

Government Orders

This is from the administration of the United States. Mr. Samuels, who appeared before the committee, stated at page 42: "If you look at the treaties that are before the committee, with the exception of Canada, we think that it is probably about a zero, that it is probably a wash as far as benefits are concerned. With respect to Canada, when you look at the relative flows, there is a greater flow of income into the United States from Canada than there is going from the United States to Canada and we will benefit".

Then comes an interesting quote. This is from the assistant secretary for tax policy of the United States. He says that in one of these cuts it is only a one-way street because according to him and the U.S. treasury: "It will have a lesser effect on U.S. outgoing flows of interest to Canada because much of the flow is already exempt from U.S. tax under the portfolio interest provisions of the code".

• (1720)

What do we have here? We have an agreement that was negotiated in 1988 by the Mulroney administration. The Reform Party is absolutely correct. Agreements are signed between governments sometimes and they must be honoured. However, that is no reason to stand up in this Chamber and support them when you are taking money out of the pockets of ordinary Canadians who are being laid off by the government. We are cutting back programs and here we are giving what is in effect a tax break to the very rich in this country.

Much more could be said about this agreement. It is very complex but it all boils down to three enormous tax cuts. It boils down to giving a tax credit to somebody who has property worth over \$600,000 in the United States. Those poor people, my heart goes out to them. If you have property in the United States worth more than \$600,000 you are subjected to the estate tax. If you are under that you are not subjected to it. These political parties in the opposition, the Bloc that is supposed to be doing its job, are saying: "Atta boy, this is the best thing that ever happened".

We all respect the function of the House of Commons. In order for it to function properly that accountability must be there in the opposition parties. That is why I take such strong exception to the procedure and the content of the legislation.

This is the House of Commons. This is the house of commons. That is where that phrase comes from. This is not the house of millionaires or the house of multimillionaires. This is the House of Commons. In these difficult times we should not be increasing tax cuts, tax expenditures for wealthy people and big American corporations. If we keep doing this, Canadian corpo-

rations will not be able to compete. Where is the cut for the Canadian corporations here? Where is it? It is absent.

An hon. member: It is a reciprocal agreement.

Mr. Baker: He says that it is a reciprocal agreement. Reciprocal? This is a one-way agreement. Did he not listen to what I just read? Does he not know what the estate tax is compared with the capital gains in Canada? You cannot have a reciprocal agreement if it is not equal on both sides. You can have it, but why would you want to do it?

Mr. Ian McClelland (Edmonton Southwest, Ref.): Mr. Speaker, I want to ask the member opposite to expand on one aspect that is very important and of which Canadians should be much more aware. By and large Canada is a branch plant operation of the United States. The vast majority of the industries in Canada are branch plant operations of the United States. The real profit is derived by American corporations in transfer pricing where the American parent charges the American marketing arm a price and the Canadian marketing arm a substantially higher price. Therefore, there are very few profits relative to the amount of business activity generated in Canada, thus very limited corporate profit taxes paid in Canada.

Given the fact we know this to be the case, why are there just 12 auditors involved in this, as evidenced by his speaking notes? The member opposite thinks we should be doing something. We are stuck with this legislation as it is a treaty that we have already signed. It is going through. Should we not put more emphasis into that part of the audit?

Mr. Baker: Mr. Speaker, I was not actually speaking from notes, I was speaking from my head on those subjects. Let me tell the hon. member this. In the United States of America a term called formulary apportionment is used rather than the arm's length procedures of transfer pricing.

• (1725)

The present system is this. The Canadian government discovered in the auditing branch one case where a company was selling paper clips for \$200 to a Canadian subsidiary to bring down the Canadian subsidiary's profits and then from the Canadian subsidiary was buying tires back for 6 cents each that were made in Canada to bring down the Canadian profits.

The Canadian government looked at that and at all the different systems in effect throughout the world. In the United States there is a system called formulary apportionment promoted by the state of California. Most states in the United States have this. They did it with foreign multinationals but they even did it with domestic tax. They made a judgment on the portion of the company's operations in each state.