STRATEGIC DECISION MAKING AND
THE CROWN CORPORATION:
A CASE STUDY OF PETRO-CANADA

by

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Strategic Decision Making and the Crown Corporation:
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ABSTRACT

The purpose of this thesis was to examine the mandate and structure of Petro-Canada, a federal Crown corporation, and, in particular, to analyse the Crown company's strategic decision process. Graham Allison's organizational process model was adapted to provide a framework for the analysis. The decision patterns which were identified, revealed that the Corporation had pursued an aggressive corporate strategy in its formative years.

Petro-Canada was created by an Act of Parliament in 1975. The Company started with limited resources and virtually no assets. Within three years, the Crown-owned company purchased two large multi-national oil firms and attempted, unsuccessfully, to purchase a third. By 1980, Petro-Canada had moved into seventh position in gas and oil production and had developed a retail distribution system of Petro-Canada service stations stretching over four provinces.

The ability of the federal company to move into direct competition with the multi-nationals has been credited to the organizational structure of the company and the implementation of acquisition decisions necessary for vertical integration and expansion of the Corporation. These strategic decisions were made in response to a dual guideline: the organizational requisites defined by the Company's ongoing performance (output) and the political objectives governing the Company's role in policy achievement. This particular corporate strategy has contributed
to the unprecedented growth of a Crown corporation rarely witnessed in the public corporate sector.

Furthermore, the broad policy goals assigned to the Crown company helped to expand the role of Petro-Canada in infiltrating areas traditionally considered to be the preserve of the private, foreign-owned petroleum firms. Some of these areas included price setting, selecting exploratory zones, retailing petroleum products and maintaining supply security. The conclusions demonstrate that the federal government has attempted, not only to develop and distribute petroleum resources, but to define issues by means of a policy instrument which has pursued public goals through private sector practices.
DEDICATION

TO SATINDER
Deep appreciation and respect is given to Dr. Audrey Doerr whose patience, encouragement and guidance were very necessary and were generously given to help maintain the persistence required to complete this thesis.

Particular thanks and affection to my best friend, Jim, whose valuable support was most significant in completing the requirements for the Masters degree which this thesis concludes.

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CHAPTER 1

INTRODUCTION
In recent decades, the federal government has intervened in the non-renewable resource sector of the economy traditionally considered the preserve of the large multinational firms. This intervention has often taken the form of the public enterprise. The public enterprise or Crown corporation, operates and performs like its commercial counterpart in the private sector. At the same time, it is required to pursue public policy goals, as set out in legislation, established by government decision-makers. Federal policy decisions have emerged as the result of the corporate decisions and action of these large government organizations operating according to private sector standards. This has become especially noticeable where policy decisions involve the development and distribution of national petroleum resources.

The purpose of this study is to examine the establishment of Petro-Canada and to analyse the organizational structure of the Crown corporation. A major component of the analysis is the strategic decision-making process which guides Petro-Canada in accomplishing federal energy objectives. In this context, a decision-making model that describes how certain strategic decisions are made in Petro-Canada is employed. In addition, patterns of 'strategic decisions' are identified and related to the long-range corporate-government strategy affecting the development of national petroleum resources.

Petro-Canada was created to act as a policy instrument
in implementing federal energy objectives and in strengthening Government expertise in the development of national petroleum resources. The Crown company's ability to engage in industrial activities (i.e.; oil exploration, extraction, production and marketing) can be credited to the organizational form and wide range of powers conferred on the corporation. With minimal resources, the federal company was placed into the milieu of the petroleum industry sector. The executive officers of Petro-Canada working with a board of directors, had the primary responsibility of executing programmes and operating activities characteristic of the large oil firms.

A Government source has characterized the petroleum industry as one of "...high concentration, vertical integration, multinational subsidiaries..." conducting corporate affairs that could only be described as monopolistic in intent.¹ A structural feature of the industry is that all major oil firms pursue strategies of vertical integration.² This has become a dominant factor in oil and gas activities. The successful, integrated firm extracts crude and brings it through to the final stage of diverse product marketing. The result is that costs can be better controlled and profits are obtained at various levels of the operation, thus preserving the survival and long-term endurance of the firm in the marketplace. Numerous corporate acquisitions and takeovers are important in this strategy and examples permeate the histories of each of the large oil companies.³ The reason or motives for these acquisitions coincide with the
needs of the purchasing firm in pursuit of vertically inte-
grating the corporate structure and amassing the assets
necessary to this undertaking.

Like its private counterparts, Petro-Canada has been
active in strategies of vertical integration. The federal
company has attempted to structure the strategic decision-
making environment in a way that allows it to pursue a ver-
tical integration strategy. Major strategic decisions,
especially those with respect to corporate acquisitions, were
made in response to two guidelines: 1) in providing for the
organizational needs of Petro-Canada, specifically in
acquiring the necessary requisites for vertical integration;
and 2) in achieving the policy objectives of the federal
government assigned to the company by the Petro-Canada Act.
Acquisition decisions reviewed in this study were made in
response to fulfilling this joint set of requisites as opti-
mum for pursuing broader policy goals and interfacing the
organizational resources needed to achieve the long-term
Government goals in national petroleum development.

METHODODOLOGY

The central hypothesis of this study is that Petro-
Canada has pursued a corporate strategy of vertical
integration. There are two major elements in this strategy:
1) to acquire foreign-owned petroleum companies whose assets
satisfy strategic operating requisites increasing the size
and industrial capability of the federal company, and 2) to
engage in national retailing and to market a variety of petroleum products as a means of securing public acceptance of the Crown company operating in this sector. Policy decisions are indicative of the long-range goal of Petro-Canada - to become a significant presence in the Canadian petroleum industry and employ the Crown company as the federal mechanism for controlling supply and increasing Canadian ownership in this sector.

This study is divided into four parts: the events surrounding the decision to create Petro-Canada; an analytical framework that examines and characterizes the organizational strategic decision-making processes within the crown corporation; a detailed review of three case "strategic decisions" made between 1976 and 1979 by the board of Petro-Canada; and an analysis of identified patterns in strategic decision-making.

The background and events influencing the federal decision to establish Petro-Canada are examined in Chapter 2. The introduction of the state petroleum company to the Canadian public sector was abrupt and in response to the change in the international petroleum industry and the existing foreign-owned petroleum market structure throughout the country. When the energy crisis of 1973-1974 threatened to cripple foreign oil-based economies, the incumbent minority government was impelled to design comprehensive policies recommending industry regulation, increased Canadian ownership and the instrument to develop the petroleum
sector towards national goals. Petro-Canada was created in 1976 with a broad mandate to acquire business assets through company purchases, to establish agencies and subsidiaries, and to participate in all areas of the petroleum industry.

Although it is similar in structure to the large multinational petroleum firms, Petro-Canada has, in addition, the financial resources, power and legitimacy to engage in private sector competition for the public good. Chapter 3 reviews the organizational structure of the Crown company and more specifically the strategic decision-making process that has guided the decision choices in response to the needs and desired output of the corporation. "Organizational output" has been especially important in structuring the decision environment and in influencing the preferences of the decision leaders. Graham Allison's decision-making paradigm, the 'Organizational Process Model', construes decisions as organizational output. The model provides a broad set of criteria from which strategic decisions requiring various organizational needs are formed in response to an assigned government mandate. Allison identifies a number of factors that the decision team considers and evaluates in the making of a strategic decision. An adaptation of this model is used in this study as the foundation for analysis of strategic decision-making in Petro-Canada. In this context, strategic decisions are viewed as the result of the organizational process of a federal company which pursues a joint set of organizational and political objectives. The combination of decision
guidelines has contributed to a Crown 'corporate strategy' unprecedented in scope and range with respect to other federal enterprises.

Three strategic decisions are detailed in Chapter 4: the acquisition of Atlantic-Richfield; the attempted takeover of Husky Oil; and, the Pacific Petroleum purchase. These decisions were made to acquire the requisites necessary to compete effectively with the major oil companies. These requisites included industry expertise, financial resources, equipment, technology, land leases and sizable crude reserves. Competition with private sector firms in retail marketing has been a major goal. A retail network for selling Government of Canada gasoline and petroleum products was a strategic objective evident in each case decision. The retail outlets were transformed into Petro-Canada service stations exemplary of a public relations promotion strategem to invoke national acceptance of federal intervention in petroleum distribution. Furthermore, they were a means of securing a substantial income for reinvestment in corporate purchases expanding the crown company's retail programme on a national level.

An analysis of these major decisions in Chapter 5 results in the deduction that the Crown corporation's decisions were based on two sets of guidelines: the organizational requirements and commercial practices of companies which operate in this sector and the political goals of the Corporation as set out in the Petro-Canada Act of 1975.
This dual expectation of policy achievement in decision-making has caused a steady expansion in the size of the Crown corporation. A decision pattern has emerged from the choice or selection of the acquisition targets. This pattern is characterized by the strategic objectives found in each acquisition target. Each decision was made as the optimum choice for pursuing broader policy goals and for providing the organizational resources needed to achieve the long-term public policy goals.

The concluding chapter summarizes the research findings and examines events which have occurred since December, 1979. In particular, these include the corporate acquisition of Petro-Fina and the seemingly imperviousness of the Crown company to the changing economic conditions affecting petroleum development and distribution. Petro-Canada's undertakings have continued to increase bringing the company closer to top position in the petroleum sector. Many of the Crown company's activities indicate a Government intent to Canadianize the petroleum industry through the purchasing and control of a proportion of foreign-owned firms despite prevailing economic conditions.

Various sources were utilized as primary research materials including Petro-Canada corporate reports, government documents, magazines and newspaper contributions and the few articles and books that have focused attention on Petro-Canada. Interviews were carried out with key individuals in the Corporation and the federal public service to clarify
certain decision behaviors so important to the context of the thesis objectives.

The study of Petro-Canada and its activities begins with the review and discussion of the time period and events leading up to the federal decision to create the national oil company.
Footnotes


2 Ibid., p. 254. "Vertical Integration: The undertaking by a single firm of successive stages in the process of production of a particular good or service. Vertical integration is a predominant feature of the oil industry where the major firms are engaged in all aspects of the industry exploration and production of crude oil, transportation of crude oil to refineries, refining, transportation to retail distribution outlets, and ownership of those outlets."

3 Ibid., pp. 220-221. For example, Imperial Oil acquired fifty separate companies engaged in various petroleum and natural gas activities between February 1950 and April 1972. This is typical of other major oil companies as well.


6 Ibid., pp. 699-711.
CHAPTER 2

THE CREATION OF PETRO-CANADA
To understand the strategic motives behind the decision to create Petro-Canada, an examination of the events leading up to the introduction of the Bill in Parliament in 1975 is required. In essence, there were four primary reasons for the Petro-Canada decision: 1) a sudden revision in the long-term forecasts of potential oil and gas supplies by the private oil industry in Canada; 2) ineffective pre-1973 federal energy policies to cope with the oil crisis and the activities of the foreign-owned multinational oil firms; 3) the OPEC oil embargo and world price increases spurring the oil crisis of 1973-74; 4) confrontations with federal opposition parties and provincial governments questioning the minority government's competence in energy policy formulation threatening the survival of the incumbent Liberal government.\(^1\)

Intervention into the petroleum sector through a national oil company was to provide the federal government with the leverage needed to exercise legitimate control of a neglected resource. Federal-provincial tensions over priorities and resource ownership had been increasing. In addition, there were reasons to question how the American and other foreign-controlled oil firms were managing the development and distribution of Canadian petroleum and natural gas resources. Subsequently Petro-Canada became the policy instrument that was chosen to establish a legitimate political presence in bargaining with provincial governments and more immediately the large multinational oil companies in the private sector.
A review of federal policies shows that petroleum planning and development received relatively low priority in government affairs before the establishment of the National Energy Board in 1959. During the period 1870-1960, oil was abundant for Canadian consumption and there was little concern for energy policy development. Government decision-makers relied upon the expertise predominantly in the hands of the oil executives in private industry for policy direction and resource management. It was not Government policy to intervene directly in private sector activities because the major oil companies competed in the interests of the consumer market, prices were low and supply abundant. More importantly, however, the major firms were not Canadian-owned but mostly subsidiaries of U.S. parent corporations. In trade for Canadian resources, numerous benefits were received in employment, consumption supply, federal and provincial industrial tax incomes from exports, mostly to the United States. In terms of balance of payments and trade position, the benefits seemed to far out-weigh the disadvantages until the late sixties.

Canada, unlike the consuming nations of Western Europe, was actually exporting a significant amount of Canadian crude by 1969 and was ninth in the world in crude oil production. Nevertheless, it still depended upon half of its petroleum supply on imports for Eastern Canada. The Maritime provinces and Quebec were especially dependent upon Venezuelan and Saudi Arabian crude for both their
refineries and the major industries which converted the raw material into manufactured products. National energy forecasts, based upon information supplied in large part by the private oil companies, revealed little cause for concern with regards to supply for other Canadian provinces and by 1973 oil exports to the United States had reached a high of 1.3 million barrels per day—approximately half of the total production in Canada. However, by 1973 international anxiety regarding the activities of OPEC (Organization of Petroleum Exporting Countries) was accelerating and the possibility of an oil crisis alerted the Trudeau government to the nation-wide implications of the exportation of oil and the need to secure supply should a future embargo or a politically-motivated price increase threaten the 'status quo'. Government policy was to quickly shift from promoting high export earnings to securing supply from indigenous oil resources thought to be of significant provision. Along with the shift in Government policy, there was a sudden revision of facts by the oil industry reducing the size of potential reserves previously reported and the long-term supply of oil and gas. Having realized that private reports were inaccurate (the National Energy Board further reporting that Canada might face a shortage by 1982), the Government criticised the major foreign-owned oil companies, asserting that private reports were compiled and submitted to Government officials based on false figures so that export quotas to the U.S. could be maintained.
In addition to the problem of possible shortages, a major confrontation between OPEC and the major multinational oil companies occurred. The result was an increase in the world price and an oil embargo against the United States. OPEC, which had established itself in opposition to the large oil companies, proposed a syndicate price for a barrel of oil produced and exported by any member of the organization (twice that of the world price at that time). OPEC had successfully disrupted both the exploration and production relationships between the big oil companies and oil-producing states. In the Vienna negotiations of October 1973, representatives of the large Oil Conglomerates (several of the large companies had OPEC based subsidiaries) refused to increase the world price for the benefit of the OPEC developing countries. Anthony Sampson, in The Seven Sisters, points out that until 1970, the large companies had held the advantage in international bargaining and that the rapid changeover in power had a drastic effect on Canadian policy. The Canadian national oil policy, designed under the Diefenbaker government, was formulated to take advantage of the low world prices enforced by such companies as Exxon. (In fact, the National Oil Policy, established in 1961, was an attempt to achieve a higher level of petroleum resource development without an excessive cost penalty to the Canadian consumer. Hence, it depended upon the voluntary cooperation of the industry over supply objectives set by the federal government.) The rigid position of the petroleum
multinationals on price proved to be ineffective. In effect the Arab group OPEC unilaterally raised the price and threatened, and later succeeded in enforcing an embargo against any country supporting Israel. As Peter Foster points out:

The reason national governments found these events so hard to control was that the oil crisis was not essentially a confrontation between oil producing and consuming countries, but between the producing countries and the major oil companies...(The Canadian Government)... was not responsible for buying oil from overseas. Neither in most cases, were Canada's largest, foreign-owned oil companies. It was their parents who were mainly responsible for pushing oil Canada's way.16

When OPEC proceeded to impose an oil embargo on the United States and quadruple the price of oil, Canadian energy reserves became very important to the United States economy and industrial base. Since it was American multinational subsidiaries based in Canada that were responsible for shipping oil in and out of the country, the few existing Canadian petroleum firms had little if any control.

The problem for Government decision-makers was to gain control of a national resource (90% foreign-owned) which traditionally had been regulated by foreign members of the private industry. As stated in the energy policy analysis of 1973:

The petroleum industry (exploration, production, refining and distribution) is dominated by foreign controlled firms which account for over 91% of the assets and over 95% of the sales of the industry.17

It became apparent that the Government's first step would be to control the activities of the foreign-owned subsidiaries
by developing an energy policy based on national objectives of supply security and self-sufficiency. It was a difficult position for federal politicians that Canada was dependent upon the actions of the major oil companies and that federal controls on these companies had been limited:

Trudeau's government was attacked for its policies relating to the conservation of non-renewable resources, the sovereignty of the Canadian North, the export of natural gas and petroleum to the United States, and the foreign ownership and control of Canadian resource industries.18

It was also disconcerting to find that the actions of OPEC and the subsequent threats of embargo shifted the vantage ground of price from the multinational to the new exporting Arab nations, thus complicating the control of price and supply.

