

Mr. Baldwin: You don't understand either of them. You had better read one of them.

Mr. Trudeau: I hear the Minister of State for Urban Affairs (Mr. Danson) saying that the hon. member should try the Koran.

Some hon. Members: Hear, hear!

Mr. Trudeau: The new equalization proposal should produce approximately the same result as the March understanding since it also involves the inclusion of one-third of the additional revenues from oil. Estimates have been made of the amount of equalization that would be paid under the new proposal for 1974-75—the ones in the budget of the Minister of Finance—and the results have been compared with the latest official calculation of equalization for that year, 1974-75; a calculation made in September on the basis of the March understanding. The results are virtually identical both in total and in distribution.

In fact—I will wait until the leader of the NDP pays attention, because I am sure he would want to know that this is the crux of the argument he has been throwing at me and the Premier of Saskatchewan—the province of Saskatchewan would be slightly better off under the new proposal than it would be on the basis of the March understanding.

Some hon. Members: Hear, hear!

Mr. Trudeau: Surely these facts cannot be taken by Premier Blakeney as evidence of a breach of the spirit of the March 27 understanding. Federal ministers and officials have all along been concerned about providing Saskatchewan with protection against a catastrophic fall in its equalization entitlement, even though the province is enjoying an increase in oil revenues which this year is likely to exceed \$200 million. In short, we have sought ways to protect Saskatchewan from the full effects of the equalization formula which, roughly speaking, provides that as a province gets richer it receives less help.

We never contemplated, however, that the province would experience no loss in its equalization entitlement, no matter how rich it became from new oil revenues. Indeed, to protect the province absolutely from any decline in equalization payments would have made a mockery of the equalization system. Finally, I should note that the benefits to Saskatchewan from the budget proposal concerning equalization will apply for three fiscal years, whereas the March understanding would apply for only 15 months.

I hope that these facts will help clear the air of the accusations we have been hearing inside and outside the House, as well as in the media, for the past few days, that in some way we broke an agreement because we acted in a certain way. The agreeing parties knew of it in advance; they were warned of the principles of our action, particularly as the so-called breach relates to matters which were not part of that agreement. I hope that will clear the air a little bit and at least deter the Leader of the Opposition from using such words as "treachery" and "bad faith."

I agree that in this debate there is some difficulty in understanding the compromise between the federal and

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provincial governments, not only the federal government and the provinces of Alberta and Saskatchewan. Hon. members are wise enough to realize that there were other provinces at that meeting and they wanted a lower price and an equalization formula that would be of more benefit to them than the one that was reached. So there was an honest disagreement. A compromise was reached and an agreement made. I think that should be the basis of any discussion. I repeat that if there are any policies that the Tory Party or, for that matter, the NDP want to put forward to show how a better agreement can be reached—because they and we will have to reach a decision in this parliament for the period following July 1—it would be interesting for them to begin now to lay down the groundwork for their principles on the basis of which they will give advice to the government, rather than waiting until a year later and talking of a breach of agreement.

Some hon. Members: Hear, hear!

Mr. Trudeau: I think that our policies, their policies and the views of the Canadian people would be more enlightened if we sketched briefly the history of the taxation of the resource industries in Canada and explained why we had to act as we did. For many years, and especially during the 2½ decades following the Second World War, the tax policies of the federal government were designed to foster and encourage the discovery and development of Canada's minerals, oil and gas. The federal government granted preferential tax treatment to these industries. The three most important of these incentives were automatic depletion, rapid write-off of exploration and development expenses, and the three-year tax holiday for new mines.

So generous were these incentives—I think some people even used the word "rip-off", but they are on the other side of the argument and say that we do not do enough to encourage the development of the mines—that in the petroleum industry only a handful of producers had paid any tax by the end of 1972 and the total amount of tax paid to the federal government over the entire period was less than \$400 million. During this same period, provinces levied royalties on oil and gas production and collected about \$4 billion in the form of royalties and other charges. This figure does not include provincial corporation tax revenues of about \$100 million. Over this same period, federal taxes collected from the mining industry were also very low. Federal taxes amounted to considerably less than 15 per cent of book profits before tax, while federal taxes on all other non-resource industries averaged more than 30 per cent, compared to 15 per cent in the mining industry.

In sum, over the long period of development from 1945 to 1972, provinces received almost ten times as much revenue from the petroleum industry, and about 1¼ times as much revenue from the mining industry, as did the federal government. At the same time, the federal government sought further to encourage resource development in the west by establishing the Borden line, guaranteeing an assured market for western production and at a price higher than world prices so that consumers in Canada were paying higher prices to help develop the petroleum industry of Alberta and Saskatchewan.

Some hon. Members: Hear, hear!