

Excise Tax Act

The annual tax credit for small producers of \$250,000 against PGRT liability is expected to provide \$900 million in relief over the 1982 to 1986 period.

In addition, Mr. Speaker, the PGRT reduction for enhanced oil recovery projects will mean that investors pay no PGRT until eligible capital investments have been recovered. The response has been encouraging. For example, BP Explorations Limited has announced that it will proceed with the Wolf Lake project and Esso Resources Limited has begun work at Cold Lake. Additional projects appear to be under consideration by other corporations. This measure is estimated to reduce PGRT liabilities of project sponsors by a total of \$45 million in the two years ending March 31, 1985.

Today, I wish to talk a little about the Government's energy program and progress toward its objectives. Naturally, since I am speaking to a tax Bill, I shall look in some detail at the fiscal dimension of the policy.

Let me first comment on the policy background and the nature of the taxation system for oil and gas as it was, and as it is now.

In 1980, after returning to government, this Party began to look closely at the way in which the revenues from oil and gas were shared among provincial and federal Governments and industry. This question had taken on much greater importance in view of the enormous increase in the world price for oil and the increasing agitation from many quarters, including some in the private sector, in favour of raising Canadian oil prices closer to world prices. We were determined to ensure that if we were to increase incentives for oil and gas production, at the expense of energy consuming industries in Canada, the rate of inflation and the rate of national economic expansion, these gains should be fairly shared.

By 1980, it had become apparent that the revenue sharing system in oil and gas was fundamentally unfair to the national Government. A few numbers illustrate the point.

In 1978, of total net petroleum revenues of \$8.4 billion, the federal Government received \$751 million. In 1979, total revenues rose to \$10.6 billion; the federal share was \$797 million. In 1980, total revenues reached \$13.2 billion. The federal share was \$795 million. Overall revenue from oil and gas had risen over the period by \$4.8 billion. The producing provinces and the petroleum industry received all of that increase. The federal Government actually lost ground between 1979 and 1980.

• (1550)

This was neither equitable, Mr. Speaker, nor did it reflect the fact that the federal Government had onerous responsibilities. I recognize that there were good energy policy arguments for letting the price rise even further. However, a higher price had to involve fairer revenue sharing. On the evidence, that was not and is not a partisan issue. Therefore, Mr. Speaker, we took decisive action designed to make the system more equitable for all concerned, the producers, producing provinces, consumers and the federal Government. In October 1980, and subsequently, through negotiations with the producing prov-

inces, we came up with a package which balanced higher wellhead prices for oil and gas producers with fair prices for consumers and a greater share for the national Government. As a result of the federal-provincial agreements, federal revenues from production, minus incentives, increased from \$795 million in 1980 to \$1.3 billion in 1981 and \$2 billion in 1982. We now estimate net federal revenues from production at \$2.5 billion in 1983.

It is our view, Mr. Speaker, that the new system represents a more equitable sharing of revenue. Resolving this issue was the key to resolving the oil and gas pricing issue in a balanced way. It enabled a less confrontational discussion between the two levels of government about the Canadian pricing response to changes in the world oil price.

Some have argued, Mr. Speaker, that other parties in the revenue-sharing game have been hard done by, and by implication that any hesitation or problem in the petroleum industry is due to new taxes. Not unnaturally, this has led to some demands for a reduction in the burden of federal tax. Some basic facts might be helpful here. First, the former Conservative Government advocated that the federal share should increase as prices rose. Consider the evidence. On Page 53 of the December 1979 Budget papers, it is stated:

It is the intention of the federal Government to impose a new energy tax that would capture roughly one-half of the returns accruing from annual price increases in excess of \$2 per barrel per year on oil and 30 cents per Mcf per year on gas.

According to our calculations, Mr. Speaker, such a tax would have taken some \$7.5 billion, less the incentives they might have put in place, from oil and gas production revenues over the period of 1980-83. You will recall that this view was taken even before the revolution in Iran caused world oil prices to double, indeed to more than double.

Second, Mr. Speaker, let us examine for a moment the facts on revenue sharing. While it is true that the federal share has increased, as it should, the regime has been eminently fair to the producers and to the producing provinces. Between 1979 and 1982, the federal Government's net take from upstream revenues has increased by about \$1.25 billion. During the same period, the producing provinces' take has risen by about \$1.65 billion. Industry's share has increased by \$2.87 billion. Thus, the federal Government received a smaller share of the 1979-82 increase in production revenues than either of the other two participants despite the major changes made to the system in 1980 and 1981. Industry now has approximately the same share as in 1979. However, the size of the pie is considerably greater by some 54 per cent.

Third, Mr. Speaker, those who support the view that the federal energy taxes are excessive tend to ignore some basic realities, both world-wide and here in Canada. It is claimed, for example, that the fall in the number of active drilling rigs in Canada is a result of the National Energy Program. But the number of active rigs in the United States has fallen also, by some 60 per cent at one point during 1983. That is greater than the drop here in Canada. The reasons are quite simple.