 1953
(Thousands of Barrels)

	Estim. Reserves	Percent- age of World Total	Annual Production 1952	No. of * Years Supply
Canada	2,000,000	1.74	61,240	32.7
U.S.	27,965,600	24.43	2,291,997	12.2
Mexico	2,200,000	1.92	77,068	28.5
Others, N.A.	2,500		100	25.0
Total North America:	32,168,100	28.09	2,430,405	13.2
Venezuela	9,453,600	8.26	660,223	14.5
Others S.A.	1,303,000	1.13	105,578	13.0
Total South America:	10,756,600	9.39	765,801	14.2
Europe (Excl. USSR)	631,000	.55	47,985	13.1
U.S.S.R. including	6,930,000	6.05	379,059	18.0
satellites			107	
Total Europe:	7,561,700	6.60	427,044	17.7
Africa (Egypt)	214,000	0.19	17,345	12.3
Iran	13,000,000	11.34	7,777	1,671.6
Iraq	11,000,000	9.61	140,663	78.2
Kuwait	18,000,000	15.72	273,439	65.8
Qatar	1,250,000	1.09	25,249	49.5
Saudi Arabia	18,000,000	15.72	301,861	59.6
Bahrein	300,000	0.26	11,004	27.3
Turkey	75,000	0.07	113	663.7
Total Middle East:	61,625,000	53.81	769,106	80.1
British Borneo	550,000	0.48	38,251	14.4
Indonesia	1,400,000	1.22	62,514	22.4
India	28,000	0.02	1,990	14.1
China	15,000	0.02	732	20.5
Burma	45,000	0.04	1,000	45.0
Japan	30,000	0.03	2,134	14.1
Sakhalin	100,000	0.08	7,000	14.3
Others	22,500	0.02	1,400	16.0
Total Asia, Far East:	2,190,500	1.91	115,021	19.0
TOTAL WORLD:	114,516,000	100.00	4,515,730	25.4

TABLE XXLV (Cont'd.)

Note: Number of years supply is the ratio of estimated reserves to annual production.

Source: World Oil, Aug. 15, 1953; PAC, RG 20, 588, T-3-2738.

It would seem then, despite the inaccuracy of certain estimates, that like Russia, Canada as a moderate producer and a moderate consumer ought to have thought of itself as potentially self-sufficient. This is more or less what Russia did. The single most important deterrent would have been the marketing arrangements which the "Seven Sisters" already had firmly in place. Each had reserves or shared crude from the Middle East, South America (especially Venezuela), Indonesia, and the United States. Each had postwar marketing arrangements which they had agreed upon whereby, for the most part, their Middle Eastern oil went to Europe; their Venezuelan oil went predominately to the United States; and the rest of the world that imported oil was similarly marketed oil by these "majors". They had built and maintained an extensive fleet of tankers, though they preferred to lease these from foreign countries such as Greece (Onassis) and Liberia so as to avoid troubles with labour and insurance that American flagged and registered vessels might entail.

The assumption that Canada might be expected to develop its energy resources for national domestic consumption might also have found support in the fact that there was a world "glut" of "cheap" oil on the market especially from the Middle East, and "high cost" oil in North America appeared to be threatened because of its increasing availability via the majors. The battle of domestic producers in the United States was already being defined as one against excess capacity or shrinking

markets while the majors battered down such preserves with cheap oil. Canadian producers might well have expected some of the same problems in finding markets, especially when it is remembered that most Canadian markets were Ontario and East, and the majors had long been supplying these with foreign oil.

There is a socio-political context to such decision making which goes beyond the economic rationale we have just sketched, however. The control exerted by the majors internationally, was strictly in their own interests. Many consuming or producing countries felt the stifling grip of these Seven Sisters. Foreign exchange and currency problems were in large part adversely affected by their investment, pricing and marketing control. National control over the future of socio-economic development, whether based on oil or not, was severely restricted by the world energy cartel. As we detail in Chapter Seven, these major oil companies had and used the power of boycott, capital strike, and influence in the U.S. and U.K. Governments and in international financial institutions to bring any nation's development policies into line with the interests of corporate capital accumulation. Majors cultivated monopoly control of all petroleum sources, of refining, of distribution, and of marketing. There were alternatives, however. These took the form of either communist or nationalist policies of development -- anathema to both American and Canadian officialdom. State ownership of national energy sources facilitated the creation or acquisition of the technology and capital equipment required for development and further processing within a country and allowed oil to be developed to meet the requirements of national industry outside the

petroleum sector. Canada shared such problems with other developing nations and energy producers.

Major Consolidation and Control of Canadian Energy

From the beginning of Canada's large energy finds in the postwar period, however its energy plan was being shaped by the energy cartel's distributive control over world energy and its access to Canadian and American state power. The influx of American investment into the Canadian petroleum industry over the period 1945 to 1951 was enormous. It is clear from figures on ownership and book values, however, that much of this investment represented not so much "new financing" as the purchasing of outstanding securities from Canadian holders. American control was increasing through vertical integration accomplished in part through the purchasing of controlling stock shares in formerly "Canadian" companies. Not all the inflow of American investment is thus reflected in increases of book value of U.S. investment, for much of this buying out took the form of stock prices far in excess of book values. Also included in book values are the earnings created in 2. While increased Canadian investment Canada but owned by Americans. went primarily into drilling and production, American investment went more heavily into capital consolidation through vertical integration, buying and leasing of lands, refining and pipelines-- assuring control of market access.

Thus, the overall figures do not tell the story of vertical integration that made Imperial Oil, for example, the largest company, representing about one-third of the total investment in the industry, owned by Standard Oil of New Jersey, and the giant of refining in every

province. Such figures indicate only the relative decline of Canadian as compared with American book values, as well as the relative decline of those of other countries active in the industry.

TABLE XXV: Ownership of the Petroleum Industry in Canada

	1945		1951	
	Book Value (million	s) <u>%</u>	Book Value (millions)	<u>%</u>
Canada	172	58	578	47
United States	115	39	636	52
U.K. et. al.	9	_3	_11	1
	296	100	1,225	100

Source: "International Distribution of Ownership of the Petroleum Industry in Canada", Department of Trade and Commerce, Ottawa, 1952, pp. 1-7.

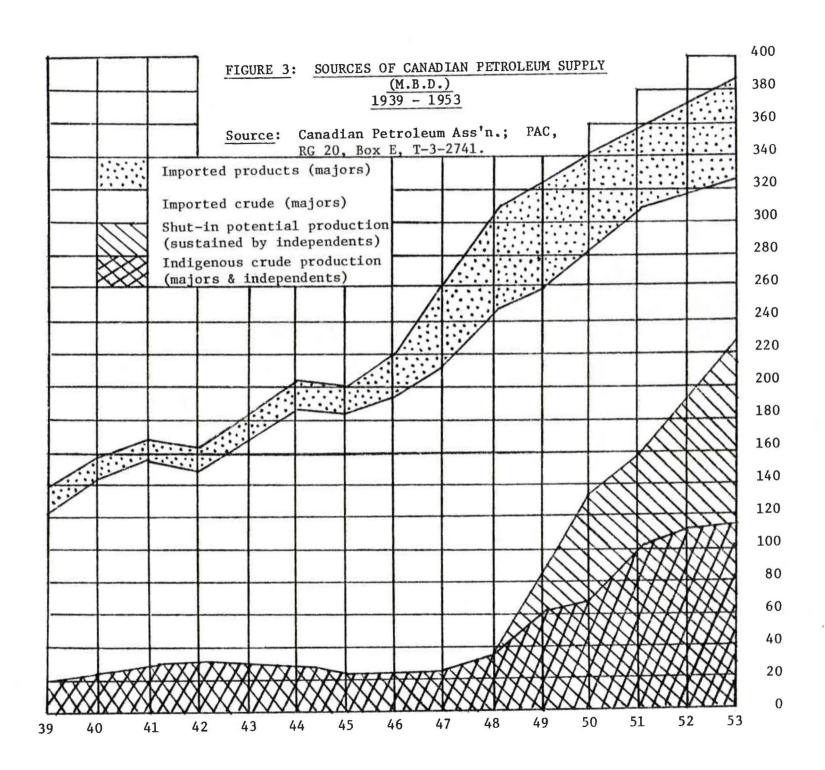
While \$212 million of the total \$400 million directed to exploration and development was Canadian, only \$143 million of the \$689 million directed to refining was Canadian investment, the rest being American, in 1951. Only when all activities are merged into broad statistics does the "Canadian" component appear as large as in the above figure of 47 per cent, book value, and 37.6 per cent control in Canada.

The vertical control held by major oil multinationals at the time oil was discovered in Canada's West, extending internationally as power over world markets allowed them to have the very <u>least</u> shut-in capacity and to be hurt least by that they did have. In contrast, the industry as a whole and the independents in particular suffered this block between production and markets. The majors' exclusive control

over cheap imported oil and the refineries in which it was broken down into marketable products gave them leverage of the strongest kind, as shown in Figure 3, allowing them to buy out or squeeze out independents. Between 1953 and 1956, for example, the number of oil firms proper engaged in the petroleum industry in Alberta dropped from 341 to 195.

Since the majors controlled the cheap imported petroleum which their cartel power allowed them to price at high North American prices (or what the market would bear), it was the state's compliance in this monopoly pricing and in the refusal to build an East-West Pipeline to Montreal that further solidified their supremacy over the multitude of indigenous producers that had sprung up in the West. Shut-in capacity was an important weapon or the "squeeze-power" used against competition both at home and abroad against independent producers. The accompanying figure indicates the magnitude of this shut in capacity. The majors had additional power in terms of their own domestic share in Canadian production.

Majors with such control could show profit margins like those we shall indicate later for Imperial, while other domestic producers went bankrupt or were forced to sell out. These profits allowed the majors to build new refineries assuring future control of markets in Canada and the United States for Canadian oil and construct the pipelines (with the help of the state's legitimation) wherever they liked. They acquired lands at an amazing rate, and in fact a disproportionate amount of their capital expenditures went to this end. Exploration expenditures included land acquisition in the 1952 industry statistic of \$93,100,000. By 1956 the figure for exploration was only \$46,590,000,



while nearly \$99,672,000 went into land expenditures. These latter were then the largest of industry expenditures in Alberta.

The massive increase in refinery capacity up until the 1960's went disproportionately to major multinational control, especially to Imperial Oil control. Between 1947 and 1957 total Canadian refining capacity in barrels per day rose from 261,925 to 767,850. The number of refineries increased from thirty-three to forty-three in the same period. 5. Of these refineries, the largest in every province were owned by Imperial. Of the forty-three refineries, eleven were in Alberta, nine were in Saskatchewan, six in Ontario, five in British Columbia, five in Quebec, four in Manitoba, and one each in Nova Scotia, New Brunswick and the North West Territories. 6. In 1957, 767,850 barrels were refined daily. Of this, Imperial Oil refined at least 299,550 barrels per day, if one goes only by those refineries specifically carrying the Imperial name. Of this Imperial take, 115,500 barrels per day came from Venezuela, from Standard's subsidiary there. Those refineries which relied on imported oil from Venezuela, the Middle East, and Trinidad were in Quebec and Nova Scotia. The total amount of imports refined in Canada was 299,500 barrels per day. Thus, the influence of Imperial's domestic and foreign take and the take of the other majors amounted to 597,850 barrels per day of the total 767,850. Though the amount of domestic oil used in Canada approached the amount of foreign oil used, the power represented by the majors in terms of both kinds combined was overwhelming. This is the type of extraordinary power Imperial brought to bear on federal energy policy. The power and profitability behind imported oil, sustained through

vertical integration back to production and including refining and distribution throughout Canada was the economic foundation of this socio-political power.

8. This gave Imperial and its sister majors the power to dictate which projects would be undertaken and when, whether one speaks of pipelines in the 1960's or big energy development projects in the tar sands, the Mackenzie Valley, and the Artic of the 1970's and 1980's. We shall demonstrate in the following that the state consistently legitimated this power of monopoly control.

6.2 Rejection of a Nationalist Energy Policy in the 1950's

The structure of dominance of the world energy corporations itself is not sufficient to explain the role of the Canadian state in the development of Canada's energy resources. We must examine the social relations and the legitimation of the ideology which was necessary to sustain and increase that dominance in Canadian institutions of policy making. There are four basic premises in the sociological explanation of why a truly nationalist energy policy did not evolve in Canada in the decade immediately following the major Canadian oil discoveries. Alternative choices could have taken Canadian resource policy in a nationalist direction, were it not for the constant reproduction of the social relations of dominance that stemmed from the international structure of oil investment and control as well as from the indigenous Canadian structures of policy making. These latter structures were, as we shall demonstrate, formed in an undemocratic fashion, consistently linked to counterpart structures in the United States, and resulted in increasing capital accumulation by major multinationals at the expense of the Canadian public and indigenous

Canadian oil producers. The four premises indicate features that were being institutionalized in the Canadian state even before the creation of the National Energy Board in 1958, and before the opening of substantial access for Canadian oil and gas to American markets. The seeds of non-nationalist, or "continentalist" energy policy-making perspectives took root in this decade and have characterized government policy and institutions in the energy sphere until the present. The first of the four premises sets the logic for the other three, and together they created the foundation for a dependent, resource capitalist strategy of development, which would in reality bring further underdevelopment to Canadian society:

- (1) The major oil companies, particularly Imperial Oil (majority owned and controlled by Standard Oil of New Jersey) consistently and nearly exclusively had the ear of the Canadian state policy-makers on important energy issues. They thus constituted the overriding element in the "definition of the situation" fundamental to a coherently created and applied energy policy.
- (2) Decisions concerning the timing and direction of energy-carrying pipelines, the supplying of Canadian or American markets with Canadian or foreign oil, and even the pricing of oil, both Canadian and foreign, appear to have been made by and for the majors.
- (3) Smaller, independent Canadian producers and individual critics were thus frequently in opposition to the majors' and the Canadian state's policies. However, though these interests frequently expressed alternative views of what a national energy policy should be and called for alternative energy data gathering public bodies, they almost never

received serious consideration by government policy makers. Hence, an alternative definition of the situation was filtered out.

(4) Foreign investment and technology importation (as well as the importation of foreign oil) were actively facilitated by state policy, lessening the future feasibility of an independent oil structure and hence energy policy in Canada, as well as retarding the growth of secondary manufacturing in this sector or in sectors related to it.

The Canadian state was extending the same continentalist-styled dependency on American markets and capital which had characterized so many of its other resource industries in the twentieth century. The evidence to be reviewed in support of the above premises and our earlier more general but related hypotheses about the role of the Canadian state, outlined in Chapters Two and Three, give no support to the alternative hypothesis that ignorance on the part of policy makers or silence on the part of alternative interest groups within the industry explain the development of or the continuance of non-nationalist energy policies. Nor can we sustain, in the face of such evidence, the notion that the structure of the international oil industry itself completely overwhelmed policy makers and hence eliminated alternative courses of action. For we shall see that the continental context was at this early stage only being formed and its formation was an active project of the Canadian state as much as of the multinational oil corporations and of the American state. In the first postwar decade, the continental context, in terms of social relations and a physical "energy grid" North-South, was in the construction phase. Canadian oil was not a viable entrant into the American market until the last few

years of the 1950's, and even then only through a difficult process of negotiation were such markets secured in return for an open-door policy toward American capital and manufactures. Even then access to American markets was the most precarious element of the continental energy policy.

We turn now to five important policy-making areas and one farreaching "scandal" or crisis of legitimation for the Canadian state,
which, we believe, provide substantial evidence for the rather unorthodox views sofar presented on the role of the Canadian state in energy
resource development. These indicate the close and exclusive forms of
consultation that occurred in the 1950's between Canadian government officials of major energy-policy-related-departments and Imperial
Oil officials. The fact that it was Imperial policies that prevailed
in these instances belies the "neutrality" of the Canadian state
apparati and shows that whether solicited or unsolicited, Imperial Oil's
view was considered of the highest relevance in defining both the broad
outlines and the specifics of energy policy.

6.3 An Ear To Imperial

Imperial Oil came to define "reality" as it would be viewed in the Federal Government (and to some extent in the government of Alberta) in terms of the following five facets of energy policy:

- (1) The pricing of Alberta oil.
- (2) The economic feasibility, terms, and timing of the supply of certain major eastern and western Canadian markets with Canadian oil.
- (3) General "appraisals" or "prospects" of the Canadian energy industry through the presentation of statistics, reports and briefs, as

well as through intimate informal exchange of ideas with policy makers.

- (4) The lobbying for and successful attainment of greater governmental subsidization of capital accumulation in the oil industry through changes in exploration and depletion tax deductions.
- (5) The necessity of a carefully worked out "continentalist approach" for obtaining access to American markets (instead of Montreal and Eastern markets) for Canadian-produced oil.

In what we have termed a "crisis of legitimation", (1958-59), Imperial Oil was able to sustain governmental favour and monopoly access to the Canadian defense and other state department markets for Imperial's foreign oil at the expense of smaller domestic oil producers who wanted to compete for these markets with prairie oil. The state had to support the rights of both oil contenders while sustaining Imperial contracts. This scandalous behaviour, as well as the "resolution", presented a legitimation crisis for the Canadian Government, which had clearly colluded at various levels with the Imperial monopoly. It showed the degree of strength of Imperial's power and influence throughout the various structures of federal energy policy control and the value of ties to military-petroleum agencies in the United States. In fact, this "crisis", had its seeds in the basic contradictions which a "continental approach" entailed: the hastening of the demise of independent as opposed to major oil producers as the former were squeezed out of markets, and the latter received exclusive representation within the state. This legitimation role of the state in conjunction with mounting contradictions produced by the other five Imperial policies necessitated the placation of smaller producers. The creation of the National Energy Board had an ideological use in the short and long term as mechanism for diffusing

public sentiment against Government/Imperial policies. The NEB also served to further centralize policy making in the hands of a very few civil servants and to operate as a lobbying instrument to maintain access to U.S. markets for Canadian oil.

6.4 The Pricing of Alberta Oil and the Supply of British Columbia and Ontario Markets

In August 1950, Imperial Oil supplied civil servants in the Trade and Commerce Department with an explanation of why Alberta oil could not (or would not) compete with Texas oil in American midwest markets and why it was more profitable for such Canadian producers (including of course Imperial) to sell their oil to refineries in Sarnia and Toronto while bypassing midwest markets. By "coincidence", Imperial had large-scale refining capacity in the Sarnia-Toronto areas, and midwest markets were already being supplied by one of Imperial's American affiliates. The notion of the unfeasibility of such markets would subsequently be nullified by the active struggle for and acquisition of American midwest markets for Canadian prairie oil in the late 1950's.

Even given the time reference of Imperial's explanation, its logic was so contradictory that Denis Harvey of Trade and Commerce required considerable "clarification" and a personal briefing by Imperial Oil officials. (This "logic", it should also be noted, was directly contradicted by Imperial in its resistance to supplying British Columbia markets with Canadian oil unless westcoast American markets could be obtained at the same time.) Civil servants worried over the problem of legitimating Imperial's position, attempting to justify it

by reference to possible U.S. policies. "...it seems illogical to expect that Western crude should by-pass the Minneapolis and Chicago areas to back mid-continent crude out of Ontario, except, of course, for the (U.S.) import tariff."

9. They tried harder to make Imperial's policy on this matter, which would lead to Ontario consumers paying higher prices for oil, sound like "economic necessity". The reader can judge whether or not this succeeded:

Oil flowing from Alberta towards the oil fields in Texas and Oklahoma brings a lower price at the well-head as it moves south. This is not only because it costs more to move it over the additional distance but also because oil from alternative mid-continent sources does not have to carry this cost of movement and its competitive price is reduced by a corresponding amount. On the other hand, as this Western oil moves eastward it tends to run along lines parallel to those which the mid-continent crude must follow. Prices at refineries in Southern Ontario are, therefore, higher than those in Chicago and an outlet at refineries, such as those at Sarnia and Toronto, is more remunerative than one in the Minneapolis or Chicago areas... This would be true even if there were no tariff operating against Canadian crude entering the U.S. 10.

If "economic necessity" rather than bloated profits at the expense of Canadian consumers had actually been the underlying logic here, then Imperial would have been acting entirely inconsistently when it came to its explanation about the unfeasibility of serving British Columbia markets with prairie oil. We suggest Imperial's logic was consistently one of maintaining monopoly profits and market control. Imperial's economic "expert", John F. Fairlie, explained at a public conference in 1952 that it was not economically feasible to supply Vancouver with Canadian oil unless U.S. markets were simultaneously opened to Imperial's Canadian-produced oil on the west coast:

"It is only with expansion of throughput that the laiddown cost of crude in Vancouver is reduced and the shareholders obtain a return on their investment. The expansion of the throughput of the line depends on whether a market for Canadian crude develops on the United States' west coast. The maximum permissible tariff of about 60¢ does not provide an adequate return to the shareholder who is providing the capital...Because with this tariff the price of crude is unchanged from its present cost in Vancouver, there is no immediate advantage to the consumer. 11.

In effect, in both cases— pricing of Alberta oil in Ontario and in British Columbia markets— federal government policy would follow Imperial policy and interests. In the movement of oil inter-provincially the federal, as opposed to provincial, government ruled. No supplies would be made, regardless of supply or demand, unless the price was higher in Canadian than nearby U.S. markets, and then only if Imperial decided to use Canadian as opposed to imported foreign oil. Thus, Imperial's parent, Standard Oil of New Jersey, enforced policies of market allocation (concerning its Mid-East, Venezuelan, Canadian, or American oil) which provided the outlines for both Imperial and Canadian pricing-policy in general during this period. Federal officials not only allowed this to take place, despite the monopolistic aspects, but were active in rationalizing each new twist of such rationales.

John Davis, a key economic consultant in federal policy on energy and major writer of federal energy industry appraisals and Canadian American Committee reports (an organization which played a strong role in the creation and ideological maintenance of the continental approach) frequently legitimated and translated oil company perspectives into policy for civil servants. His reports always sustained the importance of continuing to depend for future development on the exploitation of Canada's resources and doing so within the continental

context. It was from talking to Davis in 1953 that Denis Harvey became convinced of the necessity of the continental approach; Harvey noted "that the U.S. market is coming to have more importance to the Canadian oil industry than is usually admitted publicly by major firms in the industry." 12. Once the plan to push for supplying American rather than Canadian markets had become ideologically established at the upper levels of policy making, the concern by majors for American markets could be more open. In the early 1950's it was still not part of the common logic, and flew in the face of common sense. A "higher logic" was in the process of being established. Meanwhile the majors established in state policy new terms of access to oil and the foundations for greater capital accumulation in future.

6.5 Depletion and Exploration Subsidies

The major weapon of capital vis-à-vis the state is capital flight, or a capital strike. It is this weapon in the hands of the majors that was used to reduce to nil the "risk" involved in exploration and pass the costs on to the Canadian taxpayer. Aside from the pricing of Alberta oil and the related question of the "economic feasibility" of supplying Ontario or British Columbia markets, Imperial was the strongest lobby for public subsidization of oil depletion and exploration costs through changes in the Canadian tax system. Here again the argument emphasized the continental context as the only valid frame of reference for Canadian tax policy. Prices as well as public subsidies must meet or surpass those in the United States, said Imperial, or capital flight and a strike by capital against further exploration in Canada would ensue.

W.O. Twaits of Imperial Oil outlined for the Canadian Government how it could improve its relationship with the oil industry by extending tax and depletion subsidies similar to those of the United States.

Imperial executives personally and in letters to the Deputy Ministers of Finance and Trade and Commerce complained that it was not worth exploring for oil without such give-aways:

Under existing regulations, exploration costs must be deducted from gross producing earnings before determining the income on which depletion is allowed. Consequently, the company who devotes earnings from Canadian producing operations to further exploration is penalized in the amount of depletion by one third of every dollar so spent for exploration. Under U.S. law there is much greater incentive given to exploration than under Canadian law. We estimate that the proposed change in depletion allowance would represent a revenue loss to the Federal Government of not more than \$11 or \$12 million per year. 13.

The plan amounted to getting double tax deductions on the same items --first deductions for exploration costs (successful or not, producing or not) and then counting these again under depletion for further tax benefits. These letters were requested by the Deputy Ministers to reconfirm what had been discussed in a luncheon with Twaits a month earlier. The threats of capital flight were alternated with appeals for the health of the whole oil industry, the interests of "the national economy", and "the defense of Canada" itself. Imperial was not opposed to using nationalist sentiments when it was a bread and butter issue for Imperial profit margins and those of its parent. Here the continental context was underlined:

We are competing, in the final analysis, with the worldwide producing industry within which the largest factor is the U.S. domestic producing industry. It is essential therefore, that Canadian operators have an incentive to explore which is competitive to the U.S. operator or development will be retarded 14. (emphasis ours.)

By "Canadian operators," Imperial meant itself and any other

American multinational producing, distributing or refining in Canada.

Twaits attempted to give more authority to his argument by quoting from

The Paley Report, Volume V, Part 1V, so influential in the creation of
a continental context for state and industry resource policy-making,

"On balance considering all aspects of the income taxes as they apply
to the mineral industries, it appears that oil and gas industries received
more generous treatment under the U.S. than under Canadian law." 15.

Such appeals could have been dealt with as one more opinion except for the fact that by the 1950's the most successful corporations in the oil industry were <u>international</u> in scope and could thus pressure any government to meet their demands concerning the conditions for capital investment. The only alternative for a state was a protectionist stance which would limit the entry of foreign capital into all or certain sectors, put conditions on its operation, or nationalize energy properties. The Department of Finance was undoubtedly familiar with <u>The Paley Report</u>. Certainly if this spirit of continentalism was to become reality, Imperial (and other multinationals) would demand that all doors to a truly nationalist (protectionist) orientation be banished from state policy and that "proper weight" be given in Canadian policy to tax breaks that would facilitate capital accumulation internationally in an unrestricted fashion.

In case the complexity of such tax computations should hold the Covernment back from implementing the scheme, Twaits thoughtfully offered a plan for "the necessary incentive under Canadian regulations without adding to the Federal Government administrative burden." As

evidence of how helpful such incentives would be in fostering exploration, Twaits cited the glorious record of U.S. companies' expansion at home and abroad, and corroborating statements by General Thompson, Chairman of the Texas Railroad Commission (oil conservation body of that state) before the U.S. House Ways and Means Committee. In these ways the notion that what was good for big-time American oil interests was good for Canada was implanted. The fact that U.S. depletion allowances had provided capital to the multinationals aiding them in obtaining control of world energy resources was undeniable, but hardly a basis for a national energy policy in Canada, where no incentives should have been needed. International capital could not afford not to get control of Canadian resources, incentives or no incentives. If Standard Oil of New Jersey did not continue to be active in controlling as many new sources of energy as possible, it would lose out to other capital interests (foreign or domestic Canadian). In other words, Canadian officials had the option of playing one capitalist off against another, instead of throwing all their support to Imperial and other multinationals.

Twaits further argued that the \$1.2 million investment in Western Canadian oil "would seem to justify a tax structure adjusted to the needs of the industry", as opposed to the public; and he resorted to the tired argument that the Canadian industry was "geographically handicapped." He suggested that the \$12 million to be lost to the public could be provided by other industries that might grow up around oil production, thus proposing penalizing secondary manufacturing to further subsidize primary resource extraction. Any forward linkages that might arise from exploitation of Canadian oil in a period of world glut would therefore be

handicapped from the start.

Twaits suggested (his word being the only proof the Government had to go on) that there had been a decline in activity in western Canada and that this would deepen if the Government did not succumb to these demands for tax breaks. He ended his lobbying letter with a "respectful" hoist of the national banner, lest special corporate interest appear too obvious:

We respectfully submit that the revision of the Department's regulations is a matter of extreme urgency and in the best interests of our country (that is, Canada). The search for oil is not only necessary to maintain a healthy industry, but to assist in balancing our Nation's economy and to develop indigenous products so necessary for National defence. 17.

Since international capital was not a simple monolith and was begging to invest in Canadian oil, incentives or no incentives, common logic might have led the Government to reject such pleas and consider the implications for overall development, especially for the secondary processing alluded to by Twaits. Imperial in particular would not have risked its lead in exploration of Canadian oil by actually carrying out such strike threats. But no such logic was to be brought to bear. As the Government met each of these Imperial demands, it also sent to the World Petroleum Report and to all Canadian commercial counsellors around the world notice of the new incentives it offered to domestic and foreign capital alike. Foreign capital was not only actively attracted by legal tax changes made by the Canadian state, but such policy was exported as an example to developing nations of what an energy policy should be. The Canadian state was thus active in the wholesale exporting of the legal and ideological framework of resource dependency and anti-18. nationalist perspectives.

6.6 Imperial Drafts National Energy Policy

In a letter to E.C. Manning of Alberta, Twaits of Imperial, outlined a full scale Imperial plan for the future development of the Canadian oil industry, sending copies to Deputy Minister of Trade and Commerce (in 1957), Mitchell Sharp. Twaits again said a "continental approach" was needed, but one that would require extreme "delicacy" and perhaps delay. The timing of entry into American markets was something that Imperial wished to work out carefully, without public debate. The future of Canada's energy policy could not be left to the rough winds of democratic discussion or even the representative weighting of the views of alternative interests within the industry. The continental approach for oil would be worked out slightly differently than for other resources such as nickel, aluminium, paper, etc., which had been amenable to a stockpiling type of programme, something that American producers of oil and the American state would find difficult to implement, considering the notorious glut of both domestic and foreign oil in the 1950's and Imperial's intention to maintain imports in eastern markets. Such an approach would imply what Twaits called:

...a defense basis and/or some sort of customs union agreement. It would seem difficult to confine it to one type of resource rather than all strategic materials. In addition in the case of gas and oil, the continental security concept would require a protective fence, to put it bluntly, to preserve a higher price structure on North American oil, in order to maintain incentive for exploration and development of a large excess M.E.R. (an Imperial term meaning maximum "efficient" producing capacity). Obviously this has a great many implications and certainly depends on a 'guns versus butter' (to borrow a Samuelson term) philosophy. 19. (Emphasis and parentheses ours. See Appendix C 2 for full text.)

The public would, of course, pay for the "gums" rhetoric in any case and the multinationals would garner the "butter"— whether the high price structure was maintained for defense or other reasons. It is apparent from memos between Twaits and Sharp that the outlines of a special "continental approach" for oil would achieve a "special status" for Canadian oil in the U.S. market using the defense argument accompanied by different mechanisms that were being used for stockpiling in general. This policy was being drafted in private luncheon meetings between Imperial oil executives and top civil servants, with Imperial setting out both the continental perameters of the alternatives to be considered and suggesting which of these alternatives should be acted upon.

The long-term odds for entry of Canadian oil were definitely positive, but the short-term required careful manipulation and secret diplomacy for two reasons: Imperial and other multinationals would need time to rearrange their marketing and distribution structures to maintain control of the flow of Canadian oil into U.S. markets; and the American state would need to legitimate allowing in Canadian oil to compete with threatened domestic producers who were themselves struggling to maintain U.S. markets against the onslaught of the majors at home. Imperial did not want an uncontrolled, free-for-all rush by western Canadian producers on the carefully maintained majors' marketing structure in the United States, nor an increase in the strength of American domestic producers' ideological position. Threatening them might cause them to organize more tightly and perhaps succeed in legitimating their case in the United States. Imperial decided its most expedient course (and that of Canada by extension) would be to edge

Canadian oil slowly and imperceptibly into the U.S. midwest market.

Special status for Canadian oil would be justified on the grounds that pipeline transported oil was safer, and would mean Canadian oil would be considered "second only to American" in preferred access to markets. But the stockpile approach was out because that would mean a move to cut off reliance on Venezuelan or mideast oil in North America.

"American" would sometimes include Esso's and other multinational companies' "foreign" oil in the sense that wherever they chose to use foreign oil they would do so, manipulating price to undercut both "American domestic" and "Canadian".

Canadian policy-making officials hung on every word that Imperial spokesmen uttered. First, because these officials had allowed Imperial to define reality in such a way as to present American markets as the only viable long-term markets in sight. And, second, because the charmed elite of the several governmental agencies and departments which made policy were in constant contact with Imperial spokesman. Third, they knew that Imperial had similar sway in those institutions of Washington that made policy on oil. The Congressional and Parliamentary levels of government, where alternative interests got a hearing in both countries were not the levels where such policy would be made. For Canadian policy-making officials, Imperial apparently represented the voice of power and influence, the "insider" that could manipulate the proper channels in Washington to open American markets. In this assumption they were probably correct; the option to seek American markets was, however a "choice" not a "given" means of developing Canadian resources.

Twaits warned Manning in 1957:

Only the question of time is involved...if Canadian oil is allowed access to 'economic' markets in the U.S. without becoming involved in considerations of continental defense, we believe that the soundest continuing argument rests on the following three points: (a) Importation of Canadian crude into U.S. represents no economic threat to the producer. (b) Exemption of Canadian oil moved by 'pipe line' into the U.S. provides a security reason for discrimination in favour of Canadian against other Western Hemisphere sources of supply. (c) Canadian oil is a commodity which the U.S. needs in the long run and which decreases the trade deficit without harm to domestic U.S. manufacturing groups. 20.

The above makes clear just what limitations would surround this dependency on U.S. markets. It would mean, as in the past and for other industrial resources, that Canada would be given markets only so long as this did not harm American manufacturing groups. Since the bilateral trade balance for the United States required that American manufacturers either put branches in Canada or export directly to Canada, it meant that in the long run Canada (in adopting Imperial's policy) would forfeit secondary Canadian manufacturing opportunities once again. In other words, these dependency effects were clearly explicit, not implicit, at the time when such policies were being formulated and adopted in the 1950's.

In the same correspondence, Imperial let slip the extent of its stake in this policy while trying to cover up the same:

No buying policy or area restriction governs our actions. In fact, it might be recalled that the (our) original movement of Western Canada crude to our Sarnia Refinery displaced thousands of barrels a day of mid-continent crude produced by Cater Oil Company, a Jersey (Esso-Imperial) affiliate. 21.

Lest Manning think ownership had anything to do with the control of markets or the timing of access of Canadian oil to those markets, Twaits

hastened to assure him that Esso ownership had nothing to do with Imperial policies. Access to cheap foreign oil was enough excuse to use it Twaits suggested:

In fact, if we had no major shareholder (Esso), with other producing interests, our thinking on markets and our crude oil purchasing policy would be exactly what it is today... no changes in our company policy could contribute to a solution of the present problem. 22.

Imperial was too closely linked with, in fact part of, the problem, to want to relinquish control of markets in order to solve the development dilemma differently. In the final analysis, it was a question of survival and profit. Control of marketing meant greater profits, of course. Thus, Twaits also admitted that Imperial policy would support keeping the Ontario market for Canadian oil, having laid the foundation for this in the appropriate pipeline control: "(We will)... encourage the growth of (our) refining capacity in Ontario and... assure this market for Canadian crude, which can be done at much less hardship (to us) than moving the crude to Montreal." 23. (parenthetical observations ours.)

In reference to pressure by western producers to open up the Montreal market to Canadian oil, Twaits assured Manning that such a project was "unfeasible", that if it were feasible, Imperial would have done it by undertaking a pipeline to Montreal itself. Nor could Imperial support the idea of the Federal Government's undertaking the pipeline, for the company preferred to have such energies directed toward opening up American markets. In short, Twaits called the Montreal market "sub-marginal" and any attempt to supply Montreal with Canadian oil "harmful to the industry". "We continue to feel that the

Montreal market is not the best long-run outlet in comparison with other areas and could well represent a handicap to ultimate growth in the industry." 24 .

In what amounted to an admission of the falseness of oil company statistics (from which Government statistics derived), Twaits asserted that economic calculations of cost had little to do with the policy, "Regardless of any comparisons that are calculated on posted prices and estimated transportation costs, Canadian crude is at a very large transportation disadvantage compared to offshore crude." 25. For a multinational like Imperial's parent, costs were extremely relative. While "offshore" oil might be cheaper to extract, the price Imperial could charge in the Montreal market (by banning a pipeline) was higher than for most other cities whether supplied by offshore or Canadian oil. Additional arguments were offered, equally suspect, but interesting for the emphasis they give to Imperial's stake in the matter and in defining the situation with or without benefit of statistics. The Federal Government, and apparently the Alberta Government, listened to such arguments intently, despite mounting evidence and criticism from other quarters in the oil industry.

Thus far we have reviewed evidence which shows Imperial Oil was very active in defining the framework for the so-called "national energy policy"; state practice coincided to the letter with Imperial's continentalist policies. The pricing of Canadian oil; decisions on which Canadian markets to serve with Canadian or foreign oil; decisions on when, where, and how to enter American markets; and the decision to stonewall the building of a Montreal pipeline ——each was carefully

linked to Imperial's needs as an American-based multinational with vertically integrated, centrally controlled activities. Each was also formulated to sound like a "national" policy, meeting the need to maintain close coordination with the Canadian state and offer legitimation of this exclusive situation. Rapid exploitation of Canadian resources by American capital in return for entry into American energy consuming markets was to be the basis of such policy. As long as the Federal Government attended to Imperial's analysis rather than to that of competing interests or critics, the "success" of such a continental policy seemed assured. The weeding out of alternative plans was essential in the organization of this begemony at the ideological level.

6.7 Rejection of Alternatives to Imperial Policy

Alternative Data Sources Stifled

Substantial public, provincial, and smaller company demands were being made in the 1950's for alternative bases of decision making, particularly alternatives to major oil company statistics on supply, demand, reserves, stocks, and the feasibility of serving particular markets with Canadian oil. The Federal Government rejected these pleas for alternatives or leverage against Imperial's hold over energy policies. Calls for an alternative statistical agency as well as the demand for entry of Canadian oil to Canadian Defense Department markets and Montreal consumer and industrial markets were rejected.

Minister of Trade and Commerce, C.D. Howe, vetoed any attempt to found an alternative governmental agency to gather cil industry statistics in 1951. An official statement to that effect was issued on Canada's behalf by the Departments of Trade and Commerce and Mines and Technical Surveys, in which the creation of such an agency was said to undermine the very basis of "free enterprise":

...the Federal Government is of the opinion that it is not necessary or desirable to create a new Federal agency to undertake work which, in a free enterprise economy is essentially the function of individual firms or trade associations. 26. (See Appendix C 1 for full text.)

Leaving the provision and accuracy of industrial statistics up to the whims of oil companies (whose statistics the Dominion Bureau of Statistics reiterated) was thus a conscious decision. It led to an underinformed and misinformed public, ill able to muster statistics to support alternative policies on energy. This served Imperial's interests quite well, since its statistics were never questioned by the Government, and thus its word on what was "economically feasible" could only be disproved with great difficulty by its critics.

Secondly, any overall studies of the industry were to be conducted by the industry's closest governmental allies and long-time advocates of continentalism in other sectors: the Department of Defense Production and the Department of Trade and Commerce. 27. The former was a major customer of Imperial's (as will be shown subsequently). A few economic consultants like John Davis and Walter Levy would write up the major reports on the industry. Davis had a long career in both DDP and T and C, and both consultants favoured big oil and continentalism in their writings for the Government, the Canadian American Committee, the majors, Foreign Affairs magazine, the oil producing provinces, and other governments and trade associations. Besides insisting that a pipeline would require huge imports of American capital and

equipment, Davis' analysis for the Government, "Canadian Energy Prospects" concluded, not surprisingly, that "bringing Canadian oil into Montreal would have disastrous results in the 1960's". For, allowing in what Davis considered to be "subsidized" oil along with subsidized coal and gas would be unthinkable.

In the same breath that he refused an alternative statistical agency, Howe asserted the importance of Canadian oil as a "strategic material in our defense plans," and he thus limited access to industry surveying to studies "undertaken by the Petroleum Division of the Department of Defense Production and the Economic Divisions of Defense Production and of Trade and Commerce." 29. In these divisions, Imperial's definition of reality was being firmly maintained. The ideological linking of oil (like nickel) to strategic and defense plans was a means of backing up the arguments for continentalism and for the secrecy that would allow such a policy to be constructed by a few executives of major companies and a few government officials on both sides of the border. Thus, the solicitation of major oil company executives' "expertise" in forming a "national policy" went hand in hand with the deliberate limiting of general access to the factual bases and process of policy making. It was, unfortunately, not the result of ignorance or exasperation in government circles.

A third mechanism of information limitation and legitimation has traditionally been the Royal Commission inquiry and report in Canada. Those attended to in the Royal Commission on Energy, the Borden Commission, were those who represented the continentalist approach. Other opinions were downplayed or ignored outright. It was Walter Levy who

prepared the Canadian Petroleum Association's submission to the Commission, a prepublication copy of which was earlier solicited by Minister of Trade and Commerce, Gordon Churchill in January 1958.

It was Imperial Oil's "Prospects for Canada's Oil Industry, 1955-1980" which figured most prominently of all entries for informing the public on the directions to be taken in the Canadian energy sector. The Borden Report became the rough draft of the "national energy policy". For its own reports on supply and demand, the Government relied on Imperial forecasts and statistics such as those provided in the 1950 report, "Canadian Petroleum Supply and Demand," by an Imperial Oil economist.

It is of interest, as well, that Walter Levy was prominent in designing American ECA policies for Europe that fostered access to European markets for the Mideast oil of major U.S. oil companies.

Levy was frequently hired by Esso and other majors and continued to formulate oil policy in the international context as seen in his continuing articles for Foreign Affairs, the journal of the American Council on Foreign Relations (The more recent "conflict of interest" caused by Peter Lougheed's hiring him at the same time Syncrude companies were using him as a consultant is not a new pattern.) Meanwhile, other opinions being voiced to the Canadian Government and the Borden Commission were being given short shrift.

The Borden Report: Federal, Industry, and Other Reactions

Adverse reactions to proposed national energy policy ranged from dissenters within the Borden Commission itself, to criticisms of either the structure of control in the oil industry or of the policies contained in the Commission's Report. Major and independent oil businessmen in

the West, individual critics such as George Lewis (a vocal ex-executive of Imperial Oil), and even American editorial opinion were received by policy makers. There were undoubtedly other sources of criticism, but the correspondence of those groups mentioned has accumulated in the memos and files of the Trade and Commerce archival materials and indicates that varied opinion and criticism was at least brought to the attention of policy makers of the time. Before detailing such reactions, let us summarize briefly the thrust of the Borden Commission reports.

The Borden Commission's Report called for the following "national energy policy" guidelines:

- (a) It should be national policy to encourage the export of Canadian crude oil without license.
- (b) Canadian crude should be made accessible to refinery areas in Canada only via existing pipeline facilities, (in other words, no Montreal line should be built.)
- (c) Implementation of these policies was to be left to the voluntary action of companies concerned.

The Report specified:

...that no Government action should at this time be taken to ensure the construction of pipe line facilities to transport Canadian crude oil to the Montreal refinery area and that before any such action is taken...the oil industry...demonstrate that it can find markets elsewhere in Canada and the United States sufficient to sustain a healthy and vigorous Canadian oil industry with the incentive for further exploration and development. 32.

Thus, the Commission supported the Imperial plan of continentalism, as it had been presented since 1950, and vetoed the construction of a Montreal pipeline that would have connected Canadian oil with eastern national markets. The latter were reserved for foreign oil, and a North-South rather than an East-West energy grid was laid in policy terms. The Commission saw the job of the newly created National Energy Board as keeping track of sales and production to determine when the industry might be producing and selling enough to merit the rethinking of this decision on a Montreal pipeline.

One important Federal policy maker, G.W. Green, of the Energy Studies Branch of Trade and Commerce, noted that the Government delayed reaction to the Report because of the unseemly dissent within the ranks of the Commission itself, not because it disagreed with the final reports or sought to bring the debate into the open:

The fact that the members of the Commission did not agree among themselves on some of the more basic issues involved makes it rather dangerous at the moment for the government to give an opinion on the appropriateness of the recommendations. 33.

The majority of the Commissioners, he said, agreed with "independent"

Canadian producers that incentive for Western production was being endangered, and that perhaps a Montreal market was the answer. Both economists on the Commission disagreed however, and their opinions prevailed in the reports. They claimed that "growth" would continue without special "interference" of that nature, and supported increasing export to American markets as the solution to glut. Dissenters were cast as "dangerous protectionists." The Government saw little problem in overriding Western Canadian oil opinions or those of Commission dissenters. It was concerned, said Green, only with possible disagreement by the American Government on licencing Canadian exports and linked this to an open door for foreign oil entering Canada:

...any implication that the government would consider the imposition of quotas in the near future would cause unnecessary alarm in Venezuela and the United States, at a time when such alarm would be very unlikely to bring any

offsetting concessions (American markets) to ourselves. 34. (Parenthesis ours.)

The maintenance of Canadian markets already served by pipeline with Canadian oil was the same policy suggested in Walter Levy's Canadian Petroleum Association brief. Every one could agree with this half-hearted step, including Imperial Oil. Thus, to override the Montreal option, the Government needed to do nothing at all, except fail to licence its construction, withdrawing both political and material support from its proponents. Instead, clearance would be extended by the Department of Justice to refining companies to cooperate with each other in cutting off foreign oil products from the Ontario market. Government assistance in opening up American markets then became a problem of sheer implementation. The alternatives here, as Green saw them, were either continued pressure on the U.S. Government for import concessions, or the readjustment of methods of calculating such import allocations, allowing the U.S. Government to avoid the public embarrassment before domestic producers of opening the floodgates to Canadian oil.

N.R. Chappell, director of the Washington office of the Department of Defense Production, collected editorial opinions on the Borden Reports and circulated these to the Department of State, to A.E. Ritchie of External Affairs, to D.M. Fraser and to G.W. Green of the Energy Studies Branch at Trade and Commerce. In line with independent oil opinion, the Calgary Herald ran the following editorial on August 24,1959:

...it is now pretty obvious that the U.S. action in lifting import bars on Canadian oil was agreeable to U.S. internationals as a ruse to protect the greater Montreal market for their imported oil. They could not import this oil to the United States; they wanted to import it to their Montreal

area refineries rather than use Canadian oil Canadian oil companies were thrown the very small bone of export dribbles to U.S. markets while the internationals with Montreal refineries enjoyed a substantial feast on Canadian markets. 35.

The editorial further called on the Canadian Government to take action to assure the Montreal market would be supplied by Western Canadian oil as a fundamental basis of national policy, "The Canadian Government cannot refuse to do for Canadians what other governments are doing for their national interests."

Mail and various oil majors who stood firmly behind the most conservative interpretation of the Borden Report. The Globe and Mail editorial, August 31, 1959, feared only that U.S. domestic producer resistance to competition by Canadian oil might douse the flames of continentalism, and suggested: "The continental approach...will have to come through treaty arrangements between the two governments concerned." 37. To implement the continental approach, it urged the creation of an Energy Department in Ottawa, or a greater role for the newly created National Energy Board in carrying out the Borden Report's recommendations. Similar opinions of Cities Service, Sun Oil and the like were faithfully cited, though the Canadian Petroleum Association still witheld comment.

Also available were the numerous letters to the Borden Commission, to various department ministers, to Imperial Oil and to Prime Minister Diefenbaker, by George A. Lewis, a strong nationalist supporter of a Montreal pipeline and an ex-executive of an Imperial Oil company. To the Borden Commission, Lewis wrote:

I have followed the pros and cons of the pipeline, and have sent many letters in regard to same. I notice once again the Imperial Oil brief, and I pay no attention to what Mr. White has to say; he has already had his instructions from Standard Oil of N.J...let him tell us how much money Standare Oil has invested in Venezuela. The total help by the 'Giants' in the field amounts to \$3,000,000,000...Our country does not interest Standard Oil or Imperial; they are interested in profits at both ends of the line...The government holds the keys to show the Imperial Oil Co. and the other major companies what is necessary for our country, and that is to build a pipeline, without the Imperial Oil Co.'s help, and put a duty so heavy that Venezuela crude will not reach Canada. 38.

Lewis supported independent Canadian company positions and took a decidedly anti-communist position on Canadian development in general, adding, "We have got to develop our oil resources, and be independent of Communist countries."

39. He proposed the Canadian Government follow its historic role of extending transcontinental transport systems like the railways to develop "vital resources". The state should relieve overproduction in the Western oil industry by undertaking the Montreal pipeline, in the tradition of the National Policy.

Needless to say, such direct attacks on the Imperial Oil network as Lewis launched in newspapers and to officials, concerning the ownership of Imperial by Standard Oil of New Jersey (85 per cent) and its control of Venezuelan crude, were not accorded serious audience by policy-makers. Imperial was the only company openly opposed to the pipeline at the time, and had \$40 million invested in other "independent" companies across Canada. Yet such questions as Lewis raised about conflict of interest were answered by the briefest of acknowledgments from those recipients of his letters. Lewis asked for no alliance with Venezuela or other producers, contending in fact that they too might lean toward Communism. He asked merely for a bourgeois nationalist energy

policy, a policy which was not on the agenda however. 40. The route of letter writing that Lewis took and urged on the general public, had, it appeared long ceased to be effective when it came to oil policy.

A final example of opinion on the Borden recommendations available to policy-makers was an article published in the American Reporter and reprinted in The Calgary Herald. The author exposed a basic contradiction in the Canadian petroleum industry: with proven reserves of at least 3.5 billion barrels at the end of the 1950's and productive capacity of one million barrels per day, the industry had long been producing at 45 to 47 per cent capacity. Canada imported 45 per cent of its crude requirements from Venezuela and the Middle East, paying out \$300 million per year for oil Alberta could easily have produced if it had had access to the market. In explaining this paradox, he cited the anonymous words of a Canadian oil executive speaking "most unofficially" for the majors: "Suppose you had one dollar on deposit in a bank in Toronto and one dollar on deposit in a bank in Kuwait...or Iraq, or Saudi Arabia: you want to spend one dollar and save one safely. My friend, which dollar would you draw out?" 41. The majors wanted to profit from overseas concessions while the getting was good, or, as the author put it, "before Arab nationalism or Latin pride spoils the fun." Canada, as a well-behaved, non-nationalist energy producer would "keep", for under the soil reserves were even safer than money in the bank. The Montreal, eastern Canadian market, though one third of the total Canadian market, presented no incentive for the majors, because nationalism abroad goaded them to use foreign oil wherever possible regardless of price considerations. Nonetheless, the author applauded the "pragmatism" of the Borden Commission, calling the Western independent producers "unrealistic". His solution, like that of policy makers, was to leave such decisions, including a Montreal pipeline, up to the majors. 42. This sort of endorsement through impotence met with approval and was circulated widely among civil servants.

Despite the unrepresentative nature of whatever opinions energy policy makers attended to, there was remarkable agreement about the structure of the industry, in particular the dominance of majors and their ability to manipulate markets. The notion that these interests would therefore prevail at the political and ideological level was translated by observers into the notion that whatever influence they exerted was actually a question of pragmatism or "economic reality." Public opinion as reflected in these few examples was even further filtered through officials' already formulated frame of reference. Though only an extremely small minority was against the Montreal pipeline, those that were received wider audience.

More direct evidence of the state's general policy of supporting disproportionate capital accumulation by the largest, particularly multinational, petroleum corporations at the expense of smaller independent Canadian companies can be seen in the handling of the Churchill-Imperial Oil marketing scandal of the late 1950's.

6.8 The Churchill-Imperial Marketing Monopoly: Legitimation Crisis and the Debut of the National Energy Board

Until 1957 or 1958 the Churchill area was being supplied with petroleum products from Canada by Canadian National Railway. A shift to offshore Venezuelan oil supply was made with the construction of a

marine terminal at Churchill at the expense of the Federal Government for the exclusive use of Imperial Oil. By 1959 this was, even without considering Imperial Oil's role, what Roberts of Trade and Commerce called, "an extremely difficult situation for any federal government to face or to try to justify." 43. In addition, the C.N.R. was then willing to reduce freight rates to allow Canadian petroleum products a competitive advantage in supplying Churchill (most of the market here being Department of Defense related).

The Department of Trade and Commerce was forced to become embroiled when a refining competitor of Imperial's brought the question of unfair restriction of competition to the Small Business Branch. focus of the scandal became the feasibility of again opening up Churchill and surrounding areas to Canadian oil and an investigation of the Department of Defense Production's fault in contracting exclusively with Imperial to supply foreign oil for the area's Canadian and American defense needs. The wrong-doing of Imperial Oil in sustaining monopoly marketing of Venezuelan oil to this area was carefully avoided in the interdepartmental investigations and meetings which ensued, involving the departments of National Defense, Defense Production, Transport, and Trade and Commerce. There were two ways of handling this legitimation crisis: (a) Allow the complaintant, John Kalnacoff, President of Northern Petroleum Ltd., satisfaction by opening the market to Canadian oil again, or (b) Maintain the status quo by referring the problem 44. elsewhere.

Kalmacoff's interests were sustained by the Small Business
Branch, which tried to ascertain a "true" or higher price for offshore

oil in the area by averaging low-cost sales to DND and high-cost sales to the civilian consumers in the area, and by accounting for the amortization of DND's marine terminal which had been handed over to Imperial. The "defendants" squelched this attempt to open predominantly governmental markets to Canadian oil. The DND and the DDP, responsible for the ten-year non-renegotiable Churchill contract with Imperial, produced neither their own statistics from which a "true" price or cost could be determined nor those of their only supplier and leasor of the terminal, Imperial Oil. In fact, as the scandal continued, these defense departments continuously contradicted their own statements in meetings and memos in their efforts to maintain Imperial's monopoly in the area and save their own faces. The Energy Studies Branch of Trade and Commerce drew up a memo by key policy maker, G.W. Green, admitting to this form of cover-up:

DND appears understandably defensive regarding the marine terminal. They first implied that the new storage facilities were only built along the shore by sheer coincidence, and were equally accessible to rail shipments. They embroidered on this by claiming that amortization should consequently be charged on prairie oil to the same extent as on offshore oil. This argument was shot down by Scott who pointed out that the very size of the tank farm was based on a short navigation season, and was therefore far larger than would be required if oil came continuously by rail. DND... then dismissed the amortization argument altogether. 45. (See Appendix C 3 for the full text of the memo.)

In another turnabout, DND and DDP agreed the amortization could be added to the price of Venezuelan crude. 46. Later they denied having agreed to this once the matter was out of interdepartmental hands and safely in those of the National Energy Board. 47.

In this deal Imperial had come into full possession of an eleven million gallon marine terminal, built at taxpayers' expense, and supplied

the Department of National Defense installations at "cost" and surrounding inhabitants at substantial profit. At the same time, DDP had authority, which it did not use in this case, to pay as much as ten per cent more for Canadian over any foreign products. All this considered, it had chosen to shut out small Canadian producers and refiners who had formerly supplied the area. The fact that the U.S. Defense Department was also involved, since the U.S. Air Force had plans for the installation of a four million gallon tank storage in the Churchill area, was another factor in Imperial's success. We detail later the exclusive access to American military-petroleum decision-making bodies that Imperial exercised during the 1950's.

Mr. Kalmacoff's defender in the Small Business Branch admitted,
"Mr. Kalmacoff had quite a story to tell and...it certainly looks as
though small business, more particularly Canadian small business, is
having a rough time in the oil industry." 48. Kalmacoff's statements
could be substantiated in the files of various government departments
and were verifiable by Trade and Commerce. What followed, however, was
a successful attempt to get rid of the government's embarrassment and
absolve Imperial by keeping the issue out of the press. Mahoney,
Kalmacoff's defender, agreed to having Energy Studies take the case off
his hands, "since the whole question centres about methods of production, distribution and marketing in the petroleum industry." 49. G.W.
Green and D.M. Fraser of Energy Studies assisted in shuffling the whole
problem out of the realm of possible public inquiry and into the rarified deliberations of the National Energy Board. Eager to have the issue
of "true cost" dropped, the DDP applauded this move; "(We) note that

you are referring the entire question through your Minister to the Chairman of the National Energy Board, and...feel that this action is quite appropriate." 50.

A much more intimate circle of "experts" would handle what had become defined as an embarrasing federal contract. No anti-combines inquiry, nor any other threat to the Imperial monopoly was ever contemplated.

Mr. Mahoney explained (in Chicago, to Mr. White, an Imperial Oil executive) that the government had no quarrel with Imperial— which was considered to have acted in good faith— and that any disagreement lay between the federal departments concerned. Specifically Trade and Commerce felt that National Defense, by the form of its contract with Imperial Oil, may have exposed the government to awkward political questions. 51. (See Appendix C 4).

The contract was "polically awkward", Green told the NEB Chairman, because: (a) it required that supplies be brought in by sea, automatically excluding prairie crude; (b) Imperial operating charges and profits were being recouped from the civilian sector, in effect subsidizing government purchases; and (c) prairie oil had thus to compete on the basis of landed cost alone, an artifical figure reflecting neither profits, operating costs nor amortization of the government built terminal.

Since, Green noted, the Government had no plans to restrict imports, Green informed NEB Chairman, McKinnon, that the only required action was that "the small prairie refineries...be placated", for "bringing all costs into the open and...applying them evenly over the entire (Churchill) market...would make the government's position more defensible."

53. However, since Trade and Commerce had failed to act, as Green put it, he advised a "technical approach" might be

dropped and even more intimate negotiation with the complainant and Imperial be undertaken. The overload of Imperial personnel and friends in the last Trade and Commerce meeting on the subject, December 10, 1959, is instructive:

Mr. Fraser, Energy Studies Branch, Trade and Commerce

Mr. White, President of Imperial Oil

Mr. Twaits, Executive Vice-President of Imperial Oil

Mr. Cogan, Vice-President of Imperial Oil

Mr. Mahoney, Assistant Director, Small Business Branch, Trade and Commerce

Mr. Green, Energy Studies Branch, Trade and Commerce

Mr. Kennett, Energy Studies Branch, Trade and Commerce

On May 11, 1960, M.J. Mahoney, of the Small Business Branch of Trade and Commerce, outlined in a memo to J.A. Roberts, Deputy Minister of Trade and Commerce, the final word on the Churchill scandal. The next day, interestingly enough, I.N. McKinnon, Chairman of the NEB, wrote a completely different and clearly fallacious account of the matter to Minister of Trade and Commerce, Gordon Churchill. Mahoney pointed out:

In effect, the Department of Defense Production can claim that their purchases for the coming year, if made from offshore sources, would save the government \$9,000,000 However, the 11 million gallons required for this year is greatly in excess of, in fact nearly double, the size of purchases made in earlier years. Furthermore, this saving does not take into account the fact that $2\frac{1}{2}$ to 3 million dollars of government funds have been spent on building the marine terminal. If this were taken into account, the true price of offshore diesel fuel to the Federal Government to date would probably be considerably in excess of the Canadian price...For the imported gallonage presently sold in the civilian market the total markup gives Imperial a gross profit of approximately \$275,000 annually (at a markup of \$.13 per gallon). If Canadian products were used at Churchill, Imperial's markup on civilian sales would be only \$.06 per gallon. To offset this reduction without upsetting the present contract, DDP would have to pay 20.6 per gallon...rather than 19.2, which is the landed cost of the Canadian product at Churchill. This would leave Imperial with approximately the same profit as at present, though it would cost the Canadian Government

approximately \$900,000 a year more to switch back to the Canadian product. We did not include the cost of the terminal in any of our calculations since it was agreed that we had to take the situation as it now exists. Mr. Packman will be reporting to Mr. McKinnon on this meeting and I gather Mr. McKinnon will in turn inform our Minister of the results of the meeting... 55. (Emphasis ours.)

Thus, the meeting with Packman of the NEB, with Erskine of DDP,
Langley of General Purchasing, DDP, and Mahoney was carefully arranged
so that the main point of the scandal— the free use by Imperial of
the government built terminal and hence ability to monopolize petroleum
trade in Churchill— was eliminated. McKinnon carefully avoided any
mention of it in his letter, May 12, 1960 to Minister of Trade and
Commerce, Gordon Churchill, and called the arrangement nearly ideal
and "all participants in these discussions are agreed...that there does
not appear to be...sufficient justification for changing the supply
arrangements."

Meanwhile, Green himself headed off demands to have Canadian vessels involved in the supply of Churchill, and all inquiries on the affair suddenly got routed to Green. ⁵⁶ By the close of the 1950's, the whole affair was in the hands of the NEB-- that is, in Green's field. For Green was put on loan to the newly formed NEB, and was keeping "in touch" with DDP, DNP, and briefing the Chairman of the NEB, who was in turn keeping "in touch" with Imperial Oil. ⁵⁷ In other words, decision making had been successfully concentrated in the hands of Green, the NEB's chief advisor, and Imperial. For DDP and DNP, though supporting Imperial throughout, had muffed it. Green steered a clear course utilizing the NEB to diffuse public sentiment and placate small Canadian companies. In the long term, the role of the NEB was to carry forward the anti-national interests of the majors

behind closed doors. (Appendix C 4 gives the full text of Green's briefing to the Chairman.)

The NEB was, we suggest, a new mechanism of legitimation, crucial in this climate of public outcry for a national policy.

Nor would the government satisfy the interests of Canadian independent oil companies at the expense of the multinationals, since by this time the government had already chosen its path several times over.

Its method of placating independent oil interests was to be guided by access to American markets that majors would continue to control.

The NEB would concentrate and further veil decision making, in the name of implementing a "national energy policy" along the continentalist lines set forth by the Borden Commission. So strong was the need for legitimation, it had called forth an institution.

6.9 State Facilitation of Foreign Investment in Petroleum in the 1950's

As mentioned earlier, the Federal Government advertized its open-door policy toward foreign capital in the Canadian petroleum industry throughout the 1950's. A summary of policies, laws, and regulations prepared by the Government in 1957, and the reply by Trade and Commerce Minister, Gordon Churchill to the American World Petroleum Report editor on December 17, 1958, further demonstrates this position:

I wish to assure you that Canada continues to welcome, as she has traditionally done, investment by international companies in oil exploration and development...Even during wartime and post-war periods of grave foreign exchange difficulty, Canada has protected the freedom of foreign investors to remove from Canada the profits of their investment, and has interferred as little as possible with their freedom to remove their capital at will. Although a large proportion of investment in some of our resource industries, among them our oil industry, is controlled by non-Canadians, the Government does not consider it appropriate or desirable

to restrict the movement of capital into Canada, or the removal of earnings or capital itself from Canada. 58. (Emphasis ours.)

To make this welcome to foreign capital acceptable to the Canadian public, Churchill advised that foreign interests disguise themselves as "Canadian":

...foreign controlled enterprises will find it a matter of enlightened self-interest to conduct themselves as Canadian companies, to use Canadian personnel so far as possible in senior management as well as less senior positions, and to make it possible for Canadians to share in the profits—and the risks—of the undertaking. 59.

He hastened to assure that these suggestions were "not legal requirements" however, but "simply obvious means by which capital from abroad can share most fully, within the conditions which exist in Canada..." These were, in other words, a matter of public relations. While Churchill was summarizing the Federal Government's position, he added it went for the provinces as well, "I can assure you that the governments of the provinces...extend a welcome to foreign capital... and take pains to ensure its equitable treatment." 60.

