Income Tax

particularly not if the location of the subsidiary is an incentive to develop markets for Canadian products overseas.

Surely the debate on Bill S-32 should broaden to the point where we can get some explanation as to what extent the government has considered the trade implications of its whole tax approach, bearing in mind that there were rather dramatic changes made when the legislation was recently passed, and bearing in mind that certain provisions in these treaties begin, and can only begin, as of January 1 of this year. For example, I refer to FAPI.

I think we have before us a pace setting piece of legislation which we should debate thoroughly in the House at second reading. We should also intensively review the treaties and proposals in committee. I suggest that unless there can be a reasonable explanation for Part IV of the bill before us, that part should be amended substantially before it comes back for report stage in this House.

I am nervous about the possibility that we might be over zealous and that the negotiators will be running around the world entering into so-called treaties to avoid double taxation, and hitting countries with which, for some reason or other, they find it difficult to negotiate. Certainly they do not want to come up with a treaty which would be closely scrutinized in this House, and they end up deciding to have a token type of treaty, knowing that from then on all they need is an order in council to strengthen the agreement with subsequent amendments, and there is little possibility that this House will consider in a meaningful way what they will have done.

For example, in committee I noticed that Mr. Cohen suggested that the negotiators are now negotiating with certain communist nations to sign new treaties. I find this very interesting. I do not know exactly how you enter into a tax treaty between a communist nation—when you consider their ideology and their system—and a capitalistic or free enterprise system. I am not sure how you can put those apples and pears together, but presumably it is felt that there is some way to work out a tax agreement and protect Canadian interests at the same time. I believe Rumania is a country which is high on the list.

In short, we have an important bill before us today, Bill S-32. I hope that we, as members of parliament, will be vigilant before we pass the bill, and I believe that as this is a pace setting piece of legislation we must be careful that we do not unwittingly jeopardize Canadian business activity with regard to international trade, and second, that we do not allow—and I should like to hear more on this—any type of loophole to continue to exist whereby taxation which should rightfully fall to Canada does not do so. And certainly if it is to the extent of $1.6 billion per year which is being lost, as the Minister of National Revenue apparently indicated, I think it is time the government did something about it.

Some hon. Members: Hear, hear!

Mr. Dean Whiteway (Selkirk): Mr. Speaker, when we are considering Bill S-32 we would be remiss if some hon. members on this side did not point out the cost to the Canadian taxpayers of the reluctance of the government to take material steps to tighten up the tax laws by which it is possible for multinational corporations and their subsidiaries to divert income out of Canada, and therefore to lessen their tax liabilities, and therefore their taxes payable to the Government of Canada. As is well known by hon. members this is done by multinational corporations underpricing exports, overpricing imports, and charging artificially high expenses to their subsidiaries.

I want to read into the record an example taken from the files of the United States Internal Revenue Service which demonstrates how a multinational corporation can actually cheat governments out of tax dollars. Of course I will not use corporation names. I shall simply call the company involved company A. This is right out of tax files, and I suggest under the existing tax laws in Canada this could happen and likely does happen right here in Canada.

It reads as follows:

> ... manufacturing company (A) in the U.S. had a wholly-owned subsidiary in another country that extracted raw materials. The multinational had another wholly-owned subsidiary shipping company in a tax haven country that chartered ships from unrelated companies.
>
> Most of the shipping company's activity was in transporting raw materials from the mining subsidiary to the parent manufacturing company in the United States.
>
> But the shipping company also supplied shipping services in a small way to other companies which were not related to the parent. The key point is that it charged the unrelated companies the same shipping rate as its parent company.
>
> On the surface this appeared to be reasonable, but on closer examination U.S. Revenue Service officials decided the shipping company was charging its parent company much too high a rate.
>
> By inflating the shipping costs the parent company was increasing its expenses allowable against income and therefore decreasing its tax. It was also increasing profits of its wholly-owned subsidiary, the shipping company, in a tax haven country.

So it can happen, and it does happen. It happens to the degree that the Minister of National Revenue (Mr. Cullen) suggests that it is responsible for a loss of revenue to Canada of $1.6 billion. I disagree with the minister. Like others, I think it is closer to 10 per cent of the total revenues of the government of this country, which would put it at $2.7 billion. Like Mr. Smallwood, the former premier of that great province of Newfoundland, I like to reduce things down to their lowest common denominator so that people such as myself and the Minister of Indian Affairs and Northern Development (Mr. Buchanan) can understand them.

Mr. Buchanan: Hear, hear!

Mr. Whiteway: To understand what $2.7 billion can buy, one could use a Toyota Corolla, a 1200 model. I know ministers on the other side would not know what that is. That is a car which people other than cabinet ministers drive and have to buy. Let us take a Toyota, because we are in an affluent society, and put a radio in it of whatever colour we like.

Let us start in Victoria and put Toyotas together, bumper to bumper across British Columbia, Alberta, Saskatchewan, the keystone province of Manitoba, wind our way on the trans-Canada highway around the Great Lakes, through the Ottawa valley, down through Gaspe, the all Canadian route to the Maritimes, down through New Brunswick to the great town of Truro, Nova Scotia, to Halifax, take the trans-Canada to Cape Breton, put all the Toyotas we can possibly put on the ferry across to Newfoundland, all the way to St. John's, Newfoundland, and right up to the front door of Joey's oratory, and we would