Mr. Macdonald (Rosedale): The basic issues were well articulated by the Economic Council of Canada in its Eleventh Annual Review. The council concluded:

The policy of keeping oil prices to Canadian domestic consumers below the price of alternative supplies cannot be maintained for very long and if it were pursued as a medium-term objective it could serve to delay needed energy-conserving technological change, hasten the depletion of existing reserves, delay the provision of supplements and alternatives, lower the potential vulume of savings and perhaps foster abortive development of energy-intensive industries dependent upon a hidden subsidy for oil and gas.

It has been, and remains, the stated policy of the government to see the price of Canadian oil rise toward world prices—not necessarily to world prices, but toward world prices. The level at which it stops will be determined ultimately by the demand and supply position within Canada. The rage at which it rises will depend upon conditions in world oil markets, the ability of the Canadian economy to absorb further increases and the success of policies and programs directed at increasing supply and reducing demand.

Before speaking in more detail about these policies and programs, I would like to answer directly the question why price increases for oil and gas were deemed necessary at this time. The logic of the argument in favour of higher prices is clear. Indeed, even the strongest opponents of increases at the first ministers' conference in April admitted that higher prices were in the national interest. Opposition to such increases was in large part on the ground of the timing. I am aware of the apparent contradiction between the energy price increases announced and the necessity to revive economic activity and bring inflation under control. Nevertheless, it is our responsibility to ensure that the actions we take to manage the economy in the short term do not sacrifice the attainment of longer-run objectives.

In the 15 months during which the Canadian oil price has been held at \$6.50 per barrel, the average price of oil in the United States has increased by almost \$2 per barrel to a level of about \$10.40. The price of oil imported into Canada has increased by about \$1.60 over the same period and the prospects of further substantial increases in September of this year cannot be dismissed. The energy-producing provinces of Canada argue, with some justification, that the "opportunity cost" of their depleting resource has increased and that they should be entitled at a minimum to regain the relative position they had when they entered into the price agreement of March, 1974.

With regard to natural gas, I would point out again that if agreement had not been reached with the producing provinces, and if the federal government had not acted at this time, the field price would have risen on November 1 to \$1.15 per thousand cubic feet. This would have resulted in a price at the Toronto city gate about 30 per cent higher than the price announced in the budget. Moreover, there would have been a risk of shortage in Manitoba and Ontario.

A third reason for raising prices at this time is that failure to have done so would have greatly increased the anticipated deficit in the oil import compensation fund. We have known for some time that Canada's new import position would entail a deficit in the compensation program. At the first ministers' conference on April 1, I announced that the federal government reaffirmed its commitment to a one-price policy and would draw upon its general revenues to finance this deficit.

There is a point, however, at which the continued subsidization of oil consumption by the general taxpayer becomes inequitable. A significant portion of the burden should therefore be paid by the end user of the commodity. The combination of the oil price increase and modifications to the functioning of the compensation fund which I will announce in a few moments will reduce the anticipated deficit in this fiscal year by some \$200 million. Nevertheless, at current international prices we expect the deficit in fiscal 1975-76 to approach \$375 million, and should international prices increase further in the autumn this estimate will climb even higher.

I think it is fair to observe at this point that most people support our one-price policy for petroleum in Canada, with its subvention or transfer payment to the east and the far west for those dependent upon foreign oil. I think it is equally true to say that while we are all in favour of this subvention, nobody wants to pay for it.

Mr. Gillies: Through an excise tax.

Mr. Macdonald (Rosedale): The question for debate is this: Which system of taxation is most equitable to pay for the deficit in the compensation account? We could, of course, have provided for these payments by way of a general increase in income tax. But, in terms of equity, is it really fair to impose this payment for the increased cost of imported oil on all, irrespective of their use of that commodity? The member for Don Valley (Mr. Gillies) says that of course there should be an increase in the income tax for this purpose; that is what he favours. I would point out that his hon. friend from York-Simcoe (Mr. Stevens), his party's official spokesman, said on CBC television last night that he would oppose an increase in personal taxation in order to pay for this program.

Mr. Gillies: You don't have to do it.

Mr. Macdonald (Rosedale): Mr. Speaker, you can't have it both ways.

Some hon. Members: Hear, hear!

Mr. Macdonald (Rosedale): If you want a subsidy in Canada, part of which is directed to eastern Canada—and this government does—then let us be honest about it and recognize that it has to be paid for.

Some hon. Members: Hear, hear!

Mr. Macdonald (Rosedale): What we have done in this respect is emulate most provincial governments by placing a sales tax on this commodity in an area where most consumers do have considerable latitude of choice. If a particular consumer chooses to continue a high rate of consumption, in most cases it is a choice which he is free to make and in fulfilment of which he will have to allocate a larger percentage of his income. We have sought to minimize the impact of the tax on those who, for occupational reasons, must use gasoline. But we recognize there will be some not included in the exemptions who will be adversely affected.