

# Mobil and the Canadian Offshore: A Study of Context and Purpose

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PETROLEUM IS THE most valuable commodity traded in the world. It follows, therefore, that there are enormous fortunes to be made from dealing in oil and natural gas. In fact, there is a striking, century-long continuity in the efforts to profit from this mineral. The essential concerns of producers and traders in the 1980s differ little from those of the entrepreneurs who sold the initial supplies of oil in the U.S. in the 1860s. What determines the profitability of any effort to extract hydrocarbons from the earth, whether under the Grand Banks or the sands of Saudi Arabia, is the market price of the resource. That price, in turn, is totally dependent on the real or perceived capability of producers and traders to meet the requirements of consumers. Consequently it has always been in the interests of those who seek to profit from petroleum exploitation and marketing to control—meaning, for the most part, to restrain—supply. Just as the failure to do so has caused financial turmoil in parts of the world in the 1980s, so it did on a much smaller scale 120 years ago. The problem at present is that there is no truly effective mechanism to dominate or monopolize the international supply of crude oil and its products. The petroleum-dependent economies of various regions and countries are suffering, as are the fortunes of most oil companies, particularly those heavily involved in the production end of the business. This was also the case at the inception of the industry.

The chaos of an uncontrolled market revealed itself within the first few years after the 1859 discovery of the Drake well in Pennsylvania and the subsequent “oil rush.” In 1860 the price of oil was \$20 per barrel. A year later it was ten cents a barrel, and sometimes a barrel of oil was literally cheaper than water. A sharp young bookkeeper by the name of John D.

Rockefeller observed the volatility of the oil market and endeavoured to figure out a way to control it. He realized quickly that the means of dominating the industry was not by producing oil but by refining and distributing it. Hence his company, the Standard Oil Trust (actually a group of companies), instituted monopolistic deals with the railway companies and effectively eliminated its rivals (Sampson 27).

Standard's operations expanded rapidly. By 1883 the distribution of oil by rail in the U.S. had been mostly replaced by Standard's network of pipelines. At the same time, Standard began to emerge as one of the first modern multinational corporations, with 70% of its business in 1885 transacted overseas (Sampson 31). By the turn of the century, however, its monopoly position was being challenged on two fronts. Internationally the merger of Royal Dutch Petroleum with Shell Transport and Trading in 1907 provided formidable competition. This was intensified at the outbreak of World War I by Anglo-Persian (subsequently called British Petroleum), a company formed in the early 1900s to operate a British oil concession in Iran. Domestically the 1901 discovery of the Spindletop field in Texas, and subsequent discoveries of other reserves there, spawned the formation of Gulf Oil Corporation and Texaco. The corporate pie was further divided in 1911 when Standard Oil, because it still was large enough in the U.S. to act in a monopolistic fashion in setting oil prices, was broken up by the government into thirty-eight different companies. The three most important companies evolving from this split were: Standard Oil of New Jersey, now Exxon; Standard Oil of New York, now Mobil; and Standard Oil of California, now Socal or Chevron. Together these companies—five American, one British and one Dutch/British—comprised the "Seven Sisters."

Despite the breakup of the Standard Oil Trust, Rockefeller and his associates still managed effectively to control all thirty-eight of the corporate progeny. The price of oil in the U.S. actually increased following the "trust-busting" (Sampson 38). On the international level, however, competition ruled for most of the first three decades of the century. Hence control at the level of production was once again a major concern of the Rockefellers, since they could not monopolize the global refining, distribution and marketing of petroleum. There was a series of struggles for markets and profits, primarily between Standard Oil of New Jersey and Royal Dutch Shell. Access was contested for corporate entry into rich fields from Iraq and the Soviet Union to Mexico. "Every conceivable tactic was used," writes Michael Tanzer, "from price wars and bribery to violence" (25). By the middle of the 1920s the companies were realizing that the op-

portunities for profit afforded by the boom, not only in automobile manufacture but also in ships, airplanes and military vehicles, were not being met. They decided to do something about it. Consequently, as Tanzer puts it,

The international "oil war" ended, just like World War I, with a formal armistice agreement, negotiated in 1928 at Achnacarry, Scotland, by the heads of Standard Oil of New Jersey, Royal Dutch Shell, and British Petroleum. (26)

This secret covenant, which came to be known as the Achnacarry or "As Is" Agreement, began by explaining that "excessive competition has resulted in the tremendous overproduction of today." It sought to put an end to competition by ruling out new production facilities until the old ones were being used at capacity and by fixing market shares of the "Big Three" (Standard, Shell, and British Petroleum) at the 1928 level. In addition, the companies demarcated geographical areas of corporate activity in the oil-rich Middle East. The "As Is" Agreement was implicitly understood in such a way as to accommodate the other two Standard Oil companies, Mobil and Socal, as well as Gulf and Texaco. While the pact was never fully implemented, its principles and intentions related to price fixing and export arrangements ensured a comparatively high degree of stability for the industry for most of the next thirty years (Sampson 87-92). Thus Rockefeller's monopoly of the 1880s had, because of competition, given way to a corporate oligopoly which created and operated a cartel.

The economic strength of the Seven Sisters expanded considerably during the 1930s and 1940s. By 1949 they controlled 69% of the oil reserves in the noncommunist world and 57% of refining capacity (Tanzer 17). Economic power on this scale understandably begets political power and influence. What evolved in the U.S. after World War I, therefore, was a symbiotic relationship between the five American oil majors and their home government. On the one hand, there was the political impulse to ensure the corporations' success. After all, as Tanzer points out,

while the oil companies seek profits all over the world, their governments also want to assure reliable supplies of oil for their military machines and for their industries, as well as for popular consumption. Each of these aims can be furthered by government support for the expansion efforts of the oil companies. And if in the process of expansion the oil companies bring in huge profits from abroad which help the home country's balance of payments, this too gives the government a stake in the companies' operations. (39)

On the other hand, because of the power, experience and global reach of these corporations, the U.S. became somewhat dependent upon them in the international political sphere. In the 1950s the State Department's proclaimed policy was that "American oil operations should be the instruments of foreign policy in the Middle East" (Sampson 290). Among other things, this was reflected in the breadth of the contacts and appointments between the industry and the State Department, beginning with Secretary of State John Foster Dulles, a senior member of Jersey Standard's law firm (Tanzer 40; Shaffer 269-75). In fact, Ed Shaffer argues that the multiplicity of links between the major American oil companies and successive U.S. administrations has meant that "Over the years U.S. foreign policy has developed into an oil foreign policy, a policy designed to protect American oil interests throughout the world" (275). Activities emanating from the political and economic conjuncture of the world's most powerful corporations and most powerful state have left a legacy of underdevelopment and dependency in virtually all of the nonindustrialized countries where the oil majors have ventured. J. D. House summarizes the companies' behaviour and impact succinctly:

They received generous concessions from the host nations, which were uncritically eager to attract industrial development of whatever kind; they bought off the appropriate sheik or government official as was needed; they brought the political and military might of the home government to bear upon any Third World government that attempted to step out of line; and they acted as sovereign powers within the host nations. A classic pattern of underdevelopment emerged, with the oil companies setting up separate enclave operations under expatriate American and European supervision, employing locals only in the less-skilled lower-paying jobs, paying low royalties and taxes to the host governments, and shipping out the crude oil in an unprocessed form at cheap prices for refining and marketing in Western Europe. (*Challenge of Oil* 107)

In some instances, when the oil majors saw their interests threatened they participated in the overthrow of governments. The most striking example of this was the removal of the Mossadeq government in Iran in 1953 and the installation of Shah Mohammed Reza Pahlavi. The coup was engineered by the American Central Intelligence Agency (CIA) and was actively supported by the corporate cartel and both the British and American governments. The motivating factor for this action was the Iranian parliament's decision in 1951 to nationalize British Petroleum's oil holdings in the country. Arguably the bloodshed and the political instability in the Persian Gulf

region since at least the mid-1970s can be linked to some extent to the Iranian coup. Iraq too was the victim of a CIA-organized coup in 1963. Once again a new government favourable to both American and oil major interests was installed. As a historian of Standard Oil stated, "For its unsavory reputation, the world petroleum industry could only blame its leaders" (Tanzer 25). The grievances of all of the oil producers, however, could not be suppressed and controlled forever. Despite the threat and the subsequent imposition of an international boycott of its product by the U.S. and the oil companies, Mexico nationalized its petroleum industry in 1938. Venezuela took gradual steps in this direction over the following two decades and was a participant in the formation of the Organization of Petroleum Exporting Countries (OPEC) in 1960.

