The federal government will establish city-gate prices for natural gas shipped interprovincially, for all centres east of Alberta. City-gate prices will be set at the same level in Toronto, Montreal, Quebec City, and Halifax, thus ensuring the financial viability of the natural gas pipeline to the Maritimes.

For the three-year period starting November 1, 1980, the price of gas in this eastern zone (including the new tax set out below) will rise 45 cents per Mcf per year. Under previous policies the increase would have been 67½ cents per Mcf per year as a result of a $4.50 per year increase in the price of oil. The ratio of gas prices to oil will thus fall significantly over time, providing a substantial stimulus to energy substitution.

ENERGY TAXES

The Program will create a framework for more balanced revenue sharing between the producing provinces, who are entitled to large and growing revenues from their resources, and the Government of Canada, which has a national claim, on behalf of all Canadians, to a share of the industry's revenues.

The Government of Canada will impose a special tax on natural gas and gas liquids, in lieu of a gas export tax. This was done to accommodate the provinces of Alberta and British Columbia, which argued against a gas export tax.

All gas will be subject to the new tax, including those to the export market. Gas entering the export market will be exempt from the tax until February 1, 1981, because of the agreement with the United States government requiring Canada to give 90 days' notice of price changes.

Effective November 1, 1980, the tax will be 30 cents per Mcf. The tax will increase by a further 15 cents per Mcf on July 1, 1981, and by 15 cents per Mcf on January 1, 1982, and January 1, 1983.

The existing crude oil export charge will be maintained. Virtually all of the oil now exported from Canada is heavy crude oil, which the country's refineries cannot process. Under the National Energy Program, measures will be taken to enable Canada to use more of this oil domestically, so that these exports will gradually decline.

In the meantime however, the Government of Canada is prepared to share with Alberta and Saskatchewan 50 per cent of its export charge revenues from crude oil exports, starting November 1, 1980. This commitment will be reviewed at the end of 1985, when it is expected that these exports will have been phased out entirely and the oil will be used in Canada.

THE PETROLEUM AND GAS REVENUE TAX

Effective January 1, 1981, all oil and gas producers will be subject to a tax of 8 per cent of their net operating revenue related to the production of oil and gas, including income from oil and gas royalty interests. In calculating that income, no deductions will be permitted for exploration and development expenditures, capital cost allowances and interest payments.

The tax will apply to individuals, private firms, and federal and provincial enterprises that receive income from oil and gas production. The levy will be based on a new Act, distinct from the *Income Tax Act*, and will be non-deductible for income-tax purposes.

OIL AND GAS SUPPLY INCENTIVES

DEPLETION ALLOWANCES

At present, the income tax system allows taxpayers to claim a deduction, called the depletion allowance, generally equal to one-third of oil and gas exploration, development, and certain capital expenditures related, for example, to oil sands plants. The following changes will be made, effective January 1, 1981.