Timing and Institutions:

Determinants of the Ownership Structure in the Oil and Gas Industry in Canada and Norway

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Abstract

In response to 1973 oil shock, both the Canadian and Norwegian states expanded public corporate ownership in the oil and gas industry. This thesis questions why the public share of total corporate ownership in the oil industry was greater in Norway than in Canada, and why Petro-Canada was privatized completely while Statoil was not. Two hypotheses are tested from a historical institutionalist perspective. First, the timing of oil development determined whether the private sector would establish itself as the dominant player in the oil and gas industry (in Canada) or not (in Norway) before the 1973 oil shock triggered government interest in public corporate ownership. Second, overlapping jurisdiction over oil resources (in Canada) undermined the effectiveness of mechanisms of reproduction of public corporate ownership. In Norway, the later discovery of oil thus gave the state a stronger bargaining position relative to the oil industry, and in a unitary state the uncontroversial redistributional activities of Statoil attracted more vested interests.

Résumé

En réponse au choc pétrolier de 1973, les États Canadien et Norvégien ont étendu leur propriété corporative dans l'industrie du pétrole et du gaz. Cette thèse questionne pourquoi la part publique de la propriété corporative dans l'industrie des hydrocarbures était plus élevée en Norvège qu'au Canada, et pourquoi Pétro-Canada a été privatisé alors que Statoil ne l'a pas été complètement. Dans une perspective institutionnaliste historique, deux hypothèses sont avancées. Premièrement, la chronologie du développement pétrolier a déterminé la possibilité pour le secteur privé de s'établir comme acteur dominant de l'industrie (au Canada) ou pas (en Norvège) avant que le choc de 1973 ne stimule l'intérêt de l'État pour la propriété publique. Deuxièmement, le chevauchement juridictionnel sur le pétrole (au Canada) a réduit l'effectivité des mécanismes de reproduction du mode de propriété public. En Norvège, la découverte tardive du pétrole et l'absence de conflit juridictionnel sur le pétrole a offert plus d'opportunités aux groupes sociétaux de développer des intérêts dans le mode de propriété public.

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Introduction

Both the Canadian and Norwegian states created national oil companies in the early 1970s to increase their control over their domestic oil and gas industry and reap the benefits of high oil prices after the oil shock of 1973. In both cases, the national oil companies Petro-Canada and Statoil were instruments of the states' strategy of oil wealth redistribution, to the benefit of governments' electoral constituencies. However, public corporate ownership in the hydrocarbon industry represents a larger share of total corporate ownership in Norway than in Canada. Moreover, Petro-Canada was privatized in the early 1990s while Norway still owns most of its assets in the oil and gas industry today. This paper sheds light on the puzzle of the varying scope and duration of public corporate ownership in the hydrocarbon industry in Canada and Norway.

Assuming that high oil prices motivate states to develop corporate ownership (i.e. a state-owned company) in the oil industry, I argue, first, that the stage of development of the private sector in the oil industry before the 1973 price increase, and second, jurisdictional overlap over oil resources, explain why degrees of public corporate ownership vary between Canada and Norway. Other explanations, notably oil price, account for common trends in the two countries. The introduction briefly presents the assumption and the two hypotheses underlying this thesis.

This paper assumes that high oil prices motivate states to create and expand public corporate ownership. Public corporate ownership in the oil industry is a way for states to control a strategic source of energy and capture its unusually high amount of rent. Rent is defined by Karl (1997: 661) as "earnings in excess of all relevant costs, including the market rate of return on invested assets". The more rent available, the higher the stakes for the control of oil. In turn, control over oil resources is maximized when the companies prospecting for and developing oil and gas are directly owned by the state. Because oil prices are determined by the international market, prices do not have a different impact on Norway and Canada and thus do not explain variations between these two cases. The price of oil is

nonetheless relevant to this study because it explains common trends in public corporate ownership in Canada and Norway.

In a historical institutionalist perspective, I hypothesize, first, that the stage of development of the domestic private oil industry at the time of the rise in oil prices in 1973 is a key variable explaining different outcomes in Canada and Norway. The early discovery of modest amounts of oil under low oil prices in Canada allowed for the progressive involvement of small domestic and large foreign oil companies that constrained future opportunities for public corporate ownership. Contrastingly, oil was discovered offshore Norway in large amounts just before prices rose in 1973, and every new exploration or production licence awarded after 1973 was an opportunity for the Norwegian state to acquire shares in licenses.

Second, the federal or unitary state structures influenced the number of opportunities available for interest groups to develop vested interests in the activities and existence of national oil companies. It is more difficult for a national oil company to find broad-based political support in a federal system, where the company responds to a government that is competing for rent and control with sub-national governments, than it is in a unitary system, where the national oil company redistributes oil wealth responding to a single government that mediates all societal demands.

In Norway, Statoil participated in most stages of the rent collection and redistribution process, from operating oil wells to protecting the economy from inflation by slowing the pace of production. Because Statoil redistributed benefits broadly and because the legitimacy of its activities was not disputed by any other government, all interest groups had an opportunity to benefit from redistribution and, thereby, to develop vested interests in the public ownership structure.

In Canada, overlapping jurisdiction over sub-soil resources restrained the opportunities for groups to develop vested interests in Petro-Canada. About 85% of Canadian oil is produced in the province of Alberta (CAPP 2011a), and federal corporate ownership was perceived in this province as an encroachment on its

jurisdiction. Petro-Canada's purpose was never to serve the interests of producing provinces, and this limited the opportunities for the federal company to garner support in these provinces. Moreover, facing opposition in producing provinces, the federal government gave Petro-Canada a mandate to develop high cost and high risk resources in northern Canada. Because Petro-Canada would redistribute oil benefits from producing to consuming provinces, and because it held a more risky portfolio of assets than Statoil, support for the Canadian national oil company was not as broad-based as support for Statoil.

The amount of vested interests in national oil companies determined the response of each of the two states to pressures for privatization that rose in the late 1980s, namely low oil prices, the election of right-of-center political parties, and regional economic integration. Because Statoil had a larger presence in the domestic oil industry, a more profitable portfolio of assets, and a less controversial role than Petro-Canada, Norwegian public corporate ownership resisted pressures for privatization and Petro-Canada did not.

This paper is a relevant contribution to the literature for theoretical and policy reasons. Theoretically, the historical institutionalist approach reframes the debate on ownership structure by paying systematic attention to timing, while other explanations rather adopt a cross-sectional perspective and largely ignore timing. Moreover, this paper contributes to overcoming the difficulty of historical institutionalism to explain change (see Lieberman 2002, Greif and Laitin 2004) by suggesting that political conflict is a restraint on the mechanisms reproducing path dependence. Understanding the causes of public corporate ownership also has important policy implications. Ownership structure matters because state control on the production of oil has significant political and economic consequences. The 1973 and 1979 oil crises are compelling examples of such consequences.

Chapter 1 defines the dependent variable of this paper and reviews existing explanations of the research question. Chapter 2 sets out the theoretical framework, explains the thesis and presents the methodology. Chapter 3 undertakes the comparative case studies by analysing the immediate response of states to the first

oil shock of 1973, arguing that the historical legacy of the shock is the development of public corporate ownership. Chapter 4 analyses the reproduction mechanisms of public corporate ownership over time, emphasizing the impact of the states' strategies of oil wealth redistribution on degrees of support for national oil companies. Chapter 5 assesses the end of the 1973 oil shock's historical legacy, concluding that this legacy ended in Canada with the privatization of Petro-Canada in the early 1990s, and that it has not yet ended in Norway.

Chapter 1 – Alternative Explanations

1.1 The Dependent Variable

Before reviewing alternative explanations, it is necessary to clarify the meaning of the dependent variable: what is understood in this paper as private or public corporate ownership in the oil and gas industry? There are two levels of ownership of sub-soil resources. The first refers to the sovereign right of the landlord to own and manage resources, and the second refers to the right granted by the landlord to develop the resource. The dependent variable in this paper is the second level of ownership.

On the first level, the sovereign landlord is almost always the state.[1] Permanent sovereignty over mineral resources is integrated in Canadian and Norwegian domestic law. In the Canadian federation, ownership of and authority over natural resources have an unusual degree of decentralization. Under section 109 of the Constitution, Canadian provinces are owners and managers of natural resources within their borders, and they are the recipients of royalties stemming from these resources. The federal government holds the same rights over resources outside the provinces, i.e. in the territories and offshore (Cairns 1992: 55, 68), but in Canada 95% of oil reserves (most of which is from oil sands) and 80% of natural gas reserves are found in the province of Alberta (EIA 2009; Alberta 2011). The provincial rights over natural resources were granted to western provinces 25 years after they were created, in 1930, through the Natural Resources Transfer Agreements, as a way to finance public infrastructure and a growing debt (Richards and Pratt 1979: 16-17, see also Goldstein 1981: 5).

Norwegian oil is located on the North Sea Continental Shelf. Because of its offshore location, the Norwegian state based its claim to ownership rights on subsea

[1] There are some exceptions, notably in Texas where individuals can hold rights to sub-soil resources below their property (Kesler 1994: 83). The source of law for the first level of ownership is the state's permanent sovereignty over natural resources (Dupuy 2004: 689-690). This principle was first enshrined in international law in the United Nations General Assembly (GA) Resolution 523 in 1952, and was later extended to "all wealth, natural resources and economic activities" in GA Resolution 3281, 1974 (Schrijver 1992: 1, 11).

oil and gas on the 1958 Geneva Convention that gave states the right to extend their sovereignty on their continental shelves to exploit natural resources. The Storting (Norwegian Parliament) passed Act No. 12 of 21 June 1963 Relating to Exploration for and Exploitation of Submarine Natural Resources. It vested rights to subsea resources and their regulation in the state and allowed for the exploration or exploitation of resources by any national or foreign person or company authorized by the King (Nelsen 1991: 16-17). The establishment of the Norwegian legislation did not raise internal political debates or constitutional questions because the commonly held view among Norwegian politicians was that oil finds were extremely unlikely (Tønne 1983: 730; Lied 1995: 1).

The second level of ownership is the right granted by the state through concessions or licences to explore and produce natural resources under its jurisdiction. When concessions granted by the state are owned by domestic or foreign private corporations, I refer to *private corporate ownership*. Conversely, when concessions are owned by the state itself, either directly or through one or several state corporations to develop resources on its behalf, I refer to *public corporate ownership*. Between the fully private or fully public models, different arrangements exist between states and public or private corporations to develop resources.

The political science literature offers several taxonomies of corporate ownership arrangements. Jones Luong and Weinthal (2010) distinguish four different types of ownership. Under *private foreign ownership*, private foreign companies have been granted the rights to develop petroleum deposits by the host state. The same applies to domestic companies under *private domestic ownership*. Under *state ownership without control*, the state owns the rights to develop petroleum deposits and holds the majority of shares, and foreign investors can participate through contracts such as production-sharing agreements. Lastly, under *state ownership with control*, the state keeps for itself the rights to develop petroleum deposits and holds a majority of shares in development projects (Jones Luong and Weinthal 2010: 7).

Distinguishing domestic and foreign private ownership is analytically relevant because it affects negotiations over the granting of concessions between the state and private oil companies. States have a greater stake in the success of their domestic private sector. On the other hand, foreign companies that often have multinational operations have more mobility from one oil region to another than domestic companies, thus they face smaller costs of exit if the terms offered by the state are not to their satisfaction. Moreover, their bargaining power is increased by the possession of capital and technologies that are often not available to the domestic private sector, or to the state. However, because the research question of this study relates to the degree of public corporate ownership, in the specification of the dependent variable no distinction is made between the different types of private ownership.[2] It is only considered in the analysis when it affects the state's decisions over public ownership.

Another approach suggests corporate ownership can be categorized by the degree of government intervention in the industry, without differentiating domestic from foreign corporate ownership. In the *liberal* or *laissez-faire model*, the government intervenes minimally to ensure a fair contest between private interests. In the *model of indirect intervention*, the state constrains the conduct of private affairs through regulations and taxation. The terms of concessions offer varying degrees of influence for the state over private companies. Finally, in the *model of direct management*, the state is an entrepreneur. It can directly own shares in oil development projects, thereby being a corporate partner. It can also set up a national oil company to own shares on its behalf, or directly operate exploration and development concessions (Madelin 1975: 99-100; Andersen 1993: 5).

This taxonomy of corporate ownership is appropriate for this study because its category of "direct management" is precisely what the research question is about:

[2] It should be noted that foreign multinationals are not necessarily private. For example, between 1914 and 1987 the British state owned shares in British Petroleum (BP), one of the biggest multinational oil companies in the world (BP 2011; Yergin 2008: 145-6). BP operated both in Canada and in Norway. The foreign public corporate ownership of companies that operate in Canada or Norway does not sufficiently affect bargaining terms in the context of this study to be distinguished from foreign private corporate ownership.

the share of corporate ownership in oil and gas exploration and development concessions the state holds on its own territory. Quantifying this variable is complex because in Canada and Norway ownership arrangements are unique to each concession. Moreover, companies themselves can be of mixed public and private ownership. An exhaustive mapping of ownership in each company and in each concession granted in the history of these two countries is beyond the scope of this paper.

More general indicators are used. For example, in terms of duration, Norway's state-owned oil company was created before Canada's, and little state-owned shares in concessions were sold to the private sector up until today, while in Canada 80% of the state-owned company and its assets were privatized in the early 1990s. In terms of scope, Norway acquired a minimum ownership of 50% in every production licence awarded by the government between 1973 and 1993. Petro-Canada only had *ad hoc* arrangements and a 25% compulsory ownership restricted to the northern territories effective between 1980 and 1984.

Finally, provincial public corporate ownership in the Canadian federation is set aside in this study. It exists, since the western provinces of British Columbia, Alberta, and Saskatchewan all created provincially-owned oil companies after the 1973 oil shock. But it is excluded from the dependent variable because the research question relates to public corporate ownership at the national level, and the thesis contrasts the effect of redistribution in federal and unitary states on national public corporate ownership. Moreover, tracing the history of three additional government-owned companies is beyond the scope of this paper.

Now that the dependent variable is defined, we turn to examine the explanatory variables of ownership structure in the literature. Here, I review the "obsolescing bargain" explanation, the international market conditions explanation, the cultural explanation, the patronage explanation, and the functional explanation. These five hypotheses each contribute to understanding the states' choice for the development of the hydrocarbon resources by public or private agents. I do not claim that these explanations are wrong, but that in the cases of Norway and Canada they

are insufficient to explain the variance in public corporate ownership without an examination of sequencing and path dependence in the development of the oil and gas industry, and of domestic institutional structures.

1.2 The "Obsolescing Bargain" Explanation

The obsolescing bargain theory, developed by Vernon (1971), posits that resource-rich countries need the financial and technical resources of multinational companies to develop their raw materials. However, once investments are locked in, operations run successfully and risks drop, host governments are in a stronger bargaining position allowing them to impose new terms in their favour, ranging from higher taxation to expropriation.

The "obsolescing bargain" framework contributes to understanding why many oil-producing countries rejected the foreign private ownership structure in favour of a public ownership structure. It has, however, some limitations. International business scholars showed that multinational companies retain, in practise, relative bargaining power and prevent opportunistic behaviour by host governments, notably because of the high mobility of their operations across countries. Moreover, today, few countries constrain inward foreign direct investment, removing opportunities for entry bargaining (Eden et al 2005).

The obsolescing bargain framework was applied to the Canadian National Energy Program of 1980-1985 by Jenkins (1986). She highlights four dynamics that Vernon's approach couldn't explain. First, foreign companies were not held hostage after their investment was made, as some projects were cancelled and some companies removed their rigs. Second, a drop in international oil prices, world recession and declining demand for oil weakened the government's bargaining position. Third, oil companies used the power of their home government to successfully pressure the host government. Finally, domestic political and economic allies impeded the federal government's action against foreign companies. As oil companies and producing provinces – Alberta in particular – were united on the issues of pricing and federal intervention, jurisdictional overlap provided a

considerable bargaining leverage to the multinational companies (Jenkins 1986: 157).

In the same vein, according to Nygaard and Dahlstrom (1992), because Norway was in a poor bargaining position before the oil shock of 1973 it adopted a defensive policy and was a passive observer of multinational companies' activities. After the oil shock, as a non-OPEC country, Norway was in a strong bargaining position and adopted aggressive policies to maximize its total national take (in terms of taxes, technology transfers, employment and domestic ownership). In the Norwegian case, in the absence of overlapping jurisdictions, the obsolescing bargain framework seems to be a better fit than in the Canadian case. However, the question remains as to which factor, between the immobilization of foreign companies' investments and the dramatic rise in oil prices, better explains a change in relative bargaining power and stronger state intervention in Norway and elsewhere. The next explanation addresses this question.

1.3 The International Market Condition Explanation

Two factors of the international market for oil might affect the corporate ownership structure: the price of oil and the availability of technology (Jones Luong and Weinthal 2010: 314). Arguments in this line of thought provide contradictory explanations. According to Friedman (2006), the price of oil and the pace of freedom move in opposite directions. With higher oil prices, more authoritarian states would be less inclined to protect property and contract rights and be tempted to move against private agents to capture oil interests through nationalization. For Yergin (2006), this dynamic does not apply in the 21st century, when higher oil prices are caused by a reduction of supply. With decreasing world reserves, producers have to develop non-traditional supplies, such as oil sands and deep-water deposits that require advanced extractive technology. This technology is often possessed only by international oil companies. Because host countries are dependent on foreign technology, they are constrained to adopt a foreign – private – structure of ownership. Yergin's argument might hold true in developing countries where the

lack of capital, technical capacities and skilled labour increases dependence on foreign companies.

In the cases of Canada and Norway, the first explanation (that higher prices are associated with more public ownership) clearly is a more appropriate explanation -- at least before the 21st century -- although not because Canada and Norway became authoritarian under high oil prices. As discussed in the introduction, a major reason for creating state-owned corporations is the capture and redistribution of oil benefits (not only rent, but also jobs, investments, affordable supply, and economic development). There are large benefits to redistribute only if oil prices are high. In both Canada and Norway, public corporate ownership increased under high oil prices and decreased under low oil prices in the 20th century.

1.4 The Cultural Explanation

One other reason for states to have their resources developed by private or public agents is political culture. Phillips (2008) suggests that Norway collects more rent and has a greater state participation in the oil and gas industry than Alberta because of political culture. He defines political culture as a set of lasting beliefs that shape the motives of political actors and their perception of the state-capital relationship. Motives add up to rational interests in constraining the choices available to public decision-makers, both through their own beliefs and the beliefs held by the public. Alberta's conservative political culture was forged by an agrarian economy where people learned to value private property by owning farms. In Norway, egalitarianism and a sense of community underscore the state's role of maximizing social benefits for the community in the oil and gas industry.

In support of this thesis, Chandler shows that left-wing provincial governments in Canada have established more crown corporations (state-owned companies) than governments of non-left parties (1983: 200). In Norway, Tønne notes that equalitarian values affected policy-making in the natural resources sector: "By taking into account basic social and economic policies, the government aims to insure that these resources provide maximum benefits to society as a whole" (1983:

741). In a similar vein, Andersen (1993) posits that the relationship of the Danish, British and Norwegian governments and oil companies in the North Sea differ because each country has a different set of values, beliefs and customs.

The cultural explanation has theoretical shortcomings. It draws correlations between stated beliefs and policy outcomes with little means of explaining the link between the two. Assuming political actors behave rationally is analytically more useful because rational actors seek tangible benefits and fear tangible threats. Lacking a hypothesis on what stimulates political actors' actions, the cultural explanation fails to provide a clear causal mechanism linking motives with outcomes. Moreover, as Chandler acknowledges, ideology is insufficient to explain political party behaviour without considering differences in each party's constituent groups (1983: 191).

1.5 The Patronage Explanation

For Jones Luong and Weinthal, "the conventional wisdom that emphasizes the role of international factors has led us to dismiss the ability of state leaders to make conscious choices, and thereby, to overlook the effect of domestic political and economic constraints on their decision-making calculus" (2010: 300). The preferences of state leaders in the oil industry are constant; they want to maximize rent and authority, and the best structure for doing so is state ownership. This preference is consistent with and subordinate to the primary interest of staying in office, achieved by rewarding allies and punishing opponents (2010: 302).

