● (1530)

In 1985 the Conservative government swung to the other extreme with its view that Canada's energy needs would be adequately met if only we could deregulate the energy system. Market forces were to be the proxy for federal energy policy. Relying solely on the market to determine the energy future of Canadians is as misguided, however, as the former attempt to control all aspects of domestic oil and gas marketing. The government has implicitly acknowledged this in creating the Canadian Exploration and Drilling Incentive Program and launching the energy options policy-making process, which is scheduled to report its views on energy policy to the minister by March 31, 1988. The Conservative government has belatedly recognized that energy in general and oil in particular is not just an economic commodity. It is also a strategically important commodity, whose management demands special policy attention. Regrettably, the slowness of the government to realize this means that the energy options process will only result in a new policy proposal in the fourth year of the government's mandate. Beyond that the period of uncertainty in Canada's policy will continue until the fate of the Free Trade Agreement is resolved. Another question also triggered by the agreement involves the right of energy exporting provinces to continue to favour their interprovincial markets on a supply or price basis.

Compounding the problem is the manner in which the Free Trade Agreement circumscribes the energy options policy-making process. We can no longer craft a Canadian energy policy. Our energy policy in future will have a continental aspect, influenced by a dominant partner. How enlightened will Americans be in their input to this bilateral energy arrangement?

The United States is very much concerned with its energy security, and we can expect the United States policy-makers to act accordingly in their dealings with us. Those policy-makers are, to a greater degree than ours, under pressure to respond to parochial concerns. As an example, consider the action launched earlier this month in the United States under section 232, commonly known as the national security clause of the Trade Expansion Act of 1962. This action seeks relief from imports of crude oil and petroleum products into the United States, including those from Canada, which are claimed to impair national security. The petitioner is the National Energy Security Committee, which represents a diverse group of associations, companies and individuals in the petroleum industry who account for roughly one third of total U.S. oil production. Two quotations from the petition illustrate the reasoning of this group. The first one reads:

> For the oil industry and for other industries as well, imports are the vehicle by which the effects of relatively lower world prices are transmitted to the U.S. Faced with an increasing supply of lower-priced foreign oil at the beginning of 1986 in amounts exceeding demand requirements, U.S. producers had no choice but to lower their prices as well if they wished to compete. In the world market, U.S. companies are price takers (that is, they must price at the prevailing world price, and have no ability to set prices themselves. Because of the higher costs attributable to much of the U.S. production, however, many companies could not at those lower prices transmitted to the domestic market through imports earn revenues sufficient to cover production costs. Hence the decline in production, business failures, the severe cutback in activity in the industry, and resultant high unemployment among oil workers.

[Senator Hays.]

The second quotation I would like to leave with you indicates the concern of the petitioner regarding the impact that rising imports of oil are having on U.S. national security. It reads:

> In their recent book, *Oil and War*, authors Goralski and Freeburg observed that oil and war are more inextricably linked today than in World War II. The problems experienced by the U.S. in that conflict . . . were nothing compared to those being experienced today . . .

Wars have indeed been fought over natural resources. The presence of American and other naval forces in the Persian Gulf today attests to the seriousness with which some nations view the threat to international oil trading.

The United States today is importing approximately 40 per cent of all the oil it consumes, a dependence exceeding that of 1973 when the Arab oil embargo had such a devastating effect on the western world. American energy analysts fear that this dependence could rise to 60 per cent or more by the turn of the century. As Canada and the North Sea recede in importance as suppliers to this huge market, the United States will inevitably see its reliance on OPEC oil, especially Middle East oil, rise once again.

Americans, free enterprisers that they may be, have not always been non-interventionist. Increasingly they are showing signs that they do not believe that the market alone will resolve their growing energy difficulties. Indeed, the Free Trade Agreement, like the U.S. strategic petroleum reserve with its 540 million barrels of oil already in storage, is a deliberate step by American policy-makers to reduce their vulnerability to unfavourable energy developments in politically unstable regions of the world. They have stated that the energy component of the trade agreement is one of its most important features, with its guarantee of proportional access to Canadian energy supplies.

Let me then address the question: Why is the market alone an inadequate guarantor of our future energy security? Is there a role for the Canadian government to assume in guiding the nation's energy development?

Market forces operate with a limited time horizon, because private enterprise, quite rightly, expects a reward for its efforts returned within a reasonable period of time. But a complex energy system such as Canada's changes its character over longer periods of time. Large power plants may take a decade to construct and have useful lives of 30 to 40 years. Energy-consuming devices such as appliances and automobiles last a decade or more. Buildings may stand for half a century; a frontier oil deposit such as Hibernia or Amauligak may see 15