

*Excise Tax*

**Mr. Rae:** I was not going to say nature, but I am happy to give that kind of a speech. I would rather deal with some purely factual questions in respect of the effect which this excise tax is going to have.

I come back to my three choices. As I understand it, the second course, the income tax route, which the government could have taken, was rejected. I would imagine it was rejected because in the government's view corporations could have found a way to reduce their tax burden through their own internal accounting procedures, rapid depreciation and so forth.

Since the first choice was ruled out for political reasons, let us deal with the choice between the other two; that is, between the income tax route and the royalty route, which the government has taken. The problem with the 8 per cent production route—a question about which we will want to examine Department of Finance and Department of Energy officials very closely—is that it affects all producers equally even though all producers are not equal, either in size, in origin or in terms of whether they are genuinely independent Canadian companies. But it is the differential impact of the 8 per cent increase which has caused the most concern. Obviously the other problem is that the 8 per cent royalty affects the petroleum industry in some provinces more than it does in others, and in that way it affects the resource revenue going to those provinces. Which route is best for the federal government? Is it to go the excise tax route, as it has gone, or what I call the royalty route, the 8 per cent tax at source, or is it to go the income tax route? Our preference would be for the government to go the income tax route and build into the income tax system the kinds of distinctions, variations and discrimination which the government wants to carry out. It cannot do this by virtue of the 8 per cent royalty tax because the effect will be the same right across the board with no exceptions. It will have a much harsher effect on smaller companies than it will on larger companies. This is ironic, Mr. Speaker, in view of the declared intention of the government to carry out a policy that will discourage foreign ownership.

In this connection, I would like to hear from the industry and from those people who are aware of what is going on in the industry to find out whether this is really the case. The evidence we have seen so far is that the smaller producers and smaller exploration companies, most of whom are Canadian, are much harder hit than those companies which have achieved a very high degree of vertical integration. I refer to the multinational companies who are in a better position, through their own internal power and by the fact that they carry out not only production but also refining, distribution, merchandising and retailing of oil and natural gas to diversify their own production and increase their power compared to the smaller producers.

This is a purely factual and important question. In my opinion, it should be removed from the purely partisan discussion which we have seen so far. The Minister of Energy, Mines and Resources (Mr. Lalonde) has said that more drilling is going on this year than last year. Members of both my party

and the Conservative Party, who know what drilling activity is in fact going on in Alberta, British Columbia and Saskatchewan, say that is not the case. They say there is extensive evidence that drillers are leaving the country at a great rate. I have not been in this House very long but it seems to me this is a factual question. It is a question which can be resolved by looking at what drilling activity was carried out last year and what companies' intentions were last year for the next year or two. We know that companies do not do things from month to month but plan for year to year, and we can look at what effect the petroleum and gas revenue tax has on the whole of the industry, whether it really is part and parcel of the Canadianization proposals of the government or whether it contradicts the Canadianization proposals. I think this is a genuine problem.

When the government introduced the 8 per cent tax, it did so, as I suggested at the beginning of my remarks, not to further the Canadianization of the industry, not to encourage self-sufficiency but to deal with a third problem, a genuine one, one which is recognized by all members of the House; that is, the federal government has to get a greater revenue share of a resource which is rapidly depleting. The current revenue-sharing arrangements are the source of what the Leader of the Opposition (Mr. Clark) quite correctly describes as a severe fiscal imbalance within confederation. I hope the minister will recognize, in attempting to carry that out, and avoiding the income tax route for the reasons I have described—I am not sure those reasons are prohibitive but they obviously weighed heavily on the government's mind—that it is possible, it will have the effect of not increasing Canadianization of the industry but decreasing it. That tax and its effect will fall more heavily on smaller companies simply engaged in the production of oil and gas. These companies do not do anything else. They do not refine, distribute or retail. This will have a lesser net impact on the cash flow of the larger multinationals. If the name of the game is cash flow, and we are told all the time by those in the industry that is the name of the game and the nature of the problem. Then that is a purely factual question which has to be answered.

The other source of concern, expressed by a number of producing provinces, is that this is a form of taxation which directly conflicts and cuts into their source of taxation. Some members who come from non-producing provinces say, "Well, they have lots of oil and gas anyway." But if you are living in Alberta, British Columbia or Saskatchewan and see the federal government unilaterally, if you will, occupy part of a field—not the whole field—which up to that time had been occupied by a provincial government, you will clearly know the dramatic effects this will have on that provincial government's future budgetary and financial management plans.

I do not know who is right in terms of figures, Mr. Speaker. I do not know whether the Department of Energy, Mines and Resources or the Department of Finance is right when they say the reduction in the provincial share will be two percentage points, or whether the spokesmen for the governments of Saskatchewan, Alberta and British Columbia are correct when