Chapter V. The Petroleum Policy Environment and the Canadian and Japanese States

1. Introduction

This chapter examines the environments in which the Canadian and Japanese states developed petroleum policy in the postwar era. The focus of the discussion will be the question of how the environment promoted opportunities for and restrained state action in the Canadian and Japanese oil policy processes. The first section deals with the historical evolution of the international environment concerning oil policymaking in these two countries, and is followed by an examination of the domestic policy environment. Here, the international and domestic policy environments are in many respects artificially differentiated between, solely for analytical convenience. In reality their separation is practically impossible since both international and internal forces interact with each other.

2. The International Petroleum Policy Environment and the Canadian and Japanese States

After the second world war, Canada emerged as a major power and played an important role in designing international institutions.[1] On the other had, Japan, once a major power in East Asia, was left as a defeated and occupied nation by the Allied Powers in the immediate postwar period.[2] The Occupation forces initiated democratization and demilitarization measures in many spheres in Japan with varied effects. Initially, they prohibited Japan from importing and refining crude oil, since oil was considered a strategic material and against the demilitarization objectives.[3]

Long before Japan regained its political independence and sovereignty in 1952, the cold war began between the two superpowers of the United States and the Soviet Union. Against this international background, both Canada and Japan were strategically incorporated into the Western camp under American leadership and its military umbrella. In Canada this was exemplified by membership in the North Atlantic Treaty Organization (NATO) and also later by the conclusion of the North American Air Defense Agreement (NORAD) between Canada and the United States. In Japan, on the other hand, it was symbolized by the American request for re-militarization, in response to the communist takeover of China and the outbreak of war on the Korean Peninsula. Later, the United States proposed that the former enemy be its ally, and in 1951 the U.S.-Japan Mutual Security Treaty was concluded.

In such an international political environment, both Canada and Japan developed close politico-economic relations particularly with the U.S.A. but also with the Western powers in general. This was understandable since the United States by then was the largest economic and military power in the international system. Canada was geographically adjacent to this superpower and Japan geopolitically formed the cornerstone of America's world strategy in East Asia. As a result, the politico-economic interdependence between the United States and Canada or Japan developed within the broad framework of the alliance relationships. In the petroleum industrial sector, as will be discussed later, this meant that the development of the oil industries both in Canada and Japan was significantly affected by American perceptions, interests, and policy considerations.

North America's first oil was produced in Enniskillen Township, Ontario, Canada in 1858 and by establishing J.M. Williams & Co., the owner of the well developed the first integrated oil company on the North American continent. The Canadian oil business thus began a year before Colonel Edwin L. Drake discovered oil in Pennsylvania. In the United States, John D. Rockefeller established Standard Oil of Ohio in 1887. In ten years, this company almost penetrated the U.S. market and attempted to move into the European and Latin American markets. In 1897, Royal Dutch Shell amalgamating the Royal Dutch Petroleum Company and the Shell Trading and Transport Company joined the international oil scene, followed by the Anglo-Persian Oil Company, the earlier body of British Petroleum. Meanwhile, in the States, Texas and gulf Oil Corporations were formed early in the twentieth century. Standard New Jersey which led the Standard Group was divided into Standard Oil Co. of California, Standard New York (presently Mobile), and Standard New jersey (Exxon) by the Anti-Trust Law. These five U.S. oil corporations and two European companies established themselves as MOCs, dominating both the down stream and upstream operations on the international oil scene.[4]

Historically, they coordinated their activities to control the world oil economy, skillfully using the dominant market position while competing amongst themselves to bring resource development under their own control. For resource development and management at home and overseas, they occasionally relied on the assistance of their home governments. The government also needed their assistance, especially for example, during World War II. Ever since the first world war when oil fueled airplanes, tanks, and battleships were introduced into the warfare, oil was considered to be a strategic product, and every government was concerned with securing a sufficient oil supply for its military and civilian use. The British and American governments were no exception. They gave every possible support to their major oil firms so that they could obtain concessions and exploration rights in the Middle east and other world oil deposits.[5]

With the strong support of their home governments, these MOCs competed with each other to control more oil resources and markets in the Americas, the Middle East and Asia and later became known as the "seven sisters."[6] They were a major force in all aspects of the oil business. For example, by the early 1950s, they controlled most of the oil resources in the Middle East and their share in the region's total oil production reached almost 100 percent. Globally, in 1953, the seven sisters controlled 91.8 percent of oil reserves, had an 87.1 percent share in world oil production, owned 72.6 percent of world refining capacity and enjoyed a 64.6 percent share in world oil sales.[7] Thus, these MOCs dominated both the upstream and downstream operations in the international oil business.