There were other corporate and political developments taking place in the 1950s and early 60s which contributed to the restructuring of production and marketing relationships in international petroleum affairs. Some growing, mainly American, independent oil companies were gaining production concessions in North Africa; European state oil companies such as Italy's E.N.I. were becoming influential actors in bidding for production rights; and the Soviet Union began to increase its exports to the West. All these factors led to a reduction in the control exercised by the Seven Sisters over oil production and a resulting fall in the price of crude oil.

A postwar boom in oil consumption compensated partly for the companies' falling profit rates from their foreign operations. Still, from a very lucrative 30% in 1955, rates fell to 14.7% in 1963, and reached an all-time low of 11.1% in 1969 (Nore 72). Consequently the oil majors sought and received help from their home governments. In the U.S. the domestic operations of the major American oil companies were protected from the mid-1950s to the early 1970s by the placing of import restrictions on less expensive foreign crude oil. Conservative economist Milton Friedman observed in 1969 that "The political power of the oil industry, not national security, is the reason for the present subsidies to the industry" (McKie 78).

By the early 1970s the oil majors wanted to raise their prices, but they knew that if they did this on their own there would be a harsh reaction in the West. The Nixon administration also wanted higher prices, since it was facing pressures to implement a steadily declining tariff on oil imports. A satisfactory solution to the price conundrum evolved as prices began to rise from 1971, the common perception being that this was solely the initiative of OPEC. The fact is that the oil majors accepted the increasing nationalization of oil by the exporting nations in return for higher prices and a

guaranteed stable business environment (Nore 73). While the oil price shock and embargo of 1973-4 obviously went too far in Washington's view (Laxer 38), in general the new production and pricing arrangements were the logical outcomes of preceding events and negotiations, and they were generally desired by the producers, the oil companies, and the U.S. government. Higher prices obviously benefited OPEC and the corporations, and they also enabled the U.S. economy to reassert its dominance over those of Germany and Japan, which depended more heavily on imported oil (Nore 73). Since the mid-1970s the role of the oil majors has diminished at the "upstream," or production, end of the industry's activities. Whereas the Seven Sisters owned 61% of noncommunist oil production in 1970, their share had shrunk to only 25% by 1979. By this time, according to Dirk de Bruyne, managing director of Royal Dutch Shell, the original corporate logic of vertical integration of all aspects of the oil industry had been forced to change "as more and more countries [sought] their own particular set of energy solutions," most involving some degree of nationalization (*Globe and Mail* 30 Nov. 1981).

Until the beginning of the 1980s Canada lagged behind almost all of the world's oil producers in the making of national energy policies. The aim of the Liberal government's 1980 National Energy Program (NEP) for Canadian companies to control 50% of domestic production by 1990 was comparatively modest. By 1975 all OPEC members except Gabon owned more than 50% of their oil production. Most owned 100% (Nore 24-5). While Canada's weak position in this respect fitted, to some extent, within the traditional character of foreign corporate domination of much of Canadian industry, it also reflected pervasive links between the American oil majors and their home government and their combined influence on successive governments in Ottawa.

Among the industry's leading companies at the time of the landmark Leduc oil discovery north of Edmonton in 1947 were Texaco and Imperial Oil, both of which had gained their positions through acquisitions of Canadian firms by their American parents. The takeover route was also followed by Gulf in 1956, when it purchased British American Oil, and by Shell, when it expanded its Canadian operations by acquiring North Star Oil in 1960 and Canadian Oil in 1962. These companies were vertically-integrated operators in the sense that they were involved in exploration, production, transportation, refining, distribution and marketing of petroleum and its products. The fact that resource ownership and management were deemed in the 1950s and 60s constitutionally to be provincial concerns determined

that energy policy and related revenue matters would largely reflect the outcomes of negotiations between the producing provinces and the industry. Consequently there was no real national thrust to establish petroleum-related legislation until the appointment of the Royal Commission on Energy in 1957, chaired by Toronto industrialist Henry Borden. And it seems that the policy adopted four years later was conceived so as to enable greater penetration into the industry by both American political and corporate interests.

It was on the advice of oil consultant Walter Levy, one of the important personal links between government and the oil industry in the U.S., that Canada adopted the National Oil Policy (NOP) in 1961 (Shaffer 272). According to Doern and Toner,

There is no question that the NOP satisfied the multinationals and the U.S. government and served to enhance continental integration of the Canadian and U.S. oil markets. . . . Specifically, western Canadian oil was ensured its "natural" market for expansion, the midwestern United States, and was safeguarded against competition from cheaper oil where such competition could have hurt, namely, in the Ontario market. (66)

It was possible to deliver Middle East crude to Edmonton at a price which was less than the cost of extracting Alberta crude in the vicinity of that market. Thus while the American government protected its petroleum industry through the imposition of import tariffs, the Canadian government ensured the protection of its mainly multinational industry through the establishment of higher prices for consumers west of Ottawa. This differential pricing arrangement was quite satisfactory to the oil majors, who profited from the higher oil prices by exporting larger quantities of petroleum to the U.S. in addition to supplying most of Ontario and the western Canadian market. In 1971, for the first time, more Canadian oil was exported to the U.S. than was consumed in Canada.

The NOP also led to "one of the biggest takeover splurges in Canadian oil and gas history" (Crane 56), a process whereby multinational companies such as Shell significantly increased their holdings in the industry. This extended the corporate concentration within the petroleum industry which, by the 1970s, was greater in Canada than in the U.S. By then Imperial, Shell, Gulf and Texaco held 35% of the Canadian crude oil production sector, compared with a 27% share of American production held by the four largest producers in the U.S. (Bertrand 3). Moreover, this Canadian concentration was not in Canadian hands. This had the effect of intensifying

monopolistic practices by the multinationals, particularly with regard to artificial selling and buying transactions between the foreign oil majors and their Canadian subsidiaries. In all, it is estimated (in 1980 dollars) that Canadian consumers paid \$12.1 billion to the oil companies from 1958 to 1973 over and above what they should have paid (Bertrand 8-9).

The political and economic restructuring of the petroleum matrix that occurred in the international sphere in the early 1970s produced related impacts in Canada. There was still a sizeable vacuum in federal understanding of petroleum matters at this time, a situation of which Laxer argues the oil companies were willing to take advantage. Following the oil price hikes of the early 1970s, he writes,

one highly placed employee of Imperial Oil admitted, in a personal conversation, that the oil companies had available to them a very wide range of estimates of oil and natural gas reserves and that they used those which were convenient to their interests in lobbying governments. Sometimes this meant they used their high estimates; sometimes their low ones. (46-7)

Naturally, the oil companies sought to receive the world price for their Canadian oil and lobbied hard with both the federal and Alberta governments for such an agreement. With the latter there was no problem. The Liberal government in Ottawa, however, balked, since such an increase, though of benefit to both the industry and Alberta, would penalize Canadian consumers and offer only marginal revenues to the federal treasury. The argument for higher prices and lower taxes was summarized by Imperial Oil chairman Jack Armstrong in 1977:

We badly need to create a new climate for the resource industries in Canada—a climate far more encouraging to investment than we have at present. We do not have in this country a set of policies to make resource investment attractive to either the corporate or the individual investor. (Crane 196)

He might have noted that, because of the poor “climate,” Imperial’s parent Exxon, which held a 70% interest in its Canadian subsidiary, had not contributed any capital to Imperial since 1951, though it received substantial dividend and industrial benefits during that period (House, “Multinational Corporations” 4).

The fact is that between 1973 and 1978 the price of oil and natural gas in Canada did rise fairly quickly. By mid-1978 Canadian crude oil was selling at 80% of the world price. At the same time, even if one excludes the very



generous super-depletion tax deduction for offshore exploration, some tax economists argued that other advantages enjoyed by the resource industry could not be justified on economic grounds (Doern and Toner 98). These included accelerated write-offs on exploration and development expenditures and earned depletion allowances. What this meant in real terms was that in the second half of the 1970s the effective taxation rate for resource companies was 10%, less than one third the nominal rate of 36%.

The gradualist Canadian ownership thrust of the NEP can be seen as a policy of necessary redress in an industry in which, by 1980, 72% of the companies were foreign-owned and 82% of the revenues generated were foreign-controlled. This constituted a level of external control without parallel among the world's major petroleum producers. Over the period 1971 to 1980 the multinational oil companies paid out a significantly higher percentage of their net income to shareholders in the form of dividends and equity reductions than did Canadian firms, and they reinvested much less of their cash flow in petroleum-related activities (Pratt 27). Part of the reason the majors' level of investment was proportionately lower was because their very scale of operations and resource incomes enabled them to gain more incentives from, and pay less taxes to, the federal government.