According to these authors, to stay in power state leaders maximize the utility of state income to reward their constituency. Therefore, the capacity of leaders to choose their optimal ownership structure depends on the constraints they face in accessing and distributing benefits. Two variables affect their redistribution strategy. First, with alternative sources of income leaders can maintain equal levels of spending and sustain the revenue losses associated with the nationalization of the oil industry, allowing them to opt for their optimal outcome: state ownership. Without alternative sources of income, leaders need immediate revenues readily

available from multinational companies, unattainable with nationalization, and are more likely to opt for the quick benefits offered by foreign private ownership.

Second, the level of distributional conflict affects the absolute amount of resources leaders need to remain in power. The more distributional conflict there is, the more pressure leaders have to satisfy competing claimants. The preferred ownership structure when distributional conflicts are high but alternative revenues are available is private domestic ownership, because privatization allows leaders to give the oil industry away to all the competing groups claiming a share of rent (Jones Luong and Weinthal 2010: 302-8).

This approach shares with the present paper a concern for addressing domestic political causes of ownership structure. Moreover, it identifies domestic redistributive conflict as a variable affecting state corporate ownership. However, Jones Luong and Weinthal emphasise less formal political processes, such as patronage and cleavage structure, in comparison to this paper where formal institutions, such as federalism and elections, are discussed. Moreover, the patronage explanation makes the assumption that expropriation is the method to acquire public corporate ownership, while this extreme measure was not considered in Canada and Norway. The patronage explanation better applies to developing countries where redistributional conflicts are less formal and expropriation more common.

1.6 The Functional Explanations

All explanations reviewed above, with the exception of the cultural explanation, assume that in the oil and gas industry states have a preference for state corporate ownership, because it is the best method to reach their principal objective: the maximization of rent and control. Functional explanations differ in describing the multitude of objectives governments attempt to reach when establishing state-owned corporations.

According to Niosi and Faucher (1987: 4), in the mining industry, when public enterprises are not rent collectors, they serve either as “windows on the industry”, i.e. collectors of information to help the state regulate the industry; as

suppliers of strategic resources; or as catalysts of economic development in sectors where the risks associated with early development (such as oil and gas exploration) are too high for private sector enterprises. For Chandler (1983: 211) public corporations can be facilitators of economic development that serve as vehicles of subsidies, or redistributors of economic and political benefits that bring about a more equal distribution of benefits, and also disperse the economic and political power that accompanies the concentration of wealth. All these roles are often complementary, and they can also be redefined over time. Pirog (2007: 5-9) notes that national oil companies can simultaneously pursue the objectives of wealth redistribution, job creation, general economic development, economic and energy security, and vertical integration. The empirical section of this paper (chapters 3 to 5) shows that Petro-Canada and Statoil have pursued all of these objectives to different degrees.

Understanding the roles governments give to state-owned companies is analytically useful in finding what interests lay behind governments' decisions in opting for state ownership. It shows that state-owned oil companies are instruments of industrial and economic policies, and as such they do not all have the same interests. However, it is not the most theoretically compelling explanation because knowing what a state-owned company is meant to accomplish does not tell why state ownership was the method chosen to accomplish this objective. In fact, most of the objectives discussed above can be accomplished by other means, such as taxation and regulation.

Conclusion

Taken together, the five explanations reviewed in this chapter explain much of the variation in the corporate ownership structure of the hydrocarbon industry. This paper adds a layer of understanding in demonstrating that two other factors affect ownership structure. First, the timing of development determines which, of the private or public sectors, is able to establish a dominant position before the stakes in the control over the oil and gas industry rose with the 1973 rise in oil prices. Second, national-level corporate ownership is likely to face more opposition in a federal

system because public corporations redistribute among sub-units, generating opposition on the loser-end of redistribution, while in a unitary state interest groups disadvantaged by state ownership are co-opted by national level institutions through top-down redistribution. The next chapter explains the theory behind these hypotheses.

Chapter 2 – The Historical Institutionalist Explanation

This chapter first explains the theoretical framework of the paper by presenting historical institutionalism, its key concept of "historical legacy", and its shortcomings. Second, the thesis and the two hypotheses tested in this paper and their application to the Canadian and Norwegian cases are discussed. The chapter concludes with a comment on methodology.

2.1 Theory: Historical Institutionalism

Production of Historical Legacy: The Critical Juncture

In a historical institutionalist (henceforth HI) perspective, conflict among rival groups for scarce resources is at the heart of politics (Hall and Taylor 1996: 937). Institutions, defined as "[formal and informal] rules and procedures that structure social interaction by constraining and enabling actors' behaviour" (Helme and Levitsky 2004: 727), underlie and structure political conflict.

HI postulates that institutional development "is characterized by relatively long periods of path-dependent institutional stability and reproduction that are punctuated occasionally by brief phases of institutional flux – referred to as critical junctures – during which more dramatic changes are possible" (Capoccia and Kelemen 2007: 341). If path dependence is illustrated as the propensity of people to follow footsteps in deep snow even when the path is not the shortest way, the critical juncture is a snowstorm, erasing the earlier path and offering the opportunity for a new path to be drawn.[3] A critical juncture is defined by Collier and Collier (1991: 29) as "a period of significant change, which typically occurs in distinct ways in different countries and which is hypothesized to produce distinct legacies". It is often the immediate response to an external shock.

In this perspective, sequencing is critical as earlier events matter more than later ones (Pierson 2000: 253). Moreover, a same exogenous shock likely has a

[3] I owe this illustration of path dependence to Professor Philippe Faucher. Any misapplication remains my responsibility.

different impact on countries whose development is at different stages. Finally, comparing the antecedent system with the new one – the legacy – is important to differentiate continuity and change and to understand upon which institutions new ones are built (Collier and Collier 1991: 31, 34).

Reproduction of Historical Legacy: Path Dependence

The identification of a reproduction mechanism is necessary to argue that choices are locked-in once an initial decision is made in the wake of a critical juncture. For Pierson (2000), this reproduction mechanism is the concept of "increasing returns", defined as the increase in the relative benefits and in the costs of exit of an activity over time. For example, the more QWERTY computer keyboards are sold, the more likely it is for new identical keyboards to be sold, and the more costly it is to introduce a new design, whatever its efficiency (see David 1985 on the QWERTY example).

Another, complementary reproduction mechanism is the distributional effect of institutions. In this argument, institutions reproduce and magnify the distribution of power (Thelen 1999: 394). Initially small disparities of power can be dramatically exacerbated by recurring positive feedback (Pierson 2000: 259). These mechanisms explain why increasing returns or distributional effects generate irreversibilities, removing certain options from the spectrum of choices (Pierson and Skocpol 2002: 701).

End of Legacy and Shortcomings: Change and Historical Institutionalism

For Collier and Collier (1991: 33-4), analysts must have clear criteria for determining when a historical legacy ends, but also acknowledge that end points might be ambiguous. Following the snow path metaphor, the end of a legacy would be a new exogenous shock: a snowstorm. This conceptualization of a legacy that ends abruptly at a precise point in time reveals the difficulty of historical institutionalism (HI) to account for progressive change; a flaw this theory is criticized for (Lieberman 2002, Greif and Laitin 2004). Pierson (2000: 265-6) suggests that in path dependency there is some degree of change, but change is

bounded until a disruption erodes or breaks the mechanism of reproduction. Thelen (1999: 387) expressed a similar idea by stating that institutions change in response to environmental conditions (an exogenous cause), but also by political manoeuvring, within the constraints imposed by developmental pathways (endogenous, agent-based change).

This takes us to a second potential pitfall of HI: it is unclear whether this theory attributes causality to agents or to structure. Thelen (1999: 374-5) and Zysman (1994: 244) suggest HI is a structuralist approach because for them the formation of agents' preferences is endogenous to institutions; their definition is created in institutional contexts and not separable from them. Hall and Taylor (1996: 937) offer a similar view in stating that "the institutional organization of the polity or political economy [is] the principal factor structuring collective behaviour and generating distinctive outcomes".

What is, then, the role of agents in HI? Thelen (1999: 377-8) attributes the capacity to act cohesively and strategically to collective actors. Pierson (2000: 260) recognizes that political actors pursue a wide range of goals. Peters et al (2005: 1285) criticize HI for not considering political conflict more seriously. These authors identify conflict as a cause of incremental change; a process by which small, progressive changes cumulate into major changes without exogenous shocks. This paper does not escape HI's structuralism, but it suggests agents can undermine the effectiveness of mechanisms of redistribution through political conflict. There is particularly true of the Canadian case where political conflict contributed to the privatization of Petro-Canada.

2.2 Thesis: Sequencing and the Institutional Structure

This paper seeks to explain why the extent and duration of state corporate ownership at the national level in the oil and gas industry diverge in Canada and Norway, using a historical institutionalist approach. Two hypotheses are suggested to explain why Petro-Canada had a smaller share of total national corporate ownership in the Canadian oil and gas industry than Statoil in Norway, and was then

privatized, while Statoil was not. First, Petro-Canada was created at a later stage of the development of the private oil industry compared to Statoil. Second, it is more difficult for a federally-owned oil company to find broad-based political support when its redistribution activities benefit only some of the constituent units of the federation, compared to a national oil company in a unitary system where the national oil company can equally respond to all groups. To present this thesis, the key assumptions are discussed, and then the two hypotheses are explained.

Key Assumptions

A key assumption on which this theory rests is that political actors, considered as collective agents (usually political parties or interest groups), have a primary interest in staying in power. The policy consequence of this assumption in the hydrocarbons industry is that political leaders seek a maximal share of rent and a maximal control over the industry to increase their political power.

When significant amounts of rent are available, governments have a preference for developing public corporate ownership because it allows them to maximize their control over the redistribution of benefits from the oil and gas industry. This control, in turn, gives political parties in government more latitude in using redistribution in a way that best serves their electoral constituency. Redistribution strategies are designed to satisfy the interests of electoral constituencies.

If we assume the maximization of rent and control is a key objective for governments, the failure to reach this objective must be caused by a constraint on its intervention. Constraints can take the shape of economic factors (high risk, insufficient capital or inappropriate human resources), technical factors (unavailability of the necessary technology), or political factors (institutions or actors preventing governments' action). Although these factors are often closely interrelated, the political constraints on government ownership are the object of study in this paper.

Hypothesis 1: The Sequencing Argument

In Canada, the earlier and progressive discovery of oil in the first half of the twentieth century, as well as the relative technical facility to extract conventional onshore oil, led to the progressive growth, and clustering of interests, of a private sector that was both domestic and foreign. Public corporate ownership was not seriously considered because oil was discovered in relatively small amount and prices were low. By the time government interest rose with the 1973 oil shock, the presence of strong private vested interests made the government's direct participation difficult.

Contrastingly, in Norway the first offshore oil discovery was made in 1969, shortly before the oil shock. Early discoveries were made by foreign multinational companies that had not integrated the Norwegian economy by the time the price hike raised the stakes of government intervention, strengthening the bargaining position of the state. Moreover, the technical challenge and capital requirements of offshore development did not allow small domestic companies to enter the business, as was the case in Canada. As a consequence, the only actors constraining the government's plan for rent maximization were a few large multinational companies in a relatively weak bargaining position after the oil shock.

Sequencing matters because the early development of oil by the private sector constrains public corporate ownership in two ways. First, the late creation of state-owned oil companies limits the amount of the resource that is not already awarded in concessions to private companies, reducing the opportunities for the national company to acquire a land base without buying out private interests. Second, a large, established private sector is powerful enough to influence domestic politics when public corporate ownership threatens private interests, for example through any form of special treatment for national oil companies.

Hypothesis 2: Institutions and Redistribution

Different pre-existing institutional structures respond differently to exogenous shocks. While in Norway a single national government pursued the maximization of oil rent, in Canada the federal government and the government of the principal producing province, Alberta, were competing for rent. Non-producing provinces also had an interest in affordable supply. In the absence of intergovernmental competition for oil rent the Norwegian state adopted a broad-based, vertical redistribution strategy, from state to society. In Canada, in the presence of intergovernmental competition, the federal government adopted a horizontal redistribution strategy, from producing to consuming provinces. This strategy was adopted in Canada under Liberal governments (from 1972 to 1984) that had their electoral base in consuming provinces in central Canada.

In these two cases, the presence or absence of intergovernmental conflict determined whether central governments would face obstacles from sub-national entities in their pursuit of government ownership. In Canada, the federal government's capacity to develop corporate ownership was limited by western provinces, Alberta in particular, defending their constitutional prerogatives and by Atlantic provinces, Newfoundland and Labrador in particular, negotiating for a share of benefits in offshore development. Moreover, in the period of high oil prices from 1973 to 1985, the nearly uninterrupted reign of the Liberal Party that had its electoral base in Quebec and Ontario gave a stronger voice in the federal government to the interests of consuming provinces. This caused the federal government's ownership policy to balance from consuming provinces interests (federal involvement) during high oil prices to producing provinces interests (federal withdrawal) once prices dropped in the mid-1980s.

The oil price rise of 1973 created an impulse for governments to develop corporate ownership in the oil industry, and it simultaneously created a political conflict in the Canadian federation, one that was absent in Norway because there was no jurisdictional overlap over oil resources on the Continental Shelf. In a federal context, the larger the benefits for one government or group of governments, the

more other governments oppose the status quo. The costs of exit from this status quo increase over time for the recipients of oil rent, but the benefits of exit also increase over time for groups that are disadvantaged by the status quo. Political conflict thus undermines the effectiveness of Pearson's (2000) increasing returns and Thelen's (1999) distribution effects over time.

In other words, Petro-Canada's purpose was to provide benefits to the federal government and consuming provinces, rather than to producing provinces. In fact, the oil shock's legacy of federal corporate ownership created *negative* "distributional effects" for producing provinces. The opposition of producing provinces to federal corporate ownership, expressed in intergovernmental relations and in federal parliamentary and electoral politics, played an important role in curtailing Petro-Canada's scope of action and in promoting its privatization. The emphasis on this political conflict highlights the causal significance of agency in changing institutional paths determined at critical junctures.

In Norway, mechanisms of reproduction of public corporate ownership better illustrate Pierson's increasing returns and Thelen's distributional effects of institutions. The channelling of rent through the national state gave every citizen an equal right to benefit from the windfall, providing the state's ownership strategy with strong legitimacy. Statoil was taking part in most stages of the redistribution process and its control over the oil industry directly benefitted powerful actors in Norway's political system, notably coastal regions dependent on the oil industry, labour unions and Norwegian private suppliers of services to the oil industry. Moreover, because the jurisdiction of the national state over offshore resources was not disputed by any group in society, the national government could use oil wealth to co-opt disadvantaged groups. The public ownership structure is a more lasting historical legacy in Norway than in Canada because powerful groups developed vested interests in Statoil, and few groups opposed public ownership.

Following Collier and Collier (1991)'s recommendation, clear benchmarks are established to determine the end of path dependency. As the historical legacy of the 1973 oil shock is the creation of national oil companies, the end of legacy would

by the privatization of these companies. In Canada, the legacy clearly ended with the privatization of 80% of Petro-Canada's assets in 1991-1995, completed in 2004. Does the partial privatization of Statoil begun in 2001 break path dependence? It does not, because the government still owns a qualified majority of shares in the company today, and kept a large portion of its assets in a portfolio of assets held by a state-owned company called Petoro, created in 2001.

The HI explanation does a little more than adding a layer of understanding to the determinants of the ownership structure in the oil and gas industry: it reframes the research question in a historical perspective. Some of the explanations reviewed in chapter 1 consider some form of timing. For example, the obsolescing bargain explanation suggests the distribution of bargaining power between multinational oil companies and host states is different before and after investments are locked in, or the patronage explanation pays attention to the length of time political leaders could survive using other revenue than oil rent.

But all theories reviewed in chapter 1 offer an explanation that is cross-sectional, i.e. that can be isolated at a precise point in time. In Vernon's perspective, whatever happened before, if investments are locked in the host state is in a better bargaining position. In Jones Luong and Weinthal's approach, the decision of political leaders whether or not to nationalize their oil industry only depends on the immediate assessment of whether leaders can survive an interruption of the inflow of oil rent. Contrastingly, the HI approach requires a systematic attention to time. As this paper will show, reframing the problem in a historical perspective allows explaining different outcomes in countries that, like Canada and Norway, appear to be relatively similar in light of other explanations.

2.3 Methodology

A qualitative method is used to demonstrate this thesis to test the validity of the causal mechanisms and the internal validity of the hypotheses (Fearon and Laitin 2009). A quantitative assessment of the hypotheses is beyond the scope of this paper. Because historical institutionalism implies the study of long periods of time,

this research is limited to two cases. Because we are interested in government corporate ownership at the national level, the unit of analysis is the country. To illustrate more clearly the hypotheses, in the Canadian case public corporate ownership is only discussed at the federal level, and intergovernmental conflicts emphasize the relationship of the federal government with Alberta, and to a lesser extent with Newfoundland and Labrador.

Norway and Canada offer good grounds for comparison. They offer sufficient variation on the dependent variable with Statoil being fully and later majority owned by the government, and involved in most oil fields in Norway, while Petro-Canada became one of the most important oil companies in Canada in the early 1980s and was later fully privatized. The pace of oil development was different in both countries, allowing the comparison of different timings. While both countries had similar oil production outputs in 1991, Norway had experienced much stronger growth in the two earlier decades since its production had begun in the early 1970s, at a time when Canada's production was similar to 1991 levels.

The two cases are reasonably similar: both are advanced industrialized democracies. Both countries also have sufficient oil and gas reserves to trigger the interest of the government to capture rent. While Canada has some onshore conventional oil that is easy to access, both countries have large amounts of unconventional resources (offshore, the Alberta oil sands and the Canadian arctic). Both countries are partly dependent on foreign capital and technology, but have sufficient industrial capacities to acquire the knowledge to undertake the development of the resource on their own.

This paper is organized following Collier and Collier (1991)'s framework to analyse critical junctures and their legacies. The empirical part of this paper will unfold chronologically from the production of the legacy with the 1973 oil shock (chapter 3); to the reproduction of the legacy and the analysis of "increasing returns" and "distributional effects" (chapter 4); to an assessment of the end of the legacy with the analysis of the pressures for privatization both countries faced from the late 1980s on (chapter 5).

Chapter 3 – The Critical Juncture: The Oil Shock of 1973

As noted in the previous chapter, critical junctures are shocks, or periods of significant change. The timing and the immediate response to these events constrain the future set of available options. To analyse critical junctures, Collier and Collier (1991: 30) propose a clear framework that is appropriate to study the research question that motivates this thesis. This framework comprises three components. First, a significant change occurs in each case. In the Canadian and Norwegian oil and gas industries, this is the dramatic rise in oil prices of 1973.

Second, this change typically takes place in different ways in different cases. This is related to the sequencing of events, or more precisely to the specific stage of development each case is at when the critical juncture happens. At the time of the shock, in Norway, unconventional oil was discovered recently and in large amounts, with no involvement from the domestic private sector. In Canada, conventional oil was discovered more progressively and earlier. Low oil prices at that time and the easy extraction of conventional oil allowed for the involvement, and clustering of interests, of both small private domestic firms and large multinational companies.

Third, an explanatory hypothesis clarifies the distinct legacy of the critical juncture. I assume governments have a heightened interest in capturing and channelling oil benefits, in the form of rent, jobs, investments and affordable supply, toward their political constituency after the price hike of 1973. Public corporate ownership is an instrument of this redistributive process used by the Canadian and Norwegian states. I hypothesize the immediate response to the 1973 oil shock in the Canadian federal system was to develop public corporate ownership for the purpose of horizontal redistribution among sub-units, while in the Norwegian unitary system, public corporate ownership was developed to redistribute oil benefits in a vertical, top-down, or state to society process. The next chapters show that over the long term, vertical redistribution proved more resistant to privatization pressures than horizontal redistribution.

One methodological issue considered by Collier and Collier deserves attention. The legacy of a critical juncture must be assessed against the antecedent conditions. This allows controlling for the rival hypothesis that attributes of the legacy are in fact constant causes, not due to the critical juncture (Stinchcombe 1968: 101-129; Collier and Collier 1991: 35). This chapter examines the effect of the oil shock of 1973 on Canada and Norway in the light of Collier and Collier's analytical framework. For each of the two cases, this chapter examines antecedent political institutions, the circumstances of oil discoveries, and the relationship of the 1973 oil shock with the creation of national oil companies.

