

INTERGOVERNMENTAL RELATIONS IN CANADA:

THE YEAR IN REVIEW 1980

Volume One

POLITICS AND POLICY

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TABLE OF CONTENTS

	page
VOLUME ONE: POLICY AND POLITICS	
Foreword	v
List of Tables	vii
List of Abbreviations	ix
Chapter I: An Overview of the Year	1
Chapter II: A Year at the Polls	4
Introduction	
The Federal General Election of February, 1980	
Electoral Reform at the Federal Level	
Federal By-elections in 1980	
Provincial Assemblies	
Chapter III: Government Economic Policy and Fiscal Federalism	17
Introduction: The Economy in 1980	
The Federal Government	
The Provinces	
Federal-Provincial Financing Arrangements	
Chapter IV: Energy Policy	62
Introduction	
Oil and Natural Gas Policy	
Electricity	
Coal	
Nuclear Power	
Alternative Energy Sources and Energy Conservation	
Chapter V: General Policy Areas	82
Introduction	
Agriculture	
Communications	
Environment	
Fisheries	
Forestry	
Housing and Municipal Affairs	
International Relations	
Language	
Social and Health Services	
Transportation	
Etcetera, Etcetera	

Chapter VI: Interprovincial Relations	99
Introduction	
Twenty-first Annual Premiers' Conference	
Western Canada	
Eastern Canada	
Chapter VII: Judicial Review	106
Introduction	
Administration of Justice	
Appointment of Judges: Cases Involving Section	
96 of the BNA Act	
Consumer and Corporate Affairs	
Fisheries Cases	
Interprovincial Trade and Commerce	
Labour Law	
Language	
Medical Law	
Native Peoples	
Powers of Taxation	
Chapter VIII: Notes on the Intergovernmental Bureaucracy	118
Introduction	
British Columbia	
Alberta	
Saskatchewan	
Manitoba	
Ontario	
Quebec	
New Brunswick	
Prince Edward Island	
Newfoundland	
Nova Scotia	
The Federal Government	
Select Bibliography	123

VOLUME TWO: THE CONSTITUTION

Part I: The Quebec Referendum

Part II: The Summer Meetings and the September Conference

Part III: The Federal Government Acts

Part IV: Other Developments

FOREWORD

This is the fourth annual Year in Review, published by the Institute of Intergovernmental Relations. It is designed to provide a record of important events in federal-provincial and intergovernmental relations during the year, and to place these events in the context of the evolution of the federal system and the wider economic and political climate. We trust that it will be a useful tool for students, for practitioners of federalism, and for other groups and individuals, for whom intergovernmental relations have such important - if little understood - implications.

In 1980, the federal-provincial calendar has been crowded indeed. The constitutional debate dominated the year, beginning with the Quebec referendum campaign, continuing with intensive negotiations throughout the summer, followed by the dramatic failure around the table at the September First Ministers' Conference, then by the federal Resolution on the Constitution, and ending with an intensifying crisis in UK-Canadian relations. Only slightly less contentious was the debate over energy, which began with fruitless efforts to negotiate a solution, and ended with the national energy policy and a welter of conflict and recrimination. Beneath these "great issues", the complex intertwining of federal-provincial relations which is the stuff of Canadian federalism continued in meeting rooms, courts, legislatures and even on the election hustings. It was a bewildering kaleidoscope of events, not easy to distill into one short volume.

Therefore, the 1980 Year in Review is published in two volumes. Volume I, presented here, covers the major economic and political events of the year, including the energy debate, budgets, judicial review and the myriad of other policy areas. Volume II covers the constitutional debate, from the Quebec referendum campaign to Parliamentary action on the federal Resolution in February 1981. Together they provide an interim history of a remarkable year in federal-provincial relations, a year in which fundamental divisions, both of theory and objective interests, became more explicit, controversial and irreconcilable than ever before.

Preparation of the Year in Review, and collating materials from numerous sources, is a growing challenge. Ron Zukowsky, Institute Research Assistant, has done a remarkable job. He was assisted by Mary Louise McAllister, who drafted early sections on energy and elections, by Anne Raizenne, who managed the daily flow of clippings, statements and other materials, and by Research Associate Sheilagh Dunn, who drafted some sections and assisted in editing the whole. Production of the Review and its fixed format in particular was skillfully accomplished by Beverley McKiver with the valuable aid of Patti Candido.

Once again we remain much indebted to the many public and private agencies which have supplied material, and to many officials, especially the members of the Institute's Advisory Council, who have patiently answered our questions.

Suggestions for additions and changes in future editions are most welcome.

Richard Simeon
Director

LIST OF TABLES

	page
2.1 Election Results, Seats by Province and Territory, February 18, 1980 and May 22, 1979	8
2.2 Election Results, Percentage of Popular Vote by Province, February 18, 1980 and May 22, 1979	8
2.3 Distribution of Extra Seats using Pepin-Robarts Formula for Proportional Representation, by Province, for February 18, 1980 Results	12
2.4 Distribution of All Seats Using Pepin-Robarts Formula for Proportional Representation, by Province, for February, 1980 Results	12
3.1 Economic Statistics, 1980	18
3.2 Comparison of Key Financial Projections, The Budgets of December 11, 1979 and October 28, 1980	25
3.3 New DREE Subsidiary Agreements, September 1, 1980	31
3.4 Lapsed DREE Subsidiary Agreements, October, 1980	31
3.5 Federal Transfer Payments to the Provinces, 1980-81 to 1983-84	57
3.6 Estimated Federal Transfers to the Provinces, Territories and Municipalities, Fiscal Year 1980-81	58
4.1 Canadian Domestic Crude Oil Price Changes, Comparison of Proposals	68
4.2 Consumer Guide Oil Prices	69

LIST OF ABBREVIATIONS

BC	British Columbia
CAP	Canada Assistance Program
CDC	Canada Development Corporation
CRTC	Canadian Radio Television and Telecommunications Commission
DREE	Department of Regional Economic Expansion
EPF	Established Programs Financing
FIRA	Foreign Investment Review Agency
GDA	General Development Agreement
GPP	Gross Provincial Product
NB	New Brunswick
NDP	New Democratic Party
NEP	National Energy Program
PC	Progressive Conservative
PEI	Prince Edward Island
PQ	Parti Québécois
UIC	Unemployment Insurance Commission

Note: Toronto Globe and Mail newspaper has been cited as **Globe and Mail**.

CHAPTER I

AN OVERVIEW OF THE YEAR

What can one say in summary of 1980 that would not be an understatement? A federal election, the Quebec referendum, the constitutional talks, the federal Resolution, the October budget and the National Energy Program all passed in quick succession before the startled sensibilities of the Canadian public. Canada no longer seemed the "peaceable Kingdom", a country whose history was as "dull as ditchwater".* Rather, public life in Canada became more raucous with each passing day.

More than anything else, 1980 was a year when Canadians in all parts of the country asked themselves what kind of country they wanted. And, in consequence, they became more aware of how the federal system works in Canada. This growth in awareness was perhaps greatest in Quebec where two visions of Quebec's future in North America vied for popular approval in the referendum of May 20. In this struggle, the federalist option won, but 40 per cent of the Quebec population (and close to 50 per cent of Quebec francophones) had voted to support the non-federalist option, sovereignty-association.

After the referendum, attention turned to the renewal of discussions on constitutional reform. The expectation that reform would result from the September meeting of First Ministers in response to promises made to Quebecers in the referendum was not fulfilled. Instead, Canadians were treated to intense, fractious debate where the extent of regional differences in the perception of Canadian federalism became clearly apparent. In the attempt to transcend these differences and to present a national focus for constitutional reform, Prime Minister Trudeau presented his government's constitutional resolution on October 2, and announced he would ask the British Parliament to amend the Canadian constitution despite the lack of substantial agreement among the provinces.

The talks and the crisis in federal-provincial relations following the federal action brought to the consideration of Canadians two visions of Canada. On the one hand, most of the provinces, led by Alberta and Quebec, favoured greater provincial jurisdiction over a whole range of issues. They argued that strong provinces make a strong Canada. On the other hand, the federal government supported by Ontario and New Brunswick invoked the priority of the national interest over provincial interests and pursued its own "people package" of patriation and a Charter of Rights.

Constitutional developments were not the only events which underlined the growing strains in the country. Regional divisions were illustrated by the return of a Liberal majority government which possessed only two seats west of the Ontario border. For many westerners, fears that the Liberal majority government would be insensitive to their aspirations were realized most fully in the National Energy Program which accompanied the October federal budget. More than the constitutional resolution, the NEP provoked protest leading to the growth of separatist movements in the west.

