I share the sense of injury and frustration which several Hon. Members have expressed over order 256, the ruling made by the American Federal Energy Regulatory Commission. Like many others in the House, I am extremely disappointed by that decision.

Order 256 runs counter to the long-term trade interests of Americans as well as Canadians. I think we must look at it from the perspective of Americans as well. Americans will be dependent to a much greater degree on Canadian gas in the very near future than they are at the present time. The order violates a long-standing tradition of mutual respect between Canada and the United States for each other's regulatory approaches and it is a step away from rather than toward the effort both countries are making to adopt a more market-oriented policy in our bilateral trade agreements.

Energy is an important component of our trade relationship with the United States. In 1985, that two-way trade was worth approximately $17 billion. While the dollar value of these exchanges declined to roughly $12 billion in 1986, they remain important to both countries.

I should stress that the worth of our energy trade lies not only in the dollar value associated with it but in the fact that our bilateral exchanges in energy can and should contribute to greater security, efficiency and economy on both sides of the border. Within our bilateral trade, natural gas occupies an important place. In the first 11 months of 1986, natural gas accounted for 25 per cent of the value of total Canadian exports to the United States. Moreover, it is well known that natural gas is a key element in the economy of western Canada.

I think I can speak with some feeling on this subject, representing as I do the City of Medicine Hat which was one of the first areas in western Canada to develop natural gas in the early 1900s. Medicine Hat is known as the gas city of the West. There has been in the past and there will be again street lights in Medicine Hat that are run by natural gas. In the early years, it was cheaper to leave the lights on all the time than it was to hire someone to go around turning those lights out.

The industry that came to Medicine Hat came as a result of the abundance and the price of natural gas. The city now has over 500 gas wells and somewhere in the area of 50 oil wells and is the seventeenth largest producer of natural gas in Canada.

Many Hon. Members are aware of what happened during the time of the National Energy Program. At that time, the City of Medicine Hat faced a variety of taxes. The second increase in the PGRT amounted to more than residential consumers were paying for gas. The City of Medicine Hat took the case to the Supreme Court but lost. Imagine a city of about 43,000 people paying $55 million in federal tax and the devastating effect the National Energy Program had on the industries of that city. As I said, most of the industries came there as a result of the abundant and relatively cheap gas. The National Energy Program affected fertilizer plants, methanol plants, brick plants, the forest industry and many other sectors of the economy. They were affected by that one move which was made within the borders of Canada.

Certainly I am upset about what I can see happening across the border and it will cause some hardship. Certainly we should do everything we can to address it, but it will in no way begin to reflect the hurt that was caused by a program drafted by the previous Government, a program for which many Canadians will pay for the rest of their lives in jobs lost and in businesses gone down the drain.

Within the United States market, Canadian natural gas imports have accounted for roughly 4 per cent to 5 per cent in some years and this has been going on for some time. While we clearly do not occupy a dominant position in the American gas market, the American consumer has long benefited from the existence of significant, reliable, competitive supplies of Canadian natural gas.

One of the reasons we find the FERC decision so objectionable is its manifest unfairness. The 1985-86 American consumption of natural gas from all sources declined by 4 per cent. During that same period, Canadian exports declined by 16 per cent. At the very time when we were being lectured on the virtues of the level playing field and the need to ensure open and fair competition, our exports were declining four times faster than the rate at which the market was shrinking. A 16 per cent drop in a market which declined by 4 per cent does not suggest that our exporters enjoyed an unfair competitive advantage.

• (1650)

What does the decision mean and what effect will it have? The House will be aware that the FERC order 256 confirmed on May 27 disallows several major elements of the fixed transportation charges which Canadian exporters previously passed through to their U.S. customers. On May 27, the NOVA charge, which is essentially a transportation cost and had erroneously been disallowed along with several other fixed costs, was reinstated. That means that the impact on Canadian exporters will not be quite as severe as it might have been otherwise. We are still very much of the view, however, that regardless of the financial impact, this decision violates principles which we think are important.

Some of my colleagues have already explained how order 256 will affect Canadian companies involved in exporting natural gas to the United States. Essentially the problem is that if the disallowed cost cannot be recovered in the demand charge it must be added to the commodity component of the rate. That will make Canadian gas less competitive and will most likely lead to a decrease in the importers' gas takes.

In a jurisdictional sense, FERC's decision amounts to imposing its rate-making practices on Canadian pipelines. The fixed costs incurred in Canada for transportation facilities to deliver Canadian gas to U.S. markets on a firm basis and are not structured by Canadian regulators. According to FERC's