To assist Canadian producers, increases in the MFN rates are being proposed for certain chemicals and industrial tires and tubes.

I have received a number of inquiries about implementation of the Tariff Boards's proposals for changes in the tariffs on fruits and vegetables. We have notified our trading partners that we intend to renegotiate certain GATT commitments which currently prevent us from increasing existing rates of duty on products covered by the Board's report. The government will try to conclude these negotiations as soon as possible and then introduce legislation to provide for a new schedule of rates for fresh and processed fruits and vegetables.

[*English*]

The Tax Structure

Our tax system is another instrument which can support innovation and change. I want to proceed immediately with major structural changes in three areas of industrial policy highlighted by First Ministers. They are research and development, transportation and energy.

Research and Development

We must continue to encourage Canada's research and development efforts. An adequate level of R&D is crucial to achieve gains in productivity and to strengthen Canada's position in an increasingly competitive world. At present, corporations are allowed to write off immediately 100 per cent of all R&D capital and operating expenditures. Last year these outlays also became eligible for the federal investment tax credit of from 5 to 10 per cent. In many cases they also qualify for direct assistance under significant federal grant programs.

● (2022)

I now propose that for 10 years starting tonight, taxpayers be allowed to deduct from their income a further 50 per cent of additional R&D expenditures. The deduction will apply to both current and capital expenditures to the extent that they exceed the average amount over the preceding three years. This means that there will now be a special incentive for companies to *expand* their R&D. I want to emphasize that this special allowance comes on top of the incentives already in place.

The new allowance will make Canada's tax treatment of research and development one of the most generous in the world. The after-tax cost to companies of one dollar's worth of additional expenditure will be reduced to as little as 20 cents. I hope this incentive will lead to significant improvements in R&D performance by the private sector. And I look to companies to ensure that the resulting new technology is used within Canada to create new jobs.

Railway Investments

Discussions at the First Ministers' conference underlined the importance of transportation for industrial and regional development in Canada. Railways continue to be a crucially important mode of transportation, particulary for long hauls and heavy commodities. Recently, the government has announced significant changes in the organization of the CNR to improve the efficiency of its operations. Measures were introduced in the last budget to encourage track and grading investments by railways. Looking to the medium term, major new investments are needed in this sector if efficiency and productivity gains are to be captured.

I am therefore proposing a significant increase in the capital cost allowance for railway investments. This will take the form of an additional depreciation allowance of 6 per cent per year for five years for most capital expenditures of a railway. It will apply to investments undertaken after tonight and before 1983. The measure will help improve the railway system in all regions of Canada and will be of benefit to suppliers of railway equipment.

Energy Development Incentives

We must also continue to place high priority on our national energy policy, and in particular the need to extend self-reliance for oil and gas. We are fortunate in our existing and potential resources, and many tax incentives and other measures have been put in place to encourage their development. But increasing attention is now focussed upon the heavy oil reserves and oil sands deposits of the western provinces which can be tapped only by advanced technology and multi-billion dollar investments. These are projects requiring long lead times for planning, organization, design and construction. It is important to get them moving now, and I have concluded that some modification and clarification of their tax treatment can be helpful in that regard.

First, I want to make clear that the up-grading plants to process the heavy oil produced from wells into a type of oil similar to conventional crude will be treated as a manufacturing facility, eligible for fast write-offs and the reduced tax rate.

Second, it will be important to extract as much oil as technologically possible from all deposits. It has already been established that enhanced recovery systems can greatly increase total production. After today, therefore, special machinery, equipment and other facilities acquired for enhanced recovery systems—specifically, so-called "tertiary" recovery—will be able to earn depletion at a rate of $1 for every $2 of expenditure as compared to the normal earning rate of $1 for $3.

Finally, earned depletion may be applied at present only to reduce taxable resource profits, and only up to a ceiling of 25 per cent. This provision will be significantly improved. Effective immediately, corporations may deduct depletion earned through certain qualifying investment in non-conventional oil projects up to the extent of 50 per cent of total income—both resource and other profits. The qualifying investment will include expenditures on tertiary recovery equipment and certain depreciable property acquired for use in a bituminous sands mining project.

I am confident that these measures, added to the ones already in place, will in future years help reduce our dependence on imported oil, especially in eastern Canada.