

Mr. MacDonell: Yes, it might be, if you were not suffering substantially greater taxes anyway.

The Chairman: Yes.

Mr. MacDonell: On the question of depletion, I would suggest that the depletion incentive suggested does not really do the job. It should bring the overall level of taxation down to something less than other industries if in fact it is to be an incentive to invest in this very high risk industry.

The Chairman: I think that is logical. What you are saying is that, overall—which is the only way you can look at it—there is not any incentive if you are going to end up paying the same corporate tax rate.

Mr. MacDonnell: That is exactly it.

The Chairman: We have had a suggestion here that because there are some mining companies that cannot earn depletion—take, for instance, the iron ore development, they know where the iron ore is, and they know they have a hundred years' supply—it seems an idle sort of thing to go out and think in terms, certainly immediately, of spending money on exploration and development. Roughly speaking, they are in the position where they cannot earn depletion; but is that a reason for denying them depletion. The White Paper does not say that depletion is a bad thing, they just say that you get too much of it. So we must accept the principle of depletion.

Mr. Mulholland: Does it not depend on what it is you are trying to encourage?

The Chairman: That is right.

Mr. Mulholland: If you are trying to encourage mining and development, I would think it is quite a good point.

The Chairman: That is right. The suggestion we have had here, in order to take care of all the variables that you have in the mining industry. There is a variable in the iron ore industry, and I believe the tar sands operation is considered to be a mining operation. They are not in a position earn depletion, other than by exploration and development. That is not the problem. They know where the sands are and they know what they have to do to be productive.

The suggestion we have had is that you should divide the depletion allowance as between depletion to which

you are entitled in any event and earned depletion. And maybe the earned depletion would be put on a basis of \$1 for every \$2 you spent, with a limitation of one-third of your net production income, although some have suggested on the gross. But the 20 per cent that you would be entitled to in any event should be on the gross production income. Roughly speaking, by that division you would about reach the present 33 1/3 per cent depletion allowance if you went out and spent up to the hilt what you are permitted in earned depletion as well as the 20 per cent, but at least you would have the 20 per cent on the gross. Do you think there is some merit in that kind of approach?

Mr. MacDonell: Well, I have not considered that particular suggestion in detail, but it does seem to me that there are two things that are meritorious about it. The "as of right depletion" really recognizes the higher taxation in industry because it thereby allows the balance of earned depletion to really act as an incentive. I would have to make one comment upon that, and that is really the one which you referred to earlier, and that is that the base to which earned depletion applies should be very much broader because surely, as Mr. Mulholland pointed out, the incentive must be to develop more and more efficient ore. It would seem ridiculous if the incentives were to be for new mines only so that your base for new mines was higher and you could develop less economic new mines rather than increase production from an existing mine. It also seems to me that the depletion for the mining industry is really not the same thing as for the oil industry, except for the tar sands, because in the oil industry, you have certain proven acreage and to increase your production, you step out and drill wells where you know you will get production.

Now, until you get production, assuming that is a new facility, you have a much wider base for your depletion. I think a comparable situation to that is something like the iron ore company when it develops greater parts of its deposits and since that increases production, there does not seem to be any logical reason why they should not get those initial expenses in the iron ore industry as a base.

The Chairman: I liked the statement you made earlier. I think it should be logically the starting point for any consideration of incentives, whether mining or oil. That is, what is the effect of it? Can it be an incentive if you end up paying the same taxes as everybody else? Because I judge that the interpretation or connotation of incentive means that you are being given a concession because of the extraordinary risks that are attached, and the only way in which you