Petro-Canada

Canada, and my impression is that in the minds of some members it has become so sacred that it can be compared to the golden calf in the Bible. They just about worship Petro-Canada. I feel that any time we are so taken up with anything, we are in tremendous danger.

I am sorry the hon. member from Saskatchewan has left the chamber, because time and time again I hear members of the NDP talk about the potash industry which has been nationalized in Saskatchewan and what a great thing that is. If anything scares me, it is that Petro-Can can become like the potash industry in Saskatchewan. It scares the daylights out of me, because when the government of Saskatchewan took over the potash industry—every year I use great amounts of potash—what we found was that the price of potash doubled. If it means that when a government takes something over, the result is that the price doubles, then that scares me.

There is no control when the government takes anything over, there is no one who has the right to question government. Has anyone ever had the right to question the government of Saskatchewan with regard to potash? When I think about Petro-Canada staying in the hands of government, the way it was started, I am appalled.

Let me put something on the record. In August of 1976 Petro-Canada purchased Atlantic Richfield for the sum of $340 million. I am not so much concerned with the sum as with the principle. Then they also bought Bay Petroleum Limited. The purchase of Pacific Petroleum in November of 1978 was accomplished differently. Rather than use government cash, it used government credit. Petro-Canada issued redeemable, non-voting preferred shares at the bank to raise the required $1.4 billion for the takeover. The Petro-Canada Act prevents Petro-Canada from issuing preferred shares, so it was done through a subsidiary. If any private business in this country ever attempted to act in this manner, the opposition parties would raise a big outcry at what was going on. But when the government does it, nobody has the right to cry out except the opposition, and that does not change. I am sure that when our government was in opposition they cried out against such a principle which is contrary to every business principle. This is what I am afraid of.

They talk about PetroCan being a window for the industry. If that is so, then let us compare it with business. Tell me what business would ask a person with whom they were involved to be their window? Would the government be unbiased in such a situation? In every other area there are rules and regulations to control this, but all of a sudden we are talking about an industry that the government owns, and all business principles fall aside.

I imagine that PetroCan could change—and that is another possibility that I see—with the whims of government. I say that the Conservative party is as much in danger here as are the opposition parties. It does not matter what party is in government. My reason for saying this is based on the experience I have had with government since 1968. I realize that perhaps this government is not to be compared with any other

[Mr. Froese.]

government, but in principle it operates in the same way. So long as civil servants control an industry for which they are not responsible, it suffers. If a person is not directly responsible for the spending he does, he is not as interested. That is why it is so tremendously important that we allow Canadians, who will be directly responsible, to own shares in PetroCan. I find that most exciting.

Also, I know that PetroCan, the energy industry in Canada, is a most lucrative business and will be so for years to come. I cannot imagine why the opposition would want to stop Canadians from having an opportunity to become shareholders in the most lucrative business in the country. It is most exciting to own and be part of this country, and I can imagine the enthusiasm with which the Canadian public will want to buy shares in the greatest industry in this country.

Some hon. Members: Hear, hear!

Mr. Deputy Speaker: The hour provided for the consideration of private members' business has now expired. I do now leave the chair until eight o'clock at which time, may I remind hon. members, the House will consider the ways and means motion of the Minister of Finance (Mr. Crosbie).

At six o'clock the House took recess.

● (2000)

AFTER RECESS

The House resumed at 8 p.m.

GOVERNMENT ORDERS

[*English*]

THE BUDGET

FINANCIAL STATEMENT OF THE MINISTER OF FINANCE

Hon. John C. Crosbie (Minister of Finance) moved:

That this House approves in general the budgetary policy of the government.

He said: Mr. Speaker, as I begin my first budget speech I wish to express my thanks to the Prime Minister (Mr. Clark) for entrusting me with this heavy responsibility, and to express my thanks to my colleagues and to the officials in my own department and in the other departments involved for their assistance to me in this budget. I also wish to take the opportunity to express my appreciation to the members of the government caucus for their support.

An hon. Member: Up to now.

Mr. Crosbie: Do not worry, gentlemen.

As well, I wish to express my appreciation to the electors of St. John's West who have given me their confidence in four provincial elections since 1966 and who elected me on October 18, 1976, and on May 22, 1979, to represent them in this national institution. My three years in this House have been active and rewarding. I have come to know the country and members on all sides of this House in a way that convinces me beyond all doubt that Canada has immense possibilities. What do we need to realize them? All we need is the initiative, the willingness to work hard, the spirit of enterprise and the risk-taking and vision of our forefathers, whether English or French, or of other nationalities who came to settle in our part of the new frontier of North America.