Between 1945 and 1958, according to an estimate, some 160 American firms entered the overseas oil scene. This was partly because of the tax structure unique to the United States which gave American firms special incentives for foreign investment including depletion allowances and deduction of foreign income tax.[8] One major problem caused by the subsequent acceleration of overseas oil exploration was a world-wide oil production surplus, resulting from the discovery of large oil fields particularly in the Middle East.

Since oil production costs in the Middle East were much lower than in the United States, there was a strong possibility that U.S. domestic oil would lose international competitiveness compared to imported oil. This in turn would threaten the viability of the domestic oil industry were there no government intervention. Under pressure from the domestic oil producers, the United States government introduced an oil import control program on the grounds of national security, limiting not only the volume of imported oil but also the area of the imports to the Western hemisphere. Early in the postwar era, in order to market surplus oil discovered by US firms abroad, the American government encouraged its European allies and Japan to import oil from the Middle East, providing them with extra economic incentives through the Marshall Plan and other means.

Meanwhile, since most oil revenue was taken by American and other foreign capital and real oil prices were falling, in oil producing countries nationalist sentiment was growing. In order to remedy the situation and increase their share of the oil revenue, the Organization of Petroleum Exporting Countries (OPEC) was formed in 1960.

Despite the formation of OPEC, the 1960s was an era of relative stability in terms of oil prices and supplies. Against the background of supply surplus, oil prices actually decreased. For instance, the price for Arabian Light API 34 degree fell from US$ 1.6 per barrel to US$ 1.3 per barrel between 1959 and 1969.[9] Yet, because of decreases in production costs and drastic increase in oil consumption, the oil revenue for both MOCs and producing countries increased during the 1960s.

International oil market conditions, including the supply surplus, reasonable prices and supply stability, affected Canada and Japan in several important ways. First, given these market conditions, both countries rapidly increased oil consumption substituting conventional energy sources such as coal. Their dependency on oil rose. Its abundant supply, price competitiveness and supply security were temporarily taken for granted. Second, in Canada, where a substantial amount of oil was also domestically produced, reasonably priced oil posed a threat to the development of the local oil industry because domestically produced oil cost were more than imported oil consumers and user industries would have benefited from reasonably priced imported oil. Thus, in Canada, the abundant supply of cheap imported oil brought about a societal conflict between oil producers and users. This in turn provided an opportunity for state action if the Canadian state leaders were concerned with how to market more expensive domestic oil in order to foster the development of the oil industry in Canada, on the one hand and how to protect the interests of important user industries and Canadian consumers on the other.

In Japan, competitively priced oil posed a threat to the viability of the domestic coal industry. Yet, because user industries were more influential in the domestic political arena and also because major actors both in and outside the state unanimously believed that it was more important for Japan to develop competitive industries in the petro-chemical, shipbuilding, steel, automobile and many other sectors than to protect the coal industry, oil replaced coal as a major source of energy in the early 1960s.[10]

As the Japanese economy recovered from the war and expanded, outside pressure for trade liberalization grew. At the Tokyo GATT meeting of 1959, both European countries and the United States demanded Japan remove trade barriers such as the Fund Allocation System (FAS). The Japanese government used the FAS, for example, in order to control the expansion of oil refineries and the import of oil-related technologies by carefully distributing scarce foreign currency required for expansion and imports. Trade liberalization meant the abolition of the FAS and the consequent massive inflow of cheaply priced heavy oil from abroad without any intervention. Such a policy environment led to the establishment of the Petroleum Industry Law which will be examined later.

In the 1960s, the oil surplus at the international level intensified inter-firm competition in Japan, which weakened the position of many oil companies. Many Japanese state leaders felt the need for state intervention in the petroleum sector because they feared that intensive inter-firm competition would wipe out Japanese firms which had small capital and resource base. As will be discussed in chapter VII, against such market conditions the Japanese state extensively intervened in the oil market in accordance with the provisions of the Petroleum Industry Law.

