lower costs of oil shipped to eastern Canada; therefore the oil prices in that area are generally below the single Canadian rate for crude oil, after the adjustments relating to differences in quality and transportation have been made.

The government studied the operation of the program and decided that, on July 1, 1975, the compensation procedure would be altered in such a way that importers would be refunded according to a uniform rate for each barrel. This uniform rate would be determined by working out the average delivery price of crude oil from the main suppliers; the rate would amount to the difference between the average price and the price of Canadian crude oil delivered in Toronto and adjusted according to its quality. The compensation scale would be revised periodically.

This new policy will result in lowering the compensation rate for each barrel and, as I have pointed out, combined with an increase in the price of domestic crude oil, it will make it possible to reduce the expected approximate deficit by $200 million for this fiscal year. The tariff for petroleum products in the areas which depend on exports should not rise as a result of this new policy, but the present rebates on bulk sales and the discounts on posted rates may become less important as the prices which are subject to compensation will get closer and closer to the prices which prevail in the rest of Canada. It is hoped that the changes I have announced will eliminate the disparities the program had brought about with regard to the sources of imported crude oil and will stimulate competition in the purchase of oil imported into Canada. This is the most important point.

The government is fully aware of the problems oild refiners in eastern Canada have to face concerning imports on account of the present situation of the oil market. The recognition of these problems is reflected in a differential compensation scale for crude oil imports and petroleum products. The new plan will maintain this difference adequately.

[*English*]

I have indicated the nature of the concerns that led us to conclude that higher prices for oil and gas are necessary in Canada, and at this time. I have argued that higher prices are necessary, firstly to bring on stream the oil and gas resources that Canadians will require in the next five to ten years; secondly, to help generate the high volume of savings necessary to find and develop these resources; and thirdly, to reduce the rate of growth of energy demands to manageable levels.

Many Canadian consumers have raised questions with regard to whether or not the revenues arising through higher prices are being deployed in a manner that will lead to the increased energy supplies we require. These are legitimate concerns and I want to answer them directly. Over the past 13 months there have been a number of announced changes to the taxation and royalty systems affecting the operation of the petroleum industry in Canada. The federal government has announced changes in each of the last three budgets, and producing provinces have made modifications to their taxation systems as well.

The purpose of the changes we have introduced has never varied. They were intended to achieve an equitable distribution of the unexpected revenues accruing to producers in Canada from higher prices. This distribution was to accomplish three objectives: first, to allow an adequate return to the producing provinces in recognition of both their constitutional rights of ownership and the depleting nature of their resources; second, to protect, at the same time, a minimum share of resource revenues accruing to the federal government on behalf of all Canadians; and finally, to leave the industry with cash flows and expected rates of return sufficient to undertake the exploration and development Canadians require and expect.

There is no question that attempts to redesign federal and provincial fiscal systems in response to higher prices and in a way which could meet these three objectives have been very difficult. In particular instances, the combined effect of federal and provincial changes has led to insufficient cash flow to industry and has created a climate of uncertainty that has not been productive. The modifications to the taxation system announced in the budget will contribute greatly to reducing this uncertainty and to fostering a healthy climate for further exploration.

● (1650)

Much of the debate over the past year has centred around the disallowance of provincial levies on resource revenues as deductible items in calculating federal tax liabilities. The introduction of the 25 per cent resource allowance, calculated on the basis of production income, represents a practical way of recognizing that provincial governments have the right to apply levies to income from their resources that, within certain limits, can be considered deductible.

The concept and design of the resource allowance recognizes the structure of the taxation system as it existed prior to the price increases and provincial royalty changes that occurred early in 1974. When the resource allowance is introduced on January 1, 1976, it will be accompanied by an increase in the rate of federal corporation income tax from 25 per cent to 36 per cent. This higher tax rate will have two effects. It will ensure that the federal share of revenues from Canadian oil and gas remains at about 18 per cent. This is the minimum share that we think the federal government, on behalf of all Canadians, is entitled to receive from a mature petroleum industry. In addition, the increase in the federal tax rate will increase the after-tax value of exploration and development carried on in Canada. The after-tax cost of exploration will be reduced by more than 25 per cent and this will reward directly those companies that seek additional resources in this country and will penalize those that do not.

It is difficult to estimate what the effects of the revised taxation system will be. Provinces may desire to make further adjustments in light of the budget announcement. In addition, the incentives to explore in the current system make estimation of the resulting shares dependent on rates of exploration. The industry share of the price increment will depend in large measure on industry's actions in this regard and the actions taken by provincial governments concerning royalty and provincial tax systems. In this context, it is encouraging to note the comment by the Alberta minister of energy and natural resources earlier this week to the effect that he would be