It will be shown later that the NEP was not unduly harsh towards the multinational oil companies; but the response to this policy by the U.S. government on their behalf was immediate and shrill. In David Crane's opinion,

Official Washington reacted with one of the most extraordinary communications ever sent by the State Department to a Canadian government. . . . Challenging almost every aspect of the National Energy Program, it read as though it had been dictated by the oil moguls themselves. (25)

Washington's note to Ottawa urged the Canadian government to "carefully consider the impact" of the Petroleum and Gas Revenue Tax (PGRT) "on its investment climate and production potential," and in effect threatened economic retaliation:

The Canadian policy, if strictly enforced, could have serious adverse effects on the U.S., especially on exports of energy-related goods to Canada, which in 1979 totalled \$452 million. . . . Should the balance of concessions be distributed, the United States would be obliged to consider how a new balance might be achieved. (26)

Subsequently, of course, there were changes to the NEP, and its eventual demise led to the elimination of the PGRT as well as the infamous "back-in" provision of the program. But it is important to see the NEP in the context of Canadian developments on the offshore. Its inception marked a change in the direction of federal attention from being almost totally oriented towards the Western provinces to looking increasingly at the "frontier" regions in Canada's North and under the waters off the East Coast. This new focus of attention was in turn accompanied by prodigious expenditures on exploration. Most of this money came from the federal treasury and was funnelled through the oil companies.

As the corporate arm of federal energy policy, the new crown corporation Petro-Canada, created in 1975, was now influential in the offshore play. Its role deserves separate study and will be left to another paper. My intention here is to deal with the operations of the biggest multinational player historically, and by far the most important corporation, domestic or foreign, in the offshore, Mobil Oil. Through reviewing its activities on both the global and Canadian stages, an understanding is provided of the character and influence of this corporation, which otherwise, in Nova Scotia and Newfoundland, may on occasion appear to be a parochial business concern. This overall scrutiny of Mobil facilitates a broader examination of corporate strategies, including ill-conceived ventures, that center on the offshore but relate to the industry generally in Canada and to some extent around the world.

Mobil's presence on the East Coast warrants particular attention because, though it is representative in many ways of the oligopoly of multinational oil majors, it retains its own individual agenda and "personality" within the regional and national context. At the outset, it is useful to understand the formal relationship between the Canadian offspring and the American parent. In Canada the official name of the corporation is Mobil Oil Canada Ltd. It is a wholly-owned subsidiary of Mobil Oil Co. of New York, which in turn is a subsidiary of Mobil Corporation. Unless specified, there is no distinction made here between parent and offspring, reflecting the fact that Mobil Oil Canada, like Amoco Petroleum and Chevron, decides nothing of consequence without clearance from "head office": "Their big decisions come by telex or telephone out of New York, San Francisco, or Chicago" (Foster 88). A glance at the other foreign majors may be called for at this point. Texaco Canada Inc., although 22% of its shares are held by Canadians, has a reputation for being tightly controlled by its U.S. parent (Doern and Toner 209). Mobil and Texaco can be distinguished from the other two

big multinationals now operating in Canada, Imperial and Shell, which have 28% and 25% Canadian ownership respectively and function with a degree of relative autonomy from their respective headquarters. Gulf Canada was part of this latter group before being purchased by Chevron Standard (U.S.) in 1984 and, in turn, sold to the Reichmann Brothers' Toronto-based Olympia and York Investments in 1985.

One of the indicators which can contribute to an understanding of the breadth and power of the multinational oil majors such as Mobil is the placing of its financial operations in the national and regional context. As Table 1 illustrates, Mobil Corp.'s 1985 revenues were greater than those of the government of Canada and represent thirty to thirty-five times the total income of the Nova Scotia and Newfoundland governments respectively. In other words, the sheer financial scale of Mobil's operations suggests a certain solid measure of power, something which has often gone unnoticed amidst the regional din of offshore politics.

Table 1  
SELECTED GOVERNMENT AND CORPORATION REVENUES  
FOR 1985 (Canadian \$)

Mobil Corp.	\$82.4 billion	(a)
Government of Canada	76.8	(b)
Government of Nova Scotia	2.7	(b)
Government of Newfoundland	2.2	(b)
Petro-Canada	5.3	

- (a) This is based on an exchange rate of U.S. \$1.00 = Cdn. \$1.36
- (b) These figures do not include government borrowing.

There are both similarities and differences among the multinational oil companies in terms of their public behaviour. Nevertheless, while the specific characters of these corporations leave an imprint wherever they operate, their scales of operation and experience suggest a uniform formula for the successful accumulation of capital. (This is not to say that they have not made mistakes, a matter which will be dealt with shortly.) For example, although Mobil has been drilling on the Scotian Shelf since 1966 and on the Grand Banks off Newfoundland since 1972, the company has never actually purchased or constructed a drilling rig of its own. This is consistent with the way multinationals have operated off the East Coast and elsewhere in the world. Most of the exploration work is contracted out to firms which

specialize in everything from geophysical services, to drilling (by rig owners such as the American company Sedco and the Norwegian company Zapata), diving, and well-testing. As House notes, there are a number of benefits to the majors in operating this way:

This allows them to maintain overall control of the business, while enjoying the flexibility of gearing up for or phasing out of new activities rapidly without having to hire or fire company staff. Contracting acts as a kind of buffer that protects the big companies from market or politically induced slowdowns in the industry and also leaves most of the "dirty" work, such as dealing with oil-field workers and unions, to their contractees. *(Challenge of Oil 117)*

What this has meant in terms of corporate representation by the multinationals on the East Coast is, given the expenditures involved, a relatively small scale of operation. On any drilling rig for which Mobil has been in charge of the exploration program, a maximum of roughly 5% of the workers are actually employed by Mobil. Excluding people working with the task forces for the Hibernia and Venture projects, the regional offices of the multinationals in Halifax and St. John's have employed no more than about fifty people at times of peak offshore activity.

In the early 1980s it might have been considered prudent to change certain aspects of this contracting-out policy, particularly with regard to owning versus leasing drilling rigs. At that time there was a global shortage of oil rigs, and rental rates were quite high, averaging \$107,000 per day off the East Coast in 1981 (Voyer 81). Although Mobil did not foresee the long-term downturn in oil prices, the wisdom of maintaining the conservative practice of taking a hands-off approach to direct operations can be seen in the depressed market for high-cost rigs in the mid-1900s. It is interesting to contrast this operational principle with that of Bow Valley Industries of Calgary, one of the Canadian companies that decided to take the plunge into the East Coast offshore primarily because of the generous incentives of the NEP's Petroleum Incentives Program (PIP). Bow Valley Resource Services (BVRs), 47% owned by Bow Valley Industries, played an accommodating role to the parent company's East Coast exploration partnership with Husky Oil. In 1981 the subsidiary acquired the semisubmersible drilling rig *Bow Drill 1*, and ordered the construction of *Bow Drill 2* and *Bow Drill 3*. The cost of these rigs was in the vicinity of \$100 million each. These purchases have to be seen in the context of corporate magnitude in the petroleum industry, wherein Bow Valley Industries' annual revenues are less than 1% of Mobil's. BVRs's main income loss in 1985 was due to the

*Bow Drill 1* being idle for more than four months (BVRS 1985 *Annual Report* 16). The rig was sold at a loss in 1986. The company could be in an even greater financial squeeze by 1988 when the current leasing contracts for the other two rigs expire.

Another common characteristic of the multinationals is their adaptability to different social circumstances. Described by Anthony Sampson as "the most sophisticated of the American sisters" (231), Mobil Corp. has brought to the East Coast its experience in operating in over 100 countries. One indication of its shrewdness has been in the public relations and social impact field. This has been a particular challenge in Newfoundland, with its recent history of suspicion of multinational corporations. Minor conflicts have indeed occurred between Mobil and various Newfoundland community groups, but on the whole they have been managed with minimal damage to the company. In large measure this has reflected the work of Mobil's public affairs chief in St. John's, an astute choice for this delicate position. A graduate of a prestigious New England college, Mobil's future community relations officer spent two years doing anthropological work among Labrador native peoples, followed by five years as editor of Memorial University Extension Service's *Decks Awash*, a journal dealing with rural issues. She has presided over a large number of social impact consultations in Newfoundland as well as in Nova Scotia. At one such gathering in St. John's in 1981, she claimed that whereas in the past Mobil might have been primarily motivated by profit, the corporation was in Newfoundland to develop Hibernia for the benefit of Newfoundlanders as much as for its own financial well-being.

