The minister went on to point out that corporations are taxed in ways that are open to abuse and that fail to recognize their differing relationships with shareholders. This appears to be necessary and I am willing to go along with that proposal. The minister also said that the mineral industries enjoy special tax benefits which have existed for many years but which are unnecessarily costly and inefficient. Assistance to mineral exploration and development must do its intended job in a more direct way that is less costly in terms of revenue. I suppose one way is to make it more efficient by reducing depletion allowances; I really do not know. But anyone who thinks that incentive allowances and depreciation allowances are peculiar to Canadian industry is wrong.

There is much concern that the accelerated allowance will not apply to used assets if those assets are recovered from unsuccessful or abandoned mines. If those assets are acquired in such a way that the taxpayer had not used their cost to earn depletion and executed an election, in proper form, to waive his right to use these costs to earn depletion, used equipment or assets should be subject to the allowance. Where is the reasoning here?

• (3:40 p.m.)

The petroleum industry in western Canada, indeed in Canada generally, is expanding its activities to new frontiers in the northern areas where it will require substantial funds to develop the industry, having regard to the competition from and experience of American industry in this area. As an example, the resource development in the Mackenzie delta will require our companies to compete for funds against companies which are developing the Prudhoe Bay area. It is essential that our companies can operate within a fair and reasonable tax structure, giving the industry desired tax benefits equal to those of foreign competitors. In order for our people to reap the benefits of this kind of development, our industry must be able to generate and attract vast amounts of capital for these ventures. Some people argue that the tax incentives are generous and that it is the duty of the government to keep our companies in a competitive position.

Offshore exploration is another area at which the government should be looking. This kind of development has interested the United States government for some time. I would not want to see this administration put obstacles in the way of our exploration companies in this regard. As I have mentioned, incentive schemes are not peculiar to Canada, as some seem to think. I have here an article which appeared in the Vancouver *Sun* on July 8, 1971, and I should like to put on record one or two of its paragraphs.

> Unfortunately, many of the incentive schemes have been unsuccessful and none has been as successful as those offered to mining.
>
> This is true in spite of the fact that the Canadian mining incentives are less generous than those offered in other countries with whom we compete for investment capital, notably Australia and the United States.
>
> It must be recognized that the mining industry in western and northern Canada faces problems that competitor countries do not face.
>
> Examples are the extreme climates, severe topographic conditions, vast unpopulated areas where mine development includes construction of townsites and transportation systems, no domestic markets and great distances from international markets, high labour costs, low-grade ores, dependence on world market prices that we are unable to influence, to name a few.
>
> The Canadian policy of granting incentives to many industries is unique. Incentives to mineral development, on the other hand, are universal throughout the world.

The key to a successful oil and gas operation is the productivity of its exploration program. Without exploration no new oil or gas would be found. Some of the greatest incentives for searching for oil and gas in Canada, however, are not created in Ottawa or the provinces but come from Washington, for Americans. To illustrate, under Canada's present tax laws no real incentive or encouragement is given to Canadians to participate in a risk-taking venture such as oil or gas exploration. Quite to the contrary, however, American tax laws favour the use of essentially private capital in such ventures. These laws provide a means by which well-to-do Americans can find relief from high taxes by means of drilling funds. A drilling fund is essentially a pool of risk-taking money collected from well-off professionals such as doctors, lawyers and others who may be paying 50 per cent of their top layer of income in tax. Millions of dollars are pouring into Canada from such U.S. drilling funds.

The key to the success of the American drilling funds is that the fund guarantees a 92 per cent tax write-off. On an initial investment of $10,000, $9,200 is deductible. Eight per cent is commission on the purchase of fund units and is non-deductible. The investor thus saves $4,600 in tax, making his net cost only $5,400. If oil or gas is found, the investor has an additional source of income from the newly discovered oil or gas well. If the investor now makes an annual income of $10,000 from this well, he has to declare this additional income, which is of course taxable. However, this time the investor is given a 22½ per cent depletion allowance, leaving a taxable income of only $7,750. If the same investor reinvests the $7,750 in the drilling fund he can again get a 92 per cent relief and claim $3,875 as a tax write-off, and so on.

There are two examples of the kind of investment that has barely touched its potential. The first is the Canadian-American Resources Fund, Inc.—Can-Am—an off-shoot of American Quasar Petroleum Company. Each investor in Can-Am buys his participation in $5,000 units as a partner in a venture, not as a shareholder. Can-Am makes drilling money available to Quasar Petroleum Limited of Calgary, the Canadian subsidiary of American Quasar. The profits from this joint venture are split 60 per cent to the fund's partners and 40 per cent to Quasar. For the individual fund partner, success means income and failure means success because of a lighter tax burden through write-offs.

The second is Husky Oil, a well-known company in western Canada. According to Gene Roark, president of the company, Husky was able to raise $32.5 million in the United States through its drilling fund at a time when the stock market was severely depressed. Much of this money will be spent in Canada on Husky's extensive nationwide exploration program. Implementation of Bill C-259 as presently proposed will continue to favour those elements in the tax structure which have led to the foreign domination of Canada's oil and gas industries.

At a time when public concern favours Canadian nationalism in this area, serious changes are warranted