Much of the Government's apprehensive reaction to the oil crisis was due to historically weak energy policies designed to encourage and increase market outlets for crude oil exports. Regulation of the oil industry through a national policy was minimal. Evidence of this attitude to withhold restraints on the petroleum companies can be seen from one recommendation in particular by the Royal Commission on Energy, July, 1959:

(1) That it be national policy

(1) to encourage and permit the export of Canadian crude oil without licence...19

The rationale for such an open-ended policy on unrestricted crude exports was based upon Government goals to stimulate
the Canadian economy by exporting a resource which the private sector claimed had no limit in sight. The reversal of forecasts by the oil industry changed this optimism and forced an analysis of foreign ownership and further, the implications of excessive oil exports.\textsuperscript{20} It had become clear that Government position in respect of existing energy policy would have to change.

A major policy review conducted by the Department of Energy, Mines and Resources in 1973, recommended industry regulation, moderate action in energy price increases (but with internal steps to bringing prices to the world level), and modification in a very important revenue area - the rent collection system.\textsuperscript{21} Economic rent from oil and natural gas resources, prior to 1973, was being collected through royalties only up to the production stage. Although provisions existed to adjust royalties, to encourage production from small to medium-size oil and gas pools where well productivity was low, the collection system actually enabled the larger oil companies to accumulate high profits. These high profits were used to buy up small Canadian companies and permit monopolistic practices in the country's resource sector. The royalty system of the 1950-60's did not differentiate between a company producing oil from wells that average 100 barrels a day or 5,000 barrels a day. Income tax legislation favoured high profits if retained earnings were used for exploration and production. Royalties in the form of economic rent, for both federal and provincial governments were
lucrative but revenues could have been much higher if ca-
culated both on production and refining and marketing activ-
ities. Very few controls, except for federal and provin-
cial laws and regulations, influenced the domestic or inter-
national role of the foreign-owned companies active in the
energy industries. The 1973 energy policy advocated a variety
of policy devices (such as the Foreign Investment Review Act)
that would restrict foreign-ownership and secure new tax
regulations as well as Canadian participation in energy
activities, i.e., tar sands technology, extending the pipeline networks, etc. A selection of other policy approaches
were analyzed in the study:

a) Canadian participation in the equity of all firms
   -e.g., 51 percent Canadian ownership in the equity
   of all energy companies, or of any new ventures.

b) Joint ventures involving Canadian partners - public
   or private.

c) Carried interest rights for a public authority lead-
ing to 'participation' in the firms involved.

d) Public ownership of a firm in this set of industries.

e) More extensive use of a review procedure in the
   investment made in the energy sector.

Major concerns of policy-makers at the time were to furnish
detailed policies that would provide guidelines for each of
the energy commodities (coal, uranium, oil, natural gas,
electricity, atomic energy) and curb excessive exports with-
out hindering foreign investment in the oil and gas industries.
The quandary was trying to retain foreign investment while
reducing exports and increasing Canadian ownership. The
result of an investment slowdown would create an overall net cost to the Canadian taxpayer (added to the already increasing world prices) that could only damage the Government's minority status. The federal government's limited experience in state-held petroleum industry investments (Panarctic and the Quebec Petroleum Operations Company) prompted a serious force-field analysis and discussions of a "national petroleum company":

An NPC could act to stimulate regional development in specific areas of Canada. It could serve as a centre for Canadian research, concentrating on unique Canadian opportunities and on the potential spin-offs in industrial activity. It could play a role in determining the criteria on which the government might base its policies regarding economic rent collection. It might also play an effective role on behalf of government in relations with other countries where their state companies were active.

Specific benefits which would result in the creation of a national petroleum company were summarized in the 1973 Energy Policy Phase I Report as follows:

1) Social satisfaction to Canadians from ownership of the industry;

2) Increase in knowledge about the industry and the activities of foreign-controlled firms;

3) An NPC could provide more accurate policy information because it would be industry based;

4) An NPC could play a role in setting prices;

5) An NPC could encourage and develop markets for refined rather than unprocessed petroleum adding revenue and employment benefits;

6) An NPC could act as a centre for Canadian research "...on the potential for spin-offs in industrial activity and technology to Canadian industries";
7) Employment benefits could be realized in the supporting service and supply sectors;

8) Technologies could be developed to expand into the Arctic and specialized service industries would benefit from the increased activities;

9) An NPC could stimulate regional developments, provide incentives to attract private corporations and lower risks in marginal industrial areas;

10) The NPC would have a role in government relations with other countries, especially where their state companies were active.25

Despite the positive tone for an NPC, the study recommended that the concept be temporarily set aside.26 Counterarguments were made in the report against the creation of a national petroleum company. The major concern was cost and projected reaction from the private sector:

Probably more than any other factor, the question of cost inhibits the creation of an NPC... the creation of a large, competitive NPC might discourage the multi-national corporations from continuing to reinvest their earnings in Canada, with undesirable economic consequences.27

The 1973 Energy Policy for Canada - Phase I was the most extensive work on policy formulation and analysis of the energy commodities ever performed. Nevertheless, there were other major obstacles. First, the new policy was accompanied by a new budget in 1974 proposing unavoidable price increases on petroleum products, evoking public disapproval before the budget was even presented.28 Secondly, the new policy was met with considerable opposition by the New Democratic Party and to a lesser extent by the Conservative Party. The Conservatives eventually criticized parts
of the proposed policy that further restrained industry activities, and the New Democratic Party demanded a more extreme approach of placing limits upon the profits of private companies, controlling the rate of resource exploitation and setting export quotas. The New Democratic Party which favoured increased Government intervention in private enterprise, emphasized the need for "Canadianizing" the entire petroleum industry by establishing a National Oil Company that would undertake a major role in energy development above the activities of private corporations. The New Democratic Party, recognizing public disapproval of upcoming high gas prices advocated by the May 1974 Liberal budget, prepared to defeat the government solely on the proposed energy price increases.

At the level of federal-provincial relations, intergovernmental bargaining over resource rights became more intense. The conflict over legal-constitutional guidelines for federal and provincial activities in resource management accelerated as forecasts reflected less optimistic figures of supply. In particular, the province of Alberta which produces about 80% of Canada's oil, recognized the political opportunity to assert its right of management and to claim ownership over a resource that was to make the province extremely wealthy. Premier Lougheed of Alberta, at different times during 1973 and 1974, declared that his province would export crude as the opportunity increased:
Alberta cannot agree to having to keep its oil in storage for tomorrow in order to serve a slow-growing Canadian eastern market, or to have its oil available for some kind of emergency.34

In addition to these conflicts, the Trudeau government was faced with the problem of encouraging foreign investment and industrial activity while attempting to exercise more control over it. The flow of revenues into the federal purse, which increased steadily as foreign-ownership increased, was an important addition to Government income.

The parties, the provinces and the public questioned the Government's ability and competence in overcoming the effects of the oil crisis amidst cries for economic nationalism. Thus, the Government was forced to seek an alternative that would not inflame federal-provincial relations over resource rights, resolve the threat of a forced election by the NDP and still complement the newly-formulated policy strategy for dealing with oil shortages, excessive exports and increasing foreign-ownership in the industrial sector.

The convergence of these events was to provide a compelling reason to exercise greater control over the petroleum industry, gain public approval and deter provincial expansion of resource rights. Political survival became the immediate goal--effective management of petroleum resources, the long-term strategy.35

The advantage of state control, in at least part of the industry, had become very attractive to government
decision-makers. Like many of the Western industrial nations, a change was occurring in the traditional management of petroleum resources in Canada. Already many of the West European countries had intervened in various petroleum activities through state-owned oil companies. As stated by Hasan Zakariya:

One of the main reasons for setting up these state companies was to engage in petroleum operations abroad for the sake of ensuring to their respective governments the security of foreign supply on the most favourable terms possible.\(^{36}\)

The main objective of these companies "...was an attempt to secure a foothold, for strategic and financial reasons, in local and private entities."\(^ {37}\) The feasibility of a National Oil Company in Canada was to be based upon the successful petroleum activities of countries which had been operating state oil companies, in some cases, like Italy, since 1926 and more recently in other European and third world countries such as Mexico, Brazil, etc.\(^ {38}\) In spite of the diversity in background among these state oil companies in their various countries, their emergence and growth reflected a transition in the world petroleum industry and in resolving energy management problems - especially when the energy crisis of 1973-1974 threatened to cripple foreign oil-based economies.

Canadian ownership in the private sector was limited. Few Canadian-owned companies were financially equipped to safeguard an acceptable level of competition in Canada.
without some federal intervention. For example, Canadian take-overs of foreign controlled companies were limited to one in 1969 and two in 1970; both acquisitions were very small and of little consequence. The federal government had some limited experience in commercial petroleum ventures. Pan-arctic Oils Ltd., although not a Crown corporation, is partly controlled through equity stock share interest of 45% by the federal government. Before being absorbed by Petro-Canada, it was managed by recruits from the petroleum industry and explored on federal oil and gas permits with "...broad public policy goals...".

In addition, the creation of an NPC in Canada would help to resolve problems plaguing federal-provincial relations over territorial jurisdiction of offshore resources:

One of the main objectives in creating a State Petroleum Company is, of course, to promote the speedy search for and development of petroleum deposits under effective national control and to maximize the financial benefits from their eventual exploitation. To that end, SPC's are usually granted, either in their statutes or in petroleum laws, primary and exclusive jurisdiction over all the national territory, including the continental shelf, with the exception of those areas, if any, which have already been committed to foreign operators under existing concessions.

It would enable the Government to accelerate exploration in high risk areas while playing a very visible role as financier of high risk projects on provincial territory. Finally, to base the Crown company in Alberta, would enable the federal government to integrate research information with provincial resource management schemes. These,
added to the advantages discussed in the 1973 energy policy, constituted the rationale behind the policy decision to create Petro-Canada. Just five months after the Phase I energy policy of 1973 was made public, the Trudeau government announced its intention to create the Crown company.43

The federal decision to create Petro-Canada was made to enable successful Government policy action in securing supply, regulating foreign industry activities and deterring domestic confrontations which questioned Government competence.44 In the period between 1973 and March 1975, policy-makers were to construct a mandate and organizational structure from which Petro-Canada could operate, similar to the private oil corporations, in oil and gas exploration and development. The objects of the corporation, delegated by Parliament, were set out as follows in the Petro-Canada Act of 1975:

a) to engage in exploration for and the development of hydrocarbons and other types of fuel or energy;

b) to engage in research and development projects relating to fuel and energy resources;

c) to import, produce, transport, distribute, refine and market hydrocarbons of all descriptions;

d) to produce, distribute, transport and market other fuels and energy; and

e) to engage or invest in ventures of enterprises related to the exploration, production, importation, distribution, refining and marketing of fuel, energy and related resources.45

A Government corporation competing with larger companies would require huge amounts of capital but like the major
oil companies would return, in time, a profit. However, Government officials had little knowledge or expertise in the petroleum industry. The Crown company's participation in the market place would return information, more solidly based than private reports about potential reserves and, in addition, work cooperatively with the National Energy Board. Furthermore, through Petro-Canada the Government would have an official agent to bargain and negotiate with foreign-owned firms and provincial governments.

Many spokesmen of the large oil companies operating in Canada argued that controls over the oil and gas industry already constituted a large enough Government intervention. However, the creation of a proprietary Crown corporation was a far different step in a quite different direction than extending regulation over the private industry. Rather than exerting influence upon the petroleum industry from the "outside", the Government decided to become a "watchdog" and play a major role in industry operations by locating and participating within that particular resource sector. By establishing a Government 'presence', policy-makers were able to move into active participation in the energy industries.

The petroleum industry had been dominated by the private sector for half a century. There was little experience in Cabinet or the Department of Energy, Mines and Resources to extend, constructively, production regulations on the industry over and above the 1973 energy policy
package. Yet, it was crucial to intervene and manage petroleum resources for the benefit of supply security and Canadian ownership and offset provincial primacy in respect of natural resources.

Both Energy Ministers (MacDonald and his successor, Gillespie) as well as the assembled board of directors for Petro-Canada, emphasized the need for Government "participation" as the underlying reason for the creation of the corporation and its ongoing activities. The interaction of institutional and corporate actors, operating cooperatively with regards to goals, profit, research and development, and trade, enabled the Government and federal policy-makers to acquire the experience not possessed "in-house". The Crown company entered into agreements with other companies and with Provincial governments, purchased all the material necessary for its functioning; rented those services that its operations required; and acquired the rights to new fields or companies or disposed of holdings or investments - an act of vertical integration into the private sector.

Crown-owned companies are a common policy instrument widely used by governments at both federal and provincial levels to intervene in the private sector. The Government's rationale for choosing the public corporate form rather than extending federal regulatory measures on oil and gas activities, was primarily a political consideration. Through the Crown corporate device, federal decision-makers would have a tangible and direct presence in the petroleum sector.
Furthermore, the corporate device would provide a means for generating revenue. The justification for pursuing such long-range policy strategy also underscored the legitimacy of government, that is the ultimate right or authority to exercise control over industry and the legal power to intervene in resource mobilization through any means deemed appropriate.  

The task of ensuring more cooperation from the private sector and control of environmental factors required specialization and the additional tool of government coercion. In other words, the decision to create Petro-Canada involved the selection of compliance methods to be utilized for redistribute resources to the society.

The broad and general powers set out in Petro-Canada’s mandate have allowed organizational decision-makers to pursue elaborate corporate strategies extending beyond the nation's borders. The reason for such a mandate was stated simply that the Government should:

(1) Not tie Petro-Canada’s hands in comparison with other companies in the same energy fields (basically oil and gas) and which are able to undertake a variety of operations;

(2) Permit the company to adapt to changing economic conditions in the energy sector, and enable it to adjust the focus of its activities from one aspect of the energy industry to another according to changes in Government priorities.

Indeed within three years from the date of its creation, Government priorities were growing and expanding with each successful action taken by the Crown company. At the same time, the Government was establishing authority in the energy
sector and establishing a federal presence in this sector.

For the private sector to accept this abrupt intervention by Government, policy makers realized industry executives expected that those who exercise authority have the appropriate background or experience and reputation for the position they occupy. The Board and management of Petro-Canada were formed to include an even number of representatives from the private and public sectors.50 For instance, the first chairman chosen to set up the Corporation, Maurice Strong, had an impressive list of achievements in an array of executive positions in the petroleum industry. Wilbert Hopper, who was to succeed Strong shortly after, was Assistant Deputy Minister in the Department of Energy, Mines and Resources and had strong ties with private oil men. It was important that Petro-Canada be welcome in the oil and gas industries if it was to be successful and much of that success would come from joint operations with private industry. Thus, Petro-Canada's corporate structure was designed to allow the company to pursue the dual role of acting as a catalyst for investments while implementing Government priorities and securing Government authority through direct participation and competition in exploration and development activities. Massive steps into frontier exploration, the tar sands and heavy oil technology had positive results for both the Crown company and several mid-sized and major oil firms. An industry spokesman commented:
If Petro-Canada is an additive influence and an additive positive contributor in the search for the finding of and then the development of oil and gas reserves in Canada, we welcome it with open arms.\textsuperscript{51}

Private companies criticized the initial actions of the Crown company especially in its ability to explore at will in any fields under Federal jurisdiction\textsuperscript{52} (private enterprise had to acquire permits based on regulations not always applying to Petro-Canada). However, Petro-Canada has encouraged private companies to venture jointly in forbidden regions, resulting in substantial discoveries. Within time, Petro-Canada had succeeded in becoming a respected co-equal among the major Canadian oil companies.

The decision to create Petro-Canada also had important implications for federal-provincial relations in the area of natural resource rights. It was considered advantageous to go beyond regulative functions, which the NEB performed, to full control of research and development projects as well as exploration on federal crown land. The passing of Bill C-8 by the House of Commons secured Petro-Canada authority in areas constitutionally considered 'ultra vires' provincial jurisdiction.\textsuperscript{53} This included a major role in off-shore resources and international trade, which the Government believed would increase bilateral and multilateral contacts with other countries affecting energy supply and enable Petro-Canada to become an international oil company similar in status to National Oil companies found in industrialized countries such as Britain and Sweden.\textsuperscript{54} It
was also assumed that such action would subdue threats from Alberta to regulate unilaterally its provincial oil exports. In addition to this, Petro-Canada had launched exploration and aggressive land acquisition programmes in the Western provinces (in 1979, 148,000 new exploratory hectares were purchased at Provincial Crown sales). Thus, the Petro-Canada decision was instrumental in curtailing economic and political problems facing policy-makers in the early seventies and, in addition, providing the foundation for intensive strategy development in the management of petroleum and natural gas resources.

