MOST WIDELY READ AUTHORITY ON CANADIAN OIL AND GAS. FOUNDED OCT. 1937 BY CARL O. NICKLE.

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TODAY'S HIGHLIGHTS

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OTTAWA UNVEILS BUDGET TO-GETHER WITH NATIONAL ENERGY POLICY

While industry sifts through the fine print of the Federal Government's budget and announced energy policy, to-day's Bulletin will highlight the major points pertaining to the resource industry to-gether with preliminary re-action from industry spokesmen. The Bulletin will provide a more in depth analysis as it becomes available.

PRICING

-Henceforth, the price of oil paid by Canadian consumers will be an average of the cost of foreign oil, for which we must pay the world price, and the cost of domestic oil. The mechanism for blending in higher-cost supplies will be Petroleum Compensation Charge levied on all refiners. The new regime will be phased in so that the increase in the well head price plus the import component of the compensation charge will be less than $4 per barrel in 1980. A charge of 80 cents will be effective immediately. This will be in addition to the $3 increase in wellhead prices which has occurred this year. The increase in the wellhead price plus the increase in the compensation charge will be $4.50 in each of the three subsequent years.

-For conventional oil, the wellhead price will rise by $1 per barrel every six months, beginning January 1, 1981. Starting January 1, 1984, the semi-annual increase will be $2.25 per barrel and, in 1986, it will be $3.50 per barrel semi-annually and these increases will continue at that pace until the wellhead price reaches the "reference price.

-The reference price is a special incentive price which will be offered to synthetic crude from the oil sands. Effective January 1, it will be $38 per barrel escalated annually by the consumer price index.

- The government is also prepared to offer incentive prices for enhanced oil recovery and for upgraded heavy oil.

- This Made-in-Canada price will rise over the decade and will never be allowed to exceed 85 per cent of the price of imported oil or the price of oil in the United States whichevef is lower.

-The government proposes to pay to the producing provinces, Alberta and Saskatchewan, 50 per cent of the collections from export charges on crude oil.

-The price of natural gas to Canadian consumers will increase less quickly than the price of oil and will, therefore, provide a major incentive for consumers to switch off oil to gas. Specifically, the price at the Toronto city gate will go up by 30 cents per 1,000 cubic feet on November 1, 1980, by 15 cents in 1981 and 45 cents in 1982 and 1983.

-A new uniform federal tax on all natural gas is imposed. It will also apply to liquified petroleum gases, except those produced from oil. Initially, the tax will be set at 30 cents per 1,000 cubic feet, effective November 1, 1980 for domestic sales and February 1, 1981, for sales to U.S. consumers. This tax will be increased by 15 cents on July 1, 1981, January 1, 1982 and January 1, 1983.

-There will be no increase in 1981 in the field price of natural gas sold in the domestic market. Thereafter, the current practice of increasing the producer price by 15 cents per 1,000 cubic feet for every $1 per barrel increase in the wellhead price of conventional oil will be continued. (continued on page two)

BUDGET HIGHLIGHTS - continued from page one

-The new pricing regime for both oil and gas will be established under the Petroleum Administration Act.

REVENUE SHARING AND TAXATION

-A federal tax, effective January 1, 1981, to be levied at a rate of 8 per cent on net revenue from the production of oil and gas in Canada. This will yield \$1.4 billion in 1981 -82 and \$5.1 billion over the next three fiscal years. These new revenues will finance the major federal spending initiatives in the field of energy and the Western Development Fund.

-The federal government's share will increase to about 24 per cent over the four-year period 1980 to 1983. Provinces will receive about 43 per cent and industry about 33 per cent.

PRODUCTION INCENTIVES AND ENERGY INITIATIVES

-The elimination of depletion for development expenditures effective January 1, 1981, and the phasing out of depletion for exploration over the next three years. Depletion will be retained only for selected activities, such as tar sands plants and for frontier exploration. These changes in the depletion allowance will not affect the mining industry.

-A Petroleum Incentives Program will be established to provide grants of up to 80 per cent of exploration expenditures in the North and the offshore, and up to 35 per cent in other areas. Grants of up to 20 per cent will also be provided for development and expenditures in all areas of the country. The grants will vary according to the level of Canadian ownership and control of enterprises.

-The natural gas pipeline system will be extended beyond Montreal to Quebec City and the Maritimes. To encourage the early penetration of gas in those markets, gas prices in Quebec City and Halifax will be set at the same level as is in Toronto and Montreal.

CANADIAN OWNERSHIP

-At least 50 per cent Canadian ownership of oil and gas production by 1990;
Canadian control of significant number of the larger oil and gas firms; and
an early increase in the share of the oil and gas sector owned by the Government of Canada.

-Petro-Canada will be charged initially with the task of acquiring the Canadian operations of one or more multinational oil companies.

-A natural gas bank, which will buy from Canadian-owned and controlled companies gas that is surplus to market demands.

REACTIONS FROM INDUSTRY

C.W. DANIEL, president SHELL CANADA-"new taxes on oil and gas revenues, the excise tax on oil and gas production and the elimination of depletion allowances in currently producing areas of western Canada will benefit the federal government while stripping revenues from the industry and the producing provinces. These measures will reduce cash flow, the industry's principal source of funds for exploration and development. In these circumstances we will have no alternative but to re-evaluate our investment program."

EDWARD G. BATTLE, president, NORCEN ENERGY RESOURCES-said the budget is complex. It needs more careful analysis, but it looks devastating - even for Canadian companies. "While Canadianization makes it easier for us to participate in the frontier projects, the budget leaves us with less money to do so."

RICHARD PLAIN, a University of Alberta economist said the federal government's plan to take over a major oil company and the new energy-related taxes outlined in Tuesday's budget could cause icy economic relations with the United States.

In Victoria, British Columbia government officials said the budget spells disaster for the province. Energy Minister BOB MCCLELLAND called it a betrayal of the West.

ED TCHORZEWSKI, Saskatchewan's finance minister, said his province would oppose the tax on natural gas. He wondered if it was legal since it imposed a tax on a Crown corporation, the SASKATCHEWAN POWER CORP.

CARL NICKLE, chairman and president of CONVENTURES LTD., said the budget fails to come to grips with the need to attain oil self-sufficiency. He said it may provide short-term benefits but will be costly in the future. Nickle said he doubted the budget's energy outlines would be pursued for very long because Canada would face an energy crisis as early as next year. "World energy policy is going to force a rethink in Canada," he said.

EDITOR'S NOTE:

Due to to-day's space and deadline restrictions, the Bulletin will report further on reaction to the budget in Thursday's edition.