Mobil has been solicitous of the good will of Newfoundland businesses and workers. This corporate involvement with the local community is what House calls the "incorporation process" (*Challenge of Oil* 124). It has been particularly noticeable in the relationships between Mobil and the upper stratum of local society and business. In addition to describing the "middleman" function of local lawyers, House further observes:

Some local companies, notably Crosbies and Harveys, have also played this broker role, acting as both a labour and property exchange. Initially Mobil worked particularly closely with Crosbies, who found them office space at Atlantic Place [in downtown St. John's] and bought a lot of houses, which they leased to Mobil. In this way, the local company made money and the oil company set up its Newfoundland operations smoothly. (125)

All of this fits into the characterization of the traditional compradors in a

dependent region who facilitate the entry of multinational capital into the local economy. The point is that the crudeness and corruption of the 1920s are replaced in the 1980s by a discernible, and necessary, level of sophistication in the conduct of these affairs. Mobil's efforts in the social sphere contributed to the minimal amount of criticism directed towards the company in the aftermath of the 1982 sinking of the *Ocean Ranger*, which was under contract to Mobil and its partners. The company conducted itself with as much corporate sensitivity as one could expect, and its behaviour contrasted sharply with that of the rig's owner, Odeco of New Orleans. In Nova Scotia, Mobil has unquestionably been more involved than the Buchanan government in initiating public discussions regarding the social and economic impacts of offshore developments.

Mobil's apparent mildness on Canada's East Coast is, of course, a reflection of the ability of a very large multinational corporation to adapt to the requirements of local social decorum without too much difficulty. Notwithstanding public relations claims about Mobil's quest for indigenous benefits, the magnitude of Mobil's operations testifies overwhelmingly to its success in accumulating capital. It has done this by any means at its disposal, in accordance with either what has been legally tolerated or what it has been able to get away with wherever it has operated throughout the world. Like all multinational corporations, it is an amoral entity, effectively divorced from the attitudes and ethics of almost all of the people who work for the company, whether economic consultants in St. John's or roughnecks in Indonesia. And so there was nothing inconsistent within this corporate context for Mobil, while maintaining a low-key, inoffensive profile in the Atlantic region during the 1970s, to be playing a much different private game at both the corporate and political level in Canada and internationally. Like its successful siblings, Mobil is a corporate chameleon.

Returning briefly to the international sphere, Mobil's laundry is as soiled as that of any of the other Seven Sisters in terms of its participation in the political and economic underdevelopment of Third World countries. Just as corporate complicity ensured the downfall of the Iranian government in 1953, so the oil majors guaranteed the existence of the illegal racist regime of Ian Smith in Rhodesia (now Zimbabwe) from 1966 to 1980 through supplying oil from South Africa. Mobil may claim the lion's share of responsibility for keeping Rhodesia afloat, since it supplied most of the gasoline and diesel fuel. The company also provided Avtur aviation fuel, which was used by Rhodesia's air force in fighting the liberation movement. The fact that this activity violated U.S. laws and U.N. sanctions did not appear to

bother Mobil unduly. When news of the conspiracy broke in 1976, Mobil responded in two ways. On the one hand, corporation chairman Rawleigh Warner dismissed the allegations by simply labelling the church group presenting the information as "far left." On the other hand, Mobil with its immense financial resources aggressively began legal action against the group, seemingly as an act of intimidation. Ultimately the corporation managed to avoid conviction for its illegal oil-transportation operations, without the assurance of which, according to Ian Smith, his government would never have broken from Britain in 1965 (*Village Voice* 6-12 May 1981).

The differences among the multinationals become apparent when we look at Mobil's Canadian operations. Mobil's involvement off the East Coast, which started with aerial seismic surveys around Sable Island in 1960, preceded its actual incorporation as a Canadian company in 1962. The period of its intensive drilling off both Newfoundland and Nova Scotia in the 1970s can be related to the nationalization of oil production by OPEC members and the perceived instability of dependence on this supply of crude. As noted earlier, the Seven Sisters had resigned themselves to this changing relationship between producers and themselves and were focusing increasingly on the downstream activities in the industry. But they still needed assured sources of crude oil in order to keep their refineries and distribution systems operating at optimum capacity. Among the majors at the time, Mobil was known to be "crude short" (*Business Week* 13 Oct. 1980). Moreover, 80% of supplies for its refineries originated with OPEC producers (Moskowitz et al. 514). It was logical, therefore, that the company would search for oil and gas in the two emerging frontier areas that were politically safe, the North Sea and Canada's East Coast. In both areas, if the size of discoveries is regarded as the measure of success, Mobil has beaten the competition to date in finding the largest fields of hydrocarbon deposits. However, while its efforts in the North Sea have resulted in the production of oil from the Statfjord field, it will be at least five years before any oil is recovered from Hibernia on the Newfoundland Grand Banks. Mobil's Venture field might never be developed.

A major impediment to the development of oil and gas reserves off the East Coast has been the geology of the hydrocarbon-bearing structures. As well, during the 1980s there has certainly been a high degree of political influence affecting drilling programs, which has contributed to delays in development. The all-important third element in this formula, however, is the behavior of the primary corporate operator in the area, Mobil itself. In

the supposedly private sphere of relationships among large corporations, and between them and governments on the national level, Mobil maintains a pugnacious image. In the words of one former head office executive as told to the *Wall Street Journal*, the Mobil mandarins in New York are "smart people who are alley fighters" (Moskowitz et al. 516) One of Mobil's problems in Canada is that their brand of hardball has become a public spectacle at times. During the 1980 federal election campaign Pierre Trudeau claimed, with Mobil and Chevron in mind, that "several multinationals operating in Canada have profits so large that they're shifting hefty sums out of the country (Crane 13). On October 27, 1980, *Globe and Mail* columnist James Rusk wrote:

Companies with considerable Canadian content and a commitment to the country such as Imperial, Shell and Gulf...can get access to [Energy Minister] Lalonde when they want to. Another group of multinationals is not trusted at all. Texaco, Amoco, Mobil and Chevron are regarded in Ottawa as quintessentially bad corporate citizens, ugly Americans intent on taking Canadians for all they can get with no regard to Canadian interests.

The basis for this opinion was that during the 1970s the latter group of multinationals were remitting most of their profits derived from higher oil prices to their U.S. owners and investing comparatively little in exploration and development in Canada. In addition, Mobil Oil Canada was being milked of working capital by Mobil Corp. through the exporting of Mobil's Canadian crude oil to its American refineries, for which the parent corporation "owed" the subsidiary money. Meanwhile this capital was used to support Mobil's operations in the North Sea and the Far East (Foster 109).

Moreover, while the financial independence of Mobil Oil Canada was being severely compromised, its overall integrity as a Canadian company with nationally based plans was virtually eliminated in the mid-1970s. A December, 1975, internal memo from Alex Massad, president of Mobil Exploration and Production in New York, explained the working relationship between head office and the Canadian subsidiary in these terms:

As stated frequently, my three-part guideline is: 1. Maintain the image of Mobil Oil Canada as one company, under one head, to anyone viewing it from the outside. 2. Within Mobil Oil, understand certain segments of the affiliate will be the responsibility of and receive directives from managers outside MOCAN [Mobil Oil Canada]. 3. Minimize personnel assignments and cost of staff services to effect #1 and #2 above. (Crane 80)



As part of the corporation's global agenda, New York thus decided, without prior consultation with its Canadian subsidiary, to transfer responsibility for Mobil's frontier holdings off the East Coast to Dallas. At the same time, a group of geologists and geophysicists on Mobil Canada's staff were to report directly to Dallas for supervision. According to Mobil Canada's Arne Nielsen, it was only for appearance' sake that Massad chose, after visiting the Calgary office, not to include the Scotian Shelf in the transfer of offshore holdings to the United States:

Mr. Massad decided that the Scotian Shelf would be left with Mobil Canada and that was because we were negotiating a farm-out with Petro-Canada. Mr. Massad could see that we were going to have a problem negotiating a deal with the federal government if the lands were going to be run and operated out of Dallas, so he made the decision right there on the spot that we would keep the Nova Scotia, the Shelf, but we had to make up for it by giving up something else instead. So he picked the Arctic islands, which is just about as far away from Dallas as you can get. (83-4)

Apparently for political reasons, jurisdiction over all frontier lands was returned to the Canadian company in 1978. This American centralization of corporate operations and the consequent scaling down of East Coast offshore exploration activity had a definite impact in the region. Some Mobil Canada executives and others in Gulf Canada, the company's only partner in its Grand Banks acreage at that time, wanted to drill on the Hibernia block in 1976 (*Business Week* 13 Oct. 1980), but Mobil in New York refused to go along. It seems that headquarters were more interested in pursuing plays in Indonesia and West Africa. A three-year advance in the discovery of Hibernia might well have had a profound effect on economic and political developments, not only in Newfoundland but in Canada as a whole.