Similarly, government economists assured one another, on the basis of extremely contradictory and flimsy evidence, that should a Montreal pipeline ever be undertaken, it too would "require" large capital equipment imports from the United States, since the few Canadian companies capable of participating in supplying steel parts would "prefer" not to and would rather make greater profits from selling other products.

With six months' notice, Welland Tubes could probably supply pipe for a large diameter pipeline to Montreal in two years. However, though the pipe laid in Canada could be all Canadian-produced, there would still be a large import element. Only Stelco can produce large plates from which the pipe is made

(Algoma is building a plate mill but it will not be finished for two years or so), and that company could probably produce only 10-15 per cent of total plate requirements. Also, the mill in which the plates are made turns out sheets as well and the company would rather produce the latter because it is more profitable. In addition, a good deal of the equipment for a pipeline, particularly for pumping stations, would have to be imported. 61.

The only "exception" in this indiscriminate embrace of foreign, particularly American, proved the rule. The Government finally turned away an American speculator with a notorious past history in the Canadian petroleum industry. Mr. Champion, of Champion Savings Corporation Ltd., had offered to "develop" the Alberta tar sands and sell the oil to the U.S. Navy. At first he was given personal attention and introduction by the Canadian Commercial Counsellor of Washington, John English, who arranged a meeting for him with W.F. Bull, then Deputy Minister of Trade and Commerce in 1952. It was not because he was American, nor because of the nature of his plans for the use of the tar sands that he was eliminated as a serious candidate for "developing" this vast resource. Rather, it was because he was likely not to follow through, but merely sell off his options leaving a trail of debts behind as usual.

Much U.S. investment added little new productive capacity, plants, or other "development" to the petroleum sector in Canada. It merely extended American control vertically and horizontally, concentrating and centralizing capital. The Canadian Government never viewed these features as undesirable or worthy of inquiry, however. In 1959, for instance, it was known to policy makers that Murphy Corporation of Arkansas acquired Vigor Oil Company Ltd. and related properties through the affiliate, Murphy-Canada Oil Company. Vigor had been an independent

oil and gasoline marketing and distributing firm and maintained an Ontario lake front storage terminal. Murphy Corporation itself had explored and produced western Canadian oil since 1951. In 1958, it bought 46 per cent of Amurex Oil Company, thus extending its control of producing areas throughout the Midale-Weyburn area of Saskatchewan and the Pembina field in Alberta. The same year it bought 100 per cent of the common stock of Lake Superior Refining Company, operator of a major Superior, Wisconsin refinery. The only expansion of capacity to result from this extension of control over Canadian capital was in the American refinery (by 18,000 barrels per day).

This extension of U.S. oil company control over Canadian industry capital rapidly resulted in a situation whereby American midwest refineries could dictate prices to western Canadian oil producers. The Canadian Government seems to have approved such "rationalization" of the industry. Two midwest refineries that had operated solely on Canadian oil were Lake Superior Refining Co., Superior, Wisconson, and Northwestern Refining Co., St. Paul, Minnesota, were beginning to use more foreign oil. Thus of the six refineries in the U.S. Midwest using Canadian oil, four had begun using competing the majors' foreign oil by February 1959. Only Great Northern Oil Co. (the largest) and Bay Refining Corporation, continued to use only Canadian oil. Interprovincial Pipe Line's U.S. subsidiary, Lakehead Pipe Line imported only small quantities of Canadian fuel oil. Using the slight decline in total imports of Canadian oil as leverage, Great Northern and other American refineries successfully moved to fix prices on Canadian and 64. This extension to release such news to the public with impunity.

of American control over Canadian capital was directly translated into control over the conditions of access to the American market. Most of the outcry by American domestic oil producers against midwestern imports of Canadian crude in the 1960's would be misdirected against Canadian independents, who like themselves were being controlled increasingly by major U.S. petroleum interests through consolidation of capital and vertical control throughout both industries. (A list of "Canadian" western producers affected by this American price-fixing initiation, appears in Appendix c 6.)

The Canadian Government's policy did not ignore these structural changes within the Canadian petroleum industry. It is seen instead to have encouraged such transitions, since policy makers thought such interlocking of capital would ensure U.S. markets for Canadian oil. This hope was nurtured by the majors and worked out in policy terms by officials like Green and U.S. Department of Interior Secretary, Captain Carson.

6.10 Continental Personnel and the U.S. Military Petroleum Advisors

A full treatment of the various areas of personnel linkages and career patterns is not undertaken here. We suggest, by the examples given, that such social linkages helped sustain policy continuity. An important working relationship had been established for oil industry appointees in the U.S. Military Petroleum Advisory Board. This served as a primary link in the personnel network that created and maintained a continental energy policy in the interests of the major international oil companies. The MPAB advised both the U.S. Secretary of the Interior and the Secretary of Defense, and could be viewed as seminal in

continental policy.

The chairman of this industry-representing board was an officer of Phillips Petroleum in 1958. Studies publicly released by this board had dealt with continental storage capacity, transport and handling facilities. The American State Department considered the board of the highest importance to defense planning activities, though the American public and Congress had already criticized the board frequently on the grounds that its oil representatives had the appropriate arena for collusion and violation of anti-trust laws. Aside from whatever representation about Canadian oil that might be expressed by majors with Canadian affiliates, Imperial Oil was represented throughout the 1950's by specific appointees, each of whom had received Canadian security clearances demanded by the American Government which mistook these men for Canadian citizens. The Canadian Government never questioned either the legitimacy of having an Imperial or any other industry representative on the board, and considered it unnecessary even to mention the position to the Canadian Petroleum Association, so that a general industry representative could be considered. No other foreign country's oil industry was ever invited to participate on the board.

According to the Canadian Department of Defense Production,
Imperial Oil Company had been represented since 1954, first by Earl
Neal, serving on the "production committee". At that time the Deputy
Minister of DDP replied to both DDP Washington and the U.S. Department
of Interior that there was "no objection to Mr. Neal sitting on a
committee of MPAB," but as material was classified in that body the
matter of security clearance had arisen; only then was it discovered

that Imperial's first representative was a U.S. citizen. Mr. J.A. Cogan, Vice-President of Imperial Oil replaced Neal on the "production committee" in 1958 (at the same time Cogan was handling the Churchill scandal in Canada.)

The Canadian Embassy reported to External Affairs and Trade and Commerce, "The Office of Oil and Gas (U.S.), which handles MPAB matters, feels that the two representatives of Imperial Oil are the only representatives of Canadian domiciled companies to have served or to be serving on these committees." 67. The matter was so unremarkable to Canadian officialdom, that they left all decision making on this up to Imperial and the Americans. Once the chairman of a committee of MPAB nominated an individual oil executive, approval was subject only to security clearance in both countries (if the nominee were Canadian which was rarely the case.) Neither were committee reports likely to reach the Canadian Government. These were routed to: (a) The petroleum logistics division of the U.S. Assistant Secretary of Defense, (b) the office of the U.S. Assistant Secretary of the Interior for mineral resources, and (c) the U.S. Director of ODM (the stockpiling agency). The only "Canadian" access to reports would have been through continental defense channels such as the Military Coordinating Committee of the Permanent Joint Board of Defense.

In May 1958, Mr. E.C. Hurd, also of Imperial, was nominated, replacing Cogan. It was not known if Cogan was an American citizen, but the Canadian Embassy guessed by his long "record of employment with Standard of New Jersey that it would not be surprising to find that he too, (was)...⁶⁹. Cogan's nomination, six years earlier had dovetailed

with the MPAE reports surveying petroleum facilities at ports, including "a volume on Canadian facilities for which Mr. Cogan was responsible", 70. where, no doubt, the Churchill area featured prominently. Once Imperial was under attack for Churchill dealings, Cogan became Vice-President of Imperial and was replaced in Washington by Hurd. By this time, the Canadian Government was not even consulted on the appointment, though they thought "that Mr. Hurd may be a Canadian citizen". 71. Consulted or not, they approved on principle:

Although the procedure may be somewhat unusual, the result would appear to us to be satisfactory. We would see no objection to Mr. Hurd serving on the board and...require no special Canadian security clearance...as Mr. Hurd presumably does bring thorough knowledge of the industry to the task. 72.

Aside from the Churchill scandal of importing foreign oil via Imperial to Canadian-American "defense" posts in Canada, foreign oil was also bought by the Canadian Government at "distress" prices in connection with the construction of the DEW line, in 1957. Such decisions were also exclusively made and again serviced the needs of major oil companies for secure market outlets for their foreign oil while creating unnecessary hardship for domestic producers. As a result of such high-level cooperation among Canadian and American defense departments and the majors, American products were glutting the Canadian market, stifling the Canadian industrial and consumer markets of Montreal and Toronto. This ate into at least 75,000 barrels a day of the Canadian market, and was a known economic result of such arrangements.

Most of the purchases for the DEW line were made by Imperial or the Military Petroleum Purchasing Agency in Washington. All imports for such defense projects were allowed in duty free by a Canadian Order-in-

Council. Since British American Oil, Imperial, and Shell, all denied anything unusual was taking place concerning such "dumping" of petroleum products, the Minister of Trade and Commerce concluded that there was no problem.

74. This orientation of Canadian energy flows was a reflection of the anti-nationalism that had permeated energy policy formation and the logic of multinational oil companies as opposed to the logic of national development.

6.11 Articulation of the Social Structural Framework for Continental Energy Development

In the first half of the 1960's, the continental programme outlined to this point was given greater solidity. It received official articulation in the form of Federal National Energy Policy statements (in 1960 and 1961) and legal changes in the terms of access to northern petroleum and hydro. Its socio-economic and socio-political structure became more formal and explicit in terms of liaison between the Canadian National Energy Board and its U.S. counterparts: the Federal Power Commission (gas), and the Oil Import Administration (oil). In the United States the Department of Interior and the use of the Presidential permit in regulating oil imports further centralized decisions relating to the Canadian programme. Several new Canadian-American forums further concretized the continental approach. key Canadian civil servants active in the 1950's continued on, though frequently in new positions: Green operated out of the International Trade Relations Branch of Trade and Commerce, funnelling policy and advice to both McKinnon in the NEB, to the Minister of Trade and Commerce, and to Chappell in the Washington Embassy, who reported every

shift in American policy and the possible affects on the availability of markets for Canadian oil and gas.

The Presidential Permit system became the veto mechanism for pipeline extensions across the border. 75. This system was instituted by the American executive on the basis of "custom" rather than law and provided an example of the increasing powers that American officialdom reserved for itself in the "cooperative" efforts of continentalism. As American markets contracted the Canadian State broadened its attempt to retain and extend them and attempted to arrest any actions that might concievably arouse American sentiment against Canadian exports of primary petroleum products. Independent producers in both Canada and the United States suffered increasing hardships as the fruits of the continental approach became more obviously those of the multinationals, and particularly as shut-in capacity exceeded 50 per cent in Canada. It thus became necessary for the Canadian state to alleviate these effects of dependency without disturbing its structural bases. It would attempt to increase production.

New regulations on oil and gas exploration in Canada's Northern Frontier made it clear in the early 1960's that this new source of energy would also be controlled by the majors. Like the Alberta Tar Sands (for which the majors had the most interesting and dangerous plans in mind), northern energy was to be developed as rapidly as possible, by majors, for foreign export. Similarly, the hydro energy resource which had formerly been so closely associated with Canadian industrial success and exclusive use, was to be officially freed for large-scale and unreclaimable sale to U.S. markets. This was formulated

into American markets was increasingly denied by reality, more and more Canadians (and even Americans) pressed for the pipeline. Both Canadian and American independents felt the concomitant tightening grip of the major integrated companies as continentalism proceeded. As these contradictions mounted, both the Canadian State and majors such as Imperial found it necessary to give increasing attention to public relations and legitimation of the continental approach and the "efficiency" of the majors in Canadian energy development. It is the efficacy of these legitimation techniques, the comprador character of a significant sector of the Canadian industry, and the exclusiveness of access to decisionmaking power which kept these mounting contradictions in the energy sector from exploding into open attack on the Canadian State. Some consensus among producers had to be orchestrated and the Federal Government set about to accomplish this and to minimize the impact of critic-Imperial waged its own campaign in press conferences, addresses to its shareholders, and letters to its employees. The other producers were either supporters of the national policy (the Canadian Petroleum Association) or independents -- critics of the newly organized Independent Petroleum Producers Association of Canada.

In this section we shall review these structural and ideological shifts by outlining their sources and impacts in the following: official National Energy Policy statements (and the variety of reaction to these by various sectors); the decline of the U.S. and Canadian independent domestic producers and their organizational efforts to make their interests heard; new elements in the institutional framework of the continental energy approach; evidence of the tightening of international

energy companies' grip on the Canadian energy structure; new efforts to increase exports to the United States through new pipeline and hydro projects; and the laying of the regulatory and legalistic framework for a dependent approach to arctic, tar sand, and large-scale hydro projects of the 1970's. We will be concerned throughout with the means by which the contradictions between major and minor producers and the criticism of national energy policies were surmounted.

6.12 National Energy Policy Statements (1960): Reactions of Fractions of the Continental Producing Apparatus

On February 1, 1960, Trade and Commerce put out a "National Energy Policy" statement asserting the government's continuation of a vigorous national energy policy, in the national interest, and designed to develop energy resources efficiently. It cited the government's past vigor in setting up the Royal Commission on Energy, the Borden Commission, and the resulting parliamentary passage of the National Energy Board Act which established the NEB to regulate the construction and operation of oil and gas pipelines, tolls, export and import of gas, export of electric power, and to advise the Government in the development of a comprehensive energy policy. The Board was at the time considering large-scale natural gas export applications of about 6.5 trillion cubic feet over the next 20 to 25 years. The statement boasted that this 292 billion cubic feet of new exports over the 1957 figures would be valued at \$100 million and therefore reduce the trade imbalance by 20 per cent. The corresponding and cancelling capital debts to be incurred were not mentioned. The statement further lauded exploration permits allowing 107 million acres of Arctic land to be

developed by private companies, asserting, "The Department with the assistance of the Department of Mines and Technical Surveys is doing all it can to encourage the development of the oil and gas resources of this rich undeveloped area of Canada."

The statement also lauded the Government's aid in oil industry growth, without mentioning the proportions of the surplus capacity problem, which at this time was about 63 per cent throughout the industry. Instead, the efforts of the Government in getting Canadian crude and products exempted from the United States mandatory oil import quotas by Presidential Proclamation of April 30, 1959, were featured as the Canadian Government's major success.

While admitting that past federal policy had been designed to prevent the large-scale export of firm hydro power which would be difficult to repatriate, the statement asserted the danger of such difficulty was past, but, to safeguard the Canadian consumer, the Government intended to continue to limit hydro export to one year licencing, unless "exceptional circumstances justify a longer term". 79. Already the state was gently preparing the way for greater liberties in giving away hydro to American markets. The delicacy of approach recognized the highly unpopular nature of such a plan. The brief went on to assert the need to harness more northerly sites of hydro, because of "the growing shortage of hydro sites near the main load centres in Canada" 80., thus giving the erroneous impression that future development would be principally for the Canadian market. The Government's role in subsidizing such projects was asserted to be "in the national interest", and "an integral part of its national development policy". 81. Such hydro project aid included:

assistance to the Beechwood hydro-electric development on the St.

John River, New Brunswick; aid in constructing thermal power plants in the Maritimes; aid in providing links between power grids of New Brunswick and Nova Scotia; assistance in construction of the South Saskatchewan River irrigation and hydro project; and the Government's readiness to participate with British Columbia in the joint development of the Columbia River.

82. For this latter project, the International Joint Commission (U.S.-Canadian) had undertaken the negotiation of a treaty, which the brief asserted would ensure fair benefits to Canadians. It is evident that the Columbia River project had implications for Canadian access to U.S. crude oil and gas markets under continental exemption from import quotas.

No such showy plans were in the offing for coal, despite the fact that "certain regions of the Maritimes and Western Canada" were "heavily dependent upon the coal mining industry". 83. Coal was considered "high cost", due to the fact it employed more people than any of the other energy sectors, and was not imported by majors from cheap foreign sources. Government assistance here was characterized as a charitable hand-out rather than an adventurous step forward. The 1958 Atlantic Provinces Power Development Act, among other things, provided subsidies to coal used in thermal plants. Uranium on the other hand was characterized, not as "high cost", "traditional", or a charitable case, but "very important", though in a position of "world over-supply". To safeguard the uranium industry, the Government noted, Eldorado Mining and Refining Ltd. made an agreement with the U.S.

Atomic Energy Commission and the U.K. Atomic Energy Authority to

stretch out existing contracts until 1966, because the U.S. AEC announced it was dropping its options to purchase Canadian uranium concentrates in the post 1962 period. The fact that uranium is not handled presently in the same way oil, gas and hydro are, but finds markets abroad, was not due to the nationalist sagacity of the Canadian Government, but to the abrupt closure of American markets at the turn of the 1960's. Minister of Trade and Commerce, Gordon Churchill had called the move to export abroad an effort to save uranium producers and prolong the profitable life of the industry. No such alternative was considered for The Government continued state-to-state agreements for uranium sales abroad -- a format it declined to use in any other industry, except indirectly with the United States for hydro power. In summary, the statement assured the Canadian consumer of energy commodities at the "lowest possible prices" and the various producing sectors "a healthy industry", capable of employing "large numbers" of Canadians, of attracting capital and of introducing (not developing in Canada) new skills and products. 84. Neither low cost energy nor increasing employment would, however, become part of the energy picture in Canada, for the decline of the coal industry would throw large sectors of the labour force out of work in the Maritimes and the hoped for employment in oil and gas would in fact decrease. Exports were exclusively in crude form, thus minimizing the benefit of manufacturing to Canadians. 85. (See Appendix C 7.)

On February 2, 1960, Gordon Churchill made an official statement on the second Borden Commission Report. Glossing over the "forebodings" expressed about the international oil situation, (and ignoring the internal dissension in the Commission), Churchill lauded the approach of seeking American markets as a solution and of expanding the use of Canadian oil in Canadian markets only insofar as these were already served by pipelines. The Borden policy was now said to be "in harmony with the goals of this Government", and to be carried out by industry cooperation and with assistance from the NEB.

The use of the Royal Commission Report technique in legitimating Government policy is important as part of policy-making procedure in Canada. Policy can be lent the appearance of independent expertise; then, after sufficient delay to note public reaction, the Government can act with or without reference to the Report. A neutral veneer is sustained in either case. In this case, an anti-nationalist policy could be wrapped twice in the rhetoric of "the national interest", once in the Report's words and some time later in those of the Minister of Trade and Commerce. While the Borden Commission had at least asserted the Montreal pipeline option should be considered again in 1960, Churchill never mentioned it, and Green, in memos to the Deputy Minister left the burden of proof on the public:

This is the solution preferred by a large part of the Canadian producing industry, although its economic feasibility has not yet been proven, nor has the government yet accepted the Borden recommendation that it be considered at this time. The U.S. attitude to the necessary imposition of import restrictions also remains unknown. 87. (Emphasis ours.)

Already the future of this policy was bleak in 1960. As Green noted, sales of Canadian crude to the U.S. markets (the Northwest and Great Lakes areas) were down from 1956 figures.

TABLE XXV1: Canadian Crude Sales Decline in U.S. Markets, 1960
(Barrels per Day)

Year	Northwest	Great Lakes	Total
1956	68,404	47,971	117,235
1957	94,938	57,342	152,532
1958	28,010	58,783	86,793
1959	35,191	56,386	91,577
1960 est.	52,000	63,000	115,000

Source: G.W. Green, ITRB, to Deputy Minister Trade and Commerce, J.A. Roberts, "Canada's Crude Oil Position", July 6, 1960; PAC, RG 20, 587, T-3-2745.

Canadian crude filled in very nicely when the Suez crisis made imports of foreign oil more difficult in the U.S. West Coast. In the Greater Lakes area however, Canadian crude competed with mid-continent American domestic production. Improvement of the Canadian position there would be indirectly controlled by the majors and would arouse greated domestic producer ire, while improvement on the Westcoast would be even more directly at the mercy of the multinationals' whims. The potential markets Green listed were all American (Chicago, Detroit, Toledo, San Francisco) and proposals for additional pipelines were being considered only for U.S., not Montreal markets.

Green, Deputy Minister of Trade and Commerce, and presumably Churchill and McKinnon, already knew how bleak the policy for expansion into new U.S. markets looked in 1960. For U.S. crude was already eating into those markets Canadian crude had been serving in the past:

Our chief competitors here are North Dakota and Montana. Great Northern Oil Company at St. Paul, which has in the past been completely dependent on Canadian crude, has just

been granted an import allocation of 10,000 b/d. This is presumably to be exchanged for North Dakota crude, but this point might be checked with U.S. officials. Proposed pipelines and falling rail rates from these states threaten still greater competition in the future. 89.

On June 17, 1960, Trade and Commerce admitted, "Our present problems derive from our efforts to expand markets for both oil and It was admitted too that "over one-third of the nation's refining capacity" 91. is still using imported crude, meaning Montreal, Halifax, St. John and all regions east of Ottawa and Cornwall. The choice of a Montreal and East thrust looked more and more logical, but was still second priority to expansion into the United States. Canadian production was still at much less than half its capacity. In 1959, 414,000 barrels per day were consumed within Canada, 316,000 were imported, and only 92,000 were exported to the United States. Natural gas already served Montreal and exports would soon reach the proportions of Canadian consumption. This particular balance became the goal. Both these products and U.S. markets were threatened by the very continentalist structures of policy making which had been created. The FPC and the OIA, had begun to "look on imports from Canada with some suspicion". 92. The NEB busily approved all export projects, but the FPC wanted American control of Canadian gas export in the West, and:

...certain conditions (to) be attached to this approval, conditions which reflect...uneasiness over the fact that the U.S. regulation has no control over those parts of the project lying within Canada. (The FPC examiner) would therefore attempt to substitute indirect control through the U.S. firms concerned, which would affect the rate of return of the Canadian companies as well as requiring annual reports of their operations. It must now be decided how stiffly the Canadian Government will protest this interference in our internal affairs, without at the same time risking the destruction of the long-awaited project itself. 93. (Emphasis ours.)

Metaphors are not needed to describe the lack of "stiffness" of Canadian sovereignty when American markets were at stake, or, for that matter when "Canadian" producers were at stake. For Green and company continued to use "possible" U.S. reaction to a Montreal pipeline as an excuse for not considering it seriously within the framework of the "national" energy policy.

94. Even in the United States the independent producers had succeeded in using "national security" to their advantage in getting the Government to take steps to safeguard their failing production record. The Canadian Government knew proposed future U.S. markets for Canadian oil would further threaten U.S. domestic producers. Standard Oil, the proponent of the Pembina Pipe Line, had already been told by U.S. authorities that the quantities of condensate visualized could not be exported to the proposed U.S. market (Chicago), without calling Canada's exemption from quota into question. Despite the clout the majors traditionally held in Washington, the Canadian Government was increasingly aware that the Oil Import Administration had to listen to domestic producers to some extent or lose its credibility. 95. Meanwhile, the structure by means of which Canadian crude was being shut out of both existing and proposed U.S. markets, was known to Canadian policy-makers:

...Canadian oil may be driven out of its existing markets to some extent by U.S. supplies. Under the present import regulations, inland refiners are granted import allocations which they have been...exchanging with tidewater refiners for equivalent amounts of domestic crude, plus a sizeable bonus. Great Lakes refiners have drawn this domestic crude from Montana and the Dakotas, areas which could not normally compete with Canadian supplies, if their higher costs were not more than offset by the exchange bonus. Encouraged by these sales, interests in these states have initiated a number of projects by which to carry oil by rail or pipe line into the St. Paul-Minneapolis area at reduced costs. 96.

Attempts to eliminate such opportunities of exchange were flouted by producer interests in the above-mentioned states. Not only were North Dakota and Montana producers interested in making sure such Canadian export policies, but traditional producers in Kentucky, Indiana, and Illinois were up in arms about the attrition of their markets in the Midwest where the past few years of Canadian exports and exchanges for foreign offshore oil had already taken a toll. One of their spokesmen, Mr. Shipley, of Illinois, complained in the U.S. House of Representatives:

In Illinois, where I have closely followed the conditions of the industry, I find deterioration of the crude price structure, decreased development activity, economic uncertainty, and generally depressed conditions throughout the oil segment of the economy. The same is true of the entire tri-state area which includes the States of Kentucky, Indiana, and Illinois...for the entire region is one continuous oil producing unit, and conditions existing in any one State are necessarily reflected in the welfare of the other two. 97.

The multinationals had obtained control of the midwestern refineries and were manipulating the conditions under which both midcontinent supplies and Canadian oil entered the area. (See Appendix C 8.) Similarly, through the bonusing and credits system of the American import system, these refiners could use foreign oil against both Canadian and American producers. Alternatively they could increase their profits enormously by selling such credits to their affiliates on the coasts who wished to import even more cheap foreign oil and sell it at domestic prices. The conditions that had resulted from the continental policy were creating uneven development in both the United States and Canada at the expense of independent oil producers, as well as perpetuating and introducing new irrationalities into the system.

In the case of the tri-state area, the following deterioration was being imposed by the majors importing Canadian oil and other foreign oil, according to Shipley:

First, imports in the 1946-50 period averaged 546,000 barrels daily, or the equivalent of 9.9 per cent of domestic demand. Through the first 6 months of 1960 imports reached a daily level of 1,790,000 barrels daily, or 18.3 per cent of domestic demand. In this tri-state area... the crude oil price declined from \$3.15 per barrel in October 1957 to a present \$2.85 per barrel. The last cut, only recently made, was for 15 cents a barrel. For the industry as a whole, exploration at the present time (in the U.S.) is down 13 per cent as compared with 1959, active rotary rigs have declined 15 per cent during the same period, well completions are off 14 per cent. Also, crude production, product prices, and oil industry employment are similarly down as compared with 1959. During the same period costs of exploration, development drilling, producing, pipe, steel, and other material requirements have steadily increased...Actually, the controls placed on imports did not decrease the rate at which they were coming into the United States to compete with domestic production, but instead only stabilized a rate that was already excessive. We have here a problem that must be solved. And the only way this can be done is to substantially reduce the import level... I propose that a new look be given to the mandatory import programme...From all tabulations, from all statistics, from firsthand information from the oil-producing areas there can be but one conclusion; imports remain at an excessive level... In these times of international tension and uncertainty there is little excuse to permit essential and basic industry to become economically prostrate. No industry can be expected to operate below capacity but with a surplus production, and in the face of rising costs, and in competition with a flood of imports without disastrous results. I submit that in the interest of national security this matter of imports of foreign oil which bears a direct influence not only on the daily volume of crude produced by domestic operators but upon the price received for their production be thoughtfully and promptly reviewed to the end that the process of gradual deterioration of the domestic petroleum industry be halted. 98.

Besides such official policy statements as those made by the Minister of Trade and Commerce and recommendations by the Borden Commission, the newly formed Independent Canadian Petroleum Producers

Association initiated a brief to the Cabinet in September 1960 and new publisher of <u>Oil in Canada</u>, Carl Nickle, in the same vein, published a detailed independent proposal. This involved a three-stage procedure. In stage one, those companies sharing the market for petroleum products in Canada would be responsible for increasing sales and finding additional outlets in Canada. At the end of sixty days, on a voluntary basis, they would raise production to 600,000 barrels a day. This target would be raised successively until by January 1963 production levels would balance the level of domestic consumption. If this voluntary plan failed, the government would establish import controls and other measures to achieve desired targets. Should both stage one and two fail, the government would throw its support behind a pipeline to Montreal, backed by appropriate import controls.

Most publicized, however, was the Imperial Oil press conference called in Ottawa on October 17, 1960 at which the company released a brief called, "Markets for Canada's Oil and the National Interest".

Company spokesmen said this was designed to correct certain "misconceptions" about the Montreal pipeline option. Like the Government, Imperial called for vigorous voluntary attempts to extend satisfactory growth in production in domestic and export markets served by existing pipeline facilities. The Montreal pipeline was, according to Imperial a pipe dream. While the other majors were tempted by the press conference technique of public propaganda, they limited their identical expression of views to more conventional means such as after-dinner speeches. 100.

Beyond the realities of U.S. market attrition for domestic producers (Canadian and American), another element made official policies of the majors and the Canadian state even more difficult to sustain

with authority. The Venezuelan Government announced it would cut oil exports to the Ontario market to aid the Canadians to maintain this for Canadian oil. This caused no little embarrassment to the Canadian State, appearing to make national policy from without. The majors who were still using offshore oil in Ontario, were infuriated by it. 101.

6.13 National Energy Policy Statements (1961): Cooptation of Fractions of the Opposition

On February 1, 1961, the new Minister of Trade and Commerce, George Hees, informed the House of Commons that the Government had decided upon a national oil policy, which, it appears, followed the stage-one, stage-two notion of Carl Nickle, but had no intention of allowing stage three to materialize. The production goal for Canadian oil was set at 800,000 barrels a day for 1963, which he asserted, would be "approximately as high as the figure which would be achieved if the Montreal pipeline were to be constructed." 102. The overall strategy was unchanged, however, since the solution was still conceived as expansion of Canadian markets west of the Ottawa Valley and of exports to the United States within existing markets. Should this voluntary programme for reducing surplus capacity fail, the Government, said Hees, would take whatever steps the circumstances required, including regulation of imports and exports. Still the pipeline was not mentioned as the alternative. Already outflanked by the Venezuelan proposition, the statement suggested government policy was "fully consistent with the public announcement" of the former. The United States had been informed of the policies before the Canadian parliament, "in view of the close connections between the oil economies of the two countries." 103.

In brief, a "solution" had been found that neither threatened the majors' market or pipeline positions nor supported the basic interests of the independents. Increased production without opening up the Montreal market to Western oil was the route to coopting Nickle's programme and the ICPPA compromise suggestions.

Imperial Oil Company rejoiced and set about telling its employees, in a lengthy letter, that Imperial had been in the forefront of this policy all along and that, in fact, whatever markets existed in Canada had been Imperial's creation.

Imperial's first cause for rejoicing was that, "The government ...recognizes the <u>normal market</u> for Canadian oil to be Canada west of the Ottawa Valley and export areas in the United States 'largely in existing markets which can be reached through established pipelines.'"

Imperial had, in fact created such a delimitation. It asserted its full willingness to cooperate with increasing production on the basis of such an understanding. Employees were told that as employees and as Canadians:

...you can be proud of the part your company has played in developing markets for Canada's oil...As a matter of fact, no other company has done nearly as much as Imperial to find markets for Canadian oil. In large measure, Imperial is responsible for the development of most of the existing markets for Canadian crude oil, which, under prorationing, are shared by the other Canadian oil producers. 105.

Imperial boasted it had initially assumed all the financial guarantees of the Interprovincial pipeline, hence "opening" the Saskatchewan, Manitoba, Ontario and U.S. midwestern markets for Canadian crude, as well as initiating and assuming 50 per cent of the financial guarantees on the Trans Mountain pipeline, "thereby opening the British Columbia and U.S. Pacific coast markets to Canadian oil".

In the export area, Imperial was the first to sell Canadian oil in the U.S...important markets in the north west and north central areas...and...another new market in Ohio. These export markets, in considerable measure, were also secured at the expense of crude oil produced by companies affiliated with Imperial. 107 (See Appendix C 9.)

Noting that "there has been some criticism of the major integrated oil companies", the letter asserted for all majors, "such criticism is unjustified" and the company's own programmes were in the "best national interest of Canada". Having carried the fight against the Montreal pipeline almost entirely alone, Imperial could indeed be proud of its single-handed success.

Echo de la Bourse, February 20, 1961, stated the results of the policy more succinctly:

The authorities are...placing their trust in the great integrated oil companies with international affiliations, which control practically all of the refining industry in Canada...Although the objectives of the Borden Commission were not achieved, the companies have been given a probation period of three years. This decision was doubtless made in view of the international character of ...the interests of big oil companies...the same English and American groups produce the crude oil in Venezuela and refine it in Montreal. 109.

Again the chances of success in reaching even production targets proposed were recognized to be slim. In view of the limited profits to be made on the home market, the increase rate of exports to the United States would perhaps have to be doubled. The risk of resistance by domestic American producers was being exacerbated. Stewart Udall, U.S. Secretary of State for the Interior, warned that too rapid an increase in Canadian exports of oil to U.S. markets might cause a new system of quotas to be applied over and above the quotas from which Canada was exempted. 110.

The reaction of the majors was satisfaction that no restrictive measures had been imposed upon them by the Canadian Government. They agreed with Imperial, who had done their footwork for them for some years by exerting influence on officials and the public alike. Not to appear too pleased or docile, however, Imperial had its and British American's lawyers jointly research the possible anti-combines aspects of cooperating with other companies to reach the Government's proposed targets. In any case such a hitch could be very useful should Imperial find it to its advantage not to cooperate in even this weakened programme.

111. Imperial informed the Government of its duty to beware of insisting on any "collusion" within the industry to meet the production targets.

Meanwhile, the company intended to forestall any possibility of giving the independents a hearing in the sort of industry forums which had been set up in both Canada and the United States. Twaits thus opposed the creation of a National Petroleum Council and warned:

It is obvious that under present combines legislation, it is not advisable to hold further meetings sponsored by the Government on an industry-wide basis to discuss operating programmes and implementation of the Government's policy. In short, consultations between the National Energy Board and members of industry will have to be on an individual basis. If these restrictions are followed, I am confident that the Policy can be implemented without breach of the Combines Investigation Act. 112.

In insisting on consultation between the NEB and individuals or individual companies, Imperial was insuring that the independents' voices would continue to be shut out of policy making or surveillance and that Imperial itself (or its followers in the Canadian Petroleum Association) would continue to have dominant access to officialdom and

policy makers. Imperial similarly admitted it would have its own way on the matter of price, and intimated that if problems should arise in this sector, the Government would have to do its duty to allay them:

While we know that any price changes during this period will be made by our Company, if at all, without consultation and on the basis of the same factors which have always guided us in the determination of prices, the danger of criticism and embarrassment referred to in the attached memorandum is real. However I suggest that there is no immediate problem in this connection and it may be that our fears are undue. 113.

Green, of course, constructed his own summary of "Canadian reaction" to the 1961 Policy:

The Canadian reaction to this policy was fairly predictable. The large refiners were obviously relieved at the postponement of a decision on the Montreal pipeline. They expressed pleasure at having finally been given a firm government directive, and welcomed the emphasis placed on free enterprise. 114.

Green characterized the response of ICPPA as pleased to see the government recognize the problem and seek a solution, though finding the targets too low. But, he stressed, only on an individual basis did "several independents" express strong criticism of the announced policy and "reiterate their belief in a pipeline to Montreal as the only possible remedy for Canadian production problems." 115. The appearance of consensus was being created officially; whether on an "individual" basis (as Imperial stressed consultation must continue) or in a group, as ICPPA, the independents would still only be the independents as far as the Government was concerned. They might be numerous but they were not big enough to count. It was part of the overall policy to ignore them as long as possible.

Besides Udall's reaction, Green noted that of Lawrence O'Connor, Director of the Oil Imports Administration, in a speech on February 28, 1961. O'Connor seemed more conciliatory about Canadian imports to the United States so long as they only replaced foreign oil, but he suggested that only one half of the increase in Canadian production should be expected to hit the U.S. market. This, Green worried, might be a warning about the upper limits of "official tolerance for Canadian imports." 116.

The viewpoint of the independent petroleum association, or was given more serious attention than that of its IAPPA. Canadian counterpart. In a speech at Calgary, their Executive Vice-President warned that while it favoured a continental oil policy, any direct and "disproportionate" displacement of U.S. oil by Canadian oil or natural gas liquids would be fought against: "A barrel of U.S. oil produced at the expense of Canadian production or a barrel of Canadian oil that displaces a barrel of U.S. production produces no net gain from a security standpoint for the separate or joint defense of our two countries." 117. To Green's alarm, this did not mean the Association endorsed even an influx of Canadian oil into the northwest U.S. markets, but he noted with satisfaction that ICPPA planned to IAPPA to "smooth out any misconceptions...relative to a visit Canadian 'invasion' of United States markets." 118. He hoped this new twist on the national security argument would not reach higher policymaking levels, and that perhaps one independent association could control the other.

Finally, Green noted, the Department of the Interior would be reconsidering the entire mandatory oil import programme and hold special hearings on the various markets (Districts 1 through 4, which

included the Midwest, and District 5, the west coast). The Canadian oil policy statement could, he feared, have come at the wrong time, when emotions were running high in the United States. Even more distressful for the Canadian Government was that since Senator Udall and John Kelly were running the U.S. oil policy from the Department of the Interior, things had got worse for the "National Energy Policy" in general. The exchange rate shifted in 1961 to favour increasing sales of Canadian oil in the U.S. markets or in the Montreal market. This was noted by R.A. Brown, in a letter to stockholders of Home Oil Company and given coverage by Platt's Oilgram (a prominent newsletter in the U.S. industry). Following its appearance, Tom Snedeker, Deputy Oil Imports Administrator called N.R. Chappell at the Washington Embassy and told him that Kelly favoured a Montreal pipeline because of this; Chappell related the incident and his handling of it to McKinnon.

...I (Chappell) gather from Snedeker that...the Assistant Secretary (Kelly) commented that with the enhancement of the competitive position of domestic oils relative to imported oils in Montreal as a result of the lowered exchange value of the Canadian dollar, was not this sufficient incentive for the Canadians to go ahead and sponsor a crude line to Montreal. Additionally, he commented to Snedeker that a crude oil pipeline to Montreal would add to the overall national security position by decreasing the dependency of a sizeable North American refining complex on ocean-borne crude. This, Kelly feels, has particular significance in these times of severe international stress and strain. 119. (Emphasis ours.)

This seemed to pull the rug out from under the National Energy Policy and line U.S. officials up with the Canadian public. It was indeed dangerous for the Canadian State's credibility and the furthering of the majors' interests. As we can see from the retort Chappell gave, the "stiffening" of Canadian sovereignty could be mustered for such

treason to the continental cause.

I reminded Snedeker that Brown, the president of Home Oil Company, has been an active and vocal advocate of a pipeline to Montreal for a long time...I also reminded him that Brown was speaking as an individual and that those charged with policy and decision responsibilities in the Canadian Government were and are well aware of Brown's views. Despite this the Canadian Government had embarked upon a national oil policy which did not include a Governmentsponsored or financed (or privately financed, one might add) pipeline to Montreal. The policy as enunciated on February 1st was still the policy of the Canadian Government and, unless or until circumstances and conditions altered to the degree that the Government after reconsideration changed its policy, it would remain. 120.

Nor was the U.S. Department of Interior satisfied with the stalling which continued by majors in completing a transition from the use of foreign oil to the use of Canadian oil in the Ontario market.

Snedeker commented that it looked to them as if significant increases in the marketings of Canadian oil in Ontario were some time in the future as refineries and expansions cannot be built overnight. He asked if U.S. producers were expected to forego something in the order of 30 million barrels of production while projects were planned and executed which would eventually absorb more Canadian production in Ontario ... He ended up the conversation by saying that, of course, the real rub comes because Canadian oil is now penetrating markets in such places as Ohio and New York where there are currently United States pipeline facilities connected with United States sources of supply. This 'rub' is further aggravated by the projects which (pipelines from Canada), if constructed, would add to the problem by putting more Canadian oil and liquid hydrocarbons into markets presently served by U.S. pipelines from U.S. production. 121.

Between May and September, 1961, it was widely understood in the petro-leum and business press that "there is a semi-official understanding between the United States and Canada to hold back the size of Canadian shipments into the United States", ¹²². ever since the visit in Ottawa by Secretary Udall and Assistant Secretary Kelly in early May. Public knowledge of this understanding was of considerable embarrassment to

Canadian officialdom, but not so embarrassing as for the press to hear that Kelly supported a pipeline to Montreal. Relief came when Imperial raised prices to eliminate the source of that suggestion.

Minister of Trade and Commerce, George Hees, boasted the general success of the National energy policy before the Canadian Petroleum Association in Calgary, where, in general, the views of the internationals were predominant. He took time to recognize close friends in a warm introduction. Neither he nor other officials wished to give the independents similar personal or group treatment. He noted that consumer governments were increasingly taking an active part in establishing oil policies and promoting development of indigenous reserves, and, that Middle Eastern countries were attempting to obtain larger shares in the oil profits that constituted their national wealth, via the formation of OPEC and the renegotiation of old concession agreements or extension of new ones with a wider range of companies. Concomitant with this nationalist emphasis world-wide, was the ever-growing problem of surplus capacity in production and tankers. Yet, he asserted, the power of the major companies in world-wide operations was less absolute in terms of control over production, marketing and pricing of oil. Price slashing in posted prices and tanker rates was seen to be the cause of the formation of OPEC, but not an example of the continued degree of major control. His review of the birth of the Canadian industry in this period was so glowing as to discount any of the contradictions we have sofar detailed. Despite all evidence to the contrary, consensus prevailed on national policy, he claimed:

> it was generally recognized that Canadian crude oil could not compete economically in Quebec and the Maritimes with ocean-borne shipments from South America and the Middle

East. However, it was the consensus of opinion that the United States...offered a highly favourable market... 123.

The Trans Mountain pipeline itself had been a result of the opening for Canadian petroleum in U.S. westcoast markets that the Suez Crisis created, in the sense that additional capacity, pump stations and new loops were created in it to supply not only Puget Sound, but California. The Crisis' end meant excess capacity for that pipeline, and about seventy miles of stockpiled pipe. In fact, the most serious surplus capacity problems in the Canadian industry dated from the Suez Crisis. The logical conclusion that reliance on such temporary markets in the United States had been doomed from the start, was not his conclusion, however. He did admit that:

While price was given as the reason for substituting Middle East, Venezuelan, and Indonesian crude for Canadian crude, undoubtedly the United States importing companies were also motivated both by the desire to realize a return on their investments in these countries as quickly as possible and by the pressures exerted by the governments of these countries to increase production. Canadian oil could be depended on for the future. 124.

As lucid as this last argument and description was, Hees declined to extend it to an explanation of why the Montreal pipeline would not be built. Instead he lauded the role of the Government in dealing with the problem by setting up the Borden Commission and the NEB, and praised the Chairman of the NEB, McKinnon, as the most competent of the industry representatives that could have been chosen, and surely a friend of them all. As ex-Chairman of the Alberta Oil and Gas Conservation Board, McKinnon had been "highly recommended, especially by many gentlemen attending this dinner", with unmatched "experience in dealing with the legislative processes affecting oil and natural gas development". 125.

Everything about export and pipeline proposals had been streamlined through the NEB, as opposed to the past when Federal agencies had been "ill equipped to assist the industry" so directly, said Hees. Furthermore the NEB's "contacts with the industry and with agencies in the United States, such as the Federal Power Commission" 126. would surely bring greater cooperation between the two governments in the interests of resource development continentally.

The NEB was, of course, acting in the interests of the Canadian Petroleum Association, when it issued gas export licences in 1960 covering maximum daily volumes of over one billion cubic feet, licences which would involve over \$400 million in investment for gas transmission, gathering and processing facilities. The degree of American control of these phases was not mentioned, of course. Similarly the NEB was serving the Association in favouring the latter's forecast that between 1961 and 1968, about \$6 billion (predominantly foreign controlled) investment would take place in oil and gas exploration and development, for an accumulated value of export sales in gas of only \$1,850 million 127. The wholesale export in the twenty-five years to follow 1961. of Canada's natural gas was also seen as a sign of health and endless potential in the industry. In terms of "Canadianization" of the industry, like the Minister of Northern Affairs, Hees boasted that the Government's legislation had "permitted Canadians to have a full opportunity to participate in the financing and in the supplying of material and skills for these developments." 128.

You will recall that provision was <u>even</u> made for Canadians to participate in the ownership of the Pacific Gas Transmission pipeline, running from the British Columbia boundary to the California-Oregon boundary...(and) wherever

practicable the Government has sought to encourage the use of Canadian steel and pipe manufacturing facilities in the construction of these gas lines. 129.

The window dressing of participation, as we have outlined earlier, was clearly intended to make massive control of Canadian resources by foreign capital more publicly acceptable, not to transfer control or reserve future control of new projects for Canadian capital. In an appeal for "efficiency" and "enterprise" in the industry to compete in world markets, Hees camouflaged the notion that vertical integration and corporate concentration was the solution to surplus capacity and all the ills of the industry. The same euphemism for vertical integration, "efficiency" can be noted in Imperial Oil executive speeches to shareholders in their boasts of the company's successful weathering of the competitive storms of the 1950's in the oil industry. But before turning to that it must be emphasized that Hees main reason for addressing this association was to assure its members that the Government had their interests fully in mind and that it had no intention of interfering in the private accumulation of capital that all these elements of the national energy policy were designed to further:

Finally, may I say to you gentlemen, that all of us recognize the necessity for a minimum of government intervention in a free economy. Our legislation to date has been developed not for the purpose of interference, but rather as a guide — supported by a framework of broad ground rules within which you in industry may freely compete with one another; for in the final analysis, it is this competition which provides the greatest stimulus in the search for new markets. While our responsibility as a Government, therefore, is to encourage...your development, we have also a responsibility to ensure that a Canadian oil marketing policy is indeed 'Canadian'. It is with this in mind that we ask not just for your passive adherence to the rule, but rather your active support for the principle. 130.

Again, being "Canadian" meant having Canadian investment participate in the carrying out of continentalist projects, which would continue the vulnerability presented by reliance on American markets and capital. Imperial, to Government officials, was "Canadian" in every sense of the word, a shining example of success for all to follow. Free competition was not the basis of its success, however. Like Imperial, the CPA would immediately take up the fight for further tax breaks for the industry to facilitate the private accumulation of capital, stating, "The basic reason why Canadians do not participate to a greater extent than they do now in the development of oil and natural gas in Canada is primarily one of taxation". 131. In brief. many of the battles Imperial had led and succeeded in winning in the fifties would now be waged by the CPA, for Imperial was becoming more aware that it should decrease its visibility in the face of public sentiment against multinational majors and let its friends in the "Canadian" Petroleum Association take on these duties.

6.14 Internationals Tighten Their Grip on the Canadian Oil Structure

The control gained by the majors through the affiliated companies allowed them to import Canadian and offshore oil into American midwestern and west coast markets, a factor which was largly the result of the continentalist approach as we have indicated. Imperial and other major affiliated companies in Canada further tightened their grip on all areas of the petroleum and gas industry in Canada with the aid of the Federal Government and several Provincial Governments. We cannot detail fully the extent of this trend, but will indicate some salient examples of it in this section. First let us turn to Imperial's position

as evaluated by its chief executives in 1960. At the Annual General Meeting of Shareholders in 1960, J.R. White, President, and W.O.

Twaits, Executive Vice-President indicated how profitable Imperial's move to integrate its activities from distribution back into production and refining had been, such that independents were squeezed out by Imperial's control of pipelines, markets, and prices. This process they called "tough". Imperial's non-integrated independent competitors could attest to that:

Mr. W.O. Twaits made the point that 1959 marked a successful transition—— a milestone for your company and for the oil industry. We have completed two phases of our development since 1947—— the transition to a fully integrated industry, and the toughening process necessary for a rapidly growing industry to meet the intense competition of a world—wide nature...It has been a period of heavy capital inflow, and hence substantial excesses of merchandise imports over exports...the end of the long post—war inflation...may account for the mood of critical analysis of the national position which has been apparent in Canada for the last year or two. 132.

Criticism of Imperial's tough practices of buying up or freezing out

Canadian competitors could not be attributed to the vagaries of boom

and bust, however. While finding it somewhat difficult to explain

Imperial's profits when production of crude and its sales were down,

and capital imports were up, White admitted it had to do with the more

profitable refining end (refining imported oil).

The main reason for the increase, I believe, is greater efficiency in our operations...Secondly, not only are your company and industry essential, they are dynamic. We are not relying on conventional uses of petroleum to assure our future earnings but are actively developing new uses ...The marked growth potential of our industry reflects both the dynamic nature of the oil industry and the peculiarly fortunate situation of the Canadian crude oil producing industry under current conditions in which the continental utilization of crude oil has the tacit approval of governments...ample reserves of crude petroleum which exist, not only in Canada but worldwide, should not be looked on as a bad thing, but rather as a stockpile of

energy very necessary to supply the world's rapidly increasing needs. 133.

For Imperial, unlike the independents, there were no problems of surplus capacity. This was the Imperial continentalist toughening strategy. Imperial's executives foresaw few problems, especially, since it was on such good terms with Captain Carson, then imports administrator of the U.S. Department of the Interior:

...the speech by Captain Carson...in Calgary earlier this year welcomed Canadian crude supplies and gave promise of a continuation of the policy of exemption from U.S. quota restrictions, even though adding a caution that it was unwise to count on forcing too rapid a pace of import growth. I am confident that this export trade will increase substantially over the years... 134.

Imperial had, as earlier noted, been "first" to introduce Canadian oil in the United States, and thanks to its close connections with both the MPAB and Captain Carson, was in the driver's seat in the move to expand into American markets. Because Imperial orchestrated it, the company could now say the "continental pattern of crude (and gas) utilization had to emerge". 135. The Government in Canada could help Imperial, White noted, by decreasing taxation of the industry and assisting in further private capital accumulation facilitation:

...it is to be hoped that the influence of governments on the formation and mobility of capital will be recognized, for this is essential from a social as well as an economic viewpoint...there is indeed a major financial problem in Canadian affairs it is a problem in the formation of capital and...this in turn is the outcome of a philosophy of taxation and regulation which has put economic equalization ahead of building the nation's wealth. 136.

It is clear from Twaits'statement to shareholders that shut-in capacity in production in no way damaged Imperial's profit picture.

While the average surplus capacity for the industry was, about 50 per

cent of potential, Imperial was producing at only 39 per cent of its potential capacity. 137. He was, of course, attempting to prove that Imperial had an even larger stake in increasing crude oil markets, but it is easy to see that in a time of glut, the company who can survive the best with the greatest shut—in capacity is the one that can monopolize markets for its imported crude while producers dependent for survival on sale of domestic crude have to sell out. Twaits more clearly outlined the three policy points which would underlie Imperial's assured success in future. The brief translation in parenthesis indicates the source of national policy statements made in 1960 and 1961:

- (1) No action should be taken on a basis of expediency which might jeopardize sound long-term growth of the industry. (No Montreal pipeline, and no open territory on U.S. markets.)
- (2) Care should be taken to avoid imposing permanently higher energy costs on the Canadian consumer, which can only be maintained by political control. (No Government protection to the domestic producer in the form of import controls.)
- (3) The competitive cost position of the industry must be improved by all means including a reduction of those costs resulting from taxation or government regulation. (Government must redistribute tax dollars from consumers to the industry.) 138.

And finally, Imperial would make sure that no large projects in energy production escaped its control in order to maintain its dominant position:

...the decision was made in 1959 to participate with three other companies in the first large-scale research project in the Athabasca oil sands. While the company has continued laboratory work on this problem for many years, it was felt that we must have a position in what can be regarded as the world's largest reserve of low-grade petroleum and this has been assured by participation in an extensive pilot plant and laboratory project. 139.

The underlying basis of Imperial's programme, vertical extension of control, rested in its monopolization of the most lucrative outlets. Imperial had the most service station outlets in all areas of the country of any single company. This was not a given from Imperial's old days as monopolist in distribution of Standard Oil products in Canada, however. Once oil was struck in Alberta, hundreds of small competitors tried to get in on down stream activities. To wipe out some of the competition, Imperial had waged price wars for years, especially in 140. But the real money was to be made in monopolizing the other 75 per cent of the market in Canada: "Indeed, less than 25 per cent of industry volume is sold through the service station -- a large proportion of the remainder being sold by bid tender to industry, construction, transportation, government and other large buyers." 141. Imperial's success in monopoly control of the government market, especially the continental defense market, has already been analyzed with regard to the Churchill affair. It is not surprising that, with the complicity of a friendly Federal Government, Imperial could sew up defense markets and whatever civilian demand would eventually arise around these installations. Imperial's parental affiliation and exclusive representation on petroleum-defense committees in the United States had given it an enormous advantage over other majors and minors in controlling these kinds of markets. There was little "open bidding" on such contracts. The importance of contracts with the defense departments followed from the fact that the Department of Defense Production were responsible for providing all Canadian Government requirements including the Departments of National Defense, Transport, Northern

Affairs, National Resources, and the National Harbours Board. They also make arrangements for the delivery of the fuel requirements, of the limited States Strategic Air Command who have their own storage facilities.

The "free enterprise" system that Imperial and the Canadian Government so frequently used to justify their activities and policies never applied to the petroleum and gas industry. The Venezuelan newspaper <u>La Republica</u>, Caracas, March 4, 1963, commented (in an effort to support whatever could be called "national" in Canada's oil policy):

...If there were complete freedom of enterprise in Western Canada today, there would not be one single independent company in business except those which the large international companies would consider necessary to maintain for reasons of public relations. If there were complete freedom of enterprise in production and development, the territorial limit for the oil market would be Regina to the east and Edmonton to the west. 142.

Regardless of the validity of such statements on one level, such monopolistic control by majors was faring quite well as a result of state intervention at both federal and provincial levels. Besides Imperial's shining record, those of Golden Eagle and Shell deserve some mention here. In 1960, Golden Eagle, the only refinery in Newfoundland, made a contract with Newfoundland's Joey Smallwood to build a refinery at Holyrood and serve the Government's needs for twenty years under exclusive contract to use foreign oil. Golden Eagle Refining Company (for whom both John Shaheen and Richard Nixon were instrumental political connections), went about getting exclusive drilling rights as well in 1963.

The memo to the Regional Office of Trade and Commerce at St.

John's also let slip the fact that for ten to fifteen years Imperial, British American, Shell Oil and Sun Oil "have carried on extensive drilling operations in the Lowlands area of the St. Lawrence, in the Gaspé Peninsula, in the general area around Amherst, Pugwash and Cape Breton area of Nova Scotia, as well as around Charlottetown and Summerside in Prince Edward Island." 143. Were it not for the following little known geological tip, these activities might seem like blind and competitive risk-taking:

...Dr. R.L. Cameron, the President Emeritus of the Nova Scotia Technical College at Halifax, who is a very highly regarded geologist moved to the Province of Alberta after retiring...where he did consulting work for the petroleum industry. He claims that his review of the geological structure of the Atlantic Provinces and Eastern Quebec indicate that there are potentially greater reserves of oil in this area than have yet been developed in Western Canada... 144.

It is not difficult to discover why such large importers of foreign oil into the Eastern part of Canada would be in such a secret hurry to discover these oil bodies first, and in no hurry at all to produce from them should finds be proved. Reducing the price of oil to the consumer was not their first priority and deranging their world-wide marketing structures was their last intention. In fact, it would probably take a noisy little independent to spill the beans about such discoveries, in which case a lot of rhetoric would have to be readily assembled by the majors to prove that it was not "economic" to provide Quebec, or Nova Scotia, or...with these provinces' own oil. If the story of Imperial's arguments about the "uneconomic" nature of British Columbia markets for Alberta oil in the 1950's is anything to go by, such a scenario is not absurd. In the case of Golden Eagle, both

Smallwood and the Federal Department of Trade and Commerce scurried to facilitate the opening of additional Canadian markets to its refined imported oil, despite any presumed policy not to extend the use of foreign oil in the Canadian market.

A final example of the types of extended control that majors achieved with the blessings of the Federal and Ontario governments is the creation of a Shell Canada holding company for its overseas operations—a company that would get all the advantages of Canadian "ownership" without any being involved. Through an intricate pattern of subsidiarization and a few directors with Ontario residence, Shell's European controlling groups managed to have it participate in Trans Mountain Oil Pipe Line Company, Trans Northern Products Pipe Line (between Montreal and Toronto) and in the Portland—Montreal pipelines. In addition, it had bought all voting stock of North Star Oil Limited in Western Canada, and had just completed the purchase of Canadian Oil Companies Limited "a very substantial integrated Canadian oil company." After this mammoth take—over of Canadian capital and control, Shell decided to offer some few shares to the Canadian public so that it could "participate". (See Appendix C 10.)

6.15 Conclusions

Canadian postwar energy policy, as it developed within the continental context, can be explained neither by the simple logic of economic rationality nor by the simple fact of the overwhelming economic power of the multinational oil companies. When Canadian oil was discovered, the latter had not yet succeeded in extending their control throughout the structure of the petroleum industry to include

production, refining, and distribution as well as marketing of oil.

This feat could be accomplished only with the economic, political, and ideological aid of the Canadian state. In the decade of the 1950's the multinational oil companies, led by Imperial, were allowed to define the parameters of the National Energy Policy in such ways as to assure their hold on Canadian energy development for the future. Western independent oil producers were squeezed out of both Canadian and U.S. markets, as they were from the seats of decision-making power in the creation of energy strategy.

A nationalist domestic alternative based on self-sufficiency would have linked Canadian production to Canadian markets, instead of limiting market access to just west of the major Canadian markets and to rather unreliable U.S. midwestern markets already supplied by American midcontinental oil. Such an alternative was supported by every interest group except the majors; yet it was consistently ignored and down-played by Canadian officials, who appear to have taken their cues on what was "feasible" directly from the mouths of Imperial executives. The Montreal pipeline would have required federal financing (given the opposition of the majors), as well as several backup policies placing conditions on the flow and control of foreign direct investment, of foreign oil, and of national pipelines. Even before the development of the National Energy Policy, the creation of the National Energy Board, or the establishment of special exemption for Canadian oil in the U.S. market, Imperial came to represent multinational oil interests in the federal bureaucracy and to represent its Canadian interests in various U.S. agencies of military and petroleum policy. Such exclusive access to the designing of continental

energy development reflected itself in decisions concerning the building and direction of energy pipelines and the terms and price of supply of Canadian or foreign oil in both Canadian and U.S. markets. Many of these decisions were made directly by Imperial for the majors. Where the extension of their control and the facilitation of capital accumulation required explicit state legitimation, as in exploration and depletion allowances and tax breaks, Imperial executives had only to approach the appropriate Deputy Ministers. Similarly the state maintained for energy, as for other resources we have examined, a policy of open door to technology and capital goods importation, as well as terms fostering the easy removal of profit.

Neither small independent Canadian petroleum producers nor extra-industry critics received an impartial audience within the Canadian state. Instead the so-called "neutral" experts who appraised and predicted the course of the industry's development for the Government appear to have reflected an exclusively continentalist approach to Canadian energy development, and in important instances actively lobbied multinationals' interests. The Canadian state rejected an independent data-gathering agency so that the Dominion Bureau of Statistics was doomed thereafter to rely on oil company statistics. This act laid the foundation for a generally instrumentalist approach by the state such that its autonomy in the continentalist energy strategy consisted almost entirely in its efforts to legitimate the interests of the majors as those of the "nation". The demands of independent producers for a Montreal pipeline went unheard not only because of their inferior economic power but because of their systematic exclusion from forums of decision-making and their unequal

representation within the federal bureaucracy, as demonstrated in the Churchill oil contracts affair in which Imperial's monopoly hold on governmental oil purchases was sustained. In those forums and agencies crucial to continental policy making in the United States, from the State and Defense Departments to the Military Petroleum Advisory Board, only Imperial had direct access as a Canadian company or, like the other major subsidiaries, through its U.S. parent company.

Thus, the Canadian state extended the characteristic dependency on U.S. markets to its newest industrial staple and allowed international capital to strengthen its hold on the structure of the industry. The large-scale energy development of the 1970's and 1980's was in this manner reserved for the majors who benefitted so much from the state's policies in the 1950's and 1960's. The acceptance of the major domestic alternative to a continental resource strategy in the energy staple would have required democratization of representation in federal policy making and a rejection of systematically exclusive support for the largest international corporate interests, whose hold on the Canadian market was substantial, but whose ability to maintain and deepen that control by extension into production, refining, and distribution relied on that exclusive representation and its legitimation. The Canadian National Energy Policy provided the final legitimation of the majors' interests by defining the "normal" markets for Canadian oil as a combination of the U.S. market and the Canadian market west of an artificially created line through Ontario; this eliminated the domestic possibility for western independents to survive the rationalization of marketing undertaken by the majors. For, as we have seen,

access to the American market was insecure and manipulated, in part, by the desires of the majors to integrate themselves into midwestern refining, and to reach back from these markets to control Canadian production and prices and further threaten small producers in Canada.

We have described the institutional and ideological mechanisms by which such a non-nationalist strategy implemented the interests of international as opposed to domestic capital and the extent to which U.S. domestic energy policy, which similarly favoured the majors over small independent producers, influenced Canadian officials. We turn now to the international context which, we suggest, reinforced this continental energy strategy at the same time that it presented other alternatives to it. These alternatives involved overseas markets for Canadian crude and oil-related technology. However, the domestic policy that had opened doors to foreign multinational control of the Canadian petroleum sector would decrease the potential for marketing either crude or technology abroad without the Canadian state's taking a militant stance against the majors. We shall demonstrate in Chapter Seven that the coattailing of U.S. Cold War ideology and foreign policy generally would lead the Canadian state in a direction quite different from solidarity with other nationalist energy producers into a series of go-between roles at the material and ideological levels for U.S. capital in an international context in which the majors found themselves threatened by both nationalism and communism.

CHAPTER SEVEN

CANADIAN ENERGY POLICY 11: THE INTERNATIONAL CONTEXT

The foundations for present-day non-nationalist Canadian energy policies were, as we have shown, laid in the 1950's on the basis of U.S. foreign and domestic policy, designed to meet U.S. multinationals' needs, and carried out within a continental context of energy extraction and marketing. Even less understood, however, has been Canada's relationship to other energy-producers and consumers, or the fact that this international context is an essential part of Canada's dependent development strategies. In this chapter we seek to demonstrate that the Canadian state systematically rejected international marketing alternatives for crude which could have created the basis for an independent energy policy as well as the international marketing of equipment and other technology.

As we show in the following, even though offers came from abroad to buy Canadian crude, no attempts were made to diversify away from American marketing. Thus, logical alternatives to the dependency implicit in the continental resource strategy were consistently abandoned. Every attempt was made, instead, to lock Canada into the continental strategy. This non-nationalist posture at the international level reinforced several levels of dependency in Canada, while Canadian officials exported the legitimating foundations of underdevelopment abroad, encouraging other oil-rich countries to continue the disastrous

strategy of multinational oil company penetration and import-substitution.

No alliance was sought with those countries attempting to create nationalist alternatives. Rather, these governments were observed with mistrust and disapproval by Canadian policy makers. Such dangerous renegades challenged the multinational corporate plan of energy development with which the Canadian state allied itself. As oil multinationals received blows to their cartel abroad, they encountered neither bargaining nor resistance to its extension in Canada. The fact that Canadian officials had proof of the potential in nationalist models, as of the limitations imposed by multinationals, demonstrates from an additional perspective that the path of dependent resource development was chosen and systematic.