[*Translation*]

My dear friends, a new era is opening before us. We will meet an extraordinary challenge. We will achieve the potential of the most beautiful country in the world.

[*English*]

Some hon. Members: Hear, hear!

Mr. Crosbie: This is an "achieve our potential" budget. This is a realistic budget that faces the facts and sets out our view of how Canada can realize its potential. Laurier said that the 20th century belonged to Canada. That prophecy may not yet be realized. But if our fiscal and energy policies are adopted, the 1990s will indeed belong to Canada.

This budget is a "first" in several respects. It is the first which it is my privilege to present to this House; the first of the new government; the first federal budget ever presented by a Newfoundlander; and the first Progressive Conservative budget in 17 years. Perhaps most important, it is the first budget of a new era in the economic and financial affairs of this country—an era of new realism and an economic climate to provide improved opportunities and incentives for Canadians.

Since last May, I have met with finance ministers from many countries. I have discussed our economic and fiscal problems with my provincial colleagues. I have listened to the views of business and labour leaders throughout Canada. I have sought advice from economists in universities, research institutes and business corporations.

All these contacts and the independent advice offered at the Tokyo Summit by the IMF, the OECD and the Economic Council of Canada—

Some hon. Members: Oh, oh!

Mr. Crosbie: Hon. gentlemen do not know what those initials represent. All these contacts have strengthened my conviction that four overriding considerations should guide this budget.

● (2010)

The first is that the Canadian economy has great potential and offers brighter prospects than almost any other country in the world. Second, our economic performance, which has been disappointing during the 1970s, can be improved substantially by improving the framework of economic incentives for private individuals and firms. Third, to be successful our policies must face realistically the problems posed by energy costs and shortages and the huge and swelling budget deficit which we inherited from our Liberal predecessors. And finally, our policies must focus more than in the past ten years on the medium and longer-term potential and opportunities of the country and less upon fine-tuning in the short run and the political subterfuges of the moment.

The need for a new approach is apparent from our experience during the 1970s. In broad terms, the performance of the economy has been about half as good on average as during the 1960s. Our rates of price inflation and unemployment have been roughly twice as high and our rate of productivity growth has fallen by half. Over the past five years, productivity growth, the essential source for increases in the living standards of Canadians, has approximated zero.

This deteriorating performance reflects a number of factors, some beyond our control. These include international developments such as the huge increase in energy prices and the unhappy combination of slower economic growth and general price inflation found in most countries, including the United States. In addition, domestic developments such as changes in the composition and location of the population and changes in labour force participation have been outside the control of government.

In addition to these unavoidable influences, however, part of the reason for our disappointing economic performance during the past decade has been the failure of governments, particularly the federal government, to face up to economic reality and to make the most of the country's opportunities. In my view, one of the main reasons Canadians elected a new government last spring was to set a new and realistic course for this country. This I and my colleagues are determined to do even if it means risking some unpopularity, hopefully short-term. We are committed to the proposition that in the longer run good economics is good sense and thus good politics.

CHALLENGES FACING THE NEW GOVERNMENT

What are some of the challenges we face as a government charting a new course? There has been little or no productivity growth during the past five years. This year prices have been rising at almost 10 per cent. This is the seventh year in a row in which prices have been rising in the range of 7½ to 11 per cent. Unemployment is about 7½ per cent, below the rate in 1977 and 1978, but still high, especially in certain regions of the country, such as my own native isle, Newfoundland.

In addition, two yawning "gaps" large or Liberal gaps, have emerged in the economy, the Government of Canada deficit and the deficit in the current account of the balance of international payments. At present, federal government expenditures exceed revenues by 25 per cent and the size of the deficit exceeds the total size of the budget in our centennial year of 1967. Our current account deficit is equal to over 2 per cent of the Gross National Product, that is, over 2 per cent of the total value of all the goods and services produced by our country. This is the highest deficit ratio among the major industrialized countries. As a country and as a government we must face the fact that we have to pay our bills and cannot continue by borrowing ever more at the expense of our future.

Because of these deficits our interest rates have increased excessively, private borrowers have been crowded out of the domestic market for funds and our Canadian dollar has depreciated. Our ability to undertake new initiatives to promote the development of the country would be all but eliminated if we were not acting to reduce these deficits.

