Energy

● (2022)

One thing I should like to make very clear as a starting point is that the cost of producing oil in Canada has set the world price. We have the mistaken notion, as has been evidenced this afternoon, that the price is set in the world by OPEC nations. The OPEC nations base their economic philosophy and the price level at which they set their oil on two factors. The first factor is that they calculate the cost of producing oil from the oil sands in Canada as the major guide. They know the tremendous resources of this country's oil sands are greater than all their resources, and they know that if we cannot find a cheaper way of producing oil than the way we now use that should be assumed as the foundation of the oil price for the next fifty to one hundred years. The second factor they use, or are trying to use because they have not been successful as yet, is an indexing of oil prices based on the average cost on world markets of the goods they have to consume.

Let me emphasize the fact that when we debate this bill we should remember it is concerned primarily with getting Canadian oil costs up to world levels and the subsidization of the efforts of oil companies to produce oil from the oil sands. It is with that background that I make these remarks. I am very pleased to note that the minister is here tonight. Some two weeks ago I asked him whether he was aware of the proposal I made to Mr. Turner when he was in the House and was minister of finance in an effort to get across to the government the idea that the financing of these oil sands developments was of paramount importance. Tonight I am going to take advantage of the offer of the minister to accept a description of this proposal in some detail.

I have discussed this matter with the premiers of the provinces and with the heads of several of the large oil companies in the world, and I will send the proposal to him so that he may once again put it before his officials for their assessment. When he does I am certain he will find out, as did Mr. Turner, that it is a good idea; it is a good idea; it is sound, and one cannot shoot it down on the basis of economic impracticality.

The only answer the minister was able to give me several years ago when I put this proposal to him, at a time when we were first discussing oil sands financing, was that private companies did not use this method of financing. That remark by the minister was very true then, but that does not mean that we as a parliament should stand by and watch such poor financing being used in respect of a product so vital to the economic health of this and every other nation of the world.

I will start out on this explanation by using a simple analogy. It is based on the true fact that the biggest cost in any capital intensive entreprise is the interest cost. The cost of interest is hard to visualize when you look at cash flow based on discounted cash such as businesses use. However, put in terms of purchasing a home I think it is understandable to us all. These are round roughly worked out on a calculator, but they are accurate to within a decimal point. If a young person takes out a $50,000 mortgage on a home today for 30 years at a rate of interest of 12 per cent per annum, before the mortgage is paid off that home costs that young person, over the 30 year period, $202,000. This means that the total cost of the home, which takes the greater part of that young person's life to pay for, is over 75 per cent interest. We can all understand and visualize that, and the same situation applies to any capital intensive enterprise.

In the case of the oil sands the percentage is the same. Using the figures I used some years ago, which turned out to be very accurate, I calculate that under the present method of financing the Syncrude plant being built now in Alberta it will cost the company about $11 to produce one barrel of oil, and of that $11 over $8 is interest.

When you realize the immensity of the interest charged you can visualize the tremendous load on a company trying to finance such a development and refinery and get into production. When you realize the next step, Mr. Speaker, you will know it is also a load on the consumer in Canada. This represents a load on all people whether or not they use oil, because we are being asked to subsidize through the treasury in terms of this bill this very type of construction in the oil sands.

When I put this proposal forward now I want the House to understand it has been shown to every premier in this country and to the heads of nearly all the big oil companies interested in this type of development. It has also been mentioned and described before in this House. If it is as sound as I claim it to be, I hope it will be tried on for size by the various consortiums being developed or pulled together to develop our oil sands.

Fundamentally, this proposal is based on the principle of economics that when you are faced with high capital costs, in addition to which interest rates are high, the trick is to find some way to obtain a fast payout. This principle was accepted many years ago in Canada by this parliament in relation to the three year tax hold off in mining. If you go back over mining history in Canada, Mr. Speaker, you will note that as long as we had that three year tax free period for the company that invested its money in this very great risk enterprise—that is, a three year period in which they could pay off their capital before being subject to federal tax—the mining industry was healthy and growing. We took that three year period off some seven years ago and our mining industry in Canada is now just as unhealthy as it is in the United States, because the tax laws are competitive. Our tax laws now in respect of mines—and this could just as well be applied to oil and gas and other things—are ruinously heavy, with the result that we are not getting the mining development we should have at this time.

I know the fault lies with both provincial and federal governments. For years the federal government tried to get the provinces to tax their mining industries a little harder. All of a sudden, with rising mineral and metal prices in 1973, almost all the western provinces jumped in and increased their taxes three or four times. That is when the mining industry went into the slump in which it is still today.

The crime of the provinces being too greedy was compounded by the federal budget of 1974 under Mr. Turner. The government refused to accept provincial royalties and taxes,