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MEMORANDUM

NATIONAL SECURITY COUNCIL

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INFORMATION

August 22, 1975

MEMORANDUM FOR GENERAL SCOWCROFT

FROM: Robert Gates *RG*

SUBJECT: Canadian Remarks at Libby Dam Dedication

Canadian Energy Minister MacDonald will be standing in for Prime Minister Trudeau at the Libby Dam dedication on Sunday, August 24. Judging by an advance text of Mr. MacDonald's remarks (at Tab A), he will take the occasion to explain in some detail Canada's policy on curtailment of crude oil and natural gas exports to the United States. He will say that:

-- Canada's energy resources in oil and natural gas are finite and that energy planning on both sides of the border has been overly optimistic.

-- Estimates are that Canadian reserves of oil and gas will be inadequate to meet domestic needs in the near future and must be conserved for Canadian use.

-- Ottawa will take an especially sympathetic view towards customers of longest-standing in the United States, particularly those with no alternative sources of supply.

-- Canada will follow a course of "enlightened self-interest", dealing with bilateral energy problems on a project-by-project basis, but not in terms of an overall continental energy policy.

Background

MacDonald's frank remarks, assuming they are delivered as written, will touch on one of the most sensitive issues in US-Canadian relations at present.

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-- Ottawa is phasing out oil exports to the United States. The limit on crude shipments to the U. S. market, set at 800,000 b/d during the first half of 1975, was reduced to 750,000 b/d on July 1. The tentative phase out plan calls for limiting shipments in 1976 to 560,000 b/d. Canadian policy still calls for halting all shipments to the United States by the early 1980s. Ottawa appears willing to continue supplying certain northern tier refineries during the phase out periods and perhaps beyond. These deliveries would be offset by equal U. S. shipments to Canadian refineries. Actual shipments to the U. S. market have been running well below Ottawa's quota limit because Canadian crude has been overpriced compared with alternative supplies.

-- At the same time, Ottawa is steadily and sharply increasing the price of natural gas sold to the United States. On an annual basis, U. S. customers will be paying \$1.6 billion more a year for Canadian gas by the end of 1975, or about \$1.3 billion more than for similar quantities before Ottawa began increasing prices in late 1973. While export prices are rising, deliveries to U. S. customers are expected to drop 6% this year because of production problems in British Columbia. Ottawa has no intention of altering the policy of placing the burden of shortfalls entirely on U. S. customers, especially in Oregon and Washington, which are totally dependent on Canadian supplies. The Trudeau government has already indicated that existing long-term export contracts will be altered in order to meet growing Canadian gas requirements through the early to mid-1980s.

The net effect of Ottawa's energy policy has been to insulate Canadians from the pressures of the energy crisis at the expense of traditional U. S. customers, particularly in the northern tier states. Both sides have agreed to consult on mutual energy problems, including "swapping" arrangements whereby refineries in the northern tier states would continue to receive Canadian crude in exchange for diversion of U. S. crude to Canadian east or west coast refineries.

The U. S. Approach at Libby Dam

I continue to believe that the President's remarks for the Libby Dam dedication are appropriate for the occasion and should not be modified to offset MacDonald's speech. I believe, however, that if there is an appropriate opportunity in private, either you or the President should make the following points to Minister MacDonald:

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Crude Oil

-- We recognize Canada's supply constraints but hope that exports to traditional customers can continue, perhaps through oil exchanges of mutual benefit to U.S. and Canadian companies, until alternative sources can be found.

-- In this connection, we appreciate the forthcoming position of the Canadian Government in the recent discussion on possible oil exchanges.


Natural Gas

-- We expect considerable domestic shortages of natural gas in the U.S. this heating season.

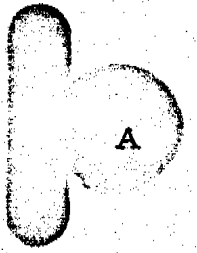
-- We appreciate the cooperative attitude of the Canadian Government in assuring us that consultations on gas export curtailments will continue.

-- We will be prepared to discuss with the Canadian Government later this year procedures to mitigate the adverse impact of any necessary export curtailments. But, we would hope that Canadian domestic policies, including increases in natural gas prices, would result in increased production and enable Canadian suppliers to keep their contract obligations over time.

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Robert Normats concurs.

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FOR RELEASE:

PREPARED FOR DELIVERY--

CHECK AGAINST DELIVERY
SUNDAY, AUGUST 24, 1975

NOTES FOR REMARKS

BY

THE HONOURABLE DONALD S. MACDONALD
MINISTER OF ENERGY, MINES AND RESOURCES

ON THE OCCASION OF

THE DEDICATION OF THE LIBBY DAM

MONTANA, U.S.A.

AUGUST 24, 1975

I am honored to represent Canada today at this ceremony marking the dedication of the Libby Dam -- an engineering project that is the culmination of some thirty years of hard study, hard negotiation, and hard work. The Columbia River Treaty is a prime example of an initial separate analysis of alternatives by each nation leading to a final joint conclusion that if we work together to develop a project of mutual benefit, we will each be further ahead. The accomplishment that we are formally recording today lies not solely in the completion of this great dam but in the relationship of enlightened self-interest between our two great nations that permitted its construction. This is the mature thoughtful relationship that I hope will guide each of us in our future dealings over the whole range of energy commodities.