The fundamental goal of policy-makers in proceeding with the NPC decision could be considered a significant decision in energy policy formulation in Canada. The pursuit of certain strategies, especially corporate acquisitions, has intensified and expanded the role of the Crown company as it gathers more and more experience operating in the national and international markets of the private sector. From the very beginning, Government officials began to placate the concerns of the private sector, to attempt to avoid provincial confrontations and rapidly accumulate the resources needed to operate authoritatively in petroleum activities.

The decision to create Petro-Canada was only the beginning in petroleum policy development. It became clear, and this is evident from the array of powers awarded to the Crown company by the Petro-Canada Act, that in order to plan for national development and successfully operate parallel to
private industry, the policy instrument Petro-Canada would have to use its power quickly and entrench a federal presence in industry activities. Corporate acquisitions were the most expeditious and traditional method (from a private sector point of view) if the Crown company were to establish authority and competitive dominance.
Footnotes


2 The federal role was primarily one of export control and government policy had been expressed differently from one energy source to another. A history of this is reviewed in: Canada, Minister of Energy, Mines and Resources, "An Energy Policy for Canada - Phase I", Vol. I and II (Ottawa: Information Canada, 1973)

3 Most of the Government's information up until 1970 came from private company sources. Reports submitted to Government to enable energy policy decisions such as the Royal Commission Reports of October, 1958 and July, 1959, included policy recommendations based on corporate input.

4 Peter Foster; (op.cit.); pp. 12, 20, 22.


6 Ibid., p. 41.

7 Ibid., pp. 38-42.

8 National Energy Board, Minister of Energy, Mines and Resources, "In the Matter of the Exploration of Oil" (Ottawa: Information Canada, 1974).


10 Ibid., p.6.

11 Ibid., pp. 6-11.

12 Peter R. Odell, Oil and World Power: Background to The Oil Crisis (Hammondsworth: Penguin Books, 1974).


14 Peter Foster, (op. cit.), pp. 28-30.
16 Peter Foster, (op. cit.), p. 22.
18 Larry Pratt, (op.cit.), p. 97.
20 Other sources include information from the B.C. Energy Commission and the Department of Energy, Mines and Resources.
21 "An Energy Policy for Canada - Phase I", pp. 142-152.
22 Ibid., pp. 146-147.
23 Ibid., p. 23.
24 Ibid., p. 18.
25 Ibid., pp. 186-188.
26 Ibid., p. 189.
27 Ibid., pp. 189-190.
28 Globe and Mail; May 12, 1974.
29 Globe and Mail; July 14, 1974.
30 Peter Foster, (op. cit.), p. 141.
31 Larry Pratt, (op. cit.), pp. 97-99.
33 Ibid., p. 102.
34 Committee on Energy and Natural Resources, United States Senate, (op. cit.), p. 6.
35 This is supported by a statement made by MacDonald in March, 1975: "...the concerns which have led the government to propose the establishment of a national petroleum company have much more to do with the future than with the past." See Peter Foster, (op. cit.), p. 142.

37. Ibid., p. 482.


39. Ibid., p. 233.

40. Ibid., p. 247.


42. Oil Week, October 13, 1975.

43. Peter Foster, (op. cit.), p. 141.

44. Further support on this can be found in the article by Larry Pratt, (op. cit.), p. 107.


46. Committee on Energy and Natural Resources, United States Senate, (op. cit.), pp. 22-24.


49. United States Senate, Committee on Energy and Natural Resources, p. 22.

50. See Appendix A.

51. J. S. Payen, Chairman of the Canadian Petroleum Association, April 30, 1975, Calgary.

52. This amounts to approximately 500 million acres of land under federal base permits.

53. The array of powers and jurisdiction over natural resources are generalized in the BNA Act. Disputes, especially those initiated by the three major oil producing provinces (Alberta, B.C., Newfoundland), continue into the present day. However, in the Petro-Canada Act (and because it is governed by the Companies Act as well) the Crown corporation is required to comply "...with the laws of that province relating to the conservation of natural resources..." (Section 14). Otherwise, there appears to be little formal
control a province can exercise over the activities of the Crown company.

54 Government intervention has become more evident in the October, 1980 budget and "The National Energy Program 1980".

55 Peter Foster, pp. 33-45.

Chapter 3

A Framework for Strategic Decision-Making
Corporate decision-makers identify for themselves and their organizations long-range goals and consciously plan strategies as a means of accomplishing those goals. This approach in organizational decision-making theory is relevant in assessing the internal decision-making and strategy formation process of currently operating Crown companies. 'Strategic' decision-making is a process pursued by varying-sized organizations, whether they be the private firm, the government department or a government company. It is an area where the study and comparison between private and public sector corporations converge.

Petro-Canada's rapid expansion has been the result of strategies employed by the company's board of directors. These strategies have been effective because of a combination of factors. In the first instance, they provided a broad mandate from which to launch an operating campaign. Secondly, they created an organizational structure which replicated that of the large oil firms of the private sector. Finally, they provided certain resources and capabilities indigenous only to the Crown corporation. The objectives of this chapter are to briefly examine the key similarities and differences between the private and public sector 'corporate model', especially with regards to Petro-Canada's organizational structure and to propose a decision-making model which takes into account the dual guideline of strategic objectives evident in the decision processes of Petro-Canada.

The structure of any organization directly influences
the behavior and dynamics of strategic decision-making in that organization. Many Crown companies were formed from organizational structures that have evolved as successful models of performance in the private sector of the Canadian economy. The organizational structure of federal companies such as Teleglobe, Air Canada and the Canadian Development Corporation to name a few, resemble the internal dimensions of large private sector companies, including hierarchical levels, functional guidelines, operating procedures, as well as rules distinguishing the allocation of decision-making power. The corporate structure includes a board of directors, a chairman, chief executive officer, to act as liaison between corporation and government; a president, chief operating officer, to oversee operations on a whole; and various divisional officers performing specific operative functions within their area of expertise.

Federal organizations have been formed "...with a view to obtaining the maximum return..." from the marketplace, analogous to private enterprise. Crown companies are separate legal entities responsible to the same ordinances regulating a commercial company (i.e., the Canada Companies Act). A large degree of independence and management autonomy, subject to regular government monitoring, enable the crown corporation to function within the commercial realm promoting economic development.

Canadian public corporations are normally created to promote national and provincial development, to offset some of the glaring inadequacies of competitive markets,
and to undertake important activities eschewed by private enterprise. ...With some exceptions, government corporations are expected to behave like their private counterparts.6

Aside from organizational structure characteristics, the private sector corporation and the Crown company differ radically in areas affecting the range and capabilities of either operation. Consider the following characteristics which distinguish the commercial enterprise:

i) it is a separate legal entity; ii) it offers limited liability to its shareholders; iii) a shareholder as such can neither direct nor commit the company; iv) a shareholder neither describes the company nor deters its legal personality by selling its shares; v) it can raise loans as well as equity capital; vi) its capital structure is significant in determining its commitments; vii) its continued existence depends upon its generating a cash flow adequate to meet all its commitments.7

Actually, only the first characteristic applies to the Crown company. As Irvine points out, areas related to liability, financial responsibility and accountability in the Crown company, differ radically from the private enterprise.8 For instance, the government is the major shareholder in every case and has the power to limit liabilities (or carry them at risk). In the majority of cases there are no public shares for sale. The sale of the majority of shares would change the legal status of the Crown company making it no longer subject to the laws governing its control through the Financial Administration Act.9 Therefore, with the exception of one or two, the federal government wholly owns each Crown company:
Where a share structure exists, shares are usually held by the appropriate minister... Not only is the Government of Canada the 'owner' of Crown corporations but is also the 'banker'.

The advantage of this 'limited liability' makes it inconceivable that the government would permit the organization to be forced into liquidation by any private creditors. Although Crown corporations are able to raise financing in private capital markets, financial responsibility to continue the activities undertaken lie entirely with the government and any Crown corporation can request an appropriation from Parliament to cover losses or have special arrangements made available to it. The commission of such a resource is not accessible, without Parliamentary exception, for private corporations.

Accountability of board members is undoubtedly the key area differentiating the public and private sector corporation. A private corporation is accountable to its shareholders by providing a successful return on its investments, or more accurately, making a profit. Here responsibility and accountability are measured by the success of the company in making profits. (That is, if the company has not turned an acceptable profit, the board becomes accountable for the outcome - rarely are specific decisions and strategies of board members questioned by the body of shareholders. Decision-making is centralized and the responsibility of the officers of the company.) The Crown corporation board is not removed from this measure of (profit)
accountability, although success may be translated into
different terms depending upon the nature of the Crown
company's activities. As mentioned earlier, the government
is the major shareholder. The Crown company, through its
board of directors, is held accountable both for its operating
behavior and by achieving federal policy objectives.
Several mechanisms are used by government to obtain respon-
siveness and accountability - corporate budget approvals for
example. In the Petro-Canada Act, it states that the
approved capital budget "...constitutes the authority for
all capital expenditures and commitments of the corporation,
including loans and guarantees by the corporation, set out
in the budget or supplementary capital budget as the case may
be." This has not maintained control of Crown corporate
intentions on the whole:

...budgets of Crown corporations have too often fail-
ed to fulfill their potential and have, accordingly,
failed as effective instruments of direction, control
and accountability. The problem, quite simply, is that
budgets do not always provide the kind of detail of in-
formation to inform adequately the government and Parlia-
ment of corporate intentions.

In several cases, Crown companies have exceeded budget ceil-
ings or involved the corporation in commitments not approved
by the budget. This has prompted numerous attempts to
impose measures that would ensure control. "Rolling"
corporate plans, annual reports, corporate financial state-
ments, and even interim statements of account, instruments
adapted from private sector experience have become Government
monitors that scrutinize board behavior and company performance. As stated in the Privy Council report on Crown corporations:

The Government proposes that each (corporation)... prepare a three to five year 'rolling' corporate plan. It is expected that the plan would set out projected corporate objectives and strategies for the coming three to five years and an explanation of the manner in which they were intended to achieve broader policy objectives and the long-term policies of the corporation. The plan would also show expected costs, the phasing of commitments and the financing required to achieve objectives.\(^{17}\)

This passage demonstrates the value the federal government has placed on organizational output or company performance. The expectation of board members that long-range planning in strategic decision-making provides a means of achieving government approved targets or goals is also important.

Accountability is sought regularly from the board members of the Crown company in this manner, and in some cases, the government issues specific directives to the officers of the company. These directives have designated standards of performance to guide the decisions of the Crown company's management.\(^{18}\) However, these directives are usually issued in too broad a manner, most frequently due to the complexities of decentralized decision-making, and in other instances, because of lack of expertise in advising alternative action. There is the additional factor that government objectives often evolve and change rapidly in order to keep up with changing situations and circumstances that have national consequences. The Department of Energy, Mines and Resources
may intervene to inform the corporation of public policy objectives in a more detailed way. Synchronizing corporate goals with Government's broader interests increases the responsibilities and complexities of the role of the directors in decision-making. As stated in the Privy Council Report:

The role of boards of directors of Crown corporations is not completely analogous to the role of boards of directors in private or public companies in the private sector. In the private sector, directors are often either substantial owners of shares in the corporation or representatives of shareholders. It can be argued that such directors have a clearer and more personal interest in the performance of the corporation and that interest, at all times, will be to maximize the return on their investment in the corporation. In Crown corporations there is no shareholder but the Government of Canada and directors bring to the boards special qualities by which to represent best the government's interests. But the government's interests are wider and more complex than those of maximizing return on investment and as a result the role of directors is broader and more complex. Further, Crown corporations' connections with the government are varied and complex.... Consequently, the role and responsibilities of boards of Crown corporations in relating to this intricate shareholder are somewhat constrained, but more complicated in comparison to the responsibilities of boards in the private sector.

In fact the responsibilities and complexity of company activities increase where subsidiaries and major operating divisions are created. For example,

...the fact that Crown corporations may use and on a few occasions have used, their powers to establish a subsidiary and thereby remove the management of an activity from the supervision of the government and Parliament, or undertake an activity via a subsidiary...

The Petro-Canada board of directors has used the power to establish subsidiaries without prior formal government or
Parliamentary approval. Accountability and responsiveness to national interests becomes more difficult to secure from a government corporation, given such a broad mandate (with an imposing array of discretionary powers), when it is expanding faster than any other company in Canada. Interviews, with several executive members, revealed contentions that arise from setting reasonable corporate objectives which must accomplish or comply with the dual guideline of requisites—both organizational and government needs. The possibility of such a conflict provoked the following reaction from the Task-Force on Petro-Canada in 1979:

The Task-Force believes that resources are not efficiently used when the objectives of a company are not clearly stated - when a Crown corporation such as Petro-Canada is charged with the frequently conflicting responsibilities of serving broad national objectives and showing an appropriate profit from the use of the resources under its control. Such conflicts place the senior technical personnel and officers in an inherent state of uncertainty. They must make difficult decisions as to which objectives should take precedence, frequently with an incomplete knowledge of the urgency of diverse national priorities.22

However, the Petro-Canada board has managed so far to conduct activities complementing Government wishes and in coordination with Government policy priorities. In fact, the dual guidelines have been a major component in the corporate planning process.23 Rapid growth has been planned in order to accomplish and synchronize both organizational and government goals.24 This approach has been referred to by company officers as "parallel planning" - maintaining the viability
of the corporation through expansion in order to achieve the broad mandate set out for the company in the Petro-Canada Act, and conducting activities which do not diverge from government goals. There has been a certain amount of interpretation made by board members regarding the company's role in policy achievement. The significance here is that the organization operates quasi-independently from government management to secure its own survival and accomplish organizational targets. Indeed, this may account for the 'monopolistic' tendency of the company to compete with its private counterparts by acquiring profitable firms. Petro-Canada has received the Government's recognition because it has been so successful in achieving a feat government officials would otherwise find difficult to do through regulative legislation.

STRATEGIC DECISIONS - AN ORGANIZATIONAL PROCESS

When the Petro-Canada case study was chosen for analysis, two facts became evident:

1) At the time of the energy crisis of 1973, the federal executive lacked the 'in-house' experience and expertise necessary to propose specific energy policy measures which would effectively secure the government's survival;\textsuperscript{25}

2) The passage of the Petro-Canada Act and subsequent creation of the Crown corporation delegated decision-making to an organization that would base decisions upon business considerations (free to copy commercial practices) and upon government policy objectives.\textsuperscript{26}

Over a period of four years, it has become apparent, if one cites the new National Energy Programme of 1980, that Petro-
Canada activities have directly influenced, and specifically, expanded Government energy policy objectives. This strategy has depended upon the expertise of the company officers and the guidance provided by government officials in interpreting the broad mandate. The decisions which have been made within the company, in pursuit of this strategy, have had to satisfy both organizational and government needs. Hence, Petro-Canada decisions, and specifically strategic decisions made in reaction to both organizational and government policy goals, have been based upon a guideline of combined decision criteria or rules. The decision process has had to accommodate a combined approach and examine factors considered by board members and executive personnel as advantageous to the growth of the Crown organization towards federal energy policy achievement.

The proposition, therefore, that Petro-Canada strategy is a result of decisions that attend to organizational needs implies a set of rules, decision criteria, exists and narrows conflict to 'decision channels' — "...regularized means of taking government action on a specific point of view." Thus, it is important to assess the impact of decision processes in strategy formation. Strategic decisions are the bi-product of an organization attempting to achieve very broad long-term goals in energy policy in a competitive industrial environment.

Whether the Crown corporation will succeed in achieving
policy strategy goals depends upon factors such as the actors themselves, the communication channels (or intergroup accesses) established, the original policy objectives and operating goals set by the organization to achieve those objectives; as well as more rudimentary requisites such as profitability, size and asset base (if an acquisition) or the implications of research and development projects. Strategic decisions emerge as the outcome or result of a board evaluation of organizational performance needs.

Graham Allison's organization process model seemed to provide an appropriate approach to analyse Petro-Canada's strategic decision processes (and specifically, the acquisition of Pacific Petroleums Ltd.) and to examine how Crown company performance factors merge to structure corporate plans and subsequent strategy guidelines in policy achievement.

