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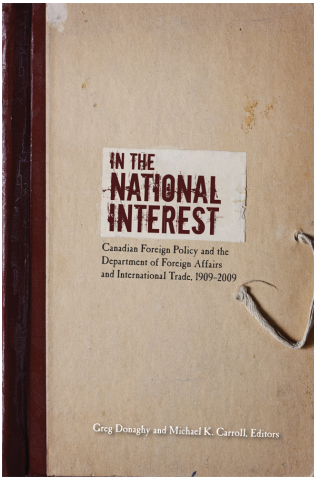
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## IN THE NATIONAL INTEREST

**Canadian Foreign Policy and the Department of Foreign Affairs and International Trade, 1909–2009**  
Greg Donaghy and Michael K. Carroll, Editors  
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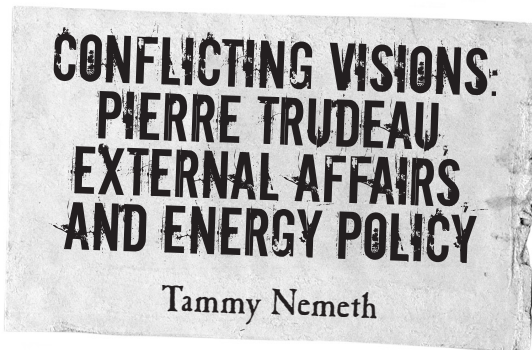
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**CONFLICTING VISIONS:  
PIERRE TRUDEAU,  
EXTERNAL AFFAIRS,  
AND ENERGY POLICY**

Tammy Nemeth

When the Liberal Party met in April 1968 to choose a successor to Prime Minister Lester B. Pearson they opted for change.<sup>1</sup> Pierre Elliott Trudeau was in many ways the antithesis of Pearson; he was charismatic, energetic, single, bilingual, and, at the comparatively young age of 48, he captured the minds and imagination of the youth of the 1960s. Pearson's bowtie seemed antiquated compared to the rose Trudeau wore in his lapel. Most scholarly works and reflections by contemporaries about the years when Trudeau was in power in Canada have a common theme: a significant aspect of Trudeau's personal philosophy was to challenge conventional wisdom.<sup>2</sup> Or, as Trudeau put it himself, "the only constant factor to be found in my thinking over the years has been opposition to accepted opinions."<sup>3</sup> Both the departments of Energy, Mines and Resources (EMR) and External Affairs were significantly affected by Trudeau's desire to challenge conventional thinking on Canada's energy policy and relations with the United States, as he articulated a new vision of Canada's national interest.

Successive Canadian governments since the end of the Second World War have believed in close cooperation with the United States as the central component of Canada's national interest. Though policy-makers in Ottawa were careful to ensure that these relations were not too close or cozy, they were generally inclined to embrace an informal continentalism that served Canadian interests, especially oil, well. The Trudeau years, however, marked a significant policy reversal from seeking secure export markets in the United States for Canada's oil and gas to ending exports and making Canada "self-sufficient." Two policy decisions had profound effects on Canada-United States relations during the Trudeau period: the decision to phase out oil exports to the United States in 1974, and the implementation of the controversial 1980 National Energy Program. Both policies were intended, not only to disengage Canada from the world oil market, by setting prices internally and being self-sufficient in oil, but also to decouple Canada from its interdependence with the United States in the oil and gas trade. The question remains how and why did Canada's oil policy change during the Trudeau period, and what was the role of the Department of External Affairs in formulating that policy?

## Trudeau's View of the National Interest

Prime Minister Pierre Trudeau came to office in April 1968 determined to tie Canada's foreign policy more closely and explicitly to the national interest. For Trudeau and his allies, as historians Jack Granatstein and Robert Bothwell describe, this meant replacing the "helpful-fixer" role of Pearsonian diplomacy with a new focus on "an inward-looking concern for the national interest, for economic growth as the focus of Canadian foreign policy, followed by social justice and the quality of life."<sup>24</sup> Stung by his successor's change, Lester B. Pearson criticized the new direction of Canadian foreign policy for its narrow and traditional conception of the national self-interest, which "merely evokes resistance from other nations, also in the name of national interest, and ... leads to confrontation and conflict."<sup>25</sup> Allan Gotlieb, former Canadian ambassador to the United States, explained in a recent interview that "national interest" meant not being crusaders internationally — not overreaching — and, most importantly, having no

“special relationship” with the United States.<sup>6</sup> This meant pursuing relations with countries, such as Cuba and the People’s Republic of China, even if Washington considered them beyond the pale; diversifying trade relations in order to reduce Canada’s economic dependence on the United States; and increasing Canadian ownership of the economy, which necessarily came at the expense of the United States.

In discussing Trudeau’s concept of the “national interest,” a close prime-ministerial advisor explained that the government “thought that we could pursue a policy that didn’t need to copy the Americans.”<sup>7</sup> Trudeau’s view of the national interest vis-à-vis the United States, supported by some key members within the Liberal cabinet (and certain parts of the public), was that “continentalism ... might have gone too far;”<sup>8</sup> that “exemptionalism” might not necessarily be a good thing; that the existence of a “special relationship” with the United States was questionable; that Canada was too dependent on American trade and investment and therefore diversification was needed; and that Canada’s economy was too reliant on staple exports like oil and lumber and needed to be structurally altered to enhance secondary manufacturing. All of these ideas were greeted skeptically by most civil servants, much of the Canadian business community, and by many cabinet ministers. According to Mark MacGuigan, secretary of state for external affairs from 1980 to 1982, “Trudeau was always ready to thumb his nose at the U.S.... [He] projected more anti-Americanism to Americans in the Reagan era than was tolerable to them, and more than was palatable to most Canadians. In this respect, he served neither Canadian interest nor Canadian preferences.”<sup>9</sup>