Towards the end of the 1960s, there were, however, some signs of change in the power balance between the MOCs and producing countries. After the formation of OPEC, oil-producing countries bargained with MOCs to increase their share of oil revenue. Encouraged by a more radical stance and the success of Libya on revenue-sharing and nationalization, their continuous efforts in the 1960s resulted in the Teheran agreement in February 1971 which was signed between the MOCs and the oil producing countries in the Persian Gulf.

The Teheran agreement radically changed the relative share of oil revenues between the two groups. Producers were paid 35 cents more per barrel by MOCs and the price was to increase 5 cents a barrel in June 1971, and thereafter on every January 1, until 1975. All the price increases were to be paid to the producers by MOCs. In addition, on each of these dates, the producing countries were to receive a 2.5 percent increase in the posted price as an adjustment to inflation. The agreement also called for the abolition of discount prices as exercised by the MOCs and an overall increase in the producing governments' profit per share to 55 percent.

By October 1973, OPEC had successfully adjusted oil prices on eight occasions, increasing the price to 1.7 times its pre-1971 levels. The control of oil resources was gradually transferred from the MOCs which owned nearly 70 percent of world oil production in 1970 into the hands of producing countries.[11] In short, by the early 1970s the relative bargaining power of the producing countries and the MOCs shifted markedly in the former's favor. Producers succeeded in increasing not only their share from oil sales, but also in controlling prices.

Furthermore, there were signs of oil depletion in the United States which was the largest oil producer and consumer in the world. The U.S. share in world total oil production decreased from 49.2 percent in 1957 to 25.4 percent in 1972. Its share in proved oil reserves in non-communist regions decreased to 1.5 percent during the period 1966-72. In order to fill the growing gap between decreasing domestic oil production and increasing consumption, the United States had to import more and more oil. As a result, their share of imported oil in U.S. oil consumption rose steadily from 20.7 percent in 1962 to 35.1 percent in 1973. Between 1962 and 1972 the share of oil imported from the Middle East and North Africa in American oil consumption increased slightly from 3.3 percent to 4.4 percent. Yet, because the Middle East and North Africa produced more than half of the world oil production outside communist countries, the combination of these factors increased the importance of OPEC in the international oil market and therefore its bargaining power in the world politico-economic system.[12]

Their enhanced position became visible on October 17, 1973, when the Organization of Arab Petroleum Exporting Countries (OAPEC) announced that they would cut back on oil exports unless importing countries supported them in the struggle against Israel. Between September and November OPEC countries not only cut export levels by 20-30 percent but also in October raised the posted prices for crude oil by 70 percent and gain on December 23 by nearly 200 percent. For example, the price of Arabian Light API 34 degrees increased about 400 percent between August and December 1973 and by the first of January 1974, it cost as much as U.S. $11.6.[13] The power to determine oil prices, production levels and destination of oil was now steadfastly held by the oil producing countries. .

The reduction in oil imports associated with rapid price increases severely affected the economies of the industrialized countries. All suffered severe inflation coupled with economic recessions eventually reducing oil consumption levels. In Canada, the new international oil market conditions posed a great threat to regions east of the Ottawa valley. Because they were dependent on imported oil, they became vulnerable to oil supply interruptions and price increases. At the same time, because a large among of domestically produced oil was exported to the United States and the domestic oil reserve was declining, Canadian exports had to be cut or some other alternatives had to be adopted if Canada wanted to achieve self-sufficiency in oil. Canada was, however, fortunate among industrialized countries in the sense that it had domestic oil deposits and production almost sufficient to meet its own demand. Nonetheless, the crisis enhanced the state role as an oil developer, distributor, price-setter, and re-distributor of oil revenues especially because oil production was centered in Alberta and other parts of the Canadian West while consumption was concentrated in Central Canada.

The 1973 oil crisis affected the Japanese economy more directly than the Canadian economy in the short-run term since the former was heavily dependent on imported oil. More than 70 percent of its total energy requirements were met by oil imports, of which eighty percent came from the Middle East.[14] Because the oil crisis was not only an unexpected event but also had such potential for inflicting a grave impact on the Japanese economy, the oil crisis was conceived as an "oil shock" in Japan. In general the recognition of Japan's dependence on foreign energy sources was further increased. Thus, the crisis emphasized the external limit placed on the Japanese economy. Against drastic oil price increases, Japanese oil consumers for the first time organized public protests at the headquarters of the Petroleum Association of Japan (*Sekiyu Renmei*), which represents the oil industry's interests, as well as at other key places. Oil issues were politicized to an unprecedented extent. At the same time, the oil crisis gave the Japanese state an opportunity to play an increased role in every aspect of industrial activities in the oil sector in order to prevent dramatic oil price increases and ensure a stable oil supply through such measures as developing closer diplomatic ties with producers, encouraging oil exploration, stockpiling, and diversifying energy sources and their geographical origins.