Our recent experience proves again that simply printing money and increasing government expenditures and the deficit does not help. Such actions only make our difficulties worse. A disciplined and realistic fiscal and monetary framework is essential. It is evident that a system of incentives in both the private and public spheres is critical. Individual choice in response to positive incentives is much more effective than attempts by governments to persuade, dictate and direct. A major priority in this and our subsequent budgets will be to create a system of incentives that will encourage Canadians to work, to save, to invest, to take risks in Canada, to become more efficient in production and to conserve energy and other scarce resources.

THE MAIN FEATURES OF THIS BUDGET

Tonight, I fulfil our election promise by providing detailed projections of our revenues, expenditures and deficits out to 1983-84. Hon. gentlemen opposite are shocked. They are not used to hearing the truth. I am also releasing a paper which sets out and describes the economic assumptions on which the fiscal projections are based.

[*Translation*]

Mr. Speaker, tonight I achieved what I most dearly wanted to accomplish. As promised, I reduced the budget deficit and the financial needs of the government dramatically. I am confident that this courageous action on the part of our government will give our economy, at long last, a new lease on life.

[*English*]

Some hon. Members: Hear, hear!

Mr. Crosbie: They are going to be crossing the floor before I finish, Mr. Speaker.

Some hon. Members: Oh, oh!

Mr. Crosbie: I will now set out the main elements of this budget.

The fundamental objective of our fiscal plan is to bring about a steady reduction in our deficits. Our cash requirements will be cut in half from almost $10 billion this year to less than $5 billion by 1983-84.

To achieve this objective, a tight ceiling is placed on our expenditures. We will limit growth to 10 per cent a year. This means little growth in expenditures after allowing for inflation.

[Mr. Crosbie.]

I now refer to a series of major new measures in the energy field to achieve our goal of self-sufficiency in oil by the 1990s.

Let me make the situation as clear as I can. The revenue and expenditure figures relating to 1980-81 and the following fiscal years are based on the assumption that we will conclude an agreement with the oil and gas producing provinces on our new energy policy and on oil and gas pricing. The agreement involves oil and natural gas price increases over the years 1980-84 so that prices rise at a measured pace toward 85 per cent—only 85 per cent—not the old 100 per cent of the previous regime—of the lesser of U.S. levels at Chicago or the international price.

The Government of Canada intends, in connection with any increase in oil and natural gas prices, to ensure that excess profits are not made by the industry as a result of accelerating prices but that the industry has an adequate rate of return and retains the necessary revenues for continuing exploration and development of new energy sources. We intend to ensure, through our new energy tax, that the Government of Canada obtains roughly half of the returns from oil and gas price increases that exceed $2.00 per barrel and 30 cents per thousand cubic feet per year. On this basis the Government of Canada will have sufficient revenues from the increases in oil and gas prices to carry into effect energy programs, conservation programs and offset programs to assist the regions and people of Canada.

• (2020)

The exact form of our energy tax has not yet been fully worked out—

An hon. Member: Why?

Mr. Chrétien: After seven months? Why are you having a budget?

Mr. Crosbie: It has not yet been fully worked out. Because this is a process of consultation, not of running roughshod over the provinces as did the last government.

But it will be a tax sufficient to give the Government of Canada the revenues we have indicated we need from oil and gas price increases to carry out the programs we consider necessary. I have every confidence that the agreements now being reached will go forward and that a new energy tax will be in place before July, 1980.

Because of the absolute necessity of further encouraging our people to use fewer oil products, to conserve oil products now having to be imported in ever larger quantities and at ever greater prices as our own domestic supplies dwindle, and in order to raise badly needed revenues for the Government of Canada in a manner that also serves another vital national purpose, an excise tax of 25 cents a gallon is imposed on gasoline, diesel and other transportation fuels effective tonight.

An hon. Member: Deals all over the place.

Some hon. Members: Oh, oh!

Mr. Crosbie: After the crocodile tears are over, I will carry on.

This tax will not apply to heating oil in the home or elsewhere.

Some hon. Members: Hear, hear!

Mr. Crosbie: The tax will apply to all users of transportation fuels and will replace the current tax of seven cents a gallon on gasoline which applied only to non-commercial users. Thus the increase is 18 cents a gallon for those using gasoline for personal use only. Farming, commercial fishing and urban public transit systems will be entitled to a rebate of ten cents per gallon and so will be taxed effectively at 15 cents.

All federal proceeds from the new energy tax and a substantial part of the proceeds from the excise tax will be returned to the economy in the form of direct measures to assist in developing alternate energy sources, conservation methods and to assist regions and people in Canada in absorbing these higher costs.