Nor are Canadians likely to escape in 1981 fresh jolts to their commonly held assumptions about the country. The constitutional and energy debates continued into the new year. Federal-provincial negotiations over federal transfer payments to the provinces will begin in earnest in 1981 and promise to involve no less fundamental questions about the nature of federalism.

The significance of these events for the conduct of public policy in Canada should not be overlooked. While these conflicts are important in influencing the relations between federal and provincial governments, between East and West and between French and English, they also influence the efficiency and effectiveness of government in Canada. This is seen most clearly in an issue such as energy pricing and taxation where intergovernmental disputes have delayed development essential to Canadians' future well-being.

But federal-provincial relations affect almost every aspect of Canadian public policy. Many of these areas are detailed in this Review and they illustrate how our federal state requires intergovernmental cooperation for government action to be effective. Should serious intergovernmental conflict spread further to the many points of contact between governments, public policy in Canada could be paralysed.

As a result, 1980 posed a clear challenge to Canadians: how to provide for the resolution of these conflicts which threaten the existence of the nation and its ability to respond to economic and social challenges? Our current system places heavy emphasis on the use of intergovernmental negotiations. However, the lesson of 1980 was that such an emphasis leaves us vulnerable to chaos should negotiations break down. It has proved too easy for the participants to hold each other hostage to their own ambitions; deadlock has been the result.

Prime Minister Trudeau's solution is to provide alternative mechanisms for resolving constitutional conflict. His proposed Resolution would give us a number of ways to amend our constitution, none of which require unanimous provincial consent. Others have suggested changes to the electoral system. The use of a system of proportional representation, it is said, would make the federal government more representative of the country's regions and strengthen the ability of the House of Commons to act as a forum for mediating regional, and linguistic conflicts. Still others have advocated greater representation of the provinces in the central government. Most significant have been proposals for a reformed Senate or a new Upper House to act as a forum for mediating federal-provincial disputes.

These proposals have been much discussed but little action has followed. Up to now the existing process has put a straitjacket on reform. Prime Minister Trudeau's actions may slip it loose, but at the time of writing his project seemed still imperilled with difficulties and detours. So too, seemed the future of the federal system itself.

Footnotes

*The phrase "peaceable Kingdom" is from William Kilbourn, ed., *Canada: A Guide to the Peaceable Kingdom*, (Toronto, 1970). The phrase describing Canada's history as "dull as ditchwater" has been attributed to Maurice Hutton in Colombo's *Concise Canadian Quotations*, John Robert Colombo, ed., (Edmonton, 1976), p. 104.

CHAPTER II

A YEAR AT THE POLLS

INTRODUCTION

Because they determine who will be the major participants in the policy and politics of the federal system, elections greatly influence how the system works. A case in point this year was the return of a Liberal majority government to Ottawa on February 18, an event critical for the way federal-provincial relations developed over the year. There were no provincial general elections in Canada in 1980, although in some provinces such as Ontario (which called an election early in 1981) and Quebec there was much election speculation. In 1981, an election must be held in Quebec, the Parti Québécois having run its mandate to its five-year limit. Therefore, for the next few years, the cast of characters on the federal-provincial stage seems fairly set. Excepting Ontario and Quebec, breakthroughs on major federal-provincial issues are not likely to be forced by provincial or federal elections in 1981.

At the end of 1980, the effect of new political movements on federal-provincial politics was still uncertain. Western separatism became a "cause célèbre" of politicians and the media. However, even in Alberta where the separatist movement is strongest, no separatist organization was registered as a political party by the end of 1980. In Saskatchewan, that province's former PC leader, Richard Collver, broke with the Conservatives to form Unionest, dedicated to the union of the West with the United States. It has two members in the Assembly - Collver and another former PC - but they have never fought an election as Unionest members, nor did their party contest by-elections in November.

A new party on the 1980 national scene is the Unparty which is registered in Ontario and Alberta and is active in BC and New Brunswick. The party's platform emphasizes "libertarian" principles and the reduction of government interference in society. It has no detailed constitutional position. The Rhinoceros Party, set up to satirize the established political process, showed surprising strength in the February 1980 election and gathered enough votes nationwide that it would have gained a seat in Quebec under a system of proportional representation (see p. 12, below).

THE FEDERAL GENERAL ELECTION OF FEBRUARY, 1980

In contrast to the long-awaited May election of 1979, the call for February 18 came unexpectedly, giving the Conservatives less than seven months in office. Few political observers had predicted that the Liberals and NDP would unite to defeat the government over its budget of December 11, 1979. Pierre Trudeau had resigned as Liberal leader and few felt the party would force an election before it had elected a new leader. Liberal strategists, however, saw an opportunity to regain power and seized it.

It has been suggested that the Conservatives helped engineer their own defeat. They could have waited until all their members were present for the budget vote. They could have postponed the vote. They could have moderated somewhat their energy proposals, such as the 18 cent a gallon excise tax on gasoline and they might have offered a few concessions to the Social Credit party to gain their support (*Globe and Mail*, December 15, 1979, p. 10). But, whatever the might-have-beens, the reality was the election. (For a fuller account of the Conservatives' brief period in power and the events leading to their defeat, see Jeffrey Simpson, *The Discipline of Power*, Toronto: Personal Library, 1980).

Conservative Campaign Strategy

Having gambled that the Liberals would not force an election while undergoing a leadership crisis, and having lost, the Tories threw themselves into a campaign they believed they could win. Their job was not easy. Going into the campaign, the Tories trailed the Liberals by 19 points in the popularity polls. There had been little time to convince the Eastern provinces to accept the proposed budget with its drastically increased energy prices. The Conservatives had barely a toehold in Quebec. Joe Clark had to battle his image as a weak leader who had "waffled" on campaign promises to move the Canadian embassy to Jerusalem, and to "privatize" Petro-Canada.

The Conservatives' campaign strategy operated under the banner of: "Good Government Deserves a Fair Chance." Members of the Clark government criticized their opponents for forcing what they saw as an unnecessary and costly election. They argued that had they been given more time, they would have carried out more of their promises and plans. They also stressed the promises already put into motion. Mortgage interest and property tax credits, cutting back the public service by 60,000, reduction of the federal deficit, introduction of a freedom of information law and assistance for small business were promises the Tories said had been kept or would have been kept if they were given more time in office. As for Petro-Canada, by election time, the Conservatives had decided to distribute half its shares free to Canadian citizens and sell an additional 20 per cent.

In defending the budget, the Clark government asserted that it alone was willing to take the tough stance necessary to direct the nation towards energy self-sufficiency and good fiscal management. Further, the Tories asserted that they better understood the diversity of the country and its problems. Their approach to a renewed federalism would use this understanding as a basis from which discussions with the provinces could proceed amicably. In the meantime, they pointed to concrete gestures such as the transfer of lotteries to the provinces and the steps taken to transfer jurisdiction of offshore resources to the provinces as evidence of their new approach.

As the Conservatives launched their aggressive campaign, they hoped they could convince the voters that the long-term gain would be worth the sacrifices imposed by the budget and that they, as a young, vigorous and

unified team, could work openly and in harmony with all the regions in Canada.

Liberal Campaign Strategy

The Liberal strategy for the 1980 election was markedly different from the approach employed the previous May. Concerned that many voters had voted against the Liberal leader in 1979 because of his apparent arrogance and aggressiveness, Liberal strategists kept Mr. Trudeau well out of the limelight for most of the election campaign. Trudeau's "gun-slinging" style of the previous election was abandoned for more formal written speeches, appearances were mostly reserved for the major policy statements and an offer to join a television debate among the national leaders was turned down.

The proposals in the party platform were rather vague. Many policy ideas, such as a guaranteed annual income, and a detailed mortgage and rental scheme, were abandoned or suspended, perhaps because they were either too complicated to be introduced during a campaign, or because the Liberal strategists decided that it would be more effective to attack the Conservative record and recent budget than to defend the cost and the applicability of their own policy ideas. This seemed to be the case also for Liberal policy on the role of the central government and on constitutional issues. Advocacy of a strong, aggressive role for the federal government on economic and constitutional issues which was so characteristic of the May 22, 1979 election was now muted.

The Liberal Party did commit itself to holding down the price of oil and gasoline using a "blended pricing" system. The average price of lower priced oil, such as that already available from Alberta and Saskatchewan, and higher priced oil from the tar sands and from offshore would lead to a lower oil price than the Tories were advocating. Petro-Canada would remain unchanged.

