

tax provisions. As we shall need more oil for Canada's future use, incentives should be provided so that companies will spend money on enhanced recovery methods and recover oil more efficiently from those reserves already discovered. Additional money needs to be spent on reservoirs which have been discovered if extra oil is to be available for Canada's use.

Mr. Symes: Mr. Chairman, clause 37 is the fair market value clause, and it is immensely important to the provinces. I should like the minister to clarify the intent of this clause. I understand that the clause works this way: if an operator sells oil, gas or minerals to the Crown, his product will be deemed to have been sold at fair market value. For example, if the operator sells oil or gas to the Crown for \$1 per barrel and the Crown authorities resell the product for \$11 per barrel, the fair market value of that product will be deemed to be \$11 per barrel. This means the resource company will be taxed on that \$11, the price it is sold to the retailer, rather than the price at which it is sold to the Crown corporation.

● (1640)

The real object of this amendment is to prevent a Crown corporation, or an agency such as the province, from nationalizing any sector of the resource industry in that province or forcing the resource industry to sell to the Crown at a low price.

The effect of the amendment is to put a tax squeeze on the resource operator from whom the resources are bought by forcing him to declare, for tax purposes, the higher price at which the Crown resells the resource. In other words, if a provincial government, duly elected by the people of a province, wants to set up a marketing system and get a higher return for its own natural resources, it will tell an oil company that it may get the oil out of the ground, but the province will determine at what price the oil company sells the oil to the provincial marketing agency, and the government will decide at what price it will resell the oil to the public or for export markets.

By this clause the government is using the tax system in effect to double tax the resource company to the point of putting it out of business in order to thwart any attempt by a province to set up a marketing agency. If a company is selling the oil for \$1 a barrel to the marketing agency and the marketing agency is selling it for \$11 a barrel, the company will be taxed as though it received \$11 for its oil rather than only \$1. This is an infringement on the right of a province to decide what the economic rent will be for its natural resource. As I say, a government democratically elected within a province should have the right to decide at what price its natural resource will be sold.

I do not see any reason for the federal government assuming this method of punitive taxation as an attempt to prevent the Crown corporations or provinces from nationalizing their resource industry. I would like the minister to state whether I am correct in saying that the real object of this amendment is to prevent a Crown corporation from nationalizing any sector of its resource industry.

Mr. Turner (Ottawa-Carleton): No, Mr. Chairman.

Income Tax

Mr. Symes: I would like the minister to explain the rationale behind this, and why he thinks my interpretation is wrong.

Mr. Turner (Ottawa-Carleton): Mr. Chairman, the purpose of the clause is to ensure that not only a royalty is not deductible, but any disguised royalty. As I explained on several occasions to the House, the federal government was concerned that the royalty was no longer a flat payment against production or volume—against a gallon, a ton, an ounce—but was in effect a disguised tax escalating against profit or price. There are all sorts of mechanical vehicles by which a province can levy its economic rent or impose its tax. A royalty is one. The difference in price that a marketing agency pays a producer and on sales to the consumer is another.

The purpose of this clause is to attach a value against which an imputed royalty is set for purposes of non-deductibility in the case of marketing agencies and in the case of joint ventures between a province and private corporations. That is all it does. It in no way pre-supposes or presumes upon a province as to how it wants to impose that tax or royalty. It just ensures, by whatever method it does, that the market value is treated evenly across the board. That is the only purpose of this clause.

Mr. Symes: Mr. Chairman, I find two things wrong with the minister's reasoning. First the minister as a federal agency is setting himself up as judge and jury as to what is a flat rate, a fluctuating royalty or a tax rate. In other words, because the minister is not satisfied with the royalty the province is charging, he can redefine it as not being a royalty, but merely a form of tax. He is taking an arbitrary decision from the point of view of the Minister of Finance. This is an outright attack on one of the fundamental concepts of our constitution, namely, that resources belong to the province and the province has the legitimate right to get whatever economic rent seems justifiable. I object to the minister being the arbitrary judge of what he says is a flat royalty as opposed to a disguised kind of tax.

The minister objects to the provinces getting more income from this method of taxation. I remind the minister he has the power through federal income tax to raise federal revenues. For decades the federal government taxed the resource industry by means of income tax at a ridiculously low rate. If the federal minister now wants to make up that lack of taxation revenue or that lack of foresight, he has a method to do that. That is through the federal income tax legislation. That would be a fair way of doing it.

The whole point that we in the opposition have been objecting to is the federal government's arbitrary decision making with respect to taxation policy. The federal government is arbitrarily infringing upon an area of resource management which, by the terms of our constitution, should be left in the hands of the provinces. This is why we want these clauses of the bill to be delayed until the first ministers' conference in April. In a spirit of co-operation and fair play and upholding the principles of confederation, this whole matter could be discussed and some accommodation reached between the federal government