

Energy Monitoring Act

toothy agency that would do something with pricing rather than just monitor. The ad also said that money earned in Canada will be reinvested in Canada to find new sources of energy.

That ad was published February 2, 1980. It is interesting to note in the latest petroleum monitoring agency report that for the first six months of 1981, capital expenditures by the oil industry increased by 55 per cent, from \$429 million to \$663 million. In 1980 investment abroad increased by 63 per cent. So much for the promise that money earned in Canada would be reinvested in Canada. It is nothing new for the country or this House when the Liberal Party does not keep campaign promises. However, it is our duty to keep pointing out the list of broken campaign promises. I would like to reiterate our objections to the Petroleum Monitoring Agency, how it has been operating and how it highlights the profitability of the industry by emphasizing the net income after tax, which includes deferred tax which will never be paid.

The PMA is underestimating the true profit picture of the industry. A more accurate estimation of profit is profit after income tax only, as was done by Energy, Mines and Resources prior to establishing the Petroleum Monitoring Agency. It seems to me that the PMA underestimated the profit picture of the industry in 1980 by \$1.5 billion.

That is a serious matter because if we cannot get a toothy agency with a little power to roll back prices if need be, at least we can get a monitoring agency that will monitor properly. I say that the Petroleum Monitoring Agency is not monitoring properly. That is another aspect that has to be examined in committee.

My friends to my right talk about the difficulty the energy industry is going through in terms of profit picture and so on. I agree that small Canadian companies are having difficulty. We have to look back over the past three or four years at the profitability of the industry. We must do that properly. It is very instructive when you do that. For example, I learned from looking at those figures that one of the central problems the industry now has is this: the industry was making so much profit in 1980-81, and perhaps 1979-80, that it was unlike other industries in Canada. This can be seen if you read carefully the National Energy Program. A building block or basic premise of the National Energy Program was that the industry was doing so well that it could take all its cash flow and reinvest it. That is where its investment came from. Other industries such as manufacturing were not so lucky; they had to go to the bank to borrow and raise capital when they wanted to reinvest. They could not take it entirely from their cash flow.

What happened was that under the National Energy Program taxes were being put on the industry. That had to be because windfall profits were being made. The industry kept right on trying to invest from its cash flow. When it did not have the cash flow, it went to the bank.

The industry in the west is in the same position today as many small businessmen and ordinary people in Canada. They

have real problems borrowing money from the banks. They are in hock to the banks. Members might want to look at this pattern of investment in the oil industry in order to really understand what is going on.

The point I raised with respect to the Petroleum Monitoring Agency looking at the industry's accounting method is important. I wish to put on record a letter I wrote to the Minister of Energy, Mines and Resources (Mr. Lalonde) on September 10, 1981, regarding this problem. I wish to put it on record so that when this bill gets to committee Mr. Renouf, the chairman, or whoever appears for the agency, will have an opportunity to read it and comment. I quote from the letter:

Dear Mr. Lalonde:

I want to draw to your attention an underestimation of the true profit situation of the petroleum industry as described in the Petroleum Monitoring Agency's report for 1980. This is the first annual report by the new agency and it has chosen to change how it reports the industry's profits. In 1979 when the monitoring survey was conducted by the financial and fiscal analysis branch of your department, the profitability of the industry was stated in terms of cash flow and profits after current income tax. In the PMA report of 1980, profits are defined as net income after tax which includes deferred taxes. Consequently the PMA underestimates the profitability of the petroleum industry by \$1.5 billion had the same methodology been used as before.

The Canadian Petroleum Industry Monitoring Survey 1979, under the title "Highlights—Profitability and Sources of Finance" stated that profits after current income tax rose 53.8 per cent to \$4.7 billion in 1979 . . . Net income is not highlighted as it is in the 1980 PMA report.

The 1979 report states under the heading "Profitability" on page 17 that:

"This section endeavours to estimate rates of return for the petroleum industry. However, this is difficult because the resource industries in Canada enjoy certain tax advantages and follow accounting practices which are different from those in other industries. As a result of certain tax advantages, the petroleum industry has a higher proportion of deferred income taxes to total income taxes than other industries.

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Moreover, many petroleum companies expend some of their exploration and development investments. Both of these factors have the effect of depressing 'book' net profits, even though the cash associated with these items is available for investment and, to an extent, for distribution purposes. A more accurate picture of profitability requires that they be taken into account."

And again the 1979 report states on page 4 that

"due to the nature of petroleum operations and associated accounting methods used, it is customary and more meaningful, in analysing the industry's performance, to use internal cash flow rather than net income."

The 1980 PMA report portrays deferred taxes as a liability thereby reducing income after income tax. In reality these taxes are interest free loans which will never be collected. Hence a more accurate reflection of profits is the income after income tax has been deducted, but before deferred taxes have been deducted.

Therefore using the more realistic 1979 report's methodology instead of the PMA's, the 1980 assessment of the industry's profitability should have stated that profits (income after income tax) rose 30 per cent to over \$6.2 billion, not 31 per cent to over \$4.7 billion.

I would also like to object to the decision by the Chairman of the PMA, Mr. Harold Renouf, to delay the release of the 1980 report until after the federal government and Alberta energy negotiations had been completed. I consider this deliberate obstruction of the Government's and public's right to know the facts. The decision to withhold publication raises serious doubt about the independence and impartiality of this agency.

In view of the above I ask you to instruct Mr. Renouf to use the previous methodology of your department as in the 1979 report in stating the industry's true profits, and that he not again delay publication of his agency's reports.