NDP Campaign Strategy

The NDP fought a hard campaign, suggesting that Canadians dissatisfied with the previous two governments should now give the New Democrats a chance. The NDP's key election concern was energy. Broadbent rejected the Conservative plan to raise oil prices to encourage conservation and suggested instead other measures such as lowering highway speed limits, improving urban transit, and encouraging industrial energy conservation through its subsidization (*Globe and Mail*, January 4, 1980, p. 8). The NDP scorned the Conservative plan for Petro-Canada by suggesting that the Conservatives were giving Canadians what already belonged to them. They suggested that Petro-Canada should remain in the hands of the central government where it could be used to help implement a national energy policy.

Industrial strategy had more importance in this campaign than the social issues traditionally emphasized by the NDP. Of prime concern was reducing

unemployment and encouraging small investors and businessmen. Some of the measures to achieve this included: building up Canadian rather than foreign industrial control where possible through the Foreign Investment Review Agency (FIRA); subsidizing and buying goods from small businesses; and giving aid to those communities and industries affected by sudden technological changes.

The Results

Despite the energy expended by the Conservative and New Democrats during the election campaign, the Liberals won a decisive majority victory, winning 146 seats. The Conservatives followed with 103, and the NDP trailed with 32 seats. The Social Credit Party lost all five of its ridings to the Liberals.

Regional Breakdown

The West

In British Columbia, the Liberals lost their only seat, and the Conservatives lost three of their 19 to lift the NDP total from eight seats to twelve. In Alberta, the Conservatives again swept all 21 seats. Voters apparently approved of the Lougheed-Clark oil pricing agreement that was beginning to emerge at the time of the election. The Liberals did attempt to sway some Westerners with the promise of double-tracking the CNR's main western line but those likely affected by this promise found the idea more amusing than practical. In Saskatchewan, the Conservatives lost three of their seats to the NDP, giving the two parties seven seats each. In Manitoba, the Liberals managed to hold on to their two seats; the Conservatives lost two of their seven to lift the NDP to a total of seven.

In the West there was a significant drop in voter turnout. Many were disillusioned with the Conservative performance and Western farmers, like their Eastern counterparts, were not happy with the higher energy prices proposed by the Conservative budget. Trudeau remained an unpopular alternative, so many in the West shifted their support to the NDP.

Ontario

Balancing their abysmal showing in the West, the Liberals gathered 20 new seats from Ontario for a total of 52. This was a harsh blow to the Conservatives who lost 19 of their 57 seats. The NDP lost one of its six seats.

The poor Conservative performance in Ontario was attributed by many to the Crosbie budget. The budget provided Trudeau with plenty of ammunition in the province. The Liberal leader claimed that such a budget with its high energy excise taxes was a threat to Ontario's industrial heartland. Ontario's Conservative Premier Davis did little to aid the Tory cause. After the presentation of the budget, Davis criticized the Conservative proposals so heavily that the Liberals quoted him in their election ads. Davis stated

Table 2.1

Election Results, Seats by Province and Territory, February 18, 1980 and May 22, 1979

Province	Liberals		PC		NDP	
	1980	1979	1980	1979	1980	1979
Newfoundland	5	4	2	2	-	1
Nova Scotia	5	2	6	8	-	1
P.E.I.	2	-	2	4	-	-
New Brunswick	7	6	3	4	-	-
Quebec*	73	67	1	2	-	-
Ontario	52	32	38	57	5	6
Manitoba	2	2	5	7	7	5
Saskatchewan	-	-	7	10	7	4
Alberta	-	-	21	21	-	-
British Columbia	-	1	16	19	12	8
N.W.T.	-	-	1	1	1	1
Yukon	-	-	1	1	-	-
TOTALS	146	114	103	136	32	26

*Social Credit Party had 6 seats in 1979 and none after February 18, 1980. Also, the death of a candidate in Frontenac during the February campaign meant a by-election was scheduled for March 1980. Thus, only 281 candidates were elected on February 18, 1980.

Table 2.2

Election Results, Percentage of Popular Vote by Province, Major Parties, Feb. 18, 1980 and May 22, 1979

Province	Liberals		PC		NDP	
	1980	1979	1980	1979	1980	1979
Newfoundland	47	41	36	29	17	29
Nova Scotia	45	35	37	45	18	19
P.E.I.	47	44	46	53	7	6
New Brunswick	50	45	32	40	16	15
Quebec*	68	62	13	13	9	5
Ontario	41	36	36	42	22	21
Manitoba	28	23	38	43	33	33
Saskatchewan	24	22	39	41	36	36
Alberta	22	22	65	66	10	10
British Columbia	22	23	41	44	35	32
CANADA	44	40	33	36	20	18

*Social Credit received 9% of the popular vote in 1980.

that he was still a Conservative and would continue to pledge his support to the national party, but his public reaction to the proposed budget combined with the Liberal promise of cheaper oil discredited the federal Conservative energy policy in Ontario.

Quebec

In Quebec, the Liberals gained six seats for a total of 73. Another seat was won a month later in a by-election raising their total to 74 of the 75 seats in Quebec. The Conservatives retained only one of their two seats. Mr. Clark had attempted to gain support in Quebec with promises of funds for energy projects and suggestions that his government had eased relations between Quebec and Ottawa. Quebec, however, was a Liberal stronghold and the Conservative leader was even less successful there than Mr. Trudeau was in the West.

Lacking both money and faith in their leader, the Social Credit Party had difficulty from the outset. The Liberals launched a massive campaign against Fabien Roy in his own riding accusing him of being afraid to take important stands (a reference to the Social Credit abstention in the crucial budget vote and Roy's flirtation with the Parti Québécois). Outgunned and outmanoeuvred, the Social Credit lost all their five seats to the Liberals. A remarkable chapter in the political history of Quebec thus seems to be closing. The rural populism that Réal Caouette successfully tapped in making the Social Credit a political force in Quebec is waning and the party's future appears dim as a result. Conservative hopes that Creditiste supporters would turn to them as an alternative were premature judging by the 1980 election. The main beneficiaries were the Liberals whose grip on Quebec's electoral politics was further strengthened.

The Atlantic Region

In addition to their twelve seats, the Liberals gained seven in Atlantic Canada. Two had been held by the NDP - one in Newfoundland and one in Nova Scotia. So the NDP was eliminated from the region. Five seats were gained from the Conservatives - two in PEI, one in New Brunswick and two in Nova Scotia.

Again it appeared that the proposed energy price hike played a decisive role. The Conservatives suggested that they had given the Atlantic region a great deal of help by promising Newfoundland control over its own offshore resources and including in the budget approximately \$300 million worth of aid to buffer the cost of energy increases (Globe and Mail, December 22, 1979, p. 8).

The Liberals, however, said high energy prices would not help the region's campaign for lower transportation costs to aid their competitive position. They argued that the tax credits in the budget would be of little help to farmers and fishermen who had expensive equipment to run, (Report, April, p. 119) and a regressive budget would have an undesirable effect on an already depressed region. The Liberal arguments appear to have been convincing.

Summary

February 18 demonstrated that the electorate was not prepared to accept the major proposals of the Conservative Party. The Conservatives had interpreted the May 1979 election results as a cry for dramatic economic improvement and had attempted to implement their changes through the December budget. But in February, the campaign was fought largely on energy policy and in particular, on the 18 cent gasoline tax. If, in fact, the election was won or lost on the 18 cent proposed increase, it is interesting to note the considerable change in public attitude since 1975 when John Turner's declaration of a ten cent excise tax and a commitment toward reaching world pricing was more calmly digested by the electorate (Report, April, 1980, p. 6). More likely, a combination of apparent Tory indecisiveness, their inability to get their policy ideas across to the electorate and the hard-line approach taken in their budget all helped contribute to the party's downfall.

The Future

No party in Canada can claim representation from all parts of the country and the prospects are that this situation will continue. In the West, the mood is overwhelmingly anti-Liberal. These provinces now feel even more strongly alienated from the federal government since the defeat of the Conservatives, in spite of some disillusionment with that party during their term in office. This tension has also been heightened by the Liberals' difficulty in reaching a pricing agreement with Alberta, by the National Energy Program, and by the federal action on the Constitution.

