expenditures. Suffice it to say that this matter is under constant review in my department.

Part III deals with domestic gas price restraint. A most important and necessary new element of the bill respecting the Petroleum Administration Act is part III, which deals with the pricing of natural gas primarily in interprovincial trade, and incidentally in extraprovincial trade as gas moves toward the international boundary and is destined for the export market.

Natural gas is an extremely valuable energy resource. However, as a result of historical circumstances and the particular commercial relationships and regulatory procedures existing in the gas industry, it is a resource which is presently seriously undervalued in Canada in relation to competing energy resources. This is an unhealthy situation leading to distortions within the energy economy and as between consumers of different fuels. It is resulting in wasteful use in some instances of a precious resource.

To avoid distortions both in the supply and in the consumption of competing fuels, an integrated and consistent approach to pricing is required. I think that all of the participants in our energy economy would assent to this principle. The problem is to achieve this consistency in a manner which strikes a balance between the interests of consumers and the ambitions of producers.

This question of finding an appropriate pricing mechanism for natural gas has been the subject of intensive discussion with the producing interest, represented by Alberta, and the consuming interest, represented chiefly by Ontario. We have seen, over the past few years, the tension between these two interests marked by lawsuits, by threats to withhold gas and by threats to challenge provincial legislation. In a series of discussions we have had with the two governments, both together and on other occasions individually, we have proposed a phasing to commodity value, which would yield increasing returns to the producing region, but over stages that would cushion the impact on consuming regions.

In the past several months we have indicated that while we would hope to arrive at a compromise, federal authority of the kind sought in the bill would be necessary in order to carry out any agreement. We have advised the provinces of our intention to exercise our jurisdictional responsibility in this area.

Mr. Stanfield: May I ask a question?

Mr. Macdonald (Rosedale): Certainly.

Mr. Stanfield: The way the minister put that, he suggested that the power would not be used to impose agreement, but to implement one. Is that what he meant?

Mr. Macdonald (Rosedale): I shall be dealing with that point in my next two passages. If I do not answer the question satisfactorily, I shall be glad to receive a question at the end. At the moment, gas prices for domestic consumption are being shaped principally by arbitration proceedings taking place under the Alberta Arbitration Act, which specifies the criteria for determination of the value of natural gas in terms of its commodity value in markets served. By "commodity value" under that act is meant the thermal value of natural gas determined in relation to the price of substitutable energy competing with gas and after allowance for the premium value of gas as a fuel.

The federal government is not opposed to this pricing principle. However, the extent of the gas price increase needed to achieve commodity value is now such that an abrupt rise to this level could prove very disruptive. For example, there may be situations in which industrial consumers of gas will have to switch to alternative fuels upon gas being priced at commodity value. In these circumstances, it would be reasonable to provide a transition period. If this transition is to be accomplished without confrontation between producing and consuming interests, a federal presence in the gas transacting area of our energy economy is required.

[*Translation*]

Such is the purpose of Part III of the bill. It is intended to regulate the gas trade and it sets goals similar to those of the oil policy. It is also meant to maintain balance between prices of alternative fuels in Canada.

This approach compares to the one explained in Part II of this bill and Parts II and III of Bill C-18 of the previous Parliament concerning oil. It is provided that the federal government and producing provinces, and this refers to the question of the Opposition Leader (Mr. Stanfield), will determine the price of gas by agreement. In case such agreements are not reached, or if they are but are not put into effect for any reason or if they are declared ultra vires by a provincial government, as is the case for oil, it is provided that the federal government will give itself increased powers. While the goals for gas are similar to those set for oil, differences in the principles of transactions of these two products give, in Part III, a more simple situation for gas than the one for oil described in Part II. For example, it is not necessary to put up a system of licences to regulate the interprovincial movement of gas at preset prices.

[*English*]

To sum up, if I might, for a moment on the question asked by the Leader of the Opposition (Mr. Stanfield), in the discussions, primarily with the two provinces affected, in this regard we have suggested the general principle of phasing to commodity value with regard to petroleum or petroleum products, and have suggested a timetable of five years of appropriate steps that might be taken. This is, I think, a question very much in negotiation and we hope the negotiation will be successful.

With respect to the public statements of the various ministers, I think I would be correct in saying that in the statement of the Ontario minister of energy there is acceptance of the principle of a higher price, and in the statement of the Alberta minister there is acceptance of phasing. I would hope these two positions can mature into an agreement. But an agreement, for legal reasons, would have to be enshrined in action taken at the federal level with regard to the interprovincial price of gas.

Mr. Stanfield: If there is no agreement, what is the stance of the federal government?

Mr. Macdonald (Rosedale): In respect of petrol and crude oil, if there is no agreement between the parties or if, for example, agreement should fail perhaps in respect of