7.1 Foreign Consumer Nations Request Canadian Crude

A review of Trade and Commerce correspondence on Canada's international oil relations between 1950 and 1965 reveals the fact that several petroleum-consuming nations of substantial size requested access to Canadian crude oil on a continuing basis. (Belgium, 1957; Germany, 1957; Japan, 1954 and 1965; Korea, 1963; Portugal, 1957; Sweden, 1965; Formosa, 1955; Taiwan, 1958).

1. Typically, lower-level civil servants would process such requests with cheerful efforts to expand Canada's crude oil trade. Invariably word would come down from upper levels of the Trade and Commerce Department, however, that such trade was "not possible". Despite the fact that production in Canada was shut-in at more than 50 per cent and each country was prepared to pay whatever price necessary and offer security of contract, the answer from the Canadian state always reflected the will of the multinationals.

Imperial Oil and the other majors who had international marketing systems were unwilling to allow consumer countries to influence in any way the source of the petroleum they would buy. It is also significant that in no case was the request ever forwarded to companies other than Imperial and the majors, which of course preferred to supply customers with Venezuelan or Middle Eastern oil. When Canadian oil was marketed abroad, Imperial kept the deals secret to maintain the myth of the unfeasibility of using Canadian oil in any markets other than U.S. ones. The civil servants replying to such requests would suggest the solicitors contact Imperial Oil, which, it was said, had extensive "experience" in such matters.

One example of this scenario is a request by a Formosan refinery for Canadian supplied crude in 1955. John English, then Director of Trade Commissioner Services contacted John Davis (renowned continentalist policy maker) on this matter:

Would you be good enough to let me know what the current situation is and whether the Canadian industry would be interested in a commercial equity of this kind at the present time or, if not, when the situation might be propitious. I would also like to have for this enquirer the names of some of the principal suppliers using the Trans-Mountain pipelines. 2.

The reply indicated that the major producers for the line were at the same time its major owners and the multinationals who controlled the shipping of oil off the west coast: Imperial, Gulf, Standard Oil of B.C., Richfield, Shell, and Union Oil of California. All had "substantial reserves" in Albertan oil.

3. Officials left the decision to the majors:

In as much as the Trans Mountain pipeline is now operating at something less than one-half capacity and western

Canada crude oil production potential greatly exceeds actual production, there would seem to be no obstacle to offshore shipments, from the supply point of view at least. There have been no offshore shipments of crude oil to date as Canadian crude is not competitive in California which is the nearest major offshore market. 4.

No supply problem and no demand problem meant the only obstacle would seem to be the feasibility of shipping off the west coast. While California had not yet been opened as a market, it would be during and after the Suez Crisis, leaving this argument too without foundation. Hence later rationales against shipping west would have to rely on the ideological "creation" of a supply problem. In fact, even at this time, previous trade west of Vancouver had been undertaken by Imperial in 1954, when it shipped 330,000 barrels of gasoline to Japan. (Three of the above-mentioned companies operated refineries of fuel and gasoline at Vancouver.)

5. This "experience" was not grounds, however, for alerting other companies to such opportunities, but rather for putting such requests in the hands of the same majors.

Nine years later the scene was repeated with Japan. By 1964, however, the Japanese company, Arabian Oil Company, had achieved concession holdings in Saudi Arabia and Kuwait and managed to undercut the majors in the Japanese market because the growing number of non-integrated oil companies were still eager to find free markets for oil. With the help of two of Japan's large industrial corporations, Sumitomo Chemical and Tokyo Electric Power, Arabian Oil Company penetrated the Japanese market with Japanese owned "foreign" oil. These companies formed an integrated Japanese refining and marketing firm, Fuji Oil, to be supplied with 40 per cent of its crude by Arabian Oil

Company. 6. Canadian crude was actively solicited for the other supplies. Clearly the Japanese would have liked to have independent producers of Canadian oil participate in this "nationalist" or extramajor marketing system. Independents never received the news, however, from the Canadian Government. Furthermore, by this time, Canadian oil was formly ensconced in the California market, proving that such shipping was "feasible" in the practical sense. Majors still refused to supply Japan with Canadian oil because they would be competing against their "own" supply lines from the Arabian Gulf and Indonesia. It is the refusal of the Canadian state to provide liaison or other aid in bringing surplus production to markets other than American ones that sustained the multinationals efforts to keep their world marketing and distribution networks in tact.

After the creation of the NEB, however, the state had a new apparatus of legitimation to utilize in shoring up the frayed legitimacy of such an international policy. Such trade would be called "uneconomic" by the NEB instead of the majors themselves. Policy makers now replied to such requests, "Exports would have to be approved by the NEB (who are concerned with our reserves, which have not increased appreciably in the last few years.)"

7. Reserves were not likely to increase in glut times with half productive capacity of the industry inactive, of course, nor was concern ever voiced for reserves unless tax breaks for exploration were demanded.

Similarly, the French Commissariat à l'Energie Atomique requested access to purchase Canadian lubricating oils in 1955. They too were put off; that is, they were advised by the Canadian Commercial

Secretary in Paris to address themselves to the Dupont and Dow Chemical "Canadian" representatives in Paris. 8. This meant, of course, that Canadian products would unlikely be used.

7.2 <u>Canadian Petroleum Technology in the World Market: Diagnosis</u>, <u>Impotence</u>

While much Canadian technology has been created in the petroleum industry and some of it has found its way into the world market because of its superiority in facilitating particularly difficult well-drilling, there have been very large obstacles placed in the way of its diffusion abroad. These obstacles have derived only indirectly from the role of the Canadian state, for Canadian civil servants made consistent efforts in the 1950's and 1960's to find markets for such items as well-drilling equipment, chemicals used in refining, geophysical survey techniques, and the like.

The most logical markets for such goods would have been the many petroleum producing countries around the world. These countries were increasingly trying to reduce their dependency on the major energy multinationals. It was becoming clear to many oil-rich underdeveloped countries on the basis of the Iraqi, Iranian and Indian experiences of the 1950's (particularly after an exposé by Fidel Castro in 1960) that the multinationals made a practice of "capping" (shutting off) oil wells, secreting all information on production and marketing, refusing to build refineries, and effectively stifling petroleum production and general development in this manner. Once having obtained a monopolistic grip on large land tracts suspected of bearing oil, the majors could claim that there was none or that it was economically unfeasible to produce it. Developing countries which suspected otherwise thus

constituted a market eager for alternative sources of equipment and personnel to bring their production on stream. This technology had to be sought outside the parent-subsidary network of the world majors.

The fact that many such developing countries looked upon Canada as a potential source of technology "outside" the grip of multinational-subsidiary networks is a testimony to both their ignorance of the extent of dependency in Canada's industrial sectors and to the effects of Canada's international political stance, which vacillitating as it sometimes appeared, was not yet seen as fully aligned with one or the other big power or with the interests of the major energy companies. Canada, it was often said, appeared to be country which had developed through import-substitution on the basis of staple production. The more insidious forms of dependency which that development strategy had given rise to were not fully appreciated anywhere in the world until dependency theorists began to expose the socio-economic mechanisms of such unequal exchange and the limitations of import-substitution on an international basis. Technological dependency was a consequence of direct capital investment and international patenting and licencing which was still in its consolidation phase in the 1950's.

Canada's frailty in export capability of technology and capitalintensive equipment was (as we have pointed out in Chapters 11 and 111)
a result of the impact of foreign direct investment and the failure of
the state to protect and foster the maintenance of indigenous technologyproducing sectors. It was a reflection, as well, of the weakness or
non-integrated character of Canadian capital formation in the energy

sectors in particular; it was not a reflection of the lack of innovation in these sectors by Canadian scientific and technical personnel.

Let us look for a moment at the role of the state in the perpetuation of this state of affairs while documenting the fact that state officials were being made aware of the limitations of this technological dependency at home and abroad.

The National Oil Policy of 1960 called for the increase of crude production and export as well as the expansion of drilling and exploration. Departments of the civil service charged with expanding the use of Canadian technology not only produced no new plans for doing so, but endorsed a status quo of short-term, illusory expansion of petroleum equipment-producing sectors. At the same time, they noted the structural weaknesses present regarding such equipment manufacture in Canada:

Substantial quantities of a wide variety of equipment are used in these operations. At the present time Canadian manufacturers supply a relatively small part of these requirements. It will be necessary for domestic manufacturers to pursue, with energy and perseverance, the opportunities to increase their participation in this market. At the same time, distributors and users of this equipment must show a willingness to handle those Canadian products which meet the required standards of price, service and dependability. 9.

It seems to be the "unwillingness" of multinational energy companies (whether in the Canadian or international market) to buy from non-integrated or non-American producers of technology which increasingly shut Canadian technology out of both marketing prospects. The evidence we shall review on the attempts to enter the international market indicates that the cause of failure was not a lack of "energy and perseverance" on the part of Canadian sellers or civil servant

middlemen so much as a failure on the part of Canadian policy makers to facilitate either state to state mechanisms of exchange or indigenous strengthening and integrating of such sectors to industrial sectors with firmer Canadian capital structures.

In 1961, for instance, the market for drilling equipment alone was over \$50 million annually in Canada, after only fifteen years of oil production in the West. This represented a capital drain of the same magnitude since "nearly all drilling equipment used in Canada (was) imported from the United States."

10. Most such equipment was sold to the driller through supply houses which actively shut Canadians out of Canadian markets:

...with one exception, all the major supply houses in Canada are branches or subsidiaries of supply houses in the United States...(which) in turn are subsidiaries or divisions of steel or machinery producers in the United States and are major producers of oil drilling equipment. To a considerable extent, the supply houses regard their Canadian operations as an extension of their United States market. These firms tend to centralize their purchasing policies at their head offices in the United States. As a result, a Canadian manufacturer wishing to market his product in Canada often must obtain acceptance from the head office of the United States parent house. 11.

This American penetration and hold on the Canadian domestic petroleum equipment market was accomplished through the use of American Petroleum Institute "approval" of certain brands of production equipment. It had already forced many Canadian equipment producers into voluntary indenture through seeking licencing arrangements with the American supply connections. In turn such licencing arrangements carried with them strings that pertained to forfeiture of access to international markets. Once dependency was assured through control of rights of sale (patent and licensing agreements), it was immediately

translated into impotence of Canadian technology-producing sectors abroad. The structure and process of centralization of control of marketing-decisions, so pervasive in multinationals, makes of technology a commodity that can be as easily monopolized and controlled as any other. The trend was already established by 1961:

Among the Canadian firms which are already producing components for oil and gas drilling, a number stated that the most feasible means of expanding Canadian output is through licencing arrangements with established producers in the United States. In this manner, the domestic producer is able to market his product under an established brand name. 12.

This industry response to monopolistic control by American producers was fully approved by the Canadian state. Far from being concerned with developing mechanisms for furthering free competition in this sector, the state recommended that the equipment sector ally itself more closely to the American control centres." There is little doubt that with appropriate encouragement and cooperation between the various interested parties, Canadian production can be increased progressively." 13. This "cooperation" was to take the form of independent Canadian manufacturers giving up independent rights to their technical processes and voluntarily reducing themselves to licenced appendages of American supply houses, a policy which at the same time sealed their fate in the international market. Nor were any protective measures recommended. American equipment continued to enter Canada duty free. The results of such policies were already evident as Canadian equipment producers were being reduced to assembly shops and repair or service operations. Full knowledge of these trends already existed among state officials responsible for the policies, for they admitted, "...manufacturers in

the United States have often been reluctant to licence their products for production or processing in Canada." ^{15.} Thus, an endorsement of the status quo was a policy bankrupt from the start. Yet it must be seen in the context of alternative, rejected options— ample evidence for which exists in the experiences of other petroleum producing countries with nationalist policies carefully watched by these same state officials. The fact that much of this material on alternative strategies was marked "restricted" raises questions about the role that secrecy plays in the state's legitimation of dependency-producing strategies.

The importance of maintaining equipment production and operation separate from major company control was relevant to an autonomous or "national" oil development policy. State officials already knew that company-owned drilling rigs were maintained only where companies wanted to keep the existence or quantity of oil discovered a secret. As the state officials' report so politely phrased it:

A few (rigs) are owned by the oil companies, usually for use in 'tight holes', where the company wishes to keep drilling results highly confidential. In certain other instances, drilling contractors are tied in with supply houses. 16.

India was a prime example of the success of nationalist technology policies in the early 1950's. Iran's experience, in which after nationalization of oil concessions its nationalist leader was assassinated by the C.I.A., was a poignant example of its failure and of the "big stick" that supported the majors around the world. When India's nationalist oil minister obtained alternative geophysical surveys and technicians willing to train Indians with the help of Roumania and the Soviet Union, India was able to force the majors to divulge their

accounts to the government, reduce their exhorbitant prices in the Indian market, and agree to both increase production and build a refinery. Canadian personnel were instrumental in the magnetometer survey of the Ganges Basin (9,600 miles) which may have, along with surveys by Roumanians, helped make this leverage possible. The Canadian survey was done for a private company, however. Russian experts did a total mineral survey and Roumanians trained personnel and provided drilling equipment on a state to state basis. 17. This example of providing technological assistance to a nationalistic regime appears to be a rare one for Canada, however. Neither in terms of crude nor technological sales was the Canadian state willing to deal on a state to state level or break the unspoken boycott on dealing with state companies.

When it came to refinery equipment, most was only licensed for domestic consumption in Canada. As the Chief of the Machinery and Metals Divison of Trade and Commerce put it as early as 1953:

I am sorry to say that Canadian industry is not in a very good position to supply equipment for refineries due to the fact that very little of the speciality equipment is manufactured in Canada. Refinery equipment which is being made in Canada is only being made under licence for domestic consumption and there is no way in which this equipment can be exported. 18.

When the Mexican oil industry underwent further development, the only equipment the Canadians hoped to export was from the long-successful circulation sectors; transportation equipment, railway rolling stock, locomotives, tank and freight cars. In this Mexican case, with a state company to deal with, the problem differed from that of Trinidad in which the majors directly refused Canadian produced refinery products. For, the Commercial Counsellor in Mexico

admitted, "We have quite good connections with the top management at Pemex and can get a line on their requirements and they claim to be well disposed to dealing with Canada." 19. Thus, every American dollar invested in such "down-stream" sections of the oil industry in Canada as manufactured or technical goods had meant such goods could never find their way into the world market because of international patents and licencing agreements to help redress the Canadian balance of payments.

The problem of closed doors on Canadian export of technology or capital-intensive goods is succinctly put in the case of plans to build an oil refinery in Greece in 1953. The Canadian civil service had no role to play in such diffusion, since the majors held all decision-making power in the matter.

We did not do anything further with the submission of applications for the establishment of an oil refinery in Greece...we felt that there would not be very much interest by wholly owned Canadian companies in a project of this type...In any case, it would appear that most of the international companies are already aware of the Greek requirements. As most of our Canadian oil companies are controlled by these same international organizations, and would not be free to engage in this type of development, it was felt that no good would result in forwarding the data to one or other of these organizations. 20.

In 1959, the Roumanians attempted to facilitate a new basis for the exchange of technical knowledge and training through a proposal to the United Nations. Following earlier attempts, this initiative would affect the monopolistic restriction of this knowledge and development tool particularly in developing oil producing nations. Noting the many calls by developing nations at the symposium on the development of petroleum resources held in New Delhi and those at the 27th session

of the Economic and Social Council of the United Nations, the Roumanians had again called for aid to these countries to develop their petroleum resources more efficiently. They requested the Secretary General of the United Nations:

to include the question of the development of petroleum resources in the UN programmes in the field of the development of under-developed countries...to convene during 1960 an ad hoc group of experts from interested countries...(for) broader international cooperation...for the formation of personnel and the exchange of information and experience in the field of extraction and procession...manufacturing petroleum equipment...(and) to work out...a survey on the possibilities of international cooperation in the field of the judicious development of petroleum resources of the under-developed countries...and to submit it to the 15th Session of the General Assembly. 21.

The comments by the Canadian Embassy in New York on this renegade policy by Roumanians indicated the Canadian state's disapproval of such a move and its ideological commitment instead to the process of world patenting and licencing which suited the multinationals and which Britain, among other advanced industrial nations sustained in the United Nations:

It is more than likely that the exercise which disposed of the (same) oil question at the spring ecosoc session will be repeated in the second committee and that the final resolution on oil, if any,...will follow closely the lines of the UK-sponsored resolution. 22. (A resolution previously used to flout such proposals for technical dispersion to underdeveloped nations.)

7.3 The Canadian State Takes an Anti-Nationalist Stance Abroad: The Reading and Appraisal of World Events

In a time of world glut the major multinationals could refuse to produce wherever they liked, encountering little serious threat to their policies except where countries were willing to turn to the Roumanians, Russians, or Italians for relief in the form of better concession terms (ENI of Italy) or expertise in developing their

reserves independently. Those countries which attempted such nationalist alternatives included the following, closely watched by the Canadian civil service: Argentina, Burma, Ceylon, Chile, Colombia, Cuba, Egypt, Equador, Libya, India, Iran, Iraq and Italy. While Canada was like many of these in its predicament with the multinationals, its state policy makers never followed their cases with a view to emulating them. Like these oil producers it suffered from high shut-in capacity, misdirected marketing, and major control of its refineries, pipelines and shipping. As a producer of technological equipment, it found itself consistently shut out of international markets for most petroleum-oriented, capital-intensive goods, leaving only the alternative of following the Russian and Roumanian examples of undercutting the majors in technological diffusion, or diversifying markets-- courses it did not take. Even the option of cashing in on the old "British Empire connection" proved futile in this age of American ascendancy. In Trinidad, where oil refineries had belonged to British companies and Commonwealth ties could have proven useful, the British sold out to Texaco. Even though Texaco had subsidiaries in Canada, it refused to buy any equipment manufactured in Canada. Canadian civil servants tried for years to get some leverage on this situation in either London or New York, before it finally became clear 23. In most cases where that Texaco was the source of the problem. Canada would have been a welcome supplier of equipment or expertise, the monopolist major that the nationalist country wished to have alternatives to was the parent of Canada's most influential company, Imperial. (This, for example, was the case in India, most of Latin America, and

the Middle East-- where the American majors parcelled out production and market shares.)

Canada's policy makers looked with a jaundiced eye upon attempts by nationalists to develop their oil outside the parameters of the multinationals' control, because they represented multinational interests in the Canadian state. The following dispatch from the Ambassador to Argentina makes clear the anti-nationalist ramifications in statements about Peron's failure to go it alone:

Despite the constitutional and legislative limitations placed on non-Argentine and non-State ownership, exploration and . exploitation of Argentina's sub-soil deposits, there are strong indications that, using the provisions of the recently passed Foreign Capital Investment Law and those of the rumoured pending law on the exploration of the country's mineral resources, the Government will encourage foreign companies to enter the country...Outside help is needed, but it is certain that satisfactory assurances in regard to exploitation and exploration rights as well as capital and profits withdrawals will have to be given before foreign companies can be prevailed upon to invest their time, money and equipment in the development of Argentina's oil and gas resources. Apparently such assurances will be forthcoming ... I see no reason for doubting that General Peron has had to revise his ultra-nationalistic course as far as the development of the country's sub-soil deposits is concerned. In the face of limited financial and technical resources, it would seem that the President has little choice in the matter if he wishes to proceed with the declared aims of his Second Five-Year Plan. 24. (Emphasis ours.)

Thus the question of development was ideologically narrowed to one course only: development through resource extraction and export by the multinationals. All alternatives were described as failures or as dangerous. For in fact they were dangerous to the interests of international capital which formed the underlying rationale for all Canadian policy on the matter. Even when successful examples were observed and filtered back to the NEB, the interest in such examples had nothing to do with Canadian development policy. There are then only two explanations

for the plethora of information gathering on the policies of other nations: A) looking for outlets for Canadian products, and B) spying on "dangerous"nationalists for the Americans. The only exception to this rule appeared to be the case of Venezuela, to be discussed shortly.

The dispatches on Burma, for example, did not suggest that the multinationals in Burma had any part in the underdevelopment of Burma's petroleum industry, nor that neighbouring Indian policy, as nationalist as it was, was necessary to change that country's course. The following foreign service report gives total credit for any development to the long-time British monopoly, the Burmah Oil Company, and accuses the striking workers of holding back production as opposed to facilitating a nationalist checkmate of Burmah Oil and its multinational sisters in the area:

Since its inception the Company has continued to pioneer the development of the oil industry in Burma...Today this remarkable organization controls 75 per cent of the country's total oil assets. In spite of a 23 day strike of workers, crude oil production in Burma during 1952 totalled approximately 650,000 barrels (28 million gallons), or slightly higher than that of the previous year...By the end of this year a new Burmah Oil Company refinery at Chauk is expected to go into operation with a capacity of 2,500 barrels per day, which should permit a 20 per cent reduction in imports ...Since domestic consumption of petroleum products in Burma is increasing annually, it is predicted that exports on the other hand will continue on a small scale for some years. 25.

The fact that the refinery was won only through the mechanisms displayed by India of turning to the Soviet Union, through state insistence, and through Burma's production workers' strikes is totally obscured in such eulogies meant for eventual Canadian consumption in Foreign Trade. The subtitle of the dispatch, which mentions the probability of partial

nationalization of the industry, is totally divorced from the content of the dispatch, in terms of either facts mentioned or editorialization. Nor does the fact the sender is stationed in India cause him to make the slightest comparisons.

The following is an example of "spying for the Americans" where the Americans consist of capital investment going under the guise of a "Canadian" company. The Canadian Embassy in Colombia kept tabs on the progress of nationalization of such interests as the International Petroleum Company, a subsidiary of Standard Oil of New Jersey, but incorporated in Toronto. Having visited the company town of the Jersey subsidiary, the Ambassador noted that the Canadian colonials had diminished to a mere fifty in number "since the International Petroleum Company moved its head office from Toronto to Coral Gables Florida." He went on to laud the "excellent job on the bahalf of the company and of the Canadian colony" Mr. Wellington, the camp's Canadian manager had done. At the same time that this Ambassador was a guest of Intercol, he was also shown around the Shell camp at Casabe where he noted the presence of more production and more capital intensive equipment than in Alberta. Such comparisons of these companies' operations in Canada and abroad in the midst of tropical rain forests did not lead to any critical questioning of majors' policies, but inspired instead an attitude of awe and a feeling of shared status between such Canadian state officials and those of the majors. He shared as well the oil companies distress over nationalist efforts and concern for Intercol's and Shell's futures in Colombia:

The future of the oil industry in Colombia is not as bright as it is sometimes pictured abroad...despite the expenditure of considerable sums of money, no oil company has yet reported the discovery of another potentially rich field. Both Shell and Intercol are searching for a new field. Intercol will need to have a new oil field in Colombia at the end of their nine year lease on the refinery, if they are to continue to operate in Colombia. It is expected that the Colombian Government Oil Company will wish to operate the refinery itself by that time, and Colombian technicians are now being trained. Oil exploration here has been held up to a certain extent because of the guerilla activities in the country; for instance in Llanos, where it is thought the richest oil deposits may lie, it has been impossible until the last few weeks to send out geological survey parties. Now that the political situation has improved in Colombia, oil exploration will probably be accelerated, (by Shell, Texas and Intercol.)

Such "external affairs" work as we have been noting in nations seemingly peripheral to "Canadian" interests in reality functioned to do the job of the American diplomats for them free of charge. Increasingly American investment had become an unwelcome commodity in Latin America, for instance. Hence, it took the guise of "Canadian" investment and the Canadian civil service serviced it as though it were in fact Canadian. The fact of an open door to foreign capital wishing to invest in British Guyana on oil exploration, prospecting and mining, for example, was circulated by the Canadian civil service in 1953, noting that the three oil exploration licenses in existence there were of the type we have just described: Eldorado Mining and Petroleum Trust (317 square miles on the Pomeroon Coast); Eldorado again (165 square miles on both banks of the Upper Demerara River); and Panhandle Oil Canada Ltd. (3300 square miles on the Pomeroon and North West Coasts). non-nationalist domestic investment profile in the petroleum industry and its "go-between" role for American foreign investment, in part accounted for its non-nationalist concerns abroad. Its strong ideological stance on other nationalists can be seen in the portrayal of Mattei.

The Canadian Embassy in Rome distributed dossier-like reports on Enrico Mattei, head of Italy's state-owned energy company, Ente Nationale Idrocarburi. These reports went not only to various foreign policy branches of the Canadian Government, but also to Washington, to NATO, and to AID. Mattei, despite his anti-facist war record and the state's anti-communist development policies, was viewed as extremely dangerous because he was the strongest non-communist threat to the "Seven Sisters" and would be more difficult to attack on ideological grounds. One report went so far in its espionage rhetoric as to state that his only personal weaknesses were "fast cars and women", and remarks that it might prove difficult to "oust" him, since he was not only more important but more popular than the Italian prime He was characterized as a ruthless Fascist: "...when a large natural gas field was discovered by others at Cortemaggiore in Central Italy in 1948, he moved in ruthlessly, using the remnant of Fascist law to assume virtual control of all methane exploration, production, and marketing operations." 31. Such state control not only shut the majors out of a large portion of the Italian market, but the expansion of Mattei's nationalist, renegade policies abroad had to be stopped. The Mattei threat came in his offering better concession and participation terms throughout the Middle East and Africa, offering to build refineries where the majors refused, marketing cheaper Soviet oil in Europe and elsewhere, and training indigenous technicians to run their own industries. He was the prime enemy because he dared as another capitalist to break ranks with the largest of world cartels, thereby

threatening the ideological hegemony of that cartel which held that its methods of "developing" energy were the only ones available and had the wherewithal to enforce that as reality. Dealings with ENI became one of the only ways to build a nationalist development strategy based on oil.

How was such, rather colourful, information used? How did such biases filter into North American policy making? These "restricted" interpretations of world events fed into very restricted policy-making bodies rather than into national debate on how to develop a public resource. Both the Canadian Privy Council and Washington's petroleum policy-making bodies such as the National Petroleum Council made the question of Mattei and the Soviet challenge a major topic of discussion. Formulating the topics in terms of a threat to "national" or "free world" security justified both the interpretation and the secrecy that surrounded decision making in these bodies. Both Mattei and the "Soviet Bloc" threatened to undercut prices set by the majors, major market structures, and hence were a long-range threat to the status quo.

Such an anti-nationalist Canadian stance was deeply embedded in the fabric of continental policy-making structures which were representative almost entirely of major oil company spokesmen and personnel.

N.R. Chappell of the Canadian Embassy in Washington advised National Energy Board Chairman, I.N. McKinnon, that the subcommittee of the National Petroleum Council (staffed by eleven petroleum company representatives) would take care of the real policy-making on such questions as the communist or nationalist threat. This subcommittee "...both in effect and in fact, will carry the load in what is generally considered to be one of the more important efforts of the National Petroleum

Council since its inception," he asserted. 32. The effort referred specifically to a 700 page report prepared by the subcommittee on world oil marketing by the Soviet Bloc. Similar representation of major oil companies to the exclusion of other interest groups was evident in the other crucial U.S. policy-making bodies concerned with petroleum and national interest: the Petroleum Security Committee and the Foreign Petroleum Supply Committee. When U.S. President Kennedy passed new orders concerning ethics and conflict of interest in government bodies and bureaucracies, the oil interests' good friend, Assistant Secretary of the Interior was assured by Deputy Attorney General, U.S. Department of Justice, Nicholas Katzenbach that "industry representatives" were "outside the scope of conflict of interest statutes". 33.

Mattei presented a threat additional to that of spoiling the monopoly hold on marketing that big oil held abroad, however. Big oil had already threatened the financial security of several oil-producing nationalist regimes by boycotting their oil (Iraq 1958, and Iran before Mossadegh's assassination), or by having international lending agencies boycott loans to state oil companies. One example of this involved the International Development Bank and Chile; others involved other Latin American and African countries which were attempting to develop their oil despite major oil company holds on concessions and production.

Mattei, for example, was accused by Canadian Embassy reports (January 20, 1962, Rome), of having loaned Nasser of Egypt \$50 million to help develop his country, presumably to keep Nasser in the "Western orbit". When the majors in Ghana and the Congo (Mobil, Shell, Texaco and B.P.) refused to build refineries, these governments sought to have ENI

build them, and refineries were built by ENI in both cases. Only when these governments were in the process of closing such deals did the majors cry out that they should have got the contracts. They threatened to drop all their future plans to develop their concessions, and to pressure both Britain and the United States not to give loans to Ghana, for projects undertaken with ENI. Ghana, was thus to be characterized as an "unstable" credit risk by world lending agencies. A similar event followed when Mattei offered Nigeria 30 per cent equity in prospecting by ENI on leases formerly held but not developed by Shell and B.P.

This anti-nationalist policy-making perspective occasionally received more public attention by those interested in creating a consensus among the public that "free enterprise" (especially with regard to oil) was under serious threat around the world. The following was a well-publicized speech by Republican Senator Keating of New York which was reprinted and circulated among policy-making departments in the Canadian federal bureaucracy. Cold War rhetoric is combined succinctly with anti-Mattei sentiment and anti-Soviet oil policies to produce the effect of an imminent threat to "free world security" and "free enterprise":

We must sit down with our allies and with the underdeveloped nations and take the lead in working out and putting into effect measures to protect— not our financial interests — but the Free World's security...We can be sure that the currents carrying oil from the (Soviet) Bloc will carry communist intrigue with it...No one can doubt that politics and not economics are behind the Soviet's bargain prices...To oil producing countries, or would—be producers, the Soviets export oil know—how and oil technicians. It is all part of their long term effort to displace Western trade, build up a dependence on communist oil sources, and undermine free world security...Soviet oil experts are also propaganda

experts who attack and undermine not only oil companies, but also the private enterprise system...Principal credit — or blame — for much of the Soviet oil reaching Europe today may be attributed to Enrico Mattei. He has taken the lead in buying cheap Soviet oil, and, in return, he has supplied the Soviets with the valuable pipeline needed to transport it...The Communists cut their prices drastically to a level often amounting to about what free world oil companies end up paying in taxes and royalties on their production. 37.

In fact, the renegade nationalism of a Mattei was such a serious threat to the majors' international control of all phases of energy development because it presented opportunities not only to underdeveloped countries of the type we have demonstrated, but to supposedly "anticommunist" European countries that wanted to reduce dependency on cartel oil, and its American distributors in Europe. The majors (even subsidiaries like Imperial) had nothing against buying and selling cheap Soviet oil themselves, as long as they could control its sale, and thus their marketing structures. These same majors bought oil from the Soviets for use in Canadian steel companies, with the compliance of the Canadian Government, but refused to buy Soviet oil from Cuba in the form of gasoline after Cuba had nationalized Esso, Texaco, Sinclair, and Shell refineries. In the first instance, in 1959, Canadian Chemical and Cellulose and Imperial Oil Ltd. arranged an exchange of sulphite In the second case, in which Cuba was even pulp for Russian crude. interested in importing in return oil equipment, oil tankers and Canadian crude oil, the majors refused and were backed in this by the Canadian Government. When civil servants alerted "Canadian" majors to such commercial openings, the latter said they were not interested because of the nationalizations (of their subsidiary cousins) and because they had their own refineries and sources. Though ordinarily American

majors would have bought Russian oil on an irregular basis, they refused a bargain in 1954 because the U.S. Navy had been complaining about overcharging in oil company prices, and to make oil available at prices 5 per cent below "usual" would have damaged their credibility.

We have examined here the coincidence of an anti-nationalist Canadian policy with major multinational energy companies' interests on an international level. It is clear that such policies were created and maintained in an institutional framework of government bodies, committees, and diplomatic networks which fostered an identity of interest between Canadian "national interest", American "national interest", and what the majors and their supporters in government termed "free world enterprise and security." This occurred in a world situation in which alternatives to this alliance on development strategy were arising and presenting threats to the continuation of such monopolistic control by a few very powerful corporations. State and international credit was similarly manipulated by such corporations, thus limiting the feasibility of alternative development policies. The evidence reviewed in this section has also indicated that Canada's dependent position within the international system of oil development and its close policy and investment ties to American multinationals are interrelated in a variety of ways. Without a strategy or ideology of development coordinating such multiple policies such consistency as we have noted would not have been explainable. Without the creation in North America of state policy-making forums whose representation was overwhelmingly weighted in favour of big multinational oil interests, the institutional continental framework for the exercise of such power would have been less centralized and more open to pluralistic interest-group

representation, public debate and criticism. Without such checks on the policital representation of special interest, the combined weight of sheer economic power and official legitimation of special interest meant the Canadian state's foreign and domestic policies on development through energy exploitation were shaped in both the short and long-run by such highly selective institutionally and ideologically maintained special interests.

We have analyzed a period of time in which this power was being consolidated in newly formed institutions and was at the same time threatened by alternative, majority interests. The latter were also beginning to grope their way toward the creation of institutional bodies to represent their demands - within Canada, within the United States, and internationally in the form of associations of independent oil companies, of oil producing countries (OPEC), and through the UN and such international conferences as were being initiated for the exchange of ideas about oil and national development. These majority interests were, much less organized and more vulnerable to pressures that might create even greater division among them, or keep their cases from being fairly reviewed or even available to the public. The role of the state in legitimization would prove crucial in this respect.

7.4 Canadian State "Go-Between" Roles in the International Context

The results of Canadian aid and compliance in monitoring and checking nationalist development attempts around the world were closer and closer alliance with American major energy company interests. Alternatives for Canadian participation in energy development

and diversified trade both at home and abroad became severely restricted. The political and diplomatic aid we have indicated Canadian state officials gave American foreign policy and American investment, was, we suggest, useful in maintaining the international legitimation of those interests. Canadian diplomats and civil servants who characterized and routed information on events connected to oil development abroad, channelled such information to certain and not other institutions and restricted the availability of information. Those who facilitated the disguise of American investment and economic interest as "Canadian", though in name only, de facto legitimated a Canadian "cover" for American economic and espionage activities in an international political climate then increasingly hostile to American imperialism. The hope many civil servants held that Canadian company names might open up trade possibilities in the nations penetrated by such companies, was in vain, if not irrelevant. They were being warned of the crisis of legitimation that existed abroad and the tenuousness of the "neutrality" of foreign policy.

A Canadian diplomat in Latin America, for example, refused to circulate notice of an American oil and technology conference to be held in Canada (and called "Canadian") because, as he said,"...the mailing address given for inquiries is in Chicago, and I do not think that we should promote the impression abroad of United States dominance in our industries to any greater extend than already exists."

42. On discovering that a "Canadian" company in the oil business in S.W. Africa was just an American holding company in disguise, Canadian officials still remarked wistfully, "Even if the operation is not 'very much Canadian' the resultant publicity does us some good..."

A These notions of

the benefits possible from exposure to Canadian disguised companies were not translated into a free flow of other Canadian goods and services connected with oil to such target countries, because, as we have shown, the economic control underlying Canadian technological marketing created impotence at home and abroad. American investment had resulted in financial and decision-making control of down-stream petroleum industry activities which in turn resulted in closed doors to supplies other than those of parent firms or allied suppliers in the United States. Such a state of structured dependency was maintained by continentalist state policies. Hence, Canada's "subimperialist" role abroad has had, we suggest, only minor pay-offs which have not generally aided its indigenous petroleum and industrial sectors to expand autonomously. Examples we have uncovered are few, but suggest the following functions may characterize Canada's subimperial role:

- (1) It functions to facilitate the participation of the Canadian banking and financial sectors in circulating capital back to their coffers in the form of interest on loans for certain petroleum-related (and other transport and utility-related) projects abroad. Such loans to developing countries discriminate against development projects alternative to an import-substitution strategy of development abroad.
- (2) It functions to disseminate non-nationalist or anti-nationalist policies of petroleum development abroad.

An example of the interest that Canadian banks had in loaning money to Third World countries for petroleum development of the kind mentioned involves Bolivia. A Canadian loan to Bolivia was to result

in the buying of "Canadian" vehicles, machinery, wire ropes, and drilling equipment. It was to be repaid in exports of Bolivian crude to Argentina as collateral. One deal was completed for \$1 million in cash and repayment via oil to Argentina at the rate of \$250,000 per month. Banco Commercial handled documentation and guarantees with profits to be split three ways: one-third to a Canadian financial consortium and two-thirds to "Bolivian" interests, "where it would have to be split around."

44. Another Canadian loan was to the Bolivian government's oil company YPFB, for \$3 million, with 25 per cent to be paid in cash and the balance in goods over four years, using the central bank guarantee and a lien on oil exports by Bolivia to Argentina.

These were connected with multinational oil company plans for development and expansion of Bolivian crude.

The Canadian energy policies of the 1950's and 1960's (as at present) entailed legal structures and guarantees to foreign capital that facilitated capital accumulation in the multinational firm's home base. Such legal structures guaranteed the warmest reception possible for foreign capital investment and repatriation of profit outside the country. Canadian policies regarding investment in and development of energy resources were exported to many developing countries during this Cold War period and U.S. corporate battles for control of international energy and its marketing structures. Many countries that had attempted to implement the structures and policies necessary to develop their oil without total reliance on foreign capital in the 1950's and 1960's were discovering the brutality of realpolitik in the form of political and economic sabbotage by big oil cartels and the U.S. Government. Big oil had retaliated with boycotts of Iraqi oil,

almost toppling the regime because of the enormous oil dependence of the Iraqi economy. A C.I.A. operation had resulted in the assassination of the Iranian nationalist leader, Mossadegh, and his replacement by the Shah. Foreign multinationals regained control of Iranian oil and oil policies, serving as a dramatic example to other oil producing countries of the instability that could effectively be produced and manipulated by big oil when challenged by nationalism. The manipulation attempts to develop was also proving to be effective.

Canadian state officials were not only willing and active in sustaining boycotts against the free international diffusion of technological expertise, but in maintaining liaison or espionage channels through Canadian Embassies for the multinational oil companies and various American-dominated agencies such as AID and NATO. We submit that the Canadian state's role in exporting dependent oil policies to countries whose governments could be brought back into the American sphere of influence was of strategic importance to the maintenance of major oil company hegemony over the dynamics of development based on oil. (See footnotes for evidence of information channelling.)

Wanting to avoid the "difficulties" experienced by Iraq and Iran, both Spain and Turkey undertook revision of their oil and development policies, revamping their legal structures on the basis of the model presented to them by Canadian diplomats and commercial officials.

1.N. McKinnon, NEB Chairman, was asked by U.S. policy makers to speak at the ECAFE Petroleum Symposium in Tehran Iran, for example, September 1-15, 1962, with a view toward his propagating the North American policies of petroleum exploration, production, distribution, and of

course state subsidization of private enterprise via the logistics of tax benefits, access terms to concessions or leases by foreign capital, and leniency in regulating capital repatriation. 48. Little wonder that it was of interest for the NEB Chairman to have been kept so closely informed through Canadian Embassies around the world about such seemingly far-away events and items as Mattei, India, Equador, and the terms of access accorded big oil companies for off-shore drilling rights to Kuwaiti oil. 49.

Canadian officials found it unnecessary to irrelevant to either the formation of domestic policy or their aims abroad to meet with other oil producers in international forums. In fact, even in forums where big oil multinationals and advanced countries' diplomats met, Canadian officials let Imperial Oil handle "Canadian" affairs directly. Just as it was left to Imperial whether or not to barter with so-called "state-monopolies", it was also left to this subsidiary of the largest of the majors, Standard Oil of New Jersey (Exxon), to represent Canadian policy in the United States, in Canada and abroad. Consultant to this giant, Walter Levy, not only had written the briefs to the Royal Commission on Energy in 1958, but also wrote the influential report on the search for oil in developing countries. This report formed the basis of Canadian and American policy makers' perspectives with regard to the activities to be undertaken by the International Bank for Reconstruction and Development.

Canada sent an "observer" to the second OPEC conference held in the Middle East for the purposes of keeping tabs on a potentially dangerous organization. (For such undertakings, both Canadian and American oil and state officials took Arabic courses at the Arab studies

centre of the American University in Cairo, Egypt.) 51. No Canadian attendance, or only last-minute lower echelon observers, was merited by the Third World oil-related conferences of the period. For example when an invitation arrived to attend the first South American Congress on Petroleum at Montevideo, March 1951, it was refused with the remark, "We do not think that this Congress is of sufficient importance to warrant the sending of a representative of this (Mines and Technical Surveys) Department." 52. When no major oil companies showed interest, the event was equally uninteresting to Canadian state officials in Trade and Commerce: "We are rather doubtful that any petroleum companies will send delegates from Canada and note that the Department of Mines and Technical Surveys does not consider the meeting of such importance to warrant sending a representative from that Department." 53. case a local Canadian official was given his choice of whether or not to take in the conference while en route elsewhere, for his expenses of \$75. He reported that it indeed had been important to Canadians seeking to export equipment or expertise and chided his superiors for their lack of interest:

The dissemination of technical data and information concerning the existence of petroleum resources in various countries of the South American Continent were thought to be particularly useful, not only from the view point of the future development of the petroleum industry from the commercial angle, but also from the angle of inter-continental defense. I believe it would be advantageous to Canada to send a delegation of technical experts selected from Government departments and private petroleum firms to future Congresses. 54.

As early as 1951, then, the myopic view of Canadian officialdom on what was important for Canadian energy and development policies had so far reduced the scope of interest to that of major oil company executives,

that options to expand trade were partially eliminated by such fixation. Only extraordinary efforts or jolts and proddings such as the above could interest them in anything that major oil executives had not demanded they take care of and process. Canadian options for cooperative exchange and trade even within the Western Hemisphere suffered from the over-identification by Canadian officials with the interests and concerns of the majors. Arrogance produced ignorance.

When the Third World Petroleum Congress at Le Hague was not given Canadian state attention, the reason was similar. Imperial Oil's own representative was attending and that was considered sufficient Canadian representation. (Ironically, the Trade and Commerce and External Affairs Departments even had to get copies of application forms to this prestigious Congress from Imperial Oil.) Embarrassment at official ignorance, lack of participation in such conferences, or questions of conflict of interest were handled by the pretence that the budget was the problem:

R.K. Stratford, Director of Research, Imperial Oil Company, represented Canada at the Third World Petroleum Congress... owing to the pressure of work and the need for economy in the Dominion Government services, no officer of the Department of Mines and Technical Surveys or any other Government department was able to attend. 55.

Canada's other foreign policies of supplying American allies in the Middle East with military hardware had important consequences for the legitimation of Canadian participation in petroleum development in this all-important area for investment. Having supplied Israel with twelve jets in 1956, Canadian officials found that Placer Development Company (supposedly "Canadian" and involving Canadian financial, American corporate, and C.D. Howe political backing) was rejected as an

applicant to develop Syrian oil. Meanwhile oil multinationals such as Shell and B.P. kept such investment doors open by divesting themselves of all investment in Israel to improve their profiles in Arab countries.

Canada's foreign policy with regard to oil appears to have been completely coloured by American foreign policy concerns. Witness this heavy weighting in the following "restricted" agenda items of a major Canadian interdepartmental government meeting, chaired by External Affairs Director, A.E. Ritchie in 1962:

- (a.) The ECAFE Tehran invitation (via the Americans) to McKinnon of the NEB.
- (b.) The NATO study of Soviet oil relations and Mattei.
- (c.) The meeting of the OECD oil committee, Paris, January 16-17, 1962. 57.

When problems of this sort are borrowed, however, there is bound to be confusion. Frequently Canadian officials became so taken with American Cold War rhetoric, like that in the Keating speech, that they found it difficult to carry out the simplest of their "go-between" tasks in an efficient manner. They were asked to invite the Russians to an American Oil Chemists' Society meeting held in Toronto. American branch plant managers were quick to act without reference to Canadian officialdom. The Lever Brothers chemist in Toronto directly invited the Soviets through the Ottawa Ambassador, since civil servants were so paralized about what they "dare" do. 58.

In still another case, Canada was asked by Trinidad to help evaluate for that government what should be done in its petroleum sector after massive strikes in reaction to major oil copmany lay-offs had immobilized its important refinery industry. Nationalist popular

sentiment had led to a general inquiry of the Trinidadian petroleum industry. The Americans decided to intervene directly, however, along with French and Iranian UN "oil experts". The way to achieve high productivity, and coincidently low interference by labour, was thus decided to be through massive automation of this important, high-skill industry with relocation of as many workers as possible to other sectors of the economy. Furthermore, the tri-partite, corporatist model (business-labour-government) of political stabilization was recommended to avoid further conflict— solutions that the Canadians too would have offered if given enough time for consultation with and prompting from American experts. The report concluded:

Expansion in the refining side of the industry being the goal, all efforts must be made to encourage automation, bring industry manpower levels to the lowest possible levels consistent with efficiency, and ensure a general business climate favourable to investment. While manpower reductions in the short run are probably not feasible, rational hiring, retraining, early retirement, and similar programmes can have important long-term effects on productivity and costs. 59.

The rhetoric of anti-communism had a number of purposes for multinational oil interests that Canadian officialdom would only learn of in an <u>ad hoc</u> fashion, resulting in their unpreparedness for the shifts in foreign and domestic policy concerning petroleum that frequently occurred. In 1962, for example, Imperial began its campaign on the need to spur further exploration in Canadian oil to meet the demand of the 1970's. At the same time that U.S. Senator Keating was warning of the danger of reliance on Soviet oil, Imperial formulated statistics to show the need for exploration, tax concessions, and the opening of great new frontiers of oil in the interests of continental defense.

Thus, despite the fact that by 1962 the Canadian industry was still only

Platt's Oilgram, Imperial argued "it isn't a moment too soon to begin building up reserves for 1970". The same issue of the Oilgram carried a summary of the 700 page National Petroleum Council's report on the threat of Soviet oil to free world security.

expected to be pressured by the United States to directly supply oil to such countries as Belgium, Korea, Sweden, Japan and the like which had consistently requested Canadian oil and which had turned to importing Russian oil. Canada did not do so, however, because it was not "free enterprise" so much as multinational monopoly practices in pricing and distribution that were under attack world-wide by communists, nationalists, and angry capitalist consumers. Imperial and other majors preferred to handle European marketing themselves. No such Canadian "aid" or commercial assertiveness would be forthcoming for Canadian oil was to remain locked into U.S. markets. Such contradictions fostered a slow and wary response to foreign policy by Canadian officials, an "ear to Washington" stance, and both secrecy and centralization of decision-making outside the Canadian nation.

One might suggest that a latent function of Canadian foreign policy-making secrecy was to save Canadians from the "foreign" disease of nationalism by filtering out explicit information on such alternatives from the realm of public information. Even the fact that Roumanian oil production had doubled between 1951 and 1955 was a restricted piece of information in the Canadian civil service. Of course, Canadian businessmen suffering from 50 per cent shut-in capacity and a public suffering from high prices on cheap imported oil might have

been particularly susceptible. Disparities in the logic of Canadian policy were potentially dangerous domestically, if leaked.

7.5 The Canada-U.S.A.-Venezuela Connection and Canadian Import Dependency

The dependency of Eastern Canada on imported oil from Venezuela was not a feature of geography or economic necessity, but of carefully worked out major oil company designs to maintain these markets for "their" Venezuelan crude. Should any particular world energy source be cut off, these energy multinationals could replace that source with no difficulty and no profit loss despite geography or "cost" of production, because the majors were diversified as to crude sources, shared oil and markets in cartel agreements, and fixed prices on the basis of Texas crude. 62. During the "Suez Crisis", for example, markets were suddenly supplied with oil that had formerly been called "uneconomic"; yet the crisis did not give rise to the most logical of marketing scenarios: Canadian oil supplying Eastern Canadian markets. The multinationals preferred to use even "high cost" U.S. supplies to setting a precedent for opening eastern Canadian markets to western independent oil companies suffering from surplus capacity. A forum legitimating such policies was activated for the occasion. The Middle East Emergency Committee and the OEEC took on the job of legitimating the majors' marketing decisions in this "crisis". Denis Harvey informed Mitchell Sharp of the majors' marketing arrangements:

While the MEEC contemplated replacing Canada's supplies of Middle East oil with oil from the U.S. Gulf area, and...if necessary, the diversion of some of our supplies from Venezuela to Europe...it apparently has not been necessary ...although, all Middle East supplies of oil to Canada have been cut off and this oil diverted to Europe, yet the

Canadian companies who are principally involved in importing oil, because they have refineries in the Montreal area and Halifax, have been able to replace their Middle East supplies by oil principally from Venezuela and to a lesser extent from Trinidad and the Netherland Antilles. 63.

These companies—— Imperial Oil Ltd., British American Oil Company Ltd., Shell Oil, McColl-Frontenac Oil Company Ltd., and Canadian Petrofina Ltd. ——all managed to adjust their marketing together to avoid using any Canadian oil and arrange joint access to alternative sources.

It is in terms of Imperial's policy on the use of Venezuelan oil that the terms of access of Canadian oil to U.S. markets comes into sharper focus. Were it not for the fact that Standard Oil of New Jersey featured so prominently in the petroleum affairs of all three countries, it would be impossible to explain why import quotas, supposedly designed in the United States to keep "foreign oil" out in the interests of national security (or protection of domestic industry), were systematically arranged to exempt Canadian oil as though it were not "foreign". It would also make little sense to have an national energy policy in Canada that called for increased production of oil in the West but systematically rejected the replacement of Venezuelan by western oil east of the Ottawa line. The following exchange of letters between Imperial and John English, Deputy Minister of Trade and Commerce, helps to explain the size of the stake Imperial's parent had in Venezuelan oil, eastern Canadian refineries, Canadian oil, and midwestern pipelines and refineries. We have, in Chapter Six, detailed Imperial's domestic control. It is here linked to its foreign control. This exchange helps to further clarify the extent of Imperial's power in influencing both Canadian domestic and foreign oil policy.

Standard Oil of New Jersey's subsidiary in Venezuela was Creole Corporation. Its president, H.W. Haight, explained to Imperial president J.R. White, (who passed it on to John English) that the "Venezuelan" government people were fully aware of the need to maintain an open door in the U.S. market for Canadian crude products through "special exemption" from import quotas. Haight explained this was conditional on there being access for Venezuelan oil in the Montreal market, as a "trade out". Yet the Venezuelan's found it difficult to rationalize why their oil, but not Canadian oil, should be considered "foreign" and thereby excluded by quota from many American markets— especially when Venezuelan oil was just as "safe" (witness its reliability during the "crisis") as either American or Canadian oil. Mr. Haight of Creole explained:

We too are greatly concerned by this threat to our outlet and want to do everything possible to help solve the problem. Twice we took Ministry of Mines representatives to Canada partly with this in mind. We have repeatedly discussed the importance of Canadian crude imports with government representatives. Only yesterday I had lunch with Drs. Perez de la Cova, Eduardo Acosta and Gustavo Thery and we discussed the subject at length. I am convinced that all three thoroughly understand it and all its ramifications including its relationship to U.S. crude import policy. I am also of the opinion that the Foreign Office and other key government officials are informed as regards the facts of the matter... As I see it, the two principal things standing in the way of a solution are: (1) The absence of a quid pro quo for Venezuela; and (2) The difficulty any official here finds himself in if he takes the position that Canada should be permitted special treatment...One of our guests at lunch yesterday remarked that perhaps some progress could be made if representatives of the three governments could informally hold a roundtable conference...(at which) a satisfactory quid pro quo might be developed. 65.

J.R. White, President of Imperial, put his case to the Canadian state, taking care to minimize the corporate interest his company

and its parent had in the matter:

As you appreciate, the concern from the standpoint of our company is not the preservation of the Venezuelan outlet, as such, but rather the securing from Venezuela of recognition of Canada's special position in relation to the United States, even to the extent of them acceding to such recognition in the application of the so-called voluntary import quotas. 66.

We have already shown that Imperial refused to allow Canadian oil into Montreal markets and tried to squeeze out as many independent companies in the West as possible by cutting them out of such markets. When the latter independent producers got organized and vocal enough, Imperial used its influence in the U.S. Government to open up markets in the Midwest, but in such a way as to allow majors control of the flow of Canadian oil through pricing, refining, and continental distribution. When we reflect on the evidence already examined indicating that Imperial drafted Canadian domestic oil policies and strategy in the 1950's, it is not difficult to see who made this foreign policy or to appreciate the secondary "officiating" role that the Canadian state took in attempting to legitimate these policies.

In his reply to White, English expressed state compliance in the arrangement and the Canadian Government's continued interest in legitimating such a strategy through diplomatic guarantee. In this manner no logical alternative such as the Montreal pipeline could achieve equal consideration:

It is encouraging to find in the (Venezuelan) bank bulletin and in Mr. Haight's letter, indications of a growing awareness by the Venezuelans of the Canadian oil industry's current marketing problem and of the serious implications for Venezuela of one solution to that problem which has been put forward. The fact that the bank article points out the cause—and—effect relationship between the U.S. oil import program and the Edmonton—Montreal oil pipeline proposal is of particular interest, I think. 67.

English reiterated this "understanding" of Imperial's power and stake in all three governmental policies on oil development and marketing in a number of ways:

...certainly (the plan) opens the way for arriving at a quid pro quo which might be offered to the Venezuelan Government for their acquiescence to the granting of preferred treatment to Canada under the U.S. oil import programme. I refer, of course, to the possibility of guaranteeing Venezuela continued access to the Montreal market. 68. (Emphasis ours.)

We suggest that behind this "guarantee" was the control Imperial and other major multinationals had over world production and distribution and the degree of access these companies had to state officials in all three countries. The control was the control of monopoly and cartel and the power was, to say the least, crude. The only difficulties remaining, as English saw it, were legitimating such an arrangement. The general public would have to have its attention focussed on Venezuela's "plight" and on the notion that Canadian oil in Montreal was "uneconomic". English considered the first. "The general public would be more than likely to regard such an arrangement as contrary to Venezuela's interests because the importance of the Montreal market to Venezuela is not widely realized." 69. He felt, however, that "some means of getting around this difficulty may be arrived at" 70 -- chiefly ignoring the public sentiment expressed for the Montreal pipeline and creating an issue about Venezuela's needs and the intransigence of U.S. import policies. These secondary issues, as we have seen, hardly kept the majors from doing whatever they liked with Venezuelan oil, including within the U.S. domestic market. The heavy barrage of legitimizing rationales which followed and riddled the National Energy Policy with such anti-nationalist holes was, we suggest, premised on

these simple economic interests of Imperial. Their structural implementation and institutionalization required substantial Imperial control of pipelines in Canada, as well as consolidation and vertical integration of Imperial's corporate structure to sustain the threat independent domestic producers presented to this plan.

The Canadian state facilitated, in fact authorized, this plan of capital accumulation, which favoured all Imperial subsidiaries in all three countries, not only through a campaign of legitimation, but through the servicing it provided in the form of detailed diplomacy. English thus agreed that "an informal tripartite conference", otherwise known as secret diplomacy, was the answer.

The figures in Table XXVII from 1957 on the economic feasibility of Canadian oil's entry into Montreal and U.S. markets, were meant to be used to legitimate the U.S. market option and to point to the "uncompetitive" nature of Canadian oil in Montreal. Even these were based on Imperial figures and prices, as well as the monopoly inflating effects of major control over cheap foreign resources. One would have to ask oneself why Venezuelan oil was as expensive as Canadian oil, especially if one knew that it was a great deal cheaper in terms of cost. Even transported all the way to the Vancouver coast, Venezuelan had earlier managed to keep Canadian oil shut in in the early 1950's. Therefore, the need for secrecy and for "judicious" use of figures was crucial, as state officials admitted:

As we both agreed in out discussion, it is essential that these figures be interpreted with care. For example, although there appears only to be a 12 cent differential between the Toronto and Montreal markets, there are other factors, such as individual company shipping contracts... with long-term commitments and preferences. 72.

Though the figures belie the "economic necessity" argument for rejecting the Montreal market option, state officials managed to come up with the following, highly suspect, reading of the available data:

Actually, the main conclusion that comes out of such a table is that the Washington, Minneapolis-St. Paul and South Western Ontario markets, are the <u>assured</u> markets for Canadian oil...Consequently, I am sure that in any use you make of these figures you will want to explain that <u>international oil industry factors</u> and the existence of a wide range of world tanker rate contracts are much more important than the simple arithmetic shown in the...tabulation. 73 (Emphasis ours.)

With this multitude of disclaimers proffered as a way to avoid the obvious illogic behind such conclusions and to prepare key officials with the appropriate arguments against criticism, the following table was attached to such bureaucratic correspondence.

TABLE XXVII: Price Per Barrel in Canadian Dollars (Sept. 1957) of Canadian Oil in Alternative North American Markets

Price of Compet- itive 36 Crude	Transport Etc. Costs from Alta.	Approx. Well- 2. head Return	
3.42	0.75	2.67	
3.48	0.81	2.67	
3.45	0.90	2.55	
3.58	0.70	2.88	
3.51	0.85	2.66	
3.63	0.65	2.98	
3.50	0.87	2.63	
3.45	0.85	2.60	
	3.42 3.48 3.45 3.58 3.51 3.63 3.50	3.42 0.75 3.48 0.81 3.45 0.90 3.58 0.70 3.51 0.85 3.63 0.65 3.50 0.87	

- Notes: (1) Competitive prices were Redwater crude value or its equivalent similar crudes as laid down in pipeline or large tanker lots.
 - (2) Well-head prices are arrived at by taking competitive quotations at the market area and deducting transportation costs (and duty in the case of exports). The present U.S. duty is $10\frac{1}{2}$ cents on light and $5\frac{1}{4}$ cents per barrel on heavy crudes being imported into that country.

TABLE XXVII (Cont'd.)

Source: Mineral Resources Division, Dept. Mines and Technical Surveys, Ottawa, Sept. 9, 1957; PAC, RG 20, T-3-2738.

These are the only official "figures" we have discovered behind this important premise of the National Energy Policy. These were used to characterize the "assured" markets of Canadian oil as those that lay within the borders of a foreign country (the United States) and severed western Canadian production from the largest of domestic markets on an artificial basis.

As "unreliable" as even government economists suggested such figures to be, it is of interest to consider the following prices in conjunction with those constructed in the aforementioned table. The following figures indicate that in 1956, both retail and wholesale prices for consumer and industrial refined petroleum products were higher in Montreal than in Toronto (in both cases) and higher in Montreal than Vancouver (in the case of consumer, stove or furnace oil). This demonstrates the nature of the captive market that Montreal became for majors that kept Canadian oil out and poured Venezuelan oil in at prices inconsistent with any costs, but instead consistent with what the market would bear.

Government officials were not only aware of the real story such figures told, but appear to have colluded in using such materials to make arguments for maintaining the onslaught into U.S. markets. The Montreal line was ignored even when statistics such as these might have led to the consideration of such an option on the grounds of economic feasibility.

TABLE XXVIII: Dominion Bureau of Statistics - Prices Section
Average Retail Price of Fuel Oil for Specified
Cities - Sept. 1956

City	Product Type	Price per Gal.
Montreal	Distillate (stove oil) 75 gals. Light Fuel (furnace oil)	22.0 19.2
Toronto	Domestic Fuel, 100-200 gals.	18.1
Vancouver	3 GP 2, Type 3, 100-200 gals.	18.4
	Wholesale Price of Fuel Oil for Specifi Sept. 1956	ed Cities
Montreal	Light Industrial, tank cars, F.O.B. Mtl	. 15.0
Toronto	Light Industrial, tank cars, F.O.B. Tor	. 14.0
Vancouver	Furnace Oil, tank cars, delivered to consumer	16.0

Source: A.M. Tedford, Chief, Chemicals Division, Commodities Branch, Department of Trade and Commerce, Ottawa, September 1956; PAC, RG 20, Box E, T-3-2741.

When cost of crude production was estimated at approximately one or two cents per barrel in the Middle East and about six cents per barrel in Venezuela, and when it was being delivered at Churchill to American and Canadian military installations by Imperial at fourteen cents per gallon, the enormous amount of capital accumulated by virtue of international energy companies' monopolistic control becomes abundantly clear.

7.6 Conclusions

An international approach to the independent development of Canada's energy staple provided a second alternative to the continent-

alist strategy outlined in Chapter Six. Our review of foreign correspondence with the Department of Trade and Commerce indicates that many major consuming nations other than the United States were open to buying Canadian crude oil even as the continental strategy was being formulated. Such countries were so eager to find alternatives to the monopolistic practices imposed by the Seven Sisters that they were even willing to purchase refined Canadian petroleum products. Similarly, Canadian geophysical survey techniques and drilling equipment could have found ready markets among developing countries attempting to ascertain the extent of their own petroleum reserves, build refining, and plan the rational development of their national economies on the basis of oil. Such options were rejected by the Canadian state on both practical and ideological grounds.

In practice, the state's open door policies to international capital bore the fruits of structural dependency as American petroleum equipment producers froze out or bought out Canadian equipment producers linking these to large U.S. supply houses and licensing Canadian equipment for sale in the domestic market only. While Canadian officials observed this trend they did not seek to overcome it. At the same multinational oil subsidiaries abroad refused to buy Canadian-made petroleum equipment or refining supplies on orders from their U.S. parents. American protection of manufacturing sectors was carried abroad to stifle Canadian and other competitors. In order to surmount either of these obstacles to the expansion and diversification of Canada's energy sector, the Canadian state would have had to undertake the following:

- (a) Reject its bias toward sale of crude to the U.S. market.
- (b) Strengthen the independent segment of its petroleum industry by opening the Montreal market to it via a state-financed pipeline. This would have allowed capital to accumulate sufficiently in these companies for them to integrate their structures into refining and petrochemicals, and perhaps sustain technology-producing sectors.
- (c) Act as a broker for state-to-state sale of crude, refined products, petroleum equipment and technology.

Such a nationalist course in energy policy never received serious consideration at important decision-making levels. We have shown Canadian officials observing and interpreting such nationalist programmes abroad, but their anti-nationalist ideological bias made it impossible for them to view such plans as models. Careful monitoring of the energy development strategies of nationalist regimes clearly became an important task of Canadian policy makers in this period, however. We can only conclude that the collection of such materials had aims other than emulation. In the routing of external affairs reports, the export of dependency-producing energy regulations, nonparticipation in conferences of petroleum producers, and the boycott of attempts to liberalize the international flow of petroleum technology, Canadian officials took stands consistent with U.S. foreign policy and the interests of oil multinationals. In such patterned activity the Canadian state served a number of "go-between" roles for U.S. capital in the international context. Where AID, NATO, or American embassies were viewed with suspicion, Canadian embassies maintained an aura of sufficient neutrality to gain access to information they then passed along to the Americans. This served a "liaison", if not an "espionage", function. By the export of Canadian energy regulations which guaranteed the best treatment of foreign capital in its access to

national resources, the Canadian state extended legitimation to the monopolistic accumulation of capital internationally and helped counter nationalism abroad. Third, by the diplomatic servicing of Canadian-based, U.S.-controlled energy companies abroad, the Canadian state encouraged the foreign penetration of U.S. capital wearing Canadian camouflage. Unfortunately, we have little evidence of Canada gaining anything in return for such go-between activity. Officials hoped to develop commercial markets abroad for Canadian products—a goal never achieved for petroleum equipment. Our only evidence of specific benefit accruing to Canadian capital concerns Canadian financial backing and trade agreements linked to it in a few Latin American deals involving non-nationalist regimes. It is possible that the Canadian foreign policy as it concerned energy inadvertantly militated against the expansion of markets for secondary manufacturing while it allowed the stronger financial sectors to expand.