The fundamental features of the international oil policy environment in the post-crisis era remained basically the same as those during the crisis. That is, drastic increases in oil prices and the continuing possibility of oil supply interruptions. OPEC consolidated its power by coordinating oil production levels and pricing. This was possible because outside communist countries, they owned 82 percent of proven world reserves, produced 62 percent of all oil, and exported 85 percent of the crude oil traded internationally. Saudi Arabia played an important roe in stabilizing production levels whenever OPEC countries failed to reach an agreement.[15]

There were further developments following the Iranian revolution early in 1979. The oil supply from Iran, which used to occupy some 10 percent of oil traded in the international market was interrupted. As a result, oil prices escalated to $32 per barrel, almost two and half times the level at the end of 1978, and "stagflation" affected the economies of the industrialized countries. Because the basic features of the international oil market remained the same, this new situation reinforced the role of the state in managing the oil economy. For example, at the Tokyo summit, leaders of the seven industrialized nations discussed energy issues and agreed on targets for oil consumption and import levels among themselves. Both Canada and Japan abided by this decision and attempted to implement the set targets. At the same time, oil prices in the two countries had to be determined within a broader framework which was set not by themselves but by OPEC. Thus, the new international oil policy environment affected both Canada and Japan, and further necessitated state involvement in the oil economy.

3. The Domestic Oil Policy Environment and the Canadian and Japanese States

Geographically speaking, Canada is the second largest country among the family of nations but it has a population of only 23 million. Moreover, the Canadian population is concentrated within 100 miles of the US-Canadian border; the rest is scattered around an area of almost 10 million square kilometers. In addition to the large geographical size and small population, the diverse ethnic origins and their regional distribution make Canada one of the most difficult countries to govern. This difficulty is further exacerbated by economic disparity which has developed between central Canada including Toronto and Montreal and other regions. t is often argued that the industrial bases in Ontario and Quebec developed by exploiting resources produced in the hinterland.[16] For these reasons, socio-economic conflicts often emerge between regions, giving rise to problems which would seem to invite the intervention of the central authority. Yet, it is extremely difficult to develop a policy which would serve everybody's interests. Many socio-economic policies often promoted the interest of one group at the expense of others.

In the oil policy area, because most oil is produced in Western Canada but is largely consumed in Central Canada, a sharp conflict of interests could emerge between producers and consumers on a geographical basis. This would increase the necessity for state involvement in the oil economy but at the same time, makes it very difficult for the central state to reconcile divergent regional interests.

On the other had, Japan is a small island country with a highly homogeneous population of 120 million and the land of some 380,00 square kilometers. Socio-economically Japan is also homogeneous and more than 90 percent of the population believe that they belong to the middle class.[17] Japan imports most essential raw materials from abroad, and exports many manufactured goods. Thus, Japan is essentially a country of resource users rather than producers. These factors make it easier for the Japanese state to define the national interest than for the Canadian counterpart. For example, in the oil policy area, the Japanese people would unanimously recognize the need for securing sufficient oil and other essential resources as cheaply as possible since there is hardly any domestically produced oil or natural resources in substantial quantity. This makes it easy for the Japanese state to help secure the supplies of oil and other natural resources on the grounds of the 'national interest.' To take a specific example, there would be hardly any objection to the view that the promotion of oil diplomacy is essential for the Japanese nation as a whole. Hence, state leaders can quite easily pursue various policies to strengthen ties with oil producers.

Historically, Canadian state leaders welcomed the inflow of foreign capital into the development of the oil industry.[18] Because of a special U.S. tax structure, American-based MOCs found Canada an attractive country for investment. Their activities led to Imperial Oil's discovery of Leduc No.1 south of Edmonton in 1947, which turned out to be one of the greatest oil fields discovered in Canadian mining history.

