supply and ultimate independence from the world oil market; a fair pricing and revenue-sharing regime which recognizes the needs and rights of Canadians in all provinces; and greater Canadian ownership and control of the oil and gas industry. The two taxes contained in this bill are essential for the achievement of these objectives.

Revenues from the two new taxes will, of course, assist in the financing of new energy-related programs announced in the National Energy Program. These include incentive payments for exploration and development of oil and gas, grants for conversion from oil to gas, electric heating or other fuels, subsidies for gas pipeline extension into areas dependent on imported oil, and increased incentives for home insulation. All of these programs are important in achieving our goal of energy security.

The natural gas tax forms part of the over-all pricing strategy set out in the national energy program. That document outlined various goals for oil and gas pricing. They include providing adequate incentives for supply without giving unwarranted profits to producers, providing an impetus to conservation without undue shocks to the Canadian economy and encouraging consumers to switch from oil to gas.

The tax is an important instrument in serving those goals. Even with the full implementation of the tax, the price of gas to Canadian consumers will decline relative to oil prices, on a heat equivalent basis, from roughly 85 per cent to 65 per cent. There will be, therefore, a major incentive to switch from oil to gas.

The tax also has an important role in ensuring that the difference in the returns to producers from exported gas as opposed to domestic sales is not increased, thus not adding to incentives to find gas solely for export markets. Under existing arrangements the returns to producers from exporting are high. This creates an undesirable bias in the system to find gas and export it. On a long-term basis such a policy does not make a lot of sense for this country. As I indicated in my budget, our preferred approach to redress this bias would have been to impose an export tax on gas which would have captured some portion of the difference between the world price and the Canadian price. However, the producing provinces and Members of Parliament objected strongly to this approach. For this reason I proposed a tax on all sales of gas. Some have criticized the application of this tax to gas destined for export. But, as Canadians, are we really prepared to say that the gas used in Canada to serve Canadian needs will be taxed while gas sold abroad would be exempt? I, for one, was not prepared to put in place a tax which further increased the incentives to ship gas abroad rather than using it at home.

Let me turn now to another of our energy objectives—a fair division of revenues. Oil and gas prices have increased dramatically in the last few years and will continue to rise under the National Energy Program. In the absence of changes in the fiscal regime, the increase in prices would generate additional profits for the industry and would result in an inappropriate sharing of revenue between the federal and provincial governments.

Under the oil regime, Canadians in all provinces, through the federal government, bore much of the burden of rising energy prices. But they received few of the benefits. In recent years the federal government has received about 10 per cent of petroleum production revenue. Provincial governments and the industry have each been receiving about 45 per cent of revenues. It is to redress this imbalance that I have proposed the petroleum and gas revenue tax and have made certain changes to the income tax depletion allowances for oil and gas. I do not believe this tax intrudes into areas which provinces can legitimately claim as solely their own. The rate of tax, 8 per cent, reflects the capacity of the oil and gas industry to pay and brings its contributions more closely in line with what other industries are required to pay. The new fiscal structure is also more fair to companies in different circumstances. The new 8 per cent tax is the same, regardless of whether the company pays income taxes. The replacement of depletion allowances by a grant system also contributes to fairness in the fiscal regime. The depletion allowances benefited taxable companies who were generally the larger foreign producers, while the new incentive grants will be available to both taxable and non-taxable companies and will be better targeted in favour of Canadian companies.

In general, under the new proposals the industry will be left with significant levels of cash flow even compared to the high levels for 1978 or 1979. Although the cash flow of the industry will be obviously reduced from what it would have been if the old fiscal regime had been allowed to continue, nevertheless the industry is left with adequate cash flow to finance the levels of exploration and development expenditures necessary to increase our energy supplies. For example, cash flow in 1981 is projected to be up 28 per cent over the 1979 levels.

• (1240)

These are the main elements of this important bill. Undoubtedly there will be discussion in the House but even more detailed discussion and consideration of the proposals in the committee. From what I have said it is obvious that this is an important bill. It brings into law necessary changes in the sales and excise tax system which address real deficiencies in that structure as it now stands.

The energy taxes are also important. They are warranted at the present time, and I believe they deserve the support of members of the House.

Hon. Marcel Lambert (Edmonton West): Mr. Speaker, although we have been exposed in three budgets to proposals with regard to changes in the excise tax, this is the first time we are talking about a bill in that respect—after three budgets. As a matter of fact, there are additional ways and means motions which find their way into this legislation, and I am talking about those which appear in *Votes and Proceedings* of December 17 dealing with petroleum and natural gas.

This is a very wide-ranging subject. We always used to think of sales tax as being that hidden manufacturers' tax. When I first came into this House it was 6 per cent. Then Walter Gordon, of unlimited memory proposed in 1963 that that sales