So addicted were Canadian state officials to the coattailing of American foreign policy and to facilitating the expansion of international capital in world energy sectors that many options for fostering closer ties with other energy producers and consumers were foregone. The expansion of Canadian export opportunities in general appears to have been jeopardized as officials accepted the notion that Imperial executives constituted sufficient "Canadian" representation in world energy forums. The absurdity of such sycophancy became so noticeable that budgetary excuses were frequently marshalled to cover the inefficient performance of the most basic diplomatic functions of a liberal state.

We have delineated at the material and ideological levels the development of an anti-nationalist stance by the Canadian state in the international energy context. The rejection of an independent strategy based on diversified export is linked concretely to the emergence of a dependent continental strategy of energy development. Its most striking indication is in the orchestration of a diplomatic guarantee of the Canadian-American-Venezuelan connection. In this manner, Imperial enlisted the services of all three states in the secret authorization of its own and its affiliates' world marketing plan for foreign and Canadian oil. Thus, Standard Oil of New Jersey avoided the prospect of shrinking North American markets for cheap foreign oil and its subsidiary, Imperial, led the way for the special exemption of Canadian oil in U.S. markets. The Canadian National Energy Policy was, we suggest, an elaborate extension of this quid pro quo agreement which so exactly served the particular interests of Imperial and the general interests of the multinationals. The solution could be made to appear, at least temporarily, to ameliorate the plight of the western independent producer while, at the same time, banishing any long-term nationalist solution involving eastern markets.

Chapter Eight provides demonstration of the strength that such Canadian energy policies reinforced within the international section of Canadian energy firms. It would be these, fully-integrated firms, most benefitted by the National Energy Policy, that would undertake the large energy projects of the 1970's and 1980's. Extending the drain of energy to U.S. markets to include the once sacred national resource, hydro electricity, would be consistent with the strategy of industrial resource capitalism so far outlined. Additional ideological support

from the Canadian state would be called forth, however, to legitimate increased capital consolidation in the already highly concentrated resource staples, as the state extended its strategy to include the creation of a few "Canadian" multinationals built on agglomeration and cross-linkages among firms within the three sectors under consideration. If nationalism is indeed a part of Canadian industrial resource strategy, this is the distorted version that it appears to take in present-day state policy.

CHAPTER EIGHT

LARGE-SCALE RESOURCE PROJECTS AT HOME AND ABROAD: SOCIAL IMPLICATIONS OF RESOURCE DEPENDENCY

8.1 Characteristics of Big-Project Development

Differences in the degree and timing of corporate concentration among the three staples industries have been detailed in earlier chapters. The institutional mechanisms by which such concentration and control of capital were obtained with the help of the state have exhibited some degree of variety and flexibility as social conditions and corporate abilities to carry out new strategies of growth have shifted over time. One of the foundations of large-scale energy projects has been the development of new institutional means of policy making and legitimation since the Second World War. These have expanded the capacity of the state to aid capital accumulation on a larger scale and provided the means for the legitimation of this strategy of development, especially of the capital concentration which has accompanied such undertakings. The state has, we suggest, relatively consistently furthered the development of the following characteristics in all three industrial resources in recent decades.

- (1) Increasingly centralized decision making with regard to resource policy at the federal level, involving close contact between state and industry officials.
- (2) Increased subsidization by all levels of state of large-scale resource projects involving corporate giants or consortia of these.

- (3) Increased concentration of corporate control through a variety of means: mergers and acquisitions among the largest firms in Canadian resource sectors; international joint ventures; rationalization through automation; and through expansion and diversification into foreign resources where corporate concentration was already high. The last two characteristics have created potential threat to the employment generated in resource sectors and the bargaining power of Canadian labour in these.
- (4) Declining emphasis on the manufacturing condition. As the export of less processed forms of staples became legitimated, employment would suffer.

Such trends, we contend, have been potential material sources of social conflict additional to the increasing concern over national sovereignty. Their systematic and long-term implementation required the revamping of or the ignoring of institutionalized controls which existed to maintain the manufacturing condition. Implementation also required active intervention by the state of two sorts: facilitation (legal, financial, coordinative) of large scale corporate capital accumulation, and the public legitimation of capital concentration of such big projects and of their resulting socio-economic dislocations and inequities. Thus, the fruition of policies which had their roots in the 1950's was not automatic nor unchanging in terms of the mechanisms and procedures used to achieve development goals, but the overall strategy remained fundamentally unchanged with regard to each of the resource sectors. The common results indicate the makings of an increasing spiral of public debt tied to large scale projects whose benefits are less and less likely to filter down to strata of Canadian

society who are, via the state, subsidizing such corporate capital accumulation. This inherent contradiction and its implications for social inequality and potential unrest, have, we suggest, given rise, not to alternative state policies, but to more frequent use of legitimation mechanisms to directly facilitate more of the same corporate concentration and the unhindered corporate access to the majority of public wealth in the form of renewable and non-renewable resources.

A systematic movement toward capital concentration and centralization exists most strongly in the forest industry where it is achieved through increasing vertical integration and agglomeration. In the nickel industry the movement has been one step more advanced; having long ago achieved high concentration, the movement of the last two decades has been in the direction of diversification of ore sources at home and abroad and the buying of horizontally-linked manufacturing firms. This too has entailed large-scale projects, similar in scope to those most evident in the energy sector. In the energy sector, enormous development projects in oil, gas, tar sands and hydro have been undertaken, especially entailing the opening of the Northern frontier for resource extraction and export to U.S. markets. Cross-linkages between the three staples are striking in this period and reflect capital's attempt to consolidate through agglomeration and diversification of horizontal as well as vertical structures.

8.2 International Joint Ventures in the Forest Industry

In the 1960's the Canadian state's interventionist role in the forest sector took the form of lending greater encouragement and

"brokerage" arrangements whereby foreign (including non-American) capital or equity in large-scale projects was traded off for a measure of security in markets outside North America. The usefulness of the OEEC and OECD vertical industry committees appears to have passed, giving way to Kennedy Round tarriff agreements and a greater mixing of foreign, especially German and Japanese, capital in this, the most "Canadian" of the resource sectors. The most discouraging element of these projects was not only the alienation of the last great timberlands to private capital exploitation, but the fact that such projects resulted in export of the most primary forms -- timber, occasionally pulp, hardly any newsprint or more manufactured forms. The "manufacturing condition" was less observed in this era of state intervention than it had been in the period before World War One. Furthermore, the projects entailed the provision of less employment, since in most cases the long traditional stipulation that mills must be built was eliminated from the bargains. Not only was equipment and design imported duty-free from the foreign country involved, but skilled workers also entered in large numbers specifically for these projects. The most striking factor, however, was the new public financing that went into such "joint ventures" laying the foundation for enormous public debt and very little entry of foreign capital overall at the financing stage. Canadians were to finance their own dependency and unemployment producing "development" through measures which more and more involved state agentive roles.

We shall look at the specifics of this strategy at all three levels of the Canadian state (Federal, Provincial, and Municipal) and

delineate the centralization of decision making which accompanied these moves.

Federal Levels of Intervention and Subsidization

In 1963, a consortium of Japanese, one German company, and Alcan Ltd. proposed a kraft paper project at Kitimat. Seven million dollars of investment was envisioned in the building of a 500 ton per day mill. Initially a work force of cheap imported Japanese labour was also a serious consideration. The Federal Government suggested that this might pose a serious legitimation problem, however, "...this would be impractical...and it would certainly face strong opposition from labour unions." 1. No such unions would stand in the way of admission of skilled labour, however, so the Government offered assurance that "...surely skilled workers would be admitted." 2. No assurance on the part of the capital interests involved was given about how much or how temporary the labour inputs would be. The solidly "Canadian" contributions were to be simple resources: hydro power and timber for pulp. Even the machinery and design were to be imported in this industry in which Canada had such a history of experience and entrepreneurship. Such was the nature of this trade-off for external markets. It was the most unequal of exchanges that could have been contrived.

Japanese and German firms "preferred" to import all equipment for the mill from their countries, increasing their overall profit in the venture, so the Federal Government assured them that no barriers would be put in their way, saying, "customs tariffs apply equally to the importation from either Japan, Germany or the United States".

Alcan's interest in the project was as corporate landlord; it would lease the timber rights, the plant site, and the power supply to the

firms. Thus, the public resources involved were not even to produce a tax contribution of the ordinary sort. The Government urged Alcan to concern itself with the provision of at least a token of Canadian pulp company participation. However, this did not loom large on Alcan's agenda for the project, since Alcan's seal of approval depended solely on securing profitable markets abroad—a feature the other parties guaranteed in return for their investment and rights to use their own capital goods and technology, opening the door for future export of same. Thus, not even a "front" Canadian company was used in this expensively achieved export of raw Canadian resources.

During 1964-65, there had been a tremendous expansion programme in the British Columbia forest industry, bringing ten major jointventure proposals involving European investment in one year. One such venture was promoted by the Department of Trade and Commerce in 1965 on the basis of a study by C.D. Shultz, an engineering consulting firm which sought a "foreign client" for a project in the Stikine River area using these timberlands as the resource base. In this case lumber, rather than pulp or newsprint, was to be a major export. The complex was to produce 300 million board feet per year of kiln-dried packaged lumber and 600 tons per day of bleached sulphate pulp for sale in world markets. Only the possibility of a newsprint mill was being considered, but a large-scale hydro project was a firm commitment. The forest end, exclusive of the hydro part, was estimated at \$75 million, of which the foreign partner was to contribute only 25 per cent. Shultz had described the area as "the last primary export development opportunity on the west coast of British Columbia".

The Government admitted that there was no need to provide such easy terms and enticements when it pointed to the "popularity" of the project— meaning the multitude of joint—venture applicants lined up for this give—away. These interests included: Skeena Pulp Ltd., a partnership between Columbia Cellulose Co. Ltd. and Svenska Cellulosa of Sweden; or a venture with Intercontinental Pulp Ltd.; or a three—way deal with Canadian Forest Products Ltd., Albert E. Reed (Britain) and Feldmuhle (Germany). The Government shopped for such clients from London to Stockholm, Rome, Athens and Tokyo. ^{5.} While the question of the "manufacturing condition" was long forgotten, that of possible hook—ups to foreign capital and hence markets was key.

In 1964 the Prince George Pulp and Paper Company announced a joint project with one of Germany's largest paper firms, Feldmuhle.

The mill was to cost \$65 million, produce sulphate pulp, and be located right next to another mill valued at \$84 million. The joint company was to be called Intercontinental Pulp Ltd., with half its production exported to Germany for use in six Feldmuhle paper mills. The balance would go to the British Reed paper group, which had set up Prince George Pulp and Paper in 1962—a joint venture with Canadian Forest Products.

6.

In the 1964 project, the Canadian Government was unsure how the capital split would be arranged, but guessed Feldmuhle would supply 25 per cent. The latter already had \$33 million invested in Rothesay Paper Co. in east St. John, New Brunswick. The minor percentages of European capital supplied by the "clients" indicates, in all three cases, that much of the funding must have come from Canada, as did all the resources, and few if any jobs to be generated.

Feldmuhle predicted European increases in consumption of woodpulp at 400,000 tons per year between 1964 and 1970. This was the basis of European capital's interest in Canadian resources. Market shares were to be divided as shown in Table XXIX:

TABLE XX1X: Proposed Shares in European Woodpulp Markets (1964-1970)

Canada	-	100,000	metric	tons	per	year
U.S.A.	-	50,000	11	11	11	11
Scandinavia	-	200,000	11	11	11	11
U.S.S.R.	-	50,000	11	11	11	11

Source: Feldmuhle Pulp and Paper, Germany, 1964.

This meant a doubling of Canada's European woodpulp sales.

The Canadian state played a by no means neutral role in these projects. Prior to investment, Feldmuhle had conducted a two-year study of conditions in the Canadian industry, for which the Trade and Commerce Department offered detailed information on Canadian tax and intercorporation laws as well as information and analysis concerning the climate to be expected with reference to proposed legislation affecting foreign investors. Even the Canadian Immigration Officer in Cologne lent assistance, showing Feldmuhle's chief officers films on Canada to attract skilled labour. The Canadian Consul in Dusseldorf also facilitated large-scale export of future jobs in the manufacturing end of the project. He expressed Canadian pride in the orchestration of another international venture in "development", crooning: "I believe Feldmuhle made a wise investment and both they and Canada should benefit."

Nor was the Government overly concerned with the rapidly increasing rate of take-overs in the industry and the frequently accompanying penetration of external control in this resource sector's capital structures. A government memo on new woodpulp mills in the Vancouver area indicated seven cases of confusion over the seat of control in pulp and paper companies. Thus, by 1964, it "appeared" to the Government, that: Kamloops Pulp and Paper had been taken over by the U.S. Weyerhaeuser group; Northwood Pulp had shifted to Noranda Mines control; Tahsis Company (fully-owned by the Danish trading company, East Asiatic Company) was becoming controlled by International Paper, New York, via investments of Canadian International Paper; Canadian Collier's Resources was owned by Weldwood of Canada (which in turn was a subsidiary of United States Plywood Corp.); and the president of Prince George Pulp and Paper was W.E. Soles of Anglo-Canadian, with Reed (Britain) exercising control. United Pulp of British Columbia would require further research (via Price), and control of Bulkley Valley Pulp and Timber was also a mystery. To solve these, officials turned to the American financial service, Dunn and Bradstreet.

Provincial Levels of Intervention and Subsidization

The state's agent role was by no means monopolized by the Federal Government when enticing foreign investment into large pulp projects in the 1960's. Nor were Newfoundland and Manitoba extraordinary in comparison with other provincial schemes, though perhaps other provinces had had deeper historical experience with the "bonusing" mania, which characterized the 1960's.

In the enormous Churchill Forest Industries project of 1965 the

following sorts of inducements were requested outright by the Swedish partners concerned from the Manitoba Government:

- (1) <u>Easy investment terms</u>: Subscription of equity capital was to be made at the discretion of the directors by installments over a period as and when required.
- (2) <u>Provincial loans</u>: The Manitoba Government loan was to be paid to Churchill by installments as and when requested on giving the fund 14 days previous written notice of requirements.
- (3) No fiscal responsibility to the community: Churchill was to have the first 5 years of operation free of both federal and provincial income taxes; no municipality existed.
- (4) Company town with no strings: The Manitoba Government was to provide adequate township and community services at Arnot without expense to the company, housing for families of all employees of Churchill, and an administrator to run the community.
- (5) Easy royalty payments: Stumpage charges to be paid in 12 equal monthly installments instead of a yearly lump sum.
- (6) Low interest rates: The company requested 4 per cent instead of 6 per cent.

The Manitoba Government was recently forced to take over this project for default on even such give-away terms. On February 14, 1977, the Swedish Government announced Canada must also pay \$50,000 in costs involved in any extradition procedures necessary to prosecute Swedish company officials.

Newfoundland has had a long history of bonusing staples projects.

The Newfoundland Pulp and Chemical Company (American) held renewed concessions in 1963 to all Crown wood on the island of Newfoundland, as

Well as to 20,000 square miles of timber on the southeast coast of
Labrador. Despite the company's failure to build a mill, the Provincial
Government had renewed this monopoly control, without seeking other
capital sources. John Shaheen, of Golden Eagle Oil refinery fame, was
a key figure in the project, as were Richard M. Nixon, and White, Weld
and Company investment firm of New York. A mill at Come by Chance, with
a 500 ton per day capacity was envisioned for an investment of \$30
million. This figure was later to be revised upward by the company to
\$45 and finally \$50 million. Premier Joseph Smallwood was actively
sponsoring what he called Newfoundland's "third" pulp mill; the other
"two" were said to be in the works via Bowaters and Anglo-Newfoundland.
He travelled throughout Europe seeking markets for both the potential
pulp, and, it seems, the timber of Newfoundland, a strategy which would
put the Province irretrievably behind in fostering any manufacturing on
the basis of its primary forest resources.

Meanwhile a Dunn and Bradstreet inquiry in 1964 indicated

Newfoundland and Chemical was "not operating" and had no financial

statements whatever! Of this the Premier was undoubtedly made aware.

Nonetheless, he had it widely proclaimed that eight European companies

were already committed to buying the output of its proposed mill, and

he had the Province retain the services of a New York engineering firm

to determine whether the Province should guarantee the bond issues for

the company in question.

13.

The promise of pulp mills in the area had been touted since 1951, but on Christmas Eve 1963, Smallwood gave a province-wide broadcast disclosing his "dream" for the people of Newfoundland, asserting that 5,000 people would be employed in the "third" mill. Smallwood estimated

income to the Province would be \$10 million (not to mention what the Privince would pay), and Come by Chance would gain 5,000 in population. At least 3,000 loggers would be flown in on newly constructed landing strips in the wilds of Labrador. The companies involved would buy the product and get 300,000 cords of pulpwood free from Labrador for export to their European operations.

A "fourth" paper mill announced by Smallwood and John C. Doyle of Canadian Javelin promised 5,000 to 10,000 jobs, depending, said Doyle, "on how long men remain on the job, labour turn over, and similar considerations". In other words, much of the employment would be in the construction phase and heavy turn over of the rest might be expected. This mill was to produce 1,000 tons of semi-chemical pulp a day, threequarters to be exported as pulp and the remainder to be converted into industrial paper before export. 14. It would use over 1,300 cords of pulpwood daily and be located in the Sandwich Bay area of Labrador. most "inspiring" part, government officials and Smallwood alike thought, was that the pulpwood would be pumped as chips through an elaborate pipeline to the mill, with loggers and chippers feeding their cut into the line at various points -- inspiring for the producers of foreign-made, capital-intensive equipment that is. It would be a rather dubious technological blessing to the growing masses of unemployed in Newfoundland. Workers were to be cut off from any community or polity as well. They would be flown into Goose Airport, ferried across the river Hamilton, and bussed to the general logging area-- certainly such arrangements were inefficient, unless a docile workforce came under the heading of "Efficiency". The choice of location had nothing to do with any community's needs. The technology, including mill design, pipeline, and

machinery orders would come from Difibrator of Sweden. 15.

Still optimistic about the nonexistent mills, Smallwood told the Newfoundland House, June 10, 1964, that logging and export of raw wood was to begin that year. Timber rights preserved for the companies and requiring the building of such mills, were in effect revised de facto by Smallwood. Doyle himself held options for the total timber area of Sandwich Bay for an indefinite period and wanted to get as much wood out as quickly as possible.

Though there was continuing public puzzlement over the delay in construction of either of the mills, Bowaters' leases appear to have been a stumbling block. President, Albert Martin denied this publicly, while manoeuvering a deal privately. In Martin's opinion, since the forest was a "renewable resource" and labour plentiful, it was only "a matter of harvesting what will eventually blow down anyway", there being plenty of "loot" for all corporations involved. Bowaters had rights to cut and export wood along the Alexis River watershed for 99 years. There was therefore no hurry. It also had to cut and export wood from Labrador which conflicted with the rights of the companies described above. only rights the Government retained were that Bowaters should increase its exports to 20,000 cords annually. The lease could, however, be cancelled in the event someone built a paper mill, in which case Bowaters would be obliged to supply 50 per cent of this mill's production at cost prices. Not surprisingly, Bowaters and other corporate giants involved in all this had an interest in indefinite delay of mill building and increased report of raw timber. The Provincial Government under Smallwood's aegis, thus legitimated such retrogressive exploitation of resources and subsidized them every step of the way by sustaining such corporate

timberland rights. It destroyed by precedent and fiat any manufacturing conditions that had formerly existed in law and practice; the requisite benefits to the public of future employment from a public resource were thus forfeited. 17.

At its own mill, Bowaters had cut back several times in this period to a five-day week. In announcing a six-month return to a six-day week, Martin lauded his own generosity to the workers of Newfoundland, asserting "additional wages of \$1,125,000" would thus be "injected" into the economy.

18. Such statements indicate the superficiality of these companies' claims to any "corporate responsibility" toward either the community or its resources, but are not surprising given the enormous power such multinational corporations held in doling out bits of employment, laying it off, or abusing it in a variety of other ways.

By 1965, the ill-fated "third" mill was estimated to cost \$50 million. Smallwood announced at an annual Rotary Club luncheon in St. John's that all would proceed pending provincial guarantees of \$15 million. An enormous chunk of Newfoundland's budget would be strained to this task. The New York financiers, White-Weld, were to put up \$40 million in bonds to be guaranteed by Newfoundland, and John Shaheen was to offer an equity loan of \$10 million. ¹⁹ Smallwood now admitted that Bowaters was "the key to the whole thing," announcing before the House:

(Bowaters) would thus, if this proposal were agreeable to all concerned, be responsible for harvesting not only the pulpwood supplies they wanted for their own use, but those needed by the new mill as well...Negotiations initiated by my government have been going on between the Bowaters and Doyle companies. 20.

The project was at this point to include a large Doyle mill, a

a smaller Bowaters pulp mill for its paper mills in England, a hydro project to serve both, and a small mill town. In Smallwood's words, the project was "one of the largest industrial operations in the province". In reality it was a reduction of all these projects to one spreading the huge debt structure over the Newfoundland taxpayer, who could expect neither equity nor substantive employment in return.

The principle of provincial guarantee was not new. The same sort of guarantees had been given for an earlier newsprint mill on the Humber. During the Second World War, the Commission of Government had set the precedent for loan guarantees in the development of a frozen fish industry, and frequent loans or guarantees had since been given to resource-based industries.

Smallwood extolled the progress made via Doyle in "testing" the quality of the pulpwood already being sent to Finland and the United States in large shiploads, as he prodded M.P.'s to endorse the provincial guarantees. Meanwhile, a full-scale U.S. District Court hearing investigated charges of fraud brought for a second time against Doyle in the promotion and sale of Canadian Javelin stock. Having earlier cooperated with the Security and Exchange Commission in a similar investigation, Doyle pled immunity and was backed in this obstruction by sworn depositions filed in the United States by non other than Smallwood and several members of his cabinet.

Negotiations continued despite this embarrassment and the president of Newfoundland Pulp and Chemical, J.F.M. Taylor, actually visited the site at Come by Chance in February 1965. Before his hasty return to New York, he voiced his satisfaction with the project and suggested that, after all, no company town would be constructed, since

"in many instances they are socially undesirable" and since he was providing employment, the town could take care of itself.

Since "major expansions" in both the Bowaters and Anglo-Newfoundland Development Company were supposedly taking place at the same time, the Regional Officer of Commerce wondered, "If these established mills are to use an additional 100,000 cords of wood annually, where is the 'third' paper mill to obtain its pulpwood?" 23. There were more basic, if unheeded, criticisms from local citizens:

So many mistakes have been made in the past that it will probably not be a surprise to know that building a pulp and paper mill at Come by Chance has very little chance of success. Before the Premier goes to all the trouble ...and expense...of making a trip to Finland to get plans for the mill (why Finland?) he had better visit Come by Chance. The water is much too shallow for a port; unless he intends to load the paper in row boats. If it was his own money that he intended spending, he might not be too interested. One pulp mill failed in that locality; we don't want another. 24.

Smallwood was not polling those to be affected by such a project, but he had taken into account the inclement harbour conditions. Instead of asking the Federal Government outright for a loan, Newfoundland Pulp and Chemical asked it to finance a wharf at an estimated cost of \$1 million and to maintain it for the company's use. The Canadian Government thought wharfage fees set at \$.40 a ton would be fair repayment. In addition, the Atlantic Development Board had been requested to conduct a survey of the water supply for the company. ADB had a strong desire to see the project go through, since it would make use of power from the \$80 million Bay d'Espoir development of hydro in which the Board had invested \$24 million in tax dollars.

25. The web of public debt incurred was indeed intricate and interwoven among all levels of government. Similarly, those involved in large-scale forest projects

were inextricably involved in large-scale hydro projects of dubious worth to the indigenous people.

In April 1965, Premier Smallwood, New York oil businessman Shaheen, and New York legal advisor to Newfoundland Pulp and Chemical, Richard M. Nixon, visited, not Come by Chance, but Finland. With the Assembly's guarantee in hand, they sewed up details with the Finnish United Paper Mills, which would construct, operate, and hold options to buy the mill. External Affairs in Ottawa arranged the diplomatic assistance for the trip. Richard Nixon, feeling some need to legitimate his involvement, informed a press conference that he had formally retired from politics and official assignments, but still engaged in party activities (of which this presumably was not one.)

While the citizenry's criticisms could be expressed in "letters to the editor", the local editorial pages of the Evening Telegram carried the following sort of endorsement of Smallwood's resource development policy, chiding critics for even requesting details:

There can be no debate of the sound principle of establishing industry based on a primary product, a principle which has already proven itself over the years since the production from the first newsprint mill at Grand Falls, which went into operation in 1909...The economy, with the establishment of the mills, turned rather quickly from a basis in the fishery to a basis in timber resources...and it was only recently that mineral production took first place in total earnings...Establishment of a third mill at Come by Chance ...brings new hope, chiefly because it is based as we say, on a primary product...The supply in Labrador is assured... the economics of getting the wood out are still under study ...the prospects are bright. 27.

Debate concerning the most fundamental roots of dependency and unemployment was being stifled. Short-term, sparse and insecure employment was ignored in efforts to legitimate the impressive earnings and profitability to the company's shareholders and promoters. An editorial in the

Montreal Gazette pointed to this lack of long-term analysis in this and other similar provincial plans:

The fiscal and operational advantages...to the United Paper Mills...the customers and eventually the owners...are so generous that they raise serious doubts about the wisdom of government interventions in these undertakings. justification on the government's side is the employment the new mill will provide... The effect of these arrangements is to provide United Paper Mills with a Canadian source of newsprint and pulp - one which they might eventually own without having to put up a penny...On top of this, however, the Finns will be allowed to take 100,000 cords of raw wood a year until 1972 at a royalty of 50 cents a cord and 50,000 cords thereafter at a royalty of \$1.50... Newfoundland, whether it will admit it or not, is exporting employment. If the raw wood were kept at home for processing into final products, it would provide far more employment...the government, however, seems committed to providing employment at virtually any price. 28.

Such queries cast serious doubt on the fundamental nature of corporate capitalist growth in Canada as well as the role of provincial governments in aiding such modes of capital accumulation reliant on the resource sectors. The legitimating role of the province which entailed maintaining employment had come into conflict with the legitimation of the means by which resources were to be extracted. We suggest that the preference by both provincial and federal levels of state for such projects and the specific choice of international capital in these is explained not by the need for or lure of capital injections, since, as we have seen little of this was ever supplied from abroad and most of the financing came from the people least benefitted by such projects the taxpayers. Rather such projects were undertaken in the way we have outlined because it was believed by those making such decisions that export to foreign markets was the road to development. Involvement of foreign equity would insure access to such markets. Since this fundamental principle was never questioned, since alternatives were never attended to when suggested, the types of technological and economic vulnerability and dependency we have demonstrated were implicit, for the nature of corporate capitalism removes decision-making power from those to be affected most and establishes it in the head offices of those for whom such ventures are most profitable. When such men of power meet with and influence their counterparts at either federal or provincial levels the outcome is all but foregone. The socio-political structures which sustain at the state level the legitimation and facilitation of such economic dependency eliminate from the realm of sociological explanation the far too easy and simplistic scapegoating of albeit colourful personalities like Joseph Smallwood.

Before turning to an analysis of the ramifications of such projects and ideology at the municipal level, we examine the political and economic power that such resource corporations can bring to bear against a provincial government which presents alternatives. British Columbia's experience with the largest Canadian pulp and paper corporation demonstrates this overwhelming influence at provincial and community levels.

MacMillan Bloedel has the following type of economic share of the British Columbia forest industry: logs scaled, 13.7 per cent; plywood, 17.5 per cent; kraft pulp, 11 per cent; newsprint paper, 63.1 per cent; other paper and board products, 18.1 per cent.

29. Forest products accounted for 14.4 per cent of the British Columbia gross provincial product in 1973, and for 4.7 per cent of the gross national product. In terms of employment, the forest industry accounted for 85.6 thousand jobs in British Columbia, or 9.2 per cent of the labour force. Given a multiplier effect, another 165 thousand jobs emanate

from it. MacMillan Bloedel is fully integrated, the largest forest products company in British Columbia, or indeed, in Canada. Forest products accounted for about 60 per cent of British Columbia's total export in 1973 with MacMillan Bloedel's products at least 10 per cent of the total B.C. export value that year. In most non-metropolitan areas, the Province's employment is reliant on the industry provided by such forest product corporate giants.

While MB exerts a strong voice through such organizations as the B.C. Chamber of Commerce, the Canadian Chamber of Commerce, the Canadian Manufacturers Association, the Canadian Export Association, the Canadian Pulp and Paper Association, the Febre Box Association and other industry or state forums, it exerts much more specific kinds of power as well. Canadian law has long allowed corporate gifts and donations to political parties to go undisclosed, and though MB's have undoubtedly been generous, they have been no exception. Three of six former chairmen of MB's board have held extremely influential positions in the B.C. government and judiciary. H.R. MacMillan (founder) was Chief Forester 1912-15, architect of the B.C. Timber Royalty Act, and served in federal and administrative positions concerning timber and shipping during both world wars. His associate, J.V. Clyne was Justice of the B.C. Supreme Court (1950-57) when inquiries and regluations of timberlands were in progress, represented Canada in the United Nations and NATO concerning shipping, and was chairman of the B.C. Royal Commission on Land Expropriation in 1961. Robert W. Bonner, another MB man, served as provincial Attorney General (1952-1968) and had several other portfolios in government including Industrial Development, Trade and Commerce, and Commercial Transportation. Bronner retired as Attorney General in 1968

to join MB as Senior Vice President and became Chairman of the Board in 1973. Other MB officers also have strong ties to both federal and provincial governments. Clarence Wallace was provincial Lieutenant Governor (1950-1955) before becoming a board director; F.H. Brow was Deputy Minister of the federal Department on Taxation and National Revenue; and from 1946 to 1952 H.G. Letson was Secretary to the Governor General of Canada. A vice-president of MB was on loan to the government's insurance corporation in 1977. In 1968 MB officials requested and recieved secure tenure (for forty years) on Old Temporary Tenure Licenses as a personal favour from the Minister of Lands and Forests. MB had 40 per cent of these licenses, but was the only firm to get such blanket renewal and to be upheld in this influence peddling by the Pearse Royal Commission.

MacMillan Bloedel and other corporate giants have a very important weapon to use to bring governments to see corporate plans as the only relevant ones in question of policy; the capital strike.

Such firms' investment decisions are made with regard to what they feel is a good political climate. While the NDP was in power in British Columbia, for example, MacMillan Bloedel and many other corporations withheld investment to weaken the economy and discredit the party. MB drained capital out and invested it abroad, calling its response strengthening the security of jobs and incomes in British Columbia.

Meanwhile, it made clear the fact of its concern that the NDP government was not building "business confidence." The NDP was deposed in 1975 by the Social Credit, deemed much more favourable toward "business" and in 1977 MacMillan Bloedel invested \$450 million in B.C., which spokesman C. Knudsen said, "reflects renewed confidence in the business climate of the

province". 32. A full-page advertisement by the C.P.P.A. has warned of a similar bad climate in Quebec recently. 33.

Municipal Power and "Bonusing"

As one descends the levels of state power, that of the multinational corporation becomes all the more overwhelming and the consequences for the community become all the more devastatingly explicit. Municipal and township governments, where these exist at all are frequently reduced to bargaining away anything available to them to woo such corporations to undertake industrial projects. Any and all "risks" are removed for the corporation by whatever state level is involved. The bonusing syndrome of the 19th century has been well documented by R.T. Naylor. Its persistance and expansion at the present time suggests that the explanations for it in an earlier period may not sufficiently explain its present manifestations. The following examples of such powerlessness as results from bonusing huge corporations indicate the depth of contemporary state facilitation and legitimation of capital accumulation which drains capital away from the base in question and ravages the potential such resource communities have for future industrial growth and employment.

In 1964 the Pontiac Township Economic Council in Quebec boasted that the local inhabitants "hopefully awaited an announcement of the coming of a mill by Consolidated Paper Corporation". The Council proposed a site which happened to include parts of farms of an employee of the company and that of one of his relatives.

35. The Council's brief outlined the following enticements to the company:

- (1) The site was in the centre of the township's population.
- (2) The area had no other industry except the Hilton Iron Mines and the Calumet Zinc Mines.
- (3) The land was "unusable" for farming and "no haven" for summer cottages (presumably because of past pollution and mentioned as a hint that future pollution could continue unguarded).
- (4) It offered easy transport access, being bordered on two sides by a major highway and the Ottawa river, and being bisected by a CPR line.
- (5) The labour force was abundant, offering 1,000 workers within a ten-mile radius (suggesting unemployment was rampant).
- (6) There were no competing power dams at or directly above the site. (The company would have exclusive hydro rights and use).
- (7) "...the best possible tax arrangements" could be arranged with the township government (meaning few, if any, taxes would be paid by the company.)

Just as the extraction of capital and resources from one nation by multinational corporations requires a socio-political stratum of cooperative individuals or groups who stand to gain at least in the short run, so at the local level class and individual interests are crucial in explaining such penetration and exploitation. In the above-mentioned case, this group included promoters who would gain through land speculation. With a history of powerlessness based on the two other resource industries present, and in a state of dire unemployment, the local populous could be made to "favour" the repetition of such a syndrome with Consolidated only because those with power presented no other alternatives at either the local or higher levels of appeal.

Whether or not such projects involve company towns <u>per se</u>, the company, as a major source of local employment and a potential tax base, comes to formulate the local agenda on all major policies, including keeping competing forms of industry away. This structural feature of power exists whether employees of the company actually fill key political positions or not. 37.

It is these structural factors which belie the statements of such resource companies about their "neutrality" in local politics, and underlie their preference for the buffering of potential social conflict and the appearance of neutrality through the incorporation of municipalities rather than the use of company town organization. One company spokesman of a single-industry town, recorded by Lucas, asserted:

On town council there are several councilors who are employees of ours, but this is only accidental. They happen to be employees because we supply most of the employment. They don't represent the company in any way. I would like to point out that these employees are involved in civic affairs as individuals, not as representatives or part of the company as such. But we do pull our weight. For many years we have had employees at the management level as members of the city council - again as individuals and not as representatives of the company. 38.

Every amenity or social service provided by the company becomes an indirect means to guarantee the company's basic programme of resource and labour exploitation. Part of the guarantee is through public relations, part through assurance that the "right" ideas are represented politically, and part through the docility of the labour force. As one single-industry company spokesman indicated, even recreational centres carry such price-tags. "You can't give away too much. Look what happened. Our company provided a grand recreation centre and yet we had the worst strikes." 39. Lucas reminds us that such single-industry towns

are uniquely Canadian in the sense that their isolation and "simplified" social structure is not found in European countries, with the exception of coal mining towns which may have resembled them at an earlier period. 40. We suggest, they emanate from Canada's long staple history.

In British Columbia the regional impact of companies like
MacMillan Bloedel is enormous. MB operates almost completely within
the B.C. Forest Service Coast Region (west of the coastal mountains).
Outside of the Victoria-Vancouver metropoles, population density is low
and scattered into small isolated communities existing on forest product,
fish, or tourist bases. Total forest industry employment in the coast
region is about 50,000 as of 1972, one third of which is hired by
MacMillan Bloedel, the area's largest forest industry employer. Its
operations are particularly important in the following communities: New
Westminster, Burnaby, Annacis Island, Chemainus, Nanaimo, Port Alberni,
Powell River, and the Queen Charlotte Islands.

In Powell River, the largest employer and only major industry is MacMillan Bloedel which owns an integrated lumber, pulp and newsprint facility it bought from Powell River Paper Company in 1959. The latter had run the community as a company town since 1912 and Powell River was not incorporated as a municipality until 1955. The population grew and waned as a direct result of each company plan. Growth occurred between 1961 and 1966 as MB expanded its programme, but since 1966 has dwindled and its growth is now below the provincial rate. Much of the company's equipment was left—to become obsolete; since 1975 it has "modernized" via automation which has resulted in the layoff of 340 of its peak 2,460 employees. Multiplier effects mean a real lay-off of 550. Unemployment is high, about 10 per cent in 1976.

activities indicates:

...the links between the company and the town are so extensive in Powell River that there is little need for the company to exert explicit influence on the community. In terms of employment, payroll, and links to civic officials, the company implicitly wields tremendous power over the area. 43.

When 70 per cent of the municipal tax base is contributed by MB, it does not have to take frequent official positions on local matters. There are no formal mechanisms or committees established for communication between municipality and company. The company informs the community afterwards about its decisions. Schwindt's case study for the Royal Commission on Corporate Concentration indicated the current mayor and most of the city council members are MacMillan Bloedel employees, as were previous mayors and former council members.

After sixty years of exporting timber from the Queen Charlotte Islands, where, of the 1971 population of 4,350, native indians comprised 1,500, a spokesman of the Skidegate Indian Band protested that all they had to show for it was sixty miles of blacktop and one ferry. About 25 per cent of the land area is covered by a Tree Farm Timber License held by MB; other licenses belong to Crown Zellerbach and Rayonier. 45. As wood is shipped out to Powell River unprocessed, "...the degree of economic development enjoyed by the residents of Powell River occurs to some degree at the expense of Queen Charlotte residents."

It is through gaining exclusive or oligopolistic access to land use that such companies come to direct the life chances of so many communities. Such rights have systemmatically been upheld by the investigatory commissions, Royal Commissions, and state mechanisms for managing the public resources in question over a period of years. Since

World War Two, the terms for companies of the MacMillan Bloedel type have apparently been more and more lenient, leaving the semblance of public or even small company access and control far behind.

47.

Those company officials who served so diligently in public office have, it would seem, served their companies' interests very well.

Such industry-state links operate not just in the short term, but by way of formulating long-term state strategies with legal underpinnings and fiscal subsidization which would require similarly systematic reversals for the public to regain control.

8.3 Capital Consolidation in Resource Industries in the 1970's

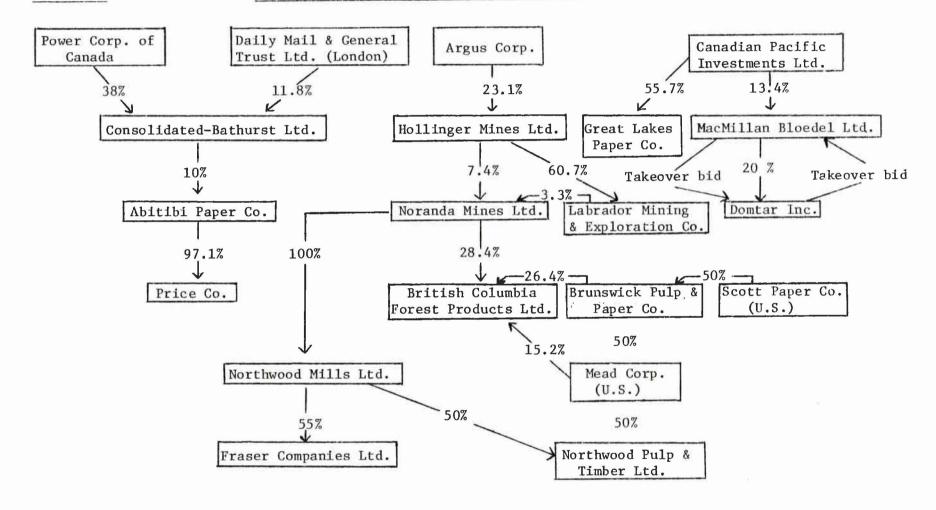
Though foreign control in resources continues high, it remains lower in the forest than in the mine and energy staples. Consolidation of capital continues in all three as cross-linkages begin to permeate their corporate structures. We examine its course in the forest and energy industries. Particularly in the forest industry, much integration is taking the form of agglomeration in corporate giants like Power, Argus, and CP Investments, as can be seen in Table XXX. In a recession-ary period, consolidation appears to allow firms to expand either capacity or market control without investing in new equipment.

Forest Consolidation and Subsidization of Pollution Costs

Clement's study of continental corporate power has shown that of those dominant U.S. corporations that have penetrated the resource-based industries, fewer of the paper and wood firms are multinational by virtue of the paper and wood sector alone. Only 57 per cent have accomplished this international integration within that industry sector, whereas those that have entered the other two sectors are 100 per cent

TABLE XXX:

CROSS-LINKS OF FOREST INDUSTRY OWNERSHIP



Note: Both Domtar and Power Corp. (via Consolidated-Bathurst) made bids for MacMillan Bloedel in the Dec. - Feb. period of 1978.

Source: Financial Post, December 30, 1978.

48. multinational. Those which have entered the paper and wood sector are much smaller in terms of assets and sales than are those entering the oil and gas or petroleum refining sectors. Such observations correlate in a general way with the fact that the latter sectors gained "strength" earlier through capital concentration and consolidation and through linkages with important financial networks. The seven U.S. dominant firms in the paper and wood sector have average assets of \$1.9 billion and sales of \$2.0 billion compared with \$6.9 and \$6.8 for the eleven dominant U.S. firms in oil and gas extraction and \$4.4 and \$3.8 in assets and sales for the dominant nine U.S. firms in refining. The forest sector is presently in the process of achieving greater strength through agglomeration of the sort indicated in the Table XXX on cross-linkages. All the dominant U.S. firms in these sectors have subsidiaries in Canada, but as Table XXXl indicates, the energy firms tend to have stronger Canadian subsidiaries:

TABLE XXX1: Number and Proportion of 194 Dominant U.S. Corporations and Subsidiaries in Canadian Paper, Metals & Fuels

	No. Dominant U.S. Co's.	No. Cdn. Subs.	Dom. Cdn. Subs.	% with Cdn. Subs.
Metal Mining	2	12	0	100
Oil & Gas	11	25	10	100
Petrol. Refining	9	40	2	100
Paper & Wood	7	14	2	7 5

Source: Wallace Clement, Continental Corporate Power, 1977, p. 142.

The reasons for greater Canadian control in the forest sector are closely tied to the early support the state lent the industry in terms of hydro development, transport and marketing, and to the interest the Canadian financial elites took in furthering its consolidation at crucial points in its history. We suggest that the evidence given on big projects of the 1960's and 1970's, which includes both pulp mills and huge hydro programmes, indicates a renewed and very strong concern by the state in the consolidation of this industry.

The present moves to consolidate the newsprint sectors follow on the heels of market erosion in the world and American markets during the 1960's. Companies allowed equipment to become obsolete as well as forest to be denuded, forcing them to penetrate deeper into more isolated timberlands, thus increasing their costs. Buying existing plants became the easiest route to expanded control in the industry. The Canadian world market share declined from 46 per cent to 38 per cent, and its position in the U.S. market dropped from 74 to 63 per cent by 1973. A stronger American newsprint industry was under construction, doubling capacity and share of world markets. Thus, while Canadian industrialists and officials had cooperated with their U.S. counterparts to beat back the Scandinavians after the War, the Americans had their own industry in mind. Coattailing had proved to be a hazardous course. Operating levels of Canadian paper mills were depressed in 1973 to 83 per cent, and as in the 1930's Canadian-owned mills again carried the burden of slack mill time to a greater extent than more integrated U.S. mills in 50. Canada.

Industry executives also reacted to a wave of labour militancy

sparked by lay-offs and speed-ups designed to cut costs and increase profitability without expanding capacity. The Canadian Paperworkers Union (now independent of its U.S. counterpart) also held national policy meetings in January 1975 during the peak of strikes to form strategies for eighty industry-wide agreements. The corporate executives voiced their horror and their continued reliance on the American policies of the 1970's designed to transfer inflationary costs to workers. J.H. Robertson of Domtar Ltd. warned, "...the relation between operating costs and profits is not a living language to the workers; if they were to get away with excessive demands, we would find ourselves in a cost bind." ⁵¹ Abitibi's president, Thomas J. Bell was sure the Americans would hold the line. "I myself have confidence in the resilience of the U.S. economy, particularly when the chips are down." ⁵²

They had reason to keep faith in the Canadian state which initiated an Anti-Inflation Board to roll back wage gains made by workers while leaving corporate prices alone.

Lucien G. Rolland of Rolland Paper Co. Ltd. admitted that his answer to competition was not to build new capacity nor to cut prices, "We try to make our existing equipment more efficient by speeding up." 53. Others, like Abitibi, would seek to increase market control by buying out competitors thereby gaining access to market shares and capacity without having to do either of the above also.

Further subsidization of pulp and paper profits would come to the industry from the state by way of aid to environmental and pollution control, an indirect way of paying for the buying of new equipment, and saving waste chemicals. The Ontario Government announced it was ready to spend \$135 million on its pulp and paper firms over the period

1979-1983 "to help modernize and clean up pollution." $^{54}\cdot$ A Federal Interministerial report had urged substantial government aid to the industry and was endorsed by Ontario Treasurer, Frank Miller, who warned that without such support Ontario's paper mills would become increasingly "uncompetitive". The report, written by senior officials of several government departments recommended cash aid of at least \$27 million per year for the next five years. Miller, former natural resources Minister in the Cabinet, indicated that government aid to the industry might exceed the \$27 million, since one should not arbitrarily set a limit on the figure. He has also boasted, "I want to create an environment which will encourage investment." 55. Of thirty-one paper mills discharging wastes into Ontario's rivers and lakes, only eleven are fully in compliance with existing government anti-pollution orders. In otherwords, much of the cash will go to financing past obligations to clean up. The companies, not surprisingly, have widely acclaimed the move. The president of Domtar Ltd. in Cornwall, the largest producer of fine papers, claimed the industry needs this to compete with "foreign rivals". 56 .

A business publication has called for much bigger subsidizations for the industry, warning that the cost of meeting the Ontario Minister of Environment's current Control Orders (which run from two to five years) is estimated by the industry to be \$124.7 million for direct pollution abatement and \$55.4 million for "related projects". It suggested the Government should pay for it all. Taking into account \$92 million used by the industry for such projects as pulp waste washing (whose primary purpose is financial savings to the company), the publication argued the industry had already spent \$110 million in the

last ten years. 57.

This sort of subsidization of profit in the pulp and paper industry is matched by even greater state leniency about nickel-generated pollution and by hand-outs of \$300 thousand or more per job created to the nickel industry. INCO, for example, has received enormous grants while proceeding to dismantle its labour force in its Canadian operations. Bonusing takes new forms which dovetail with new legitimation needs such as environmental pollution. Much of this capital takes care of risks and operations traditionally expected to be financed privately. Further consolidation moves escalate in a continuing cycle of expanding corporate control and decreasing filtration of benefits to Canadian taxpayers and workers.

Energy Consolidations

The oil industry, with assets of about \$200 billion, excluding refineries, pipelines, and retailing, has recently undergone a wave of takeovers similar to that of the forest industry. In the case of petroleum, however it is the independents and small subsidiaries rather than the giants that are being bought up. Whether the new drive for concentration procedes in domestic or foreign hands, it is seen by senior executives to be an "unavoidable" phase of the corporate evolutionary process.

58. Recently, the federally owned Petrocanada purchased Atlantic Richfield Canada (1976) and Pacific Petroleum (1979), and has to date spent \$2 billion establishing a presence in the Albertan industry. Alberta Gas Trunk Line bought Husky Oil, and Dome Petroleum and Canadian National Railways picked up Siebens Oil and Gas, another independent. One-fifth interest in Transcanada Pipelines has also come

under Dome Petroleum control. To date, interindustry and governmentsponsored acquisitions amount to about \$4 billion - not enough to
drastically change the shape of the industry as described so far.

59.

Though foreign control was once 98 per cent, many smaller operations of foreign corporations, in fact virtually all Canadian subsidiaries except those of the Seven Sisters, are coming up for sale. Additional and rumoured takeover targets include: Hudson Bay Oil and Gas, Norcen Energy Resources, Total Petroleum, Home Oil, Murphy Oil Canada, and Union Oil Canada. Aside from the usual prominence of major Canadian conglomerates in such moves, government-owned corporations have directed considerable amounts to this and to exploration, moves which do not appear to threaten major oil interests, however. Such divestiture by U.S. parent companies may indicate more about the means of financing alternative projects than any serious decline of the foreign presence in Canadian petroleum. Canadian securities analysis suggest, as in other industries, it "is still cheaper to buy proved reserves than to go out and look for the same by yourself", and they view present recessionary and general industry conditions to be "conducive" to such corporate consolidation. 60. Certainly, recent state ideology has taken a significant turn in favour of such consolidation.

8.4 State Legitimation of Capital Consolidation

Capital consolidation and monopolization of control has been a top priority of both federal and provincial governments since 1973; the most recent symbol of this is

The Bryce Commission Report of 1978. In 1973, The Working Paper Concerning the Canadian Pulp and Paper

Industry with Implications for Other Forest-Based Industries, suggested Canadian forest industry corporations should be strengthened through consolidation via merger in order to be more competitive abroad. It, in effect, legitimated a concentration trend begun in the late 1950's following the vertical integration route and heralded more of the same, but especially the state's encouraging response to agglomeration mergers, which we see in The Bryce Commission Report. 61.

Closer links via vertical integration are thought to bring greater "stability" or fewer depressed price periods by eliminating the competition and capturing their markets. For instance, Abitibi bought Cox Newsprint Inc. of Augusta Georgia so as to supply it with locally made newsprint for its Southern markets. Later Abitibi made the industry's biggest takeover in 1974 when it bought Price, for the same kinds of reasons. Similarly, MacMillan Bloedel bought interests in two European companies, when it was boycotting investment in British Columbia, - Koninklyke Nederlandsche Papierfabrik and Celupal S.A. This allowed participation in their European fine paper markets. As tariff reductions on fine paper flooded the Canadian market with American products, Abitibi bought up Canadian wholesalers to strengthen its market position - not create Canadian capacity in this high-priced product, in the pre-1970 period. 62. Such state orchestrated inquiries and reports have simply served to legitimate a longer-term trend, which has been in existence long enough to have generated sufficient public criticism to merit replies of a policy-making nature.

Though undertaken to address the possible implications of a proposed merger between Power and Argus corporations, The Bryce Commission took on the broader investigation of the nature and role of

corporate power in Canada. On the basis of Canada's position in the world system, the Commissioners justified the existence and future increases of corporate concentration.

63. In order to have a selected few Canadian-based multinationals, incentives to mergers and acquisitions became part of the state's legitimation of a development strategy that consistently shuns the bolstering of a national industrial market and the domestic processing of leading natural resources.

Bryce Commissioners argued, "Efficiency in many industries could be improved by permitting or encouraging firms to expand their operations to more efficient size or to merge, but this might also result in higher industry concentration or, in some industries, absolute monopoly control." 64. As in the past, the Canadian state and its Royal Commissions have not been overly worried by the prospect on monopoly. Wallace Clement has suggested the strategy of the Commissioners was a response that worsens rather than provides a solution to the problems of foreign control. 65. For example, the Commissioners suggested:

...rather than buying back foreign-owned companies, it would be preferable to provide incentives for the merger of both foreign and domestically-owned firms in an industry into larger, more efficient units and to use laws that will override any anti-trust objections in the United States and other countries. 66.

In so advocating monopoly, the Commissioners predicted, "Under a specialization agreement competitors in a market would be allowed to allocate production among themselves to achieve longer production runs and resulting economies."

67. One such cartel and monopoly arrangement were completed, the state should take a non-interventionist stance, they asserted, "...the proportion of the Canadian economy constrained by

government regulation or ownership should be reviewed and possibly reduced." 68.

Neither the Bryce nor other commissioners have provided any data proving benefit to the consumer or taxpayer from such concentration, nor have the former heeded the many inquiries warning of the distorting impact of foreign direct investment in Canada. Any critical or in-depth analysis was avoided, as the Commissioners hastened to justify present and future concentration. In this way The Report underlined the blatancy of big business' ideological grip within the legitimating mechanisms of the state in a semi-industrial, resource dependent society. While we have suggested only the outlines of the concentration phenomenon in the staples economy, the preceding indicates that there is official support for the trend toward further concentration especially in Canada's staple exporting sectors as indicated in the shape of recent ideology in legitimating mechanisms.

The next section demonstrates the kind of aid that has been extended by the state to the creation of "Canadian-based" multinationals such as INCO and Falconbridge in their efforts to extend their control to Third World resources. Other examples of concentration could undoubtedly be found for non-nickle mining firms undertaking expansion through investment in big projects in Canada. The following, however, allows us to address the role the Canadian state plays in the international context as it supplements the efforts of the U.S. state and international lending and underwriting agencies to aid large-scale capital accumulation by leading multinationals.

8.5 Big Nickel Projects of the 1970's

The Shift to Third World Lateritic Ores

By the 1960's and 1970's, 80 per cent of known nickel reserves outside communist countries were to be found in lateritic formations in tropical, Third World countries, making the shift to these sources inevitable for the largest nickel corporations. INCO, Falconbridge, and even Sherritt Gordon would take the plunge, economically tempting, but politically fraught with the danger of nationalization. In order to defray these "costs" financial alliances with international, especially American financial groups, and active intervention by the state would be necessary to an even greater extent than in the past.

While emphasizing the continued importance of Canadian deposits, lest the public suspect the dismantling of this Canadian industry, INCO and Falconbridge planned their moves, making sure that Canadian tax concessions would continue to facilitate the final terms of exploitation of Canadian ores. ⁶⁹ Though undoubtedly an exaggeration, John Deverell has suggested investments in Sudbury properties by the early 1970's were designed to maintain productive levels for only another ten to fifteen years, while the companies gradually depreciated their fixed assets (on the basis of the replacement, rather than original costs).

Expansion abroad was already well underway when in 1967, INCO outlined its own stake in this:

A significant proportion of the world's potential nickel reserves are contained in lateritic deposits...The Company is well prepared to bring such deposits into production because of its exploration and property development programmes, and because of its research efforts over many years...proprietary processes and improved technology for treating lateritic ores. 71.

Similarly Falconbridge's president, Marsh Cooper, revealed the significance of Third World ores and the role played by the U.S.

Government in achieving "stability" in such countries for multinational corporate exploitation of nickel:

We have to diversify into lateritic sources, and that trend will increase in the years to come...many deposits have been found in politically less stable countries. Hence, Falconbridge deems itself fortunate to have located in the Dominican Republic which not only has a stable government, but which actually has played and continues to play an important and effective part as a co-worker...of Falconbridge Dominicana. 72.

Cooper would use the threat of "capital flight" once alternative sources of nickel were available to pressure the Canadian Government for more subsidization, as INCO had done in 1967:

Although this country was for many years the world's leading source of nickel production, that position has been sharply eroded...If governments continue to increase restrictions (pollution control), taxes and royalties and move toward an all-pervasive part in the industry, the risk money and the expertise available up to this time...will seek opportunity in other parts of the world...Unless the investment climate is attractive, exploration will gradually decline. 73.

As early as 1961 and 1962, TNCO's annual reports showed it to be actively engaged in exploration or development of ore bodies in Africa, Australia, the British Solomon Islands, Guatemala, Indonesia, and New Guinea. In 1960, Hamna Mining Company turned over to INCO the Guatemalan nickel concession it had secured in 1956.

74. The negotiations of terms and financing for these projects in Guatemala and Indonesia were not fully underway until 1967 and 1968, however.

Political and Financial Interlocking Insures Initiatives

Coincident with the desires of such multinationals for a "good

business climate" some political tidying up took place in the countries where nickel producers were most seriously undertaking expansion:

Guatemala, Indonesia, and Dominican Republic. The fact of expropriation of American Government-owned nickel property in Cuba in 1960 had impressed upon both the American Government and the nickel industry the need to cooperate to avoid further threats of nationalization of international capital's "private properties".

In Guatemala, where INCO has a \$250 million nickel project in progress, a right-wing coup took place in 1954 with the aid of the C.I.A., the U.S. State Department and United Fruit Company, after a nationalist effort had begun land reform. Allan Dulles was serving as director of the C.I.A., and his brother, John Foster Dulles, was Secretary of State, former legal counsellor to United Fruit, and twenty-seven year former director on the board of INCO. U.S. Secretary of the Treasury, George Humphrey, long president of Hanna, gained its concession as soon as a military regime was instated. INCO was already doing government-funded research on lateritic ores and had its eye on Guatemala.

A similar welcome for foreign capital awaited Falconbridge, via a right-wing coup against constitutionalist forces in the Dominican Republic in 1963 with a follow-up invasion of the Republic in 1965 by 20,000 U.S. marines. In Indonesia, the nationalist Sukarno, thorn in the sides of both the nickel and oil multinational interests, was ousted by the military (pro-multinational) regime of Suharto, amidst a massacre of opponents. Indonesia became a haven for foreign capital as it thus became closely aligned to the United States politically.

Whatever the conclusions one might draw from such "coincidences", it is safe to say that before, during and after the smoke had settled, these

nickel companies had very influential ties in Washington and the U.S. foreign policy with regards to these countries was highly interventionist on behalf of private capital.

Alliance with American and international financial groups on the part of the major nickel producers would provide "insurance" in the literal sense against nationalization as well. Joint ventures with American companies, for example Falconbridge's alliance with ARMCO, meant the fixed assets of such projects qualified for U.S. Overseas Private Investment Corporation insurance against expropriation, war, revolution, or currency inconvertibility. ⁷⁶ In the Falcondo case, the project also involved a high ratio of debt to equity, which spread financial risk among the largest American financial groups and built into the cost structure heavy interest charges which allowed capital to be tapped without being subject to Dominican profit taxes.

In 1973, for instance, Falcondo revenues were \$91 million, but \$17 million went to foreign creditors and only \$3.3 million went to the Dominican Republic Government. Shareholders had raised \$15 million; Dillon Read and First National City Bank had raised \$180 million in the following way: \$114 million from three main U.S. insurance companies, \$25 million from the World Bank, \$21 million from First National City Bank, and \$20 million from the Canadian Imperial Bank of Commerce. The American and Canadian banks and Dillon Read then got seats on Falconbridge's board of directors to assure direct policymaking links and reflect the new broader financial nexus. In addition to Canadian ore deposits, Falconbridge now had access to Canadian savings and important financial links via C.I.B.C. along with the above-mentioned American financial group ties, Falcondo sales would be

managed by the parent and funds deposited in trust with Chase Manhattan. 77.

INCO would increase its nickel capacity by fifty to one hundred million pounds annual capacity in New Caledonia, by twenty-eight million in Guatemala, and by one hundred million pounds annual capacity in its Indonesian project, while continuing to explore actively for new deposits in Mexico, Brazil, Papua, New Guinea and Africa. Though Le Nickel negotiated a joint venture with American Metal Climax in New Caledonia, and Sherritt Gordon pursued interests in the Phillipines and Indonesia, expansion abroad was to be most dramatic with the two first world producers, INCO and Falconbridge. These had garnered the most from stockpiling contracts, politically useful continental connections, and had diversified their financial links extensively in preparation for the above.

The following indicates a similar spreading of risk and creation of high debt to equity financing in INCO's projects in Guatemala and Indonesia. In both cases, international financing and governmental aid have played an important role. The financing of Exmibal, undertaken by INCO, Hanna Mining (U.S.), and a steel group received the following international "corporate welfare" in opening up twenty-eight million pounds of capacity in Guatemala:

- \$17.25 million, loan, Canada's Export Development Corp.
- \$15 million, loan, International Finance Corp. (World Bank).
- \$13.75 million, loan, National Westminster Bank of London.
- \$13.50 million, loan, Chase Manhattan Bank (guaranteed by the American EXIMBANK).
- \$13.50 million, loan, EXIMBANK (American).
- \$9 million, loan, Orion Termbank.
- \$6 million, Loan, Central American Bank for Economic Integration (conceived by A.I.D. to attract capital to the region).
- \$5 million, loan, Export Credits Guarantees Department (U.K.). 78.

Hanna Mining Co. (U.S.) and INCO own Explorer Metal Co. of Canada Ltd., which owns Exmibal (see Appendix B 1 and B 2). The Guatemalan Government has 30 per cent equity ownership and IFC and CABEI have equity ownership of 6 per cent on what was once an equity option split of 80 per cent/20 per cent between INCO and Hanna, now sharing 64 per cent options and warrants for equity ownership in the project. 79. Though it is not known how much INCO actually has put into the Guatemalan project, its projected capital expenditures in 1976 were \$500 million, the majority of which was to be directed to overseas lateritic developments. 80. Thus, for a project originally slated to cost \$180 million, more than half of it was financed in loans of the earlier mentioned sort, much of which took the character of "foreign aid". Such export credits as the Canadian state provided may not stimulate jobs in Canada so much as increase the leverage INCO has internationally to manipulate the terms under which it will operate worldwide.

INCO's Indonesian project, P.T. International Nickel Indonesia, has the following control of equity split: INCO (parent) 77 per cent, Indonesian partners' option, 20 per cent, and 3 per cent to six

Japanese companies, some of which have marketing agreements for the product, and/or INCO participation in their ownership.

81. Three international banking syndicates raised the remaining two-thirds investment, or \$365 million in long-term debt. These include the following: the Bank of Montreal (which managed the first phase of development financing), and Citicorp International Bank of London (controlled by First National City Bank, New York, managing the second phase of financing). Included in this syndicate are: Bank of Montreal,

Toronto-Dominion, B.N.S. International (a unit of Bank of Nova Scotia),
Morgan Guaranty Trust, Crocker National Bank, Chemical Bank of New
York, Bankers' Trust Co., and Asia Pacific Capital Corporation.

Changes in the structure of corporate linkages indicate that the above type of international financing is evident in INCO's broadened financial network. Morgan banks and the Sullivan and Cromwell law firm in the United States continue to be represented in its management, and its principal Canadian bank connection, Bank of Montreal, remains firm and symbolized by interlocking directorships. During the 1960's, links were begun with Toronto-Dominion and Bank of Nova Scotia. These three banks proved significant in the loans for P.T. International Nickel Indonesia. Important financial and marketing functions are still carried out in New York, but executive offices are in the Toronto-Dominion Tower in Toronto, and the move seems to have facilitated borrowing from Canadian financial institutions.

83. Governments capitalized the \$850 million Indonesian project in the following manner:

- \$17.25 million, loan, Canadian Export Development Corp. (phase 1).
- \$40 million, loan, Canadian Export Development Corp. (phase 2).
- \$13.5 million, loan, EXIMBANK (U.S.) (phase 1).
- \$35 million, loan, EXIMBANK (U.S.) (phase 2). 84.

