*Energy*

wells, thereby promoting exploration efforts in areas where this may be desirable.

Requests for special permit renewals will become increasingly frequent over the next few years. By mid-1979 about half of the existing permits will have expired, and the remainder will run out by the end of 1984. Alternatively a permittee may opt to hold some acreage under a provisional lease, in which case it will be subject to payment of annual rentals of $2.50 per acre, versus $1.00 per acre per year for leases under the current regulations. This $2.50 per acre per year may be refunded to the extent that exploration work is carried out on a provisional lease, thus providing another means for promoting the increase of exploration activity.

The pace of exploration may be further advanced by orders to drill exploratory wells on specific oil and gas prospects which are now under permit even though all present permit terms have been met. If the holders of the rights fail to have such drilling done the government may direct that the national oil company, Petro-Canada, drill instead, thereby earning an interest in the prospect. I will expand on this later. Another factor that will act as incentive to exploration is the early release of information, especially seismic data, that has been collected by the oil companies and filed with the federal resource management agencies.

The third section deals with the new fiscal system related to economics of individual fields. Under the new regulations a permittee will be allowed to hold a production licence covering the entire productive area within his permit. Under the old regulations, as mentioned previously, upon conversion of a permit to lease half of the permit acreage had to be returned to the Crown. If the returned acreage was considered sufficiently attractive by the company, it could exercise an option to reacquire the surrendered lands in return for higher royalties on production from those lands. This system was a method of receiving a portion of economic rent in addition to the nominal royalty levied, 5 per cent for the initial 3 years of production and 10 per cent thereafter. Under the new regulations, economic rent beyond the basic royalty, which will be a flat 10 per cent, will be received by the government through a progressive incremental royalty system. "PIR" will be used henceforth in my remarks as progressive incremental royalty system.

Unlike a flat royalty system, which penalizes marginal fields and does not ensure a fair return to the government from highly profitable "bonanza" fields, the PIR system depends on the net revenues generated by a particular field and so is progressive in nature and profit sensitive. The incremental royalty is not payable until the investments in production facilities for a field are largely recovered, the basic 10 per cent production royalty and income tax have been allowed for, and a return of 25 per cent is realized on the development investment as calculated on a field-by-field basis. This level of earnings is designed to allow the recovery of average exploration costs as well as to generate a reasonable level of profits on total investment.

The PIR will provide for a fair return to Canadians from their resources, and it will also allow industry a fair rate of return on its high risk investments. By delaying collection of the Crown's share of resource revenue until production takes place, the new fiscal arrangement ensures that scarce resource capital is channelled directly into exploration and development rather than into bonus payments and other front-end charges. As a further means of promoting early exploration, the government will allow a 3-year PIR-holiday in respect of oil and gas discoveries made before June 30, 1980. I wish to stress, however, that contrary to many recent comments the incremental royalty scheme is exactly that—incremental to the basic 10 per cent royalty.

● (1710)

The fourth section referring to Petro-Canada is a very important section. As an agency of the government, Petro-Canada has an important role to play in accelerating exploration for oil and gas in the frontier areas. It will be given certain preferences with respect to the acquisition of oil and gas rights in Canada lands. Petro-Canada, subject to meeting levels of work obligations similar to those imposed upon other companies, will have the right to acquire any existing areas not now covered by permits or leases, as well as 25 percent of any acreage that returns to the Crown upon the termination of permits or leases over the 7-year period following promulgation of the new regulations. Lands in these categories are commonly termed Crown reserves.

Where no prior discoveries have been made, Petro-Canada will also have the option to acquire a working interest of up to 25 percent in permits that are granted special renewals by the minister as well as any provisional leases issued while operations are still in the exploration stage, with no pay-back of past exploration expenditures to the permittee. As extensions of this type will only be sought for attractive prospects, the 25 percent working interest option will be of significant value to the national company.

As mentioned previously, the minister may consider it necessary on a need-to-know basis to order a permit holder to carry out an exploratory drilling program on a prospect within his permit acreage. Should the permittee fail to do so within a reasonable period of time, Petro-Canada may be directed by the governor in council to undertake the drilling program itself, in which case Petro-Canada can earn up to the entire interest in a prospect. In such a case the permittee will be allowed to retain at most a half interest in the subject prospect, and if he chooses not to commit to pay half the drilling costs before the program commences, then he must pay Petro-Canada four times his share after the first well, six times after the second, or eight times after the third to reacquire 50 percent of the prospect under his permit.

In respect of production orders, to support further the attainment of Canadian self reliance the government will be provided with the authority to order a producer in the frontier areas of Canada, the Territories, and offshore, to commence production of oil or gas into domestic markets at prevailing wellhead prices notwithstanding the existence of any arrangement between the producer and a purchaser for purposes of export to a foreign market. Moreover, the government will be able to take both the basic royalty and PIR in cash or production in the case of oil or natural gas. In the latter case, the government's