240 million barrels for this year. The second reason is that, for a variety of competitive reasons, the average subsidy paid on each barrel of imported oil remains higher than the charge on each barrel of exported oil, despite the changes in the compensation program announced by my colleague, the Minister of Energy, Mines and Resources (Mr . Macdonald), on June 26.

While the increase in the national oil price from $6.50 a barrel to $8 a barrel and recent changes in the import compensation program will help, the net cost of maintaining the subsidy on oil imported into eastern Canada will still remain substantial. Although it is always difficult to be precise about numbers, and about the movement of oil in and out of the country, particularly in the energy field, our best estimate is that the deficit will amount to between $400 million and $600 million this year.

It would, of course, be very much higher if world oil prices were increased significantly by the major petroleum exporting countries. Whatever the future developments may be, it is clear that as our exports continue to fall, and as they are deliberately phased out by government policy in order to protect our dwindling reserves, and as imports continue to rise, the federal treasury will be faced with a very heavy burden in maintaining the national policy of a single Canadian base price for petroleum.

In addition to the very substantial net cost of the import compensation program, it should be noted that the federal government is also faced with appreciably higher equalization payments to the provinces. For example, as a consequence of higher prices for oil and natural gas and of the changes in provincial resource taxes, and notwithstanding the changes to the Fiscal Arrangements Act proposed in Bill C-57, to which this House gave third reading yesterday, equalization payments to the provinces in this fiscal year will be some $200 million higher than they would otherwise be as a result of additional oil and gas revenues attributed to the equalization account.

One of the major questions the government had to consider, a question that understandably is very much an issue for debate in this House and in the country, is how this heavy financial burden should be met. The House will recall that the basic position of the budget was that we should maintain the stimulus injected by the budget measures of last November and the additional stimulus provided by what economists call the operation of the automatic stabilizers in our economy, which by reason of the continued thrust of that expansion, but adjusted by reason of lower tax revenues, higher unemployment insurance payments, and higher cost factors resulting from inflation itself, lead to a record cash deficit this year of $5.3 billion.

It is our judgment—I set this out fully on budget night—that it would be extremely unwise to add further to this cash requirement because of the pervasive impact that could have on inflationary forces, and because of the excessive strain that it could impose on Canadian capital markets by reason of the Minister of Finance having to go to the market for those amounts. It was because of this crucial constraint that the government decided to undertake a major re-ordering of its priorities.

As I indicated to the House on budget night, it is our intention to cut planned government expenditures in 1975-76 by some $1 billion, and these cuts were fully outlined and tabled in the House at that time. We are doing this so that we can redeploy our resources over the next two years into special measures to bolster housing construction, expand direct job-creation and job-training programs, and sustain the momentum of capital investment by Canadian industry.

Given our strong conviction that the rapidly growing cost of maintaining a single national oil price across Canada should not result in a further substantial increase in the already large cash deficit in prospect for this year, the government decided there was no other practical and realistic alternative but to seek additional offsetting revenues.

We decided as a matter of principle that it was just and reasonable that the users of petroleum for their own personal use across Canada should be called on to bear the financial burden of implementing the national policy of a single Canadian oil price that remains well below international levels. But we concluded that it was not in the national interest that this additional cost should be imposed on petroleum products used directly to fuel our farms, factories, and other enterprises at a time when our economy is already under pressure and its competitive position threatened by erosion because of escalating costs and prices. Nor was it in the national interest that the excise tax on gasoline be paid by hospitals, or by educational, welfare, and charitable organizations. We also considered that fuel oil for home heating should be exempted because of its essential nature.

The government decided, therefore, to confine the effective application of the excise tax to gasoline for personal consumption, which generally speaking is one of the less essential requirements for this scarce resource and is an area in which there is the greatest immediate scope for discretion in conserving its use. To effect this objective, the special excise tax on gasoline—which is imposed at the manufacturer or importer level—will be refunded to all exempt users. My colleague, the Minister of National Revenue (Mr. Basford), will shortly be making a statement concerning the actual refund mechanisms which will be used for this purpose.

● (1600)

As I indicated in my budget speech, the special excise tax on gasoline will add $350 million to our revenues in the current fiscal year, and some $525 million on a 12-month basis. It has been suggested in some quarters that this amount, coupled with the additional federal revenues resulting from higher oil and natural gas prices, will constitute an increase in revenues some two or three times greater than that necessary to finance the deficit arising from the import compensation program. This conclusion is absolutely incorrect.

As I have just indicated, the special excise tax on gasoline will yield some $525 million on a full year basis. In addition, the price increases for oil and natural gas will add some $250 million to federal corporate tax revenues. Together these factors will thus add some $775 million to federal revenues.

Against these resources must be set the $400 million to $600 million deficit of the oil subsidy program and the

[Mr. Turner (Ottawa-Carleton).]