The approach is particularly useful to this study because it emphasizes government organizational output or performance in decision-making:

...governments perceive problems through organization sensors. Governments define alternatives and estimate consequences as organizations process information. Governments act as these organizations function according to standard patterns of behavior.

Allison suggests that final strategic decisions are selected as a product of an evaluation process by the organization's decision team. This evaluation process is a normative description of how organizational responses may be programmed especially where major policy decisions are concerned. He
proposes that nine decision factors require the attention of company and government officials in certain strategic decisions. For the most part these characterize the decision process and play the role of guidelines and permit, what Allison refers to, as "...specialized attention to particular facets of problems..." enabling decision-makers to control organizational responses. In addition, these factors encourage quasi-independence from government direction and from the broad guidelines of national policy.

The organization process approach has been modified for this study. The scope of the research and the time period involved did not permit an exhaustive analysis of each of the nine factors utilized in Petro-Canada's strategic decision processes. Further, and this is evident from the data collected on each acquisition decision, the nine factors were not all equal in significance when applied to the three case decisions. Pacific Petroleums Ltd. has been chosen for analysis using the basic principles and relevant factors from the organization process approach. The less significant factors which have been extracted from the Allison approach and briefly noted include:

Sequential attention to Goals: This refers to the analysts's observation of continuous responses to the goals and priorities established by the decision-making group, or in Petro-Canada's case, the board of directors.

Standard Operating Procedure: Daily routine affairs, budgets and operating repertoires which guide the standardized practices of the government organization.
Programs and Repertoires: That organizational behavior will be determined by the effectiveness of internal programs and how well they are integrated with the objectives of parallel programs managed by the various divisional and department heads.

Uncertainty Avoidance: Government organizations prefer to execute decisions or enter into arrangements with as much knowledge of a situation as possible and along familiar guidelines established by operating experiences.

The following Allison factors were chosen as relevant to the analysis of the Crown company board's behavior in the Pacific Petroleum decision:

Priorities, Perceptions, Issues

The major decision-makers, their perceptions, values, priorities, influences the nature and range of decisions made in pursuit of the corporation's strategy.

The various goals decision-makers have with regards to a situation affects decision outcome. Regularized decision channels are important to organization members who must place a 'value' on both the industrial and political premises that prevail upon each significant decision. Decisions which commit the company to a course of action or strategem, are contingent upon the preferences and priorities of the decision members. The organizational actors interviewed for this study placed a high rating on intergroup communication in acquisition decision-making, prior to decision execution, secondary to the importance of company performance factors.

Goals

Streams of decisions are made to maximize strategy objectives and so the company breaks down its formal mandate
into operating goals or objectives. In the case of Petro-
Canada, these include the acquisition of resources and tech-
nology, formulating production plans to increase revenues, 
the search for exploration land and so on as a means of 
accomplishing its purpose.

Problem Directed Search

When an organization is engaged in unique or non-
standard situations (as found by Petro-Canada board members 
in major acquisition activities) decision-makers search for 
alternatives, solutions and policy guidelines as a means of 
dealing with a particular situation or in accelerating the 
decision process to a conclusion. What develops is a method 
or style of problem-solving. In Petro-Canada, there are 
discernable patterns of this problem-solving approach.

Organizational Learning and Change

When a dramatic change occurs, such as a performance 
failure or a strategic decision collapses, organizations 
demand immediate change and critical members of the decision 
team must re-direct the organization or be replaced. Petro-
Canada's failure at purchasing Husky Oil changed the proce-
dures for acquiring foreign-owned firms. Pacific Petroleums 
Ltd. is a good example of this change.

Central Coordination and Control

The measures for reporting and ensuring accountable 
actions from government organization board members to the 
government leaders are secured by certain controls. For 
the government leaders are secured by certain controls. 
For the most part, the activities of the Crown corporation
are regulated or controlled by the various informal and formal reporting mechanisms between the board and Cabinet, and ultimately to Parliament (committee hearings, policy directions from the Governor in Council, annual reports).

The major advantage of the Allison paradigm, specifically is the perspective provided to evaluate decision making. It is one of the few decision models that identifies the criteria and parameters guiding a government organization oriented decision team. In the analysis of Petro-Canada, specific policy factors, such as the long-term goals reducing foreign ownership emerge in the strategic decision process further distinguishing the character and range of decision latitude of the Crown corporation from its counterpart in the private sector.

Identifying which factors are considered in the decision-making process enables the analysis to discern and divide strategic decisions from operating decisions. The compilation of these strategic decisions, like the pieces of a puzzle, when put together help to determine the long-
range goals and, specific to this study, the corporate-government strategy of Petro-Canada.

**IDENTIFYING DECISION PATTERNS**

The success of the Crown corporation, Petro-Canada, depends upon the board and executive member's abilities to achieve political and organizational objectives while operating within the sphere of an industrial environment and, further, be able to integrate decisions towards an explicit corporate strategy; a strategy which must satisfy the intent and objectives of Government policy. This difficulty in making decisions that are both sensitive and responsive to whatever organizational resources are needed for fulfilling policy goals also become complicated by bureaucratic input and demands. Unlike the private firm, national goals are of great significance in Crown corporate planning. Interactions between Petro-Canada executives and federal officials occur in the early stages of decision-making as a means of resolving conflicts to benefit and maximize decision execution. More importantly, decisions and alternatives of a strategic nature are scrutinized informally by both government and corporate officials before being executed. Planning and consistency in identifying objectives which satisfy both requisites further generates patterns of operating decisions. Major decisions are made towards goals, which the majority, contributing to the decision process, accept as policy effective.
'Strategy' is used in various management terminology phrases (that is, strategic decision, strategy formation, strategy planning process, etc.) and has incurred varying interpretations when employed in organizational decision-making models. In this study, strategy refers to a conscious plan(s) that requires decisions be made to carry out a long-term or ultimate corporate objective: "...deliberate plans conceived in advance of the making of specific decisions...". 36

From 1976 to 1979, two types of strategies emerged as the activities of Petro-Canada were studied; strategies that are intended and realized. The former is defined above as the initiation of a preconceived plan:

...when a sequence of decisions in some area exhibits a consistency over time, a strategy will be considered to have formed...the strategy-maker may formulate a strategy through a conscious process before he makes specific decisions, or a strategy may form gradually, perhaps unintentionally, as he makes his decisions one by one. This operationalizes the concept of strategy for the researcher. Research on strategy formation focusses on a tangible phenomenon - the decision stream - and strategies become observed patterns in such streams.37

An intended strategy can be determined by the direction apparent in strategic decisions identified as such. A realized strategy can be best understood as the achievement or realization of a specific pre-deliberated goal or of a strategy which emerges to confront rapidly changing conditions - possibly a threat to the survival of the organization:
An organization may find itself in a stable environment for years, sometimes for decades, with no need to reassess an appropriate strategy. Then, suddenly, the environment can become so turbulent that even the very best planning techniques are of no use because of the impossibility of predicting the kind of stability that will eventually emerge.\textsuperscript{38}

Decisions made within Petro-Canada are either related to operating repertoire or as a result of the strategic-decision process. Decisions that are maintenance in nature, respond to subunit goals or expedite the company's standard operating procedures. Identifying major decision streams which reveal strategy content and range, requires first the identification of 'strategic decisions' - specific actions or decisions which emerge from the strategy formation process.\textsuperscript{39} It is important that the analyst determine whether strategy forms unintentionally and perhaps changes as decisions are made. 'Strategic change' has been apparent in certain decisions reviewed in this study, especially when Petro-Canada is confronted with a new and hostile government intent upon changing the structure and role of the Crown company.

The analyst must be open to the possibility that over a period of time and as a result of certain actions and decisions, strategic in nature, an intended strategy may evolve to become more comprehensive, or conversely, unrealized because of environmental or implementation drawbacks,\textsuperscript{40} or because of conflicting goals among decision-makers.\textsuperscript{41} The evaluation of patterns of decision, or more appropriately, patterns of strategic decisions, should indicate any changes
evolving to alter an intended strategy or where a new strategy emerges to confront changing conditions despite previous intentions.\(^{42}\)

Two important outcomes of Petro-Canada strategy have been the development of more specific federal government policy objectives in petroleum development and in presenting an image of competence to the Canadian public. This intended strategy necessitated the selection and acquisition of certain organizational resources. The acquisitions of major foreign-owned oil corporations by Petro-Canada resulted as part of the preconceived strategy, an organizational choice accepted among the members of the decision team as policy effective.\(^{43}\) The numerous acquisitions provided Petro-Canada with the necessary assets with which to vertically integrate the corporation and thus more effectively carry out the government mandate. These acquisition decisions have resulted in a pattern that has lasted to the present day.

An important function of the strategic-decision making process is the analysis of long-term resource requirements projected over a time period decision-makers consider adequate to reach strategy realization.\(^{44}\) It also becomes evident in each major case decision that strategic objectives are similar and there emerges a second pattern — the selection of resources or strategic objectives by the decision team as outcomes of factor analysis. Both patterns are elaborated in detail in the discussion of Petro-Canada's operating activities in Chapter 4.
To survive, organizations must effectively relate to their environments by fully utilizing resources to take advantage of environmental opportunities and reduce the impact of externally imposed threats. 45

In the private firm, the realization or achievement of a strategy may be vulnerable to a variety of external variables. Many of these are uncontrollable and range from borrowing restrictions to Government regulations; changes to long-term strategy planning come frequently from intense competition and strategies may frequently be modified or abandoned. Petro-Canada, however, because it is a federal company is free from many of the more obvious restrictions due to its virtual financial autonomy and power as a national commercial enterprise. In the study time period, only one event, a Government leadership change, altered company strategy. 46 Otherwise the federal company demonstrated immense growth unrestrained by variables normally hindering or influencing private sector strategies. This has enabled Petro-Canada to pursue intensive long-term strategies by implementing strategic decisions that promote huge growth spurts.

The corporate-government strategy of Petro-Canada has been increasing steadily in range since the creation of the Crown company. A retrospective review of the events leading to the establishment of the corporation demonstrates strategy intent that has catapulted Petro-Canada into seventh position among the large oil companies within four years.
Footnotes


2 Support of this can be found in: Canada, Privy Council Report; Crown Corporations: Direction, Control Accountability (Ottawa: Information Canada, 1977), p. 34.

"The Government proposes that each (Schedule C and D) Corporation be given the responsibility to prepare a three to five year 'rolling' corporate plan..."


5 The Financial Post; June 14, 1980, p. 51.


8 Ibid., p. 562.


11 Ibid., p. 29.

12 There is the instance of Chrysler Corporation Ltd. which may be cited as one of the few examples where government has aided a private corporation if losses incur serious national consequences.

13 Privy Council Office Report; p. 31.

14 Canada, Statutes. 23-24-25 Eliz. II. 1974-75-76, Vol. II, Ch. 61, "An Act to establish a national petroleum company", Section 7(5).

15 Privy Council Office Report; p. 31.

17 Privy Council Office Report, p. 27.


20 Ibid., p. 34.


24 This refers to the intense industrial and capital development and growth attained through major company purchases and joint ventures with other firms.

25 Peter Foster, The Blue-Eyed Sheiks (Toronto: Collins, 1979), pp. 139-143.


29 Canada, House of Commons Debates (July 2, 1975) pp. 7463-7476.


32 Ibid., p. 74.

34 Interview, Andrew Janisch, Mar. 4, 1981, Edmonton.

35 Ibid.


37 Ibid., p. 935.

38 Ibid., p. 935.

39 Ibid., p. 935.

40 Ibid., p. 945. Specific reference is later made with regards to the Husky Oil purchase attempt.


"...strategy formation and its range depends upon the organization's internal political process..."

42 H. Mintzberg, p. 945.

43 Confidential interview, October 10, 1980, Calgary.


46 Research data has demonstrated that the alteration or modification of Petro-Canada strategy was actually to increase in intensity and range. The result was the purchase of Pacific Petroleum Ltd. which was considered for acquisition because of its immense size. The decision team of Petro-Canada believed that once the private firm was purchased, the Conservative incumbent government would find it difficult to dismantle the Crown company. (See Chapter 4).
CHAPTER 4

PETRO-CANADA IN BUSINESS

1976 – 1979
...it looks like revenues rather than assets are being considered in setting the goals of Canadianization.¹

Despite the fact that the policies (NEP) will maintain and even enhance the relative position of the oil and gas industries, some firms may regard the new conditions as unsatisfactory. The Government's acquisition programme provides an answer for them. The Government of Canada is a willing buyer at fair and reasonable prices.²

INTRODUCTION

This chapter examines Petro-Canada's industrial and political activities during the time period 1976-1980 and identifies chronologically three key strategic decisions as a means of detecting both the development and change of major decision patterns. Thus, the focus of this chapter is on major corporate decisions and actions as the preface to the analysis of Crown corporate decision-making and strategy formation examined in Chapter Five.

Petro-Canada's rapid succession of acquisitions are incremental board decisions to acquire the necessary requisites for operating in parallel competition with the major oil firms. The acquisitions are based upon an industrial premise. The petroleum industry is substantially capital-intensive due to exploration costs and the risk of failures. To minimize costs, the big oil companies purchase (or merge depending upon the size of the target) other firms which provide resources that are otherwise too costly to develop or acquire in any other manner. Furthermore, few of the larger firms will spend the years of research and develop-
ment and technological expertise in areas that are within purchasing grasp. It would have taken Petro-Canada years of struggling through a development phase to finally possess the expertise, equipment, technology and crude oil reserves necessary to operate and make a profit. Since it was very important for Petro-Canada to demonstrate its ability in managing the federal mandate, one of the first major board decisions was to decide on a strategy for becoming 'operable' and profitable. The eventual acquisition of two oil companies, and the attempt at a third, were major decisions in this strategy.

The three decisions examined have significant similarities as Board choices. Table 4:1 on page 82 summarizes details involved in the decision process. The priorities preceding each acquisition are similar in focus and expand demonstrably as each operating year progresses. Strategic objectives are based upon organizational needs and justify the purchase of each firm. It must be pointed out that the retail potential of each acquisition target was identified in interviews with senior personnel as one of the major starting points for screening potential purchases. This ranks the value of retail potential above many of the strategic objectives influencing acquisition selection. Each of the decisions is discussed in detail throughout this chapter.
THE ARCAN PURCHASE

The price on Atlantic-Richfield's Canadian subsidiary was $400 million.\(^4\) ARCAN's American parent was strained by the mounting costs and cash shortages in the development of Prudeau Bay and the Trans-Alaska pipeline and there had been a considerable investment also in the Syncrude project (which eventually had to be bailed out by both Federal and Provincial governments).\(^5\) It was the connection with Syncrude where Petro-Canada officials began to gather information on the American based company. The Atlantic-Richfield board let it be known that they were a 'willing seller' due to the major capital costs of continuing the Canadian subsidiary and when it became apparent that the Federal Government was interested in a major acquisition.\(^6\) Financial arrangements were made by Petro-Canada to purchase all of the issued common shares (well under the asking price) for $340 million. The purchase was expected to finance itself from ARCAN's revenues. The decision was publicized as "a good business investment" - and by most standards it was.\(^7\)

At the time, the targeted company was producing 30,000 barrels of oil and 9 million cubic feet of natural gas daily. In 1977, ARCAN provided Petro-Canada with a cash flow of $73 million from its operations and more importantly, the capital foundation upon which Petro-Canada could apply for a 1977 fiscal budget of $287.5 million - of this, $130
million would be spent in exploration ventures. ARCAN's crude oil reserve and crude potential, evident from the company's production figures and numerous land leases, was extremely attractive.

The Board members of Petro-Canada were aware that they lacked a strong lease position in the North as well as the technical and managerial expertise to launch a massive Northern oil search. Hence ARCAN's holdings, concentrated in Alberta, Hudson's Bay, the Arctic, and in large tracts within the Northwest Territories could be judged as a valuable asset. Also, ARCAN had a net interest in 11 million acres of underdeveloped oil and gas properties and a third interest in 1.2 million acres of oil sands leases. The acquisition provided Petro-Canada with enough exploration land, during its first year of activity, to compete with the major firms. In addition to this, there were a thousand oil and gas wells, five gas plants, twelve gas treating and compressor stations and fifteen consolidated oil handling facilities.

