

*Customs and Excise*

As a result of the Notice of Ways and Means Motions originally tabled in June of last year and subsequently re-tabled in December, Bill C-16 has been in effect on a provisional basis since June 30, 1983. Bill C-16 implements the customs and tariff aspects of the offshore policies announced by the Government in January, 1983.

More specifically, the Bill extends Canada's customs and excise legislation beyond the 12-mile territorial limit to the outer edge of the continental shelf, or to a distance of 200 miles from shore, whichever is farther. Second, it eliminates the tariff preference on Commonwealth-built ships engaged in coasting and the preferences on other vessels and floating structures from both Commonwealth and developing countries. Third, it reduces to 20 per cent the 25 per cent rate of duty on vessels and floating structures used for petroleum drilling. Fourth, it clarifies the dutiable status of other vessels and floating structures.

Most of the exploration offshore has taken place beyond the 12-mile territorial limit. Until the provisional implementation of Bill C-16, it was not subject to Canada's customs and excise laws. With the increase in the level of resource activity on the continental shelf, Canadian manufacturers expressed concern about serious problems that they were facing in attempting to supply goods because of predatory pricing by foreign competitors.

Under international law, Canada has sovereignty over resource activities on its shelf, so it was decided to extend to these activities the same customs and excise rules and procedures under which domestic and foreign companies have to operate within the 12-mile limit.

Bill C-16 means that foreign goods used beyond the 12-mile limit are now subject to regular customs duties and excise taxes. It also means that legislation providing for anti-dumping and countervailing duties can be applied where imports are causing injury to Canadian production. The extension of the customs and excise regime covers only goods used in resource activities and not goods used in other activities such as fishing.

The economic impact of extending the customs and excise regime was carefully studied before we decided to introduce this legislation. It was recognized that the application of duties would increase the cost of goods used in the offshore and would have an effect on the cost of exploration. The cost impact, however, will be lessened because of Petroleum Incentive Program grants and tax savings and should have a minimal impact on the level of exploration. Other factors such as petroleum prices, the supply and demand for offshore equipment, and interest rates will have more effect on rates of return and exploration activity.

The new measures will have a substantial beneficial effect on the ability of Canadian industry to compete in supplying goods to the offshore. It is estimated that the level of offshore activity will require capital expenditures of approximately \$10 billion over the next ten years. Without the extension of the customs and excise regime, Canadian shipbuilders and other manufacturers would be hard pressed to capture many of the contracts for these goods. With the customs jurisdiction exten-

sion, it is estimated that about \$3 billion worth of installations and vessels will be built in Canada without the need for government subsidies. This action should also have some import substitution effect with respect to other goods required in the offshore.

There will be little, if any, net effect on the revenues and expenditures of the Government. While there will be additional revenue from duties and taxes, this will be more than offset by the expenditures relating to increased PIP grants and corporate tax savings. Those expenditures in turn will be offset by the termination of the 9 per cent production subsidy under the shipbuilding industry assistance program. The elimination of that subsidy was one of the measures announced as part of the new shipbuilding policy in January of last year.

One aspect of the new coasting trade policy announced by the then Minister of Transport on January 6, 1983 is the elimination of the preferences on Commonwealth vessels engaged in Canada's coasting trade. With the abrogation of the British Commonwealth Merchant Agreement and the phasing-out of tariff preferences on British goods, it was considered that the unrestricted entry of British vessels into our coasting trade was both outdated and anomalous. Bill C-16, therefore, accordingly amends the Customs Tariff and the Canada Shipping Act to eliminate the tariff preference on Commonwealth vessels used in coasting.

## ● (1620)

Further, in view of the termination of the production subsidy under the shipbuilding industry assistance program, it was decided that if the tariff rate on vessels was to be effective, the preferences accorded under the general preferential tariff should also be withdrawn. As a result of these amendments, all vessels and floating structures, except those used in drilling for petroleum, are dutiable at a uniform rate of 25 per cent regardless of country of origin.

The coasting trade policy announcement also indicated that there would be a continuation of the practice of allowing temporary entries of foreign vessels when no suitable Canadian vessels are available. It is the current practice to collect duty on one-one hundred and twentieth of the value of these vessels for each month engaged in coasting. It is intended to continue this practice by Order in Council pursuant to a new provision in the Customs Tariff. The new Order in Council will also provide for full duty exemptions on vessels temporarily used to move goods between west and east coasts or between Canadian ports via a foreign port, and certain cruise vessels, again if no suitable Canadian vessels are available.

It has been suggested that the partial duty payments on vessels temporarily engaged in coasting provides Canadian shipbuilders with insufficient tariff protection and should be increased. We have studied these proposals carefully and concluded that the current level of duty payments is equitable and reasonable. Foreign vessels are permitted to engage in coasting activity only when no suitable Canadian vessels are available. In view of this, the only real effect of increasing duty payments on these vessels would be higher costs for the