

be better exploited, the international supply situation will be improved and foreign debt problems afflicting many of these nations may be diminished. As well, Canada's oil service industry benefits when new markets develop for its expertise and equipment.

Better extraction and processing technology can lower the cost of oil production while promoting more efficient exploitation of our petroleum resources.

- 8. The Committee recommends that the federal government increase its financial support for research, development and demonstration directed to increasing the domestic supply of oil, with particular emphasis on the extraction and upgrading of bitumen and heavy oil and on frontier petroleum development, but also including conventional light oil development through such means as enhanced oil recovery.**

The other side of the light oil supply/demand imbalance is policy to reduce the demand for oil. As the use of oil has declined in Canada for purposes such as space heating and electrical generation, the transportation sector has assumed more importance as the core user of petroleum products. Any policy to decrease demand must address the fact that more than 60% of Canada's end-use requirement for oil now arises in the transportation sector and 80% of that amount in turn is consumed in road transport; the principal need is to reduce the consumption of motor vehicle fuel.

- 9. The Committee recommends that the federal and provincial governments forego taxing natural gas, propane, methanol and ethanol when used as motor vehicle fuels or as blending agents in conventional fuels.**

Compressed natural gas (CNG), propane and methanol are economically competitive today as vehicle fuels or blending agents. The principal impediments to their broader use are the infrastructure costs of distribution systems and any need for engine modifications. There have been provincial initiatives to support the introduction of alcohols as blending agents in motor gasoline, most notably in Manitoba. The Committee supports such actions.

- 10. The Committee recommends that federal incentives for engine modifications to use compressed natural gas and propane as motor vehicle fuels be continued.**

The five-year federal incentive program for vehicle conversion to compressed natural gas fueling has been extended for a year because the target of 35,000 CNG-powered vehicles was not attained. The bulk of the financing for this extension is coming from Alberta gas producers in funds remaining from the former Market Development Incentive Payments (MDIP). The five-year incentive program for propane conversion was successful in surpassing the 90,000-vehicle target and terminated on schedule. The Committee believes that federal support for both types of vehicle conversion should be maintained.

The federal government should underwrite part of the cost of research and