In many ways, as Michael Hart argues in his chapter, Trudeau’s view of the “national interest” conflicted with how the Department of External Affairs had managed the Canada–United States relationship in the postwar period, and the rationale behind Canadian oil policy. This is understandable, given that postwar Canadian governments up to Trudeau tended to pursue the type of close relationship with the United States that Trudeau found problematic. In the pre-Trudeau years, and even in the initial years of his first government, the guiding principle behind External Affairs’ approach to Canada–United States trade and relations was informal continentalism. Given the importance of oil and gas to a modern economy and the instability of the world market, it was better, in the view of the

pragmatic informal continentalists, to have a policy that permitted flexibility if circumstances changed.<sup>10</sup> Most senior diplomats of the 1950s and 1960s, including Norman Robertson, Ed Ritchie, Marcel Cadieux, and Basil Robinson, embraced the informal continental approach and walked the tightrope between economic interdependence with the United States and Canadian economic and political independence.<sup>11</sup> This does not mean that the department's continentalism and its conception of the national interest were unalterable. Indeed, in April 1972, under the direction of the secretary of state for external affairs, Mitchell Sharp, the department developed the idea of reducing dependence on the American market through domestic economic measures and by diversifying Canada's trade, otherwise known as the "third option." Increased economic self-sufficiency was a significant component of the new domestic economic initiative, and the oil industry was at the centre.

As early as 1970, plans were being developed in the Department of Energy, Mines and Resources to enhance Canadian participation in the oil industry and rethink the level of its trade with the United States. However, driven by two key international crises – the 1973 oil crisis generated by the Organization of Petroleum Exporting Countries (OPEC) and the oil crisis that followed the 1979 Iranian revolution, Trudeau's and his inner circle's thinking on energy issues ripened as they sensed an opportunity to set the national agenda. If Canada could have all of its oil supplied internally at a controlled price, well below the world price, then the competitive advantage gained by Canada's industrial base, which happened to be in Quebec and Ontario, would be significant. In order to carry out these changes, officials had to be trusted to develop and implement the appropriate policies. But how did these policies differ from the previous policy direction? How did they challenge the conventional approach to Canadian-American oil policy and reflect Trudeau's conception of the national interest?

## Postwar Policies, 1947–1968

In the immediate post-war period, Canadian trade relations with the United States were defined by an informal continentalism.<sup>12</sup> The general strategy involved two stages: first, an exemption was secured from American trade

and tariff policies that would normally apply to foreign countries; second, when the exemption began to fail, a more formal sectoral or commodity agreement was often negotiated. A good representative of this view is Mitchell Sharp, who served as deputy minister of trade and commerce for much of the 1950s, before joining Prime Minister Lester B. Pearson's government in 1965.<sup>13</sup> As Sharp describes it in his memoirs, the senior bureaucracy attempted to balance increased economic interdependence with the United States and Canadian political and economic independence.<sup>14</sup> Initially, the Canada–United States oil trade also followed this pattern of informal continentalism. Throughout the 1950s and into the early 1970s, Canada's priority was to secure guaranteed access to the American market for increased oil production surplus to domestic requirements. In due course, Canadian exports, like all other oil imported into the United States, invited American trade restrictions.

Although the onset of the Cold War hastened the development of the Canadian oil and gas industry, it was also responsible for raising U.S. fears about America's reliance on foreign oil supplies.<sup>15</sup> During the 1950s, American domestic producers, concerned that cheap oil imported from the Middle East was flooding the American market, depressing prices, and reducing domestic exploration and development, argued that oil imports jeopardized American national security. Although United States president Dwight Eisenhower delayed as long as possible, he eventually succumbed to the pressures of the independent oil producers and their Congressional supporters and enacted the Voluntary Oil Import Program (VOIP) in 1955. As reliable suppliers during World War II and the Korean War, Canada and Venezuela were exempted from the protectionist program for defence reasons. However, when the first phase of the VOIP unravelled in 1957 because some American companies chose not to comply with the voluntary limits, the program was altered and exemptions were no longer granted. When mandatory controls were introduced on 9 March 1959, Canada and Venezuela vigorously protested. Much to Venezuela's dismay and ire, Canada eventually succeeded in securing an exemption to the mandatory program while Venezuela did not. External Affairs played a key role in securing this exemption through a "diplomatic blitz" and the efforts of Canada's ambassador to the United States, Arnold Heeney, and the embassy's energy counsellor, Norm Chappell.

Heeney was Canada's ambassador to Washington from May 1953 until May 1957, and again from early 1959 until April 1962, and he was well regarded and respected in Washington.<sup>16</sup> Chappell had come to the embassy in the early 1950s to deal with oil and gas and other resource issues, first as a representative from the Department of Defence Production, and then, as the first energy counsellor. His job was to attend technical discussions and help convey the Canadian position to those decision-makers who determined energy policy in the United States government and industry. Confident in his abilities and in the personal networks he had developed, Heeney, with Chappell's invaluable support and assistance, set about to persuade the American executive of the importance of an exemption for Canada.<sup>17</sup>

The exemption under the Mandatory Oil Import Program (MOIP) immediately became a fundamental component of Canadian oil export policy, and, in 1961, after much discussion and debate within cabinet, Canada adopted a National Oil Policy designed around it.<sup>18</sup> External Affairs, represented by A.E. Ritchie, was part of the *ad hoc* committee established to develop a national oil policy and provided welcome advice on the potential American reaction to the various policy options put forward.<sup>19</sup> An important provision of the National Oil Policy, one designed to preserve Canada's MOIP exemption, precluded Alberta oil pipelines from extending east of the Ottawa River. Thus Ontario would have its foreign supplies replaced by slightly more expensive Canadian oil from Alberta, while the eastern part of Canada, particularly the important refining area of Montreal, continued to import foreign oil, mainly from Standard Oil production in Venezuela. Oil exports to the United States were in turn increased to compensate Western producers for the loss of the Montreal market. Instead of embarking upon a policy of national self-sufficiency in oil, this policy represented a commitment by the Conservative government of Prime Minister John Diefenbaker — generally seen as one of the more nationalist Canadian governments — to sanction the emergence of a continental oil relationship.