The 1979 Venture and Hibernia discoveries changed the corporate and political complexion of things considerably. While Mobil had been clever enough to retain significant interests in the most promising frontier holdings off the East Coast, drilling operations on these structures were paid for almost entirely by the federal government, through its super-depletion taxation allowance scheme, and by other oil companies, primarily those which had "farmed in" on the Mobil properties. Mobil was now actively interested in these plays, but Ottawa and the provincial governments were too. In the context of rapidly rising oil prices, the main stake was in the size and share of the economic rents from the projected development of

these oil and natural gas reserves.

It was predictable, therefore, that the introduction of the NEP in October, 1980, was bound to intensify the antagonisms between the federal government and Mobil. The foremost object of Mobil's criticism of the NEP—and the legislation associated with the policy, the Canada Oil and Gas Act (1982)—was the so-called "back-in" provision whereby Ottawa reserved a 25% interest in any oil and gas discoveries on Canada Lands, i.e., the frontier areas in the East Coast offshore and the Canadian North. This applied to pre-NEP discoveries as well as those after October, 1980, and involved obligations on the part of Ottawa to pay a 25% share of the costs of developing oil and gas fields. The multinational oil companies saw this as a form of confiscation, and their presentations to the federal government highlighted their displeasure. The most vigorous objections from the majors came from Mobil (Doern and Toner 52). In May, 1981, the Canadian government responded to the pressure by making concessions to the Reagan administration and the multinational oil companies. *Ex gratia* payments were offered for the back-in rights, and industrial benefits legislation was amended to ensure competitive conditions for foreign suppliers.

What emerges here once again is the connection between the American multinationals and their government and the combined influence brought to bear on Canadian energy and industrial policy. The point needs reemphasizing that the NEP was conceived to address a number of critical problems in the Canadian petroleum industry, not the least of which was the still-increasing domination of the multinationals and their powerful monopoly position in the industry. In 1979 the top four American oil corporations controlled 64% of Canadian refining capacity, compared with a four largest firm share of only 31% in the U.S. In Canada the same leading four had 56% of the retail outlets in 1980, while in 1975 the top four companies in the U.S. controlled only 30% of sales (Bertrand 4). The Canadian government was looking for a means to loosen the formidable grip which the most powerful corporate oligopoly in the world had on Canada's most vital industry. Thus while the argument that the 25% back-in was retroactively confiscatory might have been correct in a formal sense, the nationalist rationale behind it, combined with the agreed *ex gratia* payments for the Crown share of the original exploration costs, established a balance to the dispute which quite properly took it out of the pure ownership-of-property sphere. Moreover, Canada's oil and natural gas resources are owned by the people of Canada. Coincidentally, as has been noted, between 90% and 100% of the costs involved in discovering both the Venture and Hibernia

fields were covered by the Canadian government through its taxation-deduction exploration incentives. The fact is that Ottawa was much more interested in pursuing the development of Canada's oil and gas resources in 1979 than was globally-focused Mobil in New York.

Predictably, the back-in was removed by the Progressive Conservative government shortly after the September, 1984, election. But it is rather interesting to note that even before that election the multinational oil companies maintained a good deal of power within the context of a supposedly anti-American Liberal energy policy. Some of the changes to the NEP were noted above. And while the multinationals got their way in a formal sense regarding the eventual removal of the back-in clause, they were probably never legally bound by it anyway. Neither Mobil nor the other foreign-owned companies actually signed any of the exploration agreements, because they felt that such a step might have implied acceptance of Ottawa's right to a stake in all Canada Lands. Of the approximately 160 exploration agreements established under the terms of the NEP since 1982, only fifteen were ever signed, presumably by all-Canadian drilling consortia. Nevertheless, the federal government still provided the multinationals with hundreds of millions of dollars in PIP payments and allowed them to organize and operate exploratory drilling programs. The procedure followed was that, in lieu of signing the agreements, the federal energy minister or Maurice Taschereau, the Director-General of the Canada Oil and Gas Lands Administration (COGLA), sent letters to the companies indicating the terms and obligations of the exploration agreements. The solution, therefore, to this government-industry dispute was "one in which Ottawa and the oil companies quietly agree to disagree" (*Globe and Mail* 29 Aug. 1983). This is one of the more significant examples revealing that the government's perceived bark at the oil majors through the NEP was rarely followed by a bite. What must be remembered is that the multinationals were in a very privileged position in Canada, and any effort, no matter how reasonable, to undercut their primacy in the highly profitable petroleum industry was bound to generate hostility from these companies and their supporters.

Perhaps another example of the perpetuation of foreign control over parts of the oil and gas industry under the NEP relates to the pace of exploration and development on the East Coast, especially on the Venture and Hibernia fields. Looking first at Hibernia, there has often been an assumption that the jurisdictional dispute between the Newfoundland and federal governments delayed the start of construction of facilities for recovering the

oil from the Grand Banks. It is unlikely, however, that the dispute really was an influential factor in putting off the development. Mobil initially had thought that delineation drilling on the Hibernia structure would have been completed by the end of 1980, but this was revised in September, 1980. Mobil Oil Canada president Dorey Little then said in St. John's that the company hoped to finish the work in mid-1981 (*Evening Telegram* 19 Sept. 1980). Mobil conducted studies for the *Hibernia Environmental Impact Statement* (EIS), but these studies were suspended in the spring of 1982. This happened to coincide with the breakdown in the first major round of negotiations between Newfoundland and Ottawa. From Mobil's point of view, the jurisdictional dispute was undoubtedly an aggravation. In fact, Little threatened in 1981 to initiate legal action in federal courts to resolve the impasse. The major problem, however, seems to have been related to engineering. An average of three appraisal wells in addition to the exploratory hole are ordinarily sufficient for delineating a field's reservoir. In Hibernia's case it took nine. The jurisdictional dispute might have delayed the Hibernia development had the usual number of appraisal wells been satisfactory. In that case, the Hibernia partners (Mobil, Petro-Canada, Chevron Standard, Gulf Canada, and Columbia Gas, with Mobil as operator) would have been faced not only with the difficulty in determining who controlled and directed the regulatory framework for this massive undertaking but also with the crucial division of the shares of economic rent among both levels of government and the companies.

Moreover, as was pointed out earlier, Mobil was crude-short. Even after the failure of negotiations between St. John's and Ottawa, Mobil still established 1987 as the likely date for oil to start flowing from Hibernia's reservoirs (*Halifax Mail-Star* 5 Mar. 1982). There was also a great deal of motivation on the part of the federal government to get things moving on Hibernia following the termination of the Alsands deal at the end of April, 1982. In the context of perceived national and global shortages of oil in the near future, Canadian self-sufficiency in crude oil production by 1990 was a cornerstone of the NEP. With one of Mobil's partners, Gulf, estimating Hibernia's reserves at 1.8 billion barrels, more than twice the size of Canada's largest oil discovery up to that time, it was understandable that Energy Minister Marc Lalonde turned to the Beaufort Sea and especially Hibernia to meet the production deadline contained in the NEP. Unfortunately for the plans of the federal Liberals, by the time the ninth delineation well was drilled they were on the verge of being removed from office.

If there was any conscious delaying tactic on the part of Mobil and its

partners between mid-1984 and the submission of its updated EIS a year later, that was their mistake. As the 1980s were proceeding, there was a growing realization that while the international price of crude oil could not be expected to drop as precipitously as it did in late 1985, there was an increasing likelihood that, in relation to gradually rising prices over the next decade for most commodities, the value of oil would tend to fall. Mobil and its big industry cohorts at the annual meeting of the American Petroleum Institute in November, 1984, conceded the prospect of flat or falling prices. In the words of George Keller, Chairman of Chevron Corp., which has a 16% interest in Hibernia, even in the late 1990s oil "will still be a remarkably low price" (*Wall Street Journal* 13 Nov. 1984). Deliberations over a fiscal regime for the Hibernia development have dragged on since the project was approved in December, 1985, precisely because the current and projected prices for crude oil are so low.

