preferred rate design, recovery of these costs will no longer be assured.

Another major issue raised relates to the policy. The FERC decision undercuts attempts by both the Canadian and United States Governments to strengthen the market approach to energy trade.

Many in the U.S. administration, I think, understood our position and sympathized with it. Secretary Shultz himself advocated a delay in taking any final action by FERC to allow more time for consideration and review. Unfortunately, FERC, admittedly an independent agency, chose to ignore the request. Instead of taking the long-term view, it let itself be swayed by short-term considerations.

This ruling is part of an unfortunate series of recent decisions affecting major Canadian exports to the United States. We know, and I believe the U.S. administration knows as well, that the protectionist trend which it once again illustrates is as short-sighted as it is regrettable.

The Minister of Energy, Mines and Resources (Mr. Masse) was in Washington on business in December following the announcement of the FERC ruling. He was thus able to raise it immediately with his counterpart. Shortly afterward, at the level of officials, an interdepartmental meeting was held in Ottawa to develop a concerted Canadian response to what was seen as an unfair and discriminatory move against Canadian gas exporters. At this early stage there were extensive consultations with representatives of the Canadian companies involved as well as with the provinces, especially Alberta and British Columbia. On December 18, the Minister wrote to his American counterpart in some detail outlining Canada's serious concerns over the FERC ruling and attaching copies of letters he had received from the Ministers of Energy of the two concerned provinces.

The Minister has already informed the House of the steps which he and his officials took to sensitize the U.S. Department of Energy to the serious implications of order 256 for Canada. I shall, therefore, not dwell on them. However, I will quote from Ambassador Gotlieb's letter to Mr. Wallis, the Under-Secretary for Economic Affairs in the State Department, to which he attached a copy of the letter of the Minister of Energy, Mines and Resources asking the State Department to bring Canada's concerns to the attention of FERC. The letter reads in part:

> FERC's decision denies Canadian exporters the ability to pass through natural gas rates which have been freely negotiated with U.S. consumers and approved by the Economic Regulatory Administration in accordance with the Department of Energy's import guidelines. By disallowing the recovery of legitimate costs in the demand charge related to investments made to service U.S. markets, FERC's decision treats Canadian gas unfairly. Indeed, instead of meeting the Commission's stated objective—"to level the playing field"—FERC's decision, if implemented as it now stands, would actually tilt the playing field against Canadian imports.
>
> The U.S. import policy guidelines announced in 1984 aimed at ensuring that Canadian gas enters the U.S. on a competitive, market-oriented basis to facilitate arrangements which are essential to Canada's remaining a secure and reliable supplier.
>
> For its part, the Canadian Government has adopted market-based policies which permit Canadian gas to be competitive in U.S. markets.
>
> Placing Canadian gas at a serious disadvantage in U.S. markets, as the FERC decision does, could in the short term mean the loss of competitively priced Canadian gas for U.S. consumers.

Those Members who are on the Standing Committee for Energy, Mines and Resources will recall a meeting held on February 10 of this year before which a consortium represented by Polar Gas appeared. It outlined the long-term views of the gas industry as they saw it, not only for North America but broken down into the American and Canadian markets. We have studied the 18-month natural gas bubble which seems to run ahead. It appears to be coming to a close, perhaps sooner than people on both sides of the border may appreciate.

In the summary of the submission which was presented by the Polar Gas consortium on the supply-demand balance they say that it is exceedingly difficult to estimate the annual net effect of the multitude of gas supply and demand factors. Nevertheless, it is clear that the apparent over-supply in the U.S. gas market is unlikely to continue far into the future. Some forecasters foresee a growing need for the United States to obtain additional gas supplies, especially after 1990.

In October, 1985, a comprehensive study of the U.S. gas market by Foster Associates forecast an end of the deliverability surplus by 1990. A similar forecast was contained in the May, 1986, analysis brief from the American Gas Association. Such forecasts are now receiving broader acceptance.

They go on to say that a technical analysis of the U.S. gas market points clearly to a significant reduction in the deliverability surplus over the next few years, and the reduction in the long-term reserves for which there is generally a firm demand will require major imports of supplementary natural gas beginning in the early 1990s. There is also at risk international and domestic energy market dynamics which will result in the supply shortfall developing at a pace faster than is now widely anticipated.

I hope that our counterpart south of the border will appreciate that the gas situation is changing rapidly. We are seeing a decline in the western sedimentary basin. The reserves which will have to be called on in the future will be much more costly. I think that security of supply and fair treatment for traders on both sides of the border should be utmost in the minds of those who are considering decisions such as the one we are presently dealing with.

Canada and the United States have made great progress in improving the basis for natural gas trade in recent years. Legislative and regulatory changes, including positive moves by FERC to deregulate prices and transportation, have contributed to making this trade more market-responsive, thereby benefiting producers and consumers in both our countries. We are hopeful that this constructive approach will continue and that the Canadian concerns relating to FERC's decision will be addressed in the review procedures.

In the meantime the Government was in close touch with and lent every assistance to the Canadian companies and their