Concerned about relations with other oil exporting countries that resented the Canadian exemption, particularly Venezuela, the administration of American president John F. Kennedy insisted on an informal understanding with Canada to prevent oil exports from becoming



“unreasonable.” Between 1963 and 1968, officials in Ottawa and Washington negotiated regularly on agreed levels of Canadian exports. Through the efforts of Chappell and officials at the National Energy Board, Canada often managed to exceed the limits that American officials determined were reasonable. The president, nonetheless, had the power to revoke Canada’s exemption from the MOIP at any time, which almost happened at the end of 1962.<sup>20</sup> During most of the 1960s, however, strong personal links and networks between Canadian and American officials prevented minor disagreements over the exemption and Canadian oil exports from becoming major bilateral irritants. Diplomats A.E. Ritchie, ambassador to the United States from 1966 to 1970, and Chappell played a key role representing Canada’s national interest in managing oil relations with the United States in order to preserve the National Oil Policy. Working closely with officials from the National Energy Board, the centre for Canadian oil policy until the creation of the Department of Energy, Mines and Resources in 1966, External Affairs helped negotiate and maintain Canadian oil export levels to the United States and deflect American pressure on Canada to build an oil pipeline to Montreal. Although the significance was not immediately evident, a turning point for Canadian-American oil relations and the role of External Affairs came in 1968.

## Oil Export Phase Out, 1968–1974

When Trudeau secured his majority government in the 1968 election, he immediately set about restructuring the bureaucracy and initiating extensive policy reviews for every department. During Trudeau’s sixteen years in power, consistent with his personal philosophy of challenging conventional wisdom and accepted practices, the policy-making process and structure of the bureaucracy were considerably modified. The reorganization of the departments of EMR and External Affairs, and the review of energy policy took place in two phases. The first phase began in 1968, and lasted until 1974; the second phase began in 1977–78. As part of Trudeau’s reorganization of government, a host of standing interdepartmental committees were established to review and develop policy. The problem with such committees was that they were cumbersome; it often took a long time to come up

with policies, and they tended to be diluted. Thus, by 1978, a two-tiered policy-making system had evolved whereby the prime minister's "pet" projects could bypass the normal interdepartmental committees.<sup>21</sup> One such "pet" project was the National Energy Program, and, by circumventing the normal process, External Affairs was completely excluded from its development. But in 1968 the policy reviews and the restructuring of the policy-making process and the bureaucracy were just beginning, and Canadian-American oil relations were still moving towards some kind of formal continental agreement.

These existing arrangements on oil exports to the United States were threatened by the discovery of Alaskan oil fields at Prudhoe Bay in 1968.<sup>22</sup> With the future of Canadian oil exports in question, Mitchell Sharp, now secretary of state for external affairs in Trudeau's new government, began discussions with Washington for a broad continental energy agreement in April 1969. Negotiations were scaled down in October 1969 to focus solely on a continental oil policy and these talks continued sporadically into 1973 before eventually dying out.<sup>23</sup>

Although the two governments initially approached the idea of increased continental interdependence with some vigour, negotiations stalled. The failure rested on Canada's refusal to make the East Coast more secure from supply disruptions by building an oil pipeline to Montreal to utilize Canadian oil. At this point, as Table 1 illustrates, it was still cheaper for Eastern Canada to import oil, most of which came from Venezuela, though that began to change in 1972, and Trudeau would not permit a policy that unnecessarily increased prices to Quebec and Ontario consumers.

Thus, in the initial years of Trudeau's first term of government, despite his claim to challenge conventional thinking and his desire to reduce Canada's economic dependence on the United States, there seemed to be little outward change from previous policy. What accounts for this?

First, Trudeau was still consolidating his power within the Liberal party, of which he was a fairly recent member. He likely did not wish to move too quickly to change things.<sup>25</sup> Second, the extensive policy review and departmental reorganization that was initiated in 1968 was still in progress. As long as Canada was willing to *talk* about a continental agreement, it might prevent the Americans from taking drastic action against rising Canadian exports of oil and pre-empting possible policy options that

TABLE I. CANADIAN AND WORLD OIL PRICES, 1968-74<sup>24</sup> (PRICE/BARREL)

| Year | Canadian Oil (C\$) | World Oil (C\$) |
|------|--------------------|-----------------|
| 1968 | 3.13               | 2.59            |
| 1969 | 3.14               | 2.52            |
| 1970 | 3.13               | 2.45            |
| 1971 | 3.45               | 3.12            |
| 1972 | 3.46               | 3.56            |
| 1973 | 3.66               | 10.50           |
| 1974 | 5.96               | 10.26           |

would be in the policy review. Indeed, both the External Affairs and EMR policy reviews and departmental reorganizations would have a significant impact on Canadian-American oil relations.

Much has been written about the foreign policy review undertaken at this time. Six glossy booklets entitled *Foreign Policy for Canadians* were published in 1970 covering six different areas of Canadian foreign policy, though they omitted relations with the United States. During the review, other affected departments were consulted and a broad range of alternatives for Canadian foreign policy was examined. Critics of the review called it incomplete and vague.<sup>26</sup> The Nixon shock of August 1971, when Washington sought to enact a 10 per cent surcharge on imports, compelled Trudeau's cabinet to request from External Affairs a special study on Canada's economic policy with the United States. The result was the "Third Option" white paper in 1972. The main idea of the "Third Option" was to diversify Canada's trade relations, thereby reducing dependence on trade with the Americans. It would seem, then, that External Affairs was moving in step with Trudeau's view of the continental relationship and not in conflict with it. Yet, could Trudeau be sure the new policy orientation would be fully supported by officials in External Affairs?