Further governmental aid has come from export credit agencies in Australia, Norway, Great Britain, and Japan for the Indonesian project. Indirect contributions have come from Canada as well. In 1971, Canadian aid to Indonesia was less that four million. In the following four years, Canadian International Development Agency aid (CIDA) rose fivefold. In 1975 Suharto's visit to Ottawa signalled a \$200 million deal in Canadian export credits and loans (\$25 million from CIDA, \$75 million from the banks, and \$100 million from Canadian Export Development Corp.), placing Canada fifth among contributors to Indonesian

credit (managed by an international aid consortium called InterGovernmental Group on Indonesia).

85. The net result of such "aid"
is to facilitate the operations of multinational corporations
operating in Indonesia through postponement of Indonesian debt
payments, further credit extension, and financing transport and
communications infrastructures, so important in exploiting natural
industrial resources.

Canada has subsidized aid to Indonesia to the fullest possible extent, sent engineering firms, university teams, and supplies of machinery and technology to facilitate the exploitation of resources. Canadian exports to Indonesia tripled between 1973-74, indicating the boost to trade that multinational investment in nickel deposits has brought. The Department of Industry, Trade and Commerce has praised INCO's creation of "an excellent opportunity for Canadian sales of a wide range of equipment, from safety supplies to mining equipment".

Not only has Indonesia been plunged into ever-spiralling debt, but with INCO's intention to retire its Indonesian debt rapidly (thus keeping profits to the Indonesian Government minimal), by the end of the thirty-year project, the Indonesian Government will have only \$840 million in non-renewable resource revenues while six billion dollars worth of sales will have been made on the nickel.

Beyond retiring its Canadian mines and diversifying its international nickel base, INCO is undertaking two other growth strategies: undersea exploitation and diversification into manufacturing operations by buying up or into other companies. Thus INCO bought the American electric battery company, ESB Ltd., in 1974, producer of commercial and industrial energy, with ninety-six plants around the world. In 1975, it bought Daniel Doncaster and Sons (U.K.), a precision machinery fabricator for the British aircraft industry, supplied by the INCO British subsidiary, Henry Wiggin and Company. INCO has also purchased 10 per cent equity in Canada's United Tire and Rubber Company, producer of off-road vehicle tires. This vertical and horizontal integration has already proved to be a most profitable move for the company, for though 70 per cent of INCO's total assets are in primary metal production, 50 per cent of its revenues now come from other sources. ⁸⁸.

Similarly, Falconbridge has diversified its mining base into gold, platinum, and copper in South Africa, South West Africa (Namibia) and Rhodesia (Zimbabwe), despite international sanctions against commercial dealings with the last two. The Namibian Oamites Mining Co., begun in 1971, is a major world copper producer, 75 per cent Falconbridge owned. Falconbridge's gold mine in Zimbabwe, the Blanket Mine was described by Canadian journalist Hugh Nangle in 1973 as, "...a disgusting example of a Canadian company exploiting black workers. It is not unfair to charge that Falconbridge is operating a slave-labour mine." 89. Similarly, in South Africa, Falconbridge has 25 per cent ownership in the third largest platinum producer, Western Platinum, with Superior Oil holding 24 per cent and Lonrho (U.K.) holding 51 per cent, and refining taking place in Falconbridge's Norwegian refinery. This sort of diversification depends to as great an extent as lateritic ore holdings on maintenance of highly lucrative investment conditions through oppressive political and economic exploitation of the indigenous peoples.

The primary importance of such holdings for these resource companies is the increased capacity and control it affords them in terms of an internationalized resource base-- profitable, useful in choosing the terms of access to other projects, and in bringing pressure to bear on the terms of operation in Canada as well. These projects represent the details of internationalization of capital through the creation of sturdy international (especially continental) financial links, a process which insures future capital accumulation.

Most of these joint ventures include collaboration with financial groups, oil or international steel companies. Beside those discussed here, INCO has retained its financial links with Morgan Guarantee Trust of New York; Falconbridge has become part of the Texas oil and First National City Bank of New York nexus; and, Le Nickel, which is also expanding into laterities, has always relied on Rothschild financial links.

Both Canadian state political connections and financial links appear to play a "junior" role in this imperialistic drive into Third World ores. C.D. Howe, for example, seems to have been important in facilitating the takeovers that led to the eventual merger bringing Keck and Superior Oil control of Falconbridge. The important point here, however, is that such Canadian links and manoeuvres may be "junior" in overall weight, but they reflect an active rather than a passive role by Canadian state officials, who in turn facilitate linkages to increasingly stronger international financial groups and American political power.

90. Thus, while it might be accurate to suggest that Canada has very little independent existence within the

imperialist schema of American resource policies, it would be incorrect to characterize Canadian participation in these manoeuvres as that of a passive colony. The Canadian state and Canadian capitalists have shown initiative in such moves and have provided the "go-between" mechanisms which are more and more required to maintain world capital accumulation where the division into recognized imperialist and colonized countries creates an uneasy imbalance of power.

8.6 Big Energy Projects: Continental Integration of the Last Frontiers

In order to explain the advantageous position that multinationals have in planning and participating in large-scale energy development projects of the 1970's and 1980's, we have taken stock of the type of economic power these companies gained internationally and in Canada as a result of their cartels and their strategy of capital, product and market consolidation and corporate integration in Canada. If production of petroleum in and of itself is "valueless", as the experience of Canadian independent producers in the 1950's and 1960's attested, then it was clearly market control that put the multinationals in the driver's seat in developing energy on the largest scale. It was their differential access to Canadian and American state power that assured their winning market control in both the short and long terms. Control of markets and of more lucrative downstream sectors of the petroleum industry was the strategy that assured that majors, instead of prospects in big project development, especially since American markets would be the priority in exploiting frontier reserves.

Tar Sands Explosion: A New Basis for National Policy Rejected

Our reading of the negotiations between Canadian and American state officials during the early 1960's suggests that any consideration of "self-sufficiency" in oil or gas for Canada would have had to come more from the rebuffs of U.S. energy policies designed to reduce the influx of Canadian oil (1962-64) than from Canadian federal initiatives to alter the National Energy Policy. In that context, we find no evidence that the development of the enormous potential energy reserves present in the Athabaska tar sands was officially conceived as a basis for a new kind of self-sufficient energy plan. This project was from the beginning in the hands of the same multinationals whose interest it had always been to use imported oil in the eastern parts of Canada. Further, we suggest that the basic weaknesses evident in the present scheme for tar sand development date from the very beginning of National Energy Policy and involve the fundamental nature of the Canadian state and the traditional roles it has played vis-à-vis the energy multinationals since the discovery of conventional oil in western Canada.

By 1962, Canadian officials noted a "hardening of attitudes toward oil imports from Canada within the (U.S.) Administration".

A series of "bilateral Canada-U.S.A. discussions...toward stabilizing oil imports from Canada on a fairly precise basis" ensued with the U.S. Department of Interior increasingly dictating the terms of Canadian oil entry to the U.S. market. Once the door was closed to increased exports to the U.S. market, the Canadian state legitimated this by putting its own restrictions on export. Though the Montreal option might have appeared all the more reasonable, given the growing

failure of reliance on U.S. markets, multinationals in Canada were to move quickly to forestall this option. Just as dollar shifts would have further justified the pipeline and key American officials pointed this out, British American and Imperial led a price increase to offset the visibility of the pipeline's feasibility. McKinnon of the NEB was told "there is, more than an indirect relationship between these things (price hikes) and the position of Canadian oil in U.S. markets." 92.

Thus the prospect of a Montreal pipeline with either conventional or tar sand oil was to be shoved further aside by the majors' price-manipulation even as the American markets for Canadian crude dried up. Yet huge projects for more domestic energy development and export were being formulated by these same companies with the awe-struck approval of important federal officials. Since surplus capacity remained throughout this period at 50 per cent, only the minutest connection to domestic requirements ever featured in the schemes of public officials, oil companies, or spokesmen of the day. Professor A.R. Plotnick of the University of Alberta, for instance, told a Petroleum Accountants Society of Western Canada in 1964 that European markets whould be the raison-d'être of such a project, whether the Europeans wanted it or not:

Economic rationality would finally prevail in the European Common Market countries when import formulas provide for the efficient use of all forms of energy, instead of bending economic considerations in such a way as to avoid offending coal interests or any other political groups. 93.

The tar sands were, in his opinion, to be a lever against communism and nationalism, not against the multinational oil cartel:

One (major factor) is the possibility of its use as an offset to the political threat of increasing pressure from Russia for sale of oil in Europe. The fear that

Europe may become overdependent upon Communist supplies of oil could turn European interest to the West as a source of oil. The other is that a source of supply from Canada would counter any threat of a combine among the big producing countries of the Middle East. 94.

Such arguments, political rather than economic in nature, supported the long held notion that Canada's resources should be used in the service of the multinationals' foreign policies of market expansion and antinationalism.

Trade and Commerce officials were aware, given the fact that the two companies who applied to develop the tar sands were multinational, that such oil would not likely compete in European markets. They took at face value, as in the past, the statistics on price that Shell (one of the applicants) quoted in trade publications. Meanwhile the Alberta Oil and Gas Conservation Board deferred the applications for four years, since Canadian production was still half shut in. Trade and Commerce dampened the hopes of export:

In deferring these applications, the Conservation Board left an opening for firms if they could find markets beyond that of Alberta's conventional oil. Unfortunately, the two firms who applied to develop the Athabaska tar sands and those with processes for extracting the oil are associated with the large international oil companies. 95.

Theirs were grand plans indeed. Until press leaks disturbed the public sufficiently to suppress such schemes, one of the multinational applicants was set to use an atomic bomb (in conjunction with the U.S. Atomic Energy Commission) to "free" the tar sands for commercial use. The social and political implications of such technologically bankrupt arrogance need not be stressed, but they do indicate the total lack of responsibility and accountability of both corporate and state policies displayed in such projects.

Different in type, but similar in general structure of decisionmaking and consequence, has been the actual route taken in tar sand
exploitation under Syncrude. This project has shown itself to be one
of the most ill-conceived development ventures of the Canadian state
in privately disposing of petroleum wealth far in excess of the oil
now in national hands in the Middle East. In part, the tar sands
project may have been conceived by the multinationals involved as compensation for their gradual loss of control over middle-eastern sources.

More importantly, however, the terms of subsidization of Syncrude by
the state have set a precedent for future large-scale energy development in Canada.

96.

Canadian political scientist, Larry Pratt, has pointed to two major weaknesses in state policy planning of oil development with regard to the Syncrude project. We have in this work traced these back to the very beginnings of the National Energy Policy:

- (a) the lack of crucial alternative information from that provided by the multinationals, and;
- (b) forfeiture of the state's only bargaining tool nationalization. 97. As the oil companies increased their cost estimates and profit conditions forcing the Ottawa, Alberta, and Ontario governments to take on more of the financial burden and to bail out the project, the absence of these two potential levers became increasingly important. This failure continued to weaken the potential for developing a truly national energy policy in the future, as big projects would probably be moulded on the terms allowed the participants in Syncrude.

When a conference on the tar sands took place in Edmonton, the Canadian Trade and Commerce Department proved itself so dependent upon

industry for project data that it sent first to Switzerland for information and finally to the corporate organizers of the conference — none other than Standard Oil of California. 98. This lack of a separate or possibly critical information base was, as we have shown, founded in the policies of C.D. Howe in the early 1950's. The fact that one was not developed impugns the characterization of the Canadian state in such a situation as simply undergoing the common "managerial dilemma of the nation—state". 99. For, the Canadian state officials and established policies have never conceived state policy in a guise even remotely related to the "neutrality" suggested by such a concept. Rather than acting as "civil servants", they have cast themselves consistently as "corporate servants" in the C.D. Howe mould.

It is not then surprising that, as Pratt suggests:

...the governments involved were literally incapable of seeing alternatives to capitulation. Blinkered by ideological mistrust of public ownership proposals and long-habituated to relying on the oil industry to make investment decisions, the politicians closest to the affair - men like Lougheed, Don Getty, MacDonald, and Ontario Premier William Davis - cut themselves off from the one course of action which might have changed the result... 100.

That one course, Pratt suggests, was simply the threat of nationalization, if not the fact of it. Nor would Petrocan provide the "leverage" needed for such a national development policy with regard to oil, since every economic basis it could have had in production or marketing control would be forfeited as the very condition of its creation as a Crown corporation.

Thus, the terms of the \$2 billion Syncrude agreement were not between actual or even potential combattants, but between allies:

Imperial, Gulf, Cities Service, Ottawa, Alberta, and Ontario...in that

order of equity representation in the project, and, it would appear, in that order of power in the whole affair. Beyond the bail out money: \$300 million by Ottawa, \$200 million by Alberta, and \$100 million by Ontario, there were other costs to the governments in loans, the cost to Alberta of the utility and pipeline of at least \$400 million, and the cost of infrastructure (highways, schools, bridges, services) also born by Alberta and estimated to cost \$300 million more. Beyond these direct costs were the incredible subsidizations to private capital through a maze of tax write-offs, many designed especially for the occasion. The Canadian public would actually foot 75 per cent of the 101. Further losses bill, as tax write-offs mounted to \$500 million. would accrue to the Canadian public in the form of job export to Americans who would produce most of the capital equipment used in the project. Shell, whose project was next on the agenda, could count on at least equal treatment to that shown Syncrude's corporate participants, spelling more dependency effects for the Canadian society.

Hydro Law: The Creation of a Continental Power Grid

Canadian arctic oil and gas, Alberta tar sands oil, and hydro projects of revolutionary proportions in the North - these "New Frontiers" as we call them today - had very solid foundations in state policy and multinational policy in the 1950's and 1960's. We have already indicated some of those foundations: the creation of the most lenient policies on foreign control; the leasing of huge tracts of land for exploration in the North, avoiding the few restrictions and benefits that Alberta had managed to salvage from energy development; and a delicately phrased switch in federal policy to open export

of hydro. In the case of hydro, it was a matter of two or three years between the first shift away from traditional protection, by which the industrial bourgeoisie of the turn of the century demanded hydro be an indigenous industrial energy source, to the following position in which the state decided:

...to permit the development of large-scale remote hydro or other power projects which would not be viable unless supported by the export for long periods of a significant portion of the power generated. The National Energy Board Act permits such exports for periods of up to 25 years. Provision would have to be made for the recapture of such exported power over a period of years, in stages commensurate with the need or ability of the Canadian market to absorb it... 102.

The description of the meeting in which this statement was hammered out in 1963 is instructive. (See Appendix C 11). Only McKinnon, Chairman of the NEB, seemed to think any statement about a time limit or reclamation should be included. The majority of the cabinet ministers strongly attacked any such restraint. A compromise was reached to "weaken the impact on U.S. customers" while allowing the Canadian public to retain its harmless dream that any such restraints would ever in fact be imposed. So ludicrous was it, the Cabinet agreed, to put any restrictions at all on the export of hydro, that McKinnon of the NEB stood nearly alone in seeing the wisdom of developing such a statement anyway. He alone seemed to appreciate the necessity to guard the appearance of the state's policy being "for the people", and to see the usefulness of housekeeping in the ideology-producing corner of the state:

...the policy statement was partly designed to mould public opinion to the view that large-scale exports of firm power were not necessarily wicked in themselves...While he was delighted by the willingness of officials to break away from traditional fears, he felt that public proselytization

would have to move more slowly. Strong feeling still existed in many quarters against power export, and the complete omission of any reference to recapture would probably cause more trouble domestically than its retention would cause internationally. While exports might not necessarily have to be repatriated...little would be gained by not referring to it. 103.

The dismantling of a "national energy grid" might not go down so well it was suggested, so the federal government might do well (as with the Borden Reports) to leave things a bit vague. "Some aspects of this project were still dubious enough to make it inadvisable to imply heavy federal participation or support." 104. Meanwhile, the whole idea would be called "in the national interest" and whatever restrictions were retained, it was agreed, were to be more honoured in the breach.

Here was the basis of social legitimation which federal policy makers established and which made possible, after nearly a century of protection, the alienation for long periods of time of large blocks of firm energy to American corporate consumers. Again, the argument "sell it while we can, for tomorrow will belong to nuclear energy" has proven a transparent one which did not serve the interests of the Canadian public in either the short or long term. The interests that would gain most from Columbia River, James Bay, Churchill Falls, and the other mammouth hydro projects of the present have been international financial groups that have managed to build in huge debt structures that drain capital out of Canada and scarce power at high prices for those areas in which the projects are centred. 105.

In his 1952 invitation to British financiers to develop

Newfoundland and Labrador, Premier Smallwood appealed to the dying

British Empire to put forth new leaves and likened the undertaking to

the ventures of the East India Company of a century earlier. The form actually taken would correspond with more current international consortia or capital formations, typified by Brinco. Smallwood, the broker, boasted:

I am here to offer you the biggest real estate deal of the present century...a great storehouse of wealth. I am talking about a piece of territory about as big as England... There is no company in all the United Kingdom big enough to do it alone, because it will cost many hundred of millions...in the tradition of the East India Company. 106.

With substantial aid by Canadian politicians, banks, and financial experts, the final consortium, Brinco, was to feature British Rothschild financial interests in the form of the multinational mineral company, Rio-Tinto-Zinc, and a major American multinational, Bethlehem Steel. These two controlled 83 per cent of Brinco. The Rothschilds are prominent in BP-Shell as well. Another 8 per cent was in the hands of Marubeni Corporation and Fuji Bank, and a slim 9 per cent was held by private shareholders. Once built, the Churchill Falls hydro station, the largest undertaken by private interests, had to be taken over by the Newfoundland government to assure that at least those portions of the project not already committed to exporting power to Montreal and New York could be harnessed for use in the indigenous area. Brinco remained in tact and continued to develop its more lucrative mineral prospects including large deposits of the following: uranium, asbestos, cement. State-ownership it seems will not only be involved in the hydro project, but in whatever use is made of the uranium, whose development means both Canadian and American state cooperation. It took an "energy crisis" and an angry public for the Province to take even the small, after-the-fact steps it did to ensure a minimum benefit to its people

from such a vast resource. Only 200 permanent jobs were created, including the installation and local airport.

Arctic Oil and Gas: The North Frontier

Canada's last great frontier provides the setting for the contemporary culmination of a history of state facilitation of staple export. New organizational techniques were developed by the state in both aiding and participating with industry in large-scale energy exploitation and transit from the North in a strategy which continued the continental approach to development we have shown characterized all three industrial staples in the postwar period. Crown corporations and the creation of huge energy consortia were not an attempt to countervail the continental thrust. Rather, the state coordinated these tools with the plans of energy multinationals for the rapid and privately profitable exploitation of the last and most vulnerably placed energy reserve in North America. Through the creation of the Task Force on Northern Oil Development, the direct participation of the National Energy Board, and the active promotion of industry's pipeline plans, the Government forged a partnership with industry at the political and bureaucratic level while assuming on behalf of the public the majority of the risk and cost via infrastructural subsidization and lenient leasing and tax arrangements. Under the 1961 Canada Oil and Gas Land Regulations the most generous invitation was extended to major oil and gas interests, allowing these to control the material basis of northern energy development long before any land claim settlements were considered for native peoples. The legitimation of easy terms of capital accumulation and of majority foreign control over northern

exploration and development limited the possibility of serious consideration of alternatives that might minimize the costs and maximize the benefits of this energy source to the public and the environment.

By 1969, only 24 to 31 per cent of the mainland, island, and marineland exploration permits in the Arctic were under Canadian control in companies 50 per cent owned by residents. Already 75 per cent (400 million acres) of all sedimentary areas had been leased, and 65 per cent of the mainland and 46 per cent of the marineland were under American control.

The American Government challenged Canadian jurisdiction in the Arctic by the launching of the S.S. Manhattan in Arctic waters. With the strengthening of de facto sovereignty in mind, the Canadian Government agreed to Calgary geologist and promoter J.C. Sproule's plan to rescue Canadian permit-holders by merging their financial commitment with state financing and equity in the form of Panarctic Oils Ltd. of Calgary. This allowed substantial tax write-offs for exploration and helped shore up the Government's claim over its Northern Frontier. Though this company could have constituted an instrument for offsetting foreign control of new energy resources, it was not to be used in this manner but to operate in concert with majors like Imperial, Shell, British-American, Texaco, etc. Similarly, it appears that the amendments to the Territorial Sea and Fishing Force Act extending the Territorial Sea to twelve miles and the creation of the Arctic Waters Pollution Prevention Act rushed through the House of Commons in 1970 were designed to assure formal Canadian control over the Arctic rather than to lay the foundations for specific environmental or ownership 110. guidelines and legislation in development of the North.

Meanwhile, the White House proceded to link the sovereignty issue to continental energy policy.

111. Only the shift away from multinational corporate interest in tanker transit of northern energy appears to have weakened the American challenge to Canadian territorial sovereignty and U.S. threats to use trade manipulation to bring Ottawa to heel during this 1968-1970 crisis. Following the less than successful S.S. Manhattan voyage, involving both American and Canadian support, Humble Oil and other energy firms strengthened their moves toward getting pipelines approved.

The state came to approve and actively promote the rapid construction of pipelines for oil and gas, either in order to outstrip the Alaskan pipeline proposal, or once this was hopeless, to rush Canadian oil and gas south. In August 1970, the Cabinet approved the Task Force on Northern Oil Development's Northern Pipeline Guidelines and the export of 6.3 trillion cubic feet of natural gas in September. This not only smoothed Canadian-American trade relations but constituted approvement-in-principle for the rapid installment of pipelines to provide American markets with northern oil or gas. The continental approach was to be continued.

These guidelines set up government liaison with industry on an official basis through the Ministers of Energy, Mines and Resources and Indian Affairs and Northern Development. A corridor containing one oil and one gas pipeline would receive approval, and be regulated by the National Energy Board which would evaluate the environmental suitability of applications and protect the rights of northern residents on the advice of the Department of Indian Affairs and Northern Development.

Provision would be made for "substantial opportunity for participating"

in the financing, construction and management of northern pipelines by Canadians, and both industrial applicants and the Government would assure programmes of native employment in the construction and operation phases. While such provisions for domestic "participation" raised cries of "excessive nationalism" from some senior officials, they were to provide neither protection against majority American ownership of permits nor suitable royalties to the Canadian public. (Royalties were set at 5 per cent for the first three years and 10 per cent thereafter, compared to the American rates of 20 per cent in Alaska and 16 2/3 per cent offshore.) Such conditions of exploration would not even guarantee reimbursement for the millions of dollars of public subsidization in construction and support services entailed.

Meanwhile informal official consensus and approval of Governmentindustry collusion on the framework for development continued apace.

The "inner circle" of powerful governmental figures that approved the
strategy in principle included the following: the Clerk of the Privy

Council, the Deputy Ministers of Transport, of Finance, of Energy,

Mines and Resources, and of Indian Affairs and Northern Development, as
well as the Secretary of the Treasury Board, the Chairman of the

National Energy Board, and Marshall Crowe as Deputy Clerk of the Privy

Council, chairing the meeting in 1970. Crowe's governmental and
industrial "expertise" or career-switching made him a central symbol
of the symbiotic relationship between both sectors. He was Deputy

Clerk of the Privy Council, Deputy Secretary of the Cabinet, had had a
long career in External Affairs (1947-61), and as President and then

Chairman of the Canada Development Corporation (1971-73) he attended
the chief applicant's meetings when CDC joined the Canadian Arctic Gas

consortium. Such were the personnel linkages that underlined the unity of purpose long before approval of any project was before the NEB Financial bolstering of this connection came when the CDC Crown corporation announced intent to invest \$100 million in Canadian Arctic Gas.

The consensus on the desirability of a Mackenzie pipeline reflected neither independent financial nor environmental research on the part of governmental agencies, but rather total faith in the private sector to take care of these details and to direct national investment, trade, and employment priorities in the national interest. A review of the National Oil Policy by the Interdepartmental Committee on Oil in 1969 thus led to a reaffirmation of the continental pattern with the addition of the North to the producing sector, increasing the promise of heavier exports to the United States. $^{115}\cdot$ The Task Force, the NEB (which chaired the pipeline subcommittee of the first), and the Interdepartmental Committee on Oil all agreed that the best line of development linked Canadian energy and pipelines closer to U.S. markets. To this end the Government would actively promote a new phase of industry-government cooperation which included the division of tasks between the two sectors, clearing away technical problems that might surface as embarrassing policy or political problems. The Task Force encouraged competing groups such as the Northwest Project Study Group, West Coast Transmission Co., and the Gas Arctic Study Group to combine both finances and research into a consortium for single application before the NEB. The National Energy Board was to continue its guise as independent and neutral evaluator of pipeline applications while at the same time actively cooperating with industry representatives in the preparation of applications, constituting the heart of industry-government collaboration.

The real pattern of policy making was tailored to industry interests and characterized by elite diplomacy, secrecy, and inadequate research, involving senior officials and Cabinet Ministers in Ottawa, Alberta, and Washington. However, the Government felt the necessity to disseminate "official" policy that appeared to address major policy gaps in terms of environmental protection and the rights of native peoples. Thus, Canada's North 1970-1980 announced concern for these priorities. 117. Nonetheless it ignored the reality of land settlement claims, announced potentially environmentally damaging construction of a Mackenzie highway and off-shore drilling without any evidence of safety guidelines.

So strong was the consensus among key government officials on the framework for northern development of energy staples which would include foreign control of resources, the primacy of exports, the consortium and Panarctic approaches, and the exclusion of public participation, that little could disuade them. Professor Law of Queen's University showed that a railroad would probably be more economically advantageous, provide multi-purpose use, less damage to the environment, less expense, and more employment.

118. Such an alternative was not to be considered seriously, however, since the Task Force sought to avoid a government-sponsored railroad competing with the industry-sponsored pipeline proposal. Even well-connected and respected economists such as John Deutsch and John Helliwell were to be undercut in their criticisms of the strategy for quick removal of the energy resources by pipeline.

Helliwell pointed out that there was no justification for an early pipeline date for Canada did not yet need the resources, but if built it should serve only Canadian markets since the reserves were not large. Minimal priorities for a national industrial strategy were not and would have to be met. This would mean revision of the land regulations to assure adequate return and gearing investment to national rather than 119. Even the Task Force's Economic Impact Committee, American needs. chaired by the Department of Finance, came forward with a report in 1972 that suggested the economy would be distorted by the size and speed of proposed pipeline construction and the resulting interest and price shifts would damage the manufacturing sector. Similarly Canadian content and control of the project would only exacerbate these problems, and neither net benefits nor job-creation could justify the course, (only two-hundred permanent jobs could be created). 120. Aside from the benefit of opinion airing that the Berger Inquiry afforded, the only shift has been to a slower momentum and an additional all-Canadian, Foothills application.

The prospect of developing the energy resources of the arctic North, an area which constitutes 40 per cent of the Canadian land mass, presented the promise for an entirely new approach to resource development. The dangers to the eco-system and to the indigenous native peoples' economy and culture, as well as the importance of reformulating continentalist Canadian-American economic and political relationships underlined the need for an innovative and initiative approach. Policy making on northern development has shown the Canadian state, and more particularly the power of the "inner circle" of federal senior bureaucrats to be directed toward maintaining the export of staples.

Instead of seizing this opportunity, we suggest, the old "ear to Washington" and to the most powerful corporate interests in the energy community prevailed once more.

By the time arctic energy became a concern of major importance in the Canadian state, twenty years of failure in Ottawa to develop the statistical and analytical capabilities or tools to plan the integration of northern energy into a national energy policy had accumulated, fostered by the ideology that big business alone had the right to provide such information. Overwhelming and systematic reliance on corporate figures and opinion has continued to bolster an increasingly symbiotic relationship between the largest energy firms and federal policy makers in the period following 1968 when pipelines for northern oil and gas were placed on the agenda.

The new bureaucratic structures of power that emerged in the handling of northern energy development have effectively eliminated either parliamentary or public debate or participation in relevant decision making. Instead these power structures have assured the continuation and further centralization of decision making based on the exclusive interaction between federal and energy multinational officials in an atmosphere of secrecy as thick as that which had characterized the formulation of the National Energy Policy in 1958 and 1961. The direction of informational input and the narrowness of interest group representation led once more to the rejection of options to create an all-inclusive policy linking energy development to industrial growth in the rational pacing and planning of Canadian energy self-sufficiency. Instead, the squandering of the most accessible as well as the most costly resources could be foreseen in the manner that continentalism

had traditionally dictated.

8.7 Labour and Technology: Social Implications of Staples Dependency

The increasing concentration and consolidation of capital in industrial staples has, we have shown, been accompanied by increasing—ly active subsidization of large—scale resource extraction on the part of the Canadian state. The more open legitimization of these two trends through the legalization of merger and the centralization of policy making, has been an important feature of the state's contemporary role. No analysis of the relationship of the state to staples dependency would be adequate, however, without comment upon the implications of such production for labour and technology. For, as one observer of forest staple production in British Columbia has suggested:

...industrial development will take place at the pace, in the form, and with the labour supplies and conditions which are most profitable to large companies, as defined by their owners and directors, and...stability will be determined by such factors as the relative profit incentives in various regions and the amortization costs of capital investments. 121.

The most important implication for labour is that the kind of resource development upon which Canada is so dependent is based on monopoly rather than competition. Thus, while the economy is organized around private and public monopolies, labour functions in a competitive market. Not only is staple production by definition geared to external market conditions, but regional disparities are accentuated by the creation of vulnerable labour pools and fragile community structures dependent on a few large industrial firms.

It is not the firms' ability to pay that determines the conditions of employment and wages so much as their willingness to do so based

on the relative costs of capital and labour. We have indicated the state subsidizes in a variety of ways the costs of capital. As these firms increase their control of capital they tend to mechanize and automate in order to increase their control over the labour process and hence both the relative cost of labour and the ability to dispense with larger and larger portions of the skilled labour pool that is the most expensive. Conflict thus arises between the goals of capital accumulation in capital-intensive resources and the legitimation of this type of economy via the creation of balanced employment. An important feature deserving further study is the kind of "buffering" the state may perform to lessen the impact of class and nationalist social conflict attendant upon this basic contradiction. Our own reading of the available material suggests that the impact of capitalization has been earliest and greatest in the energy staple. Recently its effects in the mining staple have made substantial inroads on the amount and conditions of labour. While in the forest industry the effects have been more gradual, they have affected regional employment on a larger scale, since the latter has been a traditionally high employment sector. In all three sectors the effects on labour appear to be de-skilling and attrition of employment; however, big projects tend to transform independent commodity producers into a lumpenproletariat rather than a wage labour force since such projects hire on a massive scale only in the construction phase and disrupt native economies of a pre-capitalist nature. As other petty commodity forms of employment are increasingly eliminated by corporate capitalist control of agriculture, fishing and pulpwood production, the general vulnerability of regional labour pools in increased, as our analysis of the

monopolization of pulpwood production has indicated. The involvement by the state in the facilitation of and equity in large-scale projects has also, as in the Syncrude case, resulted in a further restraint on labour's right to strike, thus accentuating the already vulnerable labour condition. Such cases set precedents.

With these considerations and premises in mind, we offer in the following some preliminary evidence on the extent of the impact of capitalization in the form of automation and mechanization on the three resource sectors, with the caveat that a thorough appraisal of labour and technology in staples is only beginning to attract the attention of Canadian social scientists and has not been the focus of our own research. In addition, the availability of material has been unevenly spread between the three cases and is therefore merely suggestive.

Energy

Energy corporations in Canada have for over a decade emphasized the importance of maintaining capital accumulation through the import and reinvestment of capital in capital—intensive equipment rather than through the employment of labour. They have pressured the state, therefore, to maintain an open door on foreign capital and easy removal of profits as well as to institute depletion and exploration allowances which reimburse the corporation rather than the community for the decline of a non-renewable resource. Neither Imperial nor other oil companies could use the provision of employment as leverage in dealings with state officials. It relied instead on arguments that it created "skilled" workers and a pool of branch plant managers "skilled" in

handling capital. When former Imperial executives addressed their shareholders they rationalized the lack of quantity by this supposed creation of quality employment two decades ago:

Today in your company more than one half the employees are classed as supervisory, and virtually all have very large sums of capital in plant investment entrusted to them. Thus, more than half are more or less directly employed in the management of capital. Their jobs and future well-being depend on their ability to keep that capital productive...and while our industry is an unusually heavy user of capital, a similar trend is apparent elsewhere. More and more, the well-being of the typical Canadian is becoming dependent on how well he can manage, or how well his governments allow him to manage, the capital entrusted to his care. 122.

Imperial boasted of being the leading figure in an industry leading in automation. Net investment per employee in refining, had risen from \$4,200 in 1946 to \$46,000 in 1960. The capital Imperial and other majors invested in pipelines alone placed a comfortable barrier between the companies and any damage or leverage industrial workers could bring to bear. For example, when maritime strikes occured in the industry in 1961 (including tanker strikes), the Portland Main pipeline and companies' use of their own and foreign tankers left Imperial and British American importers unscathed. In addition, worker threats to such large capital interests brought down the use of the Taft Hartley Act by the U.S. President, a valuable tool in the mining industry as well.

Mines

Capital-intensive imports maintenance and coordination of Canadian and American state surveillance of the possibility of labour unrest have long characterized the mining industry. Our own investigation of the

stockpile era has shown, for instance, that the so-called strategic nature of stockpile activity was used to rationalize passing information about possible strikes and upcoming labour arbitration in the mining industry to American state officials via the Canadian Embassy in 124. No strike contracts and "red-baiting" were addition-Washington. al tools in the hands of nickle company executives creating a more docile workforce in a traditionally militant industry, just as the creation of both public and private stockpiles lessened the potential effectiveness of strikes at home and abroad. Both 1958 and 1978 have demonstrated the corporate use of stockpiled nickel and the ability it affords in resisting labour demands. However, the control capital maintains over the use and type of technology in its operations, including the use of new means of organizing the labour process, allows for the increase of both social control and greater productivity while attrition of employment becomes a long-term trend in this as in other staples industries.

Wallace Clement has pointed to two important historical features of this trend in the mining industry. The transformation from petty commodity production to capitalist production, which occurred around the turn of the century in this industry, involved capital's gaining control over the mining product through access to land rights and the contracting of labour. More recently there has been a transformation involving large amounts of capitalization in a drive toward internationalization, diversification, and infusion of technology. The latter trend has been characterized by mechanization of underground operations and automation of surface plants with the attendant reduction of the amount

of direct labour required, narrowing of the jobs involved, and removal of both skill and control from the worker. 125. Much the same features have characterized the pulp and paper industry, as our analysis in the next section shows. In the mining industry, however, the inability of management to supervise workers at great depths in more than a cursory fashion led them to maintain another form of control, the "bonus" or "incentive" system. In contrast, within the pulp and paper industry, the correlate to the bonus was the piece-rate system and the continuation of a contracting-out system of hiring. Now that mechanization of extractive phases in both industries is in progress, the hourly wage system increasingly replaces both of these. Thus stability of less-skilled and less numerous workers is in this sense a resultant. At the same time, productivity increases geometrically.

Falconbridge managed to expand its production capacity from 30 million to 50 million pounds between 1952 and 1958, proceeding to tighten social controls over its labour force while increasing man-hour output and profits. In 1953 it revised its piece-rate incentive system by hiring an American consulting firm to institute Taylorist scientific management for more "efficient" use of manpower and greater operational and cost-controls over labour. It removed worker control over pacing and output by creating a bonus system using percentages of individual hourly rates (ascertained by the consultants), thus surmounting the amenability of the piece-rate system to covert worker definition of safe and reasonable work speeds. The company boasted that this increased supervision and control, resulted in both "tangible savings...which more than justify the increase in costs...of the programme", and helped

keep the no-strike record between 1944 and 1959 - the most profitable period in Falconbridge history.

In INCO, Canada's largest mining company, the net effect of mechanization in underground and automation in surface operations has been a reduction in the number of workers. The size of local unions has decreased substantially since 1972: from 2,800 to 750 at Local 6200 in Port Colborne, from 18,500 to 11,100 at Local 6500 in Sudbury, and from 2,910 to 2,250 workers at Local 6166 in Thompson, Manitoba. Automation has meant workers no longer control machinery but rather monitor equipment and make repairs. The cost of INCO labour varies from less than 40 per cent in the most to over 70 per cent in the least mechanized mines. In the metal mining industry as a whole, the output of ore has increased by more than 114 per cent and its value by more than 158 per cent, while the labour force has grown by only 15 per cent between 1964 and 1973. Thus, measured in 1961 dollars, each miner that accounted for \$54,000 in capital at the beginning of that period accounted for \$88,000 in capital by 1973. The combination of this strategy in the use of technology and INCO's movement abroad to utilize cheaper and more docile labour forces in Guatemala and Indonesis demonstrates not only the power such mining corporations have to shape the Canadian labour force but also the decreasing benefit to mining communities that single industry development means for the future.

Forests

The same use of technology by capital to control labour costs and productive processes is evident in the forest industry. As the woodlands sections of operations are mechanized, the statistical attrition of the lumberjack lays to rest the romantic Canadian myth of

independent forest work. 128. Mechanization of logging sectors of the pulp and paper industry has caused employment to decline in the 1950's and 1960's with relatively little social conflict resulting because of the following characteristics of the labour force.

- (1) While unionization was beginning among mill workers as early as 1910, it did not become an important threat for companies' woodland sections until the 1950's.
- (2) Not until the 1950's did cheaper wood and newsprint from the South of the United States threaten Canadian production. Techniques for using Southern Pine were commercially feasible by the 1940's and this combined with cheap Black labour, faster tree growth, and the ability to make better use of mechanized harvesters in Southern woodlands, made Canadian executives seek to rationalize the woodlands sections of operations.

These two threats were envisioned earlier by industry planners, however, and efforts to research and develop mechanization of the woodlands operations to cut labour costs had already begun with the first C.P.P.A. industry-wide conferences.

(3) The exploitative and isolated nature of the logging camp system and the historical use of small-time farmers or immigrants as seasonal employees meant labour-turnover was the highest of any industrial occupation and labour solidarity the lowest.

Thus, direct confrontation was unnecessary in dismantling the labour force through "silent firings" coupled with mechanization.

The role of the state in maintaining employment in this industry
has taken the passive form of commissioning Manpower studies of the
projected effects of mechanization and the possible consequent retraining

requirements. Since capital's basic right to control and mechanize its operations is inherent in its right to private property, the only contradiction for the state occurs when labour is sufficiently organized to bring the conflict to a crisis. The state's historical role in allocating and regulating the use of timberlands, in regulating monopoly and company towns or camps has ranged from passive to collaborative with capital. In allowing companies to exclude union-izers from Canadian logging camps it retarded the growth of union organization sufficiently to make resistance to mechanization unlikely.

As a census group loggers have the lowest levels of formal education, 79 to 87 per cent in Ontario, Quebec, New Brunswick, and Newfoundland, having less than a high school education. Education levels are lower than those of all major occupational groups including farmers and unskilled workers. Loggers are also comparatively younger and often differ by ethnic background from other workers. In eastern Canada, 70 per cent of them are French and 20 per cent British. In Ontario, they are most likely to be recent immigrants who lack training and fall into this low-status, low-pay, physically wearing and isolating, unskilled "profession" of the hinterland areas. Its decline through mechanization will thus hit the most vulnerable workers and areas of the country, already heavily underdeveloped by the process of capital and job exportation that resource industries have brought.

The most "efficient" way for Canadian companies to reduce costs was through greater capital intensification in the way of technology imported from the United States which would eliminate reliance on independent loggers who retained a certain amount of autonomy over their work (and its cost) because of learned skills and their geographic

removal from the locus of decision making. Various kinds of large-scale equipment such as tree harvesters have aided monopoly capital's struggle to control the labour process, to rationalize it and to eliminate the "risks" involved in relying on labour intensity—this time at the extractive end of the industry as opposed to the buying of pulpwood.

By 1952 production of pulpwood in the south of the United States surpassed Canadian production and moved to 25,000,000 units compared with 15,000,000 in Canada, by 1965. 130. Logging production had begun to shift after World War Two from reliance on axes. handsaws, horses, and water transport to greater reliance on early forms of mechanization such as power saws, wheeled skidders and caterpiller tractors and trucks for transport to ships, mills, or railroads. By 1965, about 25 per cent of all Canadian pulpwood was transported by truck to mill sites. These shifts have been part of the trend in reducing the need for human labour power. Employment on company limits east of the Rockies fell from 2.9 million man-weeks in 1951-52 to 1.4 million man-weeks in 1964-65, bringing about significant drops in the cost of pulpwood relative to other goods and services.

In the 1960's considerable sums of money were invested in research to further mechanize logging methods, again drastically reducing labour requirements. Their greatest impact is on the pulpwood cutter, already the least secure of industry employees, subject to indirect impacts of plant shut-downs, direct mechanization in his own occupation, and one of the least likely to be mobile into other industrialized jobs, since his average skill and education level is very low.

For the eastern Canadian pulpwood logging industry in general, the total number of non-office employees has dropped from 58,004 to 31,323 between 1956 and 1965, eliminating 26,681 jobs. Of these, 21,520 were lost to productive workers as opposed to service workers. The impact was strongest on pulpwood cutters, whose numbers were reduced by 16,123 jobs. (See Table XXXII on the occupational structure).

The two areas hardest hit have been the traditional strongholds of the newsprint industry in North America, Ontario and Quebec. Numbers of non-office employees in Quebec were slashed by more than half between 1956 and 1965, shifting from 37,149 to 16,294. Again the greatest impact was in productive workers (28,175 to 11,949 strong), despite the fact their proportion of the occupation structure remained at 75 per cent during this period. Nor has the attrition of maintenance and service personnel (from 3,578 to 1,503) affected their relative proportion in the logging industry's occupational structure. Pulpwood cutters, the largest category (54 per cent) of non-office employees, sustained the greatest decline in numbers, shifting from 19,867 employees in 1956 to 8,791 in 1965. Thus, about four-fifths of the employment drop was in production workers and about five-eighths was in pulpwood cutters proper. The same pattern occurred in Ontario over the same period. Total job loss among non-office workers was 5,233 (moving from 11,851 to 6,618 employees) and of these, 3,742 jobs were lost in the 133. pulpwood cutting occupational category.

Further reductions in pulpwood cutters' numbers have been predicted for the 1970's and 1980's by the Department of Manpower and Immigration as a consequence of the introductions in the 1960's and 1970's of newer types of machinery in tree-harvesting. Meanwhile, workers

TABLE XXX11:

Occupational Structure of the Pulpwood Logging

Industry in Eastern Canada 1 (Selected Years: 1956, 1960, 1965)

Occupation	1956		1960	en and the transfer and the	1965		Job Loss (or *)
Total Non-Office Employees	58,004	100.0%	46,642	100.0%	31,323	100.0%	26,681
Production Workers	43,861	75.6	31,964	68.7	22,341	71.3	21,520
2 3Pulpwood Cutter 3Pulpwood Cutter Log Heavy Light Tractor Driver Teamster Scaler Loader 4Roadman/Swamper Labourer	32,908 1,616 1,616 - 946 4,099 355 1,012 2,925	56.7 2.8 2.8 - 1.6 7.1 0.6 1.7 5.0	24,234 1,720 1,561 95 64 924 2,741 361 785 1,199	52.0 3.7 3.4 0.2 0.1 2.0 5.9 0.8 1.7 2.6	16,785 1,337 981 326 30 1,596 567 589 459 696 312	53.6 4.3 3.1 1.1 0.1 5.1 1.8 1.9 1.4 2.2 1.0	16,123 279 - * 650 3,532 * 234 553 2,229 * 312
Maintenance/Service Personnel Cook/Choreboy Mechanic Labourer Other Unspecified Occupations	5,677 3,676 506 - 1,495 8,466	9.8 6.3 0.9 - 2.6	4,703 1,860 396 1,531 916	10.1 4.0 0.8 3.3 2.0	2,875 1,314 480 654 427 6,107	9.2 4.2 1.5 2.1 1.4	2,802 2,362 26 * 654 1,068 2,359

TABLE XXX11 (Cont'd.)

Source: Canada Department of Labour Economics and Research Branch,
Returns to Wage Rates, Salaries, and Hours of Labour Survey,
1956-1965.

Notes: All "job loss" figures are negative statistics unless preceded by *.

- 1) Includes Newfoundland, New Brunswick, Quebec, and Ontario.
- 2) Includes Choppers and Cutters.
- 3) From 1956 to 1959, only "log truck driver" was noted statistically.
- 4) From 1956 to 1959, "labourer" was not used. In 1960, "general labourer" was used under non-production labourers. Watchman and cleaner are included in service labourers.
- 5) Includes blacksmith, carpenter, electrician, handyman, machinist, sawfiler, and welder all <u>skilled</u> craft-like jobs.
- 6) From 1960 to 1965, this residual category includes probationary, temporary, and part-time employees, learner, apprentice, beginner, and trainee for any job. For all years the following are included: supervisory personnel, female employees, mechanical pulp harvester operators, skidder operators (when not put into the "tractor driver" category, power truckers, and grader operators.

are increasingly commuting to work or being maintained by paid food services, so semi-skilled or unskilled jobs like "cook" or "choreboy" are being eliminated. Similarly, skilled jobs like welders, filers, smiths, carpenters, etc., no longer are demanded and fewer mechanics will be required.

The fact of such attrition in the logging labour force is not attributable to labour turnover. That the attrition has not been combatable by the work force is a feature of such turnover, however. In the postwar period, forestry has had seven times higher turnover than in construction, a particularly high turnover occupation. Turnover has been intra-industry to a large extent, but the lower turnover rates in other industries, both absolutely and increasingly, mean many

more loggers will be joining the ranks of the unemployed than in the past. Since turnover has been highest in Quebec and lowest in Ontario and the Prairies, Quebec loggers are the likeliest eastern candidates. 134. There would have been an estimated drop of 13,000 woodcutting jobs and 2,400 other logging jobs between 1965 and 1975 in Eastern Canada. This estimate was directly related to the diffusion time required (about 9 to 10 years) for the newer equipment being tested on company limits by pulp and paper companies in the early 1960's.

The crown limits of large integrated companies account for at least two-thirds of the pulpwood production east of the Rockies. Smaller individual producers are not likely to have the necessary capital available to use the newer harvesting equipment which ranges from \$85,000 for the Arbomatic harvester to millions of dollars for chipwood pipeline systems. Aside from the hundred or so pulpwood cooperatives affiliated with the Union Catholique des Cultivateurs in Quebec, other producers are not only small but entirely unorganized. 135. Since 75 per cent of pulpwood production and one quarter of paper costs occur in woodland operations, this has been the focus of mechanization which increased four-fold between 1950 and 1960.

Appendix A 9 summarizes the types of equipment recently adopted in woodland operations, indicating that reduction of over 72 per cent of wood cutting labour can be achieved through mechanization. Appendix A 10 estimates the general displacement effects of technology on forest staple labour. Each immovation discussed is designed to decrease the number of functions and the mobility of the woodcutter, hence alienating him even more than woods isolation did in the past. The number of supervisors would not be reduced, however, and might even increase.

Though diffusion depends on such variables as firms size, profitability, and growth rate or liquidity of individual firms, once a few competitors begin using equipment, the "bandwagon effect" takes over. However, the presence or absence of political, economic, or social pressures on the industry to introduce or refrain from introducing labour-saving equipment is crucial. As we have seen, restraining factors of this sort are absent.

While the preceding evidence focuses on the eastern Canadian portion of the forest staple, Patricia Marchak's study of the British Columbia sector demonstrates similar attrition of employment there. She concludes that the expansion of a staples industry does not provide increasing employment opportunities. On the contrary, employment not only decreases relative to production rates, but decreases absolutely in some regions where logging and sawmilling are important activities. This insecurity of employment is heightened by dependency on export markets and the possible periods of depression this can bring to forest staple communities so lacking in self-sufficiency. Again, stability of employment, the conditions of work and the nature of the labour force vary with the technical stage of the industry which employers shape by trading off high turn-over, non-continuous labour for declining but salaried, long-term employees. An unstable labour force is still advantageous to a number of resource, transportation and construction industries in British Columbia, however, for it provides a geographically mobile pool of labour whose livelihood can be insured 137. if need be by the state.

8.8 Conclusions

Our argument in this chapter has been that state policies set during the formative stages of mining, forest, and energy resource development had inherent in them four characteristics: the facilitation of capital concentration and the continuation of reliance on external market and capital dependency; the subsidization of resource development by all levels of state; increasingly centralized decision-making involving industry-state cooperation; and a decreasing emphasis on both large-scale employment and the manufacturing condition.

These policies are now manifest in large-scale projects involving consortia of the dominant companies within each resource. Through generous land permit, royalty, and tax regulation as well as through loans and equity participation, the state's "accumulation" role has been particularly active in such projects at the international as well as the local level. The state's "legitimation" role has expanded to include ideological justification of the sort of monopolistic mergers which have linked the largest resource firms in inter-industry agglomeration.

Mechanization and automation combined with internationalization and diversification of capital formation are the major components of large firms' contemporary capital accumulation plans. For workers and resource communities, the control the largest corporations exert over technology has meant further insecurity about the terms and quantity of employment. The creation of "Canadian" multinationals has not become part of a strategy which rejects the continental pattern of resource capitalism for a plan to link resources to national industrial development.

Rather, state officials continue to service a strategy of development which puts macro decisions in the hands of monopolistic corporations with little or no attempt to create alternatives to corporate information. Thus, resources are extracted when, where, with whatever degree of mechanization or automation, and to whichever markets capital agrees.

Our analysis of state policy involving large-scale resource projects indicates that subordination to foreign capital's plans has been the result not of inexperience, ignorance, nor the chicanery of a few public officials. Rather, it emanates from a shared ideology and the creation of exclusive decision-making structures between key state and industry officials. This actively and effectively eliminates alternatives and critical public review. Such a stance on the part of the state brings to the fore serious questions regarding the nature of state autonomy in semi-industrial resource-producing countries which we will address in greater depth in the concluding chapter.

CHAPTER NINE

CONCLUSION: THE DYNAMIC OF STATE FACILITATION

OF NEW STAPLES DEPENDENCY

9.1 Social Forces of Dependency: A Critical Assessment of Staples Theory

The "indigenous" staples theory and neo-Marxist dependency theories were examined for their particular relevance to the Canadian case and to the scope of our undertaking. Like Harold Innis, the Canadian historian who first characterized Canada's position in the world system as a staples producer for industrial markets, we have suggested that the major thrust of postwar development in Canada has remained the extraction and sale of industrial resources in raw or semi-finished form. These have been, however, staples of a new sort. Many of the same economic vulnerabilities and distortions which Innis attributed to early staples dependency we have found to be present in Canada's contemporary dependent development. It is still a supply area subject to the directing forces of external control. We suggest, however, that the dynamic of his analysis and its explanatory capacity inadequately describe the how and why of Canadian industrial resource policy and dependency in the second half of the twentieth century. For today the state, the multinational, and increased capital-intensive technology are brought to bear on the development of Canadian energy, mine and forest staples in a consistent and complexly articulated continental strategy of growth. Canada now has a semi-industrial status in the world system. It is no longer a political and economic appendage of the British empire. Its state is politically "technically" autonomous. Like other capitalist states, the Canadian state is highly interventionist in the economy, particularly in the planning and affecting of growth strategy, as

in the facilitation of capital accumulation in productive sectors.

Canada has neo-colonial characteristics, however. It shares with neo-colonies a lack of "effective autonomy" over the direction of its development. We can not attribute this lack to its fate as a "new country", to the nature of its raw materials, to the mystical "pull of markets", nor to the coercion of an occupying power, as Harold Innis seems to have done. The dynamic, we have argued, is internal to the state and the classes it represents.

Innis' historical description and analysis of the production and sale of early staples lacked an appreciation of the dynamic social relations of power that sustain such production. Hence, his approach described but failed to explain Canada's continued dependency on staple exports after political independence. Donald Creighton, Tom Naylor, and Wallace Clement have argued that Canada's early bourgeoisie favoured the continuation of staples export. Unlike a coerced colony in a mercantile empire, the bourgeoisie of the post-Confederation Canadian state complied in sustaining the social, political, and economic conditions for staples extraction and export. These conditions included the welcoming of foreign capital in staples and manufactures, the extension of canals and railways, and an open door to immigration and to capital intensive technological goods. The state underwrote much of economic life. Though the benefits of such a development strategy were socially and regionally unequal, Innis failed to locate their imposition in the class composition of the state and its resulting policies. Such state activities are not, in the Innis model, linked to class, corporate, or social power. "Neutral" state decisions are simply assumed to

have facilitated staples production and export. We have no analysis, then of the socio-political dynamic of staples production attendant on the creation of a liberal democratic state, independent of the "mother country". Instead the geophysical characteristics of the staples are claimed to "require" foreign capital and technology, a certain kind of labour force, or "call forth" a particular transport infrastructure.

The "motor force" of Innis' analysis has external and internal components which we have found essential to a contemporary theory of the state and staples. He characterized the external force as the "market pull" of advanced industrial nations on staples. The internal force he assumed to be an inanimate potential or the physical character of the staple itself, which sufficient infusions of capital and technology would extract. It is the socio-political which links these two in a pattern of development, we suggest, through the control of every state over capital and technology import and the legitimation every state must maintain in its institutionalization of policy. For Innis, the social actors remain mute, disembodied from the logic of profit or its translation into political power. To make such a translation is, for Innis, to introduce "bias", to impute "predatory instincts" to humankind-- in brief, to introduce what he called "moral" questions. His approach, therefore, eliminated the crucial social analysis necessary to avoid mechanical, if liberal, economic determinism on the one hand and naive idealism on the other. The "nation" is both anthropomorphized and seen as a monolith. At the centre a "nation" "requires" fueling by staples. At the margin it suffers from staples "addiction". Contradictory social interests within the nation as a state are not addressed hor translated into the contributory elements of what

must be recognized as a value-laden state policy of resource development of a capitalist type.

Innis could not posit the "interested" or class nature of capitalist production, and hence of state intervention in it, because he neither
saw capitalist production as imposed by a particular class, nor as one
among many alternative systems of development. The organization of the
rights of private accumulation of capital is thus implicit rather than
explicit in his model. The state's role in sustaining these rights and in
subsidizing and facilitating private appropriation of surplus created and
realized in staples production is neither part of his problematic nor
viewed as a variable feature over time.

Innis situated the dependent nature of Canadian staples production in a world system characterized by an "imperialism" which he could only recognize in cultural and military form. Thus, his analysis failed to locate the motor force behind imperialism in the realm of the social relations of production, and more particularly, in the class interests behind state policies of development.

It is at this juncture that nec-Marxist dependency theories and those analyzing the contempory roles of the capitalist state allow for a reformulation of staples theory. Because the political economy of Canada is to a great extent still circumscribed by dependency on staples production, Innis' work has provided the initial focus needed in such an analysis. We began, therefore, with those sectors of the economy that continue to generate the greatest wealth, industrial staples. The state's role in maintaining resource-dependent growth must be situated in the staple mode of production, whose characteristics can be summarized by

reformulating important aspects of both staples and dependency theory:

- 1) Commercialism and commercial relations predominate rather than industrial relations
- 2) Resource development is based on monopoly rather than on competition.
- 3) Transportation links the domestic market to the imperial centre.
- 4) The domestic market is controlled by foreign capital and branch plants.
- 5) Labour functions in a competitive market in an economy organized around public and private monopolies.
- 6) The resource-financial-transportation bourgeoisie are the dynamic or dominant capitalists controlling the state and capital accumulation.
- 7) The state underwrites economic life in the absence of a strong indigenous industrial bourgeoisie and on behalf of the 'dynamic' capitalists.
- 8) The rate of capital accumulation is high, but the economy suffers chronic capital shortages due to constant outflow of profits and dividends and massive capital expenditures required for resource projects.
- 9) The neo-classical instruments of growth (the tariff, resource exports, technology transfers, foreign investment) function as disequilibrium agents.
- 10)Staple-based growth accentuates regional disparities and undermines the structures of a national economy, forcing the economy in a continental direction (or satellite pattern) of renewed dependency. 1.

Industrial staples production is linked in a vulnerable fashion to external industrial markets by the organization and control of both capital and technology which extend from the same markets. Such linkages are institutionally maintained by the multinational enterprise, trade associations representing these and other corporations, and by state policy-making and legitimating agencies and industry-state forums at the national and

international levels. With the internationalization of capital in its increasingly concentrated form, the multinational increasingly dominates Canadian state policies of resource development calling for subsidization and state legitimation of a model of large-scale, private, capital accumulation which creates uneven development. Alternative development strategies are eliminated structurally by the exclusive representation of these interests in the domestic and international sphere.

We have had to go beyond Innis' historical description of the material (minus the social) forces of staples production. This has meant questioning as well the liberal model of the socially and politically "neutral" state which operates with complete autonomy from economic interests, and which Innis incorporated by default. To explain both the existence of socio-political choices in development and their systematic elimination in the articulation of a consistent policy of continental industrial resource dependency, we assumed a model of the state that features active intervention on behalf of the bourgeoisie, as well as relative autonomy from particular fractions of the bourgeoisie. The state's activities do become crucial in the social and economic organization of staples production, especially in the monopoly capital phase. However, the nature of the "relative autonomy" assumed to be characteristic of all modern capitalist states by neo-Marxists of the structuralist school is, we have found, seriously circumscribed by the dependent nature of Canadian staples development in the continental context.

9.2 Canadian Organization of Capital Accumulation and Dependency

As a semi-industrial nation within the world capitalist system,

Canada's potential for balanced economic growth with dynamic technology-

generating capacity and employment-producing manufacturing sectors has been increasingly limited by the way capital and technology are accumulated and organized internationally. Canada's once political and economic dependency on the British empire has been transformed into a new kind of economic dependency within spheres of U.S. political, economic and military influence. The nature of the Canadian state's autonomy qua sovereignty is thus severely limited by the internationalization of capital, and its organization in the multinational corporation. This organization can mobilize resources, capital, and processing across international boundaries in such a way as to limit the ability of any state to maintain processing and employment within its jurisdiction. More specifically, a state which legitimates foreign and monopolistic private accumulation, control and free extraction of capital and technology across its borders exacerbates the dependency of its economy on external forces. The Canadian state has not only legitimated such terms of production but has abdicated the use of restraint on foreign access to indigenous public resources. It has allowed domestic capital to be consolidated or bought out.

The organization and progressive centralization and consolidation of capital results in deep social inequalities and "irrationalities" such as: uneven regional development, insecurity of employment, capital drains out of resource-dependent regions and the nation generally, and centralization of decision-making both in head offices and the upper echelons of the state. Social groups that represent the recipients of such inequality do not receive the same kind of access that such executives are accorded. The benefits of resource production for international markets become increasingly unequally distributed both within and between nation states and within and between the classes reflected in these states. This is

congruent with the nature of "dependency" as the concept is used by its most coherent theorists.

The internationalization of capital in the twentieth century has increasingly direct impact on the productive resource and manufacturing sectors of the Canadian economy as demonstrated in the magnitude and direction of U.S. investment by Canadian social scientists such as Aitken, Reynolds, Rosenbluth, Clement, and Marchak. These have shown that the multinational accomplishes the spread in Canada of vertical and horizontal integration and monopolization within and between resource industries. Those enterprises with local or national bases may come into contradiction with the international interests of multinationals. However, the most important consequence for Canadian development is that the control of resources is exercised increasingly across borders and increasingly monopolistically in the North American continental context. Within both the United States and Canada, we have discovered occasional contradictory interests and splits along monopolistic versus competitive corporate lines in the three resource sectors. These reflect, we suggest, an uneven transition to the monopoly phase of capitalism.

Such general transnational features of capitalist development, we suggest, impinge on and shape the internal socio-political articulation of Canadian development policy. "External" as well as "internal" transitions in the way capital is socially organized are mediated in class interests which become filtered through the distorting lens of unequal representation of the social interest of "the nation" within the Canadian state.

9.3 Capital Interests Reflected in the Canadian State

The socio-economic power of the capitalist class in Canada has been described by Tom Naylor, Wallace Clement, and Jorge Niosi as based on a mixture of Canadian and foreign (particularly American) capitals whose interests are visible in dominant and subordinate enterprises of a multinational branch plant or independent, indigenous type. Such interests, we suggest, are registered at the very heart of the Canadian state's decision-making bodies, within the plethora of industry-government committees, ad hoc forums (domestic and international), and whose experts formulate the general outlines and conditions of resource development. Resource policy is most often made outside the halls of Parliament and away from the scrutiny of public debate, as our examination of the correspondence between senior bureaucrats, dominant resource company officials, and trade association spokesmen demonstrates.

While allegiances of owners and controllers of multinational resource firms have been characterized by some dependency theorists as "trans-national", such firms actually exert substantial political influence in both their home states and those in which they operate abroad. Without the legal maintenance of conditions favourable to private capital accumulation and particularly profit repatriation, such firms could not operate as they do. An essential hypothesis of our thesis concerned, therefore, the relationship of the Canadian state to such firms. Given the increasing prominence of large-scale, vertically-integrated firms in resources, the Canadian state would tend to foster the conditions for their growth within the Canadian economy, whether these leading firms were "foreign" or "Canadian". In addition,

the Canadian state would make fewer attempts to maintain the legitimation of small firm competition in access to resources and profit. Instead the state would subsidize large-scale capital accumulation, frequently at the expense of small-scale, domestic accumulation by non-integrated resource firms. It is in this conflict-laden process of capital concentration into larger and more powerful monopolistic enterprises that the question of the state's supposed "relative autonomy" from particular classes or class fractions can be addressed meaningfully.

We have found that "American" multinationals can exercise hegemony in both the U.S. and Canadian states. For, in the postwar period studied, the following "external" features had substantial impact on the paramaters of their power in Canadian policy: increasing U.S. direct investment in Canadian industrial resources; greater U.S. concern at official state levels for building continental and "free world" defense preparedness; and the development of U.S. policies directed toward increasingly active state intervention at home and abroad which would tend to further large-scale capital accumulation in industrial resources. These aims militated against the development in Canada (as elsewhere) of a nationalist or protectionist economic strategy. Since the United States constituted the major market for and investor in Canadian industrial resources, we examined how American foreign and domestic policy shaped Canadian resource policy and development -- or how the Canadian state's resource policies reflected a bias toward American markets and capital.

International and national capitalists have both differing

degrees of economic strength (involving capital and market access as well as vertical and horizontal integration) and of political effectiveness based on the former and on unequal access to representation in the state. Similarly their strength and influence may vary at the federal, provincial, and municipal levels. In terms of general development policy involving all industrial resources studied, we have found the federal level to be crucial, despite significant de jure control by provinces over resources and the increasingly important role of provincial governments in subsidizing the development of industrial resources. The representation of capital at the federal levels of decision making is thus crucial in our analysis of postwar resource policy, for here both domestic and continental spheres of influence meet and foreign policy is launched. Continental resource forums and federal bureaucrats link major federal policies to U.S. policies of resource development.