The former government stated that it was never its intention to maintain indefinitely the present regime of cheap energy in Canada while the rest of the world was adjusting to the new realities. They said then that there was no practical alternative to continuing a phased adjustment to higher energy prices. They stated that this was essential to provide for future supplies and to conserve this scarce resource. The problem that they left us is that they did not have the courage to carry out their own policy. We have to act now so that Canada can be self-sufficient in all energy sources, including oil, by the 1990s and to protect Canada from chaos whenever international oil supplies are interrupted. Unlike the previous government we will not declare a policy and then fail to act.

I am announcing tonight an income-tested, refundable, energy tax credit of \$80 per adult and \$30 per child per year, phased in over two years, for the benefit of lower and middle-income Canadians. The cost of this measure when in full effect will be \$1 billion each year.

If the opposition parties permit our mortgage interest and property tax credit legislation to be passed into law, reductions in federal personal income taxes will be \$1.2 billion in 1980, rising to \$2.9 billion in 1982. Federal income taxes will also be reduced in 1980 by \$1.4 billion through indexing.

Investment in common stocks of businesses in Canada will be encouraged by a new investment plan, the Canadian Common Stock Investment Plan, and by changes in the Registered Retirement Savings Plan rules.

To assist small unincorporated businesses, and to recognize the contribution many wives make to running them, salaries paid to wives or husbands by such businesses will be deductible. This will be another step along the continuing road towards equal status for Canadian women.

Tax measures will be introduced to reduce the borrowing costs of small business corporations during the present high-interest situation by means of a small business development bond.

New tax incentives will encourage regional development and promote investment in Atlantic fishing vessels built in Canada.

Farmers will receive substantial relief from problems caused by the taxation of capital gains on farm land.

Income tax changes of importance to family law reform will be introduced.

A surcharge of 5 per cent on corporate income taxes will be imposed for a period of two years as a contribution from the business sector to our overwhelming need to reduce the deficit.

The super depletion allowance for frontier drilling will be extended at a reduced rate to the end of 1980 and then replaced. The write-off for Canadian oil and gas property, including land bonus payments, will be reduced from 30 per cent to 10 per cent.

Taxes on alcoholic beverages, tobacco and some other products will be increased.

Measures will be taken to eliminate certain abuses in the tax system.

Unemployment insurance contribution rates will be increased while the employment tax credit will be enriched.

THE ECONOMY

Before turning to our specific objectives for reducing the deficit and a fuller discussion of the budget measures let me review our current economic situation and the general economic environment we face over the next several years.

Output and employment in the Canadian economy were stronger in the third quarter than had been generally expected. Gross national expenditure in real terms is likely to increase by something like 3 per cent in 1979. Over the past four quarters, business investment in particular has been growing strongly, showing an increase in real terms of 12 per cent.

Job creation has also been impressive. About 440,000 more people were employed in October, 1979, than in October, 1978. More than 135,000 of the new jobs were in the manufacturing sector.

But the news has not all been good. Of particular concern was the deterioration in our balance of payments on current account. During the first three quarters of 1979, imports of goods and services exceeded exports at an average annual rate of \$6.1 billion, compared to \$5.3 billion in all of 1978. Export growth slowed because of the slowdown in the U.S. economy while import growth accelerated, reflecting the high level of expenditures in Canada for machinery and equipment, most of which is imported.

Consumer prices continue to show year-over-year increases in excess of 9 per cent, despite some slowing of the rate of increase in food prices. At the same time, energy and other non-food prices increased at above average rates.

Our prospects for 1980 are clouded by the recession which now appears to be under way in the United States. Although their output may actually fall, we estimate Canada's will rise about 1 per cent. This means that fewer jobs will be created in

Canada in 1980 than in this year, and that our unemployment rate is likely to increase to about 8¼ per cent.

The rise in energy prices will put upward pressure on the Consumer Price Index. This will tend to be reflected in continuing upward pressure on wages. There is already cause for concern in the rising trend now showing up in wage settlements.

● (2030)

We must look beyond 1980 even though forecasting is hazardous. Our policies are geared to improving the longer-run outlook for the Canadian economy and they are based on a realistic assessment of potential economic performance.

With recovery in the United States we believe that a growth rate of 3½ to 4 per cent in Canada for 1981-85 is attainable. This will mean some reduction in unemployment. But changes in the composition of the labour force, together with the influence of unemployment insurance and other social programs, have made unemployment rates in the 4 or 5 per cent range a thing of the past.

