

Energy

now much greater, as deductible under federal legislation. So, in effect, we had double taxation of a mining industry and the tax liability jumped up to 60, 70, 80 and in some cases over 100 per cent. That is why many mines with ore left to be mined had to go out of business over the last number of years. In the House I have been trying by questions and by speeches to get the provinces and the federal government to sit down and get rid of this problem. I know the minister is aware of it, and I think he is trying to get a consensus among the provinces; but the fact is that we have had this double taxation on the mines for over four years now.

● (2032)

Now, what is the proposal? The answer, if you are up against this high interest charge, is to have some form of fast payout, and the trick is very simple and old fashioned. You simply agree under contractual arrangement that there will be no dividends to the shareholders, no royalties to the provincial government, and no taxes either to provincial or federal governments, as long as all the revenue from that particular project—in this case the oil sands plant—is devoted to paying off that debt.

In the calculations that I did some three or four years ago the cost of the oil sands plant was \$2 billion. It is now 2½ billion. But using the figure of \$2 billion, hypothetically how long would it take to pay off a debt of \$2 billion? In an enterprise of this sort, backed up by the size of companies that will be in this type of operation, and backed up by governments who are interested in getting this development, one can safely assume an interest rate of 10 per cent. It can also be assumed that operating costs to produce a barrel of oil will not be much different from what they were three years ago. At that time the operating cost per barrel was about \$1.50. Even if you assume it is \$2 a barrel, if the oil brings in \$12 a barrel—and that is a very conservative figure—your net per barrel after operating costs is \$10. That is a net operating profit. Under the present system of financing it has to go through a long spread-out payout period, and that is how you get the cost up to \$11 or \$12 a barrel.

However, if that particular operation was broken down into a leverage factor of about one to three—say, \$500 million in equity and \$1,500 million in senior bonds—you would have a situation if you applied the old rule of a fast payout where you could pay off that debt in four years and four months. The timetable that I have here is reasonably close to the fact, assuming that the first three years the money is required for construction. That gives you a certain amount of debt that has been capitalized at the end of that three years. In the first year of the second stage of operation you have a big interest payment to make, and if you took the net at \$10 a barrel, which is very close at the present time, and multiplied by the number of barrels per day for the number of days in the year, your net income on this assumed plan of 125,000 barrels a day would give you a net income per year of \$456 million. If you applied the whole of that net \$456 million to a debt which has been rising, it could be paid off completely in four years and four months.

This means that at the end of that time, instead of having a cost of \$11 or \$12 a barrel, you would only have an operating cost of, say, \$2 a barrel. Replacement costs to build the new plants would be approximately 50 cents to a dollar, giving you \$8 left over per barrel to distribute among those who had done without the taxes and the dividends.

When this matter was discussed in the standing committee on energy, mines and resources I asked the then minister, Mr. Macdonald, what he thought if we assumed a system like this one—a fair division based on the constitutional ownership of these resources belonging to the provinces, the traditional share that would go to the federal government out of profits and the amount that should go to equity to pay for the risk. I do not hold Mr. Macdonald to his statement, but it was his estimate of a fair equitable portion that I have used in these next figures. He assumed that it was fair to give 50 per cent of the net to the owner of the resources—I am speaking of profits—20 per cent of the net to the federal government, and 30 per cent to those who had taken the risk in the form of equity. In the group who took the risks would be included the private investor, the institutional investor and the governments that wanted to invest.

Working that out you find that if this proportion were followed for the 22 to 25 years that are left in the life of the field after you have paid off all the debt in the eight years—three years of construction and four and one third years of operation—you would have a very nice profit for each of the partners. The provinces with their 50 per cent would get \$228 million out of each plant, the federal government's share would be \$91 million per year, and the equity holder's share would be \$137 million. As I said, the equity holders could be the federal government, the provincial governments, individuals and institutional investors.

If you put this down and relate it back to interest rates, and if you base it on the equity at the very beginning and compound it, it will give them roughly a 13 per cent return on their money. If you based it on the original amount they invested, it would come up to the normal amount needed in a risk enterprise of roughly 25 per cent. If the federal government was in the equity as well, they would get their share of 27 per cent return on equity investment plus their share of 20 per cent of the total. If you work this out based on a period of 30 years of life in one of these plants, you will recognize that everyone benefits.

Using this hypothetical example, the federal government would receive approximately \$90 million a year. The provincial government would be the lucky one with \$228 million, but they own the resources and they are being sold off. And, of course, the equity people would have enough return to balance the return that this type of money gets in other operations.

If one compares this proposal to the solution of the British government in handling the risk enterprise in the North Sea, one will see that it comes very close. In the North Sea, with little or no taxes in the first payout period and a high proportion to the government after the payout period, the government of the United Kingdom gets approximately 60 per cent of