Excise Tax Act

The industry's market reduced expectations of natural gas sales, the outlook for world oil prices, and increased conservation by consumers have dampened the exploration rush. In Canada, the price for new oil has increased dramatically since 1979. The netback has doubled. Indeed, oil well completions are up substantially as a result of our policies, including an increase in our frontier lands and offshore, in the wake of more demanding work obligations and an attractive fiscal regime.

We have heard it said, Mr. Speaker, that the economics for the industry are better outside Canada. I shall let the industry's investment actions speak for themselves on this point. In 1982, a year in which the Canadian oil industry's capital expenditures rose slightly in Canada, its capital expenditures outside the country fell by one-third. In the case of Canadian controlled larger companies, the drop was even greater, a 59 per cent drop in their capital investment in the United States alone. If figures for 1983 confirm the evidence that this pattern has continued at a similar rate, the total level of investment by Canadian oil firms, both junior and senior, outside Canada will have fallen by 68 per cent between 1981 and 1983.

By contrast, despite the sag in natural gas markets, increased interest costs and disappointment over world oil price developments, the same companies reduced their capital expenditures in Canada by only 7.6 per cent. Forced to conserve cash, they cut back their outside investments nine times as much as they did their domestic expenditures. In short, Mr. Speaker, the industry's allocation of its dollars proves the attractiveness of the opportunities here at home.

Also relevant in considering taxes on the oil industry is its reinvestment behaviour. In 1981, the petroleum industry's reinvestment of production cash flow was well over 100 per cent. In the first half of 1983, the ratio had fallen to 82 per cent, with some groups in the industry—notably the foreign senior companies—reinvesting as little as one-half of their cash flow. This is not in fact a picture of an industry with too little cash, at least in the aggregate. Rather, it is a picture of an industry hesitant to invest for a variety of reasons, including uncertainty about world oil prices. We recognize this. For this reason we have, in concert with producing provinces, offered fiscal concessions designed to improve the investor's return and reduce the risk of major oil projects.

Those efforts are now beginning to pay off: Cold Lake, Wolf Lake, Syncrude, Norman Wells and so on. These projects and others will support our quest for energy security and economic development, under a fiscal régime which is designed not to provide industry-wide windfalls but, rather, to reward successful oil projects. Confronted by these facts, Mr. Speaker, and presumably concerned about the federal budget deficit, would anyone seriously suggest that the federal Government should greatly reduce its share of petroleum revenues?

• (1600)

Before leaving the subject of the fiscal regime for the petroleum industry, Mr. Speaker, let me make a few comments about the Petroleum Incentives Program, one of the many new energy programs funded with the help of the additional revenues gained in 1981. As Minister of State for Finance, I am naturally concerned about all Government expenditure, and major programs warrant special attention. However, I believe the critics have lost their perspective on this matter. The following points certainly appear relevant to me.

First, both the private sector and the national Government believe that there should be exploration in the frontier. No one would argue with the statement that such activity is both risky and expensive, but the pay-off could be enormous if there are more Hibernias and Venture fields yet to be found. Second, we believe that Canadian companies should play a major role in the frontier. This has not been the case in the past. Most of the prospective lands are under licence by foreign-owned firms. About the only way for Canadian companies to play a larger role in the frontier in this decade is in partnership with foreign firms. Third, in contrast with countries like the United States, which charge substantial sums for the right to explore frontier lands, we believe that special financial incentives are required to encourage exploration in the frontier. We believe, too, that we have to help accelerate this process of partnership between relatively small Canadian companies and foreign companies with greater financial resources. Fourth, we do not believe that drilling 65 wells in the frontier, which is less than 4 per cent of the national total of 1,900 exploration wells drilled in 1983, is excessive considering that the frontier may account for nearly 20 per cent of Canada's ultimate resources of conventional oil and about 60 per cent of our ultimate resources of natural gas. Fifth, while we recognize that the current incentive rates for Canadian companies are generous, they are not out of line with those which the former Conservative Government would have made available to the industry in 1979. The form of incentive is different. The Conservative Government would have continued with a tax-based incentive, of no immediate use to many Canadian companies, while we have a grant system directed preferentially toward Canadian companies.

Incentives in the form of grants are more visible, but the fact remains that the former Government's proposed incentives were very rich too. Our grants pay up to 80 per cent of approved expenditures. A fully taxable Canadian controlled company with a high Canadian ownership rate can have its net cost cut to seven cents on the dollar. An individual taxpayer can face even lower net costs. The Conservative Budget of 1979, on page 69, indicated a willingness to see individual taxpayers pay as little as two cents on the dollar. The point is, however, that only taxable firms or individuals would have received any real benefit from such an approach. In the oil business, taxable firms have generally meant the foreign companies. In the circumstances, Mr. Speaker, it is surely incumbent on those who say we should end discrimination in the Canada Lands to say what they mean. Do they mean a return to the old incentives scheme, biased against Canadian firms? Canadianization goals without supportive measures are simply unfeasible. John Stoik, President of Gulf Canada, has some pertinent observations on the impact of PIP on Canadian companies. Here is what he said on January 8: