

Alberta has done nothing to modify the provincial royalty charges on petrochemical feedstocks to help its industry. Provincial royalties on oil and gas represent about 30% of the well-head prices of these materials. Recently Alberta announced assistance to Alberta Gas Ethylene (AGE) that will extend to that company the advantages of within Alberta gas pricing enjoyed by other Alberta producers and help overcome the ethane pricing problems that resulted in a three month shutdown in 1982.

e) Other factors

Even when the developing countries rich in oil and gas enter the worldwide petrochemical marketplace in a significant way, Canada will have an advantage in being regarded as a secure, diversified source of supply to other countries. Canada's reputation as having a stable and reliable business environment is certainly a large advantage in terms of international marketing. This reputation is based on Canada's historic political stability and mature infrastructure.

EVOLVING ENVIRONMENT

1984 was the third year in a row in which the industry showed before tax losses exceeding \$200 million. Once the investment has been made, however, a company will operate as long as it is making some contribution to its fixed costs even if it is not covering its full costs. In the case of AGE, the ethylene customers have take or pay contracts that dictate that they continue to operate even if they are losing money.

Severe overcapacity still exists in the world and until demand improves, allowing for price increases, profitability in the Canadian industry will continue to be unsatisfactory. It is expected that it will be the late 1980's before world supply/demand comes more into balance.

The U.S. Gulf Coast is now the minimum cost producer and price setter on petrochemicals. Decontrol of natural gas pricing in the U.S. in 1985 may result in increases in petrochemical feedstock costs in the U.S. putting upward pressure on petrochemical prices. The first half of 1985, however, has shown no sign of this happening.

New capacity will be required worldwide by the late 1980's and with the correct investment climate and feedstock pricing, some of this investment could come to Canada. Since it takes 3-4 years between the decision to build and plant startup, these investment decisions must be taken soon. Unless existing producers are profitable they are unlikely to commit to additional large capital investments.

KEY ISSUES

For the gas based sector, which already represents the major part of the existing industry and has the potential for further growth, the key issues are market responsive pricing and the upfront fiscal burden. The Alberta border price concept, as applied, prevents gas prices from adjusting to reflect international conditions. Even within Alberta where contract prices have been negotiated, the basis for the contract price is often the inflexible border