The Liberals are well entrenched in their "Fortress Quebec." The Conservative party, with its western leader, are not able to claim the same identification with Quebec even though they pointed out that they were more conciliatory and flexible than the Liberal party with its strong centralist tendencies had been. The Conservative cause has not been helped by the resignation of their only Quebec MP, Roch LaSalle, who left to lead the Union Nationale Party in Quebec. Ontario, at least in the short run, will benefit from the cheaper oil promised by the Trudeau administration but continued support for the Liberals will likely depend on the condition of the economy and on who the Liberal leader will be in the next election. Because of its large number of seats and because of its fluid electoral situation, Ontario can make or break a party's chances for forming the federal government. The implication is that a party's national policy will mirror whatever is needed to win in Ontario -- a situation which makes other provinces more than a little uneasy.

The Atlantic provinces are in an ambivalent position. While depressed areas benefit from a strong central government, Newfoundland lost the more immediate opportunity offered by the Conservatives to let the province control its own offshore resources. While the Atlantic region will benefit from lower energy prices offered by the new regime, the Conservatives had designated significant financial aid in the budget to help boost the Atlantic economy. Electoral politics in the region will likely remain fluid,

but because of the small numbers of seats involved, the need of national parties to woo and win Atlantic support is not nearly as pressing as it is in Ontario.

ELECTORAL REFORM AT THE FEDERAL LEVEL

The past two elections very clearly illustrate the growing regional polarization of the electoral results. In the February 18 election, the Liberals swept through Quebec, gained many seats in Ontario but were able to win only two seats in all of Western Canada. After the May 1979 election, the Conservatives formed a minority government with only two seats of the 75 in Quebec. Such a situation can cause serious difficulties within a federation. The Task Force on Canadian Unity wrote:

Our research of experience in other federations indicate that when party membership in the central parliament becomes concentrated in regional blocks it is an advance signal of eventual disintegration. The regional polarization of federal political parties corrodes federal unity. Because we see developing signs of such a situation in Canada, we have come to the conclusion that electoral reform is urgent and of very high priority (A Future Together, p, 105).

Recently electoral reform has been under close study by many experts. We now have the Smiley proposal, the Broadbent proposal, the Canada West Foundation recommendations, and the recommendations drawn up by the Federal Task Force on Canadian Unity. The latter proposal formulated for the Task Force by Professor W.P. Irvine has received considerable attention from both government and the media and it is examined here. (For a more detailed analysis of electoral reform, see William P. Irvine, *Does Canada Need a New Electoral System?*, Institute of Intergovernmental Relations, Queen's University, Kingston, 1979.)

The formula for the Pepin-Robarts proposal would retain the same process for electing members from the 282 ridings but 60 new members would be added to Parliament. The new seats would be distributed among the parties according to popular vote and then to the various provinces where the ratios each party needs in order to achieve a seat are the highest. In the February 1980 election, 20 of the extra 27 seats allotted to the Liberals would have been distributed in the West, and eleven of the Conservatives' 19 extra seats would have been distributed in Quebec (See Tables 2.3 and 2.4).

Such a system has many benefits. The parties would be less regionally concentrated. Irvine suggests everyone's vote would mean something, no matter what the region. As it stands now, many people feel they are wasting their vote if they support a party which has very little chance of gaining a seat in their region.

Irvine also suggests that parties would be forced to act more responsibly than they have in the past. Although it is true that the system

Table 2.3

Distribution of Extra Seats by Province, for February 18, 1980 Results
using Pépin-Robarts Formula for Proportional Representation

	Liberal	PC	NDP	Social Credit	Rhinoceros Party	Totals
Newfoundland	-	-	-	-	-	-
Nova Scotia	-	-	1	-	-	1
P.E.I.	-	-	-	-	-	-
New Brunswick	-	-	-	-	-	-
Quebec	-	11	3	1	1	16
Ontario	7	8	7	-	-	22
Manitoba	2	-	-	-	-	2
Saskatchewan	3	-	-	-	-	3
Alberta	6	-	1	-	-	7
British Columbia	9	-	-	-	-	9
TOTALS*	27	19	12	1	1	60

*Neither Territory receives extra representation.

Table 2.4

Distribution of All Seats (including extra seats), by Province, for February 18, 1980 Results using Pépin-Robarts Formula for Proportional Representation

	Liberal	PC	NDP	Social Credit	Rhinoceros Party	Totals
Newfoundland	5	2	0	0	0	7
Nova Scotia	5	6	1	0	0	12
P.E.I.	2	2	0	0	0	4
New Brunswick	7	3	0	0	0	10
Quebec	74	12	3	1	1	91
Ontario	59	46	12	0	0	117
Manitoba	4	5	7	0	0	16
Saskatchewan	3	7	7	0	0	17
Alberta	6	21	1	0	0	28
British Columbia	9	6	12	0	0	37
N.W.T.	0	1	1	0	0	2
Yukon	0	1	0	0	0	1
TOTALS	174	122	44	1	1	342

proposed may lead to more minority governments, parties cannot rely on "exaggerated swings in seats" to either delay or force an election (*Globe and Mail*, January 14, 1980). Finally, the Pepin-Robarts report underlines that in this time of regional dissatisfaction with the federal system, it is important that electoral reform is introduced to assure the people of all the provinces that the federal government represents the whole of Canada.

While proportional representation does have many attractive features, it should not be seen as a cure-all for regional conflict in Canada. Much depends upon whether or not party policy becomes more regionally sensitive as a result of the addition of new members elected under a proportional system. If not, then regional tensions will find other channels of expression, for example, the provincial premiers. It can be argued further that it is irrelevant whether federal party policy is sensitive to regional interests or not. The provinces want to make policy themselves. Proportional representation does not answer their call for the transfer of decision-making power.

FEDERAL BY-ELECTIONS IN 1980

Two federal by-elections were held after the Liberal victory in February. During the February campaign, the election in Frontenac had been postponed as a result of the death of a candidate. In March, a Liberal was elected. On September 8, 1980, the Liberals took Lincoln Alexander's seat in Hamilton West from the Tories. There were three vacancies at the end of 1980 - Levis, Quebec, London West, Ontario and Cardigan, PEI. By-elections for these ridings are expected in 1981. Standings in the House at the end of 1980 were: Liberals 145, Conservatives 102, NDP 32, with three vacancies.

PROVINCIAL BY-ELECTIONS

Newfoundland

Premier Brian Peckford's Conservatives were elected with a strong majority in 1979. In 1980 one Liberal crossed the floor to the government side and the resignation of Don Jamieson as Liberal party leader further depleted the Liberal side. A by-election for his seat will be held some time in 1981. At the end of 1980 the standings in the Assembly were: Conservatives 34, Liberals 17, with one vacancy.

Nova Scotia

Nova Scotia's Liberals were decisively defeated in 1978 by John Buchanan's Conservative party. In 1980, four by-elections reinforced the Conservatives' majority position at the expense of the opposition parties. Of three seats previously held by Liberals, the PC's took two in by-elections held May 6, 1980. A by-election on December 2, 1980 saw them take Cape Breton East from the NDP. Standings in the Assembly at the end of 1980 were: Conservatives 34, Liberals 15, NDP 3.

Prince Edward Island

Angus Maclean's Conservatives still form the government with standings in the Assembly at the end of 1980 being: Conservatives 21, Liberals 10, with one vacancy.

New Brunswick

Richard Hatfield's Conservatives bare hold on power was not threatened by any by-elections in 1980. Standings at the end of 1980 were: Conservatives 30, Liberals 28.

Quebec

Four by-elections were held in Quebec late in 1980. All were won by Liberals, but none were in ridings previously held by René Lévesque's Parti Québécois. Three seats were taken from the Union Nationale and the Liberals retained the fourth. The results brought the total of Liberal by-election wins since the PQ was elected to eleven. However, only two of them have occurred in former PQ ridings.

The game of musical chairs continued in the Assemblée nationale in 1980. Rodrigue Biron resigned as leader of the Union Nationale in March and later in the year joined the PQ. Jean Alfred left the PQ as a result of a dispute over immigration policy and alleged racism within the party, but sat as an independent. Camille Samson, former provincial Social Credit leader joined the Liberal caucus.

Michel LeMoignan became interim leader of the Union Nationale when Rodrigue Biron resigned. Early in January 1981, Roch LaSalle, the only federal PC member from Quebec was elected its new leader by acclamation. Jean Drapeau, mayor of Montreal had been touted as a possible leader, but he declined, leaving the field to LaSalle. LaSalle will retain his federal seat until the provincial election. A strong leader is held to be the key to the success of the UN in the next provincial elections. The PQ would profit by a strong UN presence since it would cut into the Liberal vote. According to one rumour, the PQ held off calling an election in fall 1980 in order to give the UN more time to find a strong leader (*Globe and Mail*, September 17, 1980, p. 3). Standings in the National Assembly at the end of 1980 were: PQ 68, Liberals 34, Union Nationale 5, Independent 3.