Equally important to the acquisition study of ARCAN was the senior and mid-level expertise, the strong human resource base, obtained through the purchase. The senior exploration people were considered extremely valuable at that time to a Crown company lacking such expertise. After all, it would be this core of personnel that would operate the recently-acquired company as well as promote further industry development. By the end of 1976, 400 employees
were working for Petro-Canada - 300 of these, containing senior and lower management personnel, operated the exploration and production arm, Petro-Canada Explorations Incorporated. 10

There were both advantages and disadvantages to this massive injection of industry expertise into the Crown company. It was important that the Crown company's new division operate as smoothly as possible under the reorganization, and generate the projected income targeted at purchase. They also brought a competitive and seasoned outlook on Northern exploration and the value of integrating divisional resources.

ARCAN personnel were respected in the field and already engaged in numerous projects that Petro-Canada had recently been advised to monitor or operate (that is, Atlantic Richfield's purchase made Petro-Canada the operator of an oil sands in-place venture, in partnership with Canada Cities Service and Imperial Oil on 34 Alberta oil sand leases. 11 Nineteen years earlier to this event, the three companies had pooled 1.2 million acres of deep, non-mineable holdings which ARCAN facilitated). 12

Within a year, conflicts grew between personnel appointed by President Maurice Strong and the newly assimilated ARCAN management leading to resignations and public admonishment of Petro-Canada policies by infuriated ARCAN personnel. 13 When William Hopper replaced Maurice Strong as Chairman, many ARCAN employees were systematically
replaced or relegated in their responsibilities by newly recruited individuals. A Petro-Canada source explained that the concentration of ARCAN management led to policy arguments, at various levels, stemming from perceptions oriented by private sector competition. These views of how the company should operate (especially in joint venture operations) contradicted aspects of the Crown company's mandate as a Federal policy instrument. As will be discussed later in this chapter, a similar conflict arises again after the Pacific Petroleum acquisition in 1978, weakening the organizational structure of the company at a crucial time - a Conservative party victory in May 1979.

It has not been determined whether Atlantic-Richfield was attractive because of its retailing potential in the West. The acquisition did provide the necessary technology and industrial format for turning crude oil into marketable gasoline. It was apparent, however, that Petro-Canada could expand structurally to major retailing should outlets be acquirable or created in the future.

It is important to point out that the acquisition provided the Government with a "window" on industry development and supply data. Petro-Canada was to play a major role in the gathering of information about the industry and the potential of that industry in Canada. Previously, the National Energy Board had been the major source of information on industry activities and supply quotas. Forecasts of supply from Petro-Canada were more accurate and based
upon research and development information accumulated by ARCAN. In September 1977, Chairman Hopper reported that there was ten times as much conventional light crude oil to be found and developed in Western Canada as forecast by the National Energy Board. It became apparent at that time as well that private companies (including Atlantic-Richfield) had been holding Federal lands for up to twelve years with little or no exploration activity being undertaken. Much of the land leased in the North was known to have substantial deposits but difficult technologically to exploit.17 The fact that only the relatively 'easy' deposits were being investigated prompted Petro-Canada officials to increase joint venture activity and gain a substantial percentage in open leases as a condition to renewal. As stated by Wm. Hopper:

There is no question of confiscation of existing rights; it is simply a matter of giving Petro-Canada partial access to these rights as a condition of their renewal.18

This 'regulative' approach to working with members of the private sector was further enunciated by a decision by Company officials to end a joint exploratory programme in 1977 off Nova Scotia with Shell Canada Ltd. of Toronto and its affiliates. Shell was advised to stop drilling when Petro-Canada was refused an improved working interest arrangement.19 (The project was picked up later by Petro-Canada when a 33% interest was guaranteed to the Crown company by the private participants.)

A summary of Petro-Canada's first annual report shows
the Company producing oil and gas in Alberta, conducting in-place oil sands research, participating in the Syncrude project in Alberta's Athabasca oil sands and involved major exploration programmes in frontier areas among the many inherited companies and concerns consigned to it at its conception. In fact, the company in one year reported net earnings of $3.33 million from a total revenue of $39 million. The purchase of Atlantic-Richfield had provided the broad foundation for aggressive competition and regulative control in the Canadian energy market. It also provided the confidence to pursue a strategy of expansion.

THE HUSKY OIL ATTEMPT

Peter Foster refers to the Husky attempt as a 'fiasco' and Petro-Canada's first defeat. Depending upon the point of view, however, it provided an opportunity for a lesson to be learned by the Crown company's decision-makers. As a result, it is doubtful an acquisition will ever be handled as amateurishly.

Husky Oil had been singled out as a preferred takeover target for many reasons which complemented the original requisites cited in the Atlantic-Richfield takeover. The cash flow from Husky was astounding, having doubled each year for three consecutive (1974-1976) years. The acquisition study prepared by Petro-Canada management shows enormous enthusiasm for Husky's sales and operating revenues which hit $600 million in 1977. There were many aspects
of Husky that excited line management and board directors*

alike that warrant a brief description:

-16 million gross acres of exploration holdings in Canada;

-excess of one million acres in several blocks off Canadian East Coast extending from the Northern tip of Labrador southward on the east side of Newfoundland to Cape Breton;

-50,000 acre Athabasca Tar Sands block near Fort McMurray;

-A refining operation producing 59,000 barrels of crude per day - $115.5 million annually;

-200 natural gas wells in Canada and participation in 174 others;

-key personnel that operated in the U.S. as well as Canada and more importantly to Petro-Canada's international subsidiary, in foreign development projects abroad;

-945 service stations operating in North America. 21

Husky fulfilled the resource requisites of cash flow, crude oil reserve and potential, managerial expertise, technology, exploration land and a retailing operation. There were four bonuses that made the acquisition even more attractive.

*It is interesting to make note of the fact that the stock market leak on June 8, 1978 revealing Petro-Canada's intention to purchase Husky stock, may very well have occurred due to the numerous personnel who knew days in advance of the upcoming bid.
Husky's successful heavy crude technology was extremely important to Petro-Canada if the Crown company was to fulfill an integral part of its mandate: to develop and exploit deposits of hydrocarbons of all descriptions. In 1977, Husky announced plans for the construction of a heavy crude upgrading plant in Western Canada. The plant would upgrade Western Canadian heavy crudes into a feedstock usable by all Canadian refineries and would provide an expanded market for heavy oil production.22

In addition, Husky was operating vigorously in the United States. During 1977, Husky entered into a $36 million exploration joint venture with a subsidiary of Panhandle Eastern Pipeline Company to explore for natural gas in Wyoming and Northern Colorado. The company was also positioned in Texas, New Mexico, the Gulf of Mexico, with a retail operation in seventeen Western States.23 Furthermore, Husky was successfully discovering oil offshore the Philippines, Palawan Island, the Sulu Sea, the North Sea and offshore Pakistan. Participation shares encompassed several million acres with European and Southeast Asian countries.24

One of the more interesting aspects of Husky Oil is a subsidiary which provides steel and the technology for the construction of pipelines, refineries and so on. Gate City Steel was acquired by Husky early in 1954 and like its parent, had expanded rapidly from contract work involving refinery building for several large oil companies. In essence, Gate City Steel could have become a unique and
beneficial asset for the Petro-Canada operation. Husky itself consulted and employed almost entirely, Gate City Steel executive personnel and technical crews for its production plant construction.25

Peter Foster relates the story of how Bob Blair, President of Alberta Gas Trunk Line out-manoeuvered Petro-Canada in the takeover bid by purchasing stock in Husky through the New York Exchange.26 Blair literally seized the company by purchasing stock as rapidly as possible, creating a price escalation in Husky stock which, costing his company millions in the process, resulted in a successful takeover. Both the Petro-Canada decision-makers (especially in this instance William Hopper) and AGTL's Bob Blair (and Gulf Canada could be included for they negotiated with Husky until Petro-Canada warned them off) saw an opportunity to acquire a sound, dynamic, vertically integrated corporation that could be readily integrated into their operation. It was unfortunate for Petro-Canada that Bob Blair and his company emerged victorious for the acquisition could have provided the sought after assets the board of directors considered paramount to expanding the Crown company.

There was no reason for Husky to feel threatened by Petro-Canada, as in the case of ARCAN, because of capital over-extension or, as in the case of smaller petroleum firms, the inability to compete in crude production. Husky was very strong and sound financially. Petro-Canada decision-makers failed to see that their target was not a "willing
seller" nor could it be made to sell. The company had to be bought on the open market and this became Blair's strategy, through massive capital expenditure on stock options (and taking advantage of the small blocks of shares that appeared for sale due to the leak that Petro-Canada was going to take over Husky Oil). There was an interesting contrast later with regards to the Pacific Petroleum transaction. Petro-Canada directors handled that acquisition boldly by purchasing 98 percent of Pacific's shares within less than a year.

Another major error was made by the Crown corporate decision-makers in the Husky attempt. The error was in under-estimating the size and complexity of the whole Husky organization. The company had a strong American base and a complex share structure engaging joint portfolios with other companies of varying size and participation interest. Further, the Crown company's own prepared acquisition study failed to document numerous characteristics of the Husky company not only of the share structure but, more importantly, family network that could only be described as anti-nationalist on the subject of Federal intervention in any area of the petroleum and natural gas industry. The Petro-Canada executive carried on a minimum of dialogue with key Husky board members because of the point of view held by family members on this issue.

From a strategic decision-making standpoint, Husky Oil would have provided the Crown company with a significant operation at all levels of industry competition
including a few viable foreign sources of crude. For this reason and for the subsequent analysis, strategic decision criteria have been identified in this acquisition. There were several strong similarities in operation, technology, and retailing between Husky and Petro-Canada's next acquisition—Pacific Petroleum.

THE ACQUISITION OF PACIFIC PETROLEUMS LTD.

The Husky Oil failure occurred at a bad time in political terms. Business attitudes relating to Canada's economic prospects in the energy field were pessimistic and Petro-Canada was accused of weakening industry performance and inhibiting investment spending. There was a reaction to the amount of federal financing supporting Petro-Canada's high-risk projects and the failure to acquire Husky Oil heightened Conservative commitment to 'privatize' the Crown company. Although Petro-Canada was doing well by any private sector standards, the Government corporation was temporarily needled by the media and received poor press. By the end of the second quarter of 1978, many of Petro-Canada's accomplishments during its short two-year operation were being minimized and the Crown company's credibility and the ability to compete was being questioned.

It would be simplistic to assume that the purchase of Pacific Petroleum commenced only as a means of over-compensating for the Husky failure. Although board decision-makers were anxious to recapture the momentum enjoyed
for two years, three major factors were scrutinized in the strategy decision process to acquire Pacific: 1) profitability; 2) political survival and 3) retailing potential. The purchase decision also reflected the company's strategy to pursue acquisitions (similar to ARCAN and Husky) that provided the requisite resources needed to broaden its mandate.

The total cost of the purchase exceeded $1.7 billion. Unlike the Husky deal, Pacific was purchased quickly under tight supervision between William Hopper and Joel Bell. The mistakes made around the Husky take-over attempt were not repeated this time and only a few individuals were included in the initial stages to prevent premature leaks of information. Phillips Petroleum held a 48 percent interest in Pacific and, similar to the American based ARCAN, would sell if any pressure was exerted by the Crown company. Hopper and Bell recognized this and negotiated a reasonable buy-out price per share. Upon purchase of the Phillip's interests, the balance of shares were quickly purchased in less than six months and were financed through a consortium of Canadian banks (Royal, Bank of Nova Scotia, CIBC) over a ten year period of amortization. The Crown company received all of the funds needed without any federal subsidy and further obtained one of the largest term-preferred financing agreements ever known.

Pacific was a big revenue producer and was successful in almost all of its industry activities. It was forecasted
to net revenues of $97 million for 1978 from a total sales of $421 million. Crude and heavy oil reserves were attractive. Crude oil production in Pacific reached 54,000 barrels per day in 1977, and in natural gas, an impressive 361 million cubic feet per day. In reserve the targeted company had 183 million barrels of crude in supply. The acquisition also brought Petro-Canada into six more major oil sands and heavy oil activities and a joint partnership in the Allsands group. 33 Pacific was also very active in drilling and participated in the exploration of 98 wells in 1977. 34

With Pacific came three major and recent discoveries: West Pembina-Brazeau (21,000 acres), Erith-Hanlan (14,000 acres), and Elmworth (17,400 acres); an additional 21 million acres of oil and gas lands (one of the largest holdings in North America) were included ranging from the east coast to Ontario, the Arctic and the Northwest Territories. Uranium and coal potential were present in 46,000 acres of mineral claims holdings.

The exploration arm of Pacific Petroleum was managed by a core of experts that generated studies for ethylene-based petrochemical industries; a feasibility study resulted in a $46 million undertaking in the Athabasca Oil Sands financed by the Alberta Oil Sands Technology and Research Authority. Pacific management supervised seismic surveys that cost the company $6 million to produce - made available to Petro-Canada upon purchase. Only a small number of personnel were actually welcomed after the purchase. In
fact many of the company departments were managed by Pacific personnel until 1980. They represented a small percentage, however, of Pacific’s human resource base. A rather large number of acquired personnel (statistics are not available) left within a year. Only one-third of Pacific's employees were with Petro-Canada by the end of 1979 because turnover was encouraged. 35 This unfortunately became known to the press and the reaction came at the time of the Conservative Government's attempt to dissolve the Crown company. It would seem that many Pacific employees were less than neutral in joining the Crown company and in becoming 'civil servants'. Petro-Canada was still living down the Husky failure and many employees felt that the Conservative cabinet would eventually reduce the company to little more than a government department. 36

Petro-Canada's plan for Pacific Petroleum included a decision to dissolve the company and absorb all assets transferrable to Petro-Canada Exploration Inc.. There seemed to be two reasons for this: 1) to integrate the portfolios of the two companies (Pacific was several times larger than Petro-Canada) and reorganize structurally to accommodate a broader span of management and 2) under agreement with Phillip's, retail outlets had to be refaced (new signs, etc.). However, from a public relations point of view, one cannot help but regard the dissolution as a decision to eliminate the name "Pacific Petroleum" from any Petro-Canada products, operations and activities.
The newly-elected Conservative Government moved ahead with its intention to privatize Petro-Canada in the summer of 1979. The liquidation of the entire Crown company would be effected by selling shares to the public and assets to private industry. A share distribution and improved financial structure were intended to give Canadians "direct" ownership of the firm and yet continue to keep it as a major Canadian presence in the foreign-dominated industry. Somewhere the term "dismantle" replaced "privatize" in the public's perception of what the Conservatives wanted to do. Moreover, Conservative party strategists failed to appreciate fully the impact of the political role of the actors sitting as policy-makers on the Crown company's board of directors nor the minor but significant impact of Opposition criticism on the electorate. Voters soon identified Petro-Canada with the young government's inability to act quickly. 37

The Progressive Conservative government's attitude was based on the view that the Crown company had overextended itself financially and by right of its government backing posed unfair competition to the private sector and was therefore counter-productive to the Canadian economy. The Conservative government created a task force on Petro-Canada. It concluded that if $1.5 billion in term-preferred shares held by a Canadian bank syndicate were interpreted as conventional debt, the company's debt load exceeded 250 percent of equity. Furthermore, the task force had been established to recommend the steps to be taken in privatizing Petro-Canada's activities and redefining its role.
It revealed a hostile attitude towards the Crown company's decision-making team and its political channels. It was noted earlier that the Task Force report deplored the absence of clearly-defined corporate goals. It was also noted that:

those who control the company have an uncertain accountability. Profits may be attributed to good business judgement while losses, which may actually be attributed to bad business judgement, may actually be attributed to fulfilling national objectives.

Even before the planned dissolution of Pacific Petroleum, a number of leading Calgary oilmen warned the Conservative government that Petro-Canada had become too big to attempt to break up or sell off. Imperial Oil, a major critic at the time of the Crown company's conception, said it would not, and could not, purchase Petro-Canada if privatized and felt the company should be left alone. Actually, many in the petroleum sector were settling down to the advantages emerging from Petro-Canada's joint venture participation and were not in consensus with the Task Force's findings.

