

*Income Tax*

leaving Canada, and about the state of our oil and gas industries."

We cannot rely on the tar sands, as emphasized in today's announcement, to be an automatic ace, a trump card which will prevent us from becoming as vulnerable to Middle East pressures as European countries. We cannot count on tar sands oil preventing balance of payments problems which could rival those of other countries, such as Great Britain and Italy. It is time somebody started paying attention to these questions.

Ours is the only petroliferous country in the world, the only country in which there is a potential for oil and gas production but which has seen a net decrease in the last year in the level of exploration and development. What a testimonial for this government! We had such a tremendous opportunity to further regional economic development in this country and become self-sufficient in energy. And what happened? We frittered the opportunity away by bickering about who was going to get the biggest chunk of the pie. After all, says the government, it doesn't matter if there is no pie in the end, as long as the Minister of Finance and the Minister of Energy, Mines and Resources get the biggest chunk of any existing pie. They want to be king of the castle, but the castle is crumbling at their feet.

A number of good suggestions have been made in this debate. One of the most sensible is similar to one made with regard to the government's petroleum administration bill, and it is this, that aspects of Bill C-49 dealing with taxation of resources should be set aside. Let us pass other provisions of the budget many of which are excellent. There are many excellent features in the budget, on which my colleagues have elaborated. Hopefully in committee of the whole we will have the opportunity to convince the government that Bill C-49 can be further improved. But let us put aside the question of taxation and of royalties from natural resources until after the first ministers' meeting in April.

In an atmosphere in which everybody realizes, hopefully, that the question of our long-term security of supply is at stake, in which everybody realizes that we have a duty to keep our conventional oil industry viable, and in which everybody realizes that Canada needs a conventional oil industry because we cannot rely on the tar sands to supply all our future needs, maybe, just maybe, an agreement can be reached between producing provinces and the federal government which will result in a fair and just share going to the various levels of government and to the industry.

An agreement like that would put an end to confrontation and, hopefully, help to restore confidence on the part of the industry and of the people of western Canada, from whom one increasingly hears sentiments of western alienation.

The minister has not demonstrably appreciated another factor relating to the oil and gas industry. I am talking about the considerable drop-off in investment. Other countries, such as the United States, right now are in a much more serious position than we are. Consequently they are making it very attractive for investors to invest their dollars south of the border. In normal circumstances we would find it difficult to compete for this money.

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One of the consequences is that the traditional areas to which the oil and gas industry has looked for capital to finance exploration development are simply drying up. They are not available as they were before. The use of normal cash flow through return on business is being discouraged by punitive royalties and taxation schemes. Therefore where is the money going to come from to find the oil and gas we will need? One way would be the very simple removal from the Income Tax Act of the provision which is now there respecting oil and gas, namely, the principal business test.

It is an established principle in Canadian income tax law that you lump together your income if it comes from a variety of sources, such as from your profession and investment. It must be lumped together in terms of paying income tax. This means you are able to lump together your negative income, such as business losses, as well as your business income. This is provided universally, with two exceptions. There were three, but one is being removed in this budget.

The one exception is gentlemen farmers. If farming is not your principal source of income, you cannot deduct your losses from your professional income. The other aspect is the oil and gas business. If you drill a well and it turns out to be a dry hole, you cannot deduct the losses from your income. That provision has been in our tax law for as long as anyone can remember; as long as it has been important to Canada.

That provision, more than any other aspect of Canadian tax law or legislation, is the prime cause for Canada's oil industry being something like 99 per cent foreign owned at this time. An American citizen can deduct business losses from oil and gas exploration in Canada from his professional income. That means an American citizen can drill an oil well in Alberta with tax free dollars, and a Canadian citizen cannot.

There are scores of examples of what is termed in the industry as an attractive looking play. When looking for Canadian investors, who must invest after-tax dollars in competition with American investors who can invest pre-tax dollars, there was no contest. Therefore, scores of professionals from the United States, who had some discretionary income, drilled oil and gas wells in Canada. Many of them made a pile of money. They ended up owning our oil and gas industry because of the tax laws we have in this country.

Our tax laws discriminate against Canadians and that is absurd. At least half a dozen delegations from various groups in Alberta, such as the Independent Petroleum Association, government groups and private groups, have come to Ottawa in the last dozen years. They had well prepared documentation showing what that discriminatory aspect of our Income Tax Act is doing to Canada's oil and gas industry. They showed how this is forcing Canadians into maintaining a subservient position, and how it gives advantage to foreigners who invest in our country. It is an incredible situation.

Every time I think about this, I get angry. How could we put up with this stupidity for so long? I have a quotation here from a former deputy minister of finance. He said,