Mr. President, the stormy events of the past 18 months have brought home to the peoples of both our lands that our non-renewable energy resources are finite; that our energy planning in the past on both sides of the border has been too optimistic. One outcome of these turbulent times in energy trade has been a sharpening in the focus of our neighbours in the United States on the resource wealth of Canada. What is perhaps not widely understood in the United States is that Canada does not constitute some vast storehouse of energy and that, in fact, the development of the domestic resources of the United States far, far exceeds production in Canada, and, of course, exceeds by an even larger degree our exports to you; the fact is that we supply just a nudge over five percent of your crude oil consumption, less than five percent of your natural gas demand, below one percent of your electricity consumption, none in the recent past of your uranium demand because of an import embargo, and, when it comes to coal, well, you supply us.

Obviously, energy trade between Canada and the United States is relatively small in terms of total United States requirements. I believe we should all be cognizant of that in viewing the recent actions taken by the Canadian Government respecting our exports of oil and natural gas.

Our National Energy Board forecast a shortage in supply of Canadian oil to serve traditional domestic markets early in the next decade before the oil of our Arctic is tapped, and recommended a phased reduction in exports; the solid foundation of our government's acceptance of this recommendation can perhaps best be illustrated by the recital of one simple fact: Our Eastern provinces, at present unconnected by a pipeline system to our Western producing areas, are more dependent on imported offshore oil than are the Eastern States of your country.

Similarly our National Energy Board found that Canadian natural gas supplies will not be adequate in the near future -- and I mean by that beyond this winter -- to meet both projected increases in domestic demand and existing export commitments. The Canadian Government, I am sure with the support of our conservation-minded citizens, has determined that Canadians should make every effort to restrain new demands for natural gas and to avoid wastage in existing demands, to avoid the deceptively simple solution of attempting to meet the problem entirely at the expense of the U.S. customer.

In both the case of oil and natural gas we will, of course, take an especially sympathetic view towards our customers of longest-standing in the United States, particularly those with no immediate alternative sources, because, Mr. President, we believe this to be a fair course, and not solely because a number of these customers reside close to, and in the State of Michigan.

Further, the Canadian Government is prepared to consider a swapping arrangement of our oil in return for domestic U.S. oil from the CAP line to Ontario refineries if this can be sorted out by the companies and should it be judged by each nation to be more economical and of mutual benefit.

I pointedly make this last reference because I believe our cooperative stance in being ready to talk about such a swap, underlines, as does this dam that we are here

to dedicate Libby, taking the best course for each nation is a pragmatic project-by-project approach to energy trade. I did, I hope with your forgiveness, Mr. President, go on at some length about recent developments in our contacts involving oil and gas, because, harking back to the point of our relationship of enlightened self-interest, they serve to focus our attention on a major principle: Canadian objectives rule out a comprehensive resource trade package, a so-called continental energy deal. But those objectives do not rule out, in fact they rule in, a course of studying each individual project to see if a cooperative, coordinated approach will bring more benefit to each nation than if each were to pursue its own separate way. That makes sense because enlightened self-interest makes sense.

Mr. President, we know that arguments were put forth in both nations that we could have done better "doing our own thing" on the Columbia River. I don't think so. The International Joint Commission spent years analysing development programs and principles of cooperation and concluded: "Co-operative development of the water resources of the Columbia River Basin should result in advantages in power supply, flood control and other benefits of savings in cost to each country as compared with alternatives available to that country." I believe that the Commission's conclusion has been borne out.

We in Canada are fully aware of our country's contribution to the Libby Dam -- the monetary and other costs of the flooding of some 14,000 acres of land in the Kootenay Valley upstream. In return for that contribution we see this river controlled and an end to the disastrous flooding that has plagued both our nations.

We benefit further, of course, through power generation. Only yesterday, I visited the new power plant taking form downstream from this dam in Canada -- 500,000 kilowatts of generation made economic through the waterflow regulation provided by Libby. With the 2.6 million kilowatts being installed at the Mica Dam, the joint harnessing of the

Columbia has already given us over three million kilowatts with a potential of more to come. Here in the United States you will similarly benefit from Libby and from added downstream generation. And that is power for both our nations, Mr. President, generated from a renewable energy source at a fraction of the cost of the non-renewable alternatives available to us today.

In areas of cooperation in non-renewable resources, there are the very fruitful discussions toward the adoption by our nations of a treaty guaranteeing the transit of hydrocarbons across one another's territory. Mr. President, I see other areas involving non-renewable resources where a cooperative approach might prove beneficial not only to the United States and Canada, but to a number of other countries. Both our nations, Mr. President, are dedicated through our participation in the International Energy Agency with 16 other oil-consuming nations, to the development of new energy sources and to the better conservation of those we have. New technologies are required to realize the possibilities of the extensive oil shale, oil sand and heavy oil deposits found in our two countries. Better coordination of research efforts into improved technology can yield great benefits. The same is true in the area of energy conservation.

Mr. President, in congratulating you, the Corps of Engineers and the others responsible for the Libby Dam, I would conclude by expressing a message to you that my Prime Minister asked me to convey: It is this: "The waters of the lake created by this dam lie across our international boundary -- a boundary which has long served both to link our two peoples and to define their separate identities. You, Mr. President, referred to that boundary in your speech in Helsinki and I was glad you did for it provides to all countries of the world an outstanding lesson in good neighbourliness. The Libby project could not have been completed without consultation, agreement and cooperation. It is another example, and there are many, of our mutual respect."

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