Our major challenge is to bring down the rate of inflation. This government fully endorses the Bank of Canada's policy of gradually reducing money supply growth. The government's over-all fiscal plan, and the tax measures I am presenting tonight, indicate our determination to reduce our deficit. Fiscal policy will now share in the task of reducing inflation and so provide a better balanced restraint than is the case when monetary policy is left to attempt the job alone. More funds for investment will be available for the private sector, hopefully at lower interest rates.

If confidence in our determination to reduce inflation can be fully established then the public's expectations may adjust downward. Future price and wage increases may then be lower than could normally be expected given the recent history of price inflation, the rather high levels of capacity utilization which prevail in many sectors and the impact of increases in energy prices.

The other main challenge is to improve our balance of payments position. Most projections suggest that the current account deficit will continue to widen, mainly because of the growing burden of interest payments, although it does not increase as a percentage of GNP. To do better than this we must export more and import less. We need more investment and we need more skills in order to increase our share in both foreign and domestic markets.

A major contribution to improving our balance of payments can come from energy through our new oil pricing and conservation policy which will lessen our imports of oil. As hon. members know, my colleague, the Minister of Energy, Mines and Resources (Mr. Hnatyshyn) has announced approval of the additional exports of natural gas recommended by the National Energy Board. The Board's findings are good news indeed. The intensive exploration and development effort in the Western Basin has paid off. We now have greater security of supply for our expanding domestic gas market and can increase exports. The effect on the balance of payments will be substantial. At today's export price, the 3.8 trillion cubic foot surplus would be worth about $15.5 billion, and this figure will be a good deal higher as export prices rise.

[Mr. Crosbie.]

Let me return now to a more detailed discussion of our plans for deficit reduction.

REDUCING THE GOVERNMENT'S DEFICIT

We plan to cut the government's financial requirements from about $10 billion this year to $4.8 billion in 1983-84. There will be a reduction of $1¾ billion next year to bring the 1980-81 level to $8.2 billion, and further reductions each year thereafter. Relative to the size of the growing economy the reduction in financial requirements will be even more dramatic, falling from 3.9 per cent of GNP this year to 1.1 per cent by 1983-84. By that year we will have accomplished a substantial, if not complete, repair of the damage of the fiscal position incurred over the last five years when financial requirements were allowed to rise from $2 billion, or 1.4 per cent of GNP in 1974-75, to this year's $10 billion.

The most fundamental element in our plan to lower the deficit is severe restraint over government expenditures. We are planning to hold total expenditure growth to 10 per cent in each of the next four years. In real terms there will be no growth at all. To achieve a lower deficit next year we have had to reinforce this expenditure strategy with the tax increases introduced tonight. Continuation of this degree of expenditure restraint under conditions of more normal economic growth will bring substantial further reductions in the deficit without further tax increases.

The decrease in financial requirements of about $5 billion over the next four years results both from an increase in the government's non-budgetary sources of funds and from a reduction in the budgetary deficit. The budgetary deficit will decline each year, from $11.2 billion, or 4.4 per cent of GNP this year, to $9.1 billion, or 2.1 per cent of GNP in 1983-84.

That is an amazing decrease, Mr. Speaker, when one takes into account inflation and other expenditures. With the current level of the budgetary deficit the government's net debt is increasing at an annual rate of 20 per cent. Imagine, Mr. Speaker, 20 per cent. This, of course, implies a rising ratio of debt to government revenue and to GNP, and is a major contributor to rapid growth in interest costs which would sooner or later have to be met by higher taxes. It is not a sustainable position. This progressive reduction in deficits will bring the growth rate of net debt below 10 per cent by 1983-84. Government debt will then no longer be increasing relative to the size of the economy and public debt charges will no longer be pre-empting a larger and larger share of government expenditures.

The deficit on the national accounts basis declines very much in line with financial requirements. It is projected to fall from $10.2 billion in 1978-79 to $4.4 billion in 1983-84. On this accounting basis the consolidated position of all governments in Canada, federal, provincial and local, taken together, is expected to be in balance by 1983.

At this point I wish to make an announcement with respect to Canada's gold holdings. The great rise in the price of gold in the last three years, at a time when the other components of our official international reserves have been declining, has led to a substantial shift in the composition of our reserves portfolio. At the current market price the 22 million ounces of gold held by the Exchange Fund now constitute almost 75 per cent of our reserves. This is a far higher proportion than we have held in the past. It is also higher than the proportion now held by other industrial countries, with the exception of the United States which holds only small amounts of foreign currencies. From the standpoint of the efficient management of our reserve assets, I think it would be more appropriate if this proportion were reduced somewhat. This would provide a more balanced portfolio and allow us to invest more funds in interest-earning assets. Accordingly, I plan to sell up to one million ounces of gold in the relatively near future if the market for gold continues to be firm. Part of this may be purchased by the Mint in connection with its "Maple Leaf" coin program. The balance will be sold in the market.

