A study prepared by my officials suggests that the resulting biases in the application of tax are of a serious order of magnitude. For most imports, the effective rate of tax is two or three points lower than on comparable goods produced domestically. This is a disparity of 20 per cent to 35 per cent in the burden of tax, a substantial proportion. For example, in the case of toys, the federal sales tax as a per cent of the sale price to retailers is 7.4 per cent for domestic goods as compared to 3.3 per cent for imported toys. Other examples include golf balls at 8.3 per cent for domestic products and 3.5 per cent for imports, and coffee makers at 8 per cent and 4.6 per cent respectively.

It has been suggested that although my budget proposals will resolve the inequities in respect of the application of tax to marginal manufacturing activities, some importers may choose to move their packaging offshore to minimize their added tax burden. Of course, Mr. Speaker, this would not necessarily be successful. First, the packaging value added abroad would be rolled into the value for duty, and thus would attract both duty and tax. Secondly, as the product would be more bulky, shipping costs could be expected to increase significantly. Nevertheless, I do recognize that in some instances, this will occur. It is for this reason that I emphasized in my budget the need for other major changes in the application of the tax.

This bill also proposes a number of important changes in sales tax exemptions, administrative provisions and taxes on alcohol and tobacco products. These will be dealt with in greater detail obviously as we come to them in our study of the bill in committee. One amendment, however, which has received a great deal of attention is the proposal relating to the taxation of printed advertising materials and the sales tax exemption for newspapers.

This bill addresses two issues relating to the sales tax exemptions for newspapers. First, it proposes amendments to ensure that the sales tax exemption is confined to newspapers and does not get extended to publications whose content is primarily advertising. Second, it extends the tax to apply to advertising materials such as catalogues and flyers which are not an integral part of a newspaper, but are inserted into newspapers primarily for distribution purposes.

I received a number of representations following the October budget from small weekly newspapers concerning the proposal that the exemption for newspapers be limited to publications which have no more than 70 per cent advertising content in 50 per cent of the issues in the previous three months. Some publishers expressed concern that while the advertising content of their publications was generally less than 70 per cent, occasionally they could exceed this limit for seasonal or other factors. In response to these concerns, and to provide some safety margin, I tabled a new motion on January 22, 1981, proposing that the 70 per cent limit be raised to 75 per cent. I believe that this new limit will provide a fair criterion for separating tax exempt newspapers from other forms of taxable printed matter and will address the specific concerns of the community newspapers.

Excise Tax

The second issue concerns the taxation of printed advertising materials. Prior to the October budget, all printed advertising material was taxable except those materials which were inserted in a newspaper for distribution purposes. Newspaper inserts were exempt from tax under a provision which exempted articles and materials used in the manufacture of a newspaper. This relief placed direct mail firms, the post office and door to door distribution firms at a competitive disadvantage in relation to newspapers. It was clearly inequitable because identical printed advertising materials were taxable when distributed by them but exempt when inserted in a newspaper. To correct this problem, amendments are being proposed to ensure that federal sales tax applies to all printed advertising materials, including those which are inserted in newspapers for distribution purposes. The new proposals will establish equitable tax treatment for alternate modes of distribution.

• (1230)

I wish to assure hon. members that the newspaper itself will not attract tax, nor will advertisements appearing on the regular pages of newspapers. The tax will apply only to advertising inserts.

The exemptions provided to newspapers and to certain other goods under the excise tax act constitute important tax concessions. Such concessions to one part of the community must be financed through higher taxes in other areas. The amendments proposed in this bill are designed to ensure that these tax preferences are properly targeted.

This bill also provides authority for two new energy-related taxes which I proposed in my budget. Part II of Bill C-57 imposes a special tax to be known as the natural gas and gas liquids tax while Part IV of the bill imposes the 8 per cent petroleum and gas revenue tax.

The gas tax will apply to all sales of Canadian natural gas and natural gas liquids, which are propane, butanes and ethane, regardless of whether the sales are to domestic or foreign buyers. The rate of tax is 28 cents per gigajoule on gas effective November 1, 1980, for domestic sales and February 1, 1981, for export sales. The tax rate will be increased in three stages to reach 70 cents per gigajoule on January 1, 1983. Equivalent rates of tax apply to gas liquids.

The petroleum and gas revenue tax will be imposed under a separate act. Under this tax, effective January 1, 1981, all oil and gas producers are subject to a tax of 8 per cent of their net operating revenue from the production of oil and gas. In order to ensure that the tax base is not eroded, no deductions are permitted for exploration and development expenditures, capital cost allowances, interest payments or royalty payments to governments. The tax applies to all persons who receive income from oil and gas production. In order to ensure equal treatment of taxpayers, whether or not they are liable for normal corporate income tax, the petroleum and gas revenue tax is non-deductible for income tax purposes.

These taxes are obviously an important part of the government's new energy program as announced in my budget. The program has three important objectives, namely, security of