3.1 Antecedent Political Institutions

Analysing the impact of critical junctures necessitates an understanding of institutions before critical junctures occur because institutions shape the response of states to exogenous shocks. This section qualifies Canadian federalism as majoritarian, or power-separating, and the Norwegian unitary state as corporatist. These qualifications clarify why the vertical redistributional pattern in Norway created stronger support for public corporate ownership than horizontal redistribution did in Canada.

For Bolleyer (2006), the majoritarian or power-sharing character of executive-legislative relations at the federal level respectively weakens or facilitates the institutionalization of intergovernmental arrangements. Bolleyer uses Canada as an example of majoritarian decision-making because of the complete party alternations in the federal government (no multi-party governments). Federal government turnover frequently alters the interest configuration among provinces, and shifting interests raise the costs of maintaining strong intergovernmental agreements. The consequences are less coordination and harmonization of policy across substates, and a higher motivation to shift blame to other governments for regional politicians facing the immediate threat of electoral loss (2006: 472, 477-8).

Braun et al (2002) go in the same direction when contrasting the Canadian power-separating federalism, where competition and bipolarity predominate, to

Germany's power-sharing federalism, which is characterised by interdependence. Applying their framework to fiscal policy making, they conclude that the federal government in Canada has large powers and the capacity to act unilaterally, but that it faces considerable constraints if the provinces' collaboration is needed. In such a case, the federal government must use distributive bargaining to reach a consensus (2002: 134).

Comparing oil policy making in Canada and the United States, Kratochvil (2003: 8-14) suggests more centralized and less conflicting decision-making is possible in the United States because the negotiation process between the two chambers of the legislature and the executive at the federal level successfully internalizes regional demands. Moreover, the fragmentation of responsibility within the central government diminishes the costs associated with responsibility for each participant. In contrast, the Canadian decision-making process is isolated from external influences and concentrated in the hands of cabinet members. Because regional demands are not fully internalized in the federal policy process, regional interests are channelled towards provincial governments. It is therefore difficult for the federal government to act without the collaboration or approval of the provinces.

In Canada, because of the majoritarian or power-separating character of federalism, the federal government unilaterally developed corporate ownership in a manner that reflected the interests of its electoral constituency more than the aggregated interests of all provinces. The result was, first, a federally owned oil company whose objective was to distribute oil benefits horizontally from producing provinces to consuming provinces. Second, the lack of cooperation of producing provinces and the existence of a large private sector that was effectively performing the development of resources limited the scope of redistribution, and the number of stakeholders associated to the state-owned company.

Contrastingly, in Norway, corporatist institutions facilitated the inclusion of most interest groups into the vertical redistribution process, and the co-optation of opposing groups, generating stronger support for the redistribution process and the ownership structure associated to it. On Lijphart (1999: 177)'s scale of interest

group pluralism, Norway ranks as the most corporatist out of 36 democracies (while Canada ranks as the most pluralist). Corporatism is defined by Schmitter (1974: 93-94) as

> a system of interest representation in which the constituent units are organized into a limited number of singular, compulsory, noncompetitive, hierarchically ordered and functionally differentiated categories, recognized [...] by the state and granted a deliberate representational monopoly within their respective categories in exchange for observing certain controls on their selection of leaders and articulation of demands and support.[4]

Corporatism thus refers both to the channelling of interest group demands through peak organizations, and to the incorporation of interest groups into the policy process (Lijphart 1999: 171).

Historically, the development of the corporatist state in Norway was led by the Labour party, which dominated the Storting (Norwegian parliament) in the first and into the second halves of the twentieth century. The Labour party successfully mobilized the working class into labour organizations, which were incorporated into the governing process at all levels of decision-making (Lafferty 1990: 80-82). As March and Olsen (1989: 100) put it, the main political tendency in Norway since 1945 (until the 1980s) has been "to integrate organized interests, and thus social conflicts, into the administrative apparatus". By channelling societal demands and including interest groups in the policy-making process through corporatist networks, the Norwegian state was able to use Statoil and the redistribution of oil benefits in ways that were satisfactory to most segments of society, creating strong vested interests in the public corporate ownership structure.

[4] Schmitter further distinguishes societal corporatism, a category to which Norway belongs, from state corporatism, a category to which, for example, fascist states belong. Societal corporatism exhibits "relatively autonomous, multilayered territorial units; open competitive electoral processes and party systems; ideologically varied, coalitionally based executive authorities" (1974:104-5).

3.2 Oil Discoveries in Canada and Norway

This section highlights how the private sector integrated the Canadian oil industry in the early stages of development when low oil prices and modest amounts of oil did not raise sufficient governmental interest for public corporate ownership to be developed. This situation is then contrasted to Norway's case where oil was discovered in large amounts just before the 1973 oil shock, offering better opportunities for the state to participate in the development of the resource.

In Canada, the jurisdictional overlap between the federal and provincial governments over natural resources creates potential for conflict. According to Cairns, balancing the interrelated powers of management and taxation by the provincial governments and of trade and taxation by the federal government has been a recurring challenge of Canadian resource policy (1992: 55). This has been a contentious issue since the creation of the western provinces of Saskatchewan and Alberta in 1905, when the federal government kept control of public lands despite constitutional provisions granting other provinces control over the natural resources on their territory.[5] The Alberta government voiced strong criticism on federal retention of public domain in the province. Western provinces were granted control over their lands only in 1930, as a way to finance public infrastructure and a growing debt (Richards and Pratt 1979: 16-7). Despite this jurisdictional overlap, the period of oil discoveries and early production in Canada was marked by an intergovernmental consensus over the development of hydrocarbon resources, led by a mostly foreign private sector to promote economic development in the provinces where resources were located.

Canadian oil was first discovered in Alberta in the Turner Valley in 1914. Imperial Oil, a Canadian subsidiary of the American oil giant Standard Oil of New Jersey started exploring the Valley in 1917 and found oil in modest quantity.

[5] The constitutional foundations of jurisdiction over natural resources can be found in the British North America Act of 1867, amended in 1982. Sections 91 and 92 outline the powers of the federal and provincial governments, and Section 109 states that "All Lands, Mines, Minerals, and Royalties belonging to the several Provinces [...], and all Sums then due or payable for such Lands, Mines, Minerals, or Royalties, shall belong to the several Provinces [...]" (Canada 1982).

Production peaked at 28,000 barrels a day in 1942 and declined to 20,000 barrels a day by 1946. In this early period, exploration was led in the province by private foreign companies such as Imperial Oil and many small (domestic) independent explorers (Laxer 1983: 6; Grant 1998: 74; Richards and Pratt 1979: 44).

A failed attempt to establish public ownership in the downstream petroleum industry[6] in Alberta in the 1930s illustrates the early dependence of the provincial economy on foreign private interests. In 1936, as production rose in Turner Valley, Imperial Oil's refinery refused to buy more than 65% of the oil produced by independents when no other refinery was available. In 1938, the Social Credit party passed a resolution in the legislature asking the government to "give consideration to taking over the wholesale and retail distribution of petroleum products in the province" in a gesture to the independent oil producers and to the party's populist constituency. The proposal was rejected by the McGillivray Commission, which insisted on the need for regulation, defended Imperial Oil, and warned against the dangers of expropriation. Clearly, with provincial debt charges rising to 38% of public expenditures, the activities of foreign oil companies were deemed essential to Alberta's economic development (Richards and Pratt 1979: 19, 55-6).

In 1947, a significant find at Leduc marked the beginning of the modern Albertan oil industry. Several other reservoirs were found until 1953 and in this period the existence of three million barrels of crude oil and eighteen million cubic feet of natural gas was proved (Richards and Pratt 1979: 44-5). In the post-Leduc period, the development of the resource was spearheaded by Canadian subsidiaries of multinational oil companies. By 1960, non-resident ownership amounted to 77.3% of total ownership. In the early 1970s, investments reached $9.8 million CAD and 91% of assets in the oil industry were under foreign control (Laxer 1983: 6-8).

According to Doern and Toner (1985: 67), the period from the Leduc discovery in 1947 to the 1973 oil crisis is characterized by a reasonable consensus between the federal government and producing provinces over the management of

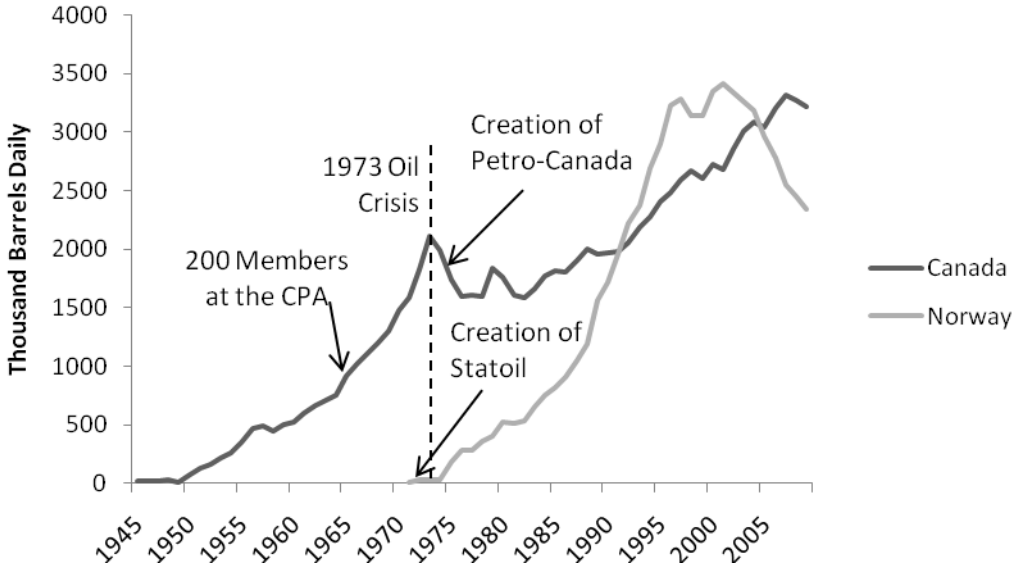
[6] The downstream petroleum industry refers to the refining, transportation and retailing of oil and gas, while the upstream petroleum industry refers to the exploration and production of oil and gas.

the oil and gas reserves. Energy was readily available and very cheap, barely rising above $2 USD per barrel throughout the period (BP 2010). Both levels of government had to encourage production and stimulate growth in the domestic industry. The discovery at Leduc was seen by the Alberta Social Credit government as an opportunity to diversify Alberta's economic base and alleviate its heavy dependence on agriculture. Oil held the promise of economic growth after a period of depression, and of eliminating the public debt without raising personal taxation (Richards and Pratt 1979: 83).

The federal and provincial governments agreed with the objectives of constructing pipelines from the producing provinces to the consuming provinces, of creating a favourable fiscal climate to attract investment and to develop exports (Doern and Toner 1985: 67). The presence of many stakeholders in the private oil and gas industry between 1947 and 1973 made it difficult to question the private ownership structure. Forty-seven percent of personal income in 1964 and nearly half of all jobs created between 1961 and 1971 in Alberta were the direct or indirect result of the petroleum sector (Norrie 1980: 269-70). The Canadian Petroleum Association (CPA), one of the largest lobbies of foreign and independent petroleum producers from western Canada, counted 200 members in 1965. More than half of the membership was made up of multinational oil companies, including Shell, British Petroleum and Gulf Oil (CAPP 2011b). In 1974, just after the oil shock, twenty of the one hundred manufacturing, utility and resource companies with the highest stock in Canada were oil-producing companies (Berry 1974: 605).

Figure 3.1 illustrates the progressive increase in Canadian oil production before the oil shock, compared to Norway's rapid increase in production immediately after 1973. In Canada the private sector developed oil resources without much public attention; a situation contrasting with the large oil finds offshore Norway immediately after the 1973 price rise that attracted significant government interest. In the absence of shocks before 1973, there was little opportunity for the Canadian government to make a significant interventionist move into the domestic oil and gas industry.

Figure 3.1. Oil Production in Canada and Norway (1945-2009)



Source: BP (2010) for Canada and Norway after 1965 and CAPP (2011a) for Canada before 1965. The CAPP calculation produces slightly lower figures than the BP calculation. Before 1947, a total of about 109.5 million barrels of oil had been produced in Canada (CAPP 2011a).

The policy of production bore fruit: by 1960 Canada was producing 545,000 barrels per day, about 69% of which came from Alberta and nearly all from the western provinces. Concerned with excess production capacity, the Diefenbaker federal government undertook the coordination of the national oil market by enacting the National Oil Policy (NOP) in 1961 (Plourde 2010: 4; CAPP 2011a).

The NOP formalized the distribution of preferences upon which the pre-1973 consensual intergovernmental climate rested. The basis of Diefenbaker's policy was to divide Canadian oil consumers along the Ottawa Valley line. In the west, consumers would be supplied solely with Canadian-produced oil, and in the east they would rely on cheaper imports. Eastern consumers were satisfied with access to cheap oil, and Ontario was compensated for using more expensive Canadian oil with governmental support to develop refining and petrochemicals in the provinces. Producing provinces were satisfied as the policy involved increasing pipeline capacity towards their natural market, the United States, and it secured a protected national market west of the Ottawa Valley line (Plourde 2010: 4).

Both the Diefenbaker Tory and Pearson Liberal federal governments endorsed this continentalist policy because they feared import restrictions on the Montreal market would weaken Canada's position vis-à-vis the United States' own import restrictions, and because they needed excess production to find a market (Borden Commission cited in Doern and Toner 1985: 80). Finally, the private sector was satisfied with the NOP, as it coincided with established distribution networks while offering new outlets for rising production. The result of the policy was to increase Canadian production to 1.8 million barrels of oil and 6.5 billion cubic feet of natural gas per day by 1972. Half of the oil and 40% of the natural gas was sold to the United States (Plourde 2010: 4-5).

The need for Alberta to attract investment and to finance its public debt when the economy was largely dependent on the oil and gas industry; the federal government's interest in conciliating the needs of producing provinces, consuming provinces, and its own needs vis-à-vis the United States; and the involvement of the private sector in an industry that developed in progressive steps since the beginning of the twentieth century, all contributed to the initial choice of a private model of development in the Canadian hydrocarbon industry. The rapid rise in oil prices in 1973 would trigger the interventionist impulse of the federal government and at the same time change the configuration of interests in the federation because foreign oil would no longer be cheaper than Canadian oil.

In Norway, the discovery and production of oil came later than in Canada. Therefore, up to the 1960s, comparisons can only be made in reference to other similar economic sectors. After the Second World War, not unlike Canada, Norway's rapid industrial growth was driven by the exports of natural resources financed by foreign capital. During this period, the ownership structure in the natural resources sector was mostly private. In the 1960s, the nationalized sector was small, and the Norwegian government preferred influencing big companies directly rather than acquiring public ownership or control the investment of capital (Katzenstein 1985: 61-2).

The hydro-electricity sector offers interesting grounds for comparison. In Norway, legislation passed in 1906 required private companies, domestic or foreign, to acquire a concession from the state to exploit the hydroelectric potential of waterfalls. The duration of concessions could not exceed sixty years, and at their termination all installations accrued to the state. This system led to a progressive nationalization. The state produced 24.5% of the country's electricity in 1957, and 36.5% twenty years later (Tønne 1983: 725-7).

In Canada, experiences are more diverse across provinces. In eastern and central Canada, electricity production and distribution are mostly matters of public enterprise (public utilities were created in Ontario in the 1900s and in Quebec in the early 1960s), but they are private in Alberta (Niosi and Faucher 1987: 11). Public ownership also existed in the energy sector in Alberta, where the Alberta Gas Trunk Line, a natural gas transportation company created in 1954, was of mixed ownership (Doern and Toner 1985: 69). No clear difference in trend is discernible from the comparison of the electricity sector as both countries have equivalent degrees of public ownership. Therefore, historical trends in ownership in the energy sector do not explain the early creation of Statoil in 1972 and the later divergence of policy choices.

Exploration in the North Sea was stimulated by gas discoveries in the Netherlands in 1959. At that time, neither the Norwegian state nor domestic companies had the financial and technical resources to exploit offshore oil. Moreover, geological prospects on the British side of the continental shelf were better than on the Norwegian side. Norway had to offer attractive terms to foreign companies to explore the area under its jurisdiction (Tønne 1983: 730).

On the request of Phillips Petroleum, a United-States based multinational oil company that was the first to show an interest in the Norwegian Continental Shelf, Norway established an exploration framework. This framework replicated the country's practise of closely regulating foreign investment. Between 1906 and 1917, the Storting (Norwegian parliament) passed a series of laws that required foreign investors, in particular those wishing to invest in natural resources such as

waterfalls, to seek prior governmental approval and to follow several rules on prices, quotas, and Norwegian participation. Norway was controlling foreign investors because the country wanted to maintain the independence from outside domination it had recently gained. Norwegians also wished to limit the social hardships associated with large-scale capital investment (Nelsen 1991: 22-3).

To avoid being dependent on a single company, in its first licensing round in 1965 Norway decided to award licences to several multinational oil companies such as Phillips, Esso, Shell and British Petroleum. The Norwegian state also kept an equity share of 9%. In 1969, Phillips Petroleum discovered the Ekofisk field, and production began in 1971. It was estimated Ekofisk contained 250-300 million tons of oil equivalent (Mtoe)[7] and could be producing 25 Mtoe by 1976, while Norway was consuming 7 Mtoe per year (Tønne 1983: 730, 734-8; Nelsen 1991: 204).

The amount and jurisdictional location of oil discovered in Norway explain why in this country oil benefits were not redistributed horizontally. Because the production capacity of the first oil field discovered in Norway exceeded national consumption, security of supply was never a concern as it was in Canada. Moreover, as all Norwegian oil was offshore and under exclusive national jurisdiction, determining domestic oil prices did not imply any form of wealth transfer between geographically and jurisdictionally divided domestic buyers and domestic consumers, as was the case in Canada.

After the first discoveries were made on the Norwegian Continental Shelf and investments were locked in, consistently with Vernon's "obsolescing bargain" theory, the bargaining power of the host state increased and it was able to impose better terms on the multinational oil companies. In a second licensing round held in 1969, government participation was required for the first time through net profit sharing and carried interest. The first method is a form of royalty. The second method reserves the right for the state to contribute to the costs and participate in oil

[7] One million ton of oil equivalent represent about 7.14 million barrels of oil equivalent.

projects once hydrocarbons are discovered. The carried interest ranged from 5% to 9% in the 1969 licensing round (Lind and Mackay 1979: 102).

The Norwegian government was negotiating with a small number of large oil companies that were just starting their operations. In the early 1970s, most oil companies on the Norwegian Continental Shelf were foreign multinational. In the mid-1970s the multinationals would be joined by Statoil, a fully-state owned company; Norsk Hydro, a majority state-owned company; and Saga Petroleum, a small, newly created Norwegian private company (NPD 1976: 10).

To reverse Vernon's obsolescing bargain, the Norwegian government had more power over private oil companies than in Canada precisely because it did not have immobilized interests in the private oil industry in the form of jobs, investments, and economic linkages with affiliated sectors. Being in a strong bargaining position and seeing the large revenue potential of its resource, Norway acquired equity shares and created the national oil company Statoil in 1972, before the oil shock. The 1973 rise in oil price would, however, dramatically increase the power of the state relative to oil companies in both countries, and give a greater role to public ownership, particularly in Norway.

3.3 Immediate Responses to the Oil Shock of 1973

Arab countries engaged in the Yom Kippur War of October 1973 decided to cut oil production as a means of economic pressure against Israel and its western allies. The cuts amounted to five million barrels per day, or about 7% of world production, and resulted in a four-fold price increase – from $3 USD to $12 USD (Yergin 2008: 570; Courchene 2006: 654).

In the wake of the oil crisis, the prospect of rent capture stimulated an interventionist drive resulting in the creation of a national oil company in Canada,[8]

[8] As discussed in chapter 1, the governments of oil producing provinces all created state-owned oil companies immediately after the oil shock. Saskatchewan created Saskoil and British Columbia created the British Columbia Petroleum Corporation. Both were fully government-owned. Alberta opted for the creation of a mixed ownership corporation, which was to be equally owned by the province and the private sector, the Alberta Energy Company (AEC) (Plourde 2010: 5)

and in the expansion of the newly created national oil company in Norway. This section shows that the immediate response of the Canadian and Norwegian states to the oil shock was to attempt increasing government control over the oil industry by developing public corporate ownership in order to increase the control of the state over the redistribution of oil benefits. In Norway, redistribution would be top-down, from state to society. In Canada, redistribution would take place horizontally, from producing provinces to other provinces. The vertical form of redistribution would later offer more opportunities for groups to develop vested interests in the national oil company than the Canadian horizontal redistribution pattern.