Just as the transportation and communication grid has been reoriented in a North-South direction, linking Canadian resource extraction to U.S. markets, processing, and manufacturing, so the line of political command has been blurred between the American and Canadian states where industrial resources are concerned. A "national" policy premised upon the unimpeded flow of American capital into Canadian resources and the latter's export without damage to U.S. manufacturing resulted. The lack of control exerted on monopoly in Canadian productive spheres also underlined the alliance between those capitalists in the largest and most monopolized sectors of resources and the Canadian state. The link binding the two states was thus the strongest sector of the North American capitalist class.

9.4 The New Staples Case Studies

Forest, mine, and energy staples were chosen as the focus for archival research, since these present the breadth of new staple exports in the postwar period in terms of the timing of their appearance as staples, the direction of their market integration, and the amount and type of capital concentration involved in each. They all require an industrial labour force. They differ from the "old" commercial staples of a mercantile period described by Innis. New staples have predominantly U.S. industrial markets, involve capital-intensive extraction and higher levels of technology in their processing and use than old staples did. Mine and forest staples, for example, have relied on the development of hydro, and all three resource operations are increasingly mechanized and automated. Not only the source, but the type of investment in these resources has shifted as corporate capitalism has gradually replaced both mercantile and competitive capitalism, and with it portfolio investment is replaced by direct, controlling investment. In the most recently developed industrial staples the amount of U.S. controlling investment is highest. Our choice of specific cases reflects this variance and transition. All three contribute extensively to Canadian exports and leave the country in raw or semi-finished form. A high degree of capital concentration increasingly characterizes all three, though this feature is not clearly accounted for by cross-the-board industry statistics, and the degree of concentration has been correlated by observers with the degree of foreign control. Both features are higher for mine and energy and lower for forest staples. Though newsprint, oil and gas, and nickel represent a mix of geographic producing regions, our analysis

and choice was not based on the geophysical characteristics of these resources, but on the institutional roles of the state as an instrument of the dominant social forces that have shaped their development within the continental and international contexts.

We have assembled a variety of types of evidence to support our contention that the Canadian state facilitated large firm capital accumulation on a continental basis and undertook its ideological legitimation in all three resource sectors. A "pragmatic" ideological perspective which favours the survival and expansion of multinationals in Canadian resource development appears to be present among state policy makers for the following reasons:

- Multinational firms are better equipped to back up threats of capital strikes if state policy fails to create a favourable climate for their investment.
- 2) Officials believe large firms assure production and price "stability", while small competitive firms of a "competitive" nature are thought to cause prices to decline and surplus capacity to increase.
- 3) Officials accept the notion that since resource multinationals have greater control over markets, capital, and technology, they will assure access of Canadian resources or manufactures to foreign markets.
- 4) Officials in key positions are more frequently in contact with and more sympathetic to large firm executives. Privileged access to state power allows such large firms to "define the situation". They shape state policy on the most basic conditions of capital accumulation and on the wisdom of resource export.

This structured bias toward the most monopolistic firms in resource industries casts doubt on the notion that the Canadian state carries out the averaged demands of a broad cross-section of society or even of particular industries. The tendency to represent effectively the will of a particular subsection of the capital interests in resource industries is linked to the strong impact of American policy on these industries. U.S. policies in the postwar period tended to favour the most monopolistic and multinational firms as well. The following three sections summarize some of the evidence we have used to support this interpretation of the state's relationship to staples production.

9.5 The Canadian State and Large-Scale Capital Accumulation in Resources

The Forest Staple

Canadian state policies directly and indirectly facilitated capital accumulation in the largest firms of the forest industry in the postwar period. The newsprint producers were allowed, indeed encouraged, to collude in selectively supplying the largest newspaper chains in the United States and to link themselves to these by vertical integration and long-term contracts. Officials knew contract prices were frequently dictated by the largest U.S. newsprint company, International Paper. Its Canadian subsidiary, C.I.P., continued to lead in the maintenance of international cartels and in the consolidation of newsprint and nonnewsprint products at home. The Canadian state never investigated such practices involving differential customer treatment; however, as antitrust inquiries continued in the United States, it systematically aided newsprint executives and trade association officials in their resistance

to these onslaughts.

Secondly, the pulp, paper, and newsprint trade associations frequently doubled as international cartel-maintaining agencies. In concert with federal bureaucrats, their executives monopolized and secreted production statistics to keep European producers from having access to information which the latter were asked to provide to international raw materials forums. Both federal and provincial governments justified price and production zoning and fixing, at times participating in these practices to control glut they attributed to competition. In reality, large integrated firms tended to foster glut through the introduction of capital-intensive technology that built excess capacity into plants. Large firms were better able to utilize excess industry capacity in this, as in other resources, to harm or buy out small competitive firms. Federal bureaucrats even backed Canadian multinational's objections to the use of smaller scale plants in Europe, compiling economic reports that called the practice "inefficient". The state acted as handmaiden to the largest companies in the international context.

Two important ideological frameworks aided the Canadian state in sustaining big firms. Cold War ideology about the threat of communism to freedom of the press and free enterprise generally served to excuse close industry-government cooperation, and Keynesian notions of the need in modern economies for state intervention served to justify such collusion. These ideological bases served to legitimate the state's role in furthering the market access of the largest firms in both the continental and international contexts. To achieve this, the federal bureaucrats encouraged exclusive access by large firms to U.N.

and other international industry committees such as the OEEC and OECD, as well as the production-allocating IMC, where world marketing and supply allocation was shaped by Cold War interventionist policies. The newsprint staple became the ideological wedge for expansion by North American capital into European and Third World markets. Large North American newsprint suppliers received substantial political aid in expanding foreign markets through these international forums where "emergency" newsprint was supplied to governments undergoing elections or supposedly threatened by nationalist or communist parties. No such special access or representation was afforded small firms at home or abroad. Indeed small paper firms were not even approached.

Both the small Canadian pulpwood producer and the small U.S. newspaper (as well as many foreign newspapers) declined as a result of the consolidation of markets and access to pulpwood that monopolistic practices allowed in the pulp and paper industry. The new Keynesian interventionist state model ideologically supported not only the extension of monopoly but its increasingly active facilitation by the state. In protecting this structure against U.S. anti-trust, industry and state officials in fact referred to the justification this newly conceived state role afforded.

In the 1960's and 1970's, the pulp and paper industry has undergone substantial concentration and consolidation of capital. Merger and acquisition characterized non-newsprint as well as newsprint sectors. Both agglomeration in holding companies and cross-industry linking of pulp and paper corporations to both mine and energy firms has occurred. Much of the agglomeration is accounted for by C.P. Investments, Power,

and Argus corporations. The last two's proposed merger was the pretext for the Bryce Commission's justification of greater concentration in this and other Canadian industries, providing official legitimation for this trend.

Financial subsidization by all state levels has characterized the development of the forest staple in the postwar period, but particularly in contemporary large-project and joint venture exploitation. The latter international ventures involve substantial equity control by international capital linking Canadian production to European and Japanese markets. Such projects have frequently meant less processing of the product in Canada and greater importation of capital-intensive equipment as well as skilled labour. Canadian federal, provincial, and municipal governments have granted bonuses, loans, guarantees, and in general built huge debt structures into such projects without even the traditional requisites or assurances of the manufacturing condition. This feature, combined with moves by big capital to mechanize and automate existing operations, presents additional threats to labour in this formerly high-employment staple. The state thus subsidizes a type of industrialization in which the traditional benefits go abroad even though markets are diversified.

The Mining Staple

Although the mining staple has traditionally exhibited more capital concentration than the forest industry, extraordinary mechanisms for furthering large-scale capital accumulation have been introduced to aid the largest firms. Stockpiling constituted one important state tool in the United States for the expansion of U.S.-linked

corporations at home and abroad. Designed to serve U.S. interests in increasing the level of resource import and domestic processing, the plan favoured large over small firms. These were indirectly aided by the Canadian state's open embrace of the strategy of increased sale of natural resources to U.S. markets of a new kind. The largest firms were selected by means of closed-bid contracts to participate in production and sale to U.S. stockpiling and defense agencies. Participating firms' productive expansion and control of markets was fostered by high government prices, easy tax and amortization schemes, generous governmental loans, and the manipulation of international credit and profit repatriation terms that such contracts facilitated.

By the mid 1960's, firms like INCO and Falconbridge had become prime movers in greater capital consolidation through international joint ventures in laterite ores and in the expansion and diversification of their resource bases at home and abroad. The ability of these firms to undertake these projects was, in large part, based on their success in stockpile-generated profits. The development of closer financial and political connections with international capital, especially in the United States, was translated into financial and political insurance for exploitation of laterite ores in "unstable" Third World countries. Corporate moves to acquire manufacturing firms and other mining companies have not been questioned or investigated by the Canadian state. On the contrary, Canadian officials have helped shore up the corporate linkages of these firms. Similarly, when U.S. anti-trust or stockpile investigation threatened to expose monopolistic practices involving these companies, Canadian officials supported the companies.

Though less dramatically than in the newsprint staple, non-integrated manufacturing firms appear to have been damaged, at least in the United States, by the official control INCO was given over international product allocation—a right which helped it to maintain monopoly control over international markets. Stockpile disposals through the same companies afforded similar leverage.

Canadian federal bureaucrats' consistent lobbying and diplomatic servicing of such companies provided a continental liaison network and tacitly recognized the right of Washington to maintain international strategies of capital accumulation despite whatever costs to these or other Canadian industrial sectors resulted. Canadian state officials arranged a series of ad hoc forums attended by a handful of mining corporations' executives to maintain a consensus among the largest corporations in the implementation of this far-reaching programme. sentiments, demands, and indeed the very words of approximately seven major mining multinationals formed the basis of Canadian representation on these matters, with INCO playing a pivotal role. The Canadian state thus legitimated the de facto exclusive representation of large mining interests in a programme which came to shape the nature of investment throughout the whole economy and in much of Canadian foreign policy dealing with metal mining trade. Beyond protecting their markets, the state facilitated their ability to generate and retain windfall profits by subsidizing the infrastructure and expansion of production in millions of dollars of foregone taxes. In their expansion abroad, the state mobilized credit to the countries penetrated. Indonesia has been a prime example of this resource-linked aid.

The Energy Staple

As in the forest and mining staples, the hegemony of internationally-integrated firms has been sustained in Canadian state energy policies. When small resource interests have conflicted with monopoly interests in the case of oil, we have demonstrated that representation within the state filters out the smaller interests. Even though lower echelon branches of the civil service, such as the Small Business Branch of Trade and Commerce, have represented small, indigenous capital, the monopoly interests of the majors have had exclusive representation in more important Canadian and American state echelons.

The Canadian state took the foundations of its National Energy Policy from the executive plan of Imperial Oil, the largest energy firm in Canada and subsidiary of Standard Oil of New Jersey, the first and largest American energy multinational. The Churchill oil import case illustrated how federal departments, branches, and supposedly "neutral" regulatory agencies such as the NEB were ordered and essentially allied with the multinational energy companies' interests.

The Canadian state subsidized the majors' capital accumulation in a variety of ways. Depletion and exploration allowances, at the bidding of Imperial, were coordinated to match the generosity of those in the United States. Most importantly, however, the acceptance of Imperial's world marketing plan reserved eastern Canadian markets for the majors' foreign oil. This provided the monopoly profits that allowed majors to threaten western independent producers with 50 per cent shut—in capacity and in many cases bankruptcy. It was the material basis for the majors' integration from distribution back into

domestic refining, pipelines, and production. American capital imported into the energy sector moved — to buy out small Canadian producers that were starved for markets and to gain control of choice energy leases. The majors thus gained control over the distribution systems that led Canadian oil into U.S. markets in the 1960's and monopolized the more lucrative petrochemical and refining ends of the industry. Such a position of strength made them the almost uncontended applicants in the drive to exploit tar sand and arctic oil and gas in the 1970's. Their strength rested not only on their pre-War international cartel but on their almost exclusive representation within the Canadian-American policy-making forums affecting energy development. This political access was achieved at the direct expense of both Canadian and American independent producers, who, though more numerous, were all but ignored in the formulation of long-range policies.

The articulation of Imperial's national energy policy was reinforced by a <u>quid pro quo</u> agreement it arranged between the Canadian, American, and Venezuelan governments and as a result of its exclusive representation in continental military-petroleum forums. The defense departments of both Canada and the United States were large users and contractors of foreign petroleum. Through Canadian defense departments, Imperial achieved a near monopoly on all lucrative governmental contracts, which in turn allowed it to monopolize many civilian markets. DEW Line installations profited only majors and embodied the Cold War, continental version of the military industrial complex as it was articulated in a system of continental defense. Independents lost ground in even those markets to which they were limited.

The job of serving the capital accumulation goals of the majors was thus shared between two states within the continental context.

Once the National Energy Policy had legitimated their goal of consolidating continental markets, alternatives of selling Canadian oil in both eastern and foreign markets were forfeited many times over. Both the strengthened hold of the majors and policies of the Canadian state eliminated the viability of emulating nationalist models of energy development as these arose abroad. This occurred despite our evidence that a strong desire existed on the part of European consumers and Third World producers for Canadian crude and petroleum technology respectively. A nationalist path to energy development was rejected in terms of both ideological commitment and action. The Canadian state came, instead, to play "go-between" roles for American capital and policy in the international petroleum context.

9.6 Limitations Imposed on Canadian Autonomy by U.S. Foreign Policy

We hypothesized that in all three industrial resources under consideration the impact of U.S. foreign policy would be substantial, though perhaps differential, in the postwar period. Our framework for examination of this impact included the following linked hypotheses:

1) Recognition of resource depletion by the postwar period led U.S. officials to advocate heavier reliance on imported resources. This would mean increasing reliance on not only Third World but Canadian industrial resources. It would also set the stage for active state intervention in facilitating capital accumulation in those companies involved in resource acquisition and processing. The Paley Report and diplomatic agreements between Canada and the United States laid the

framework for closer continental coordination of a broad range of economic and defense policies on the North American continent that would mean a jointly worked out policy on industrial resources.

- 2) American policy makers would be the initiators and leaders in this strategy of American economic growth, while Canadian officials would demonstrate an "ear to Washington" stance and substantial lack of initiative and "autonomy" in linking Canadian resource development to American needs.
- 3) The orchestration of the resulting continental resource policies would involve highly centralized decision making which would favour large firms.
- 4) The impact of U.S. postwar policies on the three staple sectors would be uneven due to the varying degrees of U.S. direct investment in each, the degree of capital concentration, or the amenability of each resource to "strategic" planning.

We have demonstrated in our analysis of <u>The Paley Report</u> that mine, energy, and newsprint products featured in U.S. lists of seventy-six heavily depleted, and so-called "strategic" resources in the early 1950's. Canada could provide a dozen of the twenty-two "key" industrial resources. The United States lay forth a plan to subsidize the exploration, import, and processing of these by U.S. multinationals operating at home, in the Third World, and in Canada. Mechanisms for intervention included: state stockpiles, fiscal and other kinds of direct subsidization which encouraged expansion of production despite a history of glut in many of these industries. The fact this policy called for resource processing to take place in the United States meant it reinforced a

world system of unequal exchange and a division of labour in which Canada would be little more benefitted than Third World countries. and every more tightly locked into U.S. markets. Meanwhile the plan coordinated U.S. capital accumulation, legitimation, and coercion goals. The programme came into logical conflict, however, with supply countries' goals of furthering processing within their own borders, maintaining control over national development, and providing employment. They would have greater difficulty stemming the outward flow of profit, directing their own export policies, and controlling the direction of investment. We have shown that even Canadian agricultural products were adversely affected by the implementation of U.S. barter of surplus farm production, for example. All three resources were shaped by the effects of this policy. Power over contracting and disposing of stockpiled materials remained in Washington in the executive branch, while the power of Canadian officials was tailored to these initiatives -- at home, in international resource forums, and in commerce and in embassies around the world. The companies involved benefitted enormously. In this, as in other policies, the most concentrated industries (petroleum and mining) made use of direct company representation. Paper used trade associations.

We have characterized the roles of the three staples in the expansion of U.S. market access abroad in slightly different ways.

Newsprint served in an ideological as well as material manner, opening up European and Third World markets by combatting both nationalism and communism. Nickel, always closely tied to the U.S. defense machine, expanded both defense and civilian markets abroad as the Marshall Plan and the Nixon Doctrine of reconstructing Europe and arming sub-imperial powers proceded. Its producers were most clearly benefitted by the

emphasis on "strategic" preparedness for the "communist menace". since it was a mainstay in "hot" and "cold" wars and linked to most of the new "growth" sectors of the American and European economies. Canada remained the major world source, safe amidst a rising tide of nationalist incursions on the majors' petroleum resources abroad, like Canadian energy staples. In order for the majors to get continuing profit from their energy resources abroad, however, they needed to have Canadian energy sources integrated to U.S. markets in such a way as to save continental markets for foreign oil as well. Thus a plan different from the stockpile programme had had to be worked out. Canadian oil had received "special exemption" in American markets because a stockpile of oil would have been too transparent and difficult to legitimate because of the high degree of shut-in capacity in North America. In addition the exemption left flexibility for U.S. regulation of the flow of Canadian oil to U.S. markets and constituted a point of leverage in promoting additional market integration of hydro projects. By linking the exemption to entry of Venezuelan oil into eastern Canadian markets, U.S. officials further promoted the interests of U.S. multinationals. The conditions of release of large blocks of hydro power for sale in the United States show Canadian officials to have been all too willing to anticipate and lobby for increased energy integration, however. For even though hydro had traditionally been maintained for Canadian industrialization, this last vestige of an industrial policy of nationalist colouring was eagerly swept away. sand and arctic projects were planned with as little thought of a national policy and as much emphasis on linking these to U.S. markets.

With and without particular pressure from U.S. foreign policy, the Canadian state has undertaken massive subsidy of large-scale resource development and has lobbied in Washington to keep U.S. markets open to Canadian resources. In many of the projects undertaken in the forest staple, where Canadian control was traditionally higher and manufacturing ability substantial, the state has welcomed foreign equity of all kinds under conditions which reduce the level of indigenous processing, use of native skilled workers, and offer unnecessarily high levels of mechanization. It would seem that the anti-nationalist ideological impact of American policy, though at times overwhelming, has been fully "internalized" and is now self-reproducing within the Canadian state's resource policies.

9.7 Conclusions

Although social scientists have asserted a connection between the export of resources, capital accumulation on a world scale, monopolies, and the state, we have attempted from a new perspective to explain the dynamics of that process and pinpoint the mechanisms by which the process is maintained and rationalized. Our theoretical contribution has been in examining the role of the state in the making of resource policy. Our evidence suggests that in a semi-industrial, semi-peripheral formation like Canada the state becomes the instrument of the resource bourgeoisie, which in this case has led to and been reinforced by a bias toward continental resource capitalism.

Our findings raise serious questions about existing liberal theoretical assumptions about the "neutrality" or absolute autonomy of the state from particular class interests in a staples producing

economy. In addition, neo-Marxist conceptions of the nature of a capitalist state have been refined by considering a particular neocolonial state within the international context in which it is dominated by another capitalist state. Although our own hypotheses have in large part been sustained, some require reformulation. Those regarding the degree of monopolization and its impact on state policy in each resource were overly tentative. All resources analyzed are highly monopolized or rapidly becoming so and the state is active in each sector in facilitating capital accumulation on an international scale. Those regarding the Canadian state's legitimation roles and its general autonomy assumed it, like the generally conceived capitalist state of contemporary European and Canadian structuralists, would exhibit "relative autonomy" from particular classes or class fractions as well as other states in order to carry out the general goals of the whole capitalist class. This remains to be proven. Our evidence suggests this is not the case in Canada, given the mixed nature of the Canadian bourgeoisie, the exclusivity of access to policy making that the most monopolized and internationalized sector of the resource capitalists has, and given the reinforcing impact of American foreign policy backed by bureaucratic liaison and lobbying networks sustained by the Canadian state on behalf of this restricted group of capitalists. In this context, legitimation frequently derives less from represented conflict from "below" and more from the anticipation by state officials of the need to camouflage the closeness of these ties.

The state model we have presented is, thus, considerably more instrumental than the current conception of the "relatively autonomous"

capitalist state suggests. We have dealt with a variety of conditions on that instrumentality, imposed by the need of a liberal democratic state to deal with class conflict with minimal coercion and the need to accomodate the conditions of the internationalization of capital. Canadian capitalist class interests have therefore been examined in both domestic and international contexts and the requirements of international capital taken into account. The instrumental Canadian state is thus presented in a more refined form than would have been possible had the cruder conception of early Marxists been adopted. For these dismissed the state as the "executive committee of the bourgeoisie" without confronting the peculiarities of a fractured bourgeoisie such as is found in the Canadian economy.

The level of capital concentration is sufficiently high in the resource sectors examined that both trade association and individual corporate personnel are actively involved in making state policy and actively suppress the development of independent economic policy even where a basis for viable alternatives exists. Together they initiate and campaign for more complete continentalization of the Canadian economy. At the same time these associations and dominant companies such as INCO and Imperial can act as direct agents as well of the U.S. State or Defense Departments, calling upon these external state institutions to help implement policies in Canada. These features of international capital's power in a semi-industrial state severely limit the state's autonomy, especially where that state rejects the generation of independent or "objective" assessments of its policies

and blocks the emergence of alternative data-gathering institutions. In legitimating the policies of the most monopolized sectors in the resource industries, the state puts its authoritative weight behind and serves a selected set within the capitalist class, outlining the conditions of economic growth with their needs in view. The state reinforces and rephrases their ideology in a two-stage process that combines exclusive and secretive consultation with these interests in the formulation of policy followed by public exposure of such policy via mechanisms whose supposed "objectivity" is assiduously guarded. The cumulation of coattailing U.S. policies and dealing "pragmatically" with international capital have led to decreasing emphasis on the manufacturing condition and increasing emphasis on the public subsidization of larger and larger projects for the exploitation and sale of raw materials. Mechanization and capitalintensity of such a route to growth raises serious contradictions in terms of the state's ability to legitimate the policy through the generation of employment. So far the state's legitimation role has been characterized by the provision of ideological justification for monopolistic means to the same end.

It is hoped that the evidence presented for this state model and the implications for other sectors of the economy that reliance on staples development presents will provoke further research. Of particular interest would be the study of the impact on the working class. We have made suggestions throughout to the effect that this class may be doubly "threatened" by such policies and such production. A fuller study of the state's legitimation roles would require such an emphasis, for the dampening of social conflict involves this class.

FOOTNOTES

CHAPTER 1

- 1. Jim Laxer, "Introduction to the Political Economy of Canada", in Robert Laxer, (ed.), (CANADA) Ltd: The Political Economy of Dependency, Toronto, 1973.
- 2. For a discussion of the similarities between Canada, Australia and Argentina as "semi-industrial" nations of the postwar era, see Malcolm Alexander, The Political Economy of Semi-Industrial Capitalism: A Comparative Study of Argentina, Australia, and Canada (1950-70), Ph.D. Thesis, Department of Sociology, McGill University, 1979.
- 3. Pierre Bourgault, Innovation and the Structure of Canadian Industry, Science Council of Canada, Special Study Number 23, October 1972, p. 42.
- 4. Ibid., p. 51.
- 5. H.A. Innis, The Fur Trade in Canada: An Introduction to Canadian Economic History, Toronto, 1956, p. 385.
- 6. Ibid., p. 385.

CHAPTER 11

- W.A. Mackintosh, "Economic Factors in Canadian History", in W.T. Easterbrook and M.H. Watkins, <u>Approaches to Canadian Economic History</u>, 1967; A.R.M. Lower, "The Trade in Square Timber" in Ibid; and Lower, <u>The North American Assault on the Canadian Forest</u>, 1938.
- 2. H.A. Innis, "The Teaching of Economic History" in M.Q. Innis (ed.), Essays in Canadian Economic History, Toronto, 1973, p. 12.
- 3. Ibid., p. 13.
- 4. Throughout the <u>Fur Trade</u> Innis points to instances of this power of consolidation of technology by the great trading organizations, but he makes no comment on the theoretical or analytical implications of this for a model of capital accumulation or the later role of the state as protector of these interests and overseer of the process.

- 5. Innis, "The Teaching of Economic History in Canada", p. 12.
 "It is scarcely necessary to dwell," Innis asserts, "on the work of Gustavus Myers, <u>History of Canadian Wealth</u>, (Chicago, 1914), who treated Canadian history as an evolution of predatory culture."
- 6. Innis, "A Defense of the Tariff", in Robin Neill, A New Theory of Value, pp. 149-159. Innis admits for instance: "The deficit of the Intercolonial in as much as it was paid out of the revenue from the tariff was borne to a large extent by the Maritimes...", p. 154.
- 7. Innis, The Problems of Staple Production in Canada, 1933, p. 81.
- 8. Innis, "Snarkov Island", in Robin Neill, A New Theory of Value, p. 150.
- 9. A similar critique of Innis' materialism is found in the following sources. These authors have not questioned Innis' notion of technology, however, and the implications it has for understanding capital accumulation. Daniel Drache, "What passes for Canadian History", Canadian Dimension, Jan. 1972, p. 41; and Stanley Ryerson, "Conflicting Approaches in the Social Sciences", The Marxist Quarterly, Spring, 1967.
- 10. Innis, "Great Britain, the United States, and Canada", in Essays..., p. 395.
- 11. Ibid., passim.
- 12. Tom Naylor, The History of Canadian Business 1867-1914, Vol. 11, 1975, p. 283.
- 13. Naylor's exaggerated presentation of the conflict between merchant and industrial capital is addressed in the following which preceded the publication of his more modified version of their differing "functions" in The History... L.R. Macdonald, "Merchants Against Industry", CHR, 56(3), 1975; Steve McBride, "Setting Naylor Straight", Canadian Dimension, 10(2), June, 1974. Stanley Ryerson, "Who's Looking After Business?", This Magazine, 10(5-6), Nov. Dec., 1976.
- 14. Stanley Ryerson, "Who's Looking After Business?", This Magazine, 10(5-6), Nov. Dec., 1976.
- 15. H.C. Pentland, "The Development of a Capitalist Labour Market in Canada", CJEPS, Vol. 25, 1959.
- 16. Ibid.
- 17. Stanley Ryerson, Unequal Union, 1975, pp. 37-39 and passim.
- 18. Geoffrey Kay, <u>Development and Underdevelopment:</u> A Marxist Analysis, 1975, pp. 86-87 and p. 97.

- 19. Wallace Clement, Continental Capitalism: Corporate Power Relations
 Between Canada and the U.S., Ph.D. Thesis, Carleton, 1976, pp. 13-18.
- 20. Ibid., p. 19.
- 21. Osvaldo Sunkel, "Transnational Capitalism and National Disintegration in Latin America", 1973. Sunkel refers to the flow of power and capital, decision-making and technology between parent and subsidiary at the expense of national integration of such flows between organizations within the subsidiary-based nation.
- 22. Paul Baran, The Political Economy of Growth, 1957, Chapter 5; Paul Baran and Paul Sweezy, "Notes on the Theory of Imperialism", in Boulding and Mukerjee (eds.), Economic Imperialism, 1972, pp. 156-170.
- 23. Such were the implications of <u>The Paley Report</u> in the American strategy of securing access to "strategic" resources abroad and particularly in Canada, where twelve of those listed as most necessary for national security are found. <u>The Paley Report, Resources for Freedom: A Report to the President, U.S. President's Materials Policy Commission, Government Printing Office, Washington, 1952. See Chapter 111 for discussion.</u>
- 24. Sunkel, "Transmational Capitalism", and J. Galtung, "A Structural Theory of Imperialism", Journal of Peace Research, Vol. 8, 1971.
- 25. James Petras, "New Perspectives on Imperialism and Social Classes in the Periphery", Journal of Contemporary Asia, 5:3, 1975, p. 293.
- 26. Ibid., p. 295. Here James Petras outlines the following three state strategies of development in the postwar context: "Dependent colonialism", "National developmentalism", and "National popular".
- 27. This term, "continental resource capitalism" is chosen because it contrasts with Aitken's term in both senses: Canadian policy is not "defensive", "nationalistic" vis-à-vis the United States in the postwar period, but cooperative in a continental context, and its attempt to expand production leads to facilitating greater capital accumulation emphasis in resource sectors than in fostering other more mixed development or expansion.
- 28. Karl Marx and Fredrich Engels, German Ideology, N.Y., 1970.
- 29. Wallace Clement, "The Corporate Elite, the Capitalist Class, and the Canadian State", and Leo Panitch, "The Role and Nature of the Canadian State", in Panitch, (ed.), The Canadian State, 1977.
- 30. H.G.J. Aitken, 'Defensive Expansionism: the State and Economic

- Growth in Canada", in Easterbrook and Watkins (eds.), Approaches to Canadian Economic History, pp. 183-221.
- 31. Ralph Miliband, The State in Capitalist Society, 1969, pp. 49-55.
- 32. Rianne Mahon, "Canadian Public Policy: The Unequal Structure of Representation", in Panitch (ed.), The Canadian State, p. 166.
- 33. Ibid.
- 34. Donald Gow, <u>Canadian Federal Administrative and Political Institutions: A Role Analysis</u>, Ph.D. Dissertation, Dept. of Political Science, Queens University, Kingston, 1967, p. 63, and Mahon, "Canadian Public Policy", pp. 173-174.
- 35. Reg Whitaker, "Images of the State in Canada", in Panitch (ed.), The Canadian State, pp. 63-64.
- 36. Clement, "The Corporate Elite", pp. 232-233.
- 37. James O'Connor, The Fiscal Crisis of the State, 1973.
- 38. Leo Panitch, "The Role and Nature of the Canadian State", in Panitch (ed.), The Canadian State, p. 19.
- 39. Clement, "The Corporate Elite", p. 228.
- 40. C.B. Macpherson, Democratic Theory: Essays in Retrieval, 1973, p. 47.
- 41. See: L.G. Reynolds, The Control of Competition in Canada, 1940;
 H.G. Thorburn, "Pressure Groups in Canadian Politics: Recent
 Revisions of the Anti-Combines Legislation", CJEPS, 30, 2,
 1974, pp. 157-174; Bert Young, "Corporate Interests and the
 State", Our Generation, 10, 1, 1974, pp. 70-83; C.W. Gonic,
 "Foreign Ownership and Political Decay", in Lumsden (ed.),
 Close the 49th Parallel Etc., 1970; C.H. Goff and C.E. Reasons,
 Corporate Crime in Canada: A Critical Analysis of Anti-Combines
 Legislation, 1978; and Report of the Royal Commission on Corporate Concentration, March 1978.
- 42. Mel Watkins, "Economic Development in Canada", in Immanuel Wallerstein (ed.), World Inequality, 1975, pp. 77-78.
- 43. Kay, Development and Underdevelopment, pp. 23 and 38.

- 44. J.J. Brown, <u>Ideas in Exile: A History of Canadian Invention</u>, 1967, and Pierre Bourgault, <u>Innovation and the Structure of Canadian Industry</u>, 1972.
- 45. Brown, Ideas în Exîle, p. 349.
- 46. Bourgault, Innovation, p. 126.
- 47. Naylor, History of Canadian Business, Vol. 11., Chapter 10.
- 48. Arthur J. Cordell, The Multinational Firm, Foreign Direct Investment, and Canadian Science Policy, 1972.
- 49. Bourgault, Innovation, p. 95.
- 50. Kay, Development and Underdevelopment, pp. 130 and 153.
- 51. Aitken, American Capital, p. 103.
- 52. Ibid., p. 136.
- 53. James Laxer, "Always Look to Imperial for the Best", in Laxer and Martin (eds.), The Big Tough Expensive Job, 1976, pp. 29-33.
- 54. Ibid., pp. 14-16.

CHAPTER 111

- Aluminium, not mined in Canada, is nevertheless a major refined export because of cheap hydro power available in Canada. J.H. Dales, <u>Hydro Electricity and Industrial Development in Quebec</u>, 1898-1940, 1957.
- 2. H.G.J. Aitken, "The Changing Economic Structure of the Canadian Economy", in Aitken et. al. (eds.), The American Economic Impact on Canada, 1959, p. 11.
- 3. Wallace Clement, Continental Corporate Power, 1977, p. 83.
- 4. H.V. Nelles, The Politics of Development: Forests, Mines, and Hydro Electric Power in Ontario, 1849-1941, 1974.
- 5. H.G.J. Aitken, American Capital and Canadian Resources, 1961, pp. 73-74.
- 6. Kari Levitt, The Silent Surrender, 1970, p. 67, Table 4.

- 7. Aitken, op. cit., pp. 7-8.
- 8. Ibid., pp. 7-8.
- 9. Wallace Clement, Continental Corporate Power, 1977, pp. 83-84.
- 10. Aitken, op. cit., pp. 50, 68, 69.
- 11. <u>Ibid.</u>, pp. 75-76.
- 12. William Kilbourn, The Elements Combined: A History of the Steel Company of Canada, 1960, p. 18. Kilbourn notes this entrepreneurial path in the early concentration and centralization of one portion of the Canadian iron industry which preceded the founding of STELCO. Kilbourn indicates this second path dominated in the iron and steel industry. "The Montreal Rolling Mills was not born in a blacksmith's shop, but in the counting house of a wealthy merchant...It was ultimately the means by which...the many-sided industrial empire of the Steel Company of Canada (came into being)."
- 13. Jorge Niosi, The Economy of Canada, 1978, Chapters 1 and 11.
- 14. Wallace Clement, The Canadian Corporate Elite, 1975, p. 147.
- 15. <u>Ibid.</u>, p. 145.
- 16. Ibid., p. 147.
- 17. L.G. Reynolds, op. cit., pp. vii, 6-7.
- 18. Ibid., p. 174.
- 19. Jamie Swift, et. al., The Big Nickel, 1977, pp. 18-23.
- 20. H.G.J. Aitken, op. cit., Chapter 1.
- 21. Ibid., Chapter 1.
- 22. President Harry S. Truman, "Letter of Transmittal", July 1, 1952, The Report of the President's Materials Policy Commission:

 Resources for Freedom, (The Paley Report), Vol. 1, flyleaf, June 1952.
- 23. Report of the President's Materials Policy Commission:
 Resources for Freedom, 82nd Congress, 2nd Session, House of
 Representatives, Document 527, Vol. 1, p. 1. (hereafter referred
 to as The Paley Report.)
- 24. Ibid., Vol. 1, pp. 1-2.

- 25. Ibid., Vol. 1, p. 2.
- 26. Ibid., Vol. 1, p. 3.
- 27. Ibid., Vol. 1, p. 3.
- 28. Ibid., Vol. 1, p. 60.
- 29. Ibid., Vol. 1, p. 12.
- 30. Ibid., Vol. 1, p. 74.
- 31. Ibid., Vol. 1, pp. 17, 24, and 60.
- 32. Ibid., Vol. 1, p. 33.
- 33. Ibid., Vol. 1, p. 69.
- 34. Ibid., Vol. 1, p. 62.
- 35. Ibid., Vol. 1, p. 62.
- 36. Ibid., Vol. 1, pp. 4-5.
- 37. Ibid., Vol. 1, p. 9.
- 38. Ibid., Vol. 1, pp. 108-109.
- 39. Ibid., Vol. 1, p. 121.
- 40. Ibid., Vol. 1, p. 166.
- 41. Ibid., Vol. 1, p. 167.
- 42. Ibid., Vol. 1, p. 75.
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CHAPTER 1V

- 1. Early descriptions of the forest staple are found in: Kevin Burley, The Development of Canada's Staples 1867-1939, 1971; A.R.M. Lower, et al., The North American Assault on the Canadian Forest, 1935; The Report of the Royal Commission on Pulpwood, 1924; H.V. Nelles, The Politics of Development, 1976; and R.T. Naylor, The History of Canadian Business, Vol. 1, 1976.
- 2. Canadian Manufacturer, Jan. 16, 1891, p. 44.
- 3. L.G. Reynolds, The Control of Competition in Canada, 1940, p. 99-100, and Emile Di Sanza, "The Political Economy of the Pulp and Paper Industry in the United States (1880-1940)", May, 1974.
- 4. This consolidation was spearheaded by Gundy and Holt "to organize the industry...into harmonious groups", Reynolds, <u>Ibid.</u>, pp. 174 ff.
- 5. See Appendix A 1 for a description of wartime price-fixing.
- 6. Canada and International Cartels, Combines Investigation Act, Ottawa, 1945. p. 39.
- 7. John Davis, The Outlook for the Canadian Forest Industries, Report of the Royal Commission on Canada's Economic Prospects, March, 1957.
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- A. Koroleff, C.P.P.A., to E.H. Finlayson, April 16, 1935; PAC, RG 39, 19, 322A, Vol. 1.
- D. Roy Cameron, Acting Director Dept. of Interior, to A. Koroleff, Forester of C.P.P.A., June 17, 1935; PAC, RG 39, 19, 322A, 1.
- 12. Gen. McNaughton, "Address to the Woodlands Section of the C.P.P.A.", Petawawa, July 7, 1935; PAC, RG 39, 19, 322A, 1.
- 13. Address by Premier Duplessis, Quebec, C.P.P.A. Meeting, Jan. 28, 1937; PAC, RG 39, 19, 322A, Vol. 2.
- 14. Address by President of the C.P.P.A. at an industry meeting, Jan. 28, 1937; (PAC, <u>Ibid</u>.)
- 15. A. Koroleff, C.P.P.A., to D. Roy Cameron, Dominion Forester, Dept. of Mines and Resources, June 4, 1937; PAC. RG 39, 19, 322A, 2.

- 16. N.R. Chappell, Pulp and Paper Division to W.F. Bull, Director, Export Division, Trade and Commerce, Ottawa, Sept. 11, 1947; PAC, RG 20, Box B, 7-1124, Vol. 1.
- 17. J.M. Savage, Sec., N.A.C., to N.R. Chappell, Sept. 29, 1947, (PAC, <u>Ibid</u>.)
- 18. Resolution 7.2112, UNESCO 1949, IMC Document, June 21, 1951; PAC, RG 20, Box E, 3-815-5A, Vol. 1.
- Charles Nichols, Southam Papers, Washington Correspondent to Dept. of Trade and Commerce, June 16, 1950; PAC, RG 20, Box B, 7-1124, Vol. 2.
- 20. Ibid.
- R.M. Fowler, "Newsprint 1950-51", Address to N.Y. State Publishers Association, Buffalo, N.Y., Jan. 17, 1951; PAC, RG 20, Box D, 3-850-8.
- 22. Ibid.
- 23. "Newsprint Association President Defends Industry Price Policy", Montreal Gazette, April 16, 1947.
- 24. R.M. Fowler, "Newsprint 1950-51", op. cit.
- 25. R.M. Fowler, President C.P.P.A. to M.W. MacKenzie, Deputy Minister, Trade and Commerce, Jan 18, 1951, PAC, RG 20, Box D, 3-850-9.
- 26. W.F. Bull, Deputy Minister, Trade and Commerce, Ottawa, to R.M. Fowler, President of C.P.P.A., Montreal, Feb. 14, 1955; PAC, RG 20, Box B, 7-1124, Vol. 2.
- 27. R.M. Fowler to W.F. Bull, Feb. 9, 1955; (PAC, Ibid.)
- 28. W.F. Bull to R.M. Fowler, Feb. 14, 1955; (PAC, Ibid.)
- 29. J.M. Savage, Secretary, Newsprint Association of Canada, to N.R. Chappel, Pulp and Paper, Section, Foreign Trade Service, Trade and Commerce, Ottawa, Sept. 29, 1947; PAC, RG 20, Box B, 7-1124, 1.
- 30. Ibid.
- 31. W.G. Chandler, Scripps Howard Newspapers, New York, to Charles Vining, Newsprint Association of Canada, Montreal, Sept. 4, 1947; PAC, RG 20, Box B, 7-1124, Vol. 1. This letter was forwarded to several top civil servants concerned with policy in newsprint and undoubtedly gave them a few ideas on how to defend the large capital interests under attack.

- 32. Ibid.
- 33. Deputy Minister, Trade and Commerce, Ottawa, to President C.P.P.A., Nov. 11, 1950; PAC, RG 20, Box B, 7-1124, Vol. 2.
- 34. Robert Fowler, C.P.P.A., to M.W. MacKenzie, Deputy Minister, Trade and Commerce, Ottawa, Nov. 15, 1950; (PAC, Ibid.)
- 35. E. Clarke, Paper Section, Foreign Trade Service, to W.F. Bull, Director, Export Division, Trade and Commerce, Ottawa, April 29, 1947; PAC, RG 20, Box B, 7-1124, Vol. 1.
- 36. "Newsprint Association President Defends Industry Price Policy", Montreal Gazette, April 16, 1947. Fowler: "...as far back as 1931...Canadian companies started to go into bankruptcy and by the middle 30's over half the Canadian industry was in bankruptcy or receivership. In 1943...government officials had to go to Washington to insist that OPA increase newsprint prices in order to maintain the Canadian industry."
- 37. "Newsprint Dealer Says \$800,000 Profit Fair", Montreal Gazette, May 28, 1947.
- 38. "Summary of Replies from Paper Questionnaire", Printing Industry of America, Inc., Washington D.C., April 11, 1947; PAC, RG 20, Box B, 7-1124, Vol. 1.
- 39. N.R. Chappell, Pulp and Paper Section, to W.F. Bull, Director, Export Division, Trade and Commerce, Ottawa, Sept. 11, 1947; PAC, RG 20, Box B, 7-1124, Vol. 1.
- 40. Canadian Ambassador to the U.S. to Secretary of State for External Affairs, Washington D.C., June 25, 1947. (PAC, <u>Ibid</u>.)
- 41. Ibid.
- 42. "Ottawa Won't Permit U.S. Probe of Canadian Paper Firms", The Globe and Mail, Toronto, Sept. 12, 1947.
- 43. U.S. Congressional Record, the U.S. Senate, July 26, 1947, PAC, RG 20, 7-1124, Vol. 1.
- 44. Ibid., p. 10462. I.P.C., New York, manufactured 26 per cent of its output in newsprint in 1946, but asserted only 18 per cent of its gross revenue and 7 per cent of its net profit came from newsprint.
- 45. <u>Ibid.</u>, p. 10462.
- 46. Ibid., p. 10462.

- 47. Ibid., p. 10461.
- 48. Information Office Canadian Embassy, Washington D.C., to Information Division, Department of External Affairs, Ottawa, Jan. 12, 1950; PAC, RG 20, Box B, 7-1124, Vol. 2.
- 49. Ibid.
- 50. Canadian Ambassador, Washington D.C. to Secretary of State for External Affairs, Ottawa, Jan. 30, 1950. (PAC, Ibid.)
- 51. T.P. Malone, Memo on the Congressional Investigation of the Newsprint Industry, Jan. 25, 1950; (PAC, Ibid.)
- 52. T.P. Malone, Memo on the Congressional Investigation of the Newsprint Industry, Jan. 25, 1950; (PAC, <u>Ibid</u>.)
- 53. "Canadian Press", Jan. 28, 1950, London, Ontario; (PAC, Ibid.)
- 54. "Canadian Press", Quebec, Jan. 28, 1950; and Feb. 3, 1950, Toronto; (PAC, Ibid.)
- 55. W.D. Mathews, Canadian Embassy, Washington, D.C., to Hebert Moran, External Affairs, Ottawa, June 16, 1950, (PAC, Ibid.)
- 56. Canadian Ambassador, Washington D.C., to Secretary of State for External Affairs, Ottawa, June 30, 1950; (PAC, Ibid.)
- 57. Ibid.
- 58. Canadian Ambassador, Washington D.C., to Secretary of State for External Affairs, Ottawa, June 23, 1950; (PAC, Ibid.)
- 59. Canadian Ambassador, Washington D.C., to Secretary of State for External Affairs, Ottawa, June 23, 1950; (PAC, <u>Ibid</u>.)
- 60. Memorandum: Hearings Before the Subcommittee to Study Monopoly Power: Newsprint, June 26, 1950; (PAC, <u>Ibid</u>.)
- 61. Ibid.
- 62. Canadian Ambassador, Washington D.C., to Secretary of State for External Affairs, Ottawa, June 30, 1950, pp. 1-2; (PAC, <u>Ibid</u>.)
- 63. Canadian Ambassador to Secretary of State for External Affairs, June 23, 1950, pp. 5-6. (PAC, Ibid.)
- 64. Ibid., pp. 6 and 10.

- 65. Canadian Embassy, Washington D.C., to Under Secretary of State for External Affairs, Ottawa, Oct. 18, 1950; (PAC, <u>Ibid</u>.)
- 66. Internal Memo, W.F. Bull, Trade and Commerce, Ottawa, April 28, 1952; (PAC, Ibid.)
- 67. Canadian Embassy, Washington D.C., to External and Deputy Minister, Trade and Commerce, Ottawa, Jan. 3, 1957; (PAC, <u>Ibid</u>.)
- 68. R.G. Smith, Commercial Minister, Washington D.C., to J.M. Savage, Secretary N.A.C., Montreal, April 16, 1957; (PAC, <u>Ibid</u>.)
- 69. E.J. Ward, Forest Products, Trade and Commerce, Ottawa, to R.G. Smith, Commercial Minister, Washington D.C., June 10, 1958: (PAC, Ibid.)
- 70. Canadian Embassy, Washington D.C., to External Affairs and Trade Commerce, Ottawa, Mar. 15, 1963; (PAC, Ibid.)
- 71. Hearings Before the Subcommittee on the Study of Monopoly Power, U.S. House, 81st Congress, Serial 14, 6B, 1950, p. 940.
- 72. R.S. Kellogg, "Newsprint Paper in North America", Newsprint Service Bureau, New York, 1948, p. 33.
- 73. Hearings, op. cit., 1950, p. 940.
- 74. Report Concerning the Purchase of Pulpwood in Certain Districts in Eastern Canada, Restrictive Trade Practices Commission, Ottawa, 1958, p. 5.
- 75. Companies listed as active in the combine were: Abitibi, Anglo-Canadian, Armstrong Forest, Brown, C.I.P., Consolidated Paper, Diamond Match, Donnacona Paper, E.B. Eddy, Gair, Gaspesia Sulphite, Howard Smith Paper, KVP, Kimberly-Clark, James Maclaren, Ontario Pulp & Paper, Richmond Pulp & Paper, Ste. Anne Power (subsidiary of Abitibi), St. Laurence, Spruce Falls Power & Paper.
- 76. Report Concerning the Purchase of Pulpwood, op. cit., p. 37. Many farmers, particularly in Quebec and New Brunswick, relied heavily on pulpwood, fuel wood, or sawmill log production. In Quebec in 1950, of the 134,330 occupied farms, 81,719 reported production of forest products. Included were 705,592 cords of pulpwood valued at \$8,933,530, or about \$109 per forest-product-producing farm. In Ontario only 46,511 farms, of 149,920 occupied, reported production of forest products, the average income per farm being \$34. New Brunswick reported 17,670 or 26,431 occupied farms produced 295,791 cords of pulpwood valued at \$4,495,024, or an average income of \$254 per farm. Of nova Scotia's 23,515 occupied farms, 14,300

- 96. Ibid., p. 199.
- 97. Ibid., pp. 201-202.
- 98. Ibid., p. 205.
- 99. Ibid., p. 214.
- 100. Ibid., p. 200.
- 101. Ibid., pp. 214-215.
- 102. Goff and Reasons, Corporate Crime in Canada: A Critical Analysis of Anti-Combines Legislation, 1978, p. 84.
- 103. Ibid., p. 85.
- 104. Ibid.
- 105. U.S. Department of Commerce, "Newsprint Paper, U.S. Capacity, Production, Imports, New Supply, Exports and Apparent Consumption for Selected Years, 1899-1952"; PAC, RG 20, Box B, 7-1124, 2.
- 106. The following three reports of combine investigations are exemplary: Report Concerning the Acquisition of the Common Shares of Hendershot Paper Products Ltd. by C.I.P., 1962; Report Concerning the Acquisition by Bathurst...of Wilson..., 1962; and Investigation into Alleged Combine in the Supply, Distribution, and Sale of Coarse Papers in B.C., 1953.
- 107. Report Concerning the Acquisition by Bathurst Power and Paper Co.
 Ltd. of Wilson Boxes Ltd., Combines Investigation Act, Ottawa,
 1962, p. 4.
- 108. Report on Bathurst, p. 5, op. cit.
- 109. Report on Hendershot, C.I.P., op. cit.
- 110. Ibid., pp. 25 and 28.
- 111. The Newsprint Problem: Final Report, Subcommittee on Study of Monopoly Power, 81st U.S. Congress, 2nd Session, 1950, p. 23.
- 112. Ibid., p. 23.
- 113. Ibid., p. 23.
- 114. Ibid., pp. 23-24.
- 115. The New York Times, Mar. 29, 1952, p. 5.

- 116. The Newsprint Problem, op. cit., p. 24.
- 117. Ibid., p. 24.
- 118. Canadian Embassy, Moscow, to C.P.P.A., April 18, 1962; PAC, RG 20, 593, 3-4-136.
- 119. Canadian Trade Commissioner, Hong Kong, to Assistant Deputy Minister, Trade and Commerce, Ottawa, March 15, 1960 (PAC, Ibid.)
- 120. I.B. Chenoweth, C.P.P.A. Statistician, to M.N. Murphy, Assistant Chief Forest Products, Trade & Commerce, Ottawa, April 19, 1960; (PAC, Ibid.); Canadian Embassy, Havana, to C.P.P.A., Montreal, April 9, 1962, (PAC, Ibid.); C.P.P.A. to M.N. Murphy, Pulp & Paper Branch Trade and Commerce, via A.E. Richie, Under Secretary for External Affairs, Dec. 13, 1953; PAC, RG 20, 593, T-3-891.
- 121. Canadian Embassy, Washington D.C., to Under Secretary of State for External Affairs, Ottawa, March 21, 1951; PAC, RG 20, Box B, 7-1124, Vol. 2.
- 122. Ibid.
- 123. Canadian Ambassador, Washington D.C., to Senator S.W. Malone, Chairman, Minerals, Materials and Fuels Sub-Committee, Interior and Insular Affairs Committee, U.S. Senate, Jan. 4, 1954; PAC, RG 20, Box D, 23-30-1.
- 124. John English, Commercial Counsellor, Washington D.C., to Mitchell Sharp, Associate Deputy Minister, Trade & Commerce, May 9, 1951, PAC, RG 20, Box D, 3-850-9.
- 125. Denis Harvey to H.J. Sissons, Trade & Commerce Memo, Feb. 27, 1951, (PAC, Ibid.)
- 126. Denis Harvey to H.J. Sissons, Ibid.
- 127. G.A. Newman, Chairman, Export Control Advisory Committee, Ottawa, Memo, Dec. 14, 1950; PAC, RG 20, Box D, 3-850-9.
- 128. U.S. Department of Commerce, N.P.A., News Release, May 7, 1951.
- 129. Verner, Letter, Ottawa, May 28, 1951; PAC, RG 20, Box D, 3-850-9.
- 130. John English, Commercial Counsellor, Washington D.C., to G.R. Heasman, Director Trade Commercial Service, Trade and Commerce, May 24, 1951; W.G.D. Hungerford to Dennis Harvey, Trade and Commerce, July 11, 1951, (PAC, Ibid.)

- 131. International Raw Materials Conference, Pulp, Paper & Newsprint Committee, Dec. 13, May 16, 1951; PAC, RG 20, Box E, 3-815-5B,1.
- 132. Resolution 7.2112, UNESCO 1949, IMC Document, June 21, 1951; PAC, RG 20. Box E, 3-815-5A, Vol. 1.
- 133. The official goals were: 1) To "relieve acute shortages" in the immediate postwar period in various newsprint products. This was the basis for soliciting information on supply, technology, labour, capital, and non-conventional supplies. 2) To consider schemes for limiting quality, weight, and content. 3) To study reasons for high price levels, but only in reference to effects of export levies, not price agreements.
- 134. IMC Pulp and Paper Committee, Report, May 7, 1951; PAC, RG 20, Box E, 3-815-5B, Vol. 1.
- 135. IMC Report, May 16, 1951, (PAC, Ibid.)
- 136. IMC Report, May 31, 1951, (PAC, Ibid.)
- 137. IMC Doc. 76, April 23, 1952; PAC, RG 20, Box E, T-3-2868.
- 138. Ibid.
- 139. The Canadians exhorted other members to produce statistics on "touchy" production data but refused to give same and frequently kept both their and American data useless by merging them. G.H. Rochester, London, Commercial Secretary Timber, to M.N. Murphy, Ottawa, Commodities, Paper & Chemicals, July 29, 1954; PAC, RG 20, 1073, 19-100-15A, Vol. 1.
- 140. OEEC Pulp and Paper Committee, Report, 1954, pp. 20-21 and 70, PAC, RG 20, 1073, 19-100-15A, Vol. 1.
- 141. OEEC Pulp and Paper Committee, Report, 1954, pp. 26, 33, 15; PAC, RG 20, 1073, 19-100-15A, Vol. 1.
- 142. "Harmonization of Internal Controls in the Pulp and Paper Sector, Questionnaire", OEEC Pulp and Paper Committee, 1954, (PAC, Ibid.)
- 143. P.M. Fox, President, St. Lawrence Corp. Ltd., to J.A. Roberts, Deputy Minister Trade & Commerce, Feb. 13, 1962; PAC, RG 20, 1073, 19-100-15A. Vol. 2.
- 144. M.N. Murphy, Chief Forest Products, Trade & Commerce to F.L. Mitchell, C.P.P.A., Sept. 26, 1962, (PAC, Ibid.)
- 145. R.M. Fowler, President, C.P.P.A., to G.W. Green, I.T.R.B., Jan. 3, 1962, (PAC, Ibid.)

- 146. Fowler to Green, Ibid.
- 147. In 1965, R.A. Irwin, President of Bathurst Power and Paper, Ltd., and Chair of the Executive Committee of the C.P.P.A., succeeded Soles as Canadian representative to the OECD committee. Never was a small or even medium-sized company represented.
- 148. Denis Harvey, Assistant Deputy Minister, to R.K. Paumann, Forest Products, Trade and Commerce, Jan. 6, 1964; PAC, RG 20, 1073, 19-100-15A, Vol. 3.
- 149. M.N. Murphy, Chief Forest Products, to H.J. Horne, Commercial Counsellor, Bad Godesberg, Feb. 10, 1964, (PAC, Ibid.)
- 150. Denis Harvey to A.G. Kniewasser, Commercial Counsellor, Paris, April 4, 1962, (PAC, Ibid., Vol. 2.)
- 151. Denis Harvey to A.M. Tedford, Director Commodities, Trade & Commerce, April 3, 1962, (PAC, Ibid., Vol. 2.)
- 152. Ibid.
- 153. M.K. Paumann, Forest Products, Trade and Commerce, to E.R. Vogt, Chairman, OECD Committee, Oct. 9, 1964, (PAC, Ibid., Vol. 5.)
- 154. Philip Stuchen, Economics Branch, Trade and Commerce, to M.K. Paumann, Jan. 15, 1965; PAC, RG 20, 1073, 19-100-15A, Vol. 5.
- 155. M.N. Murphy, Forest Products, Trade and Commerce, to W.J. Van Vliet, Commercial Counsellor, Washington D.C., March 11, 1965; Canadian Embassy Memo on "Discussion with U.S. Department of Commerce and Bureau of Census re Special Committee for Pulp & Paper of OECD", April 22-23, 1965; M.N. Murphy to Denis Harvey, August 10, 1965, (PAC, Ibid.)

CHAPTER V

- 1. Even at the prospecting stage, the Canadian Government's aid was substantial in terms of geological surveys as early as 1848.
 "The Nickel of Sudbury", Canadian Mining Journal, Vol. 63, Dec. 1942, p. 787.
- 2. The Canadian nickel industry's corporate history is well summarized in O.W. Main, The Canadian Nickel Industry, 1955.
- 3. H.V. Nelles, The Politics of Development, 1974, p. xv.
- 4. John Deverell, et. al., <u>Falconbridge: Portrait of a Canadian</u> Mining Multinational, 1975, p. 25.

- 5. Nelles, Politics of Development, p. 329.
- 6. Deverell, Falconbridge, p. 26.
- 7. Main, Canadian Nickel Industry, p. 45.
- 8. W. Moore, "The Canadian Mining Industry and International Capital", Department of Sociology, McMaster University, Feb. 1976, pp. 9-10.
- 9. Ibid., pp. 22-23.
- 10. Annual Materials Conservation Report, Office of Assistant Secretary of Defense, Washington, 1954, p. 4.
- 11. "Who Controls the 'War Metal'?", Pacific Imperialism Notebook, Vol. 5, No. 7, July 1974, p. 140.
- 12. See Appendix C 12, "Financial Transactions Between the United States and OPEC Countries, 1974 to 1977 Combined".
- 13. Conversation with Professor Eqbal Ahmed, Senior Fellow, Institute for Policy Studies, Washington D.C. Figures also available in several issues of Middle East Research Information Project Reports, Washington, D.C., concerning arms sales in the Middle East and the development of Iran.
- 14. The National Stockpile, begun in 1939, was expanded in 1946, giving greater authority to negotiate long-term contracts for strategic materials numbering about 76. Disposal of surplus required public disclosure and Congressional approval, as well as consultation with producers. The Defense Materials Procurement Agency/ Inventory began in 1950 and was for stimulating expansion of productive capacity of strategic and critical materials through incentives. Materials were stored in inventories or in the National Stockpile. Disposals required no Congressional approval, allowing for flexible policies or "dumping", officially though at market price. The Supplemental Stockpile was begun in 1954 (when goals were 3/4 met) using agricultural surpluses to buy or barter for strategic materials abroad. As with the National Stockpile Congressional approval was required for resale, but not for use by government agencies. "Defense Materials Procurement Agency & Munitions Board Stockpile Report", Canadian Ambassador, Washington, to Under Secretary for External Affairs, Ottawa, Aug. 2, 1951; and Annual Report, 1961, Office of Civil Defense Mobilization, Executive Office of the President, Washington, p. 60; PAC, RG 20, Box D, 3-890, Vols. 4 and 8.
- 15. Deverell, Falconbridge, p. 44.

- S.V. Allen, Commercial Counsellor, Washington, to Acting Director, Export Division, Trade & Commerce, Ottawa, June 16, 1953; PAC, RG 20, Box D, 3-890, Vol. 1.
- 17. Annual Report, 1961, OCDM, op. cit., p. 50.
- 18. Ibid., p. 48
- 19. Annual Report, 1961, OCDM. pp. 61 ff.
- 20. Deverell, Falconbridge, pp. 82-83.
- 21. C.D. Howe to Sawyer, Secretary of Commerce, Washington D.C., Nov. 4, 1950; PAC, RG 20, 3-890, Vol. 1, and Canadian Ambassador in Washington to Secretary of State for External Affairs, Ottawa, Feb. 7, 1951; PAC, RG 20, Box D, 3-890, Vol. 1.
- 22. N.R. Chappell, Director Department of Defense Production, to R.E. Addison, Executive Assistant to Deputy Minister of DDP in Ottawa, June 2, 1954; PAC, RG 20, Box D, 3-890, Vol. 2.
- 23. J.D. Diefenbaker, Prime Minister, to V.C. Wansbrough, Mng. Director, C.M.M.A., April 28, 1959; PAC, RG 20, Box D, 3-890, Vol. 5.
- 24. E.B. Gillanders, President, C.M.M.A., to George Hees, Minister of Trade and Commerce, Ottawa, Sept. 6, 1962; PAC, RG 20, Box D, 3-890, Vol. 10.
- 25. Deverell, Falconbridge, p. 48.
- 26. Annual Report, INCO, Feb. 1951, pp. 3-5.
- 27. E.H. Maguire, Commercial Secretary, Washington, to O.M. Hill, Editor, Foreign Trade, Trade and Commerce, Aug. 18, 1954; PAC, RG 20, Box D, 3-890, Vol. 4.
- 28. E.H. Maguire, Commercial Secretary, Washington, Memo: U.S. Stock-pile Developments, July 30, 1954; PAC, RG 20, Box D, 3-890, Vol. 4.
- 29. F.V.C. Hewett to Denis Harvey, Trade and Commerce, Feb. 9, 1952; PAC, RG 20, Box D, 3-890, Vol. 9.
- 30. N.R. Chappell, Director DDP, Washington, to R.E. Addison, Executive Assistant to Deputy Minister, DDP, Ottawa, Oct. 29, 1954; PAC, RG 20. Box D, 23-30-6-4, Vol. 3.
- 31. N.R. Chappell to R.E. Addison, Ottawa, June 2, 1952; PAC, RG 20, Box D, 3-890, Vol. 2.

- 32. New York Journal of Commerce, May 31, 1956; PAC, RG 20, Box D, 3-890, Vol. 4.
- 33. <u>Daily Report for Executives</u>, Mar. 11, 1955; PAC, RG 20, Box D, 3-890, Vol. 3.
- 34. "Nickel Production in Free World at Record of 195,000 Tons in 1954", American Metal Markets, Dec. 21, 1954; PAC, RG 20, Box D, 3-890, Vol. 3.
- 35. <u>Daily Report for Executives</u>, Feb. 16, 1954; PAC, RG 20, Box D, 3-890, Vol. 2.
- 36. N.R. Chappell, Director DDP, Washington, to M.W. Sharp, Associate Deputy Minister, Trade & Commerce, Mar. 29, 1954; PAC, RG 20, Box D, 3-890, Vol. 2.
- 37. N.R. Chappell to Mitchell Sharp, Mar. 18, 1954; PAC, RG 20, Box D, 3-890, Vol. 2.
- 38. N.R. Chappell to A.S. Flemming, Director ODM, Mar. 22, 1954, referring to this meeting in Flemming's office; PAC, RG 20, Box D. 3-890, Vol. 2.
- 39. Ibid.
- 40. N.R. Chappell, Director DDP, Washington, Memo "Notes on a Telephone Conversation with H.S. Wingate, President of Inco", May 7, 1954; PAC, RG 20, Box D, 3-890, Vol. 2.
- 41. N.R. Chappell, Director DDP, to A.S. Flemming, Director ODM, Washington, Nov. 17, 1954; and K.A. Creery, President, B.M.C., to W.F. Bull, Deputy Minister, Trade and Commerce, Ottawa, Nov. 3, 1954; PAC, RG 20, Box D, 3-890, Vol. 3.
- 42. K.A. Creery, President, British Metals Corporation, to W.F. Bull, Ibid.
- 43. S.V. Allen, Commercial Counsellor, Washington, to Denis Harvey, Commodities Branch, Trade & Commerce, Ottawa, Mar. 29, 1954; PAC, RG 20, Box D, 3-890, Vol. 2.
- 44. C.M. Isbister to W.F. Bull, Deputy Minister, International Trade Relations, copies to Sharp, Harvey, Ritchie, etc., Dec. 17, 1956; PAC, RG 20, Box D, 3-890, Vol. 5; and Daily Report for Executives, Mar. 25, 1954; PAC, RG 20, Box D, 3-890, Vol. 2.
- 45. N.R. Chappell, Director DDP, Washington, to A.S. Flemming, Director ODM, Washington, Mar. 22, 1954; PAC, RG 20, Box D, 3-890, Vol. 2.

