

for new supply, as well as an unprecedented investment in substitution and conservation.

One such initiative — crucially important — is the off-oil substitution program. It will cost \$1.6 billion over the next three years. By 1990, it aims to reduce the need for foreign oil by 400,000 barrels a day, the amount we must currently import. It is a goal which is clearly achievable, involves almost no risk, and will pay big economic dividends.

This selective approach is in direct contrast to letting domestic prices rise rapidly to world levels, the premise here being that if you throw enough money at a problem, it will go away.

Our approach to the ten-year supply-demand problem does not rely on exploration miracles.... Our new approach is based on controlling demand and moving quickly ahead with development of known energy sources.

We intend, for example, to make every effort to achieve an early and mutually-satisfactory agreement with Alberta.... Alberta's oil and gas revenues will increase from an estimated \$6.3 billion in 1980 to \$9.7 billion in 1983.

Heavy oil projects

They will total more than \$100 billion for the decade. The National Energy Program means that Alberta will continue to be Canada's fastest-growing and most prosperous province.

...We need an aggressive program aimed at heavy oil and tertiary recovery, and tar sands projects. Accordingly, we have established generous incentives for these. We have set a price of \$38 a barrel, escalated by the Consumer Price Index, for tar sands plants, and \$30 a barrel, also indexed, for enhanced oil recovery. We have shown our concern for progress in this area by the action taken to ensure the Cold Lake project will not founder in the next six months. But all these projects will be needed just to make up the growing shortfall in conventional oil production during the 1980s.

Future energy security relies on a rapid exploration increase in the frontier and offshore areas, the so-called Canada Lands which are under federal jurisdiction. New oil and gas reserves discovered in these areas will have a longer wait before reaching the market. To overcome this dis-incentive, and because we recognize the higher costs, greater risks, and lack of provincial incentives, we have

established a new exploration incentives plan for the Canada Lands.

The third major goal for the National Energy Program is opportunity for Canadians to participate in energy development. Particularly in the growth of the oil and gas industry.

But the time to act is now. The expected increase in industry asset values as a result of rising prices, would put our Canadianization goals out of reach by 1990.

These goals include at least 50 per cent Canadian ownership of oil and gas production by 1990; Canadian control of a significant number of the larger oil and gas firms; and an early increase in the share of the oil and gas sector owned by the federal government....

New incentive system

The net after-tax, after-incentive costs of exploration investment in provincial lands will be 31 cents for each dollar spent by Canadian-controlled companies with more than 75 per cent Canadian ownership, assuming a 47 per cent tax rate. For an individual investor in the 40 per cent tax bracket the net costs will be 39 cents. The comparable figures in the Canada Lands would be 7 cents for the company, 12 cents for the individual. Our intention is clear: to mobilize capital on a large scale for energy investment. Our new tax measures will undoubtedly cut into expected cash flow from production. But we are mindful of the need to ensure that our policies do not have an unintended effect on particular companies or groups of firms....

Many will regard the new incentive payments system primarily as a tax shelter. It will certainly have the effect of reducing taxes payable for most of those who make use of it. But it is far more productive to look at the incentives in light of their great investment potential.

Viewed as such, top marginal-bracket taxpayers should consider that 25 per cent interest in a \$30-million offshore well will now cost them only \$500,000 net.... Without the incentives, that same 25 per cent interest would have cost several times more.

For those with more moderate incomes, the new system offers both dramatically-improved tax shelter benefits, and an attractively-levered investment in the search for an ever more valuable commodity. The taxpayer in the 40 per cent marginal bracket will see his after-tax exploratory drilling costs decrease from 60 cents on

the dollar, to 12 cents in the Canada Lands. He will find himself in the same league as the 60 per cent marginal taxpayer, who will pay 8 cents for the same dollar's worth of drilling. This will bring middle- and lower-income groups into the resource "play" for the first time in such numbers.

Private investors

The National Energy Program will tap previously unreached sources of private capital for energy development. We have had strong indications of interest from non-resource companies, institutions such as credit unions and pension funds, and from individual investors.

I would like to single out the individual investor as an example of the need to change habits which have led to Canadians having too small a share of their country's producing assets. Revenue Canada's annual taxation statistics give an appalling indication of the extent to which risk investment has been overlooked by most Canadians....

The National Energy Program will not by itself turn around the traditional reluctance of the majority of Canadians to make risk investments. But it should act as a catalyst, a means of spreading the word that equity investing is not just a game for the big boys. I believe that much of the reluctance to take risks is mythical. It has a lot to do with making Canadians aware of opportunities that, in the past, were offered preferentially to outsiders....

Our aim is to create a better-balanced industry more responsive to national needs. This can be done through a more Canadian industry with a stronger public sector presence acting as a catalyst, and if necessary, in a leadership role to ensure vigorous exploration and development on all fronts. An essential difference between public and private sector oil companies is in their ability to take the longer view. The public sector firm can pursue projects in which the payback is further down the road than most private companies can comfortably see.

Our experience has been that, in fact, private and public sector companies make complementary partners. The fierce individualism traditionally associated with the petroleum industry is well known, and I respect it. But I think most of us recognize that the oil and gas industry, of necessity, has become a most interdependent and co-operative business....