The rise in international oil prices altered the structure of the Canadian energy market by making imported oil for the provinces east of the Ottawa Valley more expensive than domestic oil at pre-crisis prices. This altered the distribution of preferences upon which the consensus of the 1961 National Oil Policy was built.

The distribution of seats in the House of Commons contributes to explaining federal intervention on behalf of eastern consumers. After the federal elections of October 1972, the Liberal party under the leadership of Pierre-Elliott Trudeau formed a minority government. 92 of the 109 seats the Liberals won in the House of Commons (85%) were from the eastern provinces of Quebec and Ontario, although the Progressive Conservatives received four more seats in Ontario than the Liberals. In Alberta, all 19 seats went to the Progressive Conservatives. The other oil producing provinces, Saskatchewan and British Columbia, gave 5 seats to the Liberals on a total of 36 (Gagnon and Tanguay 2007: 536). Clearly, the electoral base of the Liberal government was heavily concentrated in the eastern consuming provinces.

The third party in the House of Commons, the New Democratic Party (henceforth NDP), also favoured the protection of Canadian consumers. The minority government depended on the third party's support. The NDP's electoral strongholds were Ontario and British Columbia, but the party's interests are based on class more than region. Because the NDP seeks the support of leftist voters in urban areas and labour movements (Whitehorn 2007: 143), it promotes the interests

of an oil-consuming social class against the interests of private capital. After the price rise in late 1973, the NDP energy critic said the 1961 National Oil Policy was "archaic" and demanded the protection of eastern consumers from high international prices (Pratt 1988: 162). The NDP had been advocating for the takeover of Imperial Oil for some time before the oil shock and it threaten to defeat the Liberal government if it was not to include a national oil company in its upcoming energy package (Laxer 1983: 53-4).

The federal government's overriding concern following the embargo of October 1973, officially announced by Trudeau in a speech on December 6, was to make Canada self-sufficient in oil and oil products by the end of the 1970s. In a federation where hydrocarbon resources are geographically concentrated, self-sufficiency implied some form of transfer from producing provinces to consuming provinces. This transfer was to take place with the creation of a single national market for Canadian oil, the extension of the pipeline network to Montreal, the establishment of a pricing mechanism to stimulate domestic production while distributing benefits among producing and consuming provinces, and the creation a national oil company (Fossum 1997: 33).

The role that a Canadian national oil company would take in the redistribution process can be understood in the light of Ikenberry's characterization of the federal government's adjustment strategy to the oil shock as "neo-mercantilist". This adjustment strategy is defined as the reduction of petroleum dependence by limiting imports and increasing domestic production to meet domestic needs. Energy production under this strategy is government-sponsored and often government-owned. More concretely, the federal government was to appropriate a larger share of oil and gas revenue to position the federal state as the principal governmental actor orchestrating the costly conversion from cheap oil to expensive oil (Ikenberry 1986: 110-1, 119; Fossum 1997: 35-6). Petro-Canada would thus be at the receiving end of redistribution; it would spend tax money to stimulate domestic production.

After the announcement of the creation of a national oil company in December 1973, the vote on the Petro-Canada Act was delayed when Trudeau's minority government was defeated over its budget in May 1974. It is only when the Liberals returned to government in July the same year with a majority of seats that the Act could be considered again (Laxer 1983: 55). The electoral map of 1974 resembles that of 1972. Quebec and Ontario accounted for 115 out of the 141 seats (82%) that the Liberals won. Saskatchewan, Alberta and British Columbia all elected a majority of Progressive Conservatives, with Alberta again giving all 19 of its seats to the Progressive Conservatives (Gagnon and Tanguay 2007: 537).

The new government quickly reintroduced the Petro-Canada Act. It was strongly opposed by the federal Progressive Conservative party, who saw it as an inappropriate expansion of federal powers over the oil industry and the producing provinces. Joe Clark, a Progressive Conservative Member of Parliament from Alberta, said that the federal government "wants power. It is prepared to extend its influence and its activities by intruding upon the jurisdiction of the provinces, by moving into the private sector whatever the consequences" (cited in Pratt 1981: 112). The federal Progressive Conservatives were echoing Alberta Premier Peter Lougheed who made it clear that his government would not allow a company that was fully owned by the federal government to establish a plant in Alberta. The Alberta government issued an energy policy in December 1973 claiming the provincial right to "decide by whom, when and how [the natural resources] are going to be developed". The Act was nonetheless voted into law on July 1975 and Petro-Canada began operations in January 1976 (Fossum 1997: 38, 44, 73-5).

The national oil company's contribution to the self-sufficiency objective was to explore in the provinces and in areas under exclusive federal jurisdiction, it would participate in the research and development of the oil sands, invest in the oil sands subject to Alberta's approval, hold reserves for long-term needs, and ensure reliable and adequate imports of oil (Halpern et al 1988: 11).

These exploration and development objectives on the geographical frontier (the Arctic and offshore areas under federal jurisdiction) and the technological

frontier (the oil sands in Alberta) of the Canadian oil industry were risky and costly. The federal government covered these costs by initially giving Petro-Canada a capitalization of $1.5 billion CAD (Pratt 1981: 120). The federal government would make up for this expense with a taxation scheme that would reap the additional profits generated by the increase in oil prices. The attempt by the federal government to draw additional revenue from existing oil production met the resistance of producing provinces, notably Alberta.

Since oil prices begun to rise in the early 1970s, Ottawa and Edmonton were engaged in a taxation battle over Alberta oil. In 1972, the Alberta government imposed a mineral tax equivalent to about a 6% gross royalty, above the 16.67% existing royalty. Federal taxation jeopardized the prospect of increased provincial revenue. Ottawa imposed a federal oil export tax of $0.25 CAD per barrel in September 1973, which was increased to about 40 cents per barrel in October 1974. The Liberal government also introduced an oil price freeze at $3.80 CAD per barrel in January 1974, and eliminated the provision allowing private companies to deduct provincial royalties from federal taxes in May 1974. In retaliation, the Lougheed government unilaterally anchored its royalty plan to world prices and undertook price-setting measures. This was meant to force Ottawa to abandon its export tax by squeezing the industry's profits (Richards and Pratt 1979: 225; Kratochvil 2003: 331).

The effect of this taxation war was that the federal government had the most important increase in its share of oil rent, although Alberta kept the greatest share in absolute terms. On a barrel that was priced from $3.80 CAD in September 1973 to $8.00 CAD in September 1975, the federal share more than doubled from 7% to 16% and Alberta's share increased from 24% to 39%. The industry was the only player to lose in relative terms, with a share declining from 51% to 34% of revenue over the same period; but in absolute terms, the industry was getting more money per barrel of oil produced, even after deducting the increase in operating costs (Richard and Pratt 1979: 228).

The private sector took a position against federal intervention in producing provinces, illustrating the "horizontal" axis along which federal redistribution was taking place. Trudeau made clear in 1973 that the national oil company was "not [...] intended in any way to displace the private sector" (cited in Halpern et al 1988: 11). But, as Kratochvil (2003: 334) puts it, as long as the oil-producing provinces had an interest in high domestic prices, the oil industry was backing these provinces in its negotiations with Ottawa.

The chairman of the Canadian Petroleum Association (CPA), W. B. Dingle, noted in the spring of 1973 that on the issues of exports and pricing, the province and industry positions were virtually identical. In December 1973 the Albertan government created a Petroleum Marketing Commission to buy, sell and tax most of the oil produced in the province, and the industry viewed it with a favourable eye because it preferred a sympathetic provincial regulatory agency over a predatory federal one. The industry played the common interests card. Commenting on Alberta's decision in January 1974 to raise royalty rates in order to defeat federal taxation, John Poyen, the president of the CPA, reminded Lougheed that "he is alone in the national arena and [he] should try to retain his home supporters". Four days later, the government changed the royalty program. This alignment of interests leads Berry (1974) to qualify the industry-Alberta relationship as "symbiotic" during the crisis and "firmly united in desiring to divert the bulk of [additional oil revenue] from Ottawa" (Berry 1974: 621-2).

In Canada, the immediate response of the Liberal government to the 1973 oil shock was to unilaterally develop a horizontal redistributive framework that transferred revenue from producing provinces and the private sector to the federal government and Canadian consumers. Within this system, Petro-Canada would receive money from redistribution to pursue its mandate of increasing domestic production.

In Norway, the creation of Statoil cannot be directly attributed to the oil shock because the national oil company was created the year before the shock.[9] This section shows that the creation of Statoil was stimulated by the large size of the first oil find, which was already valuable at pre-1973 oil prices. Public corporate ownership was further developed with the price increase. In Norway, the immediate response to the oil shock was to establish a vertical, state-to-society redistribution pattern, and Statoil would participate in most stages of the redistribution process.

In the 1960s, the small Socialist People's party included the creation of a state-owned oil company in its manifesto, but the establishment of such a company was not seriously discussed before the 1970s (Lind and Mackay 1979: 100). After the second licensing round in 1969, when production started, there was a consensus across the political spectrum to control foreign companies by increasing domestic participation, expertise and control. There was less agreement on how to reach these objectives. The government had to choose between creating a large domestic private company, letting Norsk Hydro (a company of mixed public-private ownership (Tønne 1983: 738)) develop the sector or setting up a fully state-owned oil company. The first option was rejected due to fears of international domination of private capital and because the Labour government considered it to be an inferior policy tool. The second option was favoured by right-of-center political groups, represented by a liberal-conservative coalition in government since 1965. Hoping to see Norsk Hydro develop Norway's hydrocarbon resources, this government increased the state's share in Norsk Hydro from 47% to 51% in 1971. However, this right-of-center government resigned later the same year and the Labour party returned to power (Gordon and Stenvoll 2007: 20-3; Noreng 1980: 50).

[9] The creation of Statoil before 1973 questions the validity of the choice of the oil shock as a critical juncture. This analytical problem is related to the difficulty of choosing either the discovery of oil or the 1973 rise in oil prices as the "true" critical juncture in Norway. Was government involvement most stimulated by the discovery of massive amounts of oil in 1969, or by the quadrupling of its value four years later? For the purpose of comparison with Canada the rise in prices is defined as the critical juncture, first because in Canada the discovery of oil in 1914, although it provoked a local boom, had a much smaller economic significance on the national level than Norway's discovery of the Ekofisk field. Second, the simultaneity of the 1973 oil shock's effects allows controlling for international factors that are identical in both cases.

For the Labour government, the optimal choice was a fully state-owned company because it allowed them to maximize both rent capture and control over the industry. Both sides of the political spectrum thus agreed that the Norwegian state could maximize the pursuit of its interest by getting involved in the oil industry through a company that was at the least majority-owned by the state.[10] This partisan consensus was embodied in the "ten oil commandments" (see Nystad 2006: 10; Phillips 2008: 12) discussed in parliament in 1970-1971. The commandments provided for national management and control of all activities on the continental shelf, state involvement on all levels, and the creation of a state oil company to represent the state's commercial interest. Because Norwegian oil was not located in any sub-national jurisdiction, the national government was not taking oil away from any part of its constituency and every Norwegian had an equal right to claim its share of the resource. Moreover, the national state did not face political constraints when bargaining with multinational companies, as the Canadian federal government's taxation plan did when it faced the alliance of Alberta with the private sector. In Andersen's words, the underlying objective of oil management in Norway was thus to maximize the benefits of the Norwegian people (1993: 95).

In this context, the Storting unanimously voted in September 1972 for the establishment of Statoil (Noreng 1980: 44). The state's net profit shares negotiated under the second licensing round were transferred to the new company (Lind and Mackay 1979: 102) and the agreements with international oil companies were amended to include a 50% direct share for Statoil in every block, in addition to the carried interest clause (Claes 2002a).

The response of the Norwegian government to the oil shock was to use its improved bargaining position relative to the oil companies to increase its control and direct participation in the oil industry, in the interest of citizens that all had an equal right in the resource. The immediate and most significant articulation of the state's

[10] A liberal-centrist government came to power in 1972 just after Statoil was created. It granted one licence in September 1973 which provided for 50% state participation through Statoil (Noreng 1980: 44). The fact that this government acted in conformity with Statoil's original objectives highlights the consensual view of the different political parties in government.

response was Parliamentary Report No. 25 of 1973-74: Petroleum Industry in Norwegian Society issued by the Ministry of Finance to provide guidelines for the allocation of new concessions on the Continental Shelf and the use of oil revenue (Huger 1976: 33-5).

Report No. 25 was motivated, first, by the consultations that the Ministry of Finance held with many interest groups, including the major political parties and trade unions, to ensure the Report represented society's views as broadly as possible (Huger 1976: 34). The consultations translated into an overarching concern for an equal distribution of oil revenue and the protection of the interests of wage-earners in all economic sectors. The Report stated that "the economic possibilities [of oil revenue] must be used to create greater equality in the standard of living, and in other ways to prevent social problems and to develop an industrial production better adapted to the environment and use of resources". Also important was to ensure that "special groups of wage earners enjoying substantially higher incomes than the rest of the local population, should be avoided" (Parliamentary Report No. 25, 1973-74: 6-7, 22). Contrary to Canadian redistribution favouring consumers, the Report identified marginalized groups, i.e. peripheral communities, fishing interests, the young, the poor and the elders as those that should be the first to benefit from oil revenue.

Second, the Report reflected the lessons Norway learned from the economic and social problems the Netherlands experienced after the 1959 discovery of natural gas. The development of natural resources caused a decline in the manufacturing sector, a phenomenon that was later called "Dutch Disease".[11] It was clear to the authors of the Report that "rapid structural change [in industry and employment]

[11]The decline in the manufacturing sector is attributable to oil wealth by a phenomenon called "Dutch Disease". The Dutch Disease refers to the appreciation of the real exchange rate caused by massive export incomes, increasing the import capacity and undermining the national production's competitiveness both on the national and international markets. Simultaneously, a booming oil sector may crowd labour and capital out from the manufacturing and agricultural sectors, raising their production costs. Both effects lead to a rapid contraction in non-oil sectors' exports and inflate the cost of national goods and services (Ross 1999: 306)

may result in considerable social problems" (Parliamentary Report No. 25, 1973-74: 16).

To bring about an equal redistribution of oil benefits that was not detrimental to wage-earners, Report No. 25 recommended bringing multinational oil companies under the firm control of Norwegian institutions, in order to give the state the means to adopt a slow pace of development. Statoil would be a key instrument in this policy.

> "Private enterprises, Norwegian or foreign, may be engaged in the exploration and production stages [...]. But in the future they should obtain the right to exploit these natural resources in exceptional cases only. [...] technically, [Statoil] will be responsible for executing the exploration for and extraction of petroleum discoveries." (Parliamentary Report No. 25, 1973-74: 9).

The reason for extracting oil slowly was to shield the Norwegian economy from excessive rent income that could create strong demand inflation, the industrial and regional consequences of which were unacceptable (Stenstadvold 1977: 74). The slow development policy was a direct response to those groups that criticized the earlier fast pace of oil development: the fishing and agriculture sectors, many smaller enterprises and labour-intensive industries fearing higher costs, as well as wage-earners fearing inflation and a more unequal distribution of wealth (Noreng 1980: 50).

After the report was issued, the share Statoil could keep for itself in participation agreements was raised by an additional 30%, up to a maximum of 80%. At the Gulfaks field, Statoil obtained an unusual 85% share. With majority voting rights, Statoil acquired veto power on all production leases and fields awarded after 1973 (Claes 2002a).

The consensus around Report No. 25 illustrates how Norwegian political institutions were able to incorporate the demands of societal groups into the policy-making process. The result was to establish the foundations of a broad-based redistribution framework under the control of the national state. The national oil

company Statoil was an essential instrument in the redistribution process, as it controlled operations on the Continental Shelf on behalf of the state, collected revenues and explored for and produced oil itself.

Conclusion

Following Collier and Collier (1991)'s analytical framework, this chapter identified the 1973 rise in oil prices as a shock that occurred in both Canada and Norway. This chapter then analysed why being at different stages of development in the oil industry at the time of the shock presented each state with different opportunities to develop corporate ownership. Finally, this chapter showed that, building upon pre-existing institutional frameworks, the immediate response to the oil shock was for the Canadian federal state to establish a "horizontal" redistribution pattern, from producing provinces to consuming provinces, while the Norwegian unitary state created a vertical pattern of redistribution, from the national state to society.

The role and position Petro-Canada and Statoil initially had in these redistribution schemes determined what opportunities were offered to societal groups to develop vested interests in the activities of the national companies and in the public ownership structure more generally. The process by which groups develop vested interests in the public ownership structure is discussed in the next chapter.

Chapter 4- The Reproduction of the Legacy

This chapter shows how the redistribution pattern developed as an immediate response to the 1973 oil shock was locked in by mechanisms of reproduction called "increasing returns" by Pierson (2000) or "distributional effects" by Thelen (1999). As discussed in chapter 2, the first mechanism refers to an increase in the benefits as well as the costs of exit of an activity over time. The second mechanism refers to the reproduction and magnification of a power distribution over time.

The reproduction of public corporate ownership through mechanisms of increasing returns and distributional effects appears more clearly in Norway than in Canada. In the Norwegian case, Statoil was a key constituting unit of a broad-based oil-wealth redistribution system that reached out to most sectors of society through jobs, wage increases and the stimulation of economic sectors linked to the offshore industry. Because Statoil played an important role in the process by which the state orchestrated the redistribution of oil benefits to society, the more interest groups benefitted from redistribution, the more difficult it was to question the company's existence.

In the Canadian case, the federal oil company's activities were different on two levels. First, the acquisition of a land base was more difficult for Petro-Canada than for Statoil because by the time the Canadian state-owned company was created, most low-risk, profitable oil fields were already granted through concessions to private companies. In Norway, most discoveries were made after the creation of Statoil and the granting of every exploration or production licence was an opportunity for the state and Statoil to become shareholders in concessions. Consequently, Petro-Canada became a vehicle for federal subsidies to develop a high-risk and high-cost resource, while Statoil was a key instrument in the state's revenue collection and redistribution strategy and was therefore in a better position to attract vested interests.

Second, in the 1970s and early 1980s, Petro-Canada attracted less support and faced more opposition than Statoil because the Canadian company was part of a

redistribution system that transferred oil benefits from producing provinces to consuming provinces, instead of Norway's vertical, state-to-society redistribution pattern. Because Petro-Canada's activities were embedded in a horizontal redistribution system, any benefits the federal company would draw away from producing provinces was a reason for interest groups in these provinces not to develop vested interests in Petro-Canada, or even to oppose the activities or the existence of the company.

This chapter first discusses the reproduction mechanism in Norway. The Norwegian case establishes a benchmark of a successful reproduction mechanism against which Canada's public corporate ownership structure is evaluated in a second section. The last section analyses the corporate ownership structure of hydrocarbon resources off the Canadian province of Newfoundland, where exclusive federal jurisdiction and the late discovery of oil present a situation very similar to the Norwegian experience in the Canadian context.

4.1 Statoil's Expansion

In Norway, increasing returns and costs of exit to public corporate ownership in the oil and gas industry are associated with the state's strategy of oil wealth redistribution and accommodation. The national oil company, however, is not directly responsible for collecting all the available rent. In fact, most government revenue from the oil industry during the 1970s and 1980s came from taxes that could have been collected by the state without the help of a public company.

This section shows that Statoil was nonetheless instrumental in the state's redistribution strategy, being "the arm of the state" and the sole collector of taxes, providing information which helped maximise the state's share of rent and directly orchestrating the industrial transition of the Norwegian private sector into an oil-based economy. Moreover, redistribution was broad and successful enough to co-opt the few groups that opposed Statoil or the development of the oil industry, namely the domestic private shipping and fishing industries. Finally, after the state incurred a massive debt to acquire a direct interest in oil concessions, there was no reason to

divest these interests before gaining the expected return in times of high and rising oil prices.

