have risen as a result of both the increase in oil prices and the high rates of inflation in all industrialized countries. The success rate in finding additional resources of oil and gas in Canada and its territorial waters has been less than was hoped and forecast capital and operating costs associated with the exploration, development, production and transport of oil and gas from the oil sands and the Arctic areas have increased so substantially that serious questions have been raised about the pace and price at which these resources can be commercially developed.

Government innovation 13.3.1.1

The price of crude oil was raised in mid-1975 from \$6.50/bbl (\$40.88/m^3) to \$8.00/bbl (\$50.32/m^3). Alberta and Saskatchewan introduced changes in their royalty formulas in response to this, while British Columbia introduced a new oil royalty system. The price of gas in interprovincial trade was raised substantially, being fixed at \$1.25/Mcf (\$44.14/thousand m^3) at the Toronto city-gate effective November 1, 1975. Alberta announced that the Provincial Petroleum Marketing Commission would equalize wellhead prices for all producers by uniformly 'flowing back' any surplus in the export over the domestic price. All three provinces introduced or improved incentive schemes to encourage exploration and development of hydrocarbons within their borders.

In December 1974 Alberta announced an increase in the select price for oil from \$4.41 to \$4.71 and in July 1975 the royalty rate was reduced from 65% to 50% on the portion of the price between \$6.50 and \$8.00. This brought the average royalty on oil to 36% from 42%. A refund of the corporation tax arising because of the non-deductibility of royalties was also announced. In the summer of 1975 Saskatchewan and British Columbia introduced similar schemes of tax indemnification and lowered the royalty on oil, and BC created an exploration incentive scheme. With this same purpose of promoting exploration, the Government of Canada also introduced two modifications to the taxation system for petroleum to take effect in 1976. The special tax abatement of November 1974 was to be replaced by a resource allowance of 25% of adjusted production income thus recognizing, to a degree, the special position of the provinces in respect of resources and increasing the incentive impact of the exploration and development allowances. At the same time, the rate of tax was reduced to the general corporate income tax rate of 46% from 50%. These changes reduced slightly the anticipated federal share of resource revenues.

Legislation 13.3.1.2

Adoption of the Petroleum Administration Act in June 1975 authorized the federal government to set the price of oil and gas domestically as well as in the export market and to continue the oil import compensation program.

Marketing innovations. Crude oil produced in western Canada is purchased by refining and marketing companies, transported to refineries by pipeline and processed into petroleum products for market distribution, usually through the marketing outlets of the major refining companies. With increasing product availability in the late 1960s and early 1970s, refineries found it profitable to market increasing volumes through independent outlets in competition with their brand name dealers. Independent discount gas bars offered lower prices, less service and fewer promotional extras. Major oil companies have opened their own discount and self-service outlets to capture a share of this market. The "self-service" market is one manifestation of the changes probably yet to occur because of sharply increased prices.

Other influences for change are the government's long-term program of energy conservation announced in 1974, the establishment of a national petroleum company, and government participation in the Syncrude project on terms granting that consortium an "internationally oriented" price for its product. Other concessions were granted when the federal government joined Alberta and