The Pacific purchase was described earlier, in part, as a strategy of political survival. The board of directors were confident that the Pacific acquisition could deter any actions made by a hostile government to dissolve the expanding organizational network of the Crown company. The bigger
the company, the more difficult to dismantle. Even the accuracy of the task force findings were questioned once the report was published due to a 'withholding' of information by the Petro-Canada Board. The report, compiled during the first quarter of 1979, predicted a net loss for the first half of 1979 and a poor year for the company with expected net earnings of just $3 million from an asset base that was escalating close to $2 billion. However, the company did so well that it netted ten times that amount - $30.2 million - after payment of $95.8 million in dividends on its bank held preferred shares. Not only the Conservatives, but many others were stunned by the corporate growth figures. The purchase of Pacific bought time for Petro-Canada followed by the election of the Liberal government, on February 18, 1980 with the determination "...to maintain and strengthen Petro-Canada as an instrument of public policy." In retail potential, it is important to point out that the acquisition decision was to provide 420 service outlets - 80% of these, both full service and self-serves, had unleaded gasoline available (this was the highest percentage of any company, including Imperial, where unleaded gas was marketable). Petro-Canada service stations, including franchises operating full automotive servicing, were to stretch from British Columbia to the Lakehead in Ontario. The Crown company spent $5 million in a reidentification programme for the former Pacific 66 stations. As part of the programme, the new corporate identity was to be extended to include all
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Petro-Canada's products and marketing tools. These included credit cards, gasoline pumps, oil and lube containers, service station uniforms, stationary and vehicles.45 A media communications programme, "Pump Your Money Back Into Canada" also became part of the public relations development project.

* * *

To a large degree, Petro-Canada has valued a continued involvement in joint venture projects with the various Canadian private sector firms. These projects have enabled the Crown company to pursue various major and risky ventures considered to be a part of the company's operating mandate. This aspect of the Crown company's activities is secondary to the focus of this thesis. However, these activities have contributed to the size and general network of Petro-Canada and are therefore worth noting. Participation in the score of projects involving both exploration and oil and gas production can be summarized as follows:

1) A major goal of Petro-Canada since its formation, has been to explore Canada's frontiers. The goal has been vigorously pursued. By the end of 1978, the Crown company had been involved in 60 of 114 frontier wells drilled since 1976 and 1979 demonstrates almost 100% participation.

2) Parallel to the statutory mandate, it was a government goal to reach self-sufficiency by 1990; and it has been emphasized in this thesis study that the need to increase domestic oil supplies and to reduce foreign crude oil requirements played a significant role in the decision to create the Crown company.46

3) Project participation has been a profitable strategy in industry activities in general: "Every single one
of the areas in which we have moved to date has been an area in which there has been a coincidence between the profit motive and the application of normal industry profitability criteria, and the national interest...in virtually every case, we have had private sector partners join us and put up their money with us and certainly they operate on profit criteria."

4) It has been an effective means of regulating industry activities while providing a working interest through capital subsidy in partnership with a number of firms.

5) The Crown company has been able to bypass problem areas of a constitutional nature with hostile provincial governments by purchasing land, as it is put up for sale by a province, and in compelling private firms to grant working interests to Petro-Canada as permits come up for renewal. This has resulted in millions of acres of explorable land under Petro-Canada's supervision varying across all of the provinces including offshore drilling sites. (Newfoundland has been an opposing force to the Crown company's intervention in offshore activities.)

Probably the most significant events in the Canadian oil and gas industry were the results of frontier exploration and oil discoveries made by Dome Petroleum Ltd. at Dome et.al. Kopanoar in the Beaufort Sea and in Hibernia off Newfoundland. Petro-Canada had been an active participant in all of the frontier discoveries made with the exception of Kopanoar. This, among some smaller discoveries, prompted the Crown company to re-evaluate its role in high-risk frontier exploration. The 1980 target, for instance, was submitted for $43.5 million to be allotted for more frontier exploration and high risk projects in Northern and Western Canada.

Petro-Canada's goal has been to encourage industry activities while acting as the Government 'window' on the affairs of the private sector. It has been a successful
policy instrument in this regard, providing the Government with information that ranges from pricing to the management of oil reserves. Equally important, the private sector has welcomed the Crown company, reassured by Government participation of its intention to strengthen industry activities.

Petro-Canada International Inc., established shortly after the Pacific purchase, is similar to the discussion of joint venture interests, in that it reflects a long-term strategy of Government dominance in the energy industry. The division was created in a board-Ministry decision to secure benefits by exhibiting an international presence. Such benefits were to include access to secure sources of foreign oil, increased foreign trade, and access to foreign technology for improved knowledge and expertise in solving energy-related problems. Through the Pacific purchase, the corporation acquired certain international interests which have involved corporate members in contacts with other state-oil companies and petroleum organizations. The international division has acted in trade negotiations for Canada and in affairs regulating international pricing. Probably the most significant dialogues have occurred within the International Energy Agency (IEA) established in 1974 following the oil embargo. Twenty-one countries participate to promote cooperation and discuss measures surrounding the international energy situation. The company has also attempted joint-venture projects for the benefit of developing countries in Latin America and the Caribbean.
Footnotes

1Harry Carlyle, President, Gulf Canada Ltd.


Further, this has been confirmed by remarks made during interviews with board members, specifically in response to question 4 of the interview questionnaire.


7Globe and Mail, April 4, 1976.


9Ibid., p. 5.

10Interview with James Scurr, March 13, 1980, Calgary.


12Ibid., p. 11.


14Ibid.

15Confidential Interview, June 6, 1981, Calgary.

16Interview questionnaire data.

17Peter Foster, pp. 139-142 and Phone Interview, Jack Austin, May 22, 1980, Vancouver.


19Interview, Sam Stewart, March 10, 1982, Calgary.

20Peter Foster, p. 156.
22 Canadian Petroleum Association Conference, November 1977, Calgary.
24 Ibid., pp. 7-15.
25 A review and analysis of the Husky Oil Annual Reports resulted in the information regarding the subsidiary Gate City Steel Co. Ltd.
26 Peter Foster, pp. 156-158.
28 Phone Interview, James Nielson (Husky Oil), May 12, 1981, Wyoming. (Mr. Nielson was President of Husky Oil until 1978).
29 Canada, Conference Board, "Survey of business attitudes" (Ottawa: Supply and Services, 1978)
30 Peter Foster, p. 163.
31 Ibid., pp. 163-165.
32 Interview questionnaire data.
36 Interview questionnaire data.
39 Ibid., p. 8.
42 Task-Force on Petro-Canada, p. 10.
43 Vancouver Sun, May 24, 1980.
45 Oil Week, May 26, 1980.
47 Canada, House of Commons, Minutes and Proceedings of the Standing Committee on National Resources and Public Works, Tuesday, April 19, 1977, pp. 17-34.
CHAPTER 5

PATTERNS IN STRATEGY
This chapter endeavors to provide an analysis of the strategic decision-making and formation of strategy in Petro-Canada. Allison's organizational process model is employed to describe how factor analysis structured the resulting decision behavior in Petro-Canada, highlighting the major perceptions and objectives valued by decision-makers in this process. In addition, the pattern of acquisition decisions and the selection of strategic objectives guiding the choice of each decision is discussed. These patterns suggest that certain trends characterize Petro-Canada's long-term strategy in petroleum development and intervention in this resource sector.

The review of the three case decisions (Atlantic-Richfield, Husky Oil, Pacific Petroleums) has generated several observations that are crucial to this analysis. An overall or long-term two-fold strategy has determined the basic direction of the Crown company. The scope of this strategy is policy oriented and founded upon the broad mandate established by the Petro-Canada Act. Strategic decisions, such as the three acquisition decisions, were made to carry the strategy through to achieve the policy mandate of the Crown-owned company. At the beginning of the strategic decision process a range of acquisition options were available; a decision did not become 'strategic' until it was chosen by decision-makers as the final solution or choice in response to leader preferences and the needs and capabilities of the Crown organization. The selection of any one of the
strategic choices resulted in a payoff or outcome that the decision team attempted to approximate in advance of execution and implementation.¹

In the case studies, the priorities and perceptions of the corporate actors, especially those of the chairman of the board (the chief executive officer) and other board members, played an important role in structuring the strategy formation process and in the execution of the three strategic decisions. The operating objectives were constructed by the decision team from goals set in response to the policy mandate. These objectives were then delegated to the lower organizational levels through specific instructions. Strategy, thus, emerged as the guide to the positioning of resources, the creation of major operating policies, procedures and decisions, in the achievement of these goals. Whether formally or informally structured, certain decision routines and the organization list of requisites became the decision-making team's guidelines to strategy realization and maximum policy achievement.

The various personal perceptions decision-makers in Petro-Canada had with regards to managing the Crown company and increasing its capacity to compete directly affected the nature and scope of strategic decisions made as well as to the procedure of executing these significant decisions. Access between the Minister and the corporate leadership that influenced the board towards making certain decisions, became extremely important since both political and industrial
values were considered in each significant decision made. Strategic decisions which commit Petro-Canada to a course of action were contingent upon the nature and range of leadership preferences and organizational requisites which would fulfill strategy.

In many of the decisions of the Crown company, a select membership of the corporate board directly supervised the complex process of financial arrangements, bargaining and negotiating and finally integrating the purchased firm. Between 1976 to 1980, one individual stood out as an instigator, not only in strategic decisions involving investment and corporate acquisition, but also as the "personality" infusing the values which have characterized the competitive, competent nature of the crown institution. Further, this style of corporate leadership has resulted in many major decisions which have played an important role in influencing peer players towards strategy definition and achievement. The individual referred to here was Wilbert Hopper, President and Board Chairman. As mentioned in Chapter 3, not only was it important to select a leader who would command the respect of the industry and provincial leaders, but would also be committed to "structuring the game" and to pilot each player's conception in achieving strategic objectives. Another choice might have demonstrated less or more favourable results. The amount of power granted to this position became important to strategy achievement:
Each player's ability to play successfully depends upon his power. Power, i.e., effective influence on policy outcomes, is an elusive blend of at least three elements: bargaining advantages (drawn from formal authority and obligations, institutional backing, constituents, expertise and status), skill and will in using bargaining advantages, and other players' perceptions of the first two ingredients.

Certainly this power was made evident in deterring, for a sufficient time in 1979, a hostile government's intent on eradicating the policy role of the Crown company in energy management. The broad powers awarded to the Crown company's president and chief executive officer and the other fourteen board members, became apparent by the magnitude of decisions made (i.e., the Pacific acquisition, was at that particular time, the largest Canadian purchase in history). The behavior of these decision-makers was governed, not only in accordance with organizational needs and capabilities, but prompted by the guidelines provided, in this particular case study, by an extensive government mandate that contained no practical limitations, at that time, with respect to the extent and range of actions which could be taken by the decision body pursuing the accomplishment of Government mandate objectives. Conflicts which emerge are resolved by bargaining and conferencing through informal and formal channels between officials of the Ministry and the corporation, characterizing the political process in decisions made.

'Solutions to strategic problems are not derived by detached analysis focusing coolly on the problem. Instead, deadline and event raise issues in games, and demand decisions of busy players in contexts that influence the face the issue wears. The problems for the players are
both narrower and broader than the strategic problem. For each player focuses not on the decision that must be made now. But each decision has critical consequences not only for the strategic problem but for each player's organizational, reputational and personal stakes.3

Other actors included various key personnel, executive and management, who were integral to the decision-making process. Action channels in Petro-Canada included Board-Department dialogues and also the classical vertical channels so necessary for effective management of organization operations. The following model on page 95 represents the flow of communication amongst tiers of the organizational hierarchy.

Petro-Canada's output and requisites for operating played an important role defining the value of each decision made. Decision feedback and results were reviewed by the decision-making body first through the division supervising the specific decision activities and then, in a summarized form to the board. Alternatives were defined and consequences estimated as the organization routinely continued to act, react and process information. Many key personnel within the organization of Petro-Canada were industry 'imprimis' - a human resource base of extensive collective experience in the oil and gas industry - and were integral to influencing leader preferences. From the perspective of healthy organizational behavior, the communication chain was multidirectional so that information pertaining to strategy and significant decisions was channeled and transmitted quickly as leader needs warranted.

Petro-Canada has been structured to replicate the
ORGANIZATIONAL FLOW

PETRO-CANADA
major oil firms; therefore, the outputs of this large organization, as it competes in the industrial sector, can be valued and can play a significant role in decisions made; especially where these decisions are repeated and become patterns of operation. If strategy were to succeed or be realized, certain organizational tools and resources were needed. Hence, streams of decisions were made to carry out the plan based upon maximizing strategy objectives.

In Chapter 4 the identification of three major strategic decisions, the purchases of Atlantic-Richfield, Pacific Petroleum and the attempt at Husky Oil, demonstrated that certain requisites found within the targeted companies were highly valued by the board decision team. Each of the decisions was selected, by prominent decision members, above other alternatives that may have been available due to their value in optimizing strategy outcome and fulfilling certain strategic objectives. The decision-making process was accelerated by identifying descriptive characteristics within a decision environment. A strategic decision ideally selects the objective that makes the best use of the organization's resources in accordance with its long-range goals. The measurement of this decision impact (strategy review) is a major aspect of Crown corporate planning and affairs.

The following model demonstrates an example of the decision-making flow in the case study Crown corporation. What becomes very significant in the decision-making process of Petro-Canada is the interplay of leader preferences, resources and generally how to maximize corporate actions and
STRATEGIC DECISION-MAKING PROCESS IN PETRO-CANADA
procedures through acquisition. Decisions are reviewed frequently in terms of 'success' criteria i.e., profit, long-term market positioning, public (or consumer) programming as well as other desired results relatively indigenous to the petroleum industry.

One of the strategic decisions made by the Petro-Canada board has been selected and run through the decision-making flow diagram: the acquisition of Pacific Petroleum.

The purchase decision is one which satisfied many of the broad objects delegated to Petro-Canada at its conception. The thesis hypothesis proposes that a two-fold strategy exists as the impetus for the corporate-government behaviors and that both company acquisitions and retail expansion are necessary for the achievement of Petro-Canada's long-range strategy.

The decision executive performs an evaluation of the organization's needs at the ongoing or cyclical stage of strategy formation and determines the best acquisition selection from other available alternatives in order to maximize the two-fold strategy. The analysis of the Pacific Petroleums acquisition may be examined as structural decision team behaviour represented by the relevant factors chosen from Allison's organizational process model (outlined in Chapter 3).

Priorities, Perceptions, Issues

There were three major priorities governing the selection and execution of the Pacific Petroleums decision

1) to deter the possible dismantling actions of the
Conservative government; 2) to increase the revenue base of the company and eventually become independent of federal subsidy and 3) to engage and expand into retail functions and promote a high exposure level as a public relations strategem. There was pressure from the Ministry (EMR) and from within the board itself to regain credibility after the Husky failure and further expand the Crown company's operations as well as its asset base.

Goals

The purchase satisfied many of the political and organizational needs and requirements that Petro-Canada's board considered important for company operations. Various activities of Pacific Petroleums such as offshore and frontier drilling, its major oil sands participation, the large retailing network and other programmes complemented the Crown company's mandate guidelines and operating objectives.

Problem-Directed Search

The Husky Oil failure and the Conservative Government threat to dismantle the corporation motivated the board decision team to seek out an appropriate, suitable acquisition target that would secure the Crown company's survival. Petro-Canada needed certain assets that Pacific Petroleums could provide. More importantly, however, Pacific Petroleums was twice the size of Petro-Canada. The acquisition and eventual absorption of the large oil firm would make it difficult for the Conservative govern-
ment to dismantle the Crown corporation in its new and expanded form.

Organizational Learning and Change

The acquisition of Pacific Petroleums was handled entirely different from the ARCAN purchase and the Husky Oil attempt. This purchase was tightly controlled and aggressively executed. Control of the Pacific shares was accomplished discreetly and the remaining shares were purchased in large blocks within a year.

Central Coordination and Control

The negotiations and financial arrangements governing the Pacific purchase were conducted with the federal government's knowledge and approval. The progress and procedures used in the acquisition were reported informally on an intermittent basis (to ensure security from disclosure) until Pacific was integrated into the Crown company's structure and eventually dissolved. The capital budget, which was approved by the Minister for that financial year, included provisions for a major acquisition (Annual Report, 1979) and any capital expenditures for subsidiarization.

The organizational requisites played a major role in guiding the decision team in their final selection or
choice of acquisition target. Many of the strategic objectives were premised on similar resources considered significant by many of the larger oil firms. The accumulation of resources accounts for the tremendous size of many of the multinational oil companies. Size is valued by the oil industry and company employees generate organizational performance or output from the resources strategically beneficial to the development and vertical integration of the firm.\(^4\) Specific organizational requisites are formulated prior to the selection of a strategic decision and frequently represent the preferences of the decision team members. The procedure for carrying out the acquisition is defined and agreed upon in advance of execution. Even at the stage of decision execution, strategy and procedure is being reviewed resulting in ongoing evaluations of the decision. The purchase of Pacific Petroleum had initially began as an attempt to secure major interest of the firm's shares and holdings; but because of the Husky Oil failure and the Conservative government's new policies affecting the structure and activities of Petro-Canada, the decision executive accelerated purchase procedures.
The result of this strategic decision had placed Petro-Canada as one of the most significant Canadian-owned corporations involved in the oil and gas business in Canada. Each of the acquisition decisions can be evaluated in the same way as set out in this example. The role of the evaluation process conducted by the decision team in forming the decisions made and the influence of key people in the overall decision process is significant in this approach.