To ensure a responsive foreign ministry, Trudeau restructured External Affairs and shifted its senior personnel during the first phase of reorganization from 1968 to 1977. From the beginning, Trudeau conveyed a general attitude that he disliked the sense of mission and elitism at the "Dear Department." To strike down this sense of mission within the

department, many of the most promising officials — such as Allan Gotlieb and Basil Robinson — were transferred to other departments.<sup>27</sup> Some returned, but others did not. Trudeau also appointed his own foreign policy advisor, Ivan Head, who would serve as a counterpart to President Nixon's national security advisor Henry Kissinger. Despite Head's brief experience as a junior foreign service officer in External Affairs in the 1950s, a position he resigned in favour of teaching law at the University of Alberta, his appointment was seen as a snub to External Affairs because he came from outside the department and had different views.<sup>28</sup> It also sent a signal to other departments that External Affairs was no longer a department of pre-eminent influence. This change can be seen clearly in the government's handling of the 1973 oil crisis. In the crisis days of the first OPEC embargo, EMR left External Affairs out of the discussion with the Americans. As Granatstein and Bothwell point out, the "Canadian response was directed by Donald Macdonald and his officials in EMR. It was pointedly not managed by External Affairs, even though External Affairs made a valiant effort to persuade cabinet to let it coordinate this most important aspect of Canadian foreign policy."<sup>29</sup> The aftermath of this struggle over jurisdiction between Macdonald and Sharp resulted in a cabinet decision in December 1974 stipulating that External Affairs must be consulted in advance on any major issue that could have an impact on Canada–United States relations.<sup>30</sup>

Although External Affairs' influence in oil matters at higher levels was diminished by 1974, the restructuring of the department and the crippling of its personnel had not yet significantly eroded the networks between mid-level Canadian officials and their American counterparts. External Affairs played an important role in preparing the Americans, or at least softening the blow, regarding Canada's decision at the end of 1974 to phase out oil exports. Fortunately, for Canada–United States energy relations, the position of energy counsellor at the Canadian embassy in Washington remained unchanged during the first phase of restructuring.<sup>31</sup> Chappell utilized his lengthy experience and contacts in Washington to send signals through 1973 and 1974 to the American government and refiners that oil exports would be phased out. He provided stability as a constant and familiar voice and advocate of Canadian energy policies to different American administrations and industry representatives. Chappell finally retired in

1979 after more than twenty years at the embassy, underlining the end of the first phase of restructuring in External Affairs.

The restructuring of EMR, as with External Affairs, took place concurrently with its policy review. However, where the alterations at External Affairs weakened a department on the wane, the changes at EMR were designed to strengthen a department on the rise. After five years of drafting, and three years into the first phase of departmental reorganization that altered personnel and shifted policy-making from the National Energy Board to a new unit in EMR, the energy policy review was published in June 1973. External Affairs, along with many other affected departments, was included in the review process. Its role was to review the document and provide advice on how items might affect Canada–United States, or international, relations. During one of the final meetings in 1973, the Department of Finance, represented by Assistant Deputy Minister T.K. Shoyama, along with officials George Tough, E.A. Ballantyne, and H.L. Tadman, wanted to discuss an option to phase out oil exports. The idea was met with some coolness, though the informal minutes suggest that External Affairs, represented by A.E. Ritchie, D.S. McPhail, and D.W. Fulford, did not openly criticize the idea. The no-export option was not included in the final draft, yet was quietly inserted into the published document.<sup>32</sup> The notion of phasing out oil exports so challenged conventional thinking on Canada–United States oil and energy relations that it would require a whole-scale restructuring of personnel in EMR before it would be properly considered and eventually implemented as policy.

Concerned that his plans to phase out oil exports might flounder on the opposition of officials mired in the certitude of informal continentalism, Trudeau restructured the bureaucracy.<sup>33</sup> He used the Prime Minister’s Office and the Privy Council Office to recruit his own people to government service and promoted from within those who shared his way of thinking. For example, during the first phase of restructuring in EMR, Claude Isbister, the career civil servant who had worked his way up to deputy minister, was replaced in 1970 by an outsider, Jack Austin. Austin was personally chosen by Trudeau because he “was concerned about developing a state presence in the oil and gas industry” and he agreed with Trudeau’s vision of enacting social change through energy policy.<sup>34</sup> A power struggle ensued between Austin and National Energy Board chairman Robert Howland

over whether the board would maintain a policy function or simply become a “rubber stamp” for EMR decisions.<sup>35</sup> As a result of this struggle, Howland, who had been with the board since its inception in 1959, “retired” in August 1973, two years before his term was to end. He was replaced by Marshall Crowe. Crowe, a long-time civil servant, served in the Department of External Affairs from 1947 to 1961. He then worked for six years as an economic adviser to the Canadian Imperial Bank of Commerce before returning to government. Under Trudeau, Crowe held various positions in the Privy Council Office and the Prime Minister’s Office, as well as serving as chairman of the Canada Development Corporation.<sup>36</sup> He was also a member of the “non-group,” a team assembled by Head in 1969 to provide Trudeau with an alternate perspective on Canadian defence policy.<sup>37</sup> Crowe’s membership on this team and his appointment as the head of the Canada Development Corporation underlined Trudeau’s trust in Crowe’s commitment to the prime minister and his alternative policies. Despite his civil service career, there is evidence suggesting that the National Energy Board under Crowe, during public hearings on oil exports, deliberately disregarded testimony and data that did not coincide with the Government’s goal to phase out exports.<sup>38</sup> Perhaps then, one of the reasons for Crowe’s appointment was to ensure that the board fulfilled Austin’s unwritten mandate: decisions and reports would reflect and support EMR policies.<sup>39</sup>

Austin left EMR in 1974 to work in the Prime Minister’s Office, hoping to become president of the new state-owned oil company, Petro-Canada, but ultimately ended up in the Senate.<sup>40</sup> He was replaced in EMR by career civil servant Tommy Shoyama from Finance. Shoyama, like Crowe managed to maintain a senior position because he had a similar ideological disposition to Trudeau and solid credentials: he was a “left-leaning Keynesian” and had been an advisor to Premier Tommy Douglas in the heady days of the socialist Co-operative Commonwealth Federation in Saskatchewan.<sup>41</sup> Shoyama then left EMR to become the deputy minister of Finance after Simon Reisman, another career civil servant, “retired” in protest over Trudeau’s economic policies. Before leaving EMR, Shoyama supported the decision to phase out oil exports, a policy he had supported as an assistant deputy minister of finance during the 1973 energy policy review.

