thesis regarding the change in the system of depletion allowances which he related directly to exploration and development and to giving resource companies an opportunity to earn exactly the same depletion that they can under the present system, but contingent upon their carrying out exploration and development programs. How can this possibly serve as a disincentive to exploration, as he indicates the present provisions will?

Mr. Woolliams: I answered that in my speech, Mr. Chairman. I said we must have a comparable depletion allowance to the United States. As my hon. friend appreciates, up until now much of our development has been financed by foreign capital. Foreign capital has come to this country because depletion reserves and allowances were built up in the United States at a greater rate pro rata than in Canada. As a result, this has encouraged investment dollars from the U.S. since these dollars are tax free here.

This is why I said that our depletion and tax laws must be comparable. I would say they must be even more attractive than those of the United States if we are to have exploration and development. That is why I asked the parliamentary secretary, before I commenced my remarks, about the depletion law in the United States. He replied he would bring the information to the committee and let me know. I think I have a pretty good idea what it is, but I should like to hear it from the government.

Mr. Ritchie: Mr. Chairman, discussion on the tax bill and the matter of resources brings up the question of the attitude the government must take in regard to how much tax a resource industry should pay. In my opinion this is largely a political question. There has been widespread feeling among Canadians that through depletion allowances and other incentives the oil companies have been able to make unusually large gains and to pay much less tax then should be the case. From a personal point of view may I say I remember my family investing $1,000 in the oil industry of Alberta before the war, some time during the 1930s, not one cent of which they saw again. So it is not the case that such investment is always profitable.

• (9:40 p.m.)

I think that a significant answer to this problem was given to the Standing Committee on Finance, Trade and Economic Affairs, in reply to the chairman, the hon. member for Gatineau, by officials of Shell Oil appearing before the white paper committee. I quote:

The Chairman: Depletion, gentlemen, is an incentive. How will you determine whether a particular incentive is overgenerous? Why 33⅓ per cent? Would not 30 per cent, 25 per cent, 20 per cent, accomplish the same development in Canada?

Mr. Bridges: Mr. Chairman, this question came up again earlier today in a slightly different context. How do you judge what is the right level of an incentive for an industry? I think the problem is a very complicated one.

May I go back a little and talk about the history of oil in the North American continent? Perhaps it was not stressed sufficiently this morning that there have only been two really big discoveries of oil in the whole North American continent: one was East Texas and the other is now Prudhoe Bay. The rest of the oil in this continent is in thousands and thousands of small accumulations, all of which cost a great deal in exploration money to find.

If this situation were to change—let us suppose that we suddenly could expect that, in the new frontier regions of Canada, we are going to find half a dozen fields of the size of Kuwait or Abqaiq, or some other fields like these enormous fields in the Middle East—I will tell you quite frankly, right now, we would need no incentive whatsoever. The chance of this happening is just infinitesimal we really believe.

Let us be frank right here. The United States and Canada are the only two countries in the world where you present a depletion allowance. The reason is, just as I have explained, because the majority of the oil in North America is contained in an enormous number of small accumulations which are hard and costly to find, costly to develop and of course, as we move closer to these frontier regions, that much harder to bring ashore or to some location where they can be shipped either by pipe line or by tanker to a consuming area.

And here we come to the really difficult question: What is the right kind of incentive? Truthfully, of course, one can only answer that after all the oil of Canada has been discovered. One can, in retrospect, say what was the right level to encourage this development. Right now, we can only say that these big fields, even East Texas and Prudhoe Bay, are still small compared with fields of the size of Kuwait and Abqaiq in the Middle East. Certainly, the Prudhoe Bay field is in a remote location.

We hope there are some more of this size of field in our Canadian frontier areas, but we cannot count on it. We believe it will be wrong for the government to feel that it is certain that there are going to be half a dozen of these fields around just waiting for somebody to find.

We believe this is unrealistic; the chances are that again we are going to find more oil, but again it is going to be of the normal type of North American accumulation, which is relatively small, difficult and costly to find, and, of course, the more remote the area, the move difficult to bring to a market. Therefore, we feel an incentive is required.

I think this comment by the people of the oil industry is very valid and to the point. We must give incentives to our oil industry or have the oil stay in the ground until such time as world prices rise and supplies of oil, particularly in the Middle East, become depleted so that our oil pools will be able to be brought into production. Of course, all this raises the valid important consideration of what are our own needs in Canada of oil and gas. At what price should it be sold and what incentives, if any, should we offer for the exploration of oil and gas? The action of the national Energy Board last Friday in banning the sale of gas exports to the United States is largely of political significance. It certainly is an example, as in the tax bill, where the government is changing the rules in the middle of the game to its own advantage.

It has certainly decided that the gas producers, especially of Alberta, shall take a very reduced price for their gas so that consumers in central Canada will benefit. In other words, it is obvious that at this time the National Energy Board has made a purely political decision and it has subverted the interests of western Canada for the interests of central Canada. The amount of gas rejected by the National Energy Board was, of course, insignificant in relation to our long-term needs. It was made in face of the decision of Alberta's energy resources conservation board that there was natural gas in the province surplus to present and future needs of its citizens. The National Energy Board said there was no surplus available for export.

Mr. Lougheed, the Premier of Alberta, asked the federal cabinet to request the National Energy Board to reconsider its decision, and—

—in particular the extreme weighting given eastern Canadian requirements.

[Mr. Mahoney.]