

Fiscal Transfers to Provinces

At least 60 per cent of this company's exploratory budget will now be moved to the United States. In other words, they have doubled exploration in the United States. These people are responsible to shareholders, and they have nothing else to do but to try to protect their shareholders. The policies of the government opposite have shut down the market. When the energy policy of the government comes into effect on January 1, it could create more equalization money; but when a valve freezes, they will not send a man out at \$8 or \$12 per hour. They will leave the valve frozen. Why would they go out when they lose 31 cents per barrel? Nobody would go out. But the government imports oil from Mexico at approximately \$40 per barrel. One cannot understand this, unless one talks to the people who have spent a long, long time in the business.

I should like to talk about Home Oil and run over its operating costs. In Saskatchewan, from a well which pumps less than ten barrels a day, they get \$15.15. Their operating costs are \$4.80. Their net return is \$10.35, less the royalty of \$5.15, net provincial tax of 77 cents, federal tax of \$2.79 and a petroleum gas revenue tax of zero. They will get \$1.64. But let me deal with heavy oil and a well which produces more than ten barrels a day. After January 1 they will get \$16.15. Their operating costs will be \$4.80. Their net return will be \$11.35. Their royalty will be \$6.61; provincial tax, 87 cents; federal tax, \$3.06; the petroleum gas revenue tax, 91 cents. They will lose ten cents per barrel. There is no point in producing oil at losses of ten cents per barrel. This is in Saskatchewan. If a company loses ten cents per barrel on heavy oil, why would it continue? It will only continue to do maintenance. The net result of the 8 per cent petroleum gas revenue tax is that earnings will drop by 50 per cent in 1981 and by 75 per cent in 1984.

I should like to refer to Big Hart Oil which was started by a Canadian individual who worked in the oil patch, became an expert in it and went ahead on his own. Does the House know what has happened? He stopped. He will not spend any more money in Saskatchewan because he would lose six cents on the dollar. The Saskatchewan government takes 68 cents out of \$1 and the federal government takes 38 cents. If Big Hart quit today, it would end up owing \$5 million to the bank five years from now. They cannot quit; they say they cannot quit. He obtained a bank loan for \$15 million for 1980-81 to be paid back in September, 1985. If all his cash flow was applied to reduce the interest and loan expenses, Big Hart would still owe \$5,127,000 at the end of five years. His total income for 1980-81 will be \$64 million, but he would still owe \$5 million if he did not spend any money. What has the government's policy done? Big Hart is forced to stay in Canada with its wells, but it has gone into the United States and has purchased 55,000 acres in Texas. It has spent \$4 million, which would have been spent in Canada, in order to obtain the drilling rights on 55,000 acres. The company is gambling that the Texas production, if it is lucky, will pay off its investment in Canada. Is that not terrible—a Canadian company has to go to the United States and gamble that its oil production there will pay off its investment in our country?

Yet, hon. members opposite wonder why the people of western Canada say, "What you are doing is not fair, what you are doing is not right."

Mr. Whelan: Tell us how they share the oil in Texas.

Mr. McKnight: I hear the Hon. Minister of Agriculture talking about sharing. If he was not such a tired Minister of Agriculture and had more heart and spirit, he would stand up for the farmers of western Canada. He would stand up so that they are not crippled by the energy policy of the government, so that some day equalization payments would not have to be paid to the farmers of western Canada. That will happen if the energy policy of the government continues without some support for agriculture.

I should like to continue dealing with the same Canadian company which was started by an individual. In the last two years he spent \$20 million. He cancelled next year's program which means that he has cancelled 15 wells. Does the House know to what it has come? The government of Saskatchewan has a better understanding of the oil industry than the Liberal government here in Ottawa. At least the government of Saskatchewan understands that producers must negotiate and receive some return on their investment. They are willing to go an extra mile. They went in 1973 and 1974, the province of Alberta went an extra mile in those years. The federal government hopes the provinces will dig it out of the hole, so that these companies will be able to continue finding oil for the people of Canada.

Let me turn to Francana which indicated that after tax it made 12 cents per barrel. With the budget and its 8 per cent revenue tax, the federal government will take \$1.02 per barrel and Francana will lose 12 cents per barrel. It will lose 12 cents per barrel on producing wells. Before the budget and including reinvestment on new oil, it was netting 30 cents per barrel, assuming that it costs \$5.60 per barrel to find it. But after the budget, it will lose 90 cents per barrel on new oil. There is no way to equalize payments when a company goes 90 cents per barrel in the hole.

Turning to Buttes Resources, it has ten out of 40 wells which are marginal. They will shut them down. They will have to pay an 8 per cent wellhead tax and have indicated that they might as well shut the valve. They have two service rigs under contract, but if they do not use these wells, they will let one of the service rigs go. There goes employment! Buttes is another company which has indicated that the province of Saskatchewan is talking to them, assisting them and trying to give them a deal so that they can stay in production, because the heavy hand of the federal government has removed any incentive at all.

I am just at the end of my time, but I should like to talk about heavy oil. The budget papers indicated \$30 per barrel for heavy oil, but the hooker or the snag is that it must be sold in Canada. How can one sell heavy oil in Canada when there isn't a refining plant? Where is the refining plant for heavy oil in Canada? How does the government expect people to take oil