This historical perspective on Hibernia is rather uncomplicated in comparison with the unfolding of events related to the proposed Venture project. The reserves of natural gas around Sable Island, while difficult to appraise accurately, were always realized to be large in Canadian terms. But the costs of recovering this resource, together with finding a market sufficiently large and eager to pay a premium price to justify the very expensive transportation infrastructure, presented a problem. Concerns about costs and competition for Venture gas surfaced at least as early as the time of the signing of the Canada-Nova Scotia Offshore Agreement in March, 1982. Mobil had good reason, therefore, to be cautious and discreet in promoting this project.

In fact, it was quite easy to leave boosterism in the political arena, where it was always eagerly ingested by most of the provincial news media and regurgitated with optimistic embellishment. The federal government was interested both in initiating any energy megaproject as a psychological as well as an economic means of lifting parts of the country from the mire of the recession, and in weakening the resolve of Newfoundlanders and their government in their offshore jurisdictional dispute with Ottawa through creating enviable industrial activity in Nova Scotia. But public awareness in Nova Scotia of the federal drive paled amidst the torrents of verbal euphoria emanating from Province House in Halifax. The Buchanan government was promising Nova Scotians "a great future in oil and gas" in which there would be no more unemployment (*Chronicle-Herald* 25 Jan. 1982). Whether or not Premier Buchanan actually believed this, Mobil found itself in a very good bargaining position. The Nova Scotia govern-

ment, in endeavouring to lure the petroleum industry away from Newfoundland, greeted the companies with deference and reverence. No provincial offshore regulations were proclaimed, and government-created expectations for economic well-being placed the onus on Premier Buchanan, not on the oil companies, to deliver. A multinational oil company could not have been served a better recipe for wringing concessions from a dependent government.

It was rather surprising therefore that, based on very little delineation drilling, Mobil Oil's East Coast production manager James Sneed announced in a speech to the Cape Breton Offshore Trade Association in June, 1982, that the Venture structure contained enough natural gas to justify development. As expected, Sneed cautioned that this depended upon the selling price for the gas and the fiscal regime of taxes and royalties (*Globe and Mail* 26 June 1982). Still, in the words of a Mobil official, Sneed had made a "dumb mistake." It was not long before he was transferred out of the region. But if Sneed could be seen to have "blown it" in June, Mobil itself soon erred in estimating the size of the reserves, and compounded the problem by publicly backing its apparently incorrect figures. In an August, 1982, submission to the National Energy Board, Mobil's president Bill Mason estimated potential reserves of 2.31 trillion cubic feet (tcf) at Venture, below the three tcf level that had previously been established as the threshold of viability. Venture development could still proceed on its own, said Mason, even with poor drilling results from nearby fields, as long as production from the Sable area was treated by the federal government as a special case (*Globe and Mail* 17 Sept. 1982). Even if the use of estimates could perhaps have been defended to some extent as a helpful factor for the companies in applying pressure for government financial concessions, it got Mobil embroiled in public controversy, something which was not desirable. The corporation learned a lesson from this experience and never released an estimate on Hibernia reserves until it appeared in the EIS in 1985.

While it was clearly in the interests of both the federal and the provincial governments to have the Venture field delineated as quickly as possible, this was not necessarily the most pressing item on Mobil's agenda. Although Mobil was, of course, in a partnership with other companies in the Venture play, it was—and still is—the operator. Considering this and the fact that its share of the interest (44%) represented almost a majority, Mobil was able to exercise a certain amount of autonomy in determining the course and timing of events related to Venture. By July, 1982, Wilbert Hopper, president of Petro-Canada, was complaining to the press that Mobil was "dragging [its]

heels" with regard to drilling in the Sable Island area, thus delaying both an accurate assessment of the size of the natural gas deposits and their potential development (*Globe and Mail* 30 July 1982). Two months later at a conference in Halifax, Petro-Canada vice-president Joel Bell reiterated this opinion of Mobil, but in an unusually hostile manner for a public forum. While Doern and Toner suggest that in some respects it might have been in Mobil's interest to proceed quickly with delineation drilling, they note:

It must be remembered that Mobil's corporate strategy was not confined to the Venture project only. It was the major player in the Hibernia project as well. Thus its political and economic calculus was informed by the larger Ottawa-Newfoundland deadlock and by its own view of what pace of total development best met its corporate interest and that of its shareholders. (427)

Despite its anxiety to get development going in the Nova Scotia offshore, the federal government did not use its practical levers—Petro-Canada and COGLA—either to impose a drilling schedule on Mobil or to replace Mobil with Petro-Canada as the operator of the Venture project. Given the acrimonious feeling over the NEP, there was an obvious reluctance to exacerbate the situation. Moreover, there is probably some truth in Doern's and Toner's suggestion (424) that Petro-Canada was in no position at that time to move any faster itself, having taken on a very ambitious drilling program in every part of the East Coast offshore while still a relative novice in this complicated business. Meanwhile the government of Nova Scotia, having relinquished its claim to offshore jurisdiction to Ottawa, was a passive, though anxious and frustrated, bystander in this political and corporate drama. Since 1980 they had in their hands a report prepared by EPI Resources of Halifax, recommending the intensive joint development of the Venture field and the Thebaud structure, fifty kilometres southwest of Venture. One source close to the provincial government and the offshore industry later remarked: "I think it is fair to say that Mobil went slow on this" (*Mail-Star* 7 Oct. 1986).

With Mobil seemingly at the helm, it was only in early 1983 that the Venture B-52 delineation well was started, a year and a half after the commencement of drilling on the second delineation well, B-43. A fourth delineation well was begun six months later, and relatively poor results were announced from both in early 1984. But Mobil could not be faulted for overall inactivity on the Scotian Shelf. Perhaps because the company was developing a deeper awareness of the geophysical complexities of the Scotian Shelf—Mobil's Arne Nielsen noted in 1977 that severe faulting was an

obstacle to finding large accumulations of hydrocarbons—it was decided to extend the search for gas to adjacent structures. Accordingly four wildcat wells were drilled near the Venture field in the period between the completions of the second and third Venture delineation wells. There was a brief hiatus in Mobil's exploration program off Nova Scotia after these wildcat and delineation wells were completed in early 1984, despite pressure from both the provincial and federal governments for the company to begin further drilling (*Mail-Star* 10 Feb. 1984). By this time, the federal government estimates of proven natural gas reserves on the Scotian Shelf were being scaled down to 1.5 tcf (*Chronicle-Herald* 24 Jan. 1984). Mobil was becoming increasingly taciturn in discussing the question of viability, and by the end of 1984 Mason was quoted as saying: "The Venture field's economics look pretty damn lousy" (*Atlantic Business* Oct. 1984).

The process of clarifying the confusion and conflicts in 1982-4 over the proposed Venture development starts with the realization that Mobil, as always, was more accountable to New York than to Ottawa. A major corporate consideration was the fiscal regime for the development and production of Sable gas. There was certainly no problem with the federal taxation and benefits structures for the exploration phase of this process. It is therefore reasonable to assume that NEP-related legislation and the Ottawa-Nova Scotia Offshore Agreement were influential in whatever slowdown took place in delineation drilling. Because there was never any doubt that a federal Progressive Conservative government would dismantle the NEP and restore, more or less, pre-1980 resource taxation structures favouring the multinationals, especially in costly offshore ventures, Mobil never negotiated a revenue-sharing contract for the Venture project with the federal Liberals. As well, offshore analyst Ian Doig observed in February, 1984, that before any contract could be signed the banks were waiting for the results of the next federal election and the ensuing energy policy of the new government (*Mail-Star* 10 Feb. 1984).

By this time Mobil was being squeezed by two other increasingly important factors. It now appeared that the geological characteristics of the Sable gas structures were truly unfavourable. While Doern and Toner question (426) how much geological information remains proprietary to the operator, federal requirements as contained in the Canada Oil and Gas Drilling Regulations (1980) made it quite clear that COGLA had the same access to all of the drill-hole data as the companies involved. (It should be remembered that the consortium operator, Mobil, did not perform the well drilling and testing; this was conducted by different contractors specializing



in each aspect of exploration.) It would seem only reasonable, therefore, that the operating company's partners would be able to obtain the same level of information as the government. Indeed, discussions with industry representatives indicate clearly that all data from well sites is shared among members of each consortium. Differences in interpretation might arise, based on the amount of experience in a particular region and the sophistication of analytical technology. Significantly, by 1984 Petro-Canada was issuing no public criticism of Mobil's conduct over Venture operations.

