

3. The Committee supports the introduction of market-sensitive pricing for natural gas as rapidly as feasible and recommends that all transportation subsidies be phased out.

Developments in export markets also undermined the NEP gas pricing provisions. Canadian natural gas prices in recent years have become higher than prices in the American market where decontrol was already underway. The resulting Canadian gas surplus has contributed to pressures to relax export price administration. In 1983 the Federal Government allowed price-negotiated contracts between Canadian exporters and American buyers, provided that Canadian gas would not be available in the United States at a lower price than at the Toronto city gate. This restriction is no longer appropriate.

Export contracts should be freely negotiated, subject only to restrictions ensuring security of supply, as recommended above. This, together with a free market orientation for domestic prices, would restore an economic realism that has been eroded over more than a decade, and might eliminate the need for market development subsidies.

The recommended changes should be carried out as rapidly as possible in the interest of market efficiency, as well as to provide greater sales opportunities to western producers now holding surplus gas and to benefit downstream users whose products must compete with those manufactured abroad.

Petroleum and Gas Revenue Tax (PGRT) and Petroleum Incentives Program (PIP)

The petroleum industry called for the elimination of the Petroleum and Gas Revenue Tax. **The Committee supports a phased withdrawal of the PGRT** because it prefers to see taxation of the petroleum industry conform to general federal income taxation principles, specifically the taxation of profit and not revenue. **The Committee also supports a phased withdrawal of the Petroleum Incentives Program.**

In arguing before the Committee for the removal of the PGRT, industry representatives criticized the Petroleum Incentives Program and government grants in general. They argued for a return to tax-based incentives: write-offs and deductions that are not directly interventionist and do not discriminate with respect to foreign ownership.

It is the Committee's opinion that the discontinuation of the Petroleum and Gas Revenue Tax and the revenue "flow through" guaranteed in the Western Accord represent sufficient revenue and cash flow to allow the industry to carry out its operations without the government grants that were