Ontario

Although a general election seemed imminent at several points in 1980, only one by-election was held in Ontario. In a contest that was regarded as a test for Premier Davis's government's position on constitutional and energy issues, the PC's retained the seat of Carleton in the Ottawa area on November 20, 1980. A general election was called in Ontario for March 19, 1981. Standings in the legislature at the end of 1980 were: Conservatives 58, Liberals 34, NDP 33.

Manitoba

Sterling Lyon's Conservatives continue to hold a majority government with standings at the end of 1980 being: Conservatives 32, NDP 22, Liberals 1, Independent 1, Independent New Democrat 1.

Saskatchewan

Three by-elections were held in Saskatchewan. Two were the result of resignations by ministers in Premier Blakeney's government. John Messer resigned as Energy minister and Eiling Kramer as Highways and Transportation minister. Standings in the Assembly at the end of 1980 were: NDP 44, Conservatives 15, Unionest 2.

Alberta

The Progressive Conservative party led by Premier Peter Lougheed saw their overwhelming majority eroded slightly in 1980. No by-elections were held, but Conservative MLA Tom Sindlinger disagreed with the party's opposition to the federal constitutional resolution and left the party to sit as an Independent. Standings in the Assembly at the end of 1980 were: Conservatives 73, Social Credit 4, NDP 1, Independent 1.

British Columbia

Rafe Mair resigned his Health portfolio and later his seat, to enter private broadcasting at the turn of this year. Standings in the Assembly at the end of 1980 still leaves Bill Bennett's Social Credit party in charge. The Social Credit party holds 31 seats; the NDP have 26.

Northwest Territories

John Parker was Commissioner in 1980. Following the general election of October 1979, only one change occurred in 1980 to the 22 member territorial council. Ipeelee Kilabuck became the new member for Baffin Central. There is no party system in the Northwest Territories although the Eastern Arctic Caucus composed mainly of Inuit members from the eastern regions of the Territories meets and sometimes votes as a bloc in Council. George Braiden headed the seven member Executive Committee and was also Minister of Justice and Public Services.

Yukon Territory

In October 1979, Ione Christensen resigned as Commissioner of the Yukon as a result of changes to the Commissioner's duties introduced by the Progressive Conservative government which reduced her powers and brought the territory closer to provincial status. Late in 1980, Douglas Bell, who assumed Mrs. Christensen's duties upon her resignation, was appointed the new commissioner for a period of two years. Previously, Commissioners had served at the pleasure of the Minister of Indian and Northern Affairs.

Conservative Chris Pearson remained government leader but another of his ministers resigned his portfolio in May, the third since the election of the PC's as government. Ian McKenzie, the provincial Liberal leader, resigned his post and left the Territory. A by-election will be held in spring 1981. Standings at the end of 1980 were: Conservatives 11, Liberals 1, NDP 1, Independent 2, Vacant 1.

Note: Much of this chapter was drafted by Mary-Louise McAllister.

CHAPTER III

GOVERNMENT ECONOMIC POLICY AND FISCAL FEDERALISM

INTRODUCTION: THE ECONOMY IN 1980

The recession which had been for so long predicted for Canada in 1979 finally hit the country in 1980. Predictions at the beginning of the year had foreseen real growth in GNP of less than 1 per cent in 1980, but they were revised steadily downwards. By the year's end, the Conference Board was predicting a decline in real GNP of 0.8. The unemployment rate moved close to 8 per cent, up slightly from 1979. The rate of inflation moved close to 11 per cent, a percentage point above its 9.8 per cent mark at the end of 1979, by the end of 1980. Following their trend in 1979, interest rates continued to rise until well into 1980. The average monthly interest rates on Bank of Canada 91 day Treasury bills reached a high of 15.76 per cent in April. They dipped sharply thereafter, but rose again at the end of the summer.

Canada's balance of payments was again in the red. Predictions near the end of the year saw a deficit of between \$6 to \$7.5 billion on current account - a rise of over \$1 billion from 1979. Repeating the general pattern of the past ten years, the balance of merchandise trade showed a surplus which was massively offset by a deficit on services account. Early in the year, the value of the US dollar in Canadian funds fluctuated, reaching a high of \$1.1856 in April. Thereafter, the Canadian dollar strengthened (see Table 3.1).

Early projections for positive real growth were scuppered in a number of ways. There was a marked decline in exports to the US, reflecting tighter credit policy and low growth in that country. An extended drought in Western Canada reduced agricultural production. High interest rates and the failure of large scale energy projects to get underway undermined the level of activity in the construction and capital goods industries. Economic projections into 1981 and beyond predicted a very modest recovery. However, in order for Canada to live up to its potential, governments would have to grapple with problems of energy development and supply, manpower training, productivity improvement and the country's dependence on US economic trends.

Thus, 1980 provided a gloomy context for making economic and fiscal policy. For the federal government and for most of the provinces, the circumstances seemed to require more government spending to stimulate employment and more government incentives to encourage investment. But the ability of many governments to do so was limited either by their need for tax revenues, the size of their deficit or the inflationary consequences of their actions.

There were exceptions, of course. British Columbia, Alberta and Saskatchewan saw their growth sustained as a result of strong markets for their natural resources and investor expectations of strong future growth. Their strong budgetary positions, supported by natural resource revenues, allowed them to continue to lay the economic and social foundations for the

Table 3.1

Economic Statistics, 1980

	1980 Unemployment Rate (Seasonally Adjusted)	Consumer Price Index (Year to Year % Change)	U.S. dollar in Canadian dol- lars, average noon spot rate	Security Yield Averages %, Treasury Bills, 91 day
	(1)	(2)	(3)	(4)
January	7.4	9.5	1.1639	13.54
February	7.4	9.4	1.1560	13.56
March	7.4	9.3	1.731	14.35
April	7.5	9.2	1.1856	15.76
May	7.8	9.4	1.1731	13.06
June	7.8	10.1	1.1515	10.85
July	7.6	10.1	1.1519	10.10
August	7.7	10.7	1.1591	10.21
September	7.5	10.7	1.1646	10.63
October	7.6	10.9	1.1690	11.57
November	7.3	n/a	1.1860	12.87
December	7.4	n/a	1.1968	16.31

Source: Table 1: Major Financial and Economic Indicators, Bank of Canada Review, January 1981.

allowed them to continue to lay the economic and social foundations for the future. In part, however, their dynamism was constrained by financial limits on the federal government's ability to aid them in their plans for development in a time of national recession and large federal deficits.

These economic difficulties affected the degree of political goodwill and unity in the country. Fearful that the federal government would "rob Peter to pay Bill", the western provinces closed ranks against federal plans to gain extra revenues from an export tax on natural gas. The Atlantic provinces led by Newfoundland's Premier Peckford pressed for greater control over fisheries and offshore mineral resources. In short, 1980 was a year in which many government economic policy makers decided that charity begins at home. Intergovernmental relations regarding economic and fiscal policy became more difficult and complex as a result.

THE FEDERAL GOVERNMENT

Fiscal and Budgetary Policy

For much of 1980, the Government of Canada operated without a formal budget. The budget brought down on December 11 by Conservative Finance Minister John Crosbie was, of course, defeated in Parliament, thereby provoking the election of February 18, 1980. The new Liberal government delayed a new budget. Citing difficulties in negotiating oil pricing and taxation schedules, the new Liberal Finance Minister Allan MacEachen contented himself with a "mini-budget" in May until a more comprehensive budget could be prepared. The budget was brought down amid great expectations on October 28, 1980. The dust from its impact has yet to settle.

The Crosbie Budget

The Conservatives took a considerable gamble with their first budget. It was tough on just about all sectors of the economy. On that there appeared to be nationwide consensus. Finance Minister John Crosbie countered that such stringent measures would not have been necessary had the previous government managed the economy better. In their effort to "face up to economic reality," the federal Conservatives laid out their priorities clearly: they wished to reduce the huge federal deficit, to increase incentives in order to promote business growth, and to encourage conservation of energy and other resources. At the same time, Crosbie attempted to soften some of the blows using personal income tax measures such as refundable energy tax credits and deferral of capital gains taxes from the sale of farms.