Imperial Oil was a Canadian subsidiary totally owned by Exxon, and its discovery of Leduc No.1 stimulated exploration activities by other MOCs as well as Canadian independents. Soon several other major discoveries were made in the Edmonton area, and by 1957 three billion barrels of crude oil had been added to Canadian oil reserves[19]. With these discoveries, the Canadian oil industry, led by the MOCs, developed fully from upstream to downstream activities. Accordingly, the origin of modern Canadian petroleum industry is often traced back to the discovery of the Ludec Field in 1947. Foreign capital played an important role at the initial stage of development.

Once oil production began from Leduc, there emerged an oil production surplus problem, at least at a regional level in Canada. This was related to the fact that in Canada oil and gas have been produced mainly in the West, in particular Alberta, while its major user industries and consumers have been concentrated in Ontario and Quebec. By the mid-1950s the central concern of the Canadian oil industry and the government shifted from the search for new oil and gas supplies to their marketing, and oil had become to supply nearly half of Canada's energy requirements. In fact by then, the share of coal in Canada's total energy consumption had decreased to 31 percent.[20]

The marketing of a domestically produced oil surplus which was more expensive than imported oil was a major issue in the oil economy in the 1950s and 1960s. Transportation of oil and gas has been costly. As a result, exports of oil surplus to adjacent U.S. states gradually captured the attention of not only oil producers but also Canadian state leaders such as C.D. Howe in the 1950s. This was a quick way to get returns from investment from the viewpoint of investors. Furthermore, it was argued that this was an effective way to not only resolve trade deficit problems but also from the standpoint of state leaders, to foster the development of the oil industry and finance the east-west infrastructure in the energy sector, to reduce volume of imported oil in the East, and to save more foreign currency.[21]

By 1960, the four largest MOCs in Canada, imperial, Gulf, Mobile and Texaco, produced more than 30 percent of Canadian oil, and their share in Canadian production reached nearly 40 percent in 1973. most refining facilities were owned by foreign oil majors. For example, in Quebec, which had the largest refining capacity in Canada in the 1960s and 70s, all the facilities were owned by the above four MOCs, alongside British Petroleum and Belgium-based Petrofina. The MOCs had substantial control over major transport facilities and owned nearly 60 percent of gasoline outlets in Canada.[22] Their activities were omnipresent in every sphere of oil business. Since they had crucial information required for developing state oil policy, their attitude and openness towards the government profoundly affected state policy in the petroleum sector.

Their over-whelming presence was, however, gradually brought into question by the late 1960s when nationalist sentiment grew in the Canadian polity, especially in the form of anti-Americanism. In particular, Canadian attention was directed at ever-growing foreign domination of Canadian socio-economic systems and culture. The Canadian petroleum industry was viewed as a typical example of this. Moreover, the Canadian oil production rate began to exceed the recoverable reserves discovery rate by the early 1970s. As a result, the whole domestic oil policy environment changed dramatically in Canada, which Ted Greenwood describes as follows:

> The political environment within Canada was changing.... A new concern about the quality of the country's physical environment and a resurgent sense of economic strength and nationalism produced a growing desire to reduce the level of economic dependence on the United States and to preserve Canada's resources for Canadians. That close cooperation with the United States produced economic benefits for Canada had been widely accepted as axiomatic. Now it was increasingly called into question. As the American appetite for energy resources grew, the ability of Canada to meet the needs and its willingness to try decreased. Resentment over American ownership of manufacturing and especially resource industries was growing. foreign control in the oil and gas sector was about 90%, not counting pipelines. .... Energy issues became a matter of high politics within Canada and an important symbol of the desire for greater independence from American influence.[23]

Oil issues and the role of the MOCs became highly politicized with the approach of the 1973 oil crisis in the Canadian polity. Canadian oil consumers and the public became more conscious of production, marketing, and pricing practices as well as revenue sharing. These changes in the domestic environment stimulated state involvement in this crucial industrial sector in the 1970s.

Compared to Canada, the development of the oil industry in postwar Japan was delayed owing to the prohibition of oil imports and refining by the Occupation authorities. By 1949, however, this policy was lifted: Instead, the general head Quarters (GHQ) began to allow firms to enter oil refining business if they met three conditions; sufficient capital, advance refining technology and a crude oil supply capacity on a stable basis.[24] Since it was evident at that time that no Japanese company could meet these conditions, the criteria were designed to link Japanese companies with the MOCs interested in getting into the Japanese market. The result was quick links between Japanese and foreign oil companies, and these ties still exist.

