

Canada Petroleum Resources Act

best bid wins. This will ensure the maximum return to Canadians as resource owners. It will ensure fair treatment of the companies bidding for exploration rights.

Key factors in determining the criteria for bidding in the best-bid-wins process will be the geological prospects of the area and the policy objectives of the coastal province or northern territory. For highly prospective areas such as those close to existing commercial discoveries, a cash bonus may be most appropriate. Where an exploration program is less mature and the risk is greater, a form of work commitment bid may be more suitable in that case. Bid prerequisites may include commitments to Canadian and local benefits, work commitments and commitments to levels of Canadian participation. Companies will have to continue to satisfy environmental protection, safety and health requirements which are so important to our Government and our people.

The Canada petroleum resources Bill does not have a Crown share. We believe that this provision of the former legislation eroded investor confidence because it gave the Government of Canada power to confiscate property retroactively. This Government will not confiscate property. However, we are committed to 50 per cent Canadian ownership in frontier production projects, and we think this is important.

The Bill will require a company applying for development approval with respect to pre-1982 discovery to submit a plan showing how it will attain a 50 per cent Canadian-ownership rate by the time the production licence is issued. However, unlike the previous legislation, the provisions in this legislation are non-retroactive, are non-confiscatory and emphasize private-sector solutions to the problems.

The Bill respects the rights of companies regardless of nationality. Under the existing legislation, Petro-Canada enjoys special rights in the frontier lands. This is unfair. This Bill does not give preferential treatment to Petro-Canada. The Government has instructed Petro-Canada to operate in the market-place as do private sector companies. It will raise capital on money markets, and it will work to deliver the best possible return to its shareholders—the people of Canada.

● (1510)

To enhance the profitability of companies operating in the high cost and high risk frontier regions, where it is difficult to work and difficult to transport, the proposed legislation provides for the fiscal measures outlined in the frontier policy statement. The 10 per cent basic royalty and progressive incremental royalty will be eliminated. These will be replaced with a royalty which, before project pay-out, begins at the rate of 1 per cent of gross revenue and rises to 5 per cent in increments of 1 per cent every 18 months. Following pay-out of the initial investment, including a fair return on capital invested, the royalty will be 30 per cent of net cash flow.

These changes will limit the royalty burden during the early stages of production, but we believe they will ensure an equitable sharing of revenue between Government and

industry after the investment has been recovered. The proposed regime is similar to the royalties levelled by Alberta on high-cost oil sands and enhanced oil recovery projects.

The Government will implement a 25 per cent investment royalty credit. It will be applicable to eligible costs of up to \$5 million for new exploration wells. The credit will be applied against royalties otherwise payable within the region. This royalty credit will provide conventional onshore frontier exploration with incentives comparable to those available for similar activity in the western provinces. The royalty credit will be implemented in regulations following discussions with industry representatives.

In addition to the investment royalty credit, a new tax incentive for exploration will be introduced in separate legislation. This investment will help bridge the gap between the end of PIP and the start of frontier developments, which will create incentives for frontier investment. The 25 per cent exploration tax credit will apply to qualifying expenses of more than \$5 million per well for wells drilled anywhere in Canada. To ensure that the credit assists companies not currently paying taxes, this provision will be refundable at a 40 per cent rate.

The Canada petroleum resources Bill introduces a balanced framework for the development of Canada's frontier lands. It is fair to provincial and territorial Governments and to all Canadians as resource owners. It is not only market responsive but it is internationally competitive and sensitive to the commercial concerns of companies operating in the high risk frontier regions of the country. It is not only all those things which I mentioned, but it is consistent with the policies the Government has introduced during the past 20 months of being in office.

Today Canada's oil and gas industry is facing an important challenge which perhaps it has never faced before. Crude oil prices are dropping dramatically, and there is a great deal of uncertainty in the industry about the impact of this. However, the Government has unleashed the industry's expertise, hard work and vision to meet today's challenges and to take advantage of tomorrow's opportunities. We cannot allow current market conditions to deter us from our commitment to energy security. We cannot become complacent in our search for new sources of supply; we just cannot afford to do it. We must be prepared for the eventual return to a market where prices will result in an adequate return on investment, which is so necessary. The projects we review today must be judged not by current prices but against pricing forecasts for the early 1990s.

The progressive energy policies introduced by the Government provide the flexibility necessary for Canada's petroleum industry to deal with short-term market challenges. Equally important, our energy policies provide incentives for the industry to continue exploration activities in order to take advantage of longer term opportunities. That is what Canadians elected us to do, and we believe we are delivering.