- 46. Ibid.
- 47. "Notes on the Canadian Strategic Resources Development Program", June 1952, Natural Resources Postwar Investment Analysis; PAC, RG 20, Box D, 23-30-6.
- 48. N.R. Chappell, Director DDP, Washington, to A.S. Flemming Director, ODM, Washington, D.C., Mar. 22, 1954; PAC, RG 20, Box D, 3-890, Vol. 2.
- 49. <u>Daily Report for Executives</u>, July 2, 1962; PAC, RG 20, Box D, 3-890, Vol. 8.
- 50. Deverell, Falconbridge, pp. 45-46.
- 51. <u>Ibid.</u>, p. 59. In pages 50-60, Deverell details the struggle between financial blocks (Canadian, British and South African as well as American) that led to American Superior Oil consolidation of control within Falconbridge. The concrete extension of this alliance is the Superior-Falconbridge tendency for Third World joint ventures in the late 60's and early 70's.
- 52. Figures and prices on various nickel contracts are from "Contracts for the Purchase of Nickel, Cummulative Three Fiscal Year Ending June 30, 1962", General Services Administration, Washington D.C. A summary of this data appears in Appendix B 3.
- 53. "Estimated Free World Nickel Consumption 1950-1964", INCO Annual Report, 1964, p. 10.
- 54. Annual Report, 1948, International Nickel Co. of Canada, pp. 22-24.
- 55. John F. Thompson, President and Chairman of the Board, "Address to Shareholders", Annual Meeting, INCO, April 25, 1951, Toronto.
- 56. Annual Reports, INCO, 1948-1963.
- 57. John F. Thompson, President and Chairman, "Address to Shareholders", Annual Meeting, INCO, April 30, 1952, Toronto.
- 58. "No Foreign Nation", The Gazette, Montreal, Tues., May 6, 1958.
- 59. From a press interview with Prime Minister John Diefenbaker quoted in Ibid.
- 60. Various verbatim points made by INCO, Noranda, Alcan and a few other stockpile producers to Canadian civil servants representing these interests to American officials. July 1962, memos; PAC, RG 20, 617, T-3-2130.
- 61. Denis Harvey to Cabell, Vice President, INCO, June 14, 1963; PAC, RG 20, 618, T-3-2368.

- 62. R.A. Cabell, Vice President, INCO, to Ed. A. McDermott, Office of Emergency Planning Washington, Jan. 2, 1963; PAC, RG 20, 617, T-3-2275.
- 63. Ford, Larson, Green and Horan, the CMMA's "Washington Consultants" submitted a "Resume for the CMMA for the month of July 1962" and kept the CMMA briefed on "Matters or Actions Pending Before the Legislative and Executive Branches of the United States Government"; PAC, RG 20, 617, T-3-1161.
- 64. Falconbridge Nickel Co. to Denis Harvey, Commodities Branch of Trade and Commerce, May 4, 1961; PAC, RG 20, 616, T-3-2025.
- 65. Denis Harvey, Memo telegram to A.E. Gallie, Sherritt Gordon Mines Ltd., to G.S. Jewett, Falconbridge Nickel Mines Ltd., and R.Cabell, Vice President of INCO, N.Y., June 2, 1964; PAC, RG 20, Box D, 3-890, Vol. 14.
- 66. R.J. Jones, Chief, Metals and Minerals Division, Trade and Commerce, Memo to Denis Harvey, Assistant Deputy Minister, Commodities and Industries, June 12, 1964; PAC, RG 20, Box D, 3-890, Vol. 14.
- 67. A.F. Killin, Mineral Economics, Mineral Resources Division, Department of Mines and Technical Surveys, to W. Keith Buck, Department of Mines and Technical Surveys, April 27, 1959; PAC, RG 20, 616, T-3-1607.
- 68. E.C. Thorne, Commercial Counsellor, Washington, to R.G.C. Smith, Chief Machinery & Metals, Commodities, Trade & Commerce, Oct. 3, 1957; PAC, RG 20, 616 t-3-1607.
- 69. "USA Lesson: Surplus Metals Are Not Bargain Basement Goods", American Metal Market, Sept. 17, 1962.
- 70. R.J. Jones, Trade & Commerce, Memo, July 16, 1963; PAC, RG 20, 618, T-3-2644.
- 71. Humphrey, Statement before Senate Armed Services Stockpiling Subcommittee, Aug. 15, 1962; PAC, RG 20, Box D, 3-890, Vol. 10.
- 72. Aide Memoire by Denis Harvey, Department of Trade & Commerce, Dec. 4, 1962; PAC, RG 20, Box D, 3-890, Vol. 11.
- 73. Ibid.
- 74. "Reports of the Symington Committee hearings and the obvious 'witchunt' are almost unbelievable. If a <u>fair</u> view of stockpile acquisitions...was the objective, the committee need only read the back issues of the daily metal trade journals!", wrote the President of Noranda Sales Corp. to Denis Harvey, July 23, 1962;

- PAC, RG 20, Box D, 3-890, Vol. 9. The same characterization came from government officials: Memo, External to Trade & Commerce, Aug. 14, 1962; The dissolution of investigative impact was heralded in: Daily Report for Executives, Aug. 13, 1962; PAC, RG 20, 617, T-3-1161.
- 75. M.W. Mackenzie, Trade and Commerce, to Henry S. Wingate, Secretary of INCO, July 7, 1948; PAC, RG 20, Box D, 3-890, Vol. 1. INCO's successful escape in its anti-trust case of 1948 in the United States had received the same Canadian government congratulations and sighs of relief, when civil servants wrote INCO, "It is indeed very good news."
- 76. Memo, External Affairs, Washington, to Trade and Commerce, Ottawa, July 18, 1962; PAC, RG 20, Box D, 3-890, Vol. 9.
- 77. Denis Harvey, Assistant Deputy Minister, to A.M. Tedford, Director Industrial Materials, Trade & Commerce, Feb. 12, 1965; PAC, RG 20, 618, T-3-2902.
- 78. Denis Harvey, Director Commodities, to James Roberts, Associate Deputy Minister Trade & Commerce, Jan. 14, 1960; PAC, RG 20, Box D, 3-890, Vol. 6.
- T.M. Burns, Chief U.S. Division, I.T.R.B., Ottawa, to J.M. Rochon, Commercial Counsellor, Washington, Dec. 16, 1960; PAC, RG 20, Box D, 3-890, Vol. 6.
- 80. Annual Report, 1952, INCO, p. 23.
- 81. Annual Report, 1964, INCO, p. 25.
- 82. Annual Report, 1965, INCO, p. 26.

CHAPTER V1

- 1. For further analysis of this world oil cartel and its historical impact on pricing, oil development, and more general aspects of political and economic control world-wide, see Michael Tanzer, Joe Stork, James Ridgeway, and in Canada see James Laxer, Larry Pratt, and Philip Sykes in the bibliography.
- 2. The book values of investment in the industry classified by country of ownership include all assets held against long-term indebtedness and the equity of shareholders as valued in company accounts. They reflect holdings of mineral and land rights and working capital. With the exception of net inventory accumulation, these assets do not represent gross capital formation in the Canadian economy. Also not reflected necessarily in book values are financing of physical

assets through depreciation, depletion, or amortization or income tax breaks. "International Distribution of Ownership of the Petroleum Industry in Canada", MEMO, Trade & Commerce, pp. 1-7, Jan. 1952, PAC, RG 20, Box E, T-3-2741.

- 3. Alberta Bureau of Statistics, Department of Industries and Labour, 1957, "Total Expenditures of Firms Engaged in the Petroleum Industry of Alberta Oil Firms Proper, 1951-1956"; PAC, RG 20, Box E, T-3-2741.
- 4. <u>Ibid.</u> It is clear that those producers with the least shut-in capacity and the greatest access to markets could accumulate the capital necessary for such land acquisition.
- 5. Alberta Bureau of Statistics, Dept. of Industries and Labour, 1957.
- 6. Ibid.
- 7. Ibid.
- 8. It should be noted that the Government, beside taking company statistics for granted, camouflaged individual company statistics and power whenever possible. Only through listings of refinery capacity and ownership can one construct such figures.
- 9. J.D., memo, to Denis Harvey, Department of Trade and Commerce, Ottawa, Aug. 21, 1950; PAC, RG 20, Box E, T-3-2741.
- 10. Ibid.
- 11. John F. Fairlie, Coordination and Economics Department, Imperial Oil Ltd., "British Columbia's New Oil Supply", B.C. Conference, Victoria, Feb. 29, 1952; PAC, RG 20, Box E, T-3-2741.
- 12. Denis Harvey, Director Commodities Branch, Department of Trade & Commerce, to John Davis, Director Economics Division, Department of Defense Production, June 23, 1953; PAC, RG 20, Box E, T-3-2741.
- 13. W.O. Twaits, Imperial Oil, To K.W. Taylor, Deputy Minister of Finance, Ottawa, Nov. 26, 1953, (with copies to W.F. Bull, Deputy Minister of Trade & Commerce); PAC, RG 20, Box E, T-3-2741.
- 14. Twaits to Taylor, op. cit.
- 15. Quoted in ibid.
- 16. Twaits to Taylor, op. cit.
- 17. Ibid.

- 18. Palmer Publications, which produced the World Petroleum Report, requested such information about Canadian policy on foreign investment on Dec. 1, 1958, and Trade & Commerce Minister, Gordon Churchill, replied there were no restrictions on foreign investment and all capital was equally welcome and secure in Canada, on Dec. 17, 1958. Similarly the Federal Government published and sent to its trade counsellors around the world, "Government Policy in the Canadian Petroleum Industry", Reference Paper No. 96, Department of External Affairs, June 1957, a 13 page document outlining all the advantages of investment to both domestic and foreign capital and the minimal governmental regulations that obtained in Canada.
- 19. W.O. Twaits, Imperial Oil, to Honourable E.C. Manning, Legislative Buildings, Edmonton, Alberta, Dec. 31, 1957; PAC, RG 20, Box E, T-3-2741. Full text of this policy-making letter is in Appendix C 2.
- 20. Ibid.
- 21. Ibid.
- 22. Ibid.
- 23. Ibid.
- 24. Ibid.
- 25. Ibid.
- 26. Reply prepared by the Department of Trade & Commerce and the Department of Mines and Technical Surveys on behalf of the Government of Canada, 1951; (See Appendix C 1); PAC, RG 20, Box E, T-3-2741.
- 27. Ibid.
- 28. Quotes of John Davis' opinions in a memo, "Conversation with Eric West-brook re Pipe Requirements of a Pipeline to Montreal, July 25, 1958".
- 29. Ibid. from E. McPhedran to D.M. Fraser; PAC, RG 20, Box E, T-3-2743.
- 30. Gordon Churchill to Charles S. Lee, President, Western Decalta Petroleum Ltd., Alberta, Jan. 28, 1958, requesting a copy of Walter Levy's report, to be made public; PAC, RG 20, Box E, T-3-2741.
- 31. G.W. Green, Energy Studies Branch, Trade and Commerce, to J.H. Warren, Assistant Deputy Minister, Trade & Commerce, inter-office correspondence, "Borden Commission Second Report", p. 1, Oct. 8, 1959; PAC, RG 20, Box E, T-3-2743.
- 32. G.W. Green, Energy Studies Branch, T and C, to J.H. Warren, Assistant Deputy Minister, T and C, inter-office correspondence, "Borden Commission Second Report", p. 2, Oct. 8, 1959; PAC, RG 20, Box E, T-3-2743.

- 33. Ibid., p. 4.
- 34. Ibid., p. 4.
- 35. Editorial, The Calgary Herald, August 24, 1959, as quoted in memo, N.R. Chappell, Washington D.C., to H. Kanenburg, Fuels Division, Department of State, Ottawa, Sept. 3, 1959 (with copies to A.E. Ritchie, D.M. Fraser, and G.W. Green); PAC, RG 20, Box E, T-3-2743.
- 36. Ibid.
- 37. Editorial, The Globe and Mail, August 31, 1959.
- 38. George A. Lewis to The Borden Commission, July 8, 1958; PAC, RG 20, Box E, T-3-2743.
- 39. Ibid.
- 40. George A. Lewis, Como, P.Q., "Letter to the Editors" (newspaper not noted, letter maintained in Trade and Commerce files), March 21, 1958; PAC, RG 20, Box E, T-3-2743.
- 41. William H. Hessler, "A Gentle Threat to Seven Giants", <u>The Reporter</u>, reprinted in <u>The Calgary Herald</u>, Jan. 7, 1960; PAC, RG 20, Box E, T-3-2743.
- 42. Ibid.
- 43. Report of an Interdepartmental Meeting to discuss the offshore purchase of petroleum products at Churchill, held April 9, 1959, Ottawa, p. 1; PAC, RG 20, Box E, T-3-2743.
- 44. Ibid.
- 45. G.W. Green, Energy Studies Branch, Trade and Commerce, memo to D.M. Fraser, same, Ottawa, April 10, 1959; PAC, RG 20, Box E, T-3-2743.
- 46. Churchill Requirements of Petroleum Products, Meeting, May 7, 1959, Ottawa, PAC, RG 20, Box E, T-3-2743. Text of Mr. Robert's comments, Assistant Deputy Minister, Trade & Commerce, Interdepartmental Meeting on the purchase of offshore oil at Churchill, April 9, 1959; and Memo, D.M. Erskine, Director General Purchasing Branch, DDP, Oct. 21, 1959; PAC, RG 20, Box E, T-3-2743.
- 47. Ibid., Memo, D.M. Erskine.
- 48. M.J. Mahoney, Assistant Director Small Business Branch, to Assistant Deputy Minister, Mr. Roberts, Trade and Commerce (copy to D. Fraser, Energy Studies Branch), Ottawa, Jan. 22, 1959; PAC, RG 20, Box E, T-3-2743.

- 49. Ibid.
- 50. D.M. Erskine, Director General Purchasing, DDP, to J.A. Roberts, Associate Deputy Minister, Trade & Commerce, Oct. 21, 1959; PAC, RG 20, Box E, T-3-2743.
- 51. G.W. Green, Memo: Oil Imports at Churchill, to The Chairman, NEB, Jan. 19, 1960; PAC, RG 20, Box E, T-3-2743. See Appendix C 4.
- 52. Ibid.
- 53. Ibid.
- 54. Ibid.
- 55. M.J. Mahoney, Assistant Director, Small Business Branch, to J.A. Roberts, Deputy Minister, Trade & Commerce, May 11, 1960, "Churchill Imports of Petroleum Products", Memo; PAC, RG 20, 587, T-3-2744.
- 56. G.W. Green, Economics Branch, Trade & Commerce, to G.W. Stead, Director General Marine Services Branch, Transport, Dec. 4, 1959; PAC, RG 20, Box E, T-3-2743.
- 57. Memo: Letter to Mr. D.M. Erskine, M.J. Mahoney, Assistant Director Small Business Branch, Trade & Commerce, to J.A. Roberts, Assistant Deputy Minister, Trade and Commerce, Oct. 26, 1959 (misdated 1969); PAC, RG 20, Box E, T-3-2743.
- 58. Gordon Churchill, Minister of Trade and Commerce, Ottawa, to H. Barrows, Editor, World Petroleum Report, New York, Dec. 17, 1958; PAC, RG 20, Box E, T-3-2743.
- 59. Ibid.
- 60. Ibid.
- 61. E. McPhedran to D.M. Fraser, Trade and Commerce, July 28, 1958, "Conversation with Eric Westbrook re Pipe Requirements of a Pipeline to Montreal, July 25, 1958"; PAC, RG 20, Box E, T-3-2743.
- 62. John H. English, Commercial Counsellor, Canadian Embassy, Washington, D.C., to W.F. Bull, Deputy Minister, Trade & Commerce, Ottawa, Oct. 22, 1952, and subsequent correspondence with and on 'Mr. Champion'; PAC, RG 20, Box E, T-3-2741.
- 63. Oil in Canada, Aug. 17, 1959 and in a Trade and Commerce Memo:
 Murphy Corp. Purchases Vigor Oil, Ontario Marketing Firm; PAC, RG 20,
 Box E, T-3-2743.
- 64. Press Release, Great Northern Oil Purchasing Company, Regina, Saskat-chewan, Canada, Nov. 30, 1959; PAC, RG 20, Box E, T-3-2743.

- 65. On December 2, 1959, G.W. Green informed NEB Chairman, I.N. McKinnon, that the price-fixing of Canadian oil by midwestern refineries (including Murphy) had "clear reasons", but was just surprising because so sudden; after all, "It was understood that no action on pricing would be taken without due notice being given to the Saskatchewan Government, and to the best of my recollection, to Captain Carson (U.S. Department of Interior)". PAC, RG 20, Box E, T-3-2743.
- 66. Telegram, Canadian Embassy, Washington, D.C., to External Affairs, Ottawa, May 7, 1958; PAC, RG 20, Box E, T-3-2743.
- 67. Telegram, Canadian Embassy, Washington, D.C., to External Affairs, Ottawa, and Trade & Commerce, May 12, 1958; PAC, RG 20, Box E, T-3-2743.
- 68. Ibid.
- 69. <u>Ibid</u>.
- 70. Memo, John H. English, Acting Deputy Minister (External Affairs), to Under Secretary of State for External Affairs, Ottawa, "Nomination of Mr. Hurd to Serve on a Committee of the U.S. Military Petroleum Advisory Board", May 1958; PAC, RG 20, Box E, T-3-2743.
- 71. Ibid.
- 72. Ibid.
- 73. Exerpt from Letter Received, Trade & Commerce, Feb. 19, 1958; PAC, RG 20, Box E, T-3-2743.
- 74. The posted price of fuel oil in Montreal was \$2.98 a barrel while the Caribbean price landed in Canada was \$2.60, a pattern which persisted between 1955-57.
- 75. N.R. Chappell Canadian Embassy, Washington, D.C., to I.N. McKinnon, Chairman, NEB, may 18, 1961; PAC, RG 20, 587, T-3-2755.
- 76. Telegram, External Affairs, to Washington Embassy, April 14, 1960, "New Oil and Gas Regulations"; PAC, RG 20, 587, T-3-2744.
- 77. The concern of External Affairs was not over the weakness of regulation on Northern oil and gas development but about "the possible effect...in granting us an exemption from the oil import restrictions in the United States." Ibid.
- 78. National Energy Policy, Department of Trade & Commerce, Feb. 1, 1960, p. 23; PAC, RG 20, 587, T-3-2744.
- 79. Ibid., p. 3.

- 80. Ibid., p. 3.
- 81. Ibid., p. 3.
- 82. Ibid., p. 3; Washington Embassy Telegram to External, Nov. 2, 1961, "Oil CDN Oil Exports and Columbia River"; PAC, RG 20, 587, T-3-2756, stated: "We understand that Southam Papers printed a story out of Washington, D.C...yesterday November 1, which indicated that an official of Interior had linked Canadian position on Columbia River Treaty with possible treatment which might be meeted out to Canadian oil and natural gas...Today Acting Secretary of Interior Carr gave a Canadian newsman a statement...that no such vindictive plan would receive any consideration in the Department of the Interior."
- 83. <u>Ibid</u>., p. 4.
- 84. National Energy Policy, Feb. 1, 1960, op. cit., p. 5.
- 85. In a rundown of petroleum exports, Green told an inquirer, "petroleum product exports are not listed since they are negligible"; G.W. Green, ITRB, to W. Hrynewick, Noranda, Quebec, June 13, 1960; PAC, RG 20, 587, T-3-2744.
- 86. Statement for Mr. Churchill on the Borden Commission Report, W.A.K., Department of Trade & Commerce, Feb. 2, 1960; PAC, RG 20, 587, T-3-2744.
- 87. G.W. Green, ITRB, to J.A. Roberts, Deputy Minister, Trade & Commerce, July 6, 1960; PAC, RG 20, 587, T-3-2745.
- 88. Those proposals being considered were: (1) Mid-continent Pipe Line Chicago 3000,000 b/d; (2) Pembina (condensate) Chicago 60,000 b/d; and (3) British American Toledo 10,000 b/d. All involved multinational producers.
- 89. Green to Roberts, op. cit., July 6, 1960.
- 90. Canada-U.S. Trade in Oil and Gas, Draft, June 17, 1960, Trade & Commerce; PAC, RG 20, 587, T-3-2744.
- 91. Ibid.
- 92. Ibid.
- 93. Ibid.
- 94. Green to Roberts, July 6, 1960, op. cit.
- 95. Canada-U.S. Trade in Oil and Gas, June 17, 1960, op. cit., p. 4.
- 96. Ibid., pp. 4-5.

- 97. Exerpt from the House, Congressional Record, Monday, June 27, 1960; PAC, RG 20, 587, T-3-2744.
- 98. Ibid.
- 99. A Proposed 'National Oil Policy' for Canada, by Carl O. Nickle, Publisher of Oil in Canada, Sept. 15, 1960; PAC RG 20, 587, T-3-2745.
- 100. Green, ITRB, to R. Campbell Smith, Director ITRB, Oct. 31, 1960; PAC, RG 20, 587, T-3-2745.
- 101. Ibid.
- 102. Statement on National Oil Policy, George Hees, Minister of Trade & Commerce, Feb. 1, 1961; PAC, RG 20, T-3-2755.
- 103. Ibid.
- 104. W.O. Twaits, Office of the President, Imperial Oil Ltd., "To All Imperial Employees", Feb. 10, 1961; PAC, RG 20, 587, T-3-2755.
- 105. Ibid.
- 106. Ibid.
- 107. Ibid.
- 108. Ibid.
- 109. Echo de la Bourse, Feb. 20, 1961.
- 110. Ibid.
- 111. Bill (W.O. Twaits), Imperial Oil Ltd., to The Honourable George Hees, Minister of Trade and Commerce, March 8, 1961, with copies to I.N. McKinnon; PAC, RG 20, 587, T-3-2755.
- 112. Bill (W.O. Twaits), Imperial Oil Ltd., to George Hees, March 8, 1961, op. cit.
- 113. <u>Ibid.</u> The memorandum "attached" no longer remains in Trade & Commerce files.
- 114. G.W. Green, General Relations Division, ITRB, to Director, ITRB, "Export Markets for Canadian Crude Oil", April 27, 1961; PAC, RG 20, 587, T-3-2755.
- 115. Ibid.
- 116. Ibid.

- 117. Ibid.
- 118. Ibid.
- 119. N.R. Chappell, to I.N. McKinnon, "Assistant-Secretary of Interior Kelly's Views re Montreal Pipeline", Sept. 6, 1961; PAC, RG 20, 587, T-3-2756.
- 120. Ibid.
- 121. Ibid.
- 122. N.R. Chappell, "Effect of Exchange Rate on Canadian Oil Marketings in U.S.", June 22, 1961; PAC, RG 20, 587, T-3-2756. This got coverage in the American newspaper, The Journal of Commerce, as well as other business and most petroleum media.
- 123. Address by Honourable George Hees, Minister of Trade & Commerce to the Canadian Petroleum Association in Calgary, Alberta, on Thursday, March 23, 1961; PAC, RG 20, 587, T-3-2755.
- 124. <u>Ibid.</u>, p. 6.
- 125. Ibid., p. 8.
- 126. Ibid., p. 9.
- 127. Ibid., p. 10.
- 128. Ibid., p. 11.
- 129. Ibid., p. 11.
- 130. Ibid., p. 16.
- 131. "Problems Affecting Canadian Participation in the Development of the Oil and Gas Industry in Canada", by G.H. Cloakey, Calgary, CPA Meeting, March 1961; PAC, RG 20, 587, T-3-2755...
- 132. Remarks by J.R. White, President, Imperial Oil Ltd., Annual General Meeting of Shareholders, Toronto, Ontario, April 29, 1960.
- 133. Ibid.
- 134. Ibid.
- 135. Ibid.
- 136. <u>Ibid</u>.

- 137. W.O. Twaits, Executive Vice-President, Imperial, General Meeting of Shareholders, Toronto, April 29, 1960.
- 138. Ibid.
- 139. <u>Ibid.</u>; The project which stirred the hearts of many a civil servant with pride to be a Canadian, was the one in which Richfield Oil of California Cities Service and Imperial proposed to have the tar sands "opened up" with the use of an underground atomic explosion. Details of this are included in the discussion of "big projects" in which the majors were at this time assuring themselves a place.
- 140. Ibid.; "In the retail price wars, we have followed two objectives to retain our share of the market, and to maintain our marketing
 organization and the position of our dealers. We need to be able
 to effect rapid price changes at the retail level...We have achieved
 these goals with the company absorbing the major share of price
 reductions."
- 141. Ibid.
- 142. Translation, La Republica, Msrch 4, 1963; PAC, RG 20, 587, T-3-2757.
- 143. G.K. McCormack, Chemicals Division, T and C, Ottawa, to Mrs. B. Robertson, Regional Officer, St. John's Nfld., May 1, 1963; PAC, RG 20, 587, T-3-2757.
- 144. Ibid.
- 145. Ibid.

CHAPTER V11

- 1. Memos and correspondence concerning requests for Canadian oil by all of these countries appear in the following Trade and Commerce files: PAC, RG 20, Vol. 588, T-3-2738, T-3-1731, T-3-2757. Letter Dec. 19, 1958 of the Consul General of Canada, Philippines, to Assistant Deputy Minister, Trade and Commerce, (T-3-2738) said Taiwan's state oil company sought Canadian oil in 1954 and 1958 because it is "dependent on two or three American oil companies for supplies of crude from the Persian Gulf area. The Chinese are most interested in obtaining possible alternative supplies...to safeguard their position".
- 2. J.H. English, Director, Trade Commissioner Service, to John Davis, Associate Director, Economics Branch, April 12, 1955; PAC, RG 20, Box E, T-3-2741.
- 3. Ralph Toombs (for Davis), Economics Branch, to J.English, April 22, 1955; PAC (Ibid.)

- 4. Ibid.
- 5. Ibid.
- G.E. McCormack, Chemical Division, Ottawa, to R.G.C. Smith, Minister, Commercial, Tokyo, Japan, March 11, 1964; PAC, RG 20, 587, T-3-2757.
- 7. Ibid.
- 8. Canadian Commercial Secretary, Paris to Commissariat à l'Energie Atomique, Paris, Sept. 8, 1955, in reply to a request from same August 23, 1955; PAC, RG 20, 588, T-3-2738. The French had also attempted to work out a barter deal for oil with Canada in exchange for credits to sell French goods in Canada to no avail. R.C. Smith, Commercial Counsellor, Paris, to Assistant Deputy Minister H.L. Brown, Trade & Commerce, July 2, 1958; PAC, RG 20, Box E, T-3-2743.
- 9. "Spotlight on Oil Drilling Equipment", Quote from foreword by George Hees, Minister Trade and Commerce, Industrial Promotion Branch, Domestic Commerce Services, Nov. 15, 1961; PAC, RG 20, Box B, 35-5-2, Vol. 3.
- 10. Ibid., p. vi.
- 11. <u>Ibid</u>., p. v1.
- 12. Ibid., p. vi.
- 13. Ibid., p. 14.
- 14. Ibid., p. 14.
- 15. Ibid., p. 20.
- 16. Ibid., p. 20.
- 17. The Statesman, Nov. 20, 1958, An Article on India's oil agreement with the Roumanians, reprinted in a Department of External Affairs memo; PAC, RG 20, 588, T-3-2738.
- 18. E.C. Thorne, Chief of Machinery and Metals Division, Trade and Commerce, to Commercial Counsellor, Mexico, Aug- 24, 1953, Re Pemex Expansion; PAC, RG 20, 588, T-3-2738.
- 19. M.T. Stewart, Commercial Counsellor, Mexico, to Denis Harvey, Director, Commodities, Foreign Trade, Trade and Commerce, Aug. 17, 1953; PAC, RG 20, 588, T-3-2738.

- 20. E.C. Thorne, Chief, Machinery and Metals Division, Commodities Branch, Trade and Commerce, Ottawa, to H.W. Richardson, Commercial Secretary, Athens, "Greek Government Plan to Establish an Oil Refinery", Oct. 30, 1953; PAC (ibid.)
- 21. Canadian Embassy, New York, Memo on Roumanian proposal at UN marked "restricted", to External Affairs, Ottawa, Oct. 22, 1959; PAC, RG 20, 588, T-3-2738.
- 22. Ibid.
- 23. Several memos on the Trinidad question and Canadian export of refinery inputs appear in PAC, RG 20, 588, T-3-2738 and -2739. Canada failed even to arrange to get oil from Trinidad once the U.S. decided to do same in exchange for surplus flour.
- 24. The Canadian Ambassador, Buenos Aires (and Argentina), to Secretary of State for External Affairs, Ottawa, "Exploitation of Argentina's Petroleum Resources", "Restricted", Sept. 11, 1953; PAC, RG 20, 588, T-3-2738.
- 25. Acting Commercial Secretary, Bombay, to Director, Trade Commissioner Service, Ottawa, Report entitled, "Burma's Oil Industry Struggles Towards Recovery: Partial Nationalization in Prospect" for possible publication in "Foreign Trade", Sept. 14, 1953; PAC, RG 20, 588, T-3-2738.
- 26. S.H. Nutting, for Ambassador, "Activities of Intercol and Shell Oil in Columbia", The Canadian Embassy, Bogata, Columbia, to Under-Secretary of State for External Affairs, Ottawa, Oct. 28, 1953; PAC, RG 20, 588, T-3-2738.
- 27. Ibid.
- 28. Aside from International Petroleum Company Ltd.'s operations in Columbia, another foreign-owned "Canadian" company, Canadian Eagle Oil Co. Ltd. was extremely active. It's head office was in Toronto and it had been incorporated in Canada under Federal Charter in 1928. It was one of the Royal Dutch-Shell group. In 1956 it produced 14.9 million of the 44 million barrels of Columbian total petroleum production. The "Canadian" Shell Oil Company now incorporated all Shell group companies. Intercol, owned by Imperial 1920-1948, was then bought by Standard of New Jersey.
- 29. Commissioner of Lands and Mines, British Guyana, replying on November 16, 1953 to J.A. Morton, Esq., Montreal, Canada, as referred to the Commissioner by the Canadian Trade Commissioners; PAC, RG 20, 588, T-3-2738.

- 30. Report, "Enrico Mattei and Italian Petroleum Policy", marked "restricted", from the Canadian Embassy, Rome, Jan. 15, 1962, to Mr. Ritchie, External Affairs, Ottawa; copies to Paris Embassy, Cairo, Bonn, Vienna, Peru, The Hague, Washington, NATO, and AID; PAC, RG 20, 588, T-3-1731.
- 31. Ibid.
- 32. N.R. Chappell, Canadian Embassy, Washington, To I.N. McKinnon, Chairman, NEB, Jan. 16, 1962; PAC, RG 20, 588, T-3-1731.
- 33. N. Katzenbach, Deputy Attorney General, U.S. Department of Justice, to John M. Kelly, Assistant Secretary of Interior, Aug. 11, 1962; PAC, RG 20, 590, T-3-2751.
- 34. In 1950 Chile adopted a nationalist energy policy. It was not granted "modernization and development" loans by the International Bank for its coal mining industry; in 1956 it abandoned nationalist policies and let the major oil companies again have a free hand. Journal of Commerce, June 24, 1959, N.Y., also noted Inter-American Development Bank officially refused to loan for oil development undertaken by "Government monopolies".
- 35. High Commissioner for Canada, Ghana, "Oil Refinery in Ghana", "restricted" to Trade and Commerce, Ottawa, and other departments and posts, Dec. 12, 1959; PAC, RG 20, 588, T-3-2739; and Trade and Commerce memo, Feb. 5, 1963; File T-3-1731, Vol. 588.
- 36. Memo, Commonwealth Division, I.T.R.B., Ottawa, From Lagos, Nigeria, Mar. 19, 1962; PAC, RG 20, 588, T-3-1731.
- 37. A speech delivered by Senator Keating of New York, Friday, May 11, 1962 and reprinted and circulated by Canadian civil servants; in Trade and Commerce files PAC, RG 20, 588, T-3-1731.
- 38. A.M. Tedford to T.V. Harquail, Chemical Division, Ottawa, Feb. 28, 1959; PAC, RG 20, 588, T-3-2739.
- 39. R.R. Parlour, Commercial Counsellor, to Chief LatinAmerica Division, International Trade Relations Branch, Trade and Commerce, Aug. 23, 1960; PAC, RG 20, 588, T-3-2740.
- 40. <u>Ibid</u>. While Batista reigned, Canada allowed its name to be used by U.S. investors in the company, Cuban-Canadian Oil, a wholly-owned subsidiary of American LeDuc Petroleum for oil drilling. Once Castro came to power with revolutionary development policies, the Canadian Government made its alliance with US-dominated forms clearer. Memo on Cuban-Canadian Oil Co., Trade and Commerce, 1954; PAC, RG 20, 588, T-3-2738.

- 41. Canadian Minister, Stockholm, to Ottawa, Trade and Commerce, Memo on Russian oil, "restricted", March 23, 1954; PAC, RG 20, 588, T-3-2738.
- 42. W. Jones, Commercial Counsellor, Rio de Janerio, Brazil, to Chief of the Latin America Division, International Trade Relations Branch, Trade and Commerce, Ottawa, June 4, 1962; PAC, RG 20, 590, T-3-2751.
- 43. Canadian Trade Commissioner, Cape Town, M.R. Dale, to Commonwealth Area Trade Officer, July 22, 1959; The Company, Trans-American Mining Corp. Ltd. was acknowledged to be a cover: "It seems obvious from this report (Dunn & Bradstreet) that the company's operating in Canada mainly for taxation reasons. However, as you say...the publicity may do us some good...favouring Canadian suppliers." R.A. Frigon, Chief Engineering & Equipment Division, Trade and Commerce, to M.R.M. Dale, Capetown, Aug. 14, 1959; PAC, RG 20, 588, T-3-2739.
- 44. D.H. Cheney, to Chief Latin American Division, International Trade Relations Branch, Feb. 12, 1960; PAC, RG 20, 588, T-3-2739.
- 45. R.B. Clarke, La Paz, Bolivia, to D. Cheney, Canadian Embassy, Lima, Peru, Feb. 10, 1960; PAC (ibid.)
- 46. Argentine, Chilean, Peruvian, Ghanan and Congolese examples are only a few that indicate the boycott various international lending agencies placed on countries which discriminated against foreign capital in any way. So effective was this tactic of cutting off the life-blood of credit that almost all such countries came to heel and reversed such policies in the late 1950's or early 1960's. When Argentina revoked contracts for oil production from foreign major oil companies who were not developing these oil concessions, Standard Oil of Indiana retaliated by having U.S. aid cut off to Argentina. Chicago Tribune, Nov. 20, 1963.
- 47. Canadian Ambassador in Turkey to Trade and Commerce, Ottawa, Jan. 20, 1953; PAC, RG 20, 588, T-3-2738. Spain's revamped laws allowing better access to foreign capital were finalized in 1958. One of the first languages Canadian mining and petroleum laws were translated into in 1957-58 was Spanish, and full copies went to the Canadian Embassy in Spain; PAC, RG 20, 588, T-3-2738.
- 48. Memo, Trade and Commerce, Re: ECAFE Petroleum Symposium, Sept. 1962; PAC, RG 20, 588, T-3-2740.
- 49. N.R. Chappell to I.N. McKinnon, Chairman, NEB, Memo on how Kuwait gave major's off-shore concessions (especially Shell) for assurance on prices and production levels, not involving participation by Kuwaiti capital or the state; PAC, RG 20, 588, T-3-2740.

- 50. N.R. Chappell to I.N. McKinnon, Memo, with W.J. Levy report attached and copies to R.C. Smith, G.W. Green and other top level state officials, Dec. 29, 1960; PAC, RG 20, 588, T-3-2740.
- 51. D.S. Armstrong, Canadian Commercial Counsellor, Cairo, to Executive Director, Trade Commissioner Service, T.R.G. Fletcher, Aug. 25-1960; PAC (ibid.)
- 52. Canadian Deputy Minister of Mines and Technical Surveys, Ottawa, to Under Secretary of State for External Affairs, Jan. 6, 1951; PAC, RG 20, 588, T-3-2738.
- 53. Director, Commodities Branch, Trade and Commerce, To Commercial Secretary, Canadian Embassy, Buenos Airies, Argentina, Feb. 9, 1951; PAC, RG 20, 588, T-3-2738.
- 54. Bisset, Commercial Secretary of Canada, Argentina, to John D. Keary, Ambassador to Argentina, Mar. 27, 1951; PAC, RG 20, 588, T-3-2738.
- 55. Memos, Trade and Commerce, on Third World Petroleum Congress, May-June, 1951; PAC, (ibid.)
- 56. Memo, Trade and Commerce, on Placer Development Company, Oct. 31, 1955 and Aug. 20, 1956. It should be noted that Canadian officials had no qualms about assuring the Syrians that Placer was both "sound" financially and that "no jews" were involved in it. It too may have been a "disguised" American company given its backing and the fact its president, Charles Bank, resided in San Francisco.
- 57. C.E.C.D., Draft Agenda, "restricted", to Privy Council, Jan. 10, 1962; PAC, RG 20, 588, T-3-1731. When McKinnon decided not to go to Tehran, he had to notify the U.S. State Department and U.K. petroleum attaché of his change in plans. External Affairs, Ottawa, to Canadian Embassy, Washington D.C., Feb. 8, 1962; PAC, RG 20, 588, T-3-1731, (ibid.)
- 58. Chief European Division, I.T.R.B., Trade and Commerce, W.G. Pybus, June 22, 1962; PAC (ibid.)
- 59. High Commissioner for Canada, Port-of-Spain, Trinidad, "Report on Inquiry into Trinidad's Oil Industry", Nov. 10, 1964; PAC, (ibid.)
- 60. Platt's Oilgram, "Imperial Sees Search Spur Needed in Canada to Meet Demand in '70", Friday, October 5, 1962.

- 61. Sweden, having earlier complained of Russian oil being dumped in its country to such an extent that several competing fuel industries were suffering, requested Canadian oil again in Dec. 1965. Again the answer was "no" and the excuse given was that there was not enough Canadian oil or it was not "competitive" in Sweden's market. Memos on Soviet oil and the European market, Trade and Commerce; PAC, RG 20, 588, T-3-1731.
- 62. For a fuller description of the power and structure of international corporate control of energy see Chapter Six and particularly the work of James Ridgeway, The Last Play: The Struggle to Monopolize the World's Energy Resources, 1973.
- 63. D. Harvey, Director, Commodities Branch, to M.W. Sharp, Associate Deputy Minister Trade and Commerce, Memo: "Effect of Oil Tanker Diversions on Canadian Oil Imports", Jan. 28, 1957; PAC, RG 20, Box E, T-3-2741.
- 64. <u>Ibid</u>. These companies' imports (mainly from Venezuela) showed a high degree of inter-agreement in supply arrangement. Shell imported 25,000 b/d, Petrofina 125,000 b/month from Venezuela and 475,000 b/month from the U.S. Gulf area. Neither B.A. nor Imperial disclosed their figures to the state, but said all their imported oil was coming from Venezuela during the "crisis".
- 65. J.R. White, President of Imperial Oil to John H. English, Deputy Minister, Trade and Commerce, Oct. 15, 1958, quoting from a letter received from the Venezuelan subsidiary's president, H.W. Haight, Oct. 9, 1958; PAC, RG 20, 588, T-3-2738.
- 66. J.R. White, President of Imperial Oil to English, Deputy Minister, Trade and Commerce, Oct. 15, 1958, op. cit.
- 67. John English, Deputy Minister Trade and Commerce, to J.R. White, President, Imperial Oil Ltd., Toronto, Oct. 23, 1958; PAC, RG 20, 588, T-3-2738.
- 68. English to White, op. cit.
- 69. Ibid.
- 70. Ibid.
- 71. English to White, op. cit.
- 72. R.B. Toombs, Chief, Mineral Resources Division, Dept. of Mines and Technical Surveys, to T.V. Harquail, Commodities Branch, Trade and Commerce, Sept. 9, 1957; PAC, RG 20, 588, T-3-2738.
- 73. Ibid.

CHAPTER V111

- 1. R.G.C. Smith, Commercial Minister, Trade and Commerce, to P.S. Bonney, Alcan Ltd., Tokyo, Sept. 11, 1963; PAC, RG 20, 593, T-3-2839.
- 2. Ibid.
- 3. Ibid.
- 4. M.N. Murphy, Chief Forest Products, Trade and Commerce, Ottawa, to R. Campball Smith, Minister-Counsellor and Consul, Paris, Feb. 5, 1965; PAC, RG 20, 593, T-3-2839.
- 5. M.N. Murphy to R.C. Smith, op. cit.
- 6. Howard E. Campbell, Consul, Dusseldorf, to T.R.G. Fletcher, Deputy Minister, International Trade Promotion, Trade and Commerce, Ottawa, Nov. 25, 1964; PAC, RG 20, 593, T-3-2839.
- 7. Ibid.
- 8. Ibid.
- 9. R.F. Renwith, Regional Manager, Vancouver, to M.N. Murphy, Chief Forest Products, Trade and Commerce, Ottawa, Nov. 24, 1964; PAC, RG 20, 593, T-3-2839.
- Memo, Trade and Commerce, London, to Trade and Commerce, Winnipeg,
 R.E. Grose, Deputy Minister of Commerce, April 1965; (PAC, op. cit.)
- 11. News report, CBC, FM radio, Montreal, February 14, 1977.
- B. Robertson, Regional Officer, St. John's, Newfoundland, to M.N. Murphy, Chief Forest Products, Trade and Commerce, Ottawa, April 13, 1964; PAC, RG 20, 593, T-3-2839.
- 13. <u>Ibid</u>.
- 14. Memo to B. Robertson, Regional Officer, St. John's Newfoundland, to B.A. Keys, Economic Council of Canada, Ottawa, Sept. 25, 1964; PAC, RG 20, 593, T-3-2839.
- 15. Ibid.
- B. Robertson, Regional Officer, St. John's, Newfoundland, to M.N. Murphy, Chief Forest Products, Ottawa, Oct. 29, 1963; PAC, RG 20, 593, T-3-2839.
- 17. Ibid.
- 18. B. Robertson to M.N. Murphy, Nov. 14, 1963; (PAC, Ibid.)

CHAPTER VIII (Cont'd.)

- 19. B. Robertson to M.N. Murphy, Jan. 15, 1965; (PAC, Ibid.)
- J.R. Smallwood, Speech from the Throne, House of Assembly, St. John's, Newfoundland, Jan. 27, 1965; (PAC, Ibid.)
- 21. Evening Telegram, St. John's, Newfoundland, Jan. 27, 1965; (PAC, Ibid.)
- 22. B. Robertson to M.N. Murphy, Feb. 22, 1965; (PAC, <u>Ibid</u>.)
- 23. B. Robertson to M.N. Murphy, Mar. 8, 1965; (PAC, Ibid.)
- 24. "Letter to the Editor", Evening Telegram, St. John's Newfoundland, Apt. 7, 1965; (PAC, Ibid.)
- 25. External Affairs, Ottawa, to Trade and Commerce officials, Helsinki, Finland, April 1, 1965; (PAC, Ibid.)
- 26. Ibid.; Robertson to Murphy, April 14, 1965; (PAC, <u>Ibid.</u>) The Finnish company, United Paper Mills, a multinational founded at the turn of the century, operated 7 paper mills, 7 mills for conversion of paper to consumer products, a glass factory, a textile mill, and a machine plant. Most of these were in Finland, the rest in Italy. It marketed to over 100 countries. It would give Smallwood no promises about constructing secondary plants in Newfoundland nor any concerning security of employment. Finnish engineers and managers would design and run the mill.
- 27. "Editorial", Evening Telegram, St. John's, Newfoundland, Apr. 7, 1965; (PAC, Ibid.)
- 28. John Meyer, "Provinces Giving Too Much in Return for Industry", Gazette, Montreal, P.Q., April 19, 1965; (PAC, Ibid.)
- 29. R. Schwindt, Royal Commission on Corporate Concentration Study No. 15,
 The Existence and Exercise at Corporate Power: A Case Study of
 MacMillan Bloedel Ltd., Mar. 1977, p. 179.
- 30. Ibid., p. 178.
- 31. Ibid., pp. 216-217.
- 32. Ibid., pp. 217-218.
- 33. The Montreal Star, Monday, October 24, 1977. The ad warned that the Canadian industry could lose out steadily to the Americans, who enjoyed "a more sympathetic economic climate". When business people refer to the 'economic climate'...they're also talking about people's feelings toward industry and government policies that affect it."

- 34. R.T. Naylor, The History of Canadian Business, 1867-1914, Vol. 11, 1975, Chapter XIII.
- 35. Economic Council of Pontiac, "Brief Concerning the Site for the Proposed Pulp and Paper Mill to be Built by the Consolidated Paper Corporation", July 8, 1964; PAC, RG 20, 593, T-3-2839.
- 36. Ibid.
- 37. Rex Lucas, Minetown, Milltown, Railtown: Life in Canadian Communities of Single Industry, 1971, p. 83.
- 38. Ibid., p. 83.
- 39. Ibid., p. 82.
- 40. Ibid., p. 394-395.
- 41. R. Schwindt, Case Study of MacMillan Bloedel Ltd., pp. 183-184.
- 42. Ibid.
- 43. Ibid., p. 190.
- 44. Ibid., p. 188.
- 45. Ibid., p. 190.
- 46. <u>Ibid.</u>, p. 192. Demands by the Indian band in question to be awarded the Tree Farm Licenses have not been met by the B.C. Government.
- 47. The Case Study of MacMillan Bloedel Ltd. summarizes the monopoly access to timberland use which MB obtained and the accompanying features of forest management via private enterprize which occurred in the British Columbia industry between 1946 and 1976. The demands of the company shifted over time as its degree of integration and power increased, but each Royal Commission (the two Sloan and the Pearse inquiries) received ample representation of these MB interests and came up with systemmatic concilliation to them. Ibid., pp. 193-198.
- 48. Clement, Continental Corporate Power, 1977, p. 105.
- 49. Ibid., p. 327.
- 50. Philip Mathias, Takeover, 1976, p. 180.
- 51. John Van der Feyst, "Papermaking: Will the Machines Slow Down?", Canadian Business Magazine, March 1975, pp. 12-14.
- 52. Ibid.

- 53. <u>Ibid</u>.
- Canadian Environmental Control Newsletter, No. 139, Commerce Clearinghouse Canadian Limited, Jan. 2, 1979.
- 55. Last Post, February, 1979.
- 56. Canadian Environmental Control Newsletter, No. 139, Jan. 2, 1979.
- 57. Water and Pollution Control, Feb. 1979, Southam Business Publications.
- 58. Tom Kennedy, "The Canadian Oil Business Swarms with Takeovers", <u>The Christian Science Monitor</u>, Tuesday, Jan. 2, 1979, p. 11.
- 59. Ibid.
- 60. Ibid.
- 61. See: Report of the Commission on Corporate Concentration, 1978;
 "An Exercise in Legitimation" in P.K. Gorecki and W.T. Stanbury (eds.),
 Perspectives on the Royal Commission on Corporate Concentration,
 1979; and, Wallace Clement, "Views and Comments", Canadian Public
 Policy/Analyse de Politiques, Vol. 1, Winter, 1979.
- 62. Philip Mathias, "Tighter Links May Alter World Paper Rivalry", The Financial Post, Jan. 17, 1970, pp. 13-14.
- 63. Statements justifying corporate concentration made by Donald Thompson (the Commission's research director), Darcy McKeough (Ontario's Treasurer), Don McGilivray (the Monetary Times), and Robert Bryce himself are noted in Wallace Clement, "The Corporate Elite, the Capitalist Class and the Canadian State", in Panitch, (ed.), The Canadian State, 1977, pp. 240-241.
- 64. Report, Royal Commission on Corporate Concentration, 1978, p. 213.
- 65. Wallace Clement, "Views and Comments", Canadian Public Policy, Winter, 1979, p. 121.
- 66. Report, op. cit., p. 208.
- 67. Ibid., p. 215.
- 68. Ibid., p. 216.
- 69. In its 1967 Annual Report, INCO assured: "The bulk of the company's mine and plant expansion is taking place in Canada." (p. 7.)
 "Canadian sulphide ores will be the mainstay of free world nickel production for the foreseeable future and production of nickel in Canada will continue to grow." (p. 16) Undoubtedly such assurances aided in the important tax concession lobbying that engaged INCO at

the time at both Federal (Royal Commission on Taxation) and Provincial (the Ontario, "Smith Report") levels, where INCO briefs stressed "the essentiality of stable tax incentives if the risks which are unique to the mining industry are to be undertaken and if large amounts of domestic and foreign capital are to be raised for the necessary long-term expenditures." (p. 27.)

- 70. Deverell, Falconbridge, pp. 11-112.
- 71. Annual Report, 1967, INCO., p. 16.
- 72. Marsh Cooper, quoted in "New Nickel Capacity in Oversupply Period?", Iron Age, July 27, 1972, p. 50
- 73. Marsh Cooper, Falconbridge President, 1974 Annual Meeting, quoted in Deverell, et. al., op. cit., p. 89.
- 74. Jamie Swift, et. al., The Big Nickel, 1977, p. 64.
- 75. Deverell, et. al., op. cit., see pp. 18-20 and pp. 119-147 for a more detailed account of the political and economic leverage in Third World lateritic ores that close connections with the American Government afforded INCO and particularly Falconbridge.
- 76. Ibid., p. 63.
- 77. Ibid., pp. 63-64.
- 78. Jamie Swift, op. cit., pp. 73-74, from The Northern Miner, Toronto, Sept. 18, 1975.
- 79. Jamie Swift, op. cit., p. 79.
- 80. Annual Report, 1975, INCO.
- 81. Swift, Ibid., p. 99. The Japanese companies include: Tokyo Nickel Co., Shimura Kako Co., Sumitomo Metal Mining Co., Nissho Iwai Co., Mitsui Co., and Sumitomo Shoji Kaisha Ltd.
- 82. The Northern Miner, Toronto, April 24, 1975.
- 83. Swift, op. cit., pp. 107-109.
- 84. Ibid., p. 94.
- 85. Ibid., pp. 88 and 95.
- 86. The Globe and Mail, Toronto, Mar. 31, 1977.
- 87. Swift, op. cit., p. 97.

- 88. Ibid., p. 103.
- 89. Deverell, op. cit., pp. 153-154.
- 90. C.D. Howe played an assisting role in the early take-overs that eventually led to American control of Falconbridge via Howard Keck, Washington connections (Anderson, L.B.J., and Nixon) and the Texas-Wall Street financial nexus. Howe recommended Jack Barrington, protegé and former president of Polymer Crown Corporation, to manage McIntyre just before its take-over of Falconbridge. Howe oversaw sale of Algoma Steel to McIntyre and A.V. Roe (which had received \$1 billion in defense contracts during Howe's reign in the Defense Department), while Howe was executor of the James Dunn estate. This preliminary take-over stage was crucial in ousting Thayer Lindsley and creating strong Ottawa connections via Barrington, Tory, and C.D. Howe, before the final guiding into international financial hands. Deverell, et. al., op. cit., pp. 84-85.
- 91. F.P. Weiser, ITRB, Trade and Commerce, Memo: "Canadian Oil Exports to the U.S.A.", Aug. 30, 1962; PAC, RG 20, 587, T-3-2757.
- 92. I.N. McKinnon, NEB Chairman, from N.R. Chappell, Trade and Commerce, Memo: "Canadian Crude Prices, June 4, 1962"; PAC, RG 20, 587, T-3-2756.
- 93. The Oil Letter "Tar-Sands Oil by 1975 Predicted", Special to The Globe and Mail, Dec. 1964; PAC, RG 20, 587, T-3-2757.
- 94. Ibid.
- 95. G.E. McCormack, Chemicals Division, Trade and Commerce, Ottawa, to R.G.C. Smith, Commercial Minister, Tokyo, Mar. 11, 1964; PAC, RG 20, 587, T-3-2757.
- 96. See Larry Pratt, The Tar Sands: Syncrude and the Politics of Oil, 1976.
- 97. Larry Pratt, op. cit., pp. 166, 169-170.
- 98. Trade and Commerce, Ottawa, Memo on Tar Sands, Oct. 16, 1963; PAC, RG 20, 587, T-3-2757. The very maps the government used in the petroleum sphere were provided by The Royal Bank.
- 99. The term borrowed by Pratt is from Richard Barnet and Ronald Muller in Global Reach: The Power of the Multinational Corporation.
- 100. Larry Pratt, op. cit., pp. 169-170.
- 101. Ibid., pp. 175-176.
- 102. General Relations Division (Green ?), to R.L. Latimer, Director, ITRB, Aug. 22, 1963; PAC, RG 20, 587, T-3-2757.

- 103. Ibid.
- 104. Ibid.
- 105. See for example: Philip Smith, Brinco: The Story of Churchill Falls, 1975.
- 106. Smith, op. cit., p. 3.
- 107. <u>Ibid</u>., Chapter 25. The enrichment of such uranium for use in non-Candu facilities would require massive hydro power itself.
- 108. "Land Permitted for Oil and Gas Exploration by Areas by Controlling Country", CALURA, 1969.
- 109. Edgar J. Dosman, The National Interest: The Politics of Northern Development 1968-1975, 1975, p. 42-44.
- 110. Ibid., p. 56.
- 111. Gordon Cleveland, The Last Post, Vol. 1, No. 3, pp. 11-18.
- 112. Oilweek, October 26, 1970 and April 13, 1970.
- 113. Dosman, op. cit., pp. 76-79 and 101-102.
- 114. Ibid., pp. 69-76.
- 115. House of Commons, Debates, June 11, 1970, p. 7996.
- 116. Departments of Energy, Mines and Resources and Indian Affairs and Northern Development, Northern Pipeline Guidelines, Ottawa, 1970. The Gas Artic Study Group was a response to approval in principle of a Mackenzie pipeline and included the following corporations: Alberta Gas Trunk Line, Canadian National Railways, Columbia Gas System, Texas Eastern Transmission, Northern Natural Gas, and Pacific Lighting Gas. The other consortium response was Northwest Project Study Group, including: Trans Canada Pipelines, Atlantic Richfield, Humble Oil, Standard Oil Ohio, Michigan Wisconsin Pipeline, and Natural Gas Pipeline.
- 117. Canada's North 1970-80: Statement of the Government of Canada on Northern Development in the 1970's, presented to the Standing Committee on Indian Affairs and Northern Development, March 28, 1972.
- 118. Railway to the Arctic, June 1972, Queen's University, Canadian Institute of Guided Ground Transport.
- 119. John Helliwell, "More on the National Economic Effects of Arctic Energy Developments", House of Commons Standing Committee on Natural Resources and Public Works, June 5, 1973, pp. 22 ff.

- 120. Dosman, op. cit., pp. 178-179.
- 121. Patricia Marchak, "Labour in a Staples Economy", May 1979, p. 28.
- 122. J.R. White, President of Imperial Oil Company, Annual Meeting of Shareholders, Toronto, April 29, 1960.
- 123. T.V. Harquail to G.E. McCormack, Trade and Commerce Memo: Oil and the Tanker Strike, June 26, 1961; PAC, RG 20, 587, T-3-2756.
- 124. E.C. Thorne, Trade and Commerce, to N.R. Chappell, Canadian Embassy, Washington, D.C., July 7, 1955; PAC, RG 20, Box D, 3-890, Vol. 4.
- 125. Wallace Clement, "Capitalization and the Working Class: Mechanization and Automation in Canada's Mines", 1979; and Hardrock Miners: Technological Changes and Industrial Relations at INCO Ltd., 1979.
- 126. "The Falconbridge Story", Canadian Mining Journal, June 1959, pp. 206 and 209.
- 127. Clement, "Capitalization and the Working Class...", p. 7; see also Hardrock Miners, 1979.
- 128. An excellent description of the not-so-romantic conditions of logging employment at the turn of the century is found in: E.W. Bradwin, The Bunkhouse Man, 1928.
- 129. Philip Mathias, Takeover, 1976.
- 130. Duncan R. Campbell & E.B. Power, Manpower Implications of Prospective Technological Changes in the Eastern Canadian Pulpwood Logging Industry, Department of Manpower and Immigration, Canada, 1966, p. 5.
- 131. Ibid., p. 6.
- 132. An interesting account of the Quebec logging industry and the impact of the introduction of the wheeled skidder is found in: Camille Legendre, Organizational Technology and Structure: the Pulp and Paper Logging Industry of Quebec, Ph. D. Thesis, Department of Sociology, University of Michigan, 1977.
- 133. Statistics from Campbell and Power, op. cit., p. 139.
- 134. Campbell and Power, op. cit., pp. 138-139.
- 135. Ibid., pp. 12-17. The "short-wood" and "tree-length" harvesting equipment which denudes the tree at an intermediate landing phase between woods and mill are popular in eastern operations and the "full-tree" harvester that allows all denuding to occur on mill site is popular in western Canadian production.

- 136. <u>Ibid.</u>, p. 17.
- 137. Marchak, op. cit., pp. 29-31.

CHAPTER IX

- 1. These characteristics have been pinpointed as essential parts of the staple mode of production by Daniel Drache, Associate Professor of Political Science, Atkinson College, York University, in correspondence with the author, June 27, 1979.
- 2. Appendix D addresses the methodological peculiarities of the kind of archival research undertaken, including the nature of the materials, their usefulness, and the nature of public access to them.

APPENDIX A 1

Notes on the Report of the Royal Commission into

Manufacture, Sale, Price and Supply of Newsprint

Paper within Canada, Ottawa, 1917

As early as 1917 a Canadian Royal Commission upheld the necessity for the Canadian government to engage in price-fixing on the grounds that consolidation of production had made it impossible for Canadian newspapers to be assured of adequate supplies via the "free market" system. Chairman Henderson, who had also issued the price figures of that year, added that the war-time ideological role of the press was too important to be jeopardized. He said the Government felt:

...that Canadian newspapers would not be able to carry on their business... that the newspapers of Canada were doing a most important work in connection with public opinion in the prosecution of the war... and that it was not in the public interest that the press should be permitted to suffer grave injury that might materially reduce its power to exert influence on public opinion in carrying on the war (Report, p. 2).

He asserted the investigation was not constructed to question the validity of the Government's role in price-fixing, but merely to ascertain a "fair price", he went on to relate the Government's abandonment of "laissez-faire" policies in the face of the reality of monopoly capitalist structures in the newsprint industry:

...the Government had satisfied themselves that the time had come when the Laissez-Faire policy, under which competition was relied upon for the establishing of fair prices, should be set aside during the War in order that the newspapers of Canada could obtain an adequate supply of newsprint at reasonable prices, it being apparent that effective competition had been eliminated by consolidation of the manufactures (Report, p. 4-5).

Such a stance did not lead to zealous prosecution or even investigation of the industry under anti-combines legislation.

The War Measures Act of 1914 had been extended to this price-fixing by a series of Orders-in-Council, following an earlier U.S. Government move in the same direction whereby the Federal Trade Commission suggested prices for newsprint to the President of the U.S. Senate. U.S. publishers were clearly indirectly behind both moves. On the basis of the FTC's investigation and resolution to the U.S. Congress in April 1916 about possible unfair combine practices and prices, Chairman Henderson backed the Canadian Government's move:

...I felt that it was upon their report that the Government of Canada had come to the conclusion that effective competition had been eliminated by the consolidation of the manufacturers in the United States, which was its justification for taking prompt measures to ensure to the publishers of Canadian newspapers newsprint at fair and reasonable prices (Report, p. 6-7).

Neither government took the position that either Canadian or American monopolies or combines were to be officially investigated, let alone disolved. In fact, the Chairman of the Royal Commission specifically set out to thwart any attempts of that nature, warning Royal Commission participants; "Any evidence that tends in the direction of showing there was a combination is excluded. I do not think it is pertinent to the inquiry" (Report, p. 11).

This chairman thus played the role of liaison between the two governments and their respective industries in the management of price and production control during World War 1, not the role of "neutral" presiding chairman of an "inquiry". Besides his position as Chairman, he had been appointed Controller with war-time powers to fix the quantity and price of newsprint and all other paper and pulp furnished to Canadian publishers, subject only to approval by the Governor-in-Council. At the same time he was authorized to confer and cooperate with the U.S. Federal Trade Commission in these matters. An agreement between the major Canadian and U.S. newsprint manufacturers had already been concluded with the U.S. Attorney General on the fixed prices for 1918, including voluntary sharing agreements between smaller and larger producers. Prices were set to the disadvantage of Canadian producers. While American pulpwood stands were valued

at \$2.50 to \$5.00 per cord, the Commissioner set the Canadian price at \$2.00, and newsprint at \$2.85 per 100 pounds (Report, p. 13-19).

Similar price and production control measures were instituted by the Canadian state during the Second World War. We have called the reader's attention to these earlier practices and to the role of Royal Commissions and commissioners to underline the State's facilitation and legitimation of concentrated capital accumulation in the forest industry. In these instances, the state played an industry-coordinating role on a continental basis long before the post-war period, but only during periods of "crisis", as in the cold war period, active state intervention on the side of monopoly resource interests could be legitimated publicly and the more fundamental and less "neutral" state role of facilitating such concentrated capital accumulation could be justified.

APPENDIX A 2

Comparison of Pulpwood Price Index, General Wholesale Index,
Industrial Materials, Lumber and Timber, and Wood Pulp Price
Indexes, 1947-48 to 1953-54

Year	Pulpwood	Gen. Wholesale	Industrial Materials	Lumber & Timber	Wood Pulp
47-48	100.0	100.0	100.0	100.0	100.0
48-49	89.0	112.0	112.1	113.9	100.0
49 - 50	81.2	112.2	106.6	114.4	100.0
50-51	122.2	127.8	137.0	145.8	98.2
51-52	126.3	133.0	138.0	151.6	100.0
52-53	101.3	125.0	119.1	144.7	97.0
53-54	107.1	123.7	111.7	139.0	91.0

Source: Figures perpared by Dr. J. R. Petrie, consulting economist.

Report Concerning the Purchase of Pulpwood in Certain

Districts in Eastern Canada, Restrictive Trade Practices

Commission, Ottawa, 1958, p. 158.

APPENDIX A 3

CANADIAN EMBASSY

OFFICE OF THE COMMERCIAL COUNSELLOR Canadian Embassy Washington, D.C.

May 31, 1951.

Dear Mr. Bull,

RE: Report of the Subcommittee on Study of Monopoly Power - Newsprint.

The Report of the Subcommittee on Study of Monopoly Power on Newsprint was released on May 27. It concluded that the shortage has affected all other countries of the world as well as the publishers of the United States and that shortages may be expected to persist until new productive capacity is increased. The Subcommittee stated that one of the drawbacks to increased production has been the fact that the producers have tried to stabilize prices along with profits and output by the use of long-term contracts.

