

APPENDIX

(See p. 2518)

STANDING SENATE COMMITTEE ON NATIONAL FINANCE

REPORT ON SUPPLEMENTARY ESTIMATES (A) LAID BEFORE PARLIAMENT FOR
THE FISCAL YEAR ENDING MARCH 31, 1982

June 11, 1981

The Standing Senate Committee on National Finance to which the Supplementary Estimates (A) laid before Parliament for the fiscal year ending March 31, 1982, were referred, has in obedience to the order of reference of Tuesday, June 9, 1981, examined the said Supplementary Estimates (A) and reports as follows:

The Committee was authorized by the Senate as recorded in the *Minutes of the Proceedings of the Senate* of June 9, 1981 to examine and report upon the expenditures proposed by the Supplementary Estimates (A) laid before Parliament for the fiscal year ending March 31, 1982.

In obedience to the foregoing, your Committee examined the Supplementary Estimates (A) and heard evidence from the following: From Energy, Mines and Resources Canada, Petroleum Prices and Compensation Branch: Mr. A. Digby Hunt, Assistant Deputy Minister; Dr. T. S. Tuschak, Director General, Operations; Mr. A. J. Kealey, Acting Director, Petroleum Compensation; and from Treasury Board: Mr. E. R. Stimpson, Director General, Budget Co-ordination Group.

The Supplementary Estimates (A) contain only one item, an increase in the 'Payments to refiners of crude oil and petroleum products for the purposes of Part IV of the Petroleum Administration Act'. This increase is in the amount of 2.1433 billion dollars, and raises the total estimates for this purpose to \$5.1587 billion. Honourable Senators may be aware that the total increase will be paid for by increases in the Petroleum and Special Compensation Charges.

The witnesses suggested that a number of factors have necessitated the presentation of this Supplementary Estimate. By far the most important of these is the cutback in the production of crude oil in Alberta. To date, two of these cutbacks have taken place, in the amount of 60,000 barrels per day, and a third is expected to occur in September. According to our witnesses, these three cutbacks will increase the amount of compensation paid in respect of imported oil by some \$1.5 billion. In addition, due to differences between the average quality of the oil cutback by Alberta and the oil being imported, (the Alberta cutbacks are, we were told, concentrated in the lighter, less sulphurous grades of oil), an additional \$.27 billion is required, raising the total costs of the cutbacks to roughly \$1.77 billion.

Our witnesses also told us that the previous estimates were based on an average Canadian dollar value of approximately

87-88 cents U.S. Their new estimates are based on an exchange rate of 83-84 cents, necessitating increased subsidies of \$.3 billion. This will be partially offset by savings due to lower than expected world crude oil prices in the amount of \$.1 billion. In addition, a change in the procedures used to collect subsidies relating to export sales of marine and aviation bunker fuels will increase this account by \$.15 billion. This change is, however, strictly an accounting matter, and does not require additional outlays. Miscellaneous adjustments constitute some \$20 million in the revision. For convenience, we attach as an appendix to this report a summary of all the pertinent changes.

We would like to add and stress two additional points raised during our examination. First, the demand projections for oil products which underlie this supplementary do not incorporate significant continued reductions in line with the 6.8% reduction we were told occurred in the first quarter. Second, the estimates are based on neither increased nor decreased future prices for crude oil on international markets. The witnesses stressed that international price movements were very difficult to project.

We would also like to stress in this report that accounting changes are planned which will directly alter the manner in which Oil Import Compensation payments will be reported in the estimates. In future estimates, it is intended that only the difference between the amounts paid in compensation and the amounts collected through the Petroleum and Special Compensation Charges will be reported in the estimates. The magnitude of this change is significant. If for example, this procedure had been applied to the Main Estimates for 1981-82, the total of the Main Estimates would have been reduced by over \$2.5 billion dollars. If it had been applied to the Main Estimates and these Supplementary Estimates, the total of these two estimates would have been reduced by over \$4.81 billion.

Respectfully submitted,

D. D. EVERETT,
Chairman

(APPENDIX TO REPORT)

SUMMARY OF FACTORS UNDERLYING
SUPPLEMENTARY ESTIMATES "A", 1981-82

The following factors account for the revised estimate for the payments to refineries of crude oil and petroleum products