LIMITING THE GROWTH OF GOVERNMENT EXPENDITURES

The 10 per cent planned expenditure growth rate is well below the nominal growth rate projected for the economy as a whole. It will mean that the ratio of federal government outlays to GNP will decline from 20.6 per cent in 1979-80 to 18.2 per cent in 1983-84. Relative to the size of the economy federal expenditures will be brought back to the level of the late 1960s.

An increasing portion of the fixed expenditure total will be devoted to new energy initiatives. Expenditure growth in all other areas combined will have to be restricted to about 9 per cent per year.

It is estimated that spending under existing major statutory programs will increase, on average, by 9.3 per cent over the next four years. The public debt charge component would be increasing much faster were it not for the reductions in deficit we are planning. Even so, public debt charges are expected to increase by 19.5 per cent or $1.7 billion next year. That is our legacy from our predecessors. Excluding this item, growth in outlays will be held to 8.1 per cent in 1980-81. Our commitment to provide substantial funds for new energy initiatives over the next several years, our desire to mount some new programs in other areas and our need to maintain reserves for contingencies mean that significant cuts will be required in existing programs. In general, new initiatives will have to be financed by reductions elsewhere. But the basic Progressive Conservative principle of support to less well off people and regions will be maintained, though programs will be re-examined and may have to be more selective.

In order to improve our control over expenditure, the government has put a new expenditure management system in place. This is described in a paper I tabled last week. I have also tabled an analysis of tax expenditures to draw attention to their importance and to the need for their control.

• (2040)

ENERGY POLICY

Mr. Speaker, energy has become an issue of fundamental concern to every Canadian. This government, under the leadership of the Prime Minister, has pursued extensive consultations with provinces on energy policy. Our objective is clear. It is to move Canada rapidly away from dependence on oil imports and towards self-sufficiency by 1990. Our goal is to achieve this in three ways:

—constrain demand for oil;

—encourage substitution from oil to other forms of energy; and

—bring on new oil supplies.

This reminds me of the Hibernia announcement today which is an example of bringing on new oil supplies.

In 1979 imports of oil will exceed our exports by about 50 million barrels a year and without new action this gap will widen rapidly. If no action is taken, by 1985 our net imports will be about 200 million barrels which valued even at today's prices would seriously undermine our balance of payments. These are the figures; these are the facts.

As long as Canada is so dependent on oil imports we will be vulnerable. Recent events in the Middle East have underlined that point for us. We must protect ourselves from international oil politics. If we do not, despite the fact that we are one of the few industrialized nations that has this potential, our children and our children's children would be right to scorn us for the desperate straits we had left them in.

We believe that the best way to begin to reach our goals is to establish realistic prices. Crude oil prices must ensure an adequate return to producers to finance needed exploration and development. Retail prices to consumers must encourage conservation. Both must be high enough to eliminate our oil trade deficit by 1990. Our own Canadian conventional oil reserves will be seriously diminished by the late 1980s. In the next 7, 8, 9 or 10 years they will be diminished and gone. We cannot wait for a cataclysm to occur.

As the Government of Canada we have a responsibility to all Canadians. The effects of more rapid increases in oil prices will be felt in every corner of the economy and by every Canadian. The Government of Canada must have the ability to soften the impact of higher prices where it is essential to do so. We want to take steps to ensure that those hardest hit by energy price increases are helped. There are interregional consequences to be addressed. The rights and aspirations of producing provinces must be respected. Industry must have an adequate cash flow. The federal government must have a fair share of the increased returns flowing from energy price increases to discharge our national responsibilities. These are the elements that we have balanced in developing an energy policy.

We are prepared, once full agreement is reached with the producing provinces, to permit oil prices to rise in stages, by $4 a barrel in 1980 and by $4.50 a year thereafter, subject to further adjustment after 1982 if necessary. Gas prices on existing flows of natural gas will rise to maintain the present 85 per cent relationship with oil but, to encourage substitution of gas for oil, distributors will pay a lower price on additional volumes calculated at 65 per cent of the commodity value of oil. The difference will be used by distributors to aid householders and industry in converting from oil to gas.