The other factor squeezing Mobil and its partners was the continuation of the international oil glut and its impact on all energy prices, including that of natural gas. In its projection of oil and gas prices as contained in the February, 1983, *Venture Development Project Environmental Impact Statement*, Mobil assumed almost a uniform increase through to the end of the century. This estimate was formulated at the end of 1982; but even then a broad range of information and analysis contradicting this projection was available. Whether Mobil actually believed its own figures is debatable. Perhaps the company wanted to err on the optimistic side in order to inflate projected government revenues—Nova Scotia was to receive \$13.5 billion over the 18-year life of the Venture project—and keep the political momentum going. But the fact remains that in both this instance in its projections on Hibernia, Mobil miscalculated the price of energy. Even though big corporations, like big governments, have vast analytical resources at their disposal, there invariably remains a tendency to favour the outlook which enhances organizational self-interest.

By the time of the federal Progressive Conservative election victory in September, 1984, the plan to recover and export Sable gas, into which Mobil sank roughly \$100 million (after taxes) of its own money by 1986, was looking quite shaky. In early 1985, Shell Canada president William Daniel told the Montreal Chamber of Commerce that the probable recoverable reserves of natural gas discovered to date by both his company and Mobil in numerous fields around Sable Island totaled approximately 2.5 tcf. (*Chronicle Herald* 24 Jan. 1985) It appeared that the only likely development scenario—if one were to materialize at all—involved the incorporation of Venture and other nearby fields under permit to Mobil with reserves from Shell's acreage fifty kilometres southwest of Venture.

The phased elimination of the PGRT announced in the Western Accord in March, 1985, followed later in the year by the eradication of the "back-in" provision of the NEP, removed the two major financial impediments to development which had been cited by Mobil since 1981. And there was now

a federal government in power which was indisputably supportive of the multinational oil industry. But the bad geology on the Scotian Shelf warranted even greater financial concessions on the part of government in order for the Venture project to go ahead. Attending the annual meeting in Halifax of the Washington-based National Ocean Industries Association in July, 1985, Jim Kelly, Mobil Canada's vice-president of exploration, warned: "The project is not viable under the current income taxation scheme" (*Chronicle-Herald* 30 July 1985). Nevertheless Kelly said that he was confident that government would make the necessary compromises to ensure Venture's viability. Federal deputy energy minister Paul Tellier, speaking at the same conference, agreed that Ottawa would be willing to be flexible on taxation policy. Such a concession was seemingly quite consistent with Tory policy on a number of counts, because, as Tellier pointed out,

The newly-elected government believes the oil and gas industry is capable of serving as the engine of economic growth. We have singled out the oil and gas industry to prime the economy.

Even before the plunge in world oil prices later in the year, the level of corporate and consumer subsidization required to satisfy the profit requirements of Mobil and its Venture partners would have been phenomenal. Because of the likely stagnation of these prices for the next couple of decades, even a government wedded to the multinational petroleum industry could not bear the costs of backing the Venture project.

After more than twenty-five years of involvement with the East Coast offshore, therefore, Mobil is left with only one development possibility, Hibernia. According to the Investment Dealers Association of Canada, that development will require, in addition to tax and royalty concessions, \$1.25 billion in loans and grants from the federal government (*Globe and Mail* 18 Oct. 1986). If it were not for the fact that the petroleum industry in Alberta has been devastated by the decline in crude oil prices, Mobil and its partners would probably have little difficulty in obtaining this and other financial support from Ottawa. But that Albertan impediment is a big one; and there are others. All in all, it would seem that the "bottom line" from the East Coast offshore experience should not evoke much satisfaction from the executives at Mobil's headquarters in New York. It is not that they have not been able to operate in Canada largely according to their own agenda, even under the terms of the NEP. In fact, although they had to relinquish to the Crown 50% of their offshore acreage when the NEP was implemented, it

was recognized from the outset that they would be able to retain control over the areas where there was a known high potential for hydrocarbon discoveries (*Globe and Mail* 28 Nov. 1981). By the time that regime ended in 1985, Mobil and Shell still held the best properties on the Scotian Shelf, and Texaco has the rights to the Georges Bank, which exhibits the best prospects for oil in the Nova Scotia offshore. On the Grand Banks Mobil unquestionably holds the most valuable acreage. Moreover, the company has the largest share in every oil discovery there.

In fact, it can be argued that the NEP provided a better overall financial structure within which the multinationals could explore on the offshore than that established afterwards by the Progressive Conservative government. For foreign corporations under the NEP, net exploration costs (after tax deductions and grants) of an average 36 cents out of every dollar differ little from the 37.5% required under the new rules (*Globe and Mail* 26 Dec. 1985). However, because the NEP enabled Canadian companies to receive up to 93 cents to the dollar in tax deductions and grants from the federal treasury, many of these companies were willing to "farm-in" on the multinationals' permit areas. In other words, if multinationals had to fulfil overall drilling obligations according to the terms of exploration agreements (which, of course, they did not sign anyway) but felt that the prospects were not good, drilling expenses and responsibilities could be handed over to the green Canadians in exchange for, ordinarily, a 50% reduction in the multinational's interest in the field.

One good example of this situation involves Husky/Bow Valley's initiation into the Newfoundland offshore. Expressing keen interest in drilling on "promising oil tracts off Newfoundland," in November, 1983, this consortium assumed Mobil's 56% of exploration costs on lands east of Hibernia in exchange for a 28% share in the property (other companies hold the remaining 44%) (*Globe and Mail* 9 Nov. 1983). The first three wells drilled, Trave, Voyager and Archer, were duds, known in the business as "moose pasture." The qualified successes which they experienced later on undoubtedly did not displease Mobil, which still retained 28% interest in these ventures while paying no costs. It was perhaps with an understanding of just how well the foreign oil companies were taking advantage of the NEP that COGLA chief Maurice Taschereau commented wryly, when testifying to the Senate energy committee on multinational complaints about energy policy in May, 1984, that "Our impression is that nobody's run back south of the border yet" (*Mail-Star* 16 May 1984).

Nevertheless, according to Arne Nielsen the company has spent \$1.9

billion to date exploring for oil and natural gas on the East Coast offshore without any return on its investment (*Globe and Mail* 22 Nov. 1986). While this figure should perhaps be taken with a grain of salt in that it undoubtedly represents, among other inflating factors, pre-tax expenditures, Mobil has probably spent, in net 1986 dollars, around \$500 million on the offshore. While this still might not seem to be excessive for a corporation with annual revenues of more than \$80 billion, net income in recent years has only been in the vicinity of \$2 billion (Cdn.) (Mobil 1985 *Annual Report* 1). Moreover, Mobil, which "has been run by accountants, lawyers, and smooth-talking Ivy League businessmen rather than the typical refinery-educated oilmen who run other oil companies" (Moskowitz et al. 516), is noted to be frugal wherever it operates. Commenting on its East Coast operations, one Mobil official stressed that it was "one of the leanest companies around," running "on a shoe-string." This might be an exaggeration, but there is no doubt that, in comparison with other players such as Petro-Canada and Husky/Bow Valley during the heyday of offshore exploration, Mobil's office facilities and staffing complement were noticeably austere. Its reputation throughout the Canadian oil patch is well-known in this respect; Peter Foster notes that at one time in the 1970s New York headquarters actually went to the trouble of restricting the number of corporate memberships which the subsidiary took out to the Petroleum Club in Calgary (Foster 92-3).

