

Speaker, and would ask hon. members opposite to remember these words before making accusations of bad faith:

In underlining these facts, I do not want in any way to question your right to levy royalties, or to comment upon your royalty policy. However, I must make clear that any action that you may decide to take in respect of royalties would have to be without prejudice to our freedom of action as regards federal taxation.

**Some hon. Members:** Hear, hear!

**Mr. Trudeau:** Mr. Lougheed has suggested that this warning, clear as I thought it was, was not a sufficient indication to him that the federal government would go as far as to consider changes in the long-standing treatment of provincial royalties. I accept his statement without question and regret that any misunderstanding could have occurred. Yet I still think the warning was about as clear as we could make it.

**Some hon. Members:** Oh, oh!

**Mr. Trudeau:** I will read it again, because I think there is a bit of misunderstanding.

**Mr. Broadbent:** I have read it. I have a copy here.

**Mr. Trudeau:** I will read it again as you do not seem to have understood it. I stated:

... I must make clear that any action that you may decide to take ...

That was to Premier Lougheed, and I was writing the same thing to Premier Blakeney.

**Mr. Turner (Ottawa-Carleton):** The same letter.

**Mr. Trudeau:** It was the same letter, in which I stated:

... I must make clear that any action you may decide to take in respect of royalties would have to be without prejudice to our freedom of action as regards federal taxation.

I still think that warning was about as clear as we could make it, in view of the fact that the federal government at that point had made no decision as to the specific nature of any action we would take. We were reserving our right to act, in principle. We had not yet determined what instrument we would use, but there was no doubt in my mind, as I made clear to the premiers, that the federal government would have to act to protect its tax base. What was unresolved at the time was the question of which particular instrument we might use to achieve our goal. That decision was made after the meeting of first ministers, in the weeks immediately preceding the budget of May 6. The Minister of Finance in his budget speech explained why we adopted this particular instrument. It might be worth while to repeat the arguments very briefly.

Why did we choose this technique of total disallowance of royalties instead of some other device? It was for very good reasons. After a full examination of all the alternatives open to us, we found that total disallowance was the only instrument capable of re-establishing a fair share for the federal government of resource production profits. There was no other way. In fact, if we had maintained the deductibility of royalties but eliminated every other federal incentive to the resource industries, we would still have fallen far short of an equitable federal share. If we had eliminated the depletion allowances, the 100 per cent

*The Budget—Mr. Trudeau*

write-off for exploration costs, the 30 per cent write-off for developing costs, and the new abatements—if we had done all those things we would still not have come close to re-establishing a balance because of the magnitude of the return from the provinces under the royalty structure.

I invite hon. members to read that letter in full. The letter I quoted from, I repeat, was sent 15 days before the March agreement. I would then invite hon. members to compare it with the statement made in this House last Wednesday by the Leader of the Opposition when he said:

The Minister of Finance must have known, the Prime Minister must have known, that the provinces concerned would never have entered into that agreement on March 27 if they had entertained the slightest suspicion about what the Minister of Finance intended to do on May 6, and what he repeated again on Monday night.

Then followed these memorable words:

That is what I mean by treachery, sir. Those Pearl Harbour boys are at it again.

**Some hon. Members:** Shame.

**Mr. Trudeau:** If there was any treachery, it was not on our part; it was on the part of whichever friend of the opposition leader misinformed him to such an extent that he was persuaded to climb out on the limb which has now been cut off.

**Some hon. Members:** Hear, hear!

**Mr. Trudeau:** There has also been the suggestion that once we made the decision announced on May 6 we should have assumed that the March 27 agreement was void and should have recalled the first ministers. That presupposes, of course, that the agreement covered the question of taxes and royalties, which, as I have noted already, was simply not the case. Does the hon. gentleman opposite really believe, for example, that we would have agreed to the 100 per cent royalty rate adopted by Saskatchewan, leaving no federal share through corporate taxes of the excess revenues involved in moving the price from about \$4 to about \$6.50? Does he agree with the views expressed by Premier Blakeney in an interview published in the press yesterday where he is quoted as having said that as a matter of principle the provinces should get everything, over and above a fair return for the corporations? I reject that principle, implying as it does that the people of Canada as a whole have no right to any share of the higher revenue resulting from the increased market value of natural resources.

● (1630)

I challenge the Leader of the Opposition to say whether he accepts the principle enunciated by the Premier of Saskatchewan. I am particularly interested to know what the members of the New Democratic Party in this House think of that new doctrine. What do they think of the new doctrine? What does Premier Schreyer think of it? Please let me know. Of course the question of royalties was vital to provincial interests, as were many other factors which had to be considered by all governments before agreement was reached on the \$6.50 price, a compromise on all sides made in the knowledge that the price would be reviewed again before too long and hopefully a new bargain struck—one in which the export tax, for example, will