Revenues, Expenditures and Deficit Policy

Bluntly dismissing a Tory campaign promise to introduce a stimulative deficit - "the only stimulative deficit is a declining deficit" - Crosbie brought down a five-year plan to control the budgetary deficit and to reduce the borrowing requirements of the federal government. Crosbie hoped that by reducing the federal deficit and attempting to slow down the rate of inflation, the budget would encourage business confidence in Canada. His goals would be achieved, not so much through cutbacks in government spending, (it would be held at roughly the rate of inflation of ten per cent per year) as by raising revenues.

Crosbie's 1979-80 budget would have raised government revenues 15.6 per cent to \$40.7 billion while raising expenditures 9.8 per cent to \$51.9 billion. As a result, Crosbie projected a 7.2 per cent decline in the deficit to \$11.2 billion. Over the five fiscal years from 1979-80 to 1983-84, borrowing requirements were projected to decline from \$9.9 billion to \$4.8 billion.

Conservative plans for increased budgetary discipline were to be aided by widely-praised changes proposed to the budgetary process itself. For the first time, the government made public five-year budgetary projections. Any subsequent changes would also be published and distributed to encourage ongoing public debate and comment on government policies. A spending control system was also developed. Under the new "envelope system", the Cabinet committee in each major policy area would be given a budget limit within which they allocated funds to each department in the envelope.

Energy Policy

The heart of the budget was the government's energy policy. Its objectives were to increase Canada's oil self-sufficiency, encourage exploration, and improve the balance of payments. While the details of the federal-provincial split of energy revenues had yet to be worked out, the Conservative policy included a rapid rise of oil prices towards the world standard. Prices were to increase \$4.00 a barrel for 1980 and \$4.50 a barrel for the next four years. To encourage conservation and raise revenues, the private motorist faced an immediate tax increase of 18 cents a gallon. In addition, the federal government would have taken any "windfall profits" over \$2.00 a barrel for oil and 30 cents per thousand cubic feet for gas. Total additional federal revenues from these measures were estimated at \$17 billion by 1983-84.

To aid the lower and middle-income consumer, Crosbie planned a tax credit of \$80 per adult and \$30 for each child, if the annual family income was \$21,380 or less. The amount would have been reduced for higher income earners. This credit alone would have amounted to \$1 billion. Crosbie stated that such credits (as well as others introduced to help offset the energy price rises) and the financing of "energy-related measures" would consume all the revenues from the energy tax and part of the revenues from the excise tax.

Other Tax Measures

As additional stimuli to private investment, the government also introduced tax incentives for small business and Canadian companies. Small Canadian corporations would have been able to buy up to \$500,000 of bonds which they could acquire at a lower-rate, "after-tax" financing from banks. However, a corporate surtax of 5 per cent would have been levied and several tax loopholes would have been closed. Stock incentives included such measures as tax deductions for capital gains earned on common stock investments by Registered Retirement Savings Plans; one-half of earnings would be exempt from taxes. Similarly, individuals investing up to \$10,000 in a Canadian Common Stock Investment Plan would have been entitled to a deferral of capital gains tax.

Other tax credits included: salary deductions for working spouses such as wives who helped in family businesses or fishing and farming operations, tax breaks (under the RRSP) for farmers selling their farms, and perhaps most controversial, the mortgage tax credit to homeowners. This last measure would have cost the government \$575 million in 1980-81 and about \$2.9 billion by 1983-84.

The government also included certain measures in the area of social reform. More exemptions would have been allowed for medical expenses, deductibility of support payments for children of common-law parents, tax exemptions for volunteer firemen, and improved incentives to encourage the hiring of the young and handicapped.

In addition to regional projects already in operation, a ten year program consisting of special incentives and deductions would have been offered to certain firms worth \$2 million or more if they decide to locate in the economically depressed areas of the Gaspé Peninsula and the Atlantic Region. Other measures were: a plan to sell one million ounces of Canada's 22 million ounces of gold to allow the government to invest in "interest-earning assets", an increase in unemployment insurance contributions to help meet increasing costs and an additional \$215 million from alcohol and tobacco taxes.

Reactions to the Budget

Reactions to the proposed budget, and in particular to the energy tax plan, were swift. Contrary to the government's expectation that its budget would help Canada to become self-sufficient in energy, Ian Smythe, executive director of the Canadian Petroleum Association suggested it would not. Although the government plan to take any profits the companies made above \$2.00 a barrel for oil or 30 cents per thousand cubic feet for gas did not come as a shock, the oil and gas industry was unhappy with the drastic reduction of the frontier allowance from 66 $\frac{2}{3}$ per cent to 6 $\frac{2}{3}$ per cent which would dramatically decrease funds set aside for exploration. Together, these actions would undermine any incentives to industry gained from the raising of oil prices.

While many commended the government for its attempt to reduce the federal deficit, others questioned its timing -- politically and economically. *Le Devoir* suggested that with a "languishing economy aggravated by an American recession," the hardest hit would have been small enterprises and those on medium or low incomes and there was no guarantee that the budget strategy would reduce inflation.

The day after the Budget Speech, bond prices declined dramatically. As one businessman put it, "How can you get very excited about the market when your own finance Minister is calling for 11 per cent inflation and a deficit of \$10 billion?" On the other hand, stock prices increased sharply, especially in the area of oil and gas. Investors saw the budget in a positive light, relieved that the government would let the oil companies retain a \$2 per barrel profit of oil and that it seemed serious about attaining energy self-sufficiency by 1990.

Provincial Response

Reactions across the country varied, not only between regions but within the provinces themselves. Finance Minister Lloyd MacPhail of PEI praised the budget, heavily emphasizing the buffers it provided to energy consumers. Opposition leader Bennett Campbell did not think the measures were adequate and felt that it would be the middle class and working people that would be hardest hit.

In Quebec, while Claude Ryan and Rodrigue Biron agreed that there was a need for greater discipline and a reduction in deficits, Finance Minister Jacques Parizeau condemned what he thought was federal interference on provincial matters. He thought that the new excise tax on motor fuels was an area traditionally taxed by provinces to supplement road construction. Parizeau also said that the mortgage tax plan was of little use in Quebec, where the majority rented their homes.

The budget would have had quite a strong impact on Ontario and the reaction was generally unfavourable. In a column entitled, "Who needs enemies after this," Hugh Winsor suggested that the budget spelled disaster for the Ontario Conservatives. Premier Davis estimated that the cost of the budget to an Ontario family would be an extra \$500 a year (*Le Devoir*, December 13, 1979).

In Saskatchewan, Allan Blakeney criticized the burden placed on small businessmen and consumers while corporations got away with a minor 5 per cent surtax. The Premier suggested that it was misplaced thinking on the part of the government to rely on the private sector to stimulate the economy. He also thought that the higher revenues should be diverted in greater part to finding alternative energy sources (*Globe and Mail*, December 13, 1979).

Although generally pleased with the billions of dollars of extra revenues the proposed budget would bring their province, Alberta officials thought that the oil price increase was not high enough.

Opposition Reaction

The reactions which counted most for the Conservatives were those of the two opposition parties. The Liberals condemned the budget for placing an unfair and unnecessary burden of high gasoline taxes, higher fuel oil prices and higher taxes on middle and lower income Canadians. The NDP considered that the Conservatives had betrayed election promises to the Canadian people to lower interest rates, to cut taxes and to stimulate the growth of the economy. In a motion which united both sets of the criticisms, the opposition defeated the government and provoked the general election of February 18, 1980.

MacEachen's Minibudget

Not long after Parliament convened on April 11, 1980, the new Finance Minister Allan MacEachen took the opportunity during the debate on the Speech from the Throne to introduce a package of financial measures, including some left over from Jean Chrétien's budget of November, 1978 and many which had formed part of the Conservative budget on December 11, 1979. He also presented some new projections of the trends in the economy and in federal government finances.

For the fiscal year 1979-80, MacEachen predicted little change from the estimates published by the Conservatives. Greater deviation was predicted for the fiscal year 1980-81. Total outlays would increase 13.7 per cent to \$60.4 billion. The Conservative budget had projected total outlays of \$58.4 billion. Total financial requirements for 1980-81 were also projected to reach \$11.7 billion compared to \$8.2 billion forecast by the Conservatives.

MacEachen acted on the Liberals' promise during the campaign to increase the Guaranteed Income Supplement by \$35 a month. He also announced that consideration would be given to aiding those borrowers whose housing costs increased to more than 30 per cent of their income as a result of higher interest rates on mortgages.

