cents per thousand cubic feet to $1.25. Natural gas is a premium, clean-burning fuel that has become increasingly undervalued relative to oil. In Canada, this undervaluation has resulted in extremely high rates of growth in natural gas that are inefficient from a resource allocation point of view and has raised the possibility of deliverability problems within the next few years. Given our current estimates of demands and supplies for gas, we believe that it is in the interests of all Canadians to see this undervaluation of gas eliminated.

The decisions announced in the budget will result in the natural gas price rising from about 65 per cent of a crude oil equivalent price at Toronto to 85 per cent of that price, and this will be reflected in average field prices in the range of 70 to 80 cents per thousand cubic feet for natural gas moving from Alberta to eastern Canada. Producers will also benefit from the recently announced increase in the export price of natural gas.

We remain committed to the elimination of the 15 per cent gap still existing between the price of natural gas and the commodity-equivalent price based on crude oil. However, we want to phase this further adjustment over a period that allows consumers of Canadian gas time to make the necessary adjustments to higher prices. We are committed to a phasing process which will be completed within three to five years. Potential and existing gas customers should reflect this in their planning.

Existing Canadian energy resources provide an ability to adjust gradually to the economic shocks imposed immediately on other countries by the action of OPEC. This ability to adjust is a valuable asset. The intention to phase-in necessary price increases for both oil and gas, together with the one-price oil system and the determination to remove the undervaluation of natural gas, constitute the three fundamental principles on which our oil and gas pricing policy is based.

I want to make it clear that the pricing decisions announced in the budget represent the second stage in this phasing process and that further price increases will be required in the future. I would also point out that the agreement reached on natural gas will override a recent arbitration award that would have seen natural gas prices at the Toronto city gate rise to between $1.55 and $1.65 per thousand cubic feet on November 1 next.

It has been suggested, both with regard to oil and natural gas, that these price increases should be withdrawn. I would again emphasize the fact that the agreements on oil and gas pricing, just as the agreement by Alberta to withdraw the embargo on gas which will be needed in Ontario and Manitoba this winter, are a part of the package. This was part of an arrangement made between the federal government and the producing provinces.

Natural gas consumers should therefore understand that it was the agreement on natural gas pricing announced in the budget which has been instrumental in obtaining the Alberta government's approval for additional supplies to TransCanada Pipelines of some 1.4 trillion cubic feet. The release of these contracts will help to ease a pending short supply situation that has been of critical concern to Manitoba and Ontario in particular.

I again emphasize that the price agreement is a package. It is true that under the Petroleum Administration Act we could indeed have limited the price, but there was no way the federal government could have ensured the continued supply of natural gas. These were the considerations. These were the exchanges involved in the agreement announced in the budget.

Let me now review some of the events of the past year and a half and indicate the nature of the reasoning which led us to conclude that price increases are necessary at this time. The starting point is the nature of the one-price oil system in Canada agreed to by first ministers in March of 1974. The use of export charge revenues to finance the oil import compensation program constitutes an effective system that allowed us to set oil prices domestically considerably below world prices without incurring balance of payments deficits to oil exporting countries as long as our oil exports balanced our oil imports. The rise in price to $6.50 per barrel led to income transfers, but these were transfers between Canadians and not transfers from Canadians to foreigners. Consumers of imported oil were substantially cushioned from higher international prices, total purchasing power in the country was not diminished and Canadians, over the past 15 months, enjoyed the lowest oil prices of any major industrialized country.

Canada's external trade in oil is no longer in balance. In response to a National Energy Board assessment of future oil supplies and demands presented last October, the government imposed a ceiling of 800,000 barrels per day on oil exports to the United States. Actual exports have averaged less than the maximum allowed since January. At the same time, Canadian imports have continued to grow. Canada is now a net oil importer and will remain in a net import position for some time. It is no longer possible to postpone the time when Canadians will have significant balance of payments deficits with oil exporting countries.

Similarly, as our oil export tax revenues continue to decline and our imports rise, it will become increasingly difficult to defend the subsidization of oil consumption in Canada out of general revenues. I shall return to the subject of the oil import compensation program later in my remarks.

The basic point that must be stressed here is the following: if we do not make the price adjustments necessary to bring new oil supplies to market and to reduce the rate of growth of our demands, then the difference between our imports and our exports will continue to grow and the price we will have to pay—not just to one another, but as a nation—will increase dramatically.

● (1630)

I have said on numerous occasions that the era of cheap energy is over. It is critical that Canadians come to realize this. The view that we have a continuing capacity to price energy cheaply in this country is fallacious, and while it may have immediate attractions for some, in the long run it will lead to serious distortions which can only threaten the economic and social goals we all seek.

Mr. Gillies: Written by Imperial Oil.