

*Income Tax*

of discovering oil or gas, and had a dry well, the loss incurred could not be consolidated with his principal income.

That feature of our income tax law, more than any other single aspect, is responsible for the oil and gas industry in Canada being 99 per cent foreign owned today. Because that provision does not apply to non Canadians, to Americans in particular, American professionals, people with a discriminatory income, could in fact drill a well in Canada on pre-tax dollars, whereas a Canadian could not.

● (1620)

There are scores and scores of examples of geologists, or people knowledgeable in the oil industry, having developed what is called in the industry an "attractive play", looking for investors to join in putting up a drilling fund to drill for oil. When they approach a Canadian, the Canadian must invest after-tax dollars, while an American can invest pre-tax dollars. The net result is that on a competitive basis the Canadian has no chance. It is absolutely absurd that we have had this law on our books all these years, a law which says that Canadians are at a competitive disadvantage in making investments in Canada in comparison with Americans.

This should not be news to the minister. I am aware of at least six major representations brought to the Department of Finance, to the predecessors of this minister, in the last 20 or 30 years, showing what is happening in the oil and gas industry and showing the discriminatory aspects of the legislation and the damage being done to Canada in the long run. One such delegation indicated that the reply they received from the then deputy minister was "We do not care who owns the oil and gas industry so long as we can tax them". I wonder if that is not still the attitude of the government. If it is, then it is appalling.

I bring this up at this time because I think it is a particularly appropriate time for the minister to reconsider this matter. I am sure that he is aware that there has been a significant decrease in the exploration and development of the conventional oil industry in Canada, especially in the Great Plains area. Personnel and equipment are leaving, and the long-term projections should be of some concern if we are trying to achieve or maintain self-sufficiency in oil and gas in Canada. A stimulus is needed in that industry.

The minister has expressed great reluctance to back off on the question of nondeductibility of royalties which affects the cash flow position of the major companies, and therefore affects their ability to pursue active exploration and development. But in terms of the Canadian independents who have been doing the bulk of exploration and development in the Great Plains area in the past, the problem has been to find drilling funds. Their problem is finding investors who are willing to put money into this high risk venture to find oil and gas.

If that provision in the Income Tax Act were removed, if discrimination against Canadians were removed, if discrimination against western Canada in particular were removed, it would have a tremendous impact on the amount of exploration and development carried out in this country. It would increase the Canadian content in terms of future development, which is supposedly a desirable

[Mr. Andre.]

goal of this government, it would save jobs, the expertise and the equipment which are leaving the country at an alarming rate, and it would help the Canadian independents, that portion of the oil and gas industry which is still Canadian owned. Small though they may be, at least they deserve our compassion, and if given the proper climate in which to operate, and the opportunity to raise investments in Canada, they could go a long way toward providing future oil and gas that we in Canada will need. The removal of this provision would remove the discriminatory aspect of this legislation.

If people on the other side have wondered out loud or privately what the reason for western alienation may be, why westerners feel they are being discriminated against, they may find transportation to be one of the root causes, but this provision in this legislation is one of the main causes. I am referring to this feature in the Income Tax Act applying to the oil and gas industry.

The fact is that governments for some time now have not been really concerned about the discriminatory aspects of this act. They did not care that Americans could drill an oil well in Alberta cheaper than could Canadians. That did not matter to all the previous governments. In the interest of trying to improve Liberal fortunes in western Canada, to save the expense of repeated WEOP conferences, every time you think you need a better public relations boost, you might look at this little provision. If you try to work out the cost in the computers I think you will find that it will not cost the treasury that much money, and it will do a lot to get the industry revitalized and to attract increased Canadian participation to this vital industry. It is an important move that could be made at this time, and I heartily recommended it to the minister in the hope that he will give it serious consideration.

**Mr. Turner (Ottawa-Carleton):** Mr. Chairman, I will certainly do that. Of course this brings into sharp relief the conundrum in every aspect of the income tax legislation. One has to balance equity against incentive. The hon. member for Calgary Centre is talking in terms of incentive, of getting more Canadian money into the Canadian owned oil business. Against that is the equity side of the argument as to how much we should allow people in one business, with a good income from that business, to have deductible expenses against that principal business invested in other sorts of enterprises. That is an argument that one has to balance, and this is a good illustration of it. The hon. member is stressing the incentive.

Under the tax reform affecting this particular aspect of the act, equity won over incentive. In other words, it was decided that a man or a woman could only deduct from his or her income those expenses legitimately incurred for the purpose of earning his or her income in his or her principal business. So at the time of the tax reform affecting the real estate business, those who were not principally in that business were no longer able to deduct against other principal income expenditures incurred in building apartment houses and so on. It is really a policy decision.

Of the two current exceptions to it that the hon. member recited, one was reintroduced in this budget to allow those not in the principal business of real estate to invest in multi-unit tenant housing up to the end of 1975. It was introduced in the budget speech because of the housing