Four months after the energy policy review was published, OPEC flexed its muscles and the world was hit with a shocking rise in oil and gas prices, making the policy review seem obsolete. Yet, there was a sense of opportunity among many left-wing supporters in Trudeau's cabinet and in EMR. Indeed, some of the ideas contained in the review, like the creation of a state oil company or the phasing out of oil exports, seemed ready-made for the current crisis. The New Democratic Party, which held the balance of power in the minority parliament elected in 1972, along with consumers feeling the pinch in Eastern Canada, argued that now was the time to have a more active federal oil and gas policy.<sup>42</sup>

Responding to the crisis, Ottawa moved to control prices and increase its revenue through taxation and eventually announced the end of the 1961 National Oil Policy. The price controls meant oil produced and sold in Canada would receive prices significantly lower than the world price. The oil export tax, called the Oil Import Compensation Program, initially levied a flat rate of 40 cents per barrel, which evolved into the equivalent of the difference between the controlled price of Canadian oil and the world price. For example, in September 1973, the federal government received 40 cents for every barrel of oil that was exported, and a year later they collected upwards of \$6.40 for every barrel sold to the United States. The Trudeau government suggested that these controls and taxes were temporary, but prices remained controlled and a variation of the export tax continued to exist until after 1984.

Both Alberta, Canada's largest oil producing province, and the United States were vexed by these changes. Nevertheless, despite American agitation over Canada's export tax, Canada and the United States were in constant contact during the crisis. Then, on 6 December 1973, Trudeau announced a new National Oil Policy. The new policy included provisions regarding pricing, continuation of the oil export tax, the creation of a state oil company (Petro-Canada), and support for the immediate construction of an oil pipeline to Montreal, among other initiatives. Although it was not specifically stated that oil exports would be discontinued, the stated principle behind the new policy was to "create a national market for Canadian oil" and seemed to suggest that Canadian oil would be preserved for Canadians.<sup>43</sup>

Preceding the announcement of the new national policy were a National Energy Board oil supply and demand study released in December 1972 and an EMR supply and demand study circulated internally in January 1973. Energy board hearings on Canada's oil export policy followed in the spring of 1974. The reports and hearings all seemed to indicate that Canada was running short of oil. All, that is, except the numbers from the Alberta government. The Alberta Energy Resources Conservation Board submitted data to the National Energy Board hearings that indicated over the next thirty years, there would be an exportable surplus of between 700,000 and 1.8 million barrels a day. After some consideration, the Trudeau government nonetheless announced in December 1974 the decision to phase out oil exports to the United States.<sup>44</sup> The American response to this incredible policy reversal was rather benign. Why?

There is little mention of the phase-out in the archival record around the time of its announcement, except for a brief comment made during Trudeau's visit to Washington in December 1974, when President Gerald Ford expressed his disappointment, but also said that he understood the reasons for the policy. Other documents indicate that by the time of the announcement the United States was already resigned to Canada's policy. In subsequent talks with the Canadians, American authorities sought to ensure that northern United States refineries dependent on Canadian supplies would be given time to adjust.<sup>45</sup> The most compelling reason for this calm response was that there were lengthy advance consultations and "signals" that these changes would be taking place. In the initial restructuring of the policy-making process and the bureaucracy, the traditional system of consultation with other departments still existed. Officials from External Affairs, particularly Chappell, worked diligently to ensure that their American counterparts received the appropriate "signals" that the policy was going to be changed. The Americans were prepared for the Canadian policy shift because they had been warned several times, even once by the prime minister himself, at least a year in advance.<sup>46</sup> Although the Americans were disappointed at Canada's decision to phase out exports, they understood its desire to conserve resources.<sup>47</sup> A similarly benign response was not forthcoming six years later when, after the second phase of restructuring at External Affairs and EMR, the National Energy Program (NEP) was announced.



## The National Energy Program, 1977–1984

During the second phase of restructuring, Allan Gotlieb returned to the Department of External Affairs in 1977 as its under-secretary, determined to restore some of its fading power and influence. Part of the perceived weakness of External Affairs was its lack of expertise in economic issues. Supported by Trudeau and the clerk of the Privy Council, Michael Pitfield, who were anxious to rationalize government operations, Gotlieb endeavoured to turn External Affairs into a central agency, eventually incorporating within it parts of the departments of Industry, Trade and Commerce, and Immigration.<sup>48</sup> Gotlieb claimed that Trudeau supported the resurgence of External Affairs partly to respond to the growing separatist threat that followed the election of Premier René Lévesque and his Parti Québécois government in 1976. Obviously, it was not in the national interest for External Affairs to be weakened with a serious domestic crisis with international implications emerging.<sup>49</sup> But the reorganization was also designed to transform External Affairs into a central agency, like the Privy Council Office or the Treasury Board, giving it the authority to coordinate the international activities of other departments.

