

[English]

AUDITOR GENERAL'S REPORT

SALE OF BANK OF BRITISH COLUMBIA—TAX-FREE PAYMENT TO HONGKONG BANK

Mr. Simon de Jong (Regina East): Mr. Speaker, thank you very much for the opportunity to be able to direct a question to the Minister of State for Finance, in the absence of the Minister of Finance.

Last night the Deputy Minister of Finance confirmed that the Finance Department arranged a series of meetings between the Hongkong Bank and Revenue Canada prior to a deal which the Auditor General says was structured to allow the bank to avoid \$100 million in taxes.

Why did the Government play such an active role in a foreign bank's attempt to avoid paying taxes? Surely the Minister must recognize that in these matters Revenue Canada and Finance must remain neutral.

Hon. Tom Hockin (Minister of State (Finance)): Mr. Speaker, I am glad the Hon. Member read his question because the convoluted reasoning, even from the reading, is beyond description.

First, the Hon. Member knows that any citizen of Canada can go to Revenue Canada for a conversation about taxes. There is nothing strange about that.

Second, the Department of Finance indicated last night through the Deputy Minister that Revenue Canada's telephone number was given to the bank and it pursued the advice it sought.

Third, and most important, what is incoherent about the premise of the Hon. Member's question is that he would have liked us to have structured the deal artificially in order to create taxes. Why in the world would the Government of Canada or CDIC pay someone who is not giving a guarantee for a guarantee? The payment went to the offshore owner who was giving the guarantee. The Canadian subsidiary was not giving the guarantee, therefore the funds were not forwarded to it.

Mr. de Jong: Mr. Speaker, the House must commend the Minister of State for Finance for his clarity in answering questions regarding the Hongkong Bank! I think he has had to clarify three different clarifications since he started to speak on this particular topic.

ROLE OF DEPARTMENT OF FINANCE

Mr. Simon de Jong (Regina East): Mr. Speaker, the point is that \$200 million was given to the head office of the Hongkong Bank in such a way that it did not have to pay tax, while the costs associated with the takeover will be tax deductible. Therefore we have \$200 million going in as non-taxable income, yet all the costs associated with it are now deductible for tax purposes.

Oral Questions

My question is basic and simple. It deals with the integrity of the Finance Department and the Government. Surely the Finance Department must not even appear to be involved in setting up a tax avoidance scheme. Surely it is like the cops running their own drug ring. The Finance Department is there to protect the integrity of the tax system—

Mr. Speaker: The Hon. Minister.

Hon. Tom Hockin (Minister of State (Finance)): Mr. Speaker, the integrity of the tax system was totally protected in this particular case. The Hon. Member knows that any Canadian citizen is allowed to have the advice which Revenue Canada gave. The subsidiary was not in a position, as the Hon. Member knows, to provide the guarantees we were seeking. It was to the party from whom we were asking for the guarantee that we sent the money.

What we must remember is that as a result of this deal we ended up saving CDIC \$400 million. If there had been a liquidation, the Hon. Member must remember, \$600 million would have disappeared, plus 1,500 jobs, plus all the branches, plus a regional banking institution.

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● (1500)

SHIPBUILDING

FRIGATE CONSTRUCTION PROGRAM—AWARDING OF CONTRACT

Mr. Bob Corbett (Fundy—Royal): Mr. Speaker, my question is really supplementary to the questions put by the Hon. Member for Thunder Bay—Nipigon and the Hon. Member for Montreal—Sainte—Marie, except mine is a voice for Atlantic Canadians.

My question is directed to the Deputy Prime Minister. It deals with what some of us have known for weeks and what is now public, namely, there seems to be some tinkering going on concerning the award of the contract for the second batch of frigates.

Will the Deputy Prime Minister assure Atlantic Canadians and every taxpayer of this country that millions of dollars will not be squandered on a political fancy and that the contract will be awarded on the basis of merit, value, performance, schedule, and industrial benefits? Everyone knows this is the Saint John Shipbuilding Company.

Some Hon. Members: Oh, ch!

Hon. Michel Côté (Minister of Supply and Services): Mr. Speaker, I want to thank the Hon. Member for his question. As I said earlier, there has been no decision at the present time. Several proposals are under evaluation. We take into consideration certain factors like the best price, best quality,