PATTERNS IN STRATEGY

A certain pattern in the decision-making process has emerged characterizing Petro-Canada's short operating history. This pattern has been more obvious in the review of the choice of the Crown company's purchases and in the strategic objectives valued in increasing the corporation's size. It has been suggested that a chronology of decisions will aid to inform the analyst of any decision patterns. This becomes the starting point in identifying strategy.

A major decision pattern of Petro-Canada is acquisition. For example, the acquisition of Atlantic-Richfield, a strategic decision made in response to an 'intended strategy' based upon the priorities and strategic objectives considered necessary for vertical integration. If the intended strategy was to succeed or become realized, certain organizational tools, accessible through the acquisition, were required and ultimately obtained. There were other alternatives, but the timing, leader preferences and
organizational needs coincided. The decision occurred as a corporate-government choice accepted as policy effective and within guidelines of the federal mandate.

The attempted Husky purchase, on the other hand, failed. As Mintzberg has observed,

Intended strategies that do not get realized, perhaps because of unrealistic expectations, misjudgements about the environment or changes in either during implementation; these may be called unrealized strategies. The Husky decision was considered valuable at the time in achieving a deliberated strategy. The failure to finalize the acquisition however, did not change the direction or intention of Petro-Canada strategy - evident in the subsequent Pacific purchase. Nevertheless, it is an example of a change in strategy intensity. This reinforces the observation that strategy may change as decisions are made. Thus, the Husky failure becomes extremely relevant. Furthermore, the analyst must be open to the possibility that over a period of time as a result of certain actions, an intended strategy may evolve to become more comprehensive. Certainly the Pacific decision reflects 'strategic change'. There were a number of 'willing sellers' available at the time of the Pacific decision comparable to the calibre and size of the Husky organization. Research data suggests that five possible alternatives were available to decision-makers after the Arcan purchase:
The Pacific decision reflected optimum political and organizational outcomes and thus maximized strategy. One value of the decision was apparent in the deterrence of the Conservative government's proposed energy policies. The decision is also a leap (away from the smaller targets) by the board towards a bigger company with operating activities and size twice the assets, revenues, production capabilities and retailing potential above that of a Petro-Canada - Husky merger.

Furthermore, these acquisitions and the extended retail activities substantiate the hypothesis proposal of the deliberate long-range goal or strategy of the Crown corporation -- to become the largest petroleum firm in the country. By the end of 1976, the Crown company was positioned 112th in the oil and gas industry. At the end of 1980, in just four years, it had moved to 7th position in gas and oil production. As Mintzberg has noted:

"The strategy that gets it moving may be no more consequential than a mouse, but once underway, there is no stopping it... Bureaucratic momentum takes over, happy to have a clear strategy, never stopping to question it. The strategy maker may awake one day... to find that his intended strategy has somehow been implemented beyond his wildest intentions. It has been overrealized."

The identification of patterns in decisions made with regards to the growing retail outlets and products, leads to

Pacific Petroleum
Husky Oil
Mobil Canada
AMOCO Canada
Standard Chevron

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7

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certain conclusions. One has already been declared by the federal government itself in the NEP of 1980:

The situation in the oil and gas sector however, requires fundamental change. The Government of Canada is committed to a significant shift in the structure of the oil and gas industry. It has three goals:

- At least 50 percent Canadian ownership of oil and gas production by 1990;
- Canadian control of a significant number of the larger oil and gas firms;
- An early increase in the share of the oil and gas sector owned by the Government of Canada.9

Retailing strength further enables Petro-Canada to move towards Canadian ownership goals; it also promotes a high level of exposure, or possible justification for the Government's actions, with regards to maintaining a national oil company. By the end of 1979, Petro-Canada had been actively franchising and producing government petroleum products to enlarge retail operations. Again the long-range strategem can be accounted to the broad nature of the corporation's objects set out in the Petro-Canada Act. If the Crown company or any petroleum firm for that matter were to pursue the many ventures related to "...exploration, production, importation, distribution, refining and marketing of fuel, energy and related resources."10 it would have to involve itself in a majority of industry activities, competitively, and consequently would need to continually expand the organizational structure into a retailing network in order to meet consumer requirements. The value of
retailing on a national level is traditional with the large private petroleum firms. Petro-Canada recognized the instrumental public relations role of retail networking government gasoline and as Mr. Hopper was to point out "...patriotism sells gasoline".

The overall goal and long-term strategy was common to that of the major oil firms - to entrench the company into a solid marketing position and continue a programme of expansion as a means of survival and federal dominance in this sector. In this respect, Petro-Canada has acquired an acquisition appetite as aggressive as any of the large oil firms. Small petroleum firms continually risk being consumed by the giants in the industry. Petro-Canada's goal was to survive and persevere and become the giant of the Canadian petroleum industry.
Footnotes


3 Ibid., p. 710.

4 Fred C. Allvine and James H. Patterson, Competition Ltd. (Bloomington, Indiana University Press, 1972).

5 H. Mintzberg, p. 936.

6 This information was released by the Financial Post, November 8, 1980 in a comparison of Husky Oil to other targets. The 1977 Annual Reports for the identified alternatives were scrutinized and three major criteria were considered to be priority organizational requisites:

   a) a heavy oil or oil sands component,
   b) strong production and marketing side, particularly a western exposure;
   c) frontier exploration exposure and lease holdings.


8 H. Mintzberg, p. 947.

CHAPTER 6

CONCLUSION
When the work for this thesis was begun, the National Energy Programme of 1980 had not yet been introduced; neither had Petro-Fina and BP of Canada been purchased by Petro-Canada. These recent actions reinforce the major focus of this study - the intent of the Crown company and the federal government to play the significant role in petroleum development through corporate acquisition and Canadianization of the once privately dominated oil industry.

Petro-Canada's broad mandate has had a direct impact on the range of various federal energy policies especially evident in the National Energy Policy of 1980. Upon examination of the NEP, it has become apparent that the mandate for the Crown company potentially may expand and affect the strategic decision-making process towards that end. For example, it is the declared long-term goal to raise Canadian ownership of the energy sector to 50% by 1990. The document exudes a confidence that the federal government has in its key energy policy vehicle. Petro-Canada has reached a dominant position in the petroleum sector and is now capable of big actions - including price setting from the wellhead to the pumps. Offshore drilling has speeded up and the international subsidiary of the Crown company has expanded its role in state-to-state negotiations with various foreign governments. Since the purchase of Pacific Petroleums Ltd., Petro-Canada has acquired Merit Oil Co. Ltd. of British Columbia, to strengthen its retail position in the Vancouver mainland, and the rather awesome purchase
of Petro-Fina Ltd.

In early 1981, Petro-Canada purchased all of the assets of Petro-Fina Canada for a total of $1.61 billion.\(^3\) The acquisition provided the Crown company with a major refinery in eastern Canada and more importantly federal government control of the only nation-wide Canadian petroleum marketing system.\(^4\)

Petro-Fina, a foreign-owned firm, was generating close to $800 million in revenue with over 1,000 retail outlets and a diversified portfolio including many oil industry participants in contract with Petro-Canada. The strategic objectives for the purchase are similar to that of Pacific Petroleum. However, the targeted firm, Petro-fina, had an eastern retailing portfolio that provided Petro-Canada with the coast to coast operations needed to fulfill a major component of the energy strategy. The big push into Eastern Canada by Petro-Canada came at a time when the demand for gasoline began falling at a steady pace. Even the major oil firms reported substantial sales decreases. Nevertheless, Petro-Canada officials assured Canadians that the revenue generated by Petro-Fina would eventually pay off the loans arranged by the symposium of Canadian banks. The sale was also justified as a "needed service for the Eastern market."

Yet the purchase of Petro-Fina was initiated and directed not by the board of Petro-Canada but rather by the Federal government.

Originally the Government of Canada relied quite heavily
upon the expertise and decision-making ability of the Crown company's board and executives. However, after four years there is a noticeable change in the 'decision leadership' behind recent activities, specifically Petro-Fina, and more generally, the intensity of the two-fold strategy identified in this research project.

A change has occurred, in Petro-Canada, intensifying the original deliberations of carrying out the policy mandate guiding the company's operating goals. The shift has been to increase the political and organizational advantages of Petro-Canada as a policy instrument: 1) to maximize the financial benefits of petroleum development under Government control through an aggressive acquisition of big firms; 2) to further expand the company and its activities, especially in retailing, as a public relations strategem commending federal capabilities in resource management.

The success of the Crown company has provided the opportunity for Government to harness the expertise, the technostructure that guides Petro-Canada operations and directly use the organization's size to achieve long-range policy goals. The federal cabinet comprised of ministerial personnel, who over the years, and through long tenure in office, have become knowledgeable about Petro-Canada's operating capabilities and potential for financing many of the priority items set out in the NEP of 1980. At a time when private sector boards have initiated slow downs and implemented contingency budgets, the federal government has
spurred the Crown corporation's board onwards to the point of advising board members on further acquisitions - costly Petro-Fina was first and BP of Canada followed shortly after. Although individual board leaders, such as W.H. Hopper received media attention for the completion of the Petro-Fina purchase, these acquisitions, major strategic decisions, have been generated by a decision team that involves members of government cabinet.

Petro-Canada's executive management has felt unconvinced as to whether these purchase decisions further the objectives of the company or of national energy policy. In addition, the Petro-Canada board has become more representative of incumbent government personnel - three board positions were granted to three Liberal members in March 1981.

This confidence that the Government of Canada can expertly perform a direct advisory role of such proportion in the company's decisions, may prove to be contentious. Reactions from the private sector have been less than favorable in recent months and there has been a great deal of criticism about the purchase price of Petro-Fina (and later of the purchase of BP of Canada). However, there are reasons motivating the government's strategic-decision behavior:

1) Traditionally, the larger firms have been in control of this key Canadian sector and have managed this resource according to world events and less by national needs. These firms have slowed down in the energy sector and this has been characterized
by a shortage of social and national economic investment behavior normally benefiting the Canadian public. (They also blame the intervention of Petro-Canada into their domain as responsible for this change.)

2) There have been many expectations on the larger firms to generate activity and exploit the untapped frontier resources. Petro-Canada's foremost objective has been to act as a catalyst in this area and for the most part has had to initiate the majority of the projects. Government loans and Petro-Canada expertise has subsidized many of the arctic and northern region exploration ventures.

3) Canadian Crown corporations are normally created to promote national or provincial development and to offset inadequacies in competitive markets, while at the same time undertaking important activities which are eschewed by private enterprise. Petro-Canada through Government direction, has studied, for example, various methods of transporting and marketing in hinterland areas while attempting to maintain reasonable consumer prices for the petroleum products retailed in isolated communities.

4) The Canadian public expects the federal Crown company to behave like its private counterpart. Patriotism is selling gasoline in Canada and the proliferation of Petro-Canada products, logos,
credit cards and advertising is maintaining the image of Petro-Canada as capable as Shell Oil.

For the most part, Petro-Canada has profited like any other private sector firm. A review of corporate financial reports (including those of Esso, Gulf, Shell etc.) as a guideline to rating Petro-Canada's performance, affirms Petro-Canada as a healthy company in a reasonable equity position. The heavy financial commitments are adequately secured by reserve public monies and the support of the Canadian Ownership Account Funds. In addition the Corporation has provided the Government with an effective policy vehicle in which to pursue national objectives in response to public needs and as they emerge.

There are critical problems emerging from the new relationships between Petro-Canada and the federal Government. First of all the energy environment in Canada and abroad has changed drastically and the shortage crisis of 1973 no longer exists. Although world price may continue a low price maintenance pattern at its present world level, there are no assurances that these prices will increase to balance the costs of the heavy investments being carried out by the company. Already a heavy supply of oil is being exported into Canada by Petro-Canada through PEMICO because it is cheaper than Canadian firms can produce.

Secondly, energy sources and the viability of these sources for both commercial and industrial employment have made technological leaps in availability for the near future.
Aside from conversion costs (some of which are presently subsidized by the federal Government) more and more inexpensive forms of energy are appearing which had little development potential in 1973. These developments, such as propane and methanol, will drastically affect petroleum retailing.\textsuperscript{11}

Thirdly, an econometric analysis prepared by the Canadian Petroleum Association has indicated that efforts in the conventional producing regions, heavy oil and oil sands, together with the frontiers would require a minimum investment of $200 billion in the next ten years.\textsuperscript{12} These high expenses jeopardize the estimated two million Canadian jobs in the petroleum industry and the more than 400,000 jobs in support industries.\textsuperscript{13} The private sector considers itself limited in revenue to pursue the exploration targets that are necessary for the achievement of many of the goals cited in the NEP of 1980. The federal government would appear to be one of the few sources confident in achieving crude oil self-sufficiency by 1990. The private industry had reduced exploratory spending by 25\% by the end of 1981.\textsuperscript{14}

Fourth, and foremost, concerns about the proliferation of the Crown corporation as a remedy to economic ills in Canada are being raised within the federal bureaucracy itself. More specifically, the recent Auditor General's report to the House of Commons raises serious concerns about how well the federal government monitors and controls Crown-owned corporations:
Parliament is becoming further isolated from an increasing portion of government activities. The growing practice of using Crown-owned corporations to conduct a widening range of government activities has so strained the capability of the existing accountability framework that Parliament may not be able to exercise its fundamental responsibility for overseeing receipts and expenditures of public funds.15

In part, the isolation is due to the very broad mandate bestowed upon a Crown company because the government finds it difficult to translate policy issues into specific priorities and goals. The report also makes note of the fact that the liability of Canadian Crown corporations exceeds 13 billion dollars as of March 31, 1982.16

Why then is Petro-Canada continuing to pursue an acquisition programme? The answer to this describes the major characteristic of the Crown corporation operating in the private sector of Canada - to pursue public policy objectives unsatisfied by private sector activities. Environmental constraints have had little impact on the organizational structure and operating capability of the government corporation, Petro-Canada. Further the market is stratifying in Canada as Petro-Canada continues its acquisition programme. The oil industry is definitely becoming Canadianized. Only several major oil firms are left in Canada, of comparable size, as competitors and similar to Imperial Oil's behavior in the 1950's, Petro-Canada is reducing the number of potential competitors and creating a monopoly environment.

The federal Government has been demonstrative in expressing intentions to acquire more large foreign-owned firms
and to pursue the goal of 50% Canadian ownership by 1990. Although officials did not intend to create a monopoly, Petro-Canada's activities are monopolistic and of such range and size that assets must be consigned to various corporate subsidiaries. Petro-Canada has become an epitome of the vertically-integrated operation. The formation and recent expansion of the international subsidiaries activities, Petro-Canada International Ltd., has further entrenched the company into position of state-to-state negotiator.

The advantage, originally, of creating the Crown company was in its ability and responsibility to operate and respond through decisions based upon both political and organizational goals to a much needed energy mandate. However, the political and organizational goals are becoming more difficult to separate and the company's activities are justified under the umbrella of pursuing national objectives. Policy accountability from the Crown corporation is weakened when the decision executive is the very group to whom the organization reports its actions. The pattern of acquisition decisions in Petro-Canada could result in two occurrences: 1) the purchase of foreign Canadian oil firms may continue until the Crown company, and more specifically the federal cabinet, is assured of the company's survival and ultimate capability to guide, if not demand, the appropriate management of petroleum resources; 2) encourage other Crown corporations to adopt this model of vertical integration and acquisition as a major component in the strategy forma-
tion process affecting national policy decisions.

The review of Petro-Canada's activities since 1976 has provided more understanding of the strategy formation process in the Crown corporation and the variables significant in decision execution. However, little research has been accrued to determine the formation of strategy in other multi-billion dollar Crown corporate dynasties that would further define and describe how national policy is created and carried out in these organizations. Considering the impact of the Crown corporate vehicle on economic decisions in Canada, it is hoped that the methodology employed in this study will aid and motivate others to investigate the administration of the various Crown companies and specifically the strategic decision-making process so important to their understanding.
Footnotes


4. Ibid., pp. 4 and 46.

5. Confidential interview, Calgary, January 16, 1982. Two interview respondents contributed information alluding to the possibility of major decisions becoming cabinet directed.


