

*Energy Conservation*

in an even worse position than before the OPEC price boosts.

Alberta has wisely reacted with moves that effectively reduce its royalties, giving back to producers the provincial share of the federal levy of income tax on royalties while providing expanded incentives to encourage new exploration and development in that province. British Columbia and Saskatchewan have made minor concessions but continue to be far too greedy to attract additional risk capital, and indeed the latest initiative by the NDP government of my province of Saskatchewan, in relation to the potash industry, effectively forecloses any significant resource or industrial investment from the private sector for the foreseeable future.

Restricted production and the provincial and federal royalties and tax levies have reduced the tax flow of Canada's producers by hundreds of millions of dollars this year, thus restricting the availability of capital for exploration and development. With the investor climate so bleak, reinvested and new dollars are falling far short of our needs if Canada's energy security is to be achieved. The oil and gas industry badly needs an increase in its net take after royalties and taxes to fulfil its task of replacing and expanding known reserves. Existing policies indicate more than anything else that this government is more interested in wrangling with the provinces for bigger pieces of the resources' pie than it is in providing an atmosphere of economic stability and profitability for this very important industry.

Much has been written and said about the tax measures foisted upon the extractive industries in Canada, the petroleum industry in particular, and the failure to achieve a sensible and lasting policy may well do irreparable damage to this vital segment of the Canadian economy. As stated by the then federal minister of finance:

The over-all Canadian tax policy must have regard for the position of the resource industries in terms of international competition and in terms of the financial resources they require to bring forward the supplies needed in the years ahead.

I concede, Mr. Speaker, that the answers are not easy, but it does seem clear that both the petroleum and mining industries are being overtaxed. Within the short space of three years the resource corporations of Canada have moved from the lowest to the highest taxed segment of industry and appear to be the victims of the worst federal-provincial squabble over tax revenues in many years. The problem is a deep-seated one which will require a change in outlook on the part of all concerned and a determination to do what is best for Canada, rather than squabbling like little boys.

Apart from the question of royalty or tax rates imposed by the provinces, the problems of the extractive industries have been complicated by the decision of the federal government to disallow all such payments in computing income for federal income tax purposes. Such charges, in moderation, are a proper deduction for the extractive industries as they are, in effect, part of the cost of acquiring the raw resources. As such, they are no different than the cost of goods to a retailer or the cost of raw material to a manufacturer.

The only discernible difference is that the amounts are paid, not to individuals or corporations who would be

[Mr. Balfour.]

taxable upon the receipts but to provincial governments which are not taxable. This was not a problem in the past when royalty or tax rates were seen as a reasonable commercial charge for the extraction and consumption of non-renewable resources. It is a problem when the charge ceases to be a commercial levy and becomes an income tax, in effect, upon profits. While one can sympathize with Ottawa's predicament, it nevertheless seems that a complete disallowance of all payments and the like which find their way into the provincial treasuries is wrong in principle. It is wrong because a deduction would be allowed if the payment were made to private enterprise. It is wrong because the cost of supplies is a proper deduction from income. The fact that the resources are owned by the provinces does not justify a different treatment except to the extent that the provinces are playing games.

The provinces themselves are also wrong in the sense that they have attempted to collect an income tax from both the industry and the federal government in a disguised form and, in some cases, seem intent upon nationalizing the industry. However, one cannot help but wonder why, with the benefit of historical and extraterritorial data, a mechanism could not have been developed whereby provincial taxes and royalties, including such stratagems as payments in kind or sales at less than market value, would be allowed as a deductible expense for federal income tax purposes to the extent that they did not exceed certain limits. While some study would have to be undertaken, it does not seem unreasonable to suggest that a limit based upon the market value of production, or the profit therefrom, would not be too difficult to develop. After all, some resources are privately owned and commercial royalty or profit-sharing agreements do exist.

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Other countries have shared the same experiences or problems and it should not be too difficult to develop an acceptable formula with regard to past practice in Canada and what is sensible in terms of current conditions. Such an approach would have been a sensible compromise, would have allowed the provinces a reasonable return for the extraction of non-renewable resources, and would have allowed the industry sufficient room to get on with its job. It is to be hoped that the provinces will now re-examine their taxation and royalty policies with a view to ensuring that all our resource industries can remain economically viable and produce benefits for all. It may be a tall order, but failure to do so could be disastrous to the Canadian economy.

It is clear that the measures contained in the June budget were designed primarily to force the provinces to back down on their royalty demands and allow the federal government to appropriate a bigger share of revenues from resources income. But, Mr. Speaker, because the government is so anxious to stick its finger into the pie, the chef has cut back on pie production. Overtaxation, lack of ground rules for exploration north of the sixtieth parallel, and ad hocery in policy-making generally has created a milieu in which risk-takers will simply decline to undertake necessary risks. The western Canadian drilling industry will be hard pressed to reach even the level of work achieved in 1974. The number of wells completed during the first nine months of this year was almost 5 per cent