The Subcommittee mentioned in its conclusions that "The Canadian border has served as a convenient barrier to adequate investigation of the activities of newsprint companies. Canadian sovereignty has been invoked by producers when efforts were made by the Subcommittee or other governmental agencies to obtain information relating to the interstate and foreign commerce of the United States in newsprint."

The following is a brief summary of the recommendations of the Subcommittee:-

- 1) The Attorney General should consider evidence relating to possible agreements fixing prices and allocating markets, the effects of end use restrictions and long term contracts provided under agreements.
- 2) The Federal Trade Commission should undertake a study of the statistical interchange between the Newsprint Service Bureau and the Newsprint Association of Canada as well as Scandinavian Associations to determine if arrangements among these associations have restrained competition or tended to create monopoly power.
- 3) The Office of Price Stabilization should guard against using the "zone map" system in establishing maximum ceiling prices.
- 4) Congress should see that the Pulp, Paper and Board Division of NPA and other defence agencies concerned should adopt a program which will foster expansion and competition in the industry.

- 5) Measures to obtain new production should be assisted with particular reference to the potential output of Alaska, the southern states and Canada. As well, the development of substitute processes should be exploited in order to increase additional newsprint supplies.
- 6) Conservation measures should be suggested to the various U.S. Government agencies responsible for possible implementation.
- 7) In mentioning the difficulties encountered by the Subcommittee in obtaining adequate knowledge from Canada with respect to newsprint practices, actions and records, the Subcommittee feels strongly that remedial legislation should be carefully explored. It suggested that this legislation should be designed to require all companies incorporated outside of the U.S. to register with the Secretary of State and "agree to make available their records, books and files as a condition precedent to doing business in this country. Such legislation should also provide for the submission in response to subpoenae of all records in the possession of foreign subsidiaries of domestic corporations."

It was suggested in the Report that some member of the Subcommittee would shortly introduce legislation along these lines.

A copy of the Report is enclosed for your information.

Yours faithfully,

John H. English, Commercial Counsellor.

Source: P.A.C., RG20, Box B, 7-1124, Vol. 2.

Note: Original signed by John H. English, Canadian Embassy Stationery.

APPENDIX A 4

Farmer Reliance on Forest Staple Production:

Pulpwood as a Proportion of Total Forest Products from

Farms, 1950

ONTARIO		
District	Pulpwood % of Total Volume (1)	Pulpwood % of Total Value
	10001 101010 (1)	10001 1000
Cochtane	66.5	76.8
Algoma	27.6	15.4
Sudbury	55.3	51.3
Temiskaming	50.8	51.1
Nipissing	53.6	46.8
Total - Five Districts:	52.8	48.1
Total - Province:	31.9	27.0
QUEBEC		
Eastern Townships	40.1	49.1
Abitibi County	70.0	71.7
Temiscaminque County	37.6	51.2
Pontiac County	34.0	30.5
Hull-Gatineau County	57.2	53.6
Total - Five Districts:	46.6	52.6
Total - Province:	43.8	46.3

⁽¹⁾ Pulpwood as percentage of total quantity of pulpwood, fuelwood, fence posts, logs, pit props and poles measured in units.

Source: Report Concerning the Purchase of Pulpwood in Certain Districts in Eastern Canada, Restrictive Trade Practices Commission, Ottawa, 1958, p. 36.

APPENDIX A 5

Corporate Control of Forest Limits:

Sources of Supply of Pulpwood in Eastern Canada, 1948-55

% 7 % % % % % % 1948 1949 1950 1951 1952 1953 1954 1955 QUEBEC 100 Purchased 27.96 32.13 32.75 30.27 29.10 28.94 26.70 34.64 Own limits or Lease 71.06 73.30 72.04 65.36 67.87 67.25 69.73 70.90 100 ONTARIO Purchased 37.47 33.49 34.29 39.88 35.38 33.50 33.72 30.87 Own limits or Lease 62.53 66.51 65.71. 60.12 64.62 66.50 69.13 66.28 OTHER PROVINCES 100 (1)45.89 25.63 Purchased 34.63 31.69 27.40 28.10 28.62 26.94 54.11 65.37 68.31 74.37 72.60 71.90 71.38 73.06 Own limits or Lease

(1) Nova Scotia, New Brunswick and Manitoba in 1948, and including Newfoundland since 1949.

Source: D.B.S. The Pulp and Paper Industry; in Report Concerning the Purchase of Pulpwood in Certain Districts in Eastern Canada, Restrictive Trade Practices Comm. Ottawa, 1958, p. 30.

 $\label{eq:appendix} \mbox{APPENDIX A 6}$ THE CONTINENTAL DIVISION OF LABOUR IN THE FOREST INDUSTRY

TABLE A

Production of Newsprint and Other Paper and

Paperboards in Canada, Newfoundland, and the United States, 1945

Region	Newsprin	nt	Other Paper & Paperboard (Thousand Tons)	Total
Canada	3,259		1,073 1	4,332
Newfoundland	333		15 1	348
Total:	3,592		1,088	4,680
Northeast	451		5,293	5,744
Lake States	32		2,990	3,022
Pacific Coast	200		1,147	1,347
South	42	2	4,818	4,860
Central			2,398	2,398
Total U.S.:	725		16,646	17,371
TOTAL:	4,317		17,734	22,051

Source: U.S. Bureau of Census, Department of Commerce, "Facts for Industry"; P.A.C., RG20, Box B, 7-1124, Vol. 1.

⁽¹⁾ Estimated

⁽²⁾ Breakdown estimated

TABLE B

Comparative Structure of U.S. and Canadian

Pulp and Paper Industries, 1955

Product	Thousand Tons	% Canada	Thousand Tons	% U.S.
Newsprint	6,191	59.7	1.456	4.7
Fine Papers	321	3.1	5,318	17.0
Wrapping Paper	258	2.5	3,721	11.9
Paperboard	788	7.6	13,872	44.3
All other Grades	400	3.8	5,491	17.6
Wood Pulp	2,419	23.3	1,422	4.5
Total:	10,377	100.0	31,280	100.0

Source: Canadian Pulp and Paper Association and Newsprint Association of Canada; U.S. Bureau of the Census; Monthly statistical review; American Pulp and Paper Association, March 1956. In: Royal Commission on Canada's Economic Prospects, "Outlook for the Canadian Forest Industries", March 1957, p. 97.

TABLE C

Distribution of Canadian Newsprint Production, 1955.

Zone	Shipped To	Amount
Quebec and Atlantic Provinces	U.S. Canada Others	3,150 255 685
Ontario and Prairie Provinces	U.S. Canada Others	1,445 110 2
British Columbia	U.S. Canada Others	475 65 45

Source: Royal Commission on Canada's Economic Prospects.
"Outlook for the Canadian Forest Industry", March 1957,
p. 115.

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APPENDIX A 7

International Raw Materials Conference, Pulp & Paper Committee:

Production Annuelle de Papier Journal en 1938, 1949 et 1950 (en milliers de tonnes métriques)

	1938	Source	1949	Source	1950	Source
Canada	2,624,5	(1)	4,695,9	(1)	4,788,7	(1)
Etats-Unis	743,9	(1)	816,0	(1)	920,5	(1)
Mexique	1,0	(2)	1,5	(3)	1,5	(3)
Argentine	-		2,3	(4)	2,3	(4)
Brésil	5,0	(5)	30,6	(4)	30,8	(4)
Allemagne (Occ.)			127,0	(4)	169,7	(9)
Allemagne (Orien.)	464,0	(5)	113,4	(4)	136,0	(4)
Belgique	44,2	(16)	49,8	(6)	61,7	(6)
Finlande	415,9	(7)	384,1	(7)	417,1	(8)
France	277,0	(15)	230,0	(15)	290,0	(15)
Italie	70,0	(5)	71,0	(13)	86,0	(13)
Norvège	181,0	(7)	155,4	(7)	159,0	(10)
Pays-Bas	88,0	(5)	71,3	(17)	79,8	(17)
Royaume-Uni	865,5	(11)	480,0	(11)	552,7	(11)
Suède	261,8	(7)	312,9	(7)	324,7	(7)
Suisse	30,0	(5)	45,0	(14)	47,0	(14)
U.R.S.S.	201,0	(4)	331,0	(4)	353,0	(4)
Japon	293,5	(12)	108,7	(4)	31,7	(4)
Australie			31,7	(4)	31,7	(4)
Totaux Partiels:	6.566,3		8.057,6		8.584,3	
Reste du Monde:	215,4	(4) ^x	243,0	(4)	263,3	(4)
TOTAL:	6.781,7		8.300,6		8.847,6	

Notes:

- (1) Supplément de la Newsprint Association of Canada, Mai 1951.
- (2) Productora e Importadora de Papel S.A. Mexico.
- (3) Estimation.
- (4) Newsprint Data 1950 publié par la Newsprint Association of Canada.
- (5) Organisation pour l'Alimentation et l'Agriculture des Nations-Unies.
- (6) Papier Journal Rapport présenté par M.G. Vander Borght devant le Congrès de la Fédération Internationale des Editeurs de Journaux et Publications tenu à Londres en Mai 1951.
- (7) Ticon: Scannews (Cité dans le Supplément de la Newsprint Association of Canada, Mai 1951).
- (8) The Finnish Paper Mills' Association, Helsinki, 1951.
- (9) Enquête de l'Unesco, 1951; chiffres officiels.
- (10) Union Paper Co. Ltd., Oslo.
- (11) Board of Trade du Royaume-Uni.
- (12) Supreme Commander for the Allied Powers; Natural Resources Section; Etude Préliminaire No. 11, Newsprint in Japan.
- (13) Associazione Italiana Trai i Fabricanti di Carta e Cartoni, Milan.
- (14) Association Suisse des Fabricants de Papier et Pâtes à Papier, Berne.
- (15) Ministère de l'Information, Paris.
- (16) Fédération Internationale des Editeurs de Journaux et Publications.
- (17) Ministerie van Economische Zaken, LaHaye.
- (x) Moyenne, 1935-1939.

Source:

P.A.C., RG 20, Box E, T-3-2-2868.

Country of Origin	n 1939	1941	1945	1946	1947	1948	1949	1950	1951	1952
Canada	2,205.6	2,760.4	2,526.6	3,273.5	3,630.7	3,889.9	4,108.5	4,692.8	4,761.2	4,850.3
Newfound1and	99.1	219.1	142.2	204.8	198.2	237.1	276.4	(Part	0 F	Canada
Sweden	61.9	-	×	1.2	25.0	69.9	36.7	18.5	29.7	15.6
Norway	42.5	-	-	4	5.9	27.8	29.7	4.9	9.5	4.3
U.K.	1.0	-	-	-	7-	3.1	34.7	-	-	_
Netherlands	.6	14	=	-	.6	5.3	.5	.7	-	-
Belgium	_	-	-	-	-	. 2	_	-	2.0	1.0
France	3.1	-		-	9.9	28.1	2.0	2.0	5.4	-
Germany	6.4	-	-	_	-	-	_	7	-	-
Austria	-	-	-	4	2.0	1.2	.5	*	:=:	
Finland	195.0	2.9	_	12.8	84.1	132.0	150.6	144.0	159.7	161.9
Total: *	2,615.1	2,982.4	2,668.8	3,492.3	3,958.1	4,395.3	4.639.6	4,863.0	4,968.2	5,033.0

^{*} Note: Other imports under 2,000 tons are omitted causing slight discrepancies in totals.

Source: U.S. Congressional Hearings, Subcommittee of Monopoly Power, 81st Congress, 2nd Session, 1950; Series 14, 6B, N.P.A., P.A.C., RG 20, Box B, 7-1124, Vol. 2.

APPENDIX A 9

WOODLAND MECHANIZATION

Mechanized Short-Tree Method:

The Bush combine, which fully mechanizes this process from cutting to stacking bolts, was introduced in 1961 by C.I.P. and Abitibi Paper companies. It increased costs in Canadian operations, however, so it was dropped and is only used by C.I.P.'s parent affiliate, International Paper in its southern production in the U.S. It is an American, 9 ton vehicle operated by one man and moving from tree to tree cutting, limbing, bolting, and bundling wood. Another similar processor was developed by Koehring Waterous Company of Branford, Ontario in 1964.

Mechanized Tree-Length Method:

In 1959 the "tree harvester" was developed by Marathon Corporation of Canada and several were in use by 1965 in eastern Canada. It limbs, tops, fells, and bunches trees at the stump, is operated by one man, weighs 30 tons, and costs \$85,000. Its weight and high mast have limited its use to firm soil and low-gradient areas, mainly in Ontario. The largest corporations have tended to let the next largest test this out before investing in it. Improved models were developed by Beloit Hibob Corp. of Wisconson (1962) and marketed first to Great Lakes Paper and KVP Co. Ltd. of Ontario in 1963, then Marathon and Great Lakes in 1964, and Domtar and Kimberly-Clark in 1965, for a total of five machines in Ontario by 1966.

Mechanized Full-Tree Method:

This involves simple felling and transport to a landing where another machine would process. The Arbomatik was being developed by C.I.P. in 1955 but since 1962 has been developed by Logging Research Associates, a joint venture of C.I.P., Quebec North Shore (Ontario Paper) and Abitibi Paper. Q.N.S. found of the three types this reduced cost most. The Arbomatik costs \$85,000 and the landing processor is stationary and uses two men, a feeder and bolt arranger in continuous process.

Feller-bunchers and self-loading skidders can be used with it, and full use of the Arbomatik could reduce cutter labour by 59% to 83%. The estimated diffusion of this method could have reduced wood cutter labourers from 72% to 56% of the total logging personnel by 1975. The Sund processor, developed by Sunds Verkstader, a Swedish firm, costs \$150,000, and increases productivity about 50% over conventional power saw and skidder methods. It was first used by Consolidated Paper Cc.

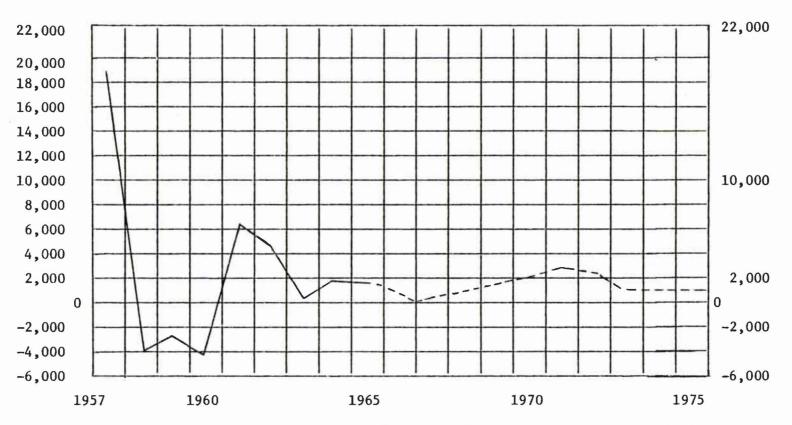
Another major technical alternative has been the chip pipeline, but it has had limited acceptance since it is very costly and immobile once installed. It costs about \$70 million per 50 mile line. It is interesting to note, however, that this was part of the initial plan for the Come-by-Chance mill in Newfoundland, which relied so heavily on provincial government subsidization and was intended to "bring jobs" to Newfoundland.

Source: Campbell and Power, Manpower Implications of Prospective Technological Changes in the Eastern Canadian Pulpwood Logging Industry, 1966.

APPENDIX A 10

DISPLACEMENT EFFECTS OF TECHNOLOGY: PULPWOOD CUTTERS AND OTHER*

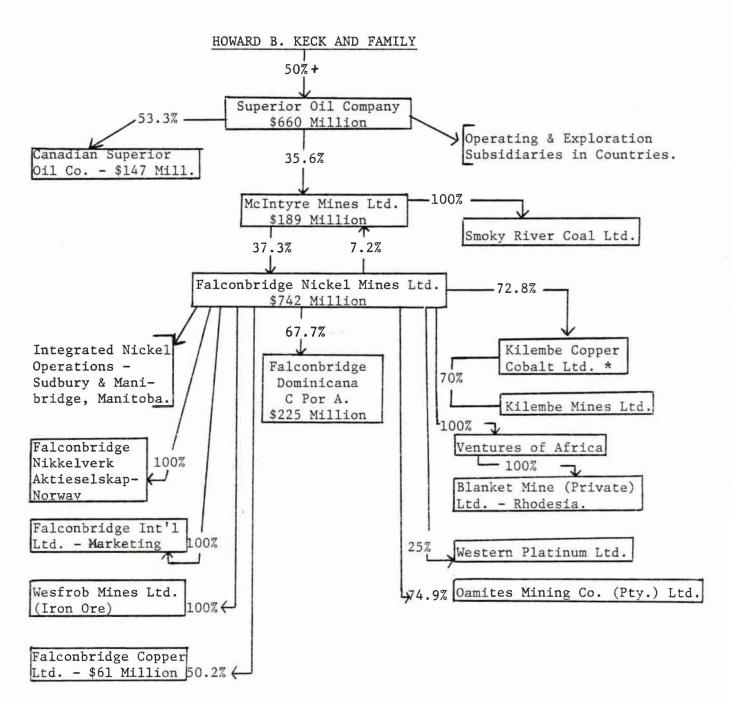
(Approximate Timing of Decline in These Occupations and Actual Declines Since 1957; Estimates 1965-75)



^{*} Includes teamsters, roadmen, and swampers, "labourers" in production, cooks and choreboys, "labourers" in non-production, and "unspecified" occupations (as per preceding table).

Source: 1957-1965 data is derived from "Occupational Structure..."table, and estimates for 1965-75 period constructed by Campbell and Power, Manpower Implications of Prospective Technological Changes in the Eastern Canadian Pulpwood Logging Industry, 1966.

APPENDIX B 1 Falconbridge Ownership Patterns



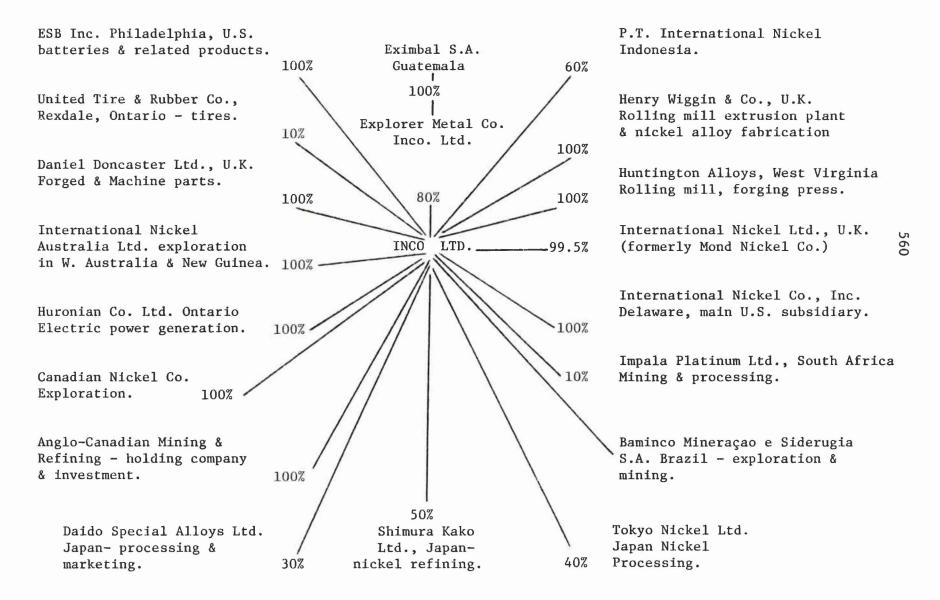
Notes: Kilembe Copper Cobalt was nationalized by the Ugandan Government.

Dollar Amounts expressed in millions.

Source: "Falconbridge - Made in U.S.A." in Deverell, Falconbridge, 1975, flyleaf.

APPENDIX B 2

Inco Selected Subsidiaries



Source: Jamie Swift and the Development Education Centre, The Big Nickel: INCO at Home and Abroad, Kitchener, 1977, p. 111.

Contracts for the Purcha Cumulative Thru Fiscal

								Div and Con	versions to Industry ntract Cancellations	ndustry	GSA CC	uti	at T		Contractor
	Execution	Contract	Original Contract	Del	iveri	GSA			Average		of Diversi	or	ella	=	Received in Excess of
tr	Date	Quality	Price Per Lb.	Quantity	Price	Amount		Quantity	to Industry	y Amount	Quantity	Avg. Price	Amount	on Sales by GSA to Industry	Value if Sold to GSA
DMP-29 Falconbridge	.52	998,141	Cost Ore Flus	998,141	\$.72	\$ 720,119									3
DMP-31 Falconbridge DMP-60 Falconbridge	152	3,848,835 100,000,000 Firm 50,000,000 Put 50,000,000 Gvt. Call	Market Price \$1.00 per 1b. plus changes in E&MJ price	3,848,435	.61	2,825,293	1/ Sales 2/ Cancellations	3,795,561	\$1.11 1.14	\$ 4,204,000 52,553,000	3,795,561	\$1.11 \$ 1.14	4,221,000	(\$ 17,000)	
D-12205 Falconbridge	152	50,000,000 Firm 25,000,000 Put	\$.5666 per 1b. plus changes in	32,037,268	.85	27,213,320	3/ Diverted Option right	5,463,000	.74	4,043,000	5,463,000	.74.	4,043,000		
			Ewro price				pired	32,499,732	.74	3,700,000	5,000,000	.74	3,700,000		
UME-30 Hanna Nickel	. 23	95,000,000 Min. 125,000,000 Max.	At cost to smelter with amortization of capital costs over first	108,006,696	.91	98,104,871 14	5/ Sales			20,126,000	, 330,	1.04	,639	4,153,000	
DMP-80 International	.53	120,000,000	\$.8770 plus	55,172,700	. 92	50,699,729	6/ Diverted	40,827,300	96.	39,006,000	,827.		.006		
D-18124 International D-18126 International	.54	4,500,000 Min.	Fixed \$.6507 Approx. \$.8109	5,917,304	.65	39.147	/ Cancel	24,000,000	1.03	24,650,000	24,000,000	1.03	24,650,000		
DMP-134 Freeport Nickel	157	1,000,000 Put vt. right 30%	ice b												
DMP-131 National Lead	156		not less than .74 .65 15												
Total DPA:				127	90	07. 533		014							
-42912 Intern	97.	000	20 ov d.	,401,	02.	2,74,732,				, 998,	188,014,702	\$18	183,862,000	\$4,136,000	
	. 50	mr	MJ M	,750,	\$.29	\$ 5,727,500 1,267,500	Contact rt. to de	18,000,000	.33 13/	5,850,000	18,000,000	.29 5	5,220,000		630,000 10/
23562	.50			10	.39	833,7	::								
00P-	.51	000		000		04,4	/ " " " / NPA Authority	6,735,000		3,756,000	6,735,000				201 000 117
30P-342	152			50	.55	,753,7	8/ NPA Authority 8/ Cancellation NPA Authority	1,500,000	.55 13/	829,000	1,500,000	.55 .67 .28,	8,835,000		123,000 11/
1,2015 Brandote C.1.1							ter can	33,000,000							
TPS-42930 " " " " " " " " " " " " " " " " " " "	97.	950,	\$.29 ex duty CIF NY " " "	1,999,906	.29	245,328 579,972									
TPS-78238 "	4	,000,000 Min,		2,000,093	.29	80,0									
TS-3928 "TS-5808 Falconbridge "	. 48	000,000	.325 E&MJ Mkt. price ex duty	2,002,321	.33	650,754	NAP Authority 2nd Quarter 1952 Diversion	500,000	.55 13/	276,000	500,000	.55	276,000		
GS-00P-461 Sherritt Gordon	.51	50,000,000 Firm		36,969,400	.68	24.988.468	Diverted and later	500,000	.63 13/	315,000	500,000	.63	315.000		
		30,000,000 Put					cancelle								
TS-25114 (ECA)Société Le Nick Le Nickel S.A.	kel 50	2,531,200 1,102,300 Min. 1,377,875 Max.	Av. E&M. Mkt. price FOB-Le Havre \$1.00	1,102,407	1.00	1,102,407	led Ap	42,530,600	.73 13/	30,835,000	42,530,600	.73 30,	,835,000		
TOTAL S&CM:				138.088.418	\$ 52	758					200				
TOTAL DPA AND S&CM:				43.520.01	83	6 886 S		303 015 302		000,000	,000,	17	,101,		113,000
Source: PAC, RG 20, Box D, 3	3-890, Vol. 1	10.		20,000	00.	000,000,000		202,013,302	A	\$259,888,000	303,015,302	\$254,	,963,000	\$4,136,000 1,	113,000

APPENDIX C 1

Refusal by Federal Government (C.D. Howe) to

Create Alternative Agency for Data Collection

Concerning the question of statistical data, extensive factual information concerning the supply and demand of petroleum and its products, production stocks on hand, etc., both for the country as a whole and for the principal market areas, is now made available by the Dominion Bureau of Statistics. Moreover, the Bureau is ready at all times to alter or extend the nature of the information prepared, in any practical way considered necessary to provide a more adequate basis for appraising the position of the industry.

On the question of market forecasts and market analysis generally, this is a field of endeavour which most commercial enterprises must undertake in one way or another as a part of their regular activities. Systematic analysis of the entire market for a given product is carried out in some cases by individual firms in Canada and also by trade associations. Moreover, to be successfully undertaken, this type of work must be carried out by experts working in close association with the industry involved.

In short, the Federal Government is of the opinion that is is not necessary or desirable to create a new Federal agency to undertake work which, in a free enterprise economy, is essentially the function of individual firms or trade associations.

Nevertheless, it is noted that studies examining the position of the oil industry in the Canadian economy have already been undertaken by the Petroleum Division of the Department of Defence Production and the Economic Divisions of Defence Production and Trade and Commerce. These studies were considered necessary in view of the new oil discoveries in Western Canada and also because of the importance of oil as a strategic material in our defence plans. In the circumstances which now prevail further examination of developments in the oil industry may be necessary from time to time. The Federal Government would be pleased to make available to the Provincial Governments background reports of this type.

Source: Statement, Depts. of Trade & Commerce and Mines & Technical Surveys, on behalf of Canadian Government, 1951.

PAC, RG 20, Box E, T-3-2741.

APPENDIX C 2

W. O. Twaits, Imperial Oil December 31, 1957

Hon. E. C. Manning, Legislative Buildings, Edmonton, Alberta.

Dear Mr. Manning:

During your recent visit to Toronto you requested our views on three questions all relating to markets for Canadian crude oil. None of these questions can be answered categorically and, in fact, many of the factors involved are beyond the control of industry or Government. However, we would like to give you our general thoughts and options.

It is perhaps worthwhile, first of all, to consider why these questions should just now become pertinent. The Western Canada oil industry has had a phenomenal growth rate since 1947, a growth unmatched by any other major producing area, much less one so far removed from tidewater. In retrospect, we can consider it very fortunate that major pipe line outlets were completed perhaps even before reserves would normally warrant such expenditures. Thus, the whole industry has become accustomed to high growth rates. However, at the same time, oil supplies worldwide have been growing extremely rapidly and the end of the Suez crisis, coupled with a decline in economic activity, brought the over-supply position into acute focus. Our Canadian problem of surplus producing potential is, therefore, part of a world-wide condition aggravated also by the development of the super tanker which has greatly increased the marketing limits for tidewater oil.

It is in this atmosphere of world-wide pressure for crude oil outlet and of associated currency and trade problems that your questions must be considered, viz.

1. The feasibility of a continental approach in utilizing oil and gas resources, we feel, is very difficult.

The "continental" approach implies a defence basis and/or some sort of customs union agreement. It would seem difficult to confine this to one type of resource rather than all strategic materials. In addition, in the case of gas and oil, the continental security concept would require a protective fence, to put it bluntly, to preserve a higher price structure on North American oil, in order to maintain

incentive for exploration and development of a large excess M.E.R. Obviously this has a great many implications, and certainly depends on a "guns versus butter" philosophy.

We can see the continental concept only in the more limited sense of trade policy, and this seems to us to be the soundest grounds for allowing Canadian crude to find its economic markets and its economic growth rate. The problem of marketing Canadian crude oil cannot, in our opinion, be divorced from the problem of the overall trade imbalance with the U.S. There never has been any question that this continent can utilize all the oil that has or will be found. Only the question of time is involved, and it seems to us that this will take care of itself, if Canadian oil is allowed access to "economic" markets in the U.S. Without becoming involved in considerations of continental defence, we believe that the soundest continuing argument rests on the following three points:

- (a) Importation of Canadian crude into U.S. represents no economic threat to the producer.
- (b) Exemption of Canadian oil moved by "pipe line" into the U.S. provides a security reason for discrimination in favour of Canada against other Western hemisphere sources of supply.
- (c) Canadian oil is a commodity which the U.S. needs in the long run and which decreases the trade deficit without harm to domestic U.S. manufacturing groups.

This is, of course, being written with full knowledge of the recent decision in connection with imports into District 5, and while it is too early to tell yet the exact effect of these limitations, it seems quite apparent that some of this thinking must have gone into the U.S. Cabinet's decision.

2. How far, if at all, could the outlet situation be helped by adjustment of company policies. This is a question, of course, that must be answered by individual companies but there is some implication that outwardly uneconomic movements are being made because of individual company interest or ownerships. I would respond for our company as follows:

No buying policy or area restriction governs our actions. In fact, it might be recalled that the original movement of Western Canada crude to our Sarnia Refinery displaced thousands of barrels a day of mid-continent crude produced by Carter Oil Company, a Jersey affiliate. We also stimulated growth of markets in Central U.S. directly competitive with M.C. supplies. In fact, if we had no major shareholder with other producing

interests, our thinking on markets and our crude oil purchasing policy would be exactly what it is today. I might add that we believe that Canada has been fortunate so far in not having suffered particularly from cut price foreign crude which is available at all tidewater points today.

In considering this question, it is impossible to divorce crude oil outlet from the limitations of refined product price structure and in this regard, it is significant that Canadian refinery capacity has increased in tempo with demand growth despite the easy availability of cargo supplies of refined products. In general, no changes in our company policy could contribute to a solution of the present problem.

3. The feasibility of moving Canadian crude into the Montreal market is something that has been under continental consideration for several years. As you know, our company would benefit greatly from increased outlet because of our high proportion of flush production. New outlet including the Montreal market is, therefore, more critical to us than to most of the rest of the industry. However, we continue to feel that the Montreal market is not the best long-run outlet in comparison to other areas and could well represent a handicap to ultimate growth of the industry.

Our views might be summarized as follows:

- (a) Regardless of any comparisons, that are calculated on posted prices and estimated transportation costs, Canadian crude is at a very large transportation disadvantage compared to offshore crude. This basic disadvantage may be 25¢ to 30¢ per barrel before the foreign operator takes any competitive action. Under today's conditions the total disadvantage could be in excess of 50¢ per barrel without affecting regular marketing practice in foreign oil.
- (b) Physical movement of oil into the Montreal market requires pipe line capacity for approximately 200,000 b/d from Edmonton through to Montreal at a cost which has been estimated in the neighbourhood of \$200 million. This investment can only be financed by long-term throughput guarantees which the crude buyer in Montreal can only give if he is assured of complete duty protection against cheaper foreign crudes. In short, the price to the consumer in Quebec would have to go up and the Maritimes would constitute a separate and even greater problem.

(c) While the political problem created by this arrangement would be serious, the underlying economic problems created within the industry might be no less significant. If oil could be priced at say 25¢ per barrel wellhead reduction in order to supply the Montreal market, such a reduction would then make Canadian oil competitive in California and Central U.S. markets where there is much greater potential. In fact, it would have the effect of sharply stimulating refinery growth west of Montreal and shrinking the very market for which it is proposed to serve.

In short, this action would have the same effect as cutprice offshore oil is having today but, in the case of Canadian oil, we would be frozen to the movement because of the large fixed investment in pipe line capacity.

4. In considering all these aspects, it would seem important to reemphasize that one of the basic considerations in looking at new markets for Canadian oil is the necessity for preserving a well-head price that will encourage exploration. Canadian oil is already substantially underpriced in comparison with the U.S. domestic producer and the Venezuelan producer. It is important, therefore, that outlet should not be tied to sub-marginal markets which will increase or even preserve the present disparity. Otherwise the flow of exploration money cannot be maintained.

Perhaps I could summarize our views on the current situation as follows:

- (i) We should not expect sudden large jumps into new markets for Canadian oil because our land transportation system is already stretched to its economic limit. This system now penetrates large potential markets which have excellent growth possibilities.
- (ii) The Federal Government, in conjunction with the general problem of trade relations with the U.S., should continue to press for exemption of Canadian oil which moves into that country by pipe line.
- (iii) Freezing Canadian oil into sub-marginal markets such as Montreal is not the best long-run solution and we have to live with a general over-supply situation world-wide for the time being. This should, and will, cure itself through normal supply and demand action. Expediency measures could result in severe harm to the industry.

(iv) In addition to (ii) above, we believe the most important action is to encourage the growth of refinery capacity in Ontario and to assure this market for Canadian crude, which can be done at much less economic hardship than moving the crude to Montreal. New refinery capacity under construction or planned for Western Ontario amounts to some 100,000 b/d and reflects in concrete terms the long-run view being taken by major refiners.

I might add that the exchange value of the Canadian dollar is a major consideration in this situation. The recent reduction in premium and the prospects of dollar parity improve the competitive position of Canadian oil substantially, particularly in view of recent price cuts in Illinois basin.

These are the points we feel must be given the greatest attention in the near future. There is a great deal more that can be said on all of these aspects but I hope these will give you the general tenor of our thinking.

May I add that none of the material in this letter should be considered confidential and you may use it as you see fit.

Yours very truly,

Copy (original signed)
W. O. Twaits

WOT/HMC

Source: P.A.C., RG20, Box E, T-3-2741.

APPENDIX C 3

DEPARTMENT OF TRADE AND COMMERCE

Inter-Office Correspondence

Energy Studies Branch

TO: Mr. Douglas M. Fraser

DATE: April 10, 1959

FROM: G. W. Green

SUBJECT: Venezuelan Fuel Oil Imports at Churchill

Stu Barkley is writing up the official minutes of the interdepartmental meeting on this subject which took place yesterday, In the meantime a few broad comments may be useful.

Nothing was accomplished at the meeting itself save to establish the goodwill of those present. However, a statistical subcommittee has been formed consisting of Mahoney, J.D. Langley from DDP, A. E. Nolan from DND, A. B. Hamilton, a future nominee from Transport, and myself, subject to call be Mahoney. Its prime purpose will be to establish reasonably firm figures for the types and amounts of products presently being brought into Churchill by tanker and tank car, their division among various customers, the prices at which they are sold, the amount of storage capacity, relevant rail and tanker rates and any other pertinent information. An effort will also be made to predict comparable figures for the coming year.

As the accompanying memo shows, Mahoney is attempting to establish a real (and higher) cost for offshore fuel oil by averaging low-cost sales to DND and high-cost sales to other local consumers, and by adding in the amortization on DND's marine terminal. This noble effort has been squelched by our complete inability to discover just how much of what has been sold to whom and for how much, and by DND's insistence that amortization of facilities is never considered in that department's costing.

It is perhaps too much to expect firm figures for the coming year in view of the short time the new system has been working. Last year, for example, only 5.3 million gallons were brought in by tanker, as against 4.8 million by rail. Presumably these proportions will be different in 1959 as Imperial becomes better established, but neither DND nor the CNR have any concrete evidence of this. Even during 1958, however, DND can give us no idea of how much Imperial sold to other Churchill consumers of oil and at what price. Many of Transport's facilities apparently lie on DND property and are supplied by the latter department on a housekeeping basis. Beyond DND property lies only

APPENDIX C 3 (Cont'd.)

darkness, which the new subcommittee proposes to penetrate.

DND appears understandably defensive regarding the marine terminal. They at first implied that the new storage facilities were only built along the shore by sheer coincidence, and were equally accessible to rail shipments. They embroidered on this by claiming that amortization should concequently be charged on prairie oil to the same extent as on offshore oil. This argument was shot down by Scott who pointed out that the very size of the tank farm was based on a short navigation season, and was therefore far larger than would be required if oil came in continously by rail. DND, as previously mentioned, then dismissed the amortization argument altogether.

Having failed to inflate the cost of Venezuelan oil, the committee then sought to reduce the cost of our own. The CNR, although sympathetic to some freight rate reduction, voiced the suspicion that something more might be involved, in view of the fact that large shipments came into Churchill from as far away as Calgary during 1958, while none of the nearby Saskatchewan refiners, save Northern and Imperial, attempted to compete. Warren asked how much Kalmacoff could reduce his own price. I said that the true cost of any single refinery product was almost impossible to obtain, but promised to give him what figures I could. I also pointed out that the recent crude cuts in Western Canada were expected to have no effect on fuel oil prices (Imperial via Harquail) since the refinery margin on such products was already a slim one.

It was decided that there was no point in continuing the discussion until firmer figures could be obtained. DDP expressed the hope that some sort of decision on Canadian vs. offshore purchases would soon be handed down, as embarrassing situations were arising in other parts of Canada as well. Warren reiterated his point that any present solution must fall within the framework of present policies, and that the federal government could not be expected to take any step which would expose it to the charge of restricting trade.

(G. W. Green)

<u>Source</u>: P.A.C., RG20, Box E, T-3-2743.

APPENDIX C 4

The Chairman (N.E.B.)

G. W. Green

January 19, 1960.

Oil Imports at Churchill

I have read with much interest the attached correspondence with Mr. L. D. Fraser of Imperial Oil. His remarks amount briefly to a restatement of the company's claim that all parties concerned are benefitting from the present products import set-up at Churchill.

The question remains as to whether this really affects the issue. On December 10th, a meeting was held at the Department of Trade and Commerce on this point. Those present were Mr. Fraser, Mr. J.R. White, President of Imperial, Mr. W. O. Twaits, Executive Vice-President, Mr. J. A. Cogan, Vice-President, Morgan Mahoney, Assistant Director of the Small Business Branch of Trade and Commerce, W. A. Kennett of the Energy Studies Branch and myself. Mr. Roberts, Associate Deputy Minister, was to have been present but was delayed.

Mr. White explained that he had met Mr. Roberts at Chicago recently and had been questioned on the Churchill situation. He had consequently made this appointment so that he might answer any specific questions on our part. Mr. Mahoney explained that the government had no quarrel with Imperial Oil - which was considered to have acted in good faith - and that any disagreement lay between the federal departments concerned. Specifically, Trade and Commerce felt that National Defence, by the form of its contract with Imperial Oil, may have exposed the government to awkward political questions. Under the terms of this contract, as shown in the attached summary, Imperial is obligated to supply National Defence requirements by sea. The price paid for such products is to be landed cost only, that is, the original price to Imperial plus the cost of transportation. Profits are made and management expenses recovered through the company's free use of surplus terminal facilities from which it may supply local civilian demand at the market price.

The points which provide obvious grounds for public criticism are as follows. (1) The requirement that supplies by brought in by sea automatically excludes prairie crude. (2) Operating charges and profits are recouped from the civilian sector of the market, so that the latter in effect subsidizes government purchases. (3) Prairie refineries are asked to compete in the Churchill area on the basis of landed cost alone, an artificial figure which reflects neither profits, operating costs nor amortization of the terminal itself. However defensible such an agreement might be if carried out by a private importer, it is unfortunate

APPENDIX C 4 (Cont'd.)

that a government department should have drawn up such a contract at a time when the government as a whole is under pressure to replace imported oil supplies with domestic production. Federal authorities have so far been reluctant to plan restrictions on petroleum imports into Canada. They would be doubly reluctant if the demand to do so arose from a purely local situation such as this.

In Mr. Mahoney's opinion, it is the small prairie refineries who must be placated. This might be accomplished to some extent at least by ensuring that they are asked to compete with imported products at Churchill at a price which reflects the actual costs of the latter rather than an artificially low one. As a solution to this, it was suggested that the terminal be rented under separate contract to the successful bidder. Such rent would presumably cover the amortization costs of the facilities. The operator would then charge a fee for the handling and storage of products, one which would also allow him some profit after rental and operating costs were paid. Government tenders for the oil itself would be thrown open to bids from all suppliers, with no restrictions as to source. This is consistent with a previous suggestion by Mr. Mahoney that the true price of imported oil be determined by taking a weighted average of the government and civilian prices, since the latter reflected costs not included in the former. The present rental proposal, of course, would include amortization costs as well.

Mr. Fraser suggested in reply that the only result of this proposal would be to raise prices to the civilian market at Churchill, if not to the government itself. Since even prairie suppliers would have to pay the new terminal fees, their competitive position would be no better than before. It is in fact difficult to say how final prices would be affected. At present, the price to National Defence - original price + transportation costs. Under a rental system, it would add to these handling and storage charges plus a proportionate share of the terminal rental and operating profit. This higher price, of course, would be offset to some degree by the government's rental receipts. Since these would include not only the share of the rent attributable to the government's use of storage but to civilian use as well, they might conceivably be sufficient to offset all terminal handling charges and profits, leaving the price to National Defence no higher than it is now. Much depends on whether the supplier would be prepared to continue serving the department at cost.

In the civilian market at present, price = original price + transportation costs + terminal operating costs + a "reasonable"profit. Under the new system, it would also include the terminal operator's profit plus a proportion of the rent. It seems inevitable that the new price would be higher, though always kept within certain limits by the possibility of prairie competition. Imperial's argument that prairie suppliers would have to use the marine terminal as well rather than ship by rail as required, however, has yet to be proved.

APPENDIX C 4 (Cont'd.)

Any number of changes may be hung on Mr. Mahoney's suggestion. It would have to be determined whether a company would be allowed both to supply products and to operate the terminal, whether the operator would charge an equal fee to all comers, on what basis bids were taken to operate the facilities, on what degree of profit was expected by the supplier, and a large number of other factors. But setting aside the effect of such a system on prices, and the conflicting claims as to its feasibility, it would have the effect of bringing all costs into the open and of applying them evenly over the entire market, thus making the government's position more defensible.

This was recognized by Mr. White, who remarked at the conclusion of the meeting that it was the form of the contract which appeared to be the objectionable feature of the present Churchill arrangements, and implied that Imperial might be willing to make some such changes as suggested. No subsequent action has been taken by Trade and Commerce. Under these circumstances, I wonder if we might question the advisability of continuing this Board's more technical approach to the problem, i.e., the ability of Northern Petroleum to supply products required at Churchill, especially since Mr. Kalmacoff appears to be the middleman rather than the original supplier in most cases.

GWG:PS

Source: PAC, RG20, Box E, T-3-2743.

APPENDIX C 5

- I. N. McKinnon
- G. W. Green

November 10, 1959

Midale-Weyburn Crude Position

The Midale and Weyburn fields both lie in the southeastern part of Saskatchewan. The former produces only medium gravity crude, with an average value of 28 API and a sulphur content of 2 percent. The latter produces both light and medium crude, with average gravities of 34 and 29 respectively, and a sulphur content of 1.6 and 2.6 percent. Both fields together cover more than 30,000 acres and include some 600 wells. The majority of the producing companies are shown in the following list.

Amurex Oil Co. (Murphy US) British American Oil Co. Ltd. California Standard Co. Canadian Bishop Oil Ltd. Canadian Oil Companies Ltd. Canadian Superior Oil of California Ltd. Central Del Rio Oil Co. Ltd. Devon - Palmer Oils Ltd. Palmer Oils Ltd. Dome Exploration Western Ltd. Grid Oil Freehold Leases Ltd. Hudson Bay Oil & Gas Co. Ltd. Husky Oil & Refining Ltd. Imperial Oil Ltd. L. M. Oil Co. Ltd. McAllister Canadian Oil Co. Ltd. Mobil Oil of Canada Ltd. Nes Gas Exploration Co. of Alberta Ltd. New Superior Oils of Canada Ltd. Eastwood Oil Co. Ltd. Shell Oil of Canada Ltd. Sinclair Canada Oil Co. Sohio Petroleum Co. Ltd. Union Oil Co. of California Canadian Petrofina Co. Ltd. Whitehall Canadian Oils Ltd. Asumara Oil Corp. Ltd. Keystone Petroleums Brehm Petroleums Ltd. Landa Oil Co. Commonwealth Drilling Co. Ltd.

Source: P.A.C., RG20, Box E, T-3-2743.

APPENDIX C 6

The Chairman (McKinnon) National Energy Board

G. W. Green

December 2, 1959.

Saskatchewan Crude Oil Prices

The attached press release was obtained from Bill Stewart of C.P.A. following the appearance of a story in today's Montreal Gazette.

The reasons for Great Northern's move are clear enough, but its suddenness is rather surprising. It was understood that no action on pricing would be taken without due notice being given to the Saskatchewan government and, to the best of my recollection, to Captain Carson. We have been in touch with Chappell in Washington, who tells us that he and so far as he knows, Carson, were entirely unaware of these developments. A copy of the release is being sent down to him, but he feels that it would be unwise to bring the matter to Carson's attention for the moment, at least until the executive order regarding District V oil imports has been signed. The price changes would probably have no effect whatsoever on this order or on its approval, but he feels it wiser to keep Canadian developments in tidy compartments, and to let the United States deal with one before presenting them with another.

As you will recall, Shockley of Gibson Petroleum has always insisted that he had no intention of marketing low-priced crude in the U.S. Great Lakes area, but that if Great Northern broke its price below the "normal" adjustment downwards, he would feel free to compete with Great Northern in these markets on an even basis. By normal adjustment, he apparently meant the 17 cent discrepency between Great Northern's previous price and the level set by other purchasers after the general reduction of last spring. Yesterday's drop was in fact slightly more than this, reducing Great Northern's price to the \$1.75 quoted by Shockley to Upper Peninsula Refining Company at Rapid City, Michigan. It seems unlikely, however, that Shockley would drop his own price again. His experience with the Canadian Oils contract has shown him how little crude is attracted by extremely low prices, while the "fair" price suggested by the majority of Saskatchewan producers - and by the provincial government - ranges between \$1.80 and \$1.85.

APPENDIX C 6 (Cont'd.)

If we may rely on Carson's lack of reaction to the Upper Peninsula contract, he should not consider \$1.75 to be a distress price. The independant producers, of course, may take alarm if they consider this as opening the door to a flood of Canadian crude into the U.S. Midewest. The Weyburn-Midale field, after all, has an estimated potential of up to 70,000 barrels daily, of which scarcely one-third is being produced at present. The effect on U.S. prices too will at least test the truth of Great Northern's contention that their previous price of \$1.97 in Sask-atchewan was based firmly on the laid-down costs of comparable U.S. Mid-Continent crudes at Chicago.

Source: P.A.C., RG20, Box E, T-3-2743.

APPENDIX C 7

Mr. T. E. Bocking Special Assistant to the Assistant Deputy Minister (Domestic Commerce)

General Relations Division, International Trade Relations Branch.

Canadian Crude Oil Exports to Buffalo

September 20, 1961.

You spoke on Tuesday of a letter recently received in this Department regarding the <u>need for processing our natural resources</u> prior to export. Reference was made specifically to crude oil which by-passed the Toronto refining centre on its way to a refinery in the Buffalo area. You asked for further information

This oil, amounting to 10,000 barrels daily, is brought from Alberta via the Interprovincial pipe line, and is purchased by Ashland Refining Company for its refinery at North Tonawanda, New York. Because of its high grade, it is used for the most part to top up operations specifically designed for a large gasoline market. Comparable U.S. oil is not used since it can only reach the refinery through the Buckeye pipe line, which is incapable of batching it throughout and would consequently mix the high-grade oil with everything else being shipped.

This is scarcely an isolated case of by-passing, since Canadian crude can be said to by-pass Regina and Winnipeg on its way to Minnesota, and Vancouver on its way to the State of Washington. Refinery capacity in Canada is generally matched fairly strictly to the demands of the domestic market area being served, and there would be little room in which to process for export. Why this should be the case is, of course, another question. I can only assume that refining is a profitable enough operation that the selling area of each plan is firmly delineated, particularly in a case such as this where the major Canadian refiners are controlled by U.S. firms.

G. W. Green

GWG/nt

Source: P.A.C., RG20, Vol. 587, File T-3-2756.

APPENDIX C 8

Canadian Imports Exempted

Crude and Unfinished Oils

May 1960

Districts 1 - 1V (Barrels per Day)

Importers	Crude 0il	Unfinished Oil			
Bay Refining Company	4,857				
Great Northern Oil Company	27,463	72			
International Refining Company	10,660				
Lakehead Pipeline Company	257				
Murphy Corp.	7,680				
Northwestern Refining Company	6,387				
Osceola Refining Company	333				
Union Oil Company of California	73				
		No. of the Control of			
Totals:	57,710	72			
District V					
DIBETIC					
Shell Companies	10,165	335			
Socony Mobil Oil Company, Inc.	24,117				
Texaco, Inc.	27,789	177			
Totals:	62,071	512			

Finished Petroleum Products

Districts 1 - 1V

Pure Oil Company	8_
Totals:	8

Source: P.A.C., RG20, Vol. 587, T-3-2744.

APPENDIX C 9

Canadian Exports of Crude and Equivalent

To the United States, July 1962 (Thousands of Barrels per Day)

	U.S.A. Data	Canadian Data
U.S.	219.4	229.6
Dist. 1 - 1V	93.4	92.6
Ashland	13.0	13.0
Continental	12.9	12.9
Dow	9.2	9.2
Great Northern	18.9	22.8
Gulf	0.9	0.0
Lakehead	0.4	0.4
Leonard	0.0	0.0
Murphy	11.6	11.6
Northwestern	9.4	9.0
Pure	0.0	0.0
Socony	0.2	0.2
Standard (Ohio)	15.0	15.8
Sun	0.0	0.0
Union of Cal.	0.1	
West Branch	1.1	1.1
Other	0.7	3.4
District V	126.0	<u>137.0</u>
Shell	43.4	43.4
Socony	37.4	37.3
Texaco	46.0	56.3

Source: P.A.C., RG20, Vol. 587, File T-3-2757.

APPENDIX C 10

Mr. J. L. MacNeil, Chief, Asia and Middle East Division International Trade Relations Branch Jan. 31, 1963.

T. V. Harquail

Re: Document No. 859-61 of Jan. 22/63 from Under-Secretary of State for External Affairs.

Canadian Shell Overseas Limited

I have had an opportunity to study the referenced letter with the accompanying documents and I note that the problem appears to be the actual amount of Canadian participation in Canadian Shell Overseas Limited which it is indicated owns 100% of the stock in Shell Indonesia.

Canadian Shell Overseas Limited was granted an Ontario charter on October 4, 1960 with head office in Toronto. The Canadian firm is owned 100% by "Shell" Transport and Trading Co. Limited, London, England. The British firm participates with Royal Dutch Petroleum Company of the Netherlands in the ownership of all of the world-wide Shell interests on the basis of 60% being owned by the Netherlands firm and 40% by the British firm. In this particular case, though, the British firm owns Canadian Shell Overseas Limited 100% and I assume that compensating arrangements have been made through the share holdings in other Shell firms for what would be the Netherlands firm's normal interest in Canadian Shell Overseas Limited.

Canadian Shell Overseas Limited now operates with executive officers and a board of directors who all maintain residence in Canada. A list of these officers and directors follows:

President:

R.B.F. Barr, 43, Admiral Road, Toronto 5,

Ontario.

Financial

Vice-President:

J.B. Scott (also acts as Treasurer) Apartment 103, Benvenuto Place,

Toronto 7, Ontario.

Assistant Secretary:

R. Lucas,

70 Harrison Road, Willowdale, Ontario.

APPENDIX C 10 (Cont'd.)

Directors:

The Directors are the President, Mr. Barr, and the Financial Vice President, Mr. Scott, along with the following:

V.F. Grafstrom, Don Crescent Drive, R.R. #1, Thronhill. Ontario.

E.N. Gray, Apartment 1, 156 Balmoral Ave., Toronto, Ontario.

D. O'Hea, Apartment 733, 21 Dale Avenue, Toronto 5, Ontario.

Regarding the Canadian interest in Canadian Shell Overseas Ltd., there is no direct participation by Canadians but you will note from message No. 8 to External, dated January 18, 1963, that Mr. D.R. Barran, a director of Shell Transport and Trading Company Limited, indicated to our Ambassador at Jakarta that the stock holding in Shell Transport and Trading Company Limited is 97% British with the remainder being mainly United States, French and Swiss (paragraph 2 of this message refers). However, it must be remembered that Shell Oil Company of Canada Limited, and all of its subsidiaries, is owned 83% by the Shell group of companies, as indicated in previous paragraphs, which means that Shell Transport and Trading Company Limited has a very substantial investment interest in Canada by its holdings directly in Shell Oil Company of Canada Limited and its subsidiaries as well as in such Canadian companies as Trans Mountain Oil Pipe Line Company as well as Trans Northern Products Pipe Line between Montreal and Toronto and in the Portland-Montreal pipe lines. In addition, Shell Oil Company of Canada Limited now owns all of the voting stock of North Star Oil Limited in Western Canada and has just recently completed the purchase of Canadian Oil Companies Limited, a very substantial integrated Canadian oil company. Quite recently arrangements were made by Shell Oil Company of Canada Limited to broaden the base of the public ownership of this company and it is now possible for Canadians to participate by direct investment in the company.

I trust this is the information you require.

TVH/mh

T. V. Harquail

Source: P.A.C., RG20, Vol. 587, File T-3-2757.

APPENDIX C 11

R. E. Latimer, Director, International Trade Relations Branch

General Relations Division (Green) August 22nd, 1963.

Cabinet Memorandum on Power Policy

On August 19, a special meeting was held under the chairmanship of the Privy Council Office to discuss a memorandum on power policy, prepared J, the National Energy Board at the request of Mr. Sharp. Briefly, this memo suggested that it would be timely and constructive if the Government were to make a public statement of its policy on electrical power and energy. It offered the draft of such a statement, and reviewed both the history of traditional export policy and the considerations which warranted changes in that policy.

While this paper had been prepared as a Cabinet memo, it was decided not to submit it to Ministers until officials from the appropriate departments had had a chance to discuss it. Those attending the above meeting were: Hodgson (Privy Council Office), Cote and Patterson (Northern Affairs), Barrow (Industry), Oestreicher (Finance), McKinnon and Briggs (National Energy Board), Watson (AECL), Stone (External Affairs) and myself.

Most discussion revolved about paragraph 4 of the draft policy statement, which read as follows:

"The Government believes that it would be in the national interest, in suitable cases, to license the export of large blocks of firm power to United States utilities to permit the development of large-scale remote hydro projects which would not be viable unless supported by the export for periods up to 25 years of a significant proportion of the power generated. Firm contractual provision would have to be made for the recapture of such exported power over a period of years, in stages commensurate with the ability of the Canadian market to absorb it, and upon notice adequate to enable the importing utility to arrange for replacements. The provisions of the National Energy Board Act would of course apply to any case of this nature, as to any export of power."

APPENDIX C 11 (Cont'd.)

Oestreicher, who declared himself to be acting with his Deputy Minister's approval, mounted a strong attack on this paragraph. He first questioned the need for any reference at all to the recapture of power. Advances in thermal generation made the need for future repatriation unlikely, and any such reservation on our part now could make it more difficult to sell our excess hydro power in the United States on favourable terms. If we could not sell it advantageously at this point, the chances of doing so in the future, in the face of other and increasingly competitive sources, were even more remote. For much the same reasons, he suggested the omission of any reference to the 25 year limit on export licences. He was strongly supported on both points by Barrow and Watson.

McKinnon, who appeared somewhat taken aback, pointed out that the memorandum was simply the expression of Energy Board views. had, however, been seen and approved in its present form by Mr. Sharp, and he would be reluctant to see any significant changes made in it at this stage. Apart from these considerations, he referred to the fact that the policy statement was partly designed to mould public opinion to the view that large-scale exports of firm power were not necessarily wicked in themselves. While he was delighted by the willingness of officials to break away from traditional fears, he felt that public proselytization would have to move more slowly. Strong feeling still existed in many quarters against power export, and the complete omission of any reference to recapture would probably cause more trouble domestically than its retention would cause internationally. While exports might not necessarily have to be repatriated, the right to do so should be retained in our hands. As for the 25 year limit, it was common knowledge that this was required by the National Energy Board Act, and little would be gained by not referring to it. He was supported on all these points by Cote, Patterson and myself.

Finally, Oestreicher suggested that the possibility of excess power for export from large Canadian thermal plants should be recognized. The memorandum referred only to "large-scale remote hydro projects." He also suggested certain changes in references, in other parts of the memo, to a national grid system. Some aspects of this project were still dubious enough to make it inadvisable to imply heavy federal participation or support.

In its final form, paragraph 4 represents a compromise between the two sets of views put forward. All references to recapture and to limits on licences have been retained. However, slight changes in wording have been introduced in an attempt to weaken their impact on possible U.S. customers. The main part of the paragraph now reads as follows:

APPENDIX C 11 (Cont'd.)

"....to permit the development of large-scale remote hydro or other power projects which would not be viable unless supported by the export for long periods of a significant proportion of the power generated. The National Energy Board Act permits such exports for periods of up to 25 years. Provision would have to be made for the recapture of such exported power over a period of years, in stages commensurate with the need or ability of the Canadian market to absorb it..."

Source: P.A.C., RG20, Vol. 587, File T-3-2757.

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APPENDIX C 12

FINANCIAL TRANSACTIONS BETWEEN THE

UNITED STATES AND OPEC COUNTRIES 1974-77 (Billions)

Money Moving from the United	States	Money Returning to the United	States
U.S. Purchases of Goods & Services	\$106	Purchases of Goods and Services by OPEC Countries	\$ 70
		Investments in the United States by OPEC Countries	\$ 38
Totals:	\$106		\$108

Source: Christopher L. Bach, "OPEC Transactions in the U.S. International Accounts, 1972-1977", Survey of Current Business, April 1978, pp. 21-32.

APPENDIX D

METHODOLOGICAL NOTE

A number of methodological questions are addressed in this appendix relating to the use of federal, civil service data from the Industry, Trade and Commerce Department and some limitations on the scope of generalization imposed by this source. In addition, for readers interested in the nature of access to such archival materials, the author's experience in this regard is summarized.

The decision to use federal as opposed to provincial data limits the author's ability to generalize about the nature of federalprovincial resource-related interaction and hence to test the importance of provincial policy as a possible counterweight to federal policy. Clarification of this dimension of state resource policy would require the replication, at the provincial level, of the type of research undertaken here. Considering both the geographical spread of the three resources studied and the historical dimensions of regionalism in Canada, studies of provincial policies relevant to industrial staples should be undertaken in Ontario (updating H.V. Nelles' work), Quebec, Alberta, British Columbia, and at least one of the Maritime provinces. Such research would help to clarify the amount of overlap or discord between provincial and federal resource policies in terms of the issues and trends addressed in the present study and bring other issues to the fore that were not represented in the federal data. Such evidence might also qualify our conclusions about the nature of Canadian-American policies, particularly if and where provincial levels of state power have substantially offset the pull of American policy. Our choice of federal data rested on the

assumption that an investigation of state resource policy focussed upon staples which are overwhelmingly exported to the United States should <u>begin</u> with the federal level, rather than on an assumption that this level of study would exhaust the topic of state resource policy.

Two more specific considerations arise with reference to the choice of civil service data per se and to Industry, Trade and Commerce files as opposed to those of other branches. While it has been suggested by R. Mahon (1977) that the Department of Finance is "hegemonic" within the Federal Government, other observers suggest that Finance, Trade and Commerce, and External Affairs are all likely candidates for this position. The thrust of our research did not entail determining the seat of bureaucratic hegemony, though comparative studies of the importance and impact of these three departments on resource policy would be of great interest. Control of the "purse strings" certainly affects resource development, as our own data suggest. Furthermore, the strength of the financial fraction of the Canadian bourgeoisie might provide further justification for focusing on the Department of Finance. Similarly, additional and perhaps qualifying evidence would surface with the use of External Affairs files, especially with regard to Canadian resource policy in the international sphere. There is, of course, some degree of overlap and cross-referencing of memos and documents between departments and branches within these, as shown in our text and notes. Our concern with the three major resource sectors as industries reliant on trade access to the United States and other countries led to the initial choice of Industry, Trade and Commerce files --- a choice reinforced by archivists' advice. We further assumed that such files would provide evidence of

large and small firm access to federal decision—making affecting resource industries, since this department is charged with handling such affairs. The Churchill imports affair is one of many examples of the differential access that size and structure of firm foster. It could be argued, however, that the focus on civil service documentation limits the amount of evidence of conflict between firms within these industries or of conflict rising from less organized public or labour sectors.

The nature of data based on civil service files is, of course, different from what might emerge from the use of statements and documents of politicians. The two sources certainly vary in terms of availability of information, possible ideological emphasis or diversity, and continuity of personnel in each realm. Reactions to policy by particular interest groups could be further clarified by using the second source type, while continuity of policy might appear greater with the use of civil service data. This may emphasize unity of purpose, while political statements may exaggerate temporary disagreement as opposed to underscoring fundamental agreement on general alternatives for resource development. With research using political statements and parliamentary debate, a possible bias toward continuity and uniformity introduced by the nature of civil service sources could be further evaluated. Another element which could introduce distortion might be the inappropriateness of either of these types of data for evaluating the impact that labour may have in the development of state policy related to resource industries. One might assume that completely different methodologies would be necessary to pursue that relationship. Our own minimal sketching of the implications of state policy for labour in resource industries was in part a result of the inadequacy of the documentation available in the files under review.

In addition, it was known that labour-related and external-affairsrelated materials had been removed prior to the author's access. New
or variant concerns might have surfaced by way of other sources which
might further have tested our major hypotheses; it is hoped that
further investigation on the lines suggested here will accomplish that
end.

Access to governmental files of the last thirty years requires permission from the department in question which also retains the right to remove "sensitive" files before the researcher reviews them. Though at one point access to pre-1947 files was denied, the decision was fortunately reversed. Companies that provide archival material to the Government retain the right to deny access for sixty years. Thus, materials in such company files consisted, where available, of annual reports, shareholders' meeting addresses, and the like. Considerable amounts of company-filed material were removed. The Department (in this case Industry, Trade and Commerce) permitted photocopying of documents reviewed for use in the present study. In addition to Forestry record groups, material included civil servant correspondence (domestic and international), reports, minutes of particular meetings or forums, and memoranda filed under such titles as appear in the accompanying bibliography and by a numbering system apparent there and in our notes. These files were moved in about thirty cardboard boxes from the Public Archives of Canada to the Trade and Commerce building, also in Ottawa, where the author studied them for a period of about five months , 1978-79. While previous selection on the basis of computerized topic printouts gives the researcher a fair degree of knowledge about the nature of the files, some topics emerge as fruitful surprizes-in this case the newsprint anti-trust, materials stockpiling, and foreign (non-U.S.) petroleum files. Post-1967 material was scanty.

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