The first joint venture agreement was concluded between Standard Vacuum and Toanenryo (Tonen) in February 1949 with the former holding 51 percent stock in the latter. In March Nihon Sekiyu (Nisseki) and California Texas (Caltex), and Mitsubishi Sekiyu and Tide Water Associated Oil respectively concluded crude oil purchase and products marketing deals, which were followed by Showa Sekiyu and Shell in June, Koa Sekiyu and Caltex in July, General Bussan and Standard Oil of New York, and Maruzen Sekiyu and union both in October, and so forth. Later, those firms whose stock was purchased by foreign oil interests were called *gaishikei* (the foreign capital group) or the affiliated companies, as against *minzokukei* (the Japanese group) or non-affiliated firms.

In 1958, *gaishikei* firms had a 49.8 percent share in the total capital invested in the Japanese oil industry and overall foreign capital supplied 25.4 percent of the capital needs of the oil industry in Japan.[25] In the same year, *gaishikei* firms owned 69 percent of refining capacity.

The Japanese oil industry continued to depend heavily on foreign capital for expansion. The MOCs had a 50 percent share in the major oil firms operating in Japan. by the early 1960s they supplied thirty-five percent of the total capital invested in the petroleum sector. Owing to the lack of foreign exchange reserves and the small government budget, the Japanese government's share in the oil industry amounted to only one percent of the industry's total capital requirements.[26]

The share of oil in Japan's energy supply increased rapidly from 17.7 percent in the fiscal year (FY) 1953 to 39.9 percent in FY 1961 to 77.6 percent in FY 1973. Fiscal year 1963 was a turning point in that oil's share exceeded the 50 percent level for the first time. from FY 1973, its share gradually declined to 68.5 percent in FY 1980. In FY 1950, japan imported 1,850 million liters of oil. The volume of oil import dramatically increased to 39,155 million liters by FY 1961, to 288,609 million liters by FY 1973. between 1961 and 1973, therefore, the oil import level grew more than seven times. From then, it slowly decreased to below a 250,000 million liters level by FY 1980. Thus, the era up to the 1973 oil crisis was a period of a rapid expansion of the use of oil for the Japanese oil industry, while the post-oil crisis era was one of contraction.[27]

Unlike the Canadian industry which has been engaged in both upstream and downstream activities from the production of crude oil to its transport, refining and marketing, the Japanese oil industry has been concentrated in downstream operations, owing to the lack of substantial oil deposits within Japanese territory At the same time, because MOCs owned the world's large oil deposits by the time Japanese firms considered moving into oil exploration and development abroad, the late start made it very difficult for the Japanese firms to find many productive fields.

Furthermore, in order to meet the rapidly increasing demand for oil in the 1960s, the Japanese oil industry had to expand refining facilities. Since they did not have much capital of their own for facility investment, many Japanese oil firms borrowed the require capital from outside sources, including the MOCs. As a result, the share of the borrowings from the outside sources in their total capital increased from 76.4 percent in FY 1960 to 92.4 percent in FY 1973 and to 93.8 percent in 1980. [28] This in turn made the Japanese oil industry one of the most unprofitable industrial sectors despite the rapid expansion of the business. Their profit level was also lowered by the fierce inter-firm competition of the 1960s, which partly resulted from government policy.

Immediately after the 1973 oil crisis, despite drastic oil price increases, the government did not allow oil product prices to go up too quickly. Soon, it also increased oil related taxes. Furthermore, with increasing oil prices, demand for oil products declined. These factors made the Japanese oil industry financially very weak and hence overseas investment nearly impossible. As a result, most of them stayed in downstream operations. This in turn made the Japanese state intervene in this industrial sector and encourage overseas oil exploration and development.

Drastic oil price increases and the possibility of oil supply interruption in the post-oil crisis era made Japanese oil consumers aware of the danger of high dependency on imported oil. The new development in the oil policy environment invited further state involvement in the oil industrial sector so as to reduce Japanese vulnerability.

4. Conclusion

Both international and domestic environments profoundly affected the role of the Canadian and Japanese states in oil policy processes in important ways. On the one hand, the new developments in the international politico-economic environment restrained the actions of these states but, on the other, stimulated state intervention in the national oil economy.

