

our eastern provinces are totally dependent on imported oil purchased at world prices. With the increase in world price, we could hardly continue to export oil to the United States at less than the going price. Also, one of the cardinal principles of our energy policy is that sales abroad must be at world prices. This is essential for an economy which relies to a large extent on the export of natural resources. Consequently we imposed a tax on oil exports which reflects the difference between the domestic price and the world price. It is intended to ensure that we receive fair market value for our oil. As the domestic price moves upwards in line with the Government's objective of encouraging further exploration and energy conservation, the export charge will be correspondingly reduced.

A problem which has concerned people in the United States is the future volume of oil exports. It recently became evident that the extent of Canada's known reserves was not as great as had been previously estimated and that, at the current rate, production would be depleted within a short time. At the same time, it also became apparent that alternate sources, in particular the Athabaska oil sands, would likely come on stream at a slower rate and a much higher cost than we had assumed. The Canadian Government therefore decided, in the absence of new supplies becoming available, to gradually phase out oil exports over the next ten years, which means in effect oil exports to the United States.

We recognize that this policy involves some difficulty for the United States. The decision to phase out our oil exports gradually reflected our awareness of the problems posed for some areas of the United States. But I think you will agree that it would be both economically and politically unsound for the Canadian Government to continue to supply markets beyond its borders at the expense of domestic requirements.

We also recognize, however, that there is a special problem for the oil refineries in the northern mid-west states -- the so-called "northern tier" -- which are completely or mainly dependent on Canadian oil. We remember that these refineries were the first customers for our oil in the sixties. We certainly want to minimize the impact on them of changes in our export capability. We have told the United States Government that we are ready to explore possible ways of alleviating this problem and indeed discussions are under way. We feel that some accommodation should be made for these refineries.

Natural gas poses another potential problem in our bilateral relations.