12. Ibid., p. 12.

13. Ibid., p. 12.


16. Ibid., p. 46.
APPENDIX A
LIST OF BOARD OF DIRECTORS
PETRO-CANADA, 1976

Wilbert H. Hopper
Donald S. Harvie
Honourable John B. Aird
Marshall A. Cohen
J. Claude Hebert
William C. Hood
Andrew Janisch
Arthur Kroeger
David McD. Mann
Thomas K. Shoyama
Ian A. Stewart
Donald G. Willmot

Chairman and CEO
Deputy Chairman, Devonian Group
Senior Partner, Aird & Berlis
Deputy Minister, Industry, Trade and Commerce
Business Consultant
Deputy Minister, Finance
Senior Vice-President and Chief Operating Officer
Deputy Minister, Indian and Northern Affairs
Partner; Cox, Downie, Nunn and Goodfellow
Deputy Minister, Finance
Deputy Minister Energy, Mines and Resources
Chairman
Molson Companies Ltd.

Head Office:
P.O. Box 2844
Calgary, Alberta
INTERVIEW QUESTIONNAIRE

The following questions were asked (either in person or by phone) depending upon the status, management, tenure, position and willingness to be interviewed of each interviewee. Questions were not asked in order necessarily and some questions of less significance have not been included in this particular questionnaire. Confidentiality has been granted to each participant.

- What is your interpretation of the Government's latest national energy policy (1980) and what do you perceive as Petro-Canada's role and function in terms of the EM&R mandate? How has this policy changed from that of 1973?

- Are you conscious of strategy when you make a decision at the board level?

- Identify what you consider to be major factors in making an acquisition decision?...to participate in a joint venture?...to participate in an international contract?

- Who holds the most power in strategic decisions regarding:
  - acquisitions
  - diversification
  - major new product introductions
  - policy input and policy changes
  - joint ventures
  - provincial negotiations

- What draws Petro-Canada to a particular acquisition? What specifically is looked for by the executive team prior to the acquisition decision? Consider in terms of the four major-acquisitions:
  - Atlantic-Richfield
  - Husky Oil
  - Pacific Petroleum
  - Petro-Fina

- Is Petro-Canada attempting to become the largest oil corporation in Canada?

- Which government officials have the most influence or impact on Petro-Canada policies and strategy formation?
- Are decisions a combination of board and cabinet interplay and communication?

- How will the change in depletion allowances for exploration and development affect the operations of larger private petroleum companies?

- What do you perceive to be the role or function of Petro-Canada International?

- What are the immediate plans of Petro-Canada with regards to company purchases and joint portfolios and exploration and production?

- As of this date, March 8, 1981, is there a purchase target under scrutiny or evaluation by the Petro-Canada board of directors?

- How would you rate the success of the revised scheme for revenue sharing between Ottawa, the producing provinces and the industry members?

- In a Globe and Mail interview, September 30, 1980, you were quoted "private companies should be forced to return portions of their land and mineral rights to the Crown when exploration permits expire" (issue of east coast acreage). Considering Petro-Canada's interest and investment in the east coast area, will you bring this up in the future as a policy issue and, if so, what do you perceive to be the outcome?

- What is the budget breakdown for the $450,000,000 capitalization for 1981?

- What possibilities remain for investing in offshore drilling on the B.C. coast?

- There have been joint ventures between Petro-Canada and American industries such as Sedco - none of which have branch plants or corporate subsidiaries in Canada. Would you explain the need or the value of subcontracting to foreign companies i.e., technological advantages, etc.?

- According to the 1979 Annual Report, Petro-Canada, at the time, owed $347,000,000 in back taxes. These earnings were not recategorized into retained earnings for the purpose of investment activity. At the present time, these taxes have been paid. Would you please comment on the reason for the delay of the payment of these taxes on revenue which would apparently have been generated for the most part by the Atlantic-Richfield subsidiary.

- What is the appointment process for board members of Petro-Canada?
- Which department of your Company performs the major research for:
  a) corporate acquisitions
  b) joint exploration programs
  c) national retailing
  d) international covenants or agreements
  e) foreign subcontracting
  f) state to state negotiations

- Harry Carlisle of Gulf Canada Resources Ltd. (Senior Vice-President of Exploration) is quoted as saying "...it looks like revenues rather than assets are being considered in setting the goals of Canadianization". Please comment.

- Please comment on what you consider to be the future position and role of Petro-Canada for the decade of the 1980's and 1990's.

- Were there expectations to retail through the limited ARCAN outlets?
APPENDIX F—BILL C-8—AN ACT TO ESTABLISH A NATIONAL PETROLEUM COMPANY (JULY 16, 1975)
THE HOUSE OF COMMONS OF CANADA, FIRST SESSION, THIRTIETH PARLIAMENT,
22-24 ELIZABETH II, 1974-75
BILL C-8
AN ACT To establish a national petroleum company
AS PASSED BY THE HOUSE OF COMMONS, JULY 10, 1975
Her Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enact as follows:

PREMISES

This Act may be cited as the Petro-Canada Act.

OBJECTS AND POWERS

6. The objects of the Corporation are
(a) to engage in exploration for and the development of hydrocarbons and other types of fuel or energy;
(b) to engage in research and development projects relating to fuel and energy resources;
(c) to import, produce, transport, distribute, refine and market hydrocarbons of all descriptions;
(d) to produce, distribute, transport and market other fuels and energy; and
(e) to engage in ventures or enterprises related to the exploration, production, importation, distribution, refining and marketing of fuel, energy, and related resources.

7. (1) The Corporation may do such things as it deems expedient for or conducive to the furtherance of the objects of the Corporation, within and outside Canada, and, without restricting the generality of the foregoing, the Corporation may—
(a) carry on any other business or activity not prohibited or restricted by this Act or any other Act, and not inconsistent with the objects of the Corporation;
(b) acquire and undertake all or any of the assets, business, property, privileges, contracts, rights, obligations and liabilities of any other person, company or corporation that the Corporation deems to be necessary for the purposes of the Corporation;
(c) lend money, guarantee the contracts of, or otherwise assist any such person, company or corporation;
(d) enter into partnership or into any arrangement for sharing of profits, profits of interest, profits of business, joint venture, reciprocal concession or otherwise, with any other person, company or corporation, carrying on or engaged in or about to carry on or engage in any business or transaction that the Corporation deems to be necessary for the purposes of the Corporation, or the acquisition of which would be calculated directly or indirectly to benefit the Corporation, and to borrow, deposit or advance money in respect of, or otherwise turn to account, the property, rights or information, as acquired;
(e) acquire and hold shares, debentures or other securities of any other corporation having objects similar or in part similar to those of the Corporation, or carrying on any business capable of being conducted so directly or indirectly, to benefit the Corporation, and sell or otherwise deal with the same;

8. The power of the Corporation to carry on any business or activity is subject to the limitations specified in this Act and any other Act, and to such other conditions and restrictions as may be required by the Minister of Finance.

9. The Corporation shall have power to do all such things and enter into all such arrangements as may be necessary or convenient for the attainment of the objects of the Corporation, and for the carrying on of its business, and shall have power to make arrangements with any other person, company or corporation, carrying on any business or activity, for the purposes specified in this Act, and to enter into all such arrangements, and to make payments towards insurance in respect of such persons.

10. Subject to the powers and duties hereinbefore mentioned, the Corporation shall have power to do all such things and enter into all such arrangements as may be necessary or convenient for the attainment of the objects of the Corporation, and for the carrying on of its business, and shall have power to make arrangements with any other person, company or corporation, carrying on any business or activity, for the purposes specified in this Act, and to enter into all such arrangements, and to make payments towards insurance in respect of such persons.
(1) promote any corporation for the purpose of acquiring or taking over any part of the property or liabilities of the Corporation, or for any other purpose that seems directly or indirectly calculated to benefit the Corporation;
(2) acquire, hold, sell, lease, exchange or otherwise deal with any real or personal property and any rights or privileges that the Corporation thinks necessary or convenient for the purposes of its business;
(3) construct, improve, maintain, work, manage, carry out or control any works or undertakings that seem calculated directly or indirectly to advance the interests of the Corporation, and contribute to, subsidise or otherwise aid or assist in the organisation, improvement, maintenance, working, management, carrying out or control thereof;
(4) lead money to persons having dealings with the Corporation or with whom the Corporation proposes to have dealings or to any other corporation any of whose shares are held by the Corporation;
(5) make, issue, endorse, discount, execute and exchange promissory notes, bills of exchange, bills of lading, warrants and other negotiable or transferable instruments;
(6) sell or dispose of any part of the undertaking of the Corporation for such consideration as the Corporation thinks fit;
(7) apply for, secure, acquire by grant, legislative enactment, assignment, transfer, purchase or otherwise and exercise, carry out and enjoy any shares, licenses, powers, authorities, franchises, concessions, rights or privileges that any government or authority or any corporation or other public body may be empowered to grant, and pay for, aid in and contribute toward the raising of moneys for and appropriate any of the Corporation's investments and assets to defray the necessary costs, charges and expenses thereof;
(8) procure the registration and registration of the Corporation in any foreign country or place, and designate persons therein accord as directors of the Corporation to represent the Corporation and to accept service of process on behalf of the Corporation and to execute documents therefor;
(9) remunerate any person for services rendered, or to be rendered, in any manner and place and carry out the placing of any defences or other securities of the Corporation;
(10) make and assist in making money for, and to aid by any means, direct or indirect, the Corporation, guarantee or otherwise,any other corporation with which the Corporation may have business relations or any of whose shares, debentures or other securities are held by the Corporation and to guarantee the performance or fulfilment of any contracts or obligations of any such corporation or of any other person with whom the Corporation may have business relations, and in particular to guarantee the payment of the principal of and interest on debentures or other securities, mortgages and liabilities of any such corporation;
(11) adopt such means of making known the products of the Corporation and of the Corporation's services as seem expedient;
(12) distribute to the shareholders of the Corporation, either directly or indirectly, any property or assets of the Corporation including any proceeds of the sale or disposition of any property of the Corporation and in particular any shares, debentures, or other securities of or in any other corporation belonging to the Corporation, or of which it may have power to dispose, if such distribution, apart from the provisions of this paragraph, would have been unlawful if made in cash:
(13) establish agencies and branches;
(14) invest and deal with the moneys of the Corporation;
(15) apply for, purchase, possess and enjoy statutes, ordinances, regulations or other authorisations or enfranchisement that seem calculated directly or indirectly to benefit the Corporation; and oppose any proceeding or application that seem calculated directly or indirectly to prejudice the interests of the Corporation;
(16) take or hold mortgages, hypothecs, liens and charges to secure payment of the purchase price, or for any other purpose, that seem calculated directly or indirectly to benefit the Corporation; and oppose any proceeding or application that seem calculated directly or indirectly to prejudice the interests of the Corporation;
(17) carry out all or any of the objects of the Corporation and do all and any of the things set out in this subsection as principal, agent, contractor, or otherwise, and either alone or in conjunction with others; and
(18) do all such things as are incidental or conducive to the attainment of the objects and the exercise of the powers of the Corporation.

Policy discretes:
(1) In the exercise of its powers, the Corporation shall comply with such policy directives as may from time to time be given to it in writing by the Governor in Council.

Subscriptions to capital
(2) Subscriptions to the capital shall be made to the Governor in Council, in such manner as the Governor in Council may prescribe, at such time and in such amount as the Governor in Council may prescribe.

Supplementary capital budgets
(3) The Corporation may make such supplementary capital budgets as the Governor in Council may prescribe.

Effect of approval
(4) Where the capital budget or a supplementary capital budget for a financial year of the Corporation is approved by the Governor in Council, in the Governor in Council's discretion, the capital budget for that financial year shall be deemed to be the capital budget for such financial year as prescribed in the said supplementary capital budget.

Person dealing with Corporation
(5) The Governor in Council may by order prescribe the contents of the said supplementary capital budget as may be required.

Board of directors
(6) The Governor in Council may, upon the recommendation of the Governor in Council, appoint a Board of directors consisting of the President of the Corporation and not more than fourteen other persons appointed by the Governor in Council to the Board:

(7) The Board may consist of fourteen members, each of whom shall hold office for a term not exceeding three years.

(8) Where a director becomes vacant during the term of the director appointed therefor, the Governor in Council may appoint a director for the remaining period of the term.

(9) A director may, on the expiration of his term of office, be re-appointed by the Governor in Council.

(10) A director is entitled to receive for attendance at meetings of the Board and any committees thereof such fees as may be fixed by the by-laws of the Corporation.

(11) A director shall be paid by the Corporation reasonable travelling and living expenses incurred by him while absent from his ordinary place of residence in the course of his duties as a director.
CHAIRMAN OF THE BOARD

3. (1) Subject to the approval of the Governor in Council, the Board shall elect one of its members to be the Chairman of the Board.

(2) The Chairman shall preside at all meetings of the Board and shall perform such other duties and exercise such powers as are imposed upon or assigned to the Chairman under the by-laws of the Corporation or by resolution of the Board.

(3) Where at any meeting the Chairman is absent, one of the directors present theretofore is elected to act in the place of the Chairman.

(4) The Chairman shall be paid by the Corporation such remuneration as may be fixed by the Governor in Council.

PREVENT OF THE CORPORATION

10. (1) Subject to the approval of the Governor in Council, the Board shall appoint a President of the Corporation.

(2) The President shall be paid such salary by the Corporation as is fixed by the Board with the approval of the Governor in Council.

DUTIES

(3) The President shall perform such duties and exercise such powers as are imposed upon or assigned to the President under the by-laws of the Corporation or by resolution of the Board.

HEAD OFFICE

11. The head office of the Corporation shall be at such place in Canada as may be designated from time to time by the Governor in Council.

ADMINISTRATION OF CORPORATION

12. The Board of Directors of the Corporation shall administer the affairs of the Corporation in all things and manner as may be prescribed by the Corporation or by law, and subject to the approval of the Governor in Council. The Board of Directors may make by-laws for:

(a) the administration, management, and control of the property and affairs of the Corporation;

(b) the performance, duties, and responsibility of all officers, agents, and employees of the Corporation;

(c) the appointment or disposition of any committee from time to time for the purpose of the Corporation;

(d) the declaration and payment of dividends;

(e) the time and place for the holding of meetings of the Board, the quorum at such meetings, and the procedure in all things at such meetings; and

(f) the conduct in all other particulars of the affairs of the Corporation.

BORROWING POWERS

13. When authorized by by-law, duly passed by the directors and approved by the Governor in Council, the Board of Directors of the Corporation may at any time:

(a) borrow money upon the credit of the Corporation;

(b) limit or increase the amount to be borrowed;

(c) issue debentures or other securities of the Corporation;

(d) pledge or sell such debentures or other securities to such person and at such prices as may be deemed expedient;

(e) acquire any such debentures, or other securities, or any other interest or title in the property or liability of the Corporation.

NOTE: the By-laws must be approved by the Governor in Council.

Delegation of powers

No delegation of powers by the Board to such officers or directors of the Corporation as may be necessary must be made without the authority or consent of the Board.

Remuneration of officers

No remuneration of officers, directors, agents, or employees shall be deemed to be remuneration for services to the Corporation.

17. The Corporation may, notwithstanding any other Act, employ such officers, agents and employees as are necessary for the purposes of the Corporation, and may do all matters and things provided for in section 16, such officers, agents and employees shall be deemed to be employed in the public service of Canada.
audit the accounts of the Corporation jointly with the auditor whose term expires at the end of that year.

(3) The first auditor shall be appointed within sixty days after the coming into force of this Act for a term ending on the 31st day of December of the fifth year following the year in which this Act comes into force.

Ineligibility

(4) No director or officer of the Corporation and no member of a firm or auditors of which a director is a member may be appointed as an auditor.

“Year”

(5) For the purposes of subsections (1) and (2), “year” means the fiscal year of the Corporation.

MISCELLANEOUS

Amendment to Canada Corporations Act

27. The following provisions of Part IV of the Canada Corporations Act are not incorporated with this Act, and this Act shall be construed accordingly, namely: sections 199 and 210, sections 204 to 208, sections 199 to 207, sections 208 and 209, sections 208 to 211 and sections 212 and 214.

Winding-up

28. No law relating to the insolvency or winding-up of any body corporate applies to the Corporation and in no case shall the affairs of the Corporation be wound up unless Parliament so provides.

CONSEQUENTIAL

Amendment to Canada Development Corporation Act

29. Paragraph 26(1)(c) of the Canada Development Corporation Act and all that portion of subsection 26(1) following paragraph (d) thereof are repealed.
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