Under this restructuring, the United States Division became a bureau during the 1970s, and then, in 1983, an entire branch headed by an assistant deputy minister, whose goal was to be the office responsible for consolidating “all the elements of the Government’s relations with the United States.”<sup>50</sup> Presumably, energy issues would be included, especially after the 1979 Iranian revolution initiated a second international oil crisis and a spike in oil prices. Yet, this is not what happened when the National Energy Program was developed and implemented in 1980. External Affairs was not included in the process. Indeed, despite comments by Pitfield to the contrary, Gotlieb says unequivocally that he only found out about the energy program the night before it was announced “and was instructed to develop a plan to sell it in the United States after it was cast in concrete (that is, after it was unsaleable).”<sup>51</sup> Selling it became part of his job in 1981 when he was appointed ambassador to the United States, where he worked assiduously to defend the program even though he believed it was badly misguided. Derek Burney, assistant deputy minister in the new United States Branch in 1983 and a future ambassador to the Washington, agrees

that External Affairs was left out of the process and that this made it hard for officials to respond to American complaints because "it is difficult to defend what you do not know."<sup>52</sup> Here too was a message to External Affairs: despite the reorganizations, the department could not be trusted to advise on and assist in the development of a policy that reflected Trudeau's vision of the national interest and which he thought might conflict with the view in External Affairs. What was it about the National Energy Program that was such a profound source of conflict?

The primary goal of Trudeau's National Energy Program was to achieve energy self-sufficiency by 1990. While this sounds like a worthy goal, several elements in the program were particularly objectionable. Energy security was to be attained by increasing Canadian ownership and participation in the oil and gas industry at the expense of the mostly American-owned multinational companies. Following exploration, any production on federal lands (Arctic and offshore areas especially) had to be undertaken by a firm with a minimum of 50 per cent Canadian ownership. In addition, for every development, past or future on the federally controlled Canada Lands, a 25 per cent interest, or "back-in," to be controlled by Petro-Canada or another crown corporation was required without compensation. Prices were still controlled, as they had been since the first energy crisis in 1973, but this time, as indicated in Table 2, they represented a more concerted effort to disengage Canada from the world energy market structure.<sup>53</sup> In 1980, for example, when world oil prices were the equivalent of C\$44.66 per barrel, oil produced and sold in Canada received \$17.30 per barrel. For Canadian oil exported to the United States, the federal government claimed through taxation the difference between the Canadian price and world price.

From a diplomatic perspective, the American response, when it came, was blistering.<sup>55</sup> Gotlieb describes in his Washington diaries the judgment of Republican president Ronald Reagan and his advisors: "They hate it. They regard it as confiscation."<sup>56</sup> What concerned the United States most was that the energy program was "blatantly discriminatory with reference to the operations of American companies in Canada."<sup>57</sup> If Canada wanted to preserve its resources for itself, Washington officials argued, the United States would be disappointed but would not object strenuously. Discrimination against American companies, however, was a whole other matter as it set a dangerous precedent for other countries in the world with American

TABLE 2. CANADIAN AND WORLD OIL PRICES, 1974-1981<sup>54</sup> (PRICE/BARREL)

| Year | Canadian Oil (C\$) | World Oil (C\$) |
|------|--------------------|-----------------|
| 1974 | 5.96               | 10.26           |
| 1975 | 7.44               | 11.35           |
| 1976 | 8.72               | 12.14           |
| 1977 | 10.45              | 14.81           |
| 1978 | 12.53              | 17.12           |
| 1979 | 13.94              | 26.23           |
| 1980 | 17.30              | 44.66           |
| 1981 | 26.91              | 43.49           |

investments. Contrary to some popular Canadian accounts, which charged American diplomats with heavy-handed and bullying tactics, the Reagan administration (at the president's behest) pursued a form of high-pressured but restrained "quiet diplomacy" throughout 1981 and early 1982 in order to underline the program's unfair treatment of American interests.<sup>58</sup> As time wore on, changes were made to the National Energy Program that addressed some American complaints, although many of its interventionist aspects remained and would not be effectively dismantled until 1985 under a different government. Part of the reason for Washington's initial negative reaction to the introduction of the National Energy Program can be attributed to shock and a lack of communication beforehand about the policy. There had been no forewarning, no softening of the blow.<sup>59</sup>

In contrast to the potentially controversial phase-out of oil exports in 1974, External Affairs was excluded from the energy policy process in 1979-80. This was due to the second phase of restructuring of the policy-making process and the bureaucracy that had begun in 1978. While EMR's earlier restructuring was relatively gradual and somewhat diffuse, the second phase of restructuring had a different dynamic: the changes were more focused and more comprehensive. Initiated in March 1978 by Marc Lalonde and the clerk of the Privy Council, the "Pitfield shuffle," as it was soon dubbed, shifted several ambitious bureaucrats from Finance to EMR in preparation for a large policy initiative.<sup>60</sup> It can be surmised that Lalonde anticipated taking over the portfolio after the next election.<sup>61</sup> The

new deputy minister of finance was Ian Stewart, who had been a close Trudeau energy advisor in the early 1970s. Similarly, a completely new policy-making division was created in EMR under the guidance of Trudeau-loyalists Mickey Cohen, George Tough, and Ed Clark. All three had been recruited and trained by the Prime Minister's Office and the Privy Council Office before they went to Finance and then onto EMR. These three men personally selected their new employees and reassigned those who did not meet their standards or reflect their views.<sup>62</sup> The cumulative effect of these personnel changes was that the ideological complexion of EMR was gradually altered in order to reduce resistance to Trudeau's vision of how Canada relations with the United States might be arranged.<sup>63</sup>

When Lalonde finally became minister of EMR in 1980, after Prime Minister Joe Clark's brief Tory interregnum, the department was ready and willing to tackle the creation of a comprehensive left-leaning energy program that would encompass the principles of energy self-sufficiency, changes to pricing and revenue sharing, and "Canadianizing" the industry. The prospect and intellectual challenge of "redesigning an entire industry's dynamics" was exciting, dramatic, and appealing.<sup>64</sup> Lalonde and his colleagues were motivated and buoyed by their unwavering faith in the ability of technocracy and planning to address and solve pressing and troublesome economic issues. Gotlieb later recalled that there was also an arrogant and cocky attitude emanating from EMR officials because "they were running the world." With the surge in international oil prices and the decline in American production, he explained, there was a euphoric feeling that the tables were turned in Canadian-American energy relations: Canada would be strong and the Americans were going to be weak. Now Canada had the upper hand and would be able to set policy and define the terms of trade.<sup>65</sup> Under Lalonde's direction, the policy these officials developed, reflecting this new attitude, was the National Energy Program. Conventional wisdom on Canadian oil and gas policy was definitely going to be challenged.

