It is not surprising that governments have considered it necessary to assume a more direct role in national energy affairs. Nor should it surprise anyone that governments, including that of the United States, will do so in the future if they judge that circumstances warrant intervention.

Today the international oil market is functioning reasonably well only because the majority of the members of OPEC are willing to shut in capacity, and because Saudi Arabia has resumed its former role as swing producer. This shut-in capacity amounts to approximately ten million barrels of output per day. To compare, Canada consumes a little over one million barrels per day. Of this ten million, two thirds lies in the Persian Gulf region and the remaining third in other parts of OPEC. The rest of the world, including the Communist bloc, is producing at or very near installed capacity.

The oil price collapse of 1986 resulted in a global slump in petroleum exploration and development. Nowhere was that slump more pronounced than in North America, with its large numbers of low-production-rate wells and high average cost of establishing new reserves. This drop in activity will be reflected in lower petroleum output in future years, further strengthening OPEC's position.

In the industrialized world energy markets are becoming progressively more interrelated as industrial and utility users expand their dual-fuelling capacity. The artificiality in world oil pricing and the ripple effect on all energy prices when oil prices rise or fall should not be ignored by policymakers.

Nothing has changed sufficiently in the geopolitical environment to justify the complacency that the Conservative government has brought to energy policy-making. Granted, the National Energy Program was an extreme response in a situation where existing energy policy was lacking to handle a perceived crisis. In turn, the laissez-faire approach of the new government is an equally misguided reaction to the previous policy. These policy swings are injurious to energy development.

I hope that energy options do indeed reflect a willingness on the part of this government to bring a more open mind to energy policy development, and I look forward to the policy recommendations which this exercise will provide in the spring of next year. I deplore the fact, however, that this type of thinking was not done earlier, as part of the Conservative government's initial reactions to develop new energy policy. Three years have been lost, and with the appearance of the Free Trade Agreement some of the latitude to set policy has been lost.

On the regulatory side, we have also made changes to the benefit of the energy industry. It is less evident that these changes ultimately benefit Canadian energy consumers.

Traditionally the National Energy Board has applied various tests before licences to export crude oil, natural gas, and electricity were granted. We have had supply and price tests to protect the interests of Canadian consumers. Today the petroleum industry has seemingly won the government to its point of view that the sale of oil and gas to the U.S. should be largely unrestricted, and that it is ill-advised to leave petroleum in the ground beyond the dictates of good oil field practices.

Producing our petroleum reserves at the maximum efficient rate means that there is no appreciable surge capacity in output. Despite the fact that OPEC holds almost all of the world's shut-in oil capacity, it frequently raises the issue of resource conservation. In Canada we have husbanded our oil and gas resources in the past to the advantage, perhaps, of U.S. consumers today. Past and continuing subsidies to encourage the development of our domestic petroleum industry—of which the Petroleum Incentives Program was the most costly and obvious of many—now stand to be transmitted in substantial part to U.S. buyers, given the nature of the Free Trade Agreement and current federal policy.

In this context, it is interesting to note that the final text of the agreement states: "Both parties have agreed to allow existing or future incentives for oil and gas exploration, development and related activities in order to maintain the reserve base for these energy resources." Given that the transboundary flow of oil and gas is almost entirely from Canada to the U.S., it is not surprising that the Americans found this provision to be acceptable.

This is not a representative time in the Canadian export of oil. In recent months we have re-emerged as the largest single supplier of crude oil and products to the United States, a position we held briefly in 1973. Why have we again become the foremost supplier to the U.S. when the ratio of Canadian oil reserves to current annual production is only about 12? OPEC had a year-end 1986 reserves-to-production ratio of 73, with Saudi Arabia standing at 97 and Kuwait at 210. Yet, at this time of falling Canadian output and rising imports of conventional light crude oil we find ourselves on the threshold of a Free Trade Agreement with the U.S.A. Canada already has a huge positive trade balance in energy commodities with the United States; why is an argument about ensuring access to the American energy markets considered to be so compelling?

Apart from uranium, where Canadian concern about U.S. protectionism is well-founded, the United States will soon want to take larger amounts of Canadian oil, gas, and electricity. It was not necessary to guarantee Americans proportional access to Canadian energy supplies to see rising energy exports in the 1990s.

Over the last decade oil reserve additions in the U.S. exceeded production in only one year; gas reserve additions have exceeded gas output in only two of those years. This, despite the fact that the decade included the highest prices ever seen for oil and gas. New England will soon experience a significant shortfall in electrical generating capacity.

Yet, the federal government portrays the Free Trade Agreement to the public as essential to securing access to U.S. energy markets. The preamble to the energy chapter of the agreement states that view explicitly: "This chapter . . . will secure Canada's access to the United States market for energy goods."