The opposition reacted strongly against the introduction of these measures during debate on the Throne Speech. They argued that the package constituted a budget and so, required much more extensive debate under the rules of the House. Conservative critics also argued that the Liberals had broken a campaign promise to keep the increase in government spending (13.7 per cent) below the rate of growth for the economy at 10 per cent. Both opposition parties wanted help for homeowners, farmers and businessmen hit by high mortgage rates. The spending increase, MacEachen explained, was due mostly to the high growth in the cost of public debt charges and oil import compensation.

For most independent observers, the "mini-budget" confirmed that the Liberals would not be as committed to reducing government spending and the deficit as had the Conservatives. While this was viewed by some as justifiable in a time of economic slowdown, others shared Michel Roy's opinion that the Liberals still retained their inability to restrain their instinct for squandering (*Le Devoir*, April 23, 1980, p. 12).

The October Budget

By October 28, the stage seemed set for another round of intergovernmental confrontations. Energy policy was felt by many observers to be the most likely flash point. With the failure of oil pricing talks with Alberta, Ottawa would be setting unilaterally new prices for oil and gas. The Liberals had also been making noises about increasing its share of oil and gas revenues and increasing Canadian ownership and control of the oil and gas industry. The possibility of a federal export tax on natural gas prompted BC and Alberta to state that such a tax would be equivalent to a declaration of war and would provoke retaliatory measures. Other issues were also of concern to the provinces: a slumping economy, the high rate of inflation, rising unemployment and the federal deficit.

The budget, however, was a set of complex and confusing measures whose exact implications were unclear. As a result, no one seemed quite sure whether the worst had come or not.

Revenues, Expenditures and Deficit Policy

Table 3.2 presents figures for key financial indicators in the October budget. Latest projections for the end of the 1979-80 fiscal year show revenues and expenditures down compared to the December 11, 1979 budget as a result of a slower rate of growth in the economy than earlier expected. By the end of 1980-81, revenues are projected to have risen by 12.5 per cent, budgetary expenditures by 15.2 per cent and the budgetary deficit by 24.4 per cent when compared with 1979-80. After accounting for non-budgetary transactions, total financial requirements for 1980-1981 are to reach \$12.1 billion, up 16.4 per cent from 1979-80.

Although the two sets of figures are not exactly comparable, Table 3.2 matches the trends on different indicators of the December 1979 budget with those of the October 1980 budget. Over the medium term to 1983-84, budgetary revenues, expenditures, the deficit and total financial requirements are all higher in absolute terms and form a higher percentage of projected GNP under the 1980 budget projections than in 1979. This is the case even though the projected level of GNP in 1983 is lower in the October budget than in the December budget. Thus, the Liberals appear willing to tolerate greater government taxation and spending and higher deficits in order to pursue other policies, in particular their energy policies.

Table 3.2: Comparison of Key Financial Projections, The Budgets of December 11, 1979 and October 28, 1980-
Public Accounts Basis of Accounting

	1979-80 Dec. 11 Budget	1979-80 Oct. 28 Budget	1980-81 Dec. 11 Budget (\$ millions)	1980-81 Oct. 28 Budget	1983-84 Dec. 11 Budget	1983-84 Oct. 28 Budget
Budgetary Revenues (% of nominal GNP)	40,720 (15.9)	40,159 (15.4)	46,835 (16.1)	45,200 (15.9)	66,640 (15.4)	69,420 (17.2)
Budgetary Expenditures (% of Nominal GNP)	-51,950 (20.3)	-51,534 (19.8)	-57,350 (19.7)	-59,350 (20.9)	-75,700 (17.5)	-81,215 (20.1)
Budgetary Deficit (% of Nominal GNP)	-11,230 (4.4)	-11,375 (4.4)	-10,465 (3.6)	-14,150 (5.0)	-9,060 (2.1)	-11,795 (2.9)
Total Financial Requirements (% of Nominal GNP)	- 9,940 (3.9)	-10,445 (4.0)	- 8,200 (2.8)	-12,155 (4.3)	- 4,790 (1.1)	- 7,155 (1.8)
GNP (Nominal) ¹	255,300	260,300	290,700	283.5	431.400	404.7

25

Sources: Crosbie Budget figures

Budget Speech, December 11, 1979, Department of Finance, Table 1, p. 21.

Ibid., calculated from "Summary Table on Federal Government Deficits and Financial Requirements, 1972-73 to 1983-84, p. 39.

MacEachen Budget

The Budget, October 28, 1980, Department of Finance, Table 4.3, p. 41.

Ibid., Table 4.4, p. 42.

Ibid., Table 1.3, p. 29.

Notes:

1. Figures to be interpreted as midpoints of ranges of estimates.

2. Accounting changes in the October 28 budget mean that the figures from budgets not completely comparable. These changes tend to increase the budgetary deficit and financial requirements of the October 1980 budget in comparison to the December 1979 budget by relatively small amounts.

3. GNP for calendar year ending 3 months before the end of the corresponding fiscal year e.g., for fiscal year 1979-80, GNP figure refers to 1979.

4. Total financial requirements exclude foreign exchange transactions.

Energy Policy

Part and parcel of budgetary projections were assumptions about energy revenues and expenditures. The National Energy Program was presented with the budget and outlined federal government energy policy. A more detailed analysis of the National Energy program is presented in Chapter IV.

Economic Development Policies

Although the centrepiece of the budget was clearly the National Energy Program, another "clear priority" of the budget according to Finance Minister MacEachen was economic development. Funds allocated to the economic development envelope are to rise 22 per cent in 1981-82. New initiatives include a \$350 million program for industrial restructuring and manpower retraining over the next four years, funding for research and development, and for export development. The budget allocated \$4 billion to the Western Development Fund. Two billion dollars will be available for spending over the period to 1983-84, beginning with \$350 million in 1981-82. Fund projects will be selected in consultation with the Western provincial governments, and may include improvements to port facilities, transportation and grain handling, industrial diversification and water resource development.

Other development initiatives include the extension of the availability of Small Business Development Bonds to March 31, 1981, an investment tax credit of 50 per cent available to the end of 1985 for new manufacturing investment in areas of high unemployment and income and tax incentives for the upgrading of railway infrastructure. The Finance Minister also re-introduced tax incentives for the construction of multiple unit residential buildings (MURB's) whose elimination in the Crosbie budget of December 1979 was protested by various provincial governments. Important as these measures are, they form less than the blueprint for an industrial strategy which many observers had called for.

Other Measures

Finance Minister MacEachen also introduced a variety of revenue raising measures including increased taxation of alcohol, tobacco and airline travel, and increases in the contributions by employees and employers to unemployment insurance. These increases reflected the Conservative policy in the December 1979 budget of financing all the costs of unemployment insurance benefits with employer and employee contributions, except for those costs associated with high regional rates of unemployment. Real growth in expenditures on foreign aid and defence is to occur over the next three fiscal years as Canada attempts to raise the percentage of foreign aid to 0.5 per cent of GNP and to meet its NATO defence commitments. Near zero real growth in social affairs expenditures will not affect the increase in the guaranteed annual income supplement, but will likely have implications for federal-provincial negotiations on Established Programs Financing agreements (see p. 54).

Reaction to the Budget

The budget was a politically astute document. Pre-budget rumours of de-indexation of income tax and a natural gas import tax did not become reality and there was no general increase in personal and general income taxation. Pre-budget fears were thus replaced by post-budget uncertainty as opposition critics, provincial premiers and journalists scrambled to make sense of what the federal government was proposing.

The strongest criticisms of the budget concerned its energy proposals (see pp. 72-75). However, other aspects of the budget drew adverse comment. The PC's attempted to shame the MacEachen budget by comparing it unfavourably with the Crosbie budget of December 1979. The budget took no action on unemployment, inflation and the deficit. Former finance minister Crosbie took the Liberals to task for introducing increases to UIC premiums when they had opposed them in his budget. He also sternly reminded the NDP that their role in the defeat of the PC government in December 1979 had made the Liberal budget possible.

NDP criticisms centred on many of the same points as the Conservatives. They had harsh words for the rise in UIC premiums, the high level of interest rates and the punitive effect on the poor of increased taxes. NDP leader Broadbent committed his party to opposing the budget. Reacting to Conservative criticism, NDP finance critic, Bob Rae defended his party's opposition to both the Conservative and Liberal budgets by saying that "...a person can be opposed to cholera in 1979 and opposed to leprosy in 1980" (*Montreal Gazette*, October 30, 1980, p. 8).