Geographically, Canada is much larger than Japan and has a smaller population. Socially, ethnically, economically, Canada is, however, much more diverse than the latter. Such multiple diversity can make it more difficult to govern the country than such a small, homogeneous country like Japan. In the oil policymaking, for example, it is more difficult to define 'national interest' in Canada than in Japan since in the former the interests of both oil producers and consumers are equally represented while in Japan there are basically oil users and consumers. Despite these differences, new developments in the policy environment gave opportunities for both Canadian and Japanese states to involve more in the oil economy in the 1970s than in 1960s, which is the focus of the analysis in the following four chapters.

[1] For example, see, John W. Holmes, *The Shaping of Peace: Canada and the Search for World Order, 1943-1957*, Vol.1, (Toronto: University of Toronto Press, 1979).

[2] A growing number of studies on the Allied Occupation of Japan has been published. Included are: Roger Buckley, *Occupation Diplomacy: Britain, the United States and Japan, 1945-52* (Cambridge: University of Cambridge Press, 1985); The Japan Association of International Relations (ed.), *International Relations*, Vol. 87 (May, 1987), a special issue devoted to "The Occupation of Japan: Studies from Various Viewpoints"; Makoto Iokibe (ed.), *Occupation of Japan, U.S. Planning Documents 1942-45* (Tokyo: Maruzen, 1987); -----, *Beikoku no Nihon Senryo Seisaku* (The U.S. Occupation Policy of Japan) (Tokyo: Chuokoron, 1985), 2 Vols.; Herbert Passin, "The Occupation - Some Reflections," in Carol Gluck and S. Graubard (eds.), *Showa: The Japan of Hirohito* (New York: Norton, 1992), pp. 107-29; Yoshikazu Sakamoto and Robert Ward (eds.), *Nihon Senryo no Kenkyu* (A study of the occupation of Japan) (Tokyo: University of Tokyo Press, 1986); and ----- and Yoshikazu Sakamoto (eds.) *Democratizing Japan: the Allied Occupation* (Honolulu: University of Hawaii Press, 1987); and M. Schaller, *The American Occupation of Japan: the Origins of the Cold War in Asia* (Oxford: Oxford University Press, 1985).

[3] For U.S. policy directives concerning oil use in Japan during the Occupation era, see, Mito, "The Allied Occupation of Japan and Industrial Development: the Case of the Petroleum Industry," *op. cit.*; Martha Ann Caldwell, "Petroleum Politics in Japan: State and Industry in a Changing Policy Context," unpublished doctoral dissertation submitted to the University of Wisconsin at Madison, 1981; Sekiyu Renmei, *Sengo Sekiyu Sangyoshi* (The history of the postwar oil industry) (Tokyo: Petroleum Industry Association of Japan, 1985); and Tsusansho Kozankyoku Sekiyuka (ed.), *Sekiyu Sangyo no Genjo* (The current situations of the petroleum industry) (Tokyo: Sekiyu Tsushinsha, 1958 and 1962), hereafter cited as MITI's Oil Section, 1958 ed. and 1962 ed. respectively.

[4] Anthony Sampson, *The Seven Sisters: the Great Oil Companies and the World They Shaped* (New York: Viking Press, 1975).

[5] *Ibid*; J.M. Blair, *The Control of Oil* (New York: Vintage Books, 1978); J. E. Hartshorn, *Oil Companies and Governments: An Account of the International Oil Industry in Its Political Environment* (London: Faber and Faber, 1962); Peter R. Odell, *Oil and World Power*, 6th ed., (Harmondsworth: Penguin Books, 1981); and Committee on Foreign Relations, US Senate, *op.cit.*.

[6] Sampson, *op.cit.*.

[7] F.R. Wyant, *The United States, OPEC, and Multinational Oil* (Baltimore: The Johns Hopkins University Press, 1977), pp. 42-43.

[8] L. Fanning, *The Shift of World Petroleum Power Away from the United States* (Pittsburgh: Gulf Oil company, 1958), p.33.

[9] M. A. Adelman, The World Petroleum Market (Balimore: The Johns Hopkins University Press, 1972), p.208.