The new energy tax, to be introduced by a tax bill in this House in 1980 with a request for passage before August 1, 1980, will recoup amounts roughly equal to half of the return from oil price increases in excess of $2 per barrel annually and natural gas price increases in excess of 30 cents per thousand cubic feet annually. The technical details of this tax have still to be worked out in a co-operative effort. The additional price increases to commence on July 1, 1980, over and above the $1 increase already scheduled for January 1, 1980, will not take effect before the new tax is in place.

Producing provinces would levy their royalties on the full price increases and receive additional revenues. Over the next four years, under this projection, from 1980 to 1983 the total net revenues from oil and gas would amount to $90 billion. Of this, the provinces would receive about $40 billion and the federal government $17 billion. The industry would receive $33 billion net of all production costs and taxes. The funds flowing to the industry should be ample to support all needed new energy investments. If this does not turn out to be the case, adjustments will be made to ensure sufficient cash flow to the industry for all needed energy projects.

We need immediately, however, an added incentive to conserve our petroleum resources. Consumption of motor gasoline over the first nine months of 1979 was up 4.3 per cent. In contrast, in the United States, gasoline use was down about 4 per cent. Canadian prices of gasoline, diesel fuel, and heating oil are low by international standards. Indeed, our prices for gasoline are substantially lower than those of all major industrialized countries. They are now 30 to 35 cents per gallon lower than those in the United States. The United Kingdom is an oil producer and its prices are just about double our prices. The difference is all the more significant when it is realized that, historically, our prices have been higher than those in the U.S. by a few cents per gallon. Canadians now pay less for gasoline, when allowance is made for general price inflation, than they did 25 years ago. For example, in 1954 the price of gasoline was about 45 cents per gallon. If gasoline prices had risen as much as consumer prices in general, the price today would be about $1.20 per gallon. In fact, in large Ontario cities the price today is around $1.07 per gallon.

Some hon. Members: Oh, oh!

Mr. Crosbie: We all have to face the facts, Mr. Speaker.

Low prices have led to excessive consumption. Canadian energy consumption, per capita, is the highest in the world. Our oil supply picture is tight and fragile. Stocks of fuel are lower than last year. Any major disruption of international or domestic oil supply, or an abnormally cold winter, could lead to major difficulties. It could raise the possibility of rationing. To sit back and do nothing would be criminal.

[Mr. Crosbie.]

In order to further energy conservation efforts and to increase revenues, I have announced tonight a federal excise tax on transportation fuels. Even with this tax, the price of these products will generally be lower than in the United States.

These measures taken in total will produce tangible results. I expect that by 1985 they will result in import savings of 100 million barrels a year, or some $2.5 billion even at today's prices.

All of the revenues from the envisaged energy tax and a substantial part of the revenues from the excise tax will be used to finance a number of energy-related measures and offsets to the impact of energy price increases. These form an integral part of our energy program. I would like to provide some examples of the programs we envisage, some of the details of which are in the supplementary budget material.

First, we will be moving quickly to set up a national energy bank. It will help fund a wide range of energy-related projects.

Second, we will provide increased funding for the Canadian Homes Insulation Program.

Third, we will be mounting a major effort to ease the burden of adjustment to higher prices in the Atlantic region. We will provide grants to compensate for the additional costs of electricity generation resulting from oil price increases in excess of $2 per barrel per year.

Lower and middle-income Canadians need some protection from the price increases. A good deal of protection is already afforded to many by the indexing of social programs and the income tax system.

In addition, the refundable energy tax credit I announced tonight when in full effect will return about $1 billion to lower- and middle-income Canadians. The credit will commence with the 1980 tax year. It will be phased in to reflect the fact that the full impact of energy price increases is not felt until later next year. One-half of the benefit will thus be claimable in 1980, with full benefits claimable in 1981 and subsequent years. Credit benefits will be reduced for families with incomes over a threshold amount. For 1980 the threshold is $21,380. For every $100 of income in excess of this threshold, benefits will be reduced by $5. When the plan is in full effect a family of four will receive the full benefits of $220 each year as long as their income is below the threshold amount. If benefits exceed a family's tax otherwise payable, the excess will be refundable to them.

OTHER TAX MEASURES IN THE ENERGY FIELD

I will now give more detail on other significant tax changes in the energy field.

