

All of the formulas were schedules of specified price increases, based on projections of increasing world prices through 1990. The main problem was that forecasts of future world prices turned out to be wrong. There was no flexibility built into the schedules that could accommodate change. By late 1983 the domestic price schedule had some Canadian prices rising above world prices — which were falling. Obviously this was not the intent. Uncertainty, instability and bitter feelings resulted from Canada's experience with administered crude oil prices.

### **The Committee supports the deregulation of crude oil prices.**

Even though the international or "world market" price of petroleum is not solely determined by the cost of production, the usefulness of this price is not negated. Whether dictated by a cartel or whether the result of many small transactions in a free-wheeling auction process, this price still reflects what Canadian oil is worth on the world market.

Further, when we consume domestic oil we forego the opportunity to sell it at the world price. Therefore, use of the international price of oil ensures that the current value of this resource is applied in any decision made by the private or public sector. This promotes a more efficient allocation of resources and serves as an incentive, signalling how and where petroleum activity will yield the best return. With artificially low prices, petroleum would be wasted because users would not have to pay the full value of the resource.

While deregulation in a competitive market is a desirable goal, the Committee is concerned about the behaviour of the more powerful oil companies operating in Canada. The price leadership exhibited by the industry suggests that deregulation may not bring about a truly competitive price.

Of equal concern is the pattern of vertical integration characteristic of large firms which have a significant measure of control over the industry. The Committee is not against bigness *per se*, but is distressed by the difficulty encountered by small independent firms to gain a position in the chain of supply or distribution. This point is raised without reference to any views the Committee holds with respect to foreign ownership.

Finally, even though deregulation of the oil industry will remove the need for many interventions, the Committee does not intend that the Federal Government abdicate its role of formulating policy in the national interest.

In addition to administered domestic prices, export charges were levied on oil sold to the United States. Buyers in the decontrolled American market pay the world price for all oil, whether imported or produced in the United