"Canadians to take full advantage of". By all measures, as enunciated by the minister himself, this legislation is wide of the mark.

I would like to mention the government's role in the current slump in offshore exploration and development. As we all know, world oil prices are indeed an important factor, a factor which this legislation does not take into account. Nevertheless, oil prices are but one factor, and the evidence of that was borne out in testimony before the committee. Mr. Smith, again, when he appeared, stated that the world price of oil:

> . . . is only one leg of the stool. If the only leg remaining is world oil prices, then they—

Meaning the major oil companies:

> —will leave for that one reason. However, if they see legislation that supports them and demonstrates that they are part of a partnership, and that they are "going down the road together", even if the deal is tied into Canadian benefits packages and returns on investment, my belief is that the major players will still hang around.

That was the evidence from Mr. Smith, chairman of the board of directors of the Offshore Trade Association of Nova Scotia. Of course, we heard further testimony from other witnesses bearing on the same theme, particularly by the president of Husky Oil Limited. He described how the replacement of grants under the Petroleum Incentive Program with a tax credit system ruled out any further participation by his firm in the offshore, regardless of the price of oil. He said:

> If we still had $28 oil prices under this policy, we would not be able to explore in the Canada Lands . . . Oil prices are a big factor but the fact of the matter is that in this environment this kind of investment—mid-$20s, $28-U.S. oil prices—we would not be able to invest in the Canada Lands—not in the exploration phase and not in the high risk phase, because we don't have the capital base to do it.

His company was ruled out because the new tax credit scheme—the scheme which replaced the incentive grants—did not offer it the encouragement to continue. He went on to say that even with $28 barrel oil:

> we wouldn't be investing because the system does not allow us to take into account the risk.

Well, what of the future of Husky, which company was the most active explorer offshore Newfoundland? Mr. Price said:

> . . . I see our company's participation in the east coast basically drawing to a halt at the end of the work program that is currently eligible for petroleum incentive payments. That would be the middle of next year. To change that would take a price rebound, along with a policy framework that we can operate within, or a special policy framework dealing with the current price environment. It would take changes in those variables for Husky Oil to be able to deploy capital in that kind of an investment.

Petro-Canada had an interest in almost half of the 300 wells drilled off the east coast since 1976. When its Resources Division president, James Stanford, was asked by Senator Barootes:

> Were the PIP grants a major factor in your activity off the east coast?

He answered:

> There is no question about that, senator. The PIP grants were very significant.

We know, and have always known, and the testimony before the committee confirmed the realization that the Petroleum Incentive Program grants were instrumental in encouraging exploration on our frontiers. The government then announced the end of these grants and that is when the offshore began to decline. We all know that the price of oil did not collapse until December 1985/January 1986. Well before that, however, there were signs that activity on the frontier was slowing. In September of 1985 when oil was $28.79 U.S., the *Globe and Mail* reported that three major drilling rigs left the Atlantic offshore and headed for the North Sea, and two other rigs were idle without contracts. This was occurring when oil prices were only $1 less than they had been a year before; when prices had actually increased by more than $2.50 from a low of $26.12 in January, 1985. Drilling rigs were leaving Canada to drill overseas because the Conservative government had made it perfectly clear through its energy policies that offshore exploration was no longer to be a priority. The subsequent collapse of oil prices only accelerated the exodus which had already begun.

● (1530)

Honourable senators, I think it is a sober reflection that, should world prices increase to their previous levels, a resumption of activity off the east coast is by no means guaranteed under the current policies of the present government.

As I mentioned a moment or two earlier, Petro-Canada announced last week that it would drill two delineation wells in the Terra Nova field off Newfoundland. However much we would like to believe that this is a signal of a resumption of strong activity in the offshore, the facts unfortunately indicate otherwise. First, this is a relatively modest $45 million drilling program designed to determine the northern boundary of the field. Only after this drilling is complete will the company decide whether or not it wishes to proceed with development. Of course, any development plan, as is indicated in the bill, would require agreement between the federal and provincial governments.

Honourable senators, some say that the announcement by Petro-Canada has much to do with its reported unhappiness with Mobil Oil over the Hibernia negotiations. Petro-Canada has a 25 per cent interest in Hibernia, and reportedly would like development to proceed. It may be that by moving closer to development on the Terra Nova field, Petro-Canada is trying to embarrass and force Mobil's hand on Hibernia. That would be all right, but we also ought to bear in mind that Petro-Canada is known to be reserve-poor. If the drilling is successful, Petro-Canada could increase its reserves by up to