dominance of foreign-owned and foreign-controlled companies in the frontier regions of Canada. The percentage of Canadian ownership was destined to drop as conventional oil and gas from the western provinces accounted for less and less of industry revenues. That represented a totally unacceptable prospect for Canadians and for the government of Canada.

• (1830)

We designed the petroleum incentives program to encourage exploration and development and, at the same time, help meet our objective of gaining a higher proportion of Canadian ownership of our energy resources.

Rather than relying solely on takeovers by private and public corporations of foreign holdings in the Canadian energy industry, the Canadian government has chosen to encourage the growth of a significant Canadian component in the energy industry through exploration and non-conventional oil development.

We could encourage this growth in two ways. First, we could have continued to fund exploration and development solely through tax incentives. However, the previous tax incentive system, including the super-depletion allowance for frontier exploration, favoured large and usually foreign-owned firms which could write off incentives against their existing taxable income. Thus, we had a system which unintentionally discriminated against small Canadian-owned firms and newcomers to this attractive sector.

To solve this problem, in tandem with an already generous fiscal system, we offer special incentives to stimulate investment by Canadians in their own energy future.

The petroleum incentives program provides direct incentives for oil and gas exploration and development, and tertiary recovery projects for Canadian-controlled companies with at least 50 per cent Canadian ownership. For oil and gas exploration in the Canada lands, where the tax incentives of the former system had their heaviest impact, the Canadian government will pay for 25 per cent of all approved expenses for all companies, whether they are Canadian or foreign owned. Depending on Canadian ownership rates, however, payments to Canadian-controlled firms can go as high as 80 per cent of exploration costs in the Canada lands.

Foreign-owned companies continue to be welcome in Canada to explore for oil and gas and produce what they find. Thanks to the pricing and fiscal regime established in agreement with the producing provinces and our attractive resource potential, they can anticipate prospective returns which are competitive with those available in the United States, for instance. This point was a central issue in the debate on the Canada Oil and Gas Act. It is important for members to be assured on this point. We make available to all investors on the Canada lands a regime comparable or superior even to that available in oil producing nations such as Norway, The United Kingdom or the United States.

We continue to offer an excellent pricing and fiscal regime on provincial lands also. For example, let us consider the case of an established foreign-owned producer in Alberta. Taking into account both federal and provincial incentives, that company's net costs per dollar of exploration would be as little as 28 cents. Suppose, instead, the company were to explore in Texas. Its net costs there would be 54 cents on the dollar. Clearly, we need to make no apologies for our commitment to increase our oil supply and, at the same time, to make the oil and gas business in Canada more Canadian.

The return we offer for successful exploration is generous in that essentially world level prices are provided for new oil. Certainly, we have in place a combined tax and royalty regime that in the provinces is more onerous than that applied in the United States—the basis for most comparisons. However, as most analysts have pointed out, Alberta offers a five-year royalty holiday for a considerable proportion of its new oil, and that province recently announced royalty deductions for conventional oil and gas. I hope that the governments of other provinces will follow the Alberta example.

The result is that in the crucial early years of production when the company is looking for the payback of its investment, the fiscal burden is light. The after tax netback in Alberta in these years is well above that available elsewhere. Thus, the economics of new oil in that province are highly competitive. In the Canada lands, both the incentives available to oil explorers and the fiscal regime for production are at least as good as elsewhere. This fact, which has not been refuted by the industry, is critical to our deliberations of the new incentives available to Canadians to help them enter the petroleum arena.

We do not deny the preference that we have built into the petroleum incentives program for Canadian-owned and controlled firms. Despite some charges that the petroleum incentives program is too generous to the petroleum companies, we think it is necessary in order to achieve energy security for Canadians.

The basic issue is whether, having provided attractive incentives to all explorers, it is reasonable for us to provide special additional incentives aimed specifically at Canadians. I believe it is. We are correcting and making up for the distortions of the previous system and stimulating Canadian private investors to help us achieve our modest goal of 50 per cent domestic ownership of the oil and gas industry by 1990.

Canada is certainly not the sole country to adopt policies which favour its national firms in some special sectors. Many OECD countries have found it necessary to introduce measures at variance with the concept of "national treatment" in order to achieve essential domestic social and economic goals. There is, to my knowledge, not a single OECD country that has allowed its key sectors to be dominated as heavily by foreigners as our oil industry is.

In pursuing our energy security and Canadianization objectives, we intend to implement our programs, including the petroleum incentives program and the Canadian ownership rating, in a fashion which is in keeping with our international obligations. We have repeatedly emphasized that this is a strategic sector for Canadians, with priorities and needs not