

CHAPTER 11

ENERGY

11.1 International scene

In an effort to raise oil prices to US\$113 per cubic metre (m^3), the Organization of Petroleum Exporting Countries (OPEC) oil ministers announced, in December 1986, that the cartel would cut production by 7.2% to 916 million m^3 per year. Iraq did not sign the agreement. For the first few months of 1987, OPEC succeeded in maintaining this designated production ceiling and prices stabilized around US\$113/ m^3 . In the second quarter of 1987, when seasonal demand for crude increased, some OPEC producers began to sell crude in excess of established production quotas and by the third quarter, OPEC production averaged 1 114 million m^3 per year. Year-end prices fell to below US\$100/ m^3 as OPEC over-production continued and non-OPEC production, particularly in Third World countries, increased by almost 5%.

Canada is one of 21 member nations in the International Energy Agency (IEA) which is an autonomous agency of the Organization for Economic Co-operation and Development. The IEA's main purpose is to organize its members to deal with any oil crisis which would be considered as a major economic threat. Therefore, intermittently, oil-sharing tests are run to determine allocation requirements.

Canada is also an active participant in such bodies as the Organization for Economic Co-operation and Development (OECD), the North Atlantic Treaty Organization (NATO), the United Nations (UN) and the World Energy Conference (WEC). The WEC, a London-based organization established in 1924, is dedicated to the goal of promoting the developments and peaceful use of energy resources. The Fourteenth Congress of the WEC was scheduled to take place in Montreal in 1989, with a theme of Energy in the Future.

The Petro-Canada International Assistance Corporation (PCIAC) was established in 1980 to assist developing countries in reducing their dependence on imported oil. During 1987, PCIAC carried out development projects in over 20 countries and participated in multilateral programs

with other international aid agencies in South America and the South Pacific. In 1987, PCIAC contracted the services of 341 Canadian firms and consultants providing companies with international experience and exposure, new commercial links and overseas market opportunities.

11.2 Impact of world oil price change

The collapse of world oil prices in 1986 created severe financial difficulties for the Canadian oil and gas industry. Lower oil prices resulted in a reduction of industry cashflow, a deterioration in industry's incentive to invest in conventional exploration and development activities as well as in riskier non-conventional projects.

The stabilization of world oil prices in the range of US\$113 to \$126/ m^3 throughout most of 1987, the early termination of the Petroleum and Gas Revenue Tax and the introduction of the Canadian Exploration and Development Incentive Program, resulted in considerably improved industry cashflow during 1987, up 22% to \$9.4 billion. The industry's net income increased from a loss of \$1.8 billion in 1986 to a profit of \$3.2 billion in 1987.

In the conventional sector of the oil and gas industry, wells drilled in Western Canada increased to 6,828 in 1987, an increase of 20.7% over the number of wells in 1986, but still down substantially from the 11,968 wells in 1985. Activity in non-conventional oil and gas exploration and production also increased as \$1.8 billion in new investments was announced for major energy projects such as the Syncrude expansion, the Wolf Lake and Cold Lake projects in Alberta and the NewGrade upgrader project in Saskatchewan.

Canadian ownership of the petroleum industry based on upstream revenues, declined from 46.7% in 1986 to 45.1% in 1987, and Canadian control decreased from 49% to 45.2%. Canadian ownership and control of total petroleum-related revenues — upstream and downstream — were down 1.3 and 3 percentage points in 1987 from