Before discussing the role of Statoil in the redistribution dynamic, it is necessary to understand the growing role the public company was taking on the Norwegian Continental Shelf. In all leases obtained after the publication of Parliamentary Report No. 25 in 1973-74, participation of Statoil as a 50% partner became a minimum requirement, including in the giant Statfjord field (Huger 1976: 48). In the third licensing round announced in 1973, the government obtained five licenses covering eight blocks out of the eleven blocks awarded in this round. Statoil had a 50% interest in four of them and a 55% interest in the fifth, with an option to increase participation to 75% depending on the size of discovered reserves (Lind and Mackay 1979: 104). In the fourth licensing round in 1978, because of the state's better information-gathering capability, locked-in investments of foreign companies and high oil prices, the state's bargaining power was greater than before and its ownership share increased accordingly. In addition to the minimum 50% state ownership through Statoil, the government introduced carried interest in the exploration stage and a sliding scale for the government interest (Andersen 1993: 100).

At this stage, most government oil income came from a 28% ordinary corporate income tax, a 25% special "excess profits tax" which later increased to 50%, royalties and fees (Jafarov and Leigh 2007: 6; Huger 1976: 44-5). Statoil and Norsk Hydro dividends were negligible; in fact the government had to pay for investments made by Statoil and these direct financial interests only started contributing to government revenue in the 1990s, reaching about one third of public petroleum revenues in the 2000s (NPD 2010: 24).

Public corporate ownership is thus associated with revenue redistribution not because Statoil was profitable, but because of all the roles the public company was cumulating in the redistribution process. Statoil acted as the state's sole revenue collector in the petroleum industry. It provided information that helped in the formulation of a fiscal policy maximizing public revenue. This contributed to

maximizing revenue because lack of information is a key constraint in establishing optimal petroleum taxation (Osmundsen 2005). It also gave direct governmental control on all offshore concessions where Statoil held at least 50% of shares – this includes all concessions issued after 1973. In this line of thought, according to Visher and Remøe, public corporate ownership was chosen precisely because it was the most effective way for the government to draw revenue from oil, directly or indirectly (1984: 327, 334-5).

The success of Norway's redistribution strategy is partly due to the government's objective of keeping high levels of employment. This objective was reached by using petroleum revenue to fund counter-cyclical strategies (Larsen 2003: 17). High employment was a challenge because the oil industry was causing a decline in the manufacturing sector that is symptomatic of the Dutch Disease. This "slack" in the labour market was not directly absorbed by the oil and gas industry because this sector employed only 0.4% of the workforce, while accounting for 15.9% of GNP. To solve this problem, the state used its oil revenue to channel the labour force into the public sector. Consequently, the public sector increased dramatically since the early 1970s, reaching 19.2% of the workforce in 1980. One of the most significant redistribution mechanisms used by the Norwegian government was to use government oil revenue to employ nearly a fifth of the national workforce in the public sector (Cerra et al 2001: 27-8; Bjerkholt et al 1982: 181).

Redistribution also took the form of a general increase in wages. The contribution of the oil industry to economic growth was significant, but an economic problem associated with oil wealth is that wage increases are concentrated in the oil sector (see Ross 1999: 306). In Norway, a highly centralized, nation-wide and cross-sector wage negotiation system succeeded in making manufacturing the wage leader, instead of the oil industry. This was possible because large coalitions of employers and employees were able to constrain oil-sector wage increases by considering aggregate interests, thus avoiding the crowding-out of labour from non-oil sectors (Larsen 2006: 621). A wage increase of 51% between 1974 and 1976 was distributed

broadly across economic sectors instead of being concentrated in the oil industry (Eifert et al 2003: 94).

The organization of interest groups into peak organizations, such as the Norwegian Federation of Industries or the Norwegian Shipowners Association, also helped in channelling the voice of all groups that feared inflation and a more unequal distribution of income. These groups included fishermen, farmers, wage-earners and stakeholders in labour-intensive industries. All had a strong interest in a public oil company capable of slowing the pace of oil production to restrain the inflationary pressure of oil development (Noreng 1980: 50).

Statoil played a more direct role in the conversion of traditional industrial sectors into suppliers of offshore services and products. The national oil company was responsible for organizing learning and technology transfers from multinational oil companies and for developing Norwegian competence in the oil industry. In the learning process, universities developed teaching and research programs in areas relevant to the oil industry. Policies ensured that economic linkages could develop between petroleum extraction and the supply industry.[12] Statoil encouraged the industrial conversion of domestic firms under protectionist policies, giving contracts related to the petroleum industry to Norwegian shipyards or engineering firms. Norwegian companies, such as Aker and Kværner, learned to build turbines, transmitting equipment, oil rigs, seismic instruments, etc (Cappelen and Mjøset 2009: 17, 20; Engen 2009). Moreover, after 1979, state participation agreements included regulations favouring the purchase of Norwegian goods and services. Statoil participated in the review of offers and could negotiate over their terms

[12] For example, the Norwegian authorities insisted on the use of concrete offshore platforms that were well known in Norway and easy to adapt to the oil industry, while the multinational companies would have preferred lighter and sub-sea rig designs. To illustrate this point, the multinational company Phillips Petroleum chose to sub-contract the Norwegian firm Høyer Ellefsen to build a large concrete storage tank in the Ekofisk oil field. The construction of the tank involved several Norwegian suppliers and engineering firms, notably those originally specialized in the construction of concrete water power plants and dams. In return, Phillips' participation in the "Norwegianization" policy gave the company credit when applying for new concessions (Engen 2009: 189).

(Claes 2002a). Domestic private industries thus developed strong ties with the national oil corporation.

Because most interest groups received their share of benefits, Statoil's existence was not questioned. Those groups that felt disadvantaged by oil developments were co-opted in the redistributive pattern. The first group to be disadvantaged by Statoil was domestic shipping companies, which created their own private oil company, Saga Petroleum, in the early 1970s. In 1973, Saga acquired small shares in concessions on the Continental Shelf, but licensing policies were given preference to Statoil. The Conservative and Liberal political parties also felt that the Labour party was using Statoil to control the sector, and keep these private interests associated with the Conservative party at bay. This concern also extended to Statoil's potential expansion into tankers, supply boats and other services in which the Norwegian private sector was involved. In 1975, the opposition parties in parliament successfully cut by 14% Statoil's request for capital to invest in the Statfjord field. This forced the governing Labour Party and Statoil to negotiate with the opposition. In exchange for Statoil not investing in shipping, Saga relinquished its ambitions of major involvement in oil production (Klapp 1982: 586-7).

The second group to be disadvantaged by oil development were fishermen who realized oil activity in the North Sea reduced their fishing grounds by 15% to 85% depending on the location, damaged their fishing gear, and resulted in losses of 30% to 40% of their catches in 1975-1977. Fishing organizations exercised pressure on the Labour government by lobbying splinter-group seats in Parliament since Labour's majority was only resting on two Socialist seats which usually sided with the Labour party. Fishermen then obtained financial compensation for gear damage and secured fishing areas in the northern part of the Continental Shelf (Klapp 192: 587-8). The Labour Party was thus able to keep opposition to Statoil and to oil development at bay by monetary compensation or by sharing the oil services market, while the government continued to benefit from Statoil's control over the Continental Shelf.

Despite growing oil revenue, the politics of accommodation and the acquisition of public ownership during the 1970s were expensive for the state. In 1978, Norway's foreign debt corresponded to half of the country's GNP; this was the highest level that had ever been reached in the OECD. Half of the debt was caused by investments in the oil sector (the cost of the state's corporate ownership), and the rest by bail outs of insolvent ship-owners and by the expenses associated with the objective of maintaining high levels of economic activity and employment in the country (Noreng 1980: 58). In times of rising oil prices, the best deal for the state was to keep its ownership shares and wait for future returns on its investment, especially after international oil prices doubled in the second oil crisis of 1979.

To summarize, the accommodation strategy created strong vested interests throughout society for the maintenance of a collection and redistribution system in which Statoil was embedded. Public corporate ownership had clear advantages in this system, and little opposition. The experience of the 1970s thus confirmed the sustainability of the vertical redistribution strategy and the appropriateness of a public corporate ownership structure to pursue this strategy in Norway.

4.2 The Limits of Norway's Vertical Redistribution

The second oil shock, caused by the Iranian Revolution, doubled international oil prices in April and June 1979. This section shows that higher prices strengthened Statoil's position in the political system to the extent that the company's political power was perceived as a problem by a Conservative government. This would be a first pressure to alter the Norwegian public corporate ownership structure.

In the period of high prices following the 1979 oil shock, the Norwegian state was harvesting the benefits of its earlier interventionist policies in the oil and gas industry. An increase in oil production from 24.4 million tons in 1980 to 38.4 million tons in 1985 accompanied the price hike, raising government revenue in the same period by about 150% (from 18,569 Norwegian Kroner (NOK) to 46,694 NOK). One consequence of the second oil crisis on the Norwegian treasury was to

reduce the foreign debt's value from 12-13 years worth of Norwegian oil production to about 4 years worth of offshore revenue, creating strong incentives for the state to keep its shares in oil concessions (Andersen 1993: 102, 144).

Despite riding on a big wave of oil revenue, the Norwegian state in the early 1980s took a step back in its relationship to Statoil. The combination of high prices, which in this study are assumed to stimulate public corporate ownership, and a Conservative minority government[13] close to the interests of the private sector, resulted not only in a steady expansion of public ownership (Statoil received at least a 50% share in all 70 blocks allocated between 1980-1985 (NPD 1981-86)), but also in a decrease in political power for the public corporation.

The Conservatives were in government for the first time since the creation of Statoil, and they had always been advocating a larger role for domestic private firms on the Continental Shelf comparatively to Statoil. From the start, the Conservatives wanted Norsk Hydro, a Norwegian company with 51% government ownership, to play Statoil's role when it was created in 1972. Since then, the party had represented Norwegian private interests in the offshore industry, notably the shipping companies and Saga Petroleum, as discussed above.

After the elections of 1981, the Conservatives under the leadership of Kåre Willoch identified Statoil's growing political power as the public corporation's main problem. The Conservatives were supported by the Oslo Group, a lobby offering petroleum policy advice formed by business leaders from domestic oil and shipping companies including Norsk Hydro and politicians (Nelsen 1991: 78-9). With its dual mandate as an administrative instrument and commercial company, Statoil's objectives were conflicting with the Norwegian Petroleum Directorate, responsible for technical matters, and the Ministry of Petroleum and Energy. Because Statoil had

[13] The Norwegian Conservative Party formed a minority government with other non-socialist parties that held power from 1981 to 1985. In the elections of 1985 a similar Conservative minority government was formed, but its survival rested on the support of two seats held by the Progress Party, a non-socialist, anti-tax party. The Progressives withdrew their support in 1986 over an oil tax introduced by the Conservatives, defeating the government. A minority Labour (left of center) government came to power, in a coalition with the Progressives and the Socialist Left (Shaffer 1998: 109-11).

greater resources (1200 employees, against 50 people in the Ministry and 250 in the Directorate), it had the ability to pursue commercial objectives independent from ministerial influence (Andersen 1993: 146). For example, after 1981 Statoil started leading the agenda for a faster pace of production, contrary to the government's anti-inflation policy. It was doing so because all unspent profits had to be transferred to the Norwegian treasury, creating strong incentives for the company to increase its activity and investment levels to keep capital within the company (Gordon and Stenvoll 2007: 24).

The Conservative government could only go as far in curtailing Statoil's power as the interest groups benefiting from the company's redistribution activities would allow it to. Consistent with the redistribution pattern discussed above, Nelsen (1992: 323) identifies coastal communities, unions, Norwegian offshore suppliers, fishermen and environmentalists as groups supporting Statoil and continued state control offshore. Many of these groups benefited from Statoil's purchases of Norwegian goods and services, which amounted to 9.3 billion NOK in 1983 (Claes 2002b). Statoil was also building direct political allegiances in the rural communities where it was operating, creating a political constituency across all party lines (Gordon and Stenvoll 2007: 25; Andersen 1993: 146). This was facilitated by Norway's coastline geography where about one hundred "one-company towns" with an average of 2000 inhabitants developed a dependence on the few or single local economic activities (Hansen 1983: 356).

The Conservative government had the intention of curtailing the company's power, but did not question the ownership structure itself. The undersecretary of the Ministry of Petroleum and Energy said, "We are not selling out government assets to the private companies. Oil and gas are a natural resource which is state property. We must ensure that the bulk of the benefit goes to the state" (cited in Andersen 1993: 148). The association of public corporate ownership in the first sentence with sovereignty over natural resources in the next sentence and large government revenue in the last sentence reveals that the party traditionally less enthusiastic about

Statoil's expanding role considered public corporate ownership to be an essential element of the state's strategy of oil wealth accumulation and redistribution.

In 1982, the Willoch government formed a committee, called the Mellbye Commission, to study government participation in the North Sea with an emphasis on curtailing Statoil's power. Reflecting this objective, the Commission was to determine how to redirect Statoil's revenue to the state, how to strengthen the Ministry of Petroleum and Energy, and how to stimulate the development of other Norwegian oil companies. The report suggested dividing the state's holdings on the Continental Shelf into two parts: one remaining with Statoil and the other directly held by the Ministry of Petroleum and Energy. The Labour party and unions were firmly opposed to any change in Statoil's status. The government agreed to negotiate with the Labour party to avoid a constant reorganization of Statoil with each government turnover. The effect of the agreement reached in April 1984 was to increase the company's emphasis on its commercial mandate, while preserving its role as a policy instrument. Statoil was to keep a share of at least 50% in future concessions, but the ministry would take a portion of the state's interest varying between 41% and 85%, depending on the field. The company would also have an expanded mandate to invest downstream and abroad (Nelsen 1991: 169-72).

The interest shares attributed to the ministry would be placed in a portfolio of oil and gas exploration and production licences called the State Direct Financial Interest (SDFI), created in 1985. Statoil remained responsible for the operation and the management of shares in the SDFI. A clear financial division differentiates SDFI shares from Statoil shares. The state pays directly for the investment and operating costs of the SDFI and directly collects all associated revenue. Therefore, the SDFI holdings do not appear on Statoil's balance sheet. This implies, for example, that revenue from the SDFI would not be considered unspent profit by Statoil, and would not generate additional incentives for the state company to accelerate production (Goltz and Rehse 2009; Storting 2000-1: 43-4).With the creation of the SDFI, Statoil lost its 50% right on any field where oil was discovered. From then on, it had to take the same risks as private oil companies (Gordon and Stenvoll 2007: 28).

To summarize, societal groups developed such strong vested interests in Statoil's activities that its political power became a problem in the view of the Conservative party. These interests were strong enough to prevent any reduction in public corporate ownership, but the Conservatives curtailed the company's power by putting some of its assets directly under ministerial control and by eliminating the company's 50% preferential right. This was a first step toward the company's emphasis on commercialization, which ultimately led to Statoil's partial privatization in 2001.

4.3 Petro-Canada's Expansion

Petro-Canada was in an inferior position, compared to Statoil, to attract the broad support of interest groups despite a rapid expansion in the late 1970s and early 1980s. Fewer opportunities were available to develop interests in Petro-Canada's activities. First, because by the time the company was created, only high-risk and high-cost hydrocarbon resources were left to develop. Profitable resources were already awarded in concessions to private companies. This constrained Petro-Canada in emphasizing federal revenue spending for long-term objectives, rather than the redistribution of immediate benefits as Statoil did. Second, as Petro-Canada would contribute to transfer oil benefits away from producing provinces in favour of the long-term needs of consumers, it was difficult to reconcile its activities with the powerful interests of producing provinces.

This section first describes Petro-Canada's expansion in high-risk and high-cost activities and how the company's activities were embedded in a horizontal redistribution pattern. Second, the failure of the Tory government to privatize Petro-Canada in 1979 revealed that groups on the receiving end of the company's redistribution activities, namely consumers and private oil companies receiving subsidies, developed interests in the public ownership structure.

The period from 1975 to 1984 marked the rapid development of Petro-Canada under the Liberal federal government. The new federal oil company's objectives until 1979 were outlined in the ministry of Energy, Mines and Resources

(EMR) document entitled *An Energy Strategy for Canada: Policies for Self-Reliance*, published on January 1, 1976. Echoing the "neo-mercantilist" adjustment strategy outlined in Trudeau's speech of December 1973, the 1976 EMR policy stressed the need to stimulate domestic production to reduce dependence on foreign oil:

> We must accelerate the search for new sources of energy and for new technologies for the production, distribution, conversion and utilization of energy. We must intensify our efforts to maintain control of our energy future, by minimizing our dependence on sources of supply that are not secure. (EMR 1976: 149).

Three mandates for Petro-Canada followed from the 1976 EMR policy. First, the company was to increase frontier activity acting as a "catalyst" to exploration and development in areas where there was too much risk and costs for the private petroleum industry – offshore, in the Arctic and in the Alberta oil sands (Halpern et al 1988: 11, 14-5; Fossum 1997: 88). Within the objective of increasing total Canadian output, Petro-Canada would not replace private participants, but add to the industry's capacity.

Second, Petro-Canada was to act as a "window on the industry". Similarly to Statoil, the Canadian national oil company would gather information to alleviate the federal government's dependence on private actors for understanding the industry and optimizing energy policy – including oil price setting in Canada. Petro-Canada's third role was to increase Canadian ownership and participation in the oil and gas industry, notably by entering into joint ventures with Canadian-owned companies in frontier areas where these companies could not afford the capital requirements on their own (Halpern et al 1988: 15).

While Statoil expanded mostly with the acquisition of new licences, Petro-Canada had to expand also with acquisitions (the purchase of some or all shares in a company) and "farm-ins" (the purchase of an interest in a lease already owned by a company or a joint venture). Petro-Canada's first task was to take over the federal

share in Panarctic, in Syncrude, and in the Polar Gas Project.[14] In August 1976, the company acquired Atlantic Richfield Canada Ltd (ARCAN). The acquisition immediately provided Petro-Canada with cash flow, middle management personnel and production acreage in western Canada (Halpern 1988: 14). The development of a land base was facilitated by a modification to Canadian regulations in May 1976, providing preferential access to Petro-Canada in the allocation of concessions in federal lands. The company could acquire 25% of existing and future crown lands for a period of seven years. It could also use a "back-in" option to acquire up to a 25% interest on lands whose twelve-year tenure term had expired without making significant discoveries (Pratt 1981: 129).

The back-in option was attacked as discriminatory by the government of Newfoundland and Labrador and by the private oil industry, which both felt disadvantaged by Petro-Canada's preferential access. Newfoundland Premier Brian Peckford hoped to eliminate Petro-Canada's preferential rights offshore, where his province claimed jurisdiction, because the back-in clause secured a greater federal share of offshore revenue. From the perspective of this province, the preferential access of the federal company effectively redistributed oil wealth from Newfoundland to elsewhere in the federation (Pratt 1981: 129; the case of Newfoundland is further discussed in the last section of this chapter).

It quickly became clear that emphasizing frontier development was very expensive and that new sources of cash flow needed to be found. In the late 1970s, 60% of Petro-Canada's exploration funds were concentrated in high-risk, high-cost projects in frontier areas to meet policy objectives, leaving little funds to invest in projects of near-term profitability. In 1978, the company could only finance 30% of

[14] The federal government acquired a 45% share in Panarctic to explore for oil and gas in the Arctic islands and a 15% share in Syncrude to develop the Alberta oil sands when it bailed these two projects out. In the case of Syncrude, the Lougheed government agreed with federal participation because Alberta's development plans depended on the project for economic diversification, the creation of thousands of jobs, and the survival of many small companies (Fossum 1997: 25-6; Pratt 1976: 19, 163, 174-5). The Polar Gas Project's purpose was to connect natural gas reserves discovered in Northern Canada to southern markets. Panarctic and later Petro-Canada were both members of the consortium (Kaustinen 1983: 218).

its expenditures and was not paying any dividends to the federal government (Pratt 1981: 133-4; Halpern et al 1988: 65).

Petro-Canada's solution to this cash-flow problem was to increase revenue with low-risk investments in the provinces. The federal oil company would draw revenue from its activities in the producing provinces and invest this revenue in frontier activities in regions under federal jurisdiction. The first move in this direction was the acquisition of Husky Oil Ltd, a US-based company and the dominant land-owner in the heavy oil sands deposits in the Lloydminster area in Alberta and Saskatchewan. The offer made in June 1978 ultimately failed because the Alberta Gas Trunk Line (AGTL) had quietly bought Husky via New York brokers. Although it is difficult to demonstrate, Pratt (1981: 132) reports that Petro-Canada's officers believed Alberta Premier Peter Lougheed encouraged the AGTL to buy controlling interests in Husky to keep Ottawa out of the oil sands (Pratt 1981: 136-7).