A small group of handpicked people within the departments of EMR and Finance, as well as the Privy Council Office developed the National Energy Program in great secrecy and announced it as a *fait accompli* in the October 1980 budget. At roughly the same time, External Affairs recognized that there ought to be some coordination between EMR and External Affairs on international energy issues. Thus, in 1979-80, during the

period of the second OPEC oil price shocks, Gotlieb, then under-secretary of state for external affairs, “lobbied the Cabinet to combine an energy policy with overall foreign policy concerns.”<sup>66</sup> In the spring of 1980, the new deputy minister of EMR, Mickey Cohen, responded to Gotlieb’s pressure by creating an International Energy Relations Branch within EMR. Knowledgeable officials from External Affairs were seconded to EMR in order to organize the new branch. D.R. Whelan came over from External Affairs in August 1980 to help prepare the ground for the new branch, while Don Campbell arrived right around the time the NEP was announced in October 1980.<sup>67</sup> However, this new branch was not included in the policy process for creating the NEP, nor was it asked to provide advice on the NEP before it was announced. The Department of External Affairs was also excluded from the process; thus, it did not have the opportunity to advise on questions that would affect Canada’s relations with the United States. In twelve short years, External Affairs went from contributing a respected perspective on Canada–United States energy issues, to being excluded from a policy that had significant ramifications for the bilateral relationship and Canada’s national interests.

## Conclusion

Trudeau had a view of the national interest and continental relations that challenged traditional postwar thinking on Canada’s economic and trade relations with the United States. This vision encompassed the following: reducing Canada’s dependence on the United States, increasing Canadian control of the economy, reducing American investment, increasing Canadian manufacturing, and reducing Canada’s reliance on staples. The effect on oil and gas policy was a shift away from informal continentalism to a form of economic nationalism, or from maintaining access to the American market to phasing out oil exports and becoming “self-sufficient.” Such controversial policies could not have been developed and implemented without the significant changes in the policy-making process and the restructuring of the bureaucracy that took place during the Trudeau years.

Trudeau desired to alter the policy and decision-making processes ostensibly to make government more “efficient,” but the changes were also

designed to reduce resistance to his more interventionist policies that reflected his conception of the national interest. While EMR was buoyed by its increase in power and importance to the prime minister, External Affairs was destabilized and suffered low morale from its reorganization. It lost its influence as a voice in the development of policies that affected foreign relations, particularly Canada's relationship with the United States. By 1980, the traditional lines of communication between Canadian and American officials were either ignored or no longer existed; and the stronger the U.S. reaction, the more the Canadians believed they had taken the right action.

The role of External Affairs in all of this is a good example of Trudeau's suspicion of the department as it had been before he took power. Perhaps he feared that there was a conflict of visions: that External Affairs' sense of mission and its conception of the national interest would interfere with his repudiation of the informal continentalism that the department and its diplomats had traditionally supported. Trudeau had little faith in the department's professionalism and its willingness to adapt to and implement the policies of the government — no matter how controversial. Therefore, External Affairs had to be marginalized and restructured in such a way as to extinguish any independent sense of mission. Ultimately, Canadian energy policy, Canada's relations with the United States, and Canada's interests suffered for this lack of faith.

## NOTES

- 1 The author would like to thank the following individuals who were gracious enough to grant their time and insight during interviews: Allan Gotlieb, Stan Gooch, Don Campbell, Joseph Stanford, and Kathleen Deutsch.
- 2 See, for example, Robert Bothwell, *Alliance and Illusion: Canada and the World, 1945-1984* (Vancouver: UBC Press, 2007), 278; J.L. Granatstein and Robert Bothwell, *Pirouette: Pierre Trudeau and Canadian Foreign Policy* (Toronto: University of Toronto Press, 1990), 382. For accounts from contemporaries, see: Mitchell Sharp, *Which Reminds Me...* (Toronto: University of Toronto Press, 1994), 164, 171; Jeremy Kinsman, "Who is My Neighbour? Pierre Trudeau and Foreign Policy," *London Journal of Canadian Studies* 18 (2002/2003): 106-7; Gordon Robertson, *Memoirs of a Very Civil Servant* (Toronto: University of Toronto Press, 2000), 250-68.
- 3 Thomas Axworthy, "'To Not Stand So High Perhaps but Always Alone': The Foreign Policy of Pierre Trudeau," in *Towards a Just Society: The Trudeau Years*, ed. Thomas S. Axworthy and Pierre Elliott Trudeau (Markham, ON: Viking, 1990), 16.
- 4 Granatstein and Bothwell, *Pirouette*, 33.
- 5 Granatstein and Bothwell, *Pirouette*, 34. Charles Ritchie wrote in his diary after a meeting with Trudeau in October 1968 that "Trudeau has got it into his head that the Department is divorced from the real interests of Canada and is embarking on international projects which have no firm basis in Canadian needs, and that this has been characteristic of the Pearson era." Charles Ritchie, *Storm Signals: More Undiplomatic Diaries, 1962-1971* (Toronto: Macmillan of Canada, 1983), 114.
- 6 Allan Gotlieb, interview by author, telephone tape recording, Toronto/Toulouse, 3 July 2008.
- 7 Confidential interview, 30 November 1987, B1988-0094/006, Robert Bothwell Papers, University of Toronto Archives.
- 8 Granatstein and Bothwell, *Pirouette*, 63.
- 9 Mark MacGuigan, *An Inside Look at External Affairs during the Trudeau Years*, ed. P. Whitney Lackenbauer (Calgary: University of Calgary Press, 2002), 16, 18.
- 10 Michael Hart, *A Trading Nation* (Vancouver: UBC Press, 2002), 267.
- 11 Allan Gotlieb, interview by author, telephone tape recording, Toronto/Toulouse, 3 July 2008.
- 12 Stephen Clarkson, "Continentalism," *The Canadian Encyclopedia*, online version, <http://www.thecanadianencyclopedia.com/continentalism.htm>. See also, Hart, *A Trading Nation*, 168-71. Hart argues that Canada had little choice but to become more interdependent with the United States in economic terms because "the markets of Europe, Latin America, and Asia had all been virtually closed to Canadian exporters in the decade after the Second World War." The American market was somewhat accessible for Canadian commodities and products, and American capital was available to "help develop Canada's resource and manufacturing sectors."
- 13 Sharp, *Which Reminds Me...*, 180-81, 183, 185.
- 14 Ibid. See also, MacGuigan, *An Inside Look at External Affairs*, 18.
- 15 See, Tammy Nemeth, "Canada-U.S. Oil and Gas Relations, 1959-1974" (PhD diss., University of British Columbia, 2007), chaps. 1 and 2.
- 16 The U.S. ambassador to Canada, Richard Wigglesworth, sent Heeny an editorial from the *Washington Post*, 21 January 1959, with the headline, "Return of a Friend" referring to Heeny's appointment. See, Arnold Heeny Papers, vol. 1, file: United States Ambassador to Washington, 1958, 1959, Congratulations, Correspondence,

