

The Budget—Mr. Trudeau

Mr. Trudeau: In this debate on throttling the petroleum industry, which we hear mainly from the Alberta members, let them remember these figures. Who has been taking the lion's share for the past 25 years, and who has been giving incentives by taking a very modest share, ten times less? The federal government has been developing these industries and giving incentives. The provinces were getting a pretty good revenue. Now, when prices have gone up, I think we should stay in the same position. Yet they say that any increase in our taxes is a sign that we want to drive the petroleum industry out of business. This is not the context in which the petroleum industry was developed, because the industry responded extremely well to the income tax incentives granted over this period. Canadian productive capacity was greatly expanded, so that by the middle of the 1960s it was becoming clear that a lesser degree of federal tax incentives was required to maintain a healthy and growing resource industry.

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It is important to recall that in designing the tax regime enacted in 1971 the government acted against the background of the long-standing provincial tax and royalty structure which was in effect at that time. The level of royalties in the petroleum industry was about one-sixth of the wellhead price. The rate of provincial mining taxes at that time did not exceed 15 per cent in any province. One of the objectives of the 1971 regime for taxation of the resource industries was that all Canadians should willingly bear the cost of the tax incentives and should not expect to lay claim to substantial revenues through the tax system in years of relatively low prices. In return, all Canadians could expect to benefit from a reasonable share of the profits of these industries in years of higher prices. At the same time, the people in the producing provinces would receive a reasonable share of the value of output each and every year. As I will show in a moment, were it not for the provisions of this budget the intent that all Canadians benefit during years of higher prices would have been frustrated.

During the period between the beginning of tax reform on January 1, 1972, and the end of the first quarter of 1974 the situation was as follows. The price of Canadian oil and gas was rising slowly. The federal government's share of oil and gas production profits was running at about 5 per cent to 5½ per cent. The provincial share, including royalties and provincial corporation taxes, averaged about 22 per cent.

Mr. Broadbent: Because you were not taxing.

Some hon. Members: Oh, oh!

Mr. Turner (Ottawa-Carleton): You can't have it both ways. Make up your mind.

Mr. Trudeau: So we are taxing now. Are you going to support us? Are you going to support our budget? We are taxing now.

Mr. Broadbent: Continue.

Some hon. Members: Hear, hear!

[Mr. Trudeau.]

Mr. Trudeau: We helped develop the petroleum industry in Saskatchewan, Mr. Speaker. The people of Canada helped through these tax incentives. Now that prices are higher, we think in all fairness the people of Canada should get back a little bit of what they paid.

Some hon. Members: Hear, hear!

Mr. Trudeau: In April, 1974, the price of Canadian oil rose to \$6.50 per barrel at the wellhead. Had the provinces left their royalty structure as it was in January, 1974, their revenues in 1974 would have been about 31 per cent of production profits. By virtue of the price increase, federal revenues would have risen to about 13 per cent. This increase in the federal share from 6 per cent to 13 per cent was in keeping with the expectation that all Canadians would begin to share in the profits resulting from the higher prices. I remind the House that this was the sharing of petroleum revenues that would have existed for the last three-quarters of 1974 under the tax and royalty structures in place last January. But during 1974 the provinces began to levy new and heavier royalties and other charges. Alberta introduced an incremental royalty which averaged 65 per cent of the increased price of oil.

Some hon. Members: Shame.

Mr. Trudeau: Saskatchewan introduced a royalty equivalent to 100 per cent of the increased price.

Some hon. Members: Shame.

Mr. Trudeau: British Columbia introduced new and heavy royalties on oil and announced that the British Columbia Petroleum Corporation would appropriate most of any increase in the price of gas. All of these additional levies on income of petroleum producers were in the form of charges of a kind that under the then existing federal tax regime would have the effect of reducing federal income tax revenues. As a direct consequence of these actions the federal share of production revenues would have fallen from 13 per cent to 6 per cent in the last nine months of 1974. In the same period, provincial revenues would have risen from 31 per cent to 42 per cent of production income. A very low level of federal tax would have persisted in the years ahead. For the balance of the decade, and notwithstanding any further increases in the prices of oil and gas, the federal share would not have increased significantly from this 6 per cent level; yet the provincial share would have continued to increase from 31 per cent to 42 per cent. This would have meant that the residents of the resource-rich provinces would have enjoyed very significant benefits, while Canadians in other parts of the country would have enjoyed very little benefit.

This low percentage was not the reasonable share that Canadians as a whole had a right to expect in this period of higher prices. What choice did we have, as a federal government with responsibility to the whole nation, to remedy the situation? We examined many possibilities, but it became abundantly clear that as long as any royalty or royalty-like charges and claims were allowed to reduce or eliminate the federal tax base there was no way to protect federal revenues.