The failure to acquire Husky Oil suggests Alberta was opposed to Petro-Canada's involvement on its territory – if there really were a political motivation to AGTL's acquisition. However, in the long run, this did little to curtail Petro-Canada's involvement in Alberta. The provincial government had no formal powers to prevent Petro-Canada from investing in Alberta, and the federal company successfully expanded in the province through acquisitions. The company purchased a controlling interest in Pacific Petroleum Ltd in November 1978 and acquired the remaining shares in the middle of 1979. At a cost of $1.5 billion CAD, this was the largest corporate acquisition ever made in Canada at that time. The capital came from a banking consortium, with state guaranteed loans. Pacific's assets would reduce Petro-Canada's dependence on federal funding, although no dividends would be paid to the federal government until the late 1980s. The acquisition marked the company's entry into downstream activities – marketing and retail (Halpern et al 1988: 20-1; Lawson 1981: 121; Boardman 2002: 147).

The immediate effect of the ARCAN and Pacific acquisitions was to increase Petro-Canada's presence and investment in the provinces, particularly in Alberta and

including in areas of conventional oil development in the western sedimentary basin (Fossum 1997: 92). While Petro-Canada's capital expenditures in 1977 amounted to $29 million CAD in western Canada and to $49 million CAD in frontier areas, the relative pattern was reversed in 1979 with $176 million CAD spent in western Canada and $77 million CAD in frontier activities (Halpern et al 1988: 16). As 91% of Petro-Canada's production came from Alberta in 1979, most of its revenue originated from activities in the provinces (Petro-Canada 1979: 10). This revenue was in a large part spent in the frontier. 56% of cash from operations in 1981 originated from western Canada, while only 31% was spent in this area. Frontier operations generated no cash, but absorbed 35% of capital spending. $314 million CAD was earned in the western provinces and $315 million CAD was spent in the frontier (Pratt 1982: 93).

The geographical distribution of total industry investments also changed substantially in this period. The share of total upstream expenditure in the petroleum industry decreased in the provinces by two percentage points between 1978 and 1979, while offshore expenditure doubled. In 1979, in absolute terms more money was spent in the north compared to 1978, but in relative terms about the same proportion of total expenditures was spent in the Arctic. According to Pratt, Petro-Canada's direct investment in long-term partnerships with private companies contributed to the upswing in frontier development, together with changes in the oil and gas land regulations and a very favourable tax system (1981: 130-1). Clearly, strategic acquisitions and measures to attract private oil companies to the frontier drew available private investment away from western provinces into federal lands.

The contribution of Petro-Canada to the process of oil wealth redistribution in the late 1970s thus amounts to spending revenue from Albertan production in the frontier, to attracting available private investment away from the provinces and into frontier development; and to gathering information to optimize federal taxation. The national oil company did not yield any dividends to the federal government during this period. It is a modest contribution compared to Statoil's participation in most stages of the Norwegian redistribution process. Nonetheless, interest groups – the

Liberal and New Democratic parties, consumers and domestic private oil companies – developed sufficient stakes in the public corporation's activities to defend its existence when a Progressive Conservative government suggested privatizing it in the late 1970s.

Joe Clark's Progressive Conservative minority government was elected in May 1979. The three western producing provinces gave a large majority of seats to the Progressive Conservatives, including again all of Alberta's 21 seats. In these three provinces, only one seat in British Columbia went to the Liberals. Trudeau's party again had its stronghold in Quebec, which voted 67 Liberals to power out of 75 seats. Ontario's support to the Liberals weakened with 32 Liberal seats against 57 Progressive Conservative seats (Gagnon and Tanguay 2007: 538). The Tory government would then have to juggle with the conflicting interests of its base of support in the east and the west. In particular, Clark's attempt to privatize Petro-Canada revealed the extent of support the company had within groups that benefited from redistributive measures.

Having argued for the privatization of Petro-Canada since its creation, once in government the Progressive Conservatives wanted to honour their pledge. However, according to Landes (1981: 98), the Tories failed to understand that the electorate defeated the Liberals more than it supported the Progressive Conservative platform. In fact, Liberals had more support in the polls than the Progressive Conservatives immediately after the election. Joe Clark could not withdraw from his promise to privatize Petro-Canada because he was under the pressure of the right wing of his party to dismantle unneeded crown corporations (Lawson 1981: 122-3). His government appointed a Task Force to study Petro-Canada's situation. It recommended the division of the company into a first entity that would remain public for exploration and development in the frontier areas, and a second entity that would be returned to the private sector to pursue all commercially viable ventures (Halpern et al 1988: 21). The cost of exit from public ownership was very high. The Task Force suggested each Canadian citizen should be given $100 worth of shares in

the company, and such a transaction was estimated to cost $4.5 billion CAD (Pratt 1981: 140).

Opposition to the dismantling of Petro-Canada came from all those groups for whom the activities of the public corporation generated increasing returns. A few months after the election, polls showed a majority of Canadians favoured Petro-Canada, even among those who voted for the Progressive Conservatives. In October, another nation-wide poll showed 75% of Canadians were for and only 7% were against Petro-Canada's exploration activities (Lawson 1981: 124). The population's consumption choices also reflected their preference for public ownership, as the sales volumes of Pacific's retail outlets rose faster than the industry average after Petro-Canada acquired them (Halpern et al 1988: 21). Clearly, on average the Canadian population perceived the crown corporation to be working in its interest.

The private oil industry involved in frontier development had also developed an interest in the survival of the public corporation. The distributional effects of Petro-Canada encouraged private oil companies to invest in high-risk projects where the state corporation's backing was necessary. The president of Imperial Oil highlighted that dismantling the federal company would jeopardize the large number of joint ventures in a high-cost frontier environment where Petro-Canada's support was necessary to make the projects profitable. This opinion was backed by the Canadian Chamber of Commerce. Ontario's Conservative government also supported Petro-Canada's survival because it felt the future of the province's industrial base was closely tied to the public company's efforts to ensure security of supply (Lawson 1981: 125-6).

The redistributional tensions between producing and consuming provinces reached new heights with the doubling of international oil prices in 1979, after the election of Joe Clark. Producing provinces wanted the price of Canadian oil to rise to international levels while consuming provinces, led by Ontario, resisted price increases. Clark came to a partial agreement with Lougheed by which synthetic oil (oil from the Alberta oil sands) would be sold at international prices and conventional oil at 75% of international prices (Fossum 1997: 110). To raise more

revenue and shift the burden of higher oil prices toward consumers, the government also proposed a new excise tax on gasoline consumption (Pratt 1981: 139). This measure was included in the 1979 budget and is, according to Duquette (1988: 13), one of the major reasons for the defeat of the Tory government over its budget.

4.4 The Limits of Canada's Horizontal Redistribution

This section traces Petro-Canada's evolution through the two key objectives of Trudeau's National Energy Policy (NEP). First, the federal rent redistribution strategy and the resistance it faced from the private sector and from Alberta is discussed to illustrate how power-separating federalism framed the federal strategy within which Petro-Canada's mandate would be defined. Second, Petro-Canada's mandate to develop frontier resources for the purpose of creating an oil-producing region that would be a counterweight to Alberta is analysed. This section concludes that the NEP gave Petro-Canada a public purpose that was only relevant under high international oil prices. This narrow and costly mandate reduced the opportunities for societal groups to develop vested interests in public ownership of the corporation compared to Statoil, especially when oil prices would drop during the mid-1980s.

The impact of the second oil shock on federal corporate ownership in Canada is rooted in the combination of the majoritarian, or power-separating character of Canadian federalism (discussed in chapter 2), and a federal government that promoted the interests of its electoral base in consuming provinces. As in the 1970s, in the early 1980s representing the interests of consuming provinces in times of high international oil prices implied for the federal government to transfer oil wealth from producing provinces to the federal treasury and to consuming provinces. Such a wealth transfer proved difficult to achieve in a context of majoritarian federalism, where federal and provincial governmental levels are both autonomous and powerful enough to dispute the other level's share of rent, but also dependent on the collaboration of the other level of government to enact policy in areas of jurisdictional overlap.

A few months after the second oil shock, a new electoral map was drawn in the federal election of February 1980, bringing Trudeau's Liberals back to a majority government, and to a geographic distribution of seats that contributes to explain Trudeau's energy policy emphasis on consumer interests in central Canada. Seventy-four of Quebec's 75 seats went to the Liberals, and Ontario shifted the balance back to Trudeau giving the Liberals 52 of its 95 seats, against 38 seats to the Progressive Conservatives. Again, all 21 Albertan seats went to the Progressive Conservatives (Gagnon and Tanguay 2007: 539).

The federal energy policies were driven by the belief held in Ottawa that international oil prices would maintain an upward trend in the 1980s, and that increasing prices would penalize federal revenue (Fossum 1997: 113-7). According to Trudeau, provinces received 50.5% of the oil and gas revenue, the private companies got 40.5% and the federal government only 9%. With the new international price of oil, Ottawa needed a larger share of revenue to continue subsidizing the consumption of imported fuels in central Canada (Chastko 2004: 176). Negotiations between the federal and Alberta governments over energy policy and revenue sharing failed after three successive rounds of negotiation. Determined to reach its objectives with or without provincial cooperation, the federal government enacted the NEP in October 1980. The redistribution objectives of the Liberal government were clear:

> The impact [of international oil price increases] on Canada's economy is not borne equally by all parts of Canada; the petroleum producing areas benefit from OPEC actions, while the rest of Canada is penalized. [...] A large proportion of the revenue from these higher domestic prices accrues to the governments of the petroleum-producing provinces; most of it to Alberta. The resulting inter-regional transfers of wealth are now so large, and growing so rapidly, that they have become a national issue. [...] The result [of the current revenue-sharing scheme] is a distribution of benefits that is extraordinarily unfavourable to the national government. (NEP cited in Doern and Toner 1985: 261).

According to Halpern et al (1988), the NEP marked a shift in the federal energy policy paradigm from an emphasis on self-sufficiency to a more direct focus

on redistribution. This would take two different forms. First, the NEP was meant to redistribute revenue from producing provinces to the federal government, and indirectly (notably through federal fuel subsidies) to consuming provinces. The redistribution objective led Scarfe (1984: 27) to assert that the fundamental purpose of the NEP was a large scale transfer of wealth from Alberta to the rest of Canada. Second, it was to redistribute corporate ownership from foreign to Canadian companies (Halpern et al 1988: 22).

The private sector and Alberta quickly reacted to the NEP, showing the limits of federal unilateralism. About $2.3 billion CAD worth of investment and 16% of the oil and gas index on the Toronto Stock Exchange was withdrawn as investor confidence decreased. Many oil companies divested themselves of their Canadian holdings. Two hundred unproductive rigs were prepared to leave the country. In the year after the NEP was announced, capital flight amounted to $1.2 billion CAD per month (Chastko 2004: 184-7).

Two days after the NEP was introduced, Lougheed announced that Alberta would impose three cuts of petroleum product sales of 15% each over the following nine months. He would also interrupt the development of the Alsands and Cold Lake heavy oil projects, which were important to Trudeau's self-sufficiency objective. Finally, Lougheed said he would challenge a natural gas export tax in the courts (Chastko 2004: 185-6). Facing these threats, Ottawa agreed to negotiate alterations to the NEP, notably with the Alberta-Canada Energy Pricing and Taxation Agreement of September 1981 (henceforth EPTA) (Pratt 1985: 178-9).

By negotiating the 1981 EPTA, Alberta was able to alter the revenue sharing scheme suggested in the NEP. According to Helliwell and McRae's calculations (1982: 17, 22), in 1982 rent sharing under the EPTA, compared to NEP predictions, reduced the federal share from 21% to 19%; reduced the consumers' share from 38% to 36%, and increased the provincial share from 30% to 34%.

The EPTA revealed that Alberta had sufficient bargaining power to keep a high degree of control on hydrocarbon production and pricing on its territory,

despite not having constitutional rights to control prices unilaterally. The acceptance of the federal government to negotiate price setting and revenue sharing with Alberta was an acknowledgement of the province's power and of the incapacity of the federal government to unilaterally control resources on provincial territory (Bankes et al 1986: 82-3). This was a serious impediment to the effectiveness of federal energy policy, as in 1980 about 84% of Canadian crude oil was produced in Alberta, and less than 2% was under the full control of the federal government (CAPP 2011a: Table 3.1b).

To circumscribe Alberta's dominant position as an oil producer, the federal government attempted to establish Ottawa as an independent oil-producing government, and to do so it would use Petro-Canada as the key instrument of accelerated frontier development (Fossum 1997: 188). The Canada Oil and Gas Act of December 1980 replaced the 25% back-in option by a 25% carried interest for the public company in every right on Canada lands. This had the effect of increasing Petro-Canada's capital expenditures from $119 million CAD to $602 million CAD in the frontiers between 1980 and 1984. Petro-Canada's capital expenditures remained relatively steady in western Canada in the 1980 to 1985 period (i.e. in a range between $221 million CAD and $299 million CAD) (Pratt 1981: 144; Halpern et al 1988: 16). A large share of these expenses was paid for directly by the federal government. Between 1981 and 1985, Petro-Canada spent $2.2 billion CAD on exploration in frontier regions, $1.4 billion CAD of which was financed by federal grants (Pratt 1988: 179). The minister of Energy, Mines and Resources, Marc Lalonde, stated:

> Although [Petro-Canada's] spending is not expected to yield significant amounts of revenue until the latter part of this decade, Petro-Canada is facing the high risks of these frontier investments, knowing that when the time comes it will have the experience and talent, to the benefit of all Canadians, to develop the huge oil and gas reserves (Speech in the House of Commons, 6 April 1982, cited in Fossum 1997: 154).

An indirect effect of the NEP on Petro-Canada was to create incentives for the company's management to shift the company's mandate from political objectives to profitability, thereby initiating a "commercialization" process similar to that of

Statoil under the Norwegian Conservative government. The NEP did not promise Petro-Canada's management an autonomous future. Under the NEP program it was anticipated that Petro-Canada would be able to fund only $2.76 billion of the total $9.34 billion CAD of capital spending for the 1981-1985 period. The remainder would come from debt and from the government in the form of incentive payments and equity infusions. Petro-Canada chairman Bill Hopper said "We've got to concentrate on the frontiers but at the same time develop cash flow in order to fund that long term development" (cited in Pratt 1988: 181). This cash flow would come from growth in the downstream sector:

> our role in [downstream] is to be as competitive as we can and to take a bottom-line approach to that activity so as to contribute, over time, as much cash flow to the corporation generally in order to carry on our prime mandate of exploration and development. (Bill Hopper cited in Pratt 1988: 187).

Similar to Statoil's attempt to increase production rates to avoid transferring its revenue to the Norwegian government, Petro-Canada's expansion downstream was, according to Pratt (1988: 187), a way for the company to reduce the government's direct control over its internally generated funds.

Petro-Canada thus purchased two foreign-owned oil companies; PetroFina Canada Ltd in 1981 and the downstream assets of BP Canada Ltd in early 1982. These acquisitions would serve the Liberal government's goals by increasing the visibility of the company in its retailing activities where it enjoyed popular support, and by increasing Canadian ownership in the oil and gas industry. The federal Progressive Conservatives opposed these acquisitions. A Tory member of the House of Commons Standing Committee on Natural Resources and Public Works said:

> the intent of Petro-Canada was to encourage self-sufficiency, [...] to deal with [foreign] state companies and to provide a window on the industry. [...] As it turns out, Petro-Canada has pursued the pumping of gasoline, running service stations, very aggressively. [...] My question really is: To your mind, what national purpose is served in this regard? (32nd Parliament, 1st Session, 23 November 1982: 55, cited in Halpern et al 1988: 22-3).

This comment captured the fact that Petro-Canada, by integrating vertically, was drifting away from its role as a policy instrument. Petro-Canada's policy goal was exploration and development in the frontier, and this goal rested on the assumption of increasing oil prices. As this assumption would reveal itself to be wrong, few reasons remained for the federal government to own the company in the late 1980s.

To summarize this section, because Alberta constrained federal energy policy making on provincial territory in the early 1980s, with the NEP the Trudeau government used Petro-Canada as a key instrument to establish the federal state as an autonomous oil-producing government. The NEP would place Petro-Canada in a position where the company had to spend federal revenue for long-term objectives that were less likely to yield benefits once the assumption of increasing oil prices was not met. Petro-Canada's management reacted by investing downstream, hoping to increase the company's autonomy and decrease government supervision.

The NEP thus had a dual effect on Petro-Canada. First, because the NEP rested on the assumption of increasing oil prices, the rationale for a state-owned oil company to pursue policy objectives also rested on high oil prices. Second, because the NEP involved high levels of risky capital expenditures, it created incentives for Petro-Canada to restructure its operations on the model of a private, vertically integrated oil company.[15] Petro-Canada and Statoil were thus both reacting to the second oil shock by operating more and more like private oil companies. However, because Petro-Canada was mostly spending federal funds it did not produce as many increasing returns as Statoil, which was collecting and redistributing oil rent. Therefore, the Canadian company offered fewer opportunities for groups to develop vested interests in the corporation's public ownership structure. The next chapter shows that varying degrees of support for the national oil companies would determine why Petro-Canada was privatized in the early 1990s, and why Norway kept its ownership structure essentially intact.

[15] Vertical integration means that the company is active on all upstream and downstream stages of development, from exploration to retailing.

4.5 The Effect of Federalism in Unitary Islands: The Case of Newfoundland

The ownership structure in offshore Canada provides an interesting comparison with Norway because the Canadian offshore oil and gas industry resembles Norway's in two key aspects. First, exploration in offshore Newfoundland and Labrador (henceforth Newfoundland) by private foreign companies began at about the same time as in Norway.[16] Second, offshore areas under exclusive federal jurisdiction are "unitary islands" (Scholtz 2006: 32) where one could expect Petro-Canada to have a role similar to that of Statoil in a unitary state, that is, a strong presence and large ownership in offshore operations and a key role in a redistribution process that offers opportunities for groups to develop interests in the national company's activities.

Despite these similarities, dynamics of "increasing returns" relative to the ownership structure in the oil and gas industry offshore Newfoundland do not widely differ from the Canadian experience in provinces. Petro-Canada did have a stronger presence in offshore Newfoundland than elsewhere in Canada, but Newfoundland was able to negotiate the largest share of revenue for itself. Consequently, Petro-Canada drew little support in Newfoundland where it was perceived as an instrument of federal intrusion. The federal oil company did not gain much more support from the redistribution of offshore revenue elsewhere in Canada because most revenues were left in Newfoundland. This section first discusses how Newfoundland was able to keep offshore revenue in the province, and then analyses the impact of this redistribution pattern on Petro-Canada's support.

Exploratory drilling started in 1966 in Newfoundland. In the late 1960s, building upon the intergovernmental negotiation framework developed by British Columbia,[17] the Atlantic provinces attempted to secure maximal control on and

[16] However, first discoveries were made offshore Newfoundland ten years later than in Norway, in 1979, at a time when a federal national oil company was already established.

[17] British Columbia created a precedent of intergovernmental offshore oil revenue sharing when it taxed private oil companies operating offshore the province. The federal government asserted its constitutional right over offshore resources by bringing the case to the Supreme Court in 1967. After

benefits from offshore resources. The offshore zones adjacent to Newfoundland comprised over 80% of Canada's total Atlantic offshore, and it held the most promising geological prospects of oil finds. In early negotiations, the federal government proposed sharing the provincial part of revenues among many or all provinces. Hoping to keep the potentially larger benefits from its offshore zone for itself, Newfoundland withdrew from negotiations in 1973 (Cullen 1990: 149-50).

The first oil discovery offshore Newfoundland was made in the Hibernia oil field in 1979. Before the discovery, in May 1977, the government of Newfoundland had already issued an oil policy based on the Norwegian model – maximum local benefits and a low rate of development contrary to Ottawa's supply objectives (House 1985: 50). The 1977 regulation included a mandatory 40% provincial government share in every lease held by a provincially owned oil company, and an equivalent representation on every management or operation committee, through the Newfoundland and Labrador Petroleum Board. According to Fossum, the attempt by Newfoundland to exercise a direct influence offshore was an important reason for Ottawa to ensure a strong eastern presence for Petro-Canada (Fossum 1997: 62-4).

