

so strongly criticized. Other considerations which favour the petroleum industry above others should also be removed.

The Federal Government should continue to provide a form of incentive to encourage Canadian companies in exploration and development on Canada Lands, a higher-risk and higher-cost venture than many Canadian firms could otherwise undertake. The concern of the Committee is to provide arrangements which enable greater participation by Canadian companies in frontier activity, to ensure that more decision-making takes place in Canada.

While useful resource inventory information was obtained as companies explored under the provisions of the Petroleum Incentives Program, now the central purpose of incentives should be to bring frontier discoveries into production. This should be achieved at a much lower cost than under the PIP arrangements.

Agreeing with the industry that tax-based incentives are preferable — and also typical of other Canadian policy provisions for economic development — the Committee considered targeting tax-based incentives to Canadian firms. However, international tax treaties to which Canada is bound preclude discriminatory tax rules. Other options should be sought that would give advantage to Canadian companies.

- 4. The Committee recommends that special incentives for both petroleum exploration and development on Canada Lands be established to encourage Canadian participants.**

Crown Interest

The Committee has deferred discussion of Petro-Canada and several other aspects of government participation in the energy industry, including the *Canada Oil and Gas Act* and Canada Lands administration. But it puts on record the following remarks pertaining to the Crown share in Canada Lands activities.

The provisions for a Crown share or interest in Canada Lands activities were revised in the NEP. The Crown share is a 25% “carried interest” in every existing lease, to be administered by Petro-Canada or another Crown corporation. This means that the Crown retains an option to become involved at a later date. Prior to the authorization of a production system for a particular field, the Crown’s carried interest can be converted to a “working interest” — thus Petro-Canada would be an active partner in the project, sharing in decision-making and financial control.