limit the growth of prices and incomes, because of the inevitable government intervention and resulting inequities, and because there is little evidence of unreasonable price increases or wage demands.

"I want to make it quite clear that the pre-condition of our success must be the achievement of lower rates of inflation. If continued indexing is interpreted as a readiness to accommodate unlimited inflation rates, I may be faced with no alternative but to impose some limit on the indexing factor," said Mr. MacEachen.

**National energy program**

A series of measures were announced to begin implementation of the government's National Energy Program, set out in a paper by the Minister of Energy, Mines and Resources Marc Lalonde and tabled with the budget.

The program's three basic principles:

- security of supply and ultimate independence from the world oil market;
- opportunity for all Canadians to participate in the energy industry, particularly oil and gas, and to share in the benefits of its expansion; and
- fairness, with a pricing and revenue-sharing regime which recognizes the needs and rights of all Canadians.

**Main elements**

A blended oil price regime will produce a made-in-Canada oil price that will rise gradually and predictably. The price will remain well below world prices, and never more than 85 per cent of the lower of the price of imported oil or of oil in the U.S. so as to preserve a competitive advantage for Canadian industry.

The blended price of oil consumed in Canada will be an average of the costs of imported and of domestic oil. The mechanism for blending will be a petroleum compensation charge levied on refiners. The new regime will be phased in, shifting the burden of subsidizing high-priced crude imports from taxpayers to consumers of oil products.

Natural gas prices will increase less quickly than oil, thereby providing an incentive for consumers to switch from oil to gas.

Having abandoned an export tax on natural gas that would have captured part of the difference between the world price and the Canadian consumer price, the budget proposes a new federal tax on natural gas and gas liquids, beginning November 1 for domestic sales and next February 1 for export sales, and increasing over the next three years.

A new tax of 8 per cent, effective January 1, 1981, will apply to net revenue from production of oil and gas in Canada.

The two new taxes will yield some $11.7 billion over the next three years to the end of fiscal 1983-84, with the new revenues financing major spending initiatives in energy and a new Western Development Fund.

Effective April 1, 1981 marine and aviation fuel used in international transportation will no longer be eligible for the lower prices available to domestic consumers.

Half of federal revenues from existing export charges on crude oil will be remitted to the producing provinces, Alberta and Saskatchewan.

**Oil revenues**

The federal share of petroleum production income in recent years has been about 10 per cent, with producing provinces receiving somewhat more than 45 per cent and the industry receiving somewhat less than 45 per cent. Under the new program, over the period 1980 to 1983, the federal share will increase to about 24 per cent, that of producing provinces will be about 43 per cent and that of industry about 33 per cent.

Depletion allowances under the Income Tax Act for oil and gas exploration and development, which have primarily benefited large, mostly foreign-owned corporations, will be dropped or phased out except for frontier exploration and tar sands projects. A new system of direct incentive payments, structured to encourage investment by Canadian companies and individuals, with added incentives for exploration on Canada lands in the north and offshore will be put in place.

A natural gas bank will purchase natural gas from Canadian producers who, despite successful exploration efforts, face severe cash-flow problems because of market inaccessibility.

A new grants system will help homeowners convert from oil heating to natural gas, electricity and other fuels.

Market-development bonuses will encourage expansion of the natural gas distribution system.

Energy conservation measures will be expanded, including mandatory mileage standards for cars.

Renewable energy technologies will be stimulated through research and demonstration programs and a new Crown corporation, Enertech Canada.

**Regional measures**

A number of measures are addressed to particular regional concerns:

- extension of the natural gas pipeline system to Quebec City and the Maritimes to be ensured, with the price of gas delivered at Quebec City and Halifax held at the same level as Montreal and Toronto;
- a fund to support conversion of Atlantic region oil-fired electrical plants to coal;
- a $4-billion Western Development Fund, of which $2 billion will be spent in the next three years on economic projects in consultation with western governments;
- new funds to find ways of using large reserves of Cape Breton coal;
- an industrial energy conservation program and housing retrofit program in Newfoundland, Prince Edward Island and the Yukon and Northwest Territories; and
- federal equity to support hydro development on the Lower Churchill River in Labrador.

**Canadian ownership**

The energy program's objectives are to achieve: at least 50 per cent Canadian ownership of oil and gas production by 1980; Canadian control of a significant number of the major oil and gas corporations; and an early increase in the share of the oil and gas sector owned by the Canadian government.

A Canadian ownership levy will be introduced to assist in financing the acquisition of the Canadian operations of one or more multinational oil companies.

**Expenditures**

While expenditures this fiscal year are up 13.2 per cent under the impact of charges for oil import compensation and public debt, over the next three years growth in spending will be held within the trend growth of gross national product.

For the first time, expenditure limits have been set for the ten expenditure categories, or envelopes, reflecting the government's policy priorities.

Under the new energy direction, funding for existing and new programs will almost triple in 1981-82, excluding net petroleum compensation payments.

Funding for economic development

*(Continued on P. 8)*