Newfoundland's 1977 policy did not materialize, however, because development could not begin until the two levels of government agreed on a regulatory framework. Industry activities came to a halt in 1977 because the industry feared it would pay royalties to both levels of government. When drilling resumed in 1978, it was at a lower level and heavily subsidized by the federal government (Fossum 1997: 99-100). Moreover, the federal government had taken control of operations as in the exploration phase from 1976 onward and Petro-Canada was partner in more than 80% of eastern offshore wells (Halpern et al 1988: 16-7).

In 1980, Trudeau offered Newfoundland a revenue-sharing arrangement with terms similar to onshore revenue-sharing agreements for as long as Newfoundland would be eligible for equalization payments. Newfoundland refused the deal because

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the ruling, the British Columbia government kept collecting rentals and fees, constraining the federal government to engage in revenue-sharing negotiations (Cullen 1990: 135-6).

it claimed full control and ownership of offshore resources.[18] In 1984, a decision from the Supreme Court of Canada confirming unequivocal federal jurisdiction over resources offshore Newfoundland did not deter provincial claims. An agreement was only reached with the signature of the 1985 Atlantic Accord between Newfoundland and the Progressive Conservative government of Brian Mulroney (Smith 2008: 84-5 and Crosbie 2003: 260).

The Atlantic Accord rests on the principle of equal management of oil resources, giving Newfoundland the same benefits as if oil were located on land. Dual management is conducted by the Canada-Newfoundland Offshore Petroleum Board, with three members from each government level and a chairman chosen by mutual agreement (Fusco 2007: 3). The agreement also has provisions to gradually offset provincial oil revenue from equalization payments over twelve years. By excluding a share of oil revenue from the calculation of equalization payments, Newfoundland would receive more equalization payments than its fiscal capacity would allow (Courchene 2006: 672). An agreement was reached at that time because lower oil prices reducing the stakes of revenue-sharing coincided with the election of the Mulroney government that was advocating decentralization and less federal intervention, and was willing to leave the lion's share of revenue to the province.

Petro-Canada's participation in most wells drilled in offshore Newfoundland does not equate with increased support from societal groups as is the case for Statoil. First, for Canadians outside Newfoundland, the benefits of Petro-Canada's activities offshore were difficult to perceive because production had not yet started, and even if it had, revenue would remain in the province.

Second, from Newfoundland's perspective, federal ownership had more disadvantages than advantages. The main objective of the Newfoundland government had been to exercise provincial control over the development of

[18] Joe Clark's Progressive Conservative government in power at the time of the Hibernia oil find offered in June 1979 to transfer ownership and jurisdiction over offshore mineral rights to coastal provinces, but he did not remain in office long enough to implement these ideas (Crosbie 2003: 260). This promise had set provincial expectations very high.

resources, particularly over the rate of development. Inspired by the Norwegian development model, Newfoundland wanted a slow rate of development adapted to its province-building strategy. Contrarily, Ottawa was using Petro-Canada specifically to develop frontier resources quickly. Newfoundland thus did not have an interest in federal corporate ownership in oil concessions offshore its territory. To illustrate this point, when the federal government announced Petro-Canada would have a right to a 25% interest in all concessions under federal jurisdiction, Newfoundland Premier Brian Peckford "vowed to eliminate Petro-Canada's preferential right to offshore acreage over which Newfoundland claims jurisdiction" (Pratt 1981: 129). Similarly, when the federal government unilaterally started to issue new permits offshore the province to implement NEP objectives, Newfoundland responded by assigning provincial permits in the same area (Fossum 1997: 62, 99, 177; House 1985: 80).

This section showed that the two hypotheses presented in this paper are validated in the case of Newfoundland's offshore oil. First, the historical sequencing argument is confirmed because Petro-Canada, as one of the first oil companies to start operating offshore Newfoundland and benefitting from preferential treatment, was able to participate in most well drillings. Second, despite exclusive federal jurisdiction over offshore resources, the provincial level of government would receive most revenue from these resources. Because the government owning the public corporation operating in the field was not the same government that was entitled to benefit from most revenue from these operations, the association between public corporate ownership and oil benefits was much weaker than in Norway.

Under the federal public corporate ownership structure in offshore Newfoundland, the federal government would not collect much revenue, and Newfoundland would not be able control development. Hence, in the case of hydrocarbon resources, offshore zones are unitary islands only in their legal definition; in the realm of politics these spaces are subject to competing claims from different levels of government and are therefore clearly federal areas. Overlapping jurisdictional claims have similar effects on the ownership structure offshore and

onshore; the competing attempts by different levels of government to include oil rent in their redistribution strategies reduce the extent of support for the federal oil company.

Conclusion

Clearly, Pearson's increasing returns and Thelen's distributional effects were stronger in the case of Statoil than in the case of Petro-Canada. This chapter showed how strong vested interests in the public corporate ownership structure developed in Norway along the pre-existing institutional channels of the corporatist state. Norway's major interest groups were represented in the policy process through peak organizations that ensured most societal demands for redistribution would be satisfied by the state. As Statoil was responding to these demands by effectively redistributing oil wealth, all groups benefiting from redistribution developed a stake in the existence of the public corporation.

Statoil's distributional effect (the reproduction and magnification of the distribution of political power (Thelen 1999: 394)) was strong enough for the company to become a major, autonomous political player in the oil and gas industry, effectively challenging the state's authority. This was a change the Norwegian non-socialist forces were not ready to accept. It marked a shift away from the course of Statoil's increasing control over the Continental Shelf that had been set by the state's immediate response to the 1973 oil shock. Moving away from public corporate ownership in the oil and gas industry had, however, become very difficult as strong vested interests supported Statoil and the state's welfare system had become dependent on oil revenue.

Path dependency and mechanisms of reproduction of public corporate ownership since the 1973 oil shock do not appear as clearly in the Canadian federal context as they do in Norway. This chapter showed that Petro-Canada, as Statoil, was given a role that contributed to the national government's redistribution strategy. But the Canadian and Norwegian redistribution strategies were different. In

Norway the national state was the undisputed actor collecting and redistributing oil revenue to society with the help of Statoil.

In Canada, the federal and provincial levels were competing to channel oil benefits to their own political constituencies, constraining a federal government elected by consuming provinces to adopt a horizontal distribution process by which oil wealth would be transferred from producing to consuming provinces. Within this redistribution pattern, the federal government would collect oil tax revenue in producing provinces for Petro-Canada to spend on high-risk projects to increase supply on the long term, and later establish Ottawa as an oil producing government. In this position, Petro-Canada would attract some support as Clark's privatization attempt in 1979 illustrates. But Petro-Canada's activities are fundamentally different from Statoil's because they were part of a redistribution process that involved penalizing some groups and favouring others. Clearly, these activities offered fewer opportunities for the Canadian national oil company to attract broad-based support throughout Canadian society, as Statoil did in Norway. The capacity of national oil companies to attract vested interests would determine the degree of resilience of the public corporate ownership structure of the oil and gas industry when Canada and Norway would face pressures for privatization in the late 1980s and early 1990s.

Chapter 5 – The End of Legacy?

In Collier and Collier's historical institutionalist framework, a historical legacy inevitably reaches an end. Students must have "explicit criteria for determining when it ends but must also be open to ambiguities about the end points" (1991: 34). As the "critical juncture" of suddenly high oil prices left the legacy of public corporate ownership, the end of legacy would be the privatization of national government assets in the oil and gas industry. In Canada, privatization begun in 1991 and was completed in 2004. Full privatization marks the end of the first oil shock's legacy in Canada.

In Norway, the picture is more complex. Mergers with oil companies of mixed ownership and a partial privatization started in 2001 resulted in the Norwegian state owning 67% of Statoil ASA (the product of a merger with Norsk Hydro in 2007), and 100% of Petoro, a company created in 2001 to manage the State Direct Financial Interest (SDFI). I argue that the result of this reorganization was to shift financial risks to the private sector while perpetuating the state's collection and reallocation of economic rent through public corporate ownership.

In both Canada and Norway, three factors arose in the late 1980s that pushed for the privatization of national oil companies. First, for governments, the oil price decrease of the mid-1980s increased the financial risks (in Norway) or the financial burden (in Canada) associated with public corporate ownership. Consequently, both Petro-Canada and Statoil gave a greater priority to profitability, reducing their role as costly policy instruments. Second, this commercialization process was reinforced by regional economic integration in the late 1980s and 1990s, which forbade preferential treatment of national oil companies. Third, during this period Canada's and Norway's parliaments were under the control of moderate right political parties (although a weak coalition in Norway's case) that had argued for less government

intervention from opposition benches in the 1970s. Their arrival in government was an opportunity to downsize public corporate ownership.[19]

In this chapter, the path dependency hypothesis, according to which vested interests developed at historical junctures establish boundaries to institutional change, is confirmed in Norway's case. Despite strong incentives for privatization, the bulk of the state's assets providing massive financial returns to fund the Norwegian welfare state were kept intact. In Canada, this hypothesis faces its limitations. Because public corporate ownership was developed in areas of jurisdictional overlap, pressures that are broadly equal to those experienced by Norway were sufficient to result in Petro-Canada's complete privatization.

The other hypothesis explored here, that national oil companies in federal systems offer fewer opportunities for the development of vested interests because they take part in a horizontal redistribution pattern within the federation, is validated. Because consuming provinces were satisfied with affordable foreign oil and producing provinces had an interest in increasing their access to the American market, few interests opposed the domestic and foreign pressures for privatization. Moreover, Petro-Canada's role as a policy instrument in the federal redistribution strategy was obsolete when, under low oil prices, there was little rent left to redistribute. In Norway, society at large continued benefitting from the distribution of oil revenue that, in 2009, amounted to 27% of state income (of which about 40% comes from equity share interests, NPD, 2010: 24).

5.1 Resistance to the Privatization of Statoil

In the early 1980s, the effect of the second oil shock waned as oil production outside the Organization of Petroleum Exporting Countries (OPEC) was growing

[19] Proponents of the cultural explanation would attribute the effect of moderate right governments on public corporate ownership to the ideology of these governments. Contrastingly, I argue that the positions of right-wing parties are determined by the interests of their electoral constituencies, namely producing provinces in Canada and the private sector in both countries. Ideology likely has a significant role, but tracing the material interests that tie political parties and their constituencies together offers a more compelling illustration of the causal mechanism at work behind the election of moderate right-wing governments and pressures for privatization.

and other energy sources were replacing expensive oil. Despite a quota system restraining production, the OPEC price remained above the world market price and its member countries were losing market shares. When OPEC members decided to regain their market shares, unrestrained production provoked a rapid drop in prices by 70% (Yergin 2008: 702, 726, 731). With such a price drop, the economic rent – the profit in excess of normal returns on investment – was mostly eliminated and in economic terms oil became little more than any other commodity.

In times of high oil prices, nationalisation of the oil sector in Norway was not associated with the nationalisation of financial risk. The government would only realize that public corporate ownership entailed financial risks in the late 1980s, when the risks turned into losses. From 1980 to 1985, Norway had been sheltered from lowering oil prices because, when measured in Norwegian currency, the price of oil was in fact rising. But when the US dollar and the oil price fell simultaneously in 1985-86, the Norwegian price was halved (Claes 2002a). Government revenue dropped by nearly 25% (from 46,694 billion Norwegian Kroner (NOK) to NOK35,707 billion, Andersen 1993: 149). Facing domestic pressures in the late 1980s and trade liberalization in the energy sector in the 1990s, the Norwegian state was able to turn Statoil into a profit-driven enterprise, eliminating some of the financial risk associated with public shareholding without losing the revenue from public ownership. This strategy effectively preserved Norway's public ownership structure. This section analyses the effect of the three pressures for privatization on Norway, namely the financial risk incurred by low oil prices, regional economic integration, and the election of right-of-center governments.

The Mongstad scandal was the first clear revelation of the financial risks the Norwegian state was taking with public corporate ownership. Since 1979, Statoil had planned to expand a refinery with its minority partner Norsk Hydro in the peripheral city of Mongstad, to refine most of its North Sea oil production. Norsk Hydro and the Conservative Party were opposed to the project from the beginning, but Statoil lobbied the Storting (Norwegian parliament) through the rural districts in Mongstad's area. Facing the pressure of representatives from these districts where

employment and economic activity depended on the oil industry's investments, the government approved the project in 1984. In 1987, it was revealed that the project cost about double the budgeted amount to reach $1.9 billion USD (Nelsen 1991: 175-7). The effect of the scandal was accentuated by reduced government revenue, a balance of trade that turned negative and a 9% drop in exports between 1985 and 1986 (Andersen 1993: 149). Nelsen (1991: 177) observed:

> [after Mongstad] no longer was Statoil the national hero that could do no wrong; no longer was the state's financial involvement in petroleum activities considered risk-free; no longer was it believed that political authorities could adequately control a state company that had grown as large and powerful as Statoil.

Several members of Statoil's board and its CEO resigned over the scandal. The government cut the company's budget by $383 million USD over four years while it had a net loss of $230 million USD in 1987. The company's new management under the leadership of CEO Harald Norvik would reorganize the company by introducing private sector methods and discipline. Statoil's leadership proposed to sell shares in offshore concessions to finance the company's debt. By the end of the 1980s, Conservative politicians aligned with the new CEO's views in wanting to eliminate Statoil's role as a policy instrument and wanting the company to adopt profit maximization as its only objective. Fearing job losses in rural areas, the Labour party, which held the most seats in Parliament (although fewer than the governing coalition), opposed the proposal. It only agreed for private investment to be allowed in Statoil's downstream activities and refused to sell shares in offshore licences where the state's holding would drop below 51% (Nelsen 1991: 178-9).

The government nonetheless perceived it was necessary to find a way to free the state from the financial risk Statoil was creating, without losing the revenue from its assets. Simultaneously, increased global competition among oil-producing regions generated the necessity for Norway to make its Continental Shelf attractive. The government decided in 1993 to ease taxes and to abandon the rules by which Statoil had a 50% right on every new licence awarded and could increase its share

on a sliding scale. The minister of Petroleum and Energy ensured that state ownership would not be reduced – the state would keep its participation in every existing licence. Statoil's new leadership welcomed these measures as it viewed its 50% participation obligation as an impediment to the most efficient allocation of its human and financial resources (Claes 2002a).

Economic integration in the European Internal Energy Market in the early 1990s was also a key reason for Statoil to reduce its role as a policy instrument, analogous to Canada's accession to the FTA. Norway was not a member of the European Union (EU), and it was negotiating its access to the internal market through the European Economic Area agreement. The EU being the destination of 70% of Norwegian exports and the origin of 67% of its imports, Norway had a strong interest in accessing the European market. In the oil sector, Norway feared losing control over the licensing process when in 1992 the European Commission (EC) proposed it should be non-discriminatory. The minister of Petroleum and Energy opposed the non-discriminatory proposal, arguing that "Norway doesn't need any licensing directive. Our policy is reasonable both from the position of Norway and the EU" (9 June 1993, cited in Claes 2002b: 311). This statement was made the same year the 50% share and 'sliding scale' provisions were cancelled, as a pre-emptive move for the negotiations to come. Being dependent on Norway for 18% of its oil imports, the EU also made compromises in the 1994 final agreement, stating that in the licensing process "other [...] criteria are allowed when applicants had equal merits on the stated criteria" (Claes 2002b).

The liberalization of the natural gas market proposed by the EC in 1991 also posed problems for Norway's intervention on the Continental Shelf. Because of strong concentration and coordination of gas buyers, in the mid-1980s Statoil established a Norwegian gas selling committee (GFU), hindering competition by negotiating on behalf of all Norwegian gas exporters. Foreign companies were excluded from the GFU because many of them had downstream assets forcing them to be on both sides of the negotiation table. They were included in the negotiations in 1993 to avoid violating European non-discrimination rules. The GFU was

ultimately dissolved in 2001 when, at the issue of an investigation, the EC declared that it was constraining trade (Claes 2002b: 313-6).

Also contributing to Statoil's detachment from the state was the process of international expansion the company embarked on under Norvik's leadership. Having lost some of its acreage in the transfer of public ownership to the State Direct Financial Interest (SDFI) in 1985, Statoil needed new sources of hydrocarbons. These would be found abroad. The Norwegian state company allied with British Petroleum, one of the largest integrated oil companies in the world, to invest in Angola, Azerbaijan and Algeria. Statoil also expanded on its own in Ireland, the United States, Iran and Venezuela. The international diversification of Statoil's portfolio moved the company one more step away from its original goal as a policy instrument on the Continental Shelf (Gordon and Stenvoll 2007: 29-31).

By the turn of the century, Statoil had thus lost many advantages the state had granted it in the past. It was transformed into an oil company that looked like a private multinational in respect to its mandate, its internal structure, as well as the geographical and functional diversification of its assets. The state had distanced itself from the company and its associated financial risk, placing its oil and gas assets in an autonomous entity, the SDFI, and prioritizing its profitability mandate. The new rise in oil prices in the early 2000s would coincide with the partial privatization of Statoil which, as the next section shows, can be understood as a privatization Statoil's financial risks rather than ownership on the Norwegian Continental Shelf.

5.2 Norway's Privatization of Financial Risk

In the early 2000s, oil prices started rising again in response to a disruption in world supplies, causing some analysts to announce a "third oil crisis" (Salameh 2001). The price rise was more gradual than in 1973 and 1979, but the average 2008 world oil price in constant dollars was higher than it had ever been before (BP 2010). This section shows how the Norwegian state restructured its assets in the offshore oil industry to privatize risks without dismantling the public corporate

ownership structure. After illustrating the state's dependence on oil, this section examines how the state conciliated further pressures for privatization and the need to keep its assets in the oil industry.

In this period, the Norwegian state's holdings in the oil and gas sector were reorganized in response to two imperatives. First, the state had developed an extensive welfare state that depended on oil revenue, and any strategy had to maintain the sustainability of the welfare state. Second, low oil prices in the earlier decade, decreasing investments and fears of job losses in the oil industry triggered a debate on the state's role in the sector. The Conservative Party and Statoil's management advocated Statoil's privatization as a solution. The state's response to these two imperatives was a partial privatization of Statoil and its later merger with Norsk Hydro, which had the effect of reducing financial risks for the state while keeping the bulk its revenue base, including corporate ownership, intact.

Following the discovery of oil, the Norwegian state developed a dependency on rent income to fund an extensive welfare program. According to the Norwegian Petroleum Directorate, the 6000 billion NOK (in 2007 terms) the industry created since its emergence up until 2008 "contributed significantly to economic growth in Norway and to the financing of the Norwegian welfare state" (2008: 14).

In 1960, government spending was lower in proportion to GDP than in the United States. It increased substantially in the following decades, in tandem with oil revenue, reaching 30% of GDP in the early 2000s. In 2000, state net petroleum cash flow exceeded 10% of GDP (Cerra 2001: 8, 12). The share of state revenue coming from the petroleum sector reached about 30% in the late 2000s. Public corporate ownership (the SDFI and Statoil dividends) accounts for about 40% of these revenues, the rest being taxes (NPD 2010: 24).

Pressures for privatization started at the end of the 1990s with the second mismanagement scandal after Mongstad. In 1999, the Åsgard field, one of the most profitable on the Continental Shelf, incurred $2.6 billion USD in expenses above the original budget. For the second time, the state had to pay a high price for the

company's mismanagement. Statoil CEO Harald Norvik resigned over this scandal, and he took advantage of his departure to launch a debate on the company's privatisation. In his view, state ownership prevented corporate growth through partnerships in other regions of the world because Statoil had no shares available to buy (Gordon and Stenvoll 2007: 32; Claes 2002a).

The right-of-center coalition government ordered Statoil's new management to conduct a study on the company's future direction. The report suggested that Statoil could acquire all or most of the SDFI before being partly privatized. The SDFI transfer was deemed appropriate because it would have enhanced the company's competitiveness and value upon its arrival on the stock market (Wolf and Pollitt 2009: 11).