The depletion allowance for frontier drilling, the so-called super depletion, expires in April of next year. It has been attracting significant Canadian participation in frontier exploration. To achieve our energy goals, it is important that efforts to find new supplies not slacken. However, under the current system, high-income individuals can receive tax benefits that are actually larger than the costs of their investments. This is not tolerable. I propose to reduce the richness of the incentive. This modified incentive will terminate at the end of 1980, at which time a new policy of the Minister of Energy, Mines and Resources for encouraging frontier exploration will be put in place.

● (2050)

I propose also to modify other aspects of resource taxation. Two types of schemes have recently developed that are resulting in undesirable tax leakage. Some non-residents have found ways of escaping tax on income from sales of resource properties. Measures are proposed in this budget to preclude this possibility. As well, rules are to be introduced to ensure that tax-exempt institutions cannot be used as vehicles to circumvent the income tax rules relating to resource taxation. Ingenuity is a wonderful thing.

Currently, amounts paid to acquire leases to explore, including bonus payments to provinces, can be written off at 30 per cent per year. The generosity of this provision has contributed to aggressive bidding up of prices for exploration rights, making it harder for small, new companies to compete. I am therefore reducing the write-off for Canadian oil and gas properties from 30 per cent to 10 per cent per year.

Finally, there is a serious anomaly in the federal sales tax on gasoline and diesel fuel. This tax is now a specific amount per gallon. It does not rise as prices rise. It will now be converted to 9 per cent of sale price to retail outlets. This change will ensure that the sales tax remains at 9 per cent on gasoline and diesel fuel as prices rise.

The two-year write-off provision for energy conservation equipment will be extended for five more years. At the same time I propose to broaden its scope to include certain solar-heating equipment, small-scale hydro projects and other conservation equipment. Solar heating is very valuable in Newfoundland, Mr. Speaker.

To encourage Canadians to experiment with fuel substitutes I am relaxing the licensing requirements under the Excise Act for the experimental production of alcohol. It is better known as gasahoil. I think that's what the name is.

TAX MEASURES

Let me now turn, Mr. Speaker, to other tax matters.

ENCOURAGEMENT TO PRIVATE SECTOR

I believe that the economic goals of this country can best be served by a revitalized private sector.

Some hon. Members: Hear, hear!

Mr. Crosbie: That has not been heard too often in budget speeches recently. Enterprise has to be rewarded, equity investment encouraged and incentives restored.

The new tax incentive measures I am announcing tonight are fully consistent with and reflect the commitments we have made to the Canadian people.

EQUITY INVESTMENT

It is our policy to promote equity investment by Canadians for Canadians. I have announced tonight two important tax measures to achieve this goal.

First, I am removing the impediments to investments in common stocks by Registered Retirement Savings Plans. After 1979, capital gains realized in an RRSP will no longer be fully taxed as income when distributed but will only be taxed at half rates upon withdrawal at retirement. Dividends on shares held in an RRSP will also be taxed at half rates when the funds are withdrawn. This tax treatment will be roughly equivalent to that available if the dividends and capital gains were received directly. The measure will apply to dividends and capital gains on common shares of public Canadian companies listed on Canadian stock exchanges. The changes should result in a significant shift of RRSP funds toward common stock investments.

Second, a Canadian Common Stock Investment Plan is created for investment in the common stock of Canadian companies listed on stock exchanges in Canada. The plan is structured so that it can be administered by investment dealers and stockbrokers—the acknowledged experts in this field.

Each investor will be able to contribute up to $10,000 per year to the plan, with a lifetime limit of $100,000. In order to give the plan a good start an investment of $20,000 will be permitted in 1980. Contributions will not be deductible when going into the plan and will not be taxable when withdrawn. Capital gains on eligible amounts invested in public company shares will not be taxed as long as the investor remains in the market through his plan.

These measures will significantly lessen the impact of the tax on capital gains on common stocks. They will mitigate the impact of inflation on taxation of capital gains. Canadians will have increased incentives to own a wide range of Canadian companies.

I want to announce yet another measure concerning capital gains. Capital gains on farm land are one of the major sources of retirement income for farmers. Farmers and fishermen are, of course, the backbone of the country. Tax on those gains is now deferred as long as the farm remains in the family. But farms are not always left to family members. Starting tonight bona fide farmers may put $100,000 of taxable capital gains on farm land into an RRSP without tax consequences. This will mean that on the sale of his land a farmer will be able to receive $200,000 in a capital gain without incurring any immediate tax liability. Farmers will then also be able to take further advantage of the various options for deferring tax when their RRSPs mature. They will of course continue to be able to place up to $5,500 annually in RRSPs out of income and to acquire an income-averaging annuity contract with capital gains proceeds not rolled into an RRSP.