- Memoranda, Library and Archives Canada (LAC).
- 17 See, Telegram to External from WashDC, Subject: Presentation of Credentials to President, 2 March 1959, Heeney Papers, vol. 1, file: United States Ambassador to Washington, 1958, 1959, Congratulations, Correspondence, Memoranda, LAC.
  - 18 For a detailed discussion of these events see, Tammy Nemeth, "Consolidating the Continental Drift: American Influence on Diefenbaker's National Oil Policy," *Journal of the Canadian Historical Association* 13 (2002): 191-215.
  - 19 See, for example, Cabinet Committee on Oil Policy, 7 October 1960, Donald Fleming Papers, vol. 128, LAC; Cabinet Committee on Oil Policy, 22 December 1960, National Energy Board Records (NEBR), vol. 167, file 22, LAC. The two officials involved most consistently on oil issues in the late 1950s and into the 1960s were A.E. Ritchie and Norm Chappell.
  - 20 Nemeth, "Canada-U.S. Oil and Gas Relations, 1959-1974," 172-222.
  - 21 The development of the two-tiered policy-making system is well-documented in Colin Campbell and George Szablowski, *The Superbureaucrats: Structure and Behaviour in Central Agencies* (Toronto: Macmillan of Canada, 1979); and Jeffrey Simpson, *Faultlines: Struggling for a Canadian Vision* (Toronto: Harper-Collins, 1993). For a discussion of the PMs' "pet" projects, see Donald J. Savoie, *Governing from the Centre* (Toronto: University of Toronto Press, 1999), 134-35, 254-59, and chap. 10.
  - 22 For Canadian fears on new limits to Canadian access to the American market, see, Memorandum Oil Matters, 17 March 1969, NEBR, vol. 73, file 56F, LAC; Memorandum to Cabinet from Otto Lang (Acting Minister of Energy, Mines and Resources), Oil Policy Review, 15 May 1969, NEBR, vol. 64, file 9K, LAC. For the American statement to Canada that "the large oil discoveries in Alaska introduced a new factor into the situation," see Memorandum of Conversation, Subject: Canadian Oil, E-1613, 25 March 1969, RG 59, CEFP (Central Foreign Policy Files), Subject-Numeric Economic 1967-69, box 1350, file "PET 17-2 CAN 1/1/67," 182, National Archives and Records Administration (NARA).
  - 23 Telegram 031468 from State Department to Amembassy Ottawa, Subject: Canadian Oil, E-1613, 28 February 1969, RG 59, CEFP (Central Foreign Policy Files), Subject-Numeric Economic 1967-1969, box 1349, file "PET 11-2 CAN 1/1/69," NARA. This was a copy of an *aide-mémoire* delivered to the State Department by Canadian Ambassador A. E. Ritchie, suggesting that oil talks begin. What is interesting is that a comprehensive energy agreement is not specifically mentioned, phrases such as "broad review" of policies were used instead. See also, Canada [Briefing Paper], file "Booklet Papers for November 9, 1972 Meeting of the Energy Subcommittee [III]," John F. Schaefer Files, box 56, Energy Policy Office, Staff Members Office Files (SMOF), White House Central Files (WHCF), Nixon Project, USNA.
  - 24 The data in this table is taken from, Earle Gray, *Forty Years in the Public Interest: A History of the National Energy Board* (Vancouver: Douglas & McIntyre, 2000), 140.
  - 25 Ramsay Cook, *The Teeth of Time: Remembering Pierre Elliott Trudeau* (Montreal and Kingston: McGill-Queen's University Press, 2006), 84.
  - 26 Granatstein and Bothwell, *Pirouette*, 39.
  - 27 Bothwell, *Alliance and Illusion*, 372-80. See also, Sharp, *Which Reminds Me ...*, 170-73; Allan Gotlieb, interview by author, telephone tape recording, Toronto/Toulouse, 3 July 2008.
  - 28 Ivan Head and Pierre Trudeau, *The Canadian Way: Shaping Canada's Foreign Policy, 1968-1984* (Toronto: McClelland & Stewart, 1995), 5.
  - 29 Granatstein and Bothwell, *Pirouette*, 87.
  - 30 Cabinet Conclusions, 19-20 December 1974, RG 2, vol. 6436, series A-5-a, LAC.
  - 31 On the importance of good people to help make things work, and the effect of