The right-wing political parties were favourable to these conclusions, but the Labour Party returned to power in 2000. Its position on the issue was determined by the interests of its base of support: the unions. Investments had dropped between 1998 and 1999 by 11.7% and 4000 employees from the oil sector had been laid off (Lismoen 1999). Unions, represented by a peak organization, the Norwegian Confederation of Trade Unions (LO), were divided on the issue. Private sector unions favoured a reorganization that would resume investments and create jobs. Others feared the state would lose control over the industry and the organization of public sector enterprises. The Labour Party came up with a compromise in favour of partial privatization of Statoil and the SDFI, but at the condition that only a "limited" number of SDFI assets would be transferred to Statoil and Norsk Hydro and that SDFI assets should "in the main" be owned by the state (Lismoen 2000).

The Labour government's plans were approved by the parliament in April 2001. The objective was clearly to use a commercialization strategy to maximize value creation for the state, and this required letting private owners in:

> The company operates today under the same commercial terms as the other participants on the Norwegian Continental Shelf, and is no longer an instrument of petroleum policy. Through its caretaker responsibility for the SDFI, however, the company is required to use value creation for the state's overall involvement as its basis when ranking alternative

> decisions. [...] *As a result, full state ownership is no longer a necessary or appropriate instrument for realizing principal petroleum policy objectives*. (Storting 2001: 33. Italics in the original).

By commercializing the company, the state was shifting financial risks to the private sector. Simultaneously, by reorganizing its holdings, Norway accumulated more capital from oil than it ever did before. 15% of SDFI assets went to Statoil, a new state-owned company called Petoro took over the administration of SDFI's outstanding assets, and 6.5% of the SDFI was sold to third parties, including Norsk Hydro. 19.2% of Statoil's shares were sold and listed on the Oslo and New York stock exchanges, but only half of these were sold by the government, the other half being primary shares issued by the company (Wolf and Pollitt 2009: 12). The parliament allowed the private share to rise to one third (but no more) to keep for the state a qualified majority and the power take unilateral decisions on mergers and the company's statute (Storting 2001: 36).

Benefitting from high oil prices, the government sold 5.4% of additional shares in 2004 and again in 2005, reducing state ownership in the company to 70.1%. Despite these relative losses, the state's ownership on the continental shelf also made gains in absolute terms. In 2007, Statoil and Norsk Hydro merged, diluting state ownership to 62.5%.[20] Further, the state rebuilt its share in the merged company, first called StatoilHydro, then Statoil ASA, to 67% by 2010. In 2010, of the 438 active production licences in 2010, Statoil ASA holds shares in 221 and Petoro in 147, for a total of 84% of producing licences where the state is involved. Statoil is also operator on about 23% of the fields.[21] (Wolf and Pollitt 2009: 13-4; NPD 2010: 21).

[20] Through the transaction, the state acquired what were the holdings of Saga Petroleum, the third Norwegian oil company in size in which the state had a 20% share, that Norsk Hydro had acquired in 1999 (Wolf and pollitt 2009: 11).

[21] Statoil ASA and Petoro hold most of these licences in partnership with private companies, and the distribution of ownership is unique to each field. A more precise calculation of state ownership on the Continental Shelf would require the addition of ownership shares in each field, weighted by licence size (production or reserves).

To summarize, the opposing pressures to privatize the oil industry and to protect the welfare system in Norway convinced the Norwegian government to let private investors in Statoil to absorb some for the financial risks associated with the internationalization of the company and the volatility of the international oil market. The Norwegian ownership structure was not fundamentally altered by Statoil's partial privatization as Norway kept the bulk of it oil and gas assets in the SDFI, through Petoro, and in its majority share in Statoil.

5.3 The Privatization of Petro-Canada

In Canada, the return to affordable foreign energy in the mid-1980s removed incentives for the Canadian federal government to redistribute oil benefits among provinces and created incentives for the federal government to leave energy matters to provinces and to the market. This section analyses the effect of the same pressures for privatization Norway experienced: first, the election of a Progressive Conservative government combined with low oil prices shifted the policy paradigm toward decentralization and the withdrawal of federal intervention. Second, under low oil prices the federal government was not willing to bear the financial burden of the public corporation. Third, privatization was consistent with the economic integration process under way between Canada and the United States in the late 1980s. This section concludes by discussing how few interest groups attempted to prevent Petro-Canada's privatization throughout the Canadian federation.

The Progressive Conservative party was elected in 1984 under the leadership of Brian Mulroney. Tories had more seats than any other party in all provinces. Even in central Canada, the Tories held 67 of Quebec's 75 seats and 58 of Ontario's 95 seats (Gagnon and Tanguay 2007: 540). The election of the Progressive Conservatives coincided with the modification of federal and provincial interests in energy policy by lower oil prices. As the value of western oil decreased, Mulroney's base of support in Ontario and Quebec was not interested in horizontal redistribution anymore. Petro-Canada's political purpose of high-risk oil development in frontier regions vanished together with the federal impulse to redistribute oil wealth among provinces. Western provinces were still not interested in federal intervention, except

for federal subsidies on oil sands projects that lost their profitability with the price drop. It was therefore possible for the Mulroney government to reconcile the interests of its constituencies in producing and consuming regions of Canada with an oil and gas production and consumption structure that was reminiscent of the 1961 National Oil Policy. As before the 1973 oil shock, the market would determine where and at what price oil was better allocated.

As discussed in earlier chapters, the Tories had been opposed to the creation and expansion of Petro-Canada. Consistently with the Progressive Conservative earlier positions, in 1983, Mulroney asked a Task Force to study the future of crown corporations and their eventual privatization. The Task Force report concluded that public opinion could be the only policy problem associated with privatization (Kirk Laux 1993: 400). This wouldn't be a major impediment. In 1984, most Conservative voters were in favour of privatization (50% for and 23% against), while Liberal (37% for and 37% against) and New Democrat voters (43% and 43% against) were ambiguous. This trend remained consistent in the late 1980s, and support for the privatization of Petro-Canada was stronger compared to other public companies (Fossum 1997: 241-2).

Ottawa was also inclined toward privatization because Canadian crown corporations were a financial burden for the state. The federal budget had been running a deficit since 1973-74, and the deficit had increased to $32 billion CAD in 1983-84 (Chastko 2004: 200). Under these conditions, the federal government had no interest in subsidizing Petro-Canada, especially as the Tories were elected on a platform of reduced spending and deficit reduction. Upon their arrival to government in 1984, the Tories eliminated Petro-Canada's role as a policy instrument and gave it a market-oriented mandate. The government would no longer inject capital or offer privileges to the national oil company, including the 25% back-in clause. In the May 1985 budget, the plan to privatise Petro-Canada was announced (Fossum 1997: 200, 243).

Petro-Canada's privatization was also consistent with the Tory government's plans for the promotion of economic growth through free trade. Facing a recession

and growing American protectionism when 70% of Canada's imports and 69% of exports depended on the United States (Chastko 2004: 200), the Mulroney government had a stake in entering into a free trade agreement with its southern neighbour. This coincided with energy minister Jake Epp's view of security of supply, which could be achieved "in the dynamic operation of the marketplace" (cited in Fossum 1997: 203). This meant energy security would be ensured by a continentalist strategy involving increased exchanges with the United States – Alberta's natural market – rather than self-sufficiency. This was formalized in the Free Trade Agreement (FTA) between Canada and the United States, signed in 1988.

Like European integration for Statoil, the FTA had the effect of making illegal most political roles Petro-Canada could adopt. By treating oil as a tradable commodity like any other, the FTA constrained the use of the crown corporation as a policy instrument. The FTA anti-discrimination provision prevented the attribution of any preferential treatment for the national oil company, or its use as a vehicle for Canadianization (Fossum 1997: 231-2). In the context of the late 1980s provincial governments preferred increasing market access to the United States rather than attaining self-sufficiency in oil within the federation.

Facing similar pressures for privatization, the public ownership of Petro-Canada found little support from consumers or consuming governments, or from the Tory federal government. Even among the company's staff, in 1990, 85% thought privatization was good both for themselves and for the company (Fossum 1997: 260)

Support for public corporate ownership was absent because the drop in world oil prices considerably reduced the relevance of federal redistribution in the oil sector. First, the maintenance of an artificially low price for the Canadian market was no longer needed as the world price was close to the Canadian price. Second, the growing inequality in government revenue in favour of producing provinces was no longer a threat to equal provincial economic development. Third, both levels of government agreed that attracting foreign investment was an objective superior to the Canadianization of the oil and gas industry (Pollard 1986: 171-2). These two last

objectives were particularly obvious as Alberta was experiencing problems in funding a government that had grown in size in parallel to oil revenue. Between 1971 and 1985, provincial spending had increased from $1.1 billion to $10.8 billion CAD, and the civil service had tripled (Chastko 2004: 199).

The Mulroney government signed two agreements with oil-producing provinces in 1985: the Western Accord and the Atlantic Accord. The relevance of these agreements for Petro-Canada was that in the economic and political context of the mid- and late-1980s, the national oil company was no longer necessary as an instrument of wealth redistribution among the provinces. Both levels of government agreed that hydrocarbons were better developed by the private sector, under provincial jurisdiction. The Western Accord was signed in March 1985 between the federal government and the government of Alberta. It eliminated many NEP measures to foster a better investment climate. The domestic price of oil was deregulated in June 1985 and federal taxes on refining, on gross production revenue and on exports, as well as exploration and development subsidies, were abolished. In the Western Accord, decentralization and emphasis on the private sector reconciled the need for economic growth in Alberta with the federal objective of improving intergovernmental relations (Helliwell et al 1986: 342-9).

The Atlantic Accord between Ottawa and Newfoundland and Labrador, discussed in chapter 4, is more directly related to distributional issues. In essence, the federal government traded oil revenue for equalization payments, and the price of reaching an agreement was for Canada to keep the equalization program active for twelve years after Newfoundland would not qualify for the program anymore (Smith 2008: 85). By promoting the use of hydrocarbon resources for provincial economic growth, the two Accords redistributed the benefits of oil in the opposite direction than that prescribed by Trudeau's Liberals: towards producing provinces. Petro-Canada was not needed by the consuming provinces that benefited from cheap imports, nor was it needed by producing provinces that were more attractive to investors without federal intervention.

In fact, keeping Petro-Canada was problematic whatever investment or disinvestment decision the federal government would make. Because the company was operating in the provinces, federal capital injected in the company would end up in the hands of provincial governments. On the other hand, without new capital in times of low oil prices, the company would need to withdraw investments. Disinvesting in exploration would penalize Alberta, while cutbacks in downstream activities would have adverse effects on consumers in central Canada. In other words, keeping Petro-Canada was a lose-lose scenario for the federal government. On the contrary, selling it offered the benefit of financing the deficit (Doern and Atherton 1987 cited in Fossum 1997: 262).

What delayed Petro-Canada's privatization between 1985 and 1991 were technical issues. First, the company's $6 billion CAD in assets was too much capital for the stock market to receive at once. The privatization of Air Canada, a smaller crown corporation, in 1987, was a first test for the more complex selling of Petro-Canada's shares. Second, the sharp drop in oil prices in 1986 and the uncertainties created by the deregulation of the gas industry made it inopportune to offer Petro-Canada's shares to the public before 1987. After the Tories' re-election in 1988, the government waited for the assurance from the business community that the stock market could absorb the shares (Fossum 1997: 247-8, 263).

The Petro-Canada Public Participation Act was presented to the House of Commons in 1990, two years after the Progressive Conservatives were re-elected, and it received Royal Assent in February 1991. A first share of 19.5% was sold in June 1991 and shares were progressively sold until 1995, when a large offering of 118 million shares was made, thereby reducing government ownership to 20% (Fossum 1997: 263-5). These remaining shares were sold without controversy in September 2004 by the Liberal government of Paul Martin. The $3.1 billion CAD generated by the sale was planned to be spent on new technologies, environmental projects and on the health care program (Standard 2004).

To summarize, low oil prices in the late 1980s revealed that the rationale for a federally-owned oil company in Canada heavily rested on the effect of high

international oil prices on wealth distribution in a federation where oil resources are geographically concentrated. Once the interprovincial redistribution of oil benefits was no longer necessary, few interests remained for the perpetuation of a public corporate ownership structure. The benefits of privatization clearly appeared to outweigh any political or economic advantage Petro-Canada could yield.

Conclusion

The Norwegian and Canadian national oil companies faced similar pressures for privatization with the world oil price drop in the mid-1980s. Low oil prices, right-of-center political parties that advocated the reduction of financial risks associated with public ownership, European economic integration, and the maturation of national oil companies that were growing away from their original purpose as policy instruments were sufficient to privatize Petro-Canada in full, but not Norway's oil and gas assets.

The causes of Petro-Canada's privatization and Norway's preservation of public ownership can be traced back to the redistribution pattern each national government established as an immediate response to the 1973 oil shock. Both states created national oil companies to reap the benefits of the oil bonanza. But these benefits where redistributed differently in each case. In Norway, a vertical redistribution system modeled along the lines of Norwegian corporatism attracted powerful vested interests from groups in most sectors of society. These interest groups played a key role in the maintenance of the public corporate ownership structure. Petro-Canada did not attract such broad-based support because it contributed to the Canadian federal redistribution strategy that involved taking oil wealth away from producing provinces, creating opposition in these jurisdictions. Moreover, because Petro-Canada was created at a later stage of development of the Canadian oil industry, its expansion opportunities were mostly in risky and costly projects that did not yield the same benefits as Statoil. The position of each national oil company in the national oil wealth redistribution strategy thus determined the support each company would benefit from when it faced pressures for privatization.

Chapter 6 – Conclusion

Several factors affect the corporate ownership structure in the oil and gas industry. This paper demonstrated that in Canada and Norway the price of oil appeared to be the most important determinant of the ownership structure, as degrees of public corporate ownership varied in parallel to price fluctuations. However, these two countries, despite being subject to the same international oil price, had different outcomes in public corporate ownership. Petro-Canada expanded quickly, but never acquired a share of total national corporate ownership as large as Statoil's. Moreover, Petro-Canada was fully privatized while the Norwegian state preserved most of its assets in the hydrocarbons industry. The conclusion recapitulates the argument, raises shortcomings and identifies future areas of research.

This paper demonstrated that, in a historical institutionalist perspective, two factors are particularly important to explain the difference in outcome between the Canadian and Norwegian cases. First, the timing of the development of the oil industry relative to the 1973 rise in oil prices determine which, of the public or private sector, is able to establish a dominant position in the industry by the time high prices raise the stakes of controlling oil.

Second, whether the redistribution process set up as an immediate response to the 1973 oil shock underlies a political conflict or not determines the resilience of public corporate ownership. Public ownership is linked to redistribution because the political purpose of national oil companies necessarily entails a redistribution of oil benefits that the market alone would not bring about. National oil companies are state-owned to pursue direct forms of state-controlled redistribution (for example, redistributing profits, taxes or awarding contracts and subsidies) or indirect redistribution (for example, controlling the pace of production, reducing dependence on foreign companies or increasing domestic supply on the long-term). Groups benefiting from the redistribution of national oil companies support public ownership and develop vested interests in the ownership structure. If redistribution entails a conflict – transferring benefits from some groups to other groups – the

policy purpose and the ownership of national oil companies is contested by disadvantaged groups.

Such a scenario unfolded in Canada after the creation of Petro-Canada because the federal and provincial levels of government had overlapping jurisdiction and competing claims over oil resources in provincial territory. The Canadian oil company drew revenue away from producing provinces, Alberta in particular, by attracting available investment in areas under federal jurisdiction and by investing downstream revenue from provincial activities in federal areas. It was also used to establish Ottawa as an oil-producing government to counterbalance Alberta's power as the dominant oil producer in the Canadian federation. In Norway, in the absence of jurisdictional overlap over oil resources, Statoil's redistribution activities were not contested.

The combination of the late creation of Petro-Canada in comparison to the Canadian private oil industry, restraining the opportunities for profitable activities, and of controversial redistributive mandates reduced the opportunities for Petro-Canada to create political support from redistribution. In contrast, the creation of Statoil immediately after the discovery of oil and the national consensus around the Norwegian company's redistribution activities offered numerous opportunities for Statoil to develop political support. Consequently, when facing similar pressures for privatization, Petro-Canada privatized and Statoil did not.

This thesis contributes to explaining divergent policy outcomes in Canada and Norway, but it also faces shortcomings. Three are identified here. First, because the two hypotheses developed in this paper exercise their effect simultaneously, it is difficult to assess whether the two, or only one, is significant. One could argue only the timing hypothesis explain divergent outcomes. In this line of thought, because Petro-Canada had less access to profitable concessions, when oil prices decreased the costs the company incurred for the government might have been sufficient to justify privatization. The comparison with Statoil nonetheless suggests Petro-Canada had little involvement in provinces where low-risk, conventional oil was available. Moreover, in the early 1980s the federal government increased Petro-Canada's level

of investment risk and spending for the very purpose of balancing Alberta's power. This decision contributed to the perception that Petro-Canada was an unnecessary financial burden on the federal state when a few years later lower prices made Petro-Canada's risky activities particularly costly. Because the effect of federalism appears to be weaker than the effect of timing, comparison with other oil-producing federations would clarify the autonomous effect of this hypothesis.

A second shortcoming of this paper is its strong reliance on the assumption that states do not have interests apart from societal groups. Through the interplay of political leaders' electoral interest, it is assumed that government behaviour is determined by the interests of the constituencies of the political parties in government. At the other extreme of this "group politics" approach is the "statist" approach, assuming that states have interests apart from societal groups. In the statist perspective, the state is assumed to have an autonomous interest in controlling petroleum activities and only the lack of available tools or the threat of societal groups can prevent state ownership (Nelsen 1991: 308-9; Klapp 1987). It is reasonable to assume governments can act autonomously from the immediate interests of their constituencies. For example, a political party in government could act in contradiction to its constituency's interests to attract new voters. Autonomous state behaviour could be given greater attention, although it is safe to assume that the interests of constituencies, through elections, set boundaries to what governments can do autonomously.

A final shortcoming addressed here relates to the generalizability of the hypotheses. The timing hypothesis is likely generalizable to numerous cases in industrialized democracies but might face limitations in countries where the rule of law is weak enough for expropriation to happen. In cases such as Iran or Mexico, the early development of oil by foreign private multinationals is associated with nationalizations. The second hypothesis is likely less generalizable because it rests, to a significant extent, on the majoritarian character of Canadian federalism and on the corporatist character of Norway's unitary state. For example, Kratochvil (2003) argues that when federalism is not majoritarian, such as in the United States, reduced

intergovernmental conflict facilitates the harmonious channelling of regional demands to the federal government, which has thereby a greater, and less controversial, control on redistribution processes. The federal/unitary dichotomy might be better formulated as a power-separating/power-sharing dichotomy.

The assumption that high oil prices stimulate public corporate ownership does not appear to be generalizable to the twenty-first century context, at least in Canada and Norway. As most of the policy roles national oil companies can adopt are considered a form of trade barrier, as chapter 5 has shown, in the last decade with the reduction of trade barriers public corporate ownership is losing its purpose. This might explain why Canada and Norway did not increase public corporate ownership in the 2000s despite rises in price that are equivalent to the 1973 and 1979 oil shock.[22]

Because the Canadian and Norwegian ownership structures were not significantly modified in response to the oil price rise in the 2000s, the price of oil does not appear to be a constant cause. Consistently with the historical institutionalist explanation, the absence of significant change in the 2000s shows that the effect of oil prices earlier in time matters more than later price variations. The counter-hypothesis that oil prices are a constant cause is thus invalidated. The development and expansion of public corporate ownership during rising prices in the 1970s and early 1980s constituted a unique historical legacy of the 1973 oil shock.

This paper adopted a qualitative approach to demonstrate the internal validity of the hypotheses. The next step in the research agenda in to verify the external validity of the hypotheses on timing and jurisdictional overlap with a quantitative assessment. In a quantitative model including 48 countries, Jones Luong and Weinthal (2010: 318) show that path dependence (a lagged ownership structure variable) and distributional conflict (redistribution demands by political parties or social movements that are based on a cleavage structure that could be an alternative

[22] With the exception of Newfoundland and Labrador where the government negotiated a 4.9% share in the Hebron oil field (the second largest field offshore the province) in 2007, coinciding with peaking oil prices (Fusco 2007: 10).

to the existing patronage network) are statistically significant and in the expected direction with a battery of severe controls. Although these two variables are not valid instruments to assess the two hypotheses in this paper, they are proxies of variables for critical junctures and jurisdictional overlap. The statistical significance of these proxies is an encouragement to test the hypotheses discussed in this paper on a quantitative level.

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