1. The Committee recommends that the federal government establish a government-owned strategic oil reserve, equal to 90 days of net light crude oil imports, with the cost of filling and maintaining the reserve to be recovered through a tax on oil products at the refinery level.

A strategic oil stockpile provides some protection against short-term disruptions in the supply of imported oil, but it does not address the underlying issue of Canada's deteriorating availability of domestic light crude oil. To reduce the imbalance between domestic supply and demand, initiatives to increase the indigenous supply of light oil (or at least to minimize the rate of decline) and to restrain demand for petroleum products should be pursued simultaneously.

On the supply side, Canada has two options for augmenting the output of conventional light crude oil. One option is to develop conventional light crude reserves in Canada's frontier regions, such as those discovered at Amauligak in the Beaufort Sea and at Hibernia on the continental shelf offshore of Newfoundland. The other is to produce Canada's far more extensive deposits of bitumen and heavy oil and to upgrade these heavy hydrocarbons into usable light petroleum products. Actually, some combination of these two approaches will be pursued, but both have been held back because the price of oil fell too low in 1986 to support such high-cost projects, and the threat of widely fluctuating prices constitutes an unacceptable risk to many oil companies.

The Committee does not believe in subsidizing uneconomic oil development. Rising oil prices should provide the economic incentive for frontier and nonconventional oil development to proceed. A partial recovery in the price of oil – to US$22 per barrel recently for West Texas Intermediate crude (WTI, the benchmark crude oil stream in North America) – has prompted the Canadian oil industry to resume several heavy oil projects deferred when the price fell as low as US$10 per barrel in 1986. With regard to oil supply then, the federal government should direct its primary effort to creating a more stable fiscal environment for petroleum activity. The Committee makes the following recommendations to improve the domestic supply of light oil.

2. The Committee recommends that the federal government establish a stable corporate tax regime so that investment in domestic petroleum exploration and development will not be restricted due to uncertainty regarding government policy.

The petroleum industry faces enough uncertainty in the international oil arena without having to contend with unpredictability in the domestic fiscal regime.

3. The Committee recommends that the federal and provincial governments, as owners of Canada's mineral rights, encourage petroleum development by keeping royalties low in the initial years of petroleum production.

Frontier petroleum projects, nonconventional oil development and the enhanced recovery of conventional oil require large initial capital investments. Many