[10] Sekiyu Renmei, *op.cit.*, p.368. See also, Caldwell, *op.cit.*; and Laura E. Hein, *Fueling Growth: The Energy Revolution and Economic Policy in Postwar Japan* (Cambridge, MA: Council on East Asian Studies, Harvard University, 1990.

[11] For a detailed study of changes in the world oil market, see, Adelman, *op.cit.*; Blair, *op.cit.*; Edward N. Krapels, *The Commanding Heights of Oil* (Baltimore: The Johns Hopkins University Press, 1991); Odell, *op.cit.*; Sampson, *op.cit.*; and Edward L. Wheelwright, *Oil & World Politics: From Rockefeller to the Gulf War* (Sydney: Left Book Club, 1991).

[12] Joel Darmstadter and Hans H. Landsberg, "The Economic Background," in Raymond Vernon (ed.), *The Oil Crisis* (New York: W.W. Norton and Co., 1976), pp. 21-33.

[13] Japan External Trade Organization (JETRO), *White Papers on International Trade* (Tokyo: JETRO, 1974), pp. 15-22.

[14] Foreign Press Center (FPC), *Facts and Figures of Japan: 1980 Edition* (Tokyo: FPC, 1980), p.70.

[15] Heiwa Keizai Keikaku Kaigi, Dokusen Hakusho Iinkai (eds.), *Kokumin no Dokusen Hakusho: Sekiyu* (The people's monopoly white paper: oil) (Tokyo: Ochanomizushobo, 1981), pp.72-74.

[16] A good review of this view is Wallace Clement and Daniel Drache, *A Practical Guide to Canadian Political Economy* (Toronto: James Lorimer & Co, 1978), esp. chap. III.

[17] Ichiro Miyake, "Yoron to Shimin no Seiji Sanka (Public opinion and citizens' political participation," in ----, Eiichi Shindo, et al, *Nihon Seiji no Zayhyo* (Perspectives on Japanese politics) (Tokyo: Yuhikaku, 1985), p.290. See also, Yasusuke Murakami, *Shin Chukan Taishu no Jidai* (The era of the new middle mass) (Tokyo: Chuokoron, 1984).

[18] Wallace C. Koehler, Jr., "Foreign Ownership Policies in Canada: 'From Colony to Nation' Again," *The American Review of Canadian Studies*, 9, 1, (Spring 1981), pp. 77-88.

[19] The Petroleum Resources Communications Foundation (PRCF), *Our Petroleum Challenge: The New Era* (Calgary: PRCF, 1978), pp. 18-19.

[20] John Davis, *Canada's Energy Prospects* (Ottawa: Queen's Printer, 1957), pp. 367-369.

[21] John N. McDougall, *Fuels and the National Policy* (Toronto: Butterworths, 1982).

[22] Robert J. Bertrand, Q.C., Director of Investigation and Research, Combines Investigation Act, *The State of Competition in the Canadian Petroleum Industry*, Vo. V (Ottawa: Minister of Supply and Services Canada, 1981), pp. 14-20.

[23] Ted Greenwood, "Canada's Quest for Energy Autarchy," in J.C. Hurewitz (ed.), *Oil, the Arab-Israel Dispute and the Industrial World* (Boulder: Westview Press, 1976), p.23. The Canadian political leaders were well aware of the rise of Canadian nationalism and its implications for the energy policy especially the foreign ownership issues in the early 1970s. See, for instance, *Text of an Address by the Honourable J.J. Greene, Minister of Energy, Mines and Resources, Canada to the Mid-Year Meeting of the Independent Petroleum Association of America, Denver, Colorado* (Ottawa: Department of Energy, Mines and Resources, May 12, 1970), p.29.

[24] For detail, see Caldwell, *op.cit.*; Mito, *op.cit.*, p. 111; and Sekiyu Renmei, op.cit.; MITI's Oil Section, 1958 ed., *op.cit.*, pp. 27-34; and Tsusho Sangyosho Tsusho Sangyo Seisakushi Hensan Iinkai (hereafter cited as Tsusansho) (ed.), *Tsusho Sangyo Seisakushi* (The history of international trade and industry),Vo.3, 1992, pp. 421-433.

[25] MITI's Oil Section, *op.cit.*, pp. 27-34.

[26] *Ibid.*, 1962 ed., p.93.

[27] Sekiyu Renmei, *op.cit.*, pp. 368-373.

[28] *Ibid.*, p.386.