This facet of the corporation's character has to be viewed in the broader context of how Mobil's presence on the East Coast fits into the corporate plan originally, and how that plan has been revised to cope with both changing international circumstances affecting the price and supply of crude oil and questionable drilling results off Newfoundland and Nova Scotia. Seemingly hedging its bets with regard to Hibernia, Mobil Corp. purchased Superior Oil in 1984 for \$5.7 billion (U.S.). This "substantially increased North American producing capacity and reserves, major corporate goals (Mobil 1984 *Annual Report* 2). At the same time, given the continuing oil glut and the debt incurred in acquiring Superior, Mobil embarked on a process of divesting itself of its least profitable and competitive subsidiaries. It sold off \$1.1 billion in assets in 1985, contributing to an overall decrease of \$2 billion in the corporation's debt (Mobil 1985 *Annual Report* 2). As an indication of Mobil's prolonged thrust to divest itself of non-petroleum holdings, particularly those of questionable profitability, gross corporate revenues have declined from \$64.1 billion (U.S.) in 1982 to \$60.6 billion in 1985. With this corporate trimming of fat, it would seem that Mobil would

be intent on recovering its Canadian offshore expenditures one way or another. The company has made some costly mistakes on the East Coast, particularly on the Scotian Shelf. In hindsight, corporate executives might perhaps wish that Mobil had not been involved in the Venture project. Multinational companies are not necessarily the models of efficiency that they are often thought to be, as Mobil's poor management of the Statfjord development in the North Sea testifies (Noreng 95). Writing about this in 1980, Norwegian oil analyst Oystein Noreng concluded that Mobil seemed determined to recover the cost of its mistakes:

The Statfjord cost escalation has now reached proportions which could make it a major industrial scandal in Norway. There is a growing suspicion that the cost escalation contains at least an element of hidden transfer of economic rent.

(House, *Challenge of Oil* 110)

This matter of cost recovery provides a fitting conclusion to this paper. It is highly doubtful that, even with the most generous support from the federal government, the Sable gas fields will be developed before the next century. In all likelihood, therefore, Mobil and its partners, particularly Petro-Canada, which can no longer rely on federal government largesse, will endeavour to recover much of their cumulative exploration expenditures off both Newfoundland and Nova Scotia through a profit-assured, revenue-sharing regime from the production of Hibernia oil. As part of this effort, the Hibernia partners use an estimate of 625 million barrels for recoverable reserves from the field. While no official government estimates have been expressed, both the Newfoundland Petroleum Directorate and federal agencies consistently project greater production capacities from the various field components in the structure. Privately, regulatory officials who have access to all of the raw data consider one billion barrels to be more realistic. If projected profit rates are based on the conservative figure, corporate returns will be enhanced through higher levels of production.

For its part, Mobil Corp. appears to have been broadening the scope of its efforts to compensate for the capital sunk thus far in offshore wells. Rather than concentrate only on obtaining a return from Hibernia, it appears that Mobil has decided to capitalize on the overall success of its Canadian subsidiary in order to enhance its cash flow and profitability status at its center in the U.S.. As indicated, Mobil acquired Houston-based Superior Oil in 1984 for \$5.7 billion (U.S.). Just as Mobil Oil Canada Ltd. is wholly-owned by Mobil Corp., so was Canadian Superior by its foreign parent. In November, 1986, Mobil Corp. sold Canadian Superior to Mobil Oil Canada

for \$2.2 billion (U.S.). We might ask why Mobil Corp. would in effect sell one part of its operations to another, both of which it totally owns. The answer, it seems, has much to do with maximizing the opportunities for transferring capital from Canada to U.S. corporate headquarters.

Upon the conclusion of the merger between Mobil Oil Canada and Canadian Superior, Mobil spokesman Michael Lewis said that \$2.2 billion (U.S.) was the value which had been assigned to Canadian Superior at the time of the American takeover in 1984 (*Globe and Mail* 24 Nov. 1986). There are a number of difficulties with this assertion. First of all, while Mobil has ostensibly established a value for Canadian Superior which is 63% of that for Superior Oil's American operations (\$2.2 billion versus \$3.5 billion), there is a substantial contrast in the relative positions and sizes of Superior in Canada and the United States. At the time of its purchase, Superior Oil was the largest independent producer (the term is used of companies other than the oil majors) of oil and natural gas in the United States (Mobil 1984 *Annual Report* 4). In Canada, according to 1983 figures, Canadian Superior was ranked roughly fifth or sixth among the independents (Doern and Toner 27-8). Moreover, the scale of operations in the Canadian petroleum industry is only about 10% of those south of the border. Secondly, at the time of the American takeover, investment analysts indicated that Canadian Superior was worth between \$1.5 billion and \$2 billion (Cdn.) or from one half to two thirds of the ultimate selling price (*Globe and Mail* 13 Mar. 1984; *Mail-Star* 15 Mar. 1984). There was an overall decline in the valuation of oil and gas stocks in 1985-6, during which time the oil glut intensified and contributed to the major drop in oil prices. Thirdly, when Mobil Corp. purchased Superior Oil, included in the acquisition was the latter's mineral holdings. Since 1984, Mobil has sold \$500 million (U.S.) worth of these assets, including Canadian Superior's 24% share in Falconbridge Ltd. (*Globe and Mail* 21 Nov. 1986) While it is difficult to estimate the selling price, Falconbridge's assets as of the end of 1985 were \$1.35 billion (Cdn.) (*Financial Post* 500 Summer 1986, 74-5). Therefore 24% of its net worth (assets minus liabilities) could be in the range of \$200 to \$250 million. When this divestment is placed in the context of the value affixed by analysts to Canadian Superior in 1984, the current market price of Canadian Superior would appear to be in the area of \$1.5 billion (Cdn.) In fact, in the marketplace this could very well represent an inflated value. Canadian Superior's current assets are \$1.5 billion; but the company must surely have liabilities, thereby reducing its net worth.

To sum up, in acquiring Canadian Superior Oil, Mobil Oil Canada has

paid its American owner at least double the real value of this asset. Why has this highly inflated internal transaction taken place, especially when it will incur the payment of \$220 million in U.S. federal taxes? (*Globe and Mail* 25 Nov. 1986) Because almost \$1.1 billion (Cdn.) is being paid in cash by Mobil Oil Canada, there is the benefit to the parent not only of the transfer of capital but also a substantial increase in cash flow, which is a very important factor in the operations of energy and resource companies. As well, despite the size of its net expenditures in the offshore, Mobil Oil Canada has been a highly profitable operation. But the very fact that it has been successful means that the company undoubtedly has had a higher tax burden than the parent corporation likes. Because more than \$1.9 billion of the purchase price is being financed through bank loans (*Globe and Mail* 25 Nov. 1986), Mobil Oil Canada's taxable base should be reduced substantially through the deduction of interest payments on these borrowings.

The sale of Canadian Superior Oil to Mobil Oil Canada for at least \$1.5 billion more than its fair market value provides some clear winners and losers. The American parent corporation has increased its cash flow on a massive scale and succeeded in the quick transfer of capital from Canada to New York without any public outcry or disruption. This undoubtedly could not have happened at the time of the original sale in March, 1984, because, as Paul Taylor of the *Globe and Mail* wrote at the time, Mobil Oil Canada

would have to obtain the approval of the federal Cabinet and the Foreign Investment Review Agency (FIRA). In the past FIRA has insisted on some benefit to Canada before permitting such takeovers to proceed. (13 Mar. 1984)

In fact, Canada will lose tax dollars in the deal, while the American treasury benefits from the sale of Canadian resources. As well, the timing of the intracorporate transaction shows clearly that Mobil Oil Canada was being used by its parent to reduce its potential taxation burden in the U.S., where 1987 tax changes have produced higher corporate rates.

This development certainly appears to represent a movement towards the reascendancy of American corporate and political institutions over the Canadian petroleum industry and energy policy. At the same time, it does not bode well for public revenue potential from the proposed Hibernia project. Mobil Oil Canada, bolstered by Canadian Superior's oil and gas holdings, is now the second largest company in Canada in terms of oil reserves (*Globe and Mail* 25 Nov. 1986). At the same time, Mobil is taking a greater interest in western oil sands development. Speaking in Halifax in

November, 1986, Mobil Oil Canada's Arne Nielsen stressed that:

The future of Canada belongs to the oil sands. Canada is blessed with a great abundance of heavy-oil reserves . . . and every large company has its oar in these waters. There's no question in the long term, as conventional oil reserves decline, this is where our replacement reserves will come from.

(*Globe and Mail* 22 Nov. 1986)

In the previous month Mobil had announced that it would be working on a heavy oil experimental project near Cold Lake, Alberta.

These circumstances, combined with the fact that Mobil Corp. in New York has seemingly found a way to get its Canadian pound of flesh through intracorporate manipulations, might tend to make Mobil less willing to compromise in striking a bargain with the federal government over the development of the Hibernia field. In other words, although almost all the publicity surrounding offshore oil and gas issues since at least 1979 has been in the political sphere, and the parameters outlining control and development were seemingly a matter of contention only between the provincial capitals and Ottawa—especially in the case of oil and gas resources on the Grand Banks—the profound underlying influence of the multinational oil industry has been the dominant factor in decision-making and can be decisively felt now that the political dust has settled.

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## *Mobil and the Offshore 103*

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