depreciated development investment, is 25 per cent or higher. Profits are defined for this purpose as revenues less operating expenses, capital allowance—that is, the write-off of capital investment in six years—federal royalties, federal income tax abatement and 25 per cent of total eligible investment. In other words, the PIR only comes into effect when the profit ratio is 25 per cent or higher. An accountant working in this field would calculate it by calculating 25 per cent of the depreciated investment and then imposing the progressive incremental royalty on the excess. The problem is that if you work out the calculation, you find that the likelihood of the progressive incremental royalty ever reaching 40 per cent as stated in the bill is almost nil.

Let me give an example. You need a profit ratio of 65 to get a PIR rate of 25. You need a tremendous profit ratio to get up to a PIR level of 40. I do not think that will happen.

I wish to refer to the petroleum monitoring agency. I have been listening very closely to what my friends on my right have said over the past four or five days as they ranted and raved. They in turn accused us of ranting and raving and shouting out opinions unsubstantiated. Therefore, I am being very careful in making my point. I see the hon. member for Bow River (Mr. Taylor) following with the closest of attention. He is a good boy scout, the top boy scout in Alberta. I see him following these figures like a boy scout.

I am not just shooting these figures from the hip. I am referring to the government's own monitoring survey of 1980 which shows that in the total petroleum industry in 1979, the net cash percentage rate of return on capital employed was 19.4 per cent. I have to explain what net cash is. Net cash is defined as cash flow, less depreciation, amortization and depletion; or, alternatively, after-tax income plus exploration and development investment expense and deferred income tax. That is a mouthful. The point to remember is that cash flow or the net cash percentage rate was just less than 20 per cent. That means a very much reduced progressive incremental royalty.

My point is that the progressive incremental royalty only kicks in at a 26 per cent rate of return. I do not think we are likely to see that kind of rate of return. Therefore, the progressive incremental royalty is ineffective. If that is the case, the basic royalty of 10 per cent is too low. It was put too low in the first place because money was to be made up later by the application of the progressive incremental royalty. That is why it was only 10 per cent and not higher in Alberta, Saskatchewan, British Columbia, Norway, Britain, Australia and other places. It is in fact low. My submission is that it is too low. That is why my motion states that it should go from 10 to 20 per cent.

No doubt after that explanation members on all sides of this House will rush to support my amendment.

An hon. Member: Hear, hear!

Mr. Waddell: At least one member will support it.

The bill also provides for a three-year royalty holiday. That may be amended; I notice there is a government motion to change that. It could even be extended. My friends in the Conservative Party have an amendment to extend it, and I think the minister has one as well. If those amendments are in and there is a three-year royalty holiday under the progressive incremental royalty, if oil is discovered prior to December 31, 1982, the company can choose the three years. It can choose when its profit is projected to be the highest.

A lot of my constituents, old people, working people, bus drivers, janitors, the ordinary working people of Canada which the hon. member for Spadina (Mr. Heap) so eloquently referred to the other day, would like a three-year tax holiday. We seem to reserve these three-year tax holidays for the biggest and the richest companies in the world. That is what we are doing right here. We give them again a three-year tax holiday and we are back into the same old system of sucking up to the oil companies in order, we hope, to find oil in an area. It is as if it were some great gamble. I would like to go to Las Vegas or Reno and gamble and have the government pay over 100 per cent of the money I put down. I do not call that a gamble. There is no gamble up there either, not with these kinds of tax royalties and subsidies we are giving these companies.

● (1630)

Under the old tax system the government's share of the profits was in excess of 65 per cent. If you look at the Minutes, Mr. Speaker, No. 24 and No. 24(a) of the resources committee, the energy committee of the House of Commons, at page 19, that is set out.

Under the new system the total government take, to my calculation, is normally only 45 to 50 per cent: this includes the royalty, the income tax, the new 12 per cent PGR tax and the PIR, the progressive incremental royalty. This is not as harsh a system as one would think. In fact, in many ways this is an easier tax system than the old system which speakers for the government party have said time and time again was an inadequate system, and that is why they were introducing a bill to change it. So, what have they done? With respect to the taxation part of the bill they have taken an inadequate system and made it even more inadequate.

One billion barrels—we have to speak of barrels now; we do not speak of gallons or litres in the oil business—from an Arctic oil field would pay 13 to 16 per cent of the net operating income in PIR and 12 per cent in PGRT. Under the old system of corridor taxation which the PIR replaces, the companies would pay 20 to 25 per cent. Where there are cost overruns the PIR is nil. Again it seems to me, if you were to look at it from that point of view, the taxation system is even more inadequate than the older system.

In testimony before the committee, Mr. Speaker, the highest example of a PIR take of wellhead income was 20 per cent, according to calculations provided by the Department of Energy, Mines and Resources officials on possible oil production scenarios. One has to remember, Mr. Speaker, that the