The reaction of the western provinces focussed mainly on energy policy and downplayed the \$4 billion Western Development Fund as money which had been taken from the West and was simply finding its way back to where it rightfully belonged. Ontario objected to the Fund, arguing that it was the Ontario economy that needed help. Ontario Treasurer Frank Miller felt Ottawa had ignored its responsibility to provide a clear economic strategy and announced a "mini-budget" for November 13 to offset some of the effects of the budget on Ontario. Quebec's Finance Minister Parizeau saw little difference between the Crosbie budget and the MacEachen budget in their effect on the taxpayer and termed the budget "satisfactory" (*Le Devoir*, October 30, 1980). Atlantic region governments generally welcomed a budget that contained increased spending on energy development in their provinces (see pp. 72, 78).

Immediate reactions from the business sector varied, but criticism swelled as the impact of the energy program sank in and as the value of oil and gas stocks fell in the weeks following the budget. The lack of federal action on interest rates, the large deficit, a federal-provincial confrontation over energy policy and the slow rate of growth caused deep concern and continued uncertainty about the future of the economy. Labour and social action groups had harsh words for a budget which did not, in their opinion, deal with the everyday reality of most Canadians. The Canadian Council on Social Development in particular warned of the social malaise which could result from the budget and drew a picture of higher

rates of divorce, personal bankruptcies and greater social unrest (Le Devoir, November 4, 1980, p. 2).

Monetary Policy in 1980

Rising interest rates were one of the issues which toppled the Clark government. Once in power, the Liberals seemed equally unable to control them. Indications were that the cabinet was split on the desirability of action either to control interest rates or to moderate their impact on certain hard hit groups (Le Devoir, May 12, 1980, p. 1).

Farmers, small businessmen, consumers and homeowners were stung by rising rates for loans and mortgages. Opposition critics were quick to call for government action to reduce interest rates or lessen their impact on significantly affected groups. High interest rates, they said, were slowing down the economy while not noticeably affecting the rate of inflation.

Provincial government spokesmen, particularly those from provinces where employment was high, criticized the regionally discriminatory effect of a nationally applied monetary policy. British Columbia and Alberta introduced mortgage programs with reduced rates of interest to stimulate their construction industries.

In the end, the federal government did not intervene actively in setting monetary policy in 1980. It limited itself to supporting Bank of Canada actions, and to subsidizing interest rates on some mortgages. The Bank, however, had great difficulty in balancing the effects of its interest rate policy with inflation, investment, consumer spending and the value of the Canadian dollar in the uncertain economic conditions of early 1980. As a result, interest rates fluctuated throughout 1980 and rose to record levels in April and December.

Trade and Development Policy

For many observers, with the dollar down, interest rates up and the economy in recession, it seemed as though the country needed an industrial strategy more than ever. Little progress was made on the federal-provincial front in reaching such a strategy. The Conservatives had planned a First Minister's Conference on the Economy for late December, 1979. It was cancelled when the federal election intervened.

The constitutional conference in September could have provided the occasion for settling some of the economic uncertainty about resource control and taxation and the allocation of powers over the economy. Instead, the conference revealed fundamental differences between governments on the way these and other economic issues should be handled.

The general thrust of the Liberal's economic policy initiatives in 1980 aimed at increasing central control and influence over the national economy. This was evident on a number of other fronts in addition to the October budget and the National Energy Program.

Administrative Organization

The Liberals made changes in the system of ministers and Cabinet Committees established by the Conservatives. They dropped a Minister of State for Transport and dropped the "Industry" from the Minister of State for Small Business and Industry. Ministers of State for Mines, Finance and the Canadian Wheat Board were added. The most significant change in the system of cabinet committees was the addition of a Western Affairs Committee. Lacking western representatives in the House, the Liberals tried to introduce western concerns into the policy process at the executive level.

The Liberals retained the Economic Development Committee responsible for the Energy envelope and the Economic Development Envelope in the October Budget. The appointment of Herb Gray as Minister of Industry, Trade and Commerce was generally regarded as an indication of a more aggressive government stance towards intervention in the economy and the level of foreign ownership.

The Speech from the Throne - April 14, 1980

The Throne speech pre-figured many of the measures in the October budget regarding energy policy, research and development, and grain handling and transportation policy. However, by year's end specific action on a Canadian Agricultural Export Corporation (to expand markets for Canadian producers overseas), and on amendments to the Foreign Investment Review Act (to increase the publicity surrounding foreign investment proposals and to allow reviews of the performance of foreign investors in benefitting Canada) had not taken shape, although a parliamentary committee had been established to examine the idea of a national trading company to improve Canada's ability to compete abroad.

The Economics of Constitutional Reform

Over the summer and during the constitutional talks in September, the government pressed for amendments to the constitution which enshrined the principle of free movement for goods, capital, services and labour and which recognized federal paramountcy over inter-provincial trade. In its Constitutional Resolution, the government stopped short of asking Britain to amend the constitution in these ways. Instead it asked only that mobility of labour be guaranteed in a Charter of Rights. It also accepted NDP amendments regarding provincial ownership control and taxation of natural resources with restrictions on the provinces' power to discriminate interprovincially.

DREE

Pierre de Bané (Matapedia-Matane) replaced Elmer MacKay (Central Nova) as the Minister of the Department of Regional Economic Expansion. The new minister took over a department whose credibility has been declining and whose continued existence had been questioned (see for example, Ian McAllister in *Policy Options*, March, 1980). By the end of the year, DREE was well into a comprehensive self examination of its role in regional development in Canada. In June, the department released a series of reports which emphasized the need for new policy directions and strategies regarding employment creation as an alternative to out-migration of labour, the reduction of bottlenecks which restrain economic growth, aid to industries facing changing conditions, such as the Quebec textile industry, and the enhancement of inter-regional economic linkages. As part of the review process, the Minister travelled to Europe in September to learn about the British and French experience with regional development and in October, he conferred with Canadian economists on aspects of the regional economic experience in Canada.

In early November, the House of Commons Standing Committee on Regional Development supported the need for a review of DREE's operations. The Committee recommended a bigger budget for the department, but stressed that funds should be more carefully channelled into areas of greatest need and sectors such as mining, forestry and fishing which are vital to the economics of rural areas in Canada. Committee members felt assistance to small business and industry should be greater and that DREE's traditional emphasis on infrastructural improvements should be reduced, since the need had declined. The Committee recommended a broader role for the department in co-ordinating the spending and policy programs of other federal departments as they relate to regional development (*Halifax Chronicle Herald*, November 6, 1980). The Committee thus seemed to accept the argument that there was a need for greater harmonization of regional concerns with the rest of government economic policy. However, by recommending an increased budget for DREE, the committee seemed to reject the arguments that DREE should become a "policy ministry" concerned mostly with interdepartmental coordination and that it should not administer actual economic programs such as the regional industrial incentives program.

The Committee also recommended a redefinition and streamlining of the relationships between head office and regional offices. Departmental efficiency would be improved especially in the area of coordinating federal and provincial policy making. A lack of coordination between federal and provincial officials, the committee charged, had caused serious delays in the funding of general development agreements.

If the future of DREE was up in the air for a good part of 1980, its day-to-day affairs proceeded at a steady pace. On June 18, the Minister introduced a Bill to extend the industrial incentives legislation for another five years past its current expiry date of December 31, 1981. While some subsidiary development agreements lapsed in 1980, a number of new ones were signed (see Tables 3.3 and 3.4).

In the supplementary estimates for the year ending March 31, 1981, total

Table 3.3 : New DREE Subsidiary Agreements, September 1, 1980

Province/Agreement	Maximum Total Spending (\$)	Federal Share (\$)	Provincial Share (\$)	Signed	Terminating
<u>Nova Scotia</u>					
Halifax Panamox Dry Dock	43,500,000	34,800,000	8,700,000	22/01/80	21/03/95
Michelin Tires	56,000,000	42,000,000	14,000,000	07/06/80	31/12/87
<u>New Brunswick</u>					
Pulp and Paper	42,250,000	33,800,000	8,450,000	27/08/80	31/03/84
<u>Quebec</u>					
Establishment of Newsprint Factory at Amos, Quebec	42,500,000	25,500,000	17,000,000	24/07/80	31/03/83
<u>Yukon</u>					
Interim Tourism Development	6,000,000	5,100,000	900,000	14/02/80	31/03/82

Table 3.4 Lapsed DREE Subsidiary Agreements, October 1, 1980

	<u>Signed</u>	<u>Terminated</u>
<u>Newfoundland</u>		
Ocean Research and Development (NORDCO)	23/05/75	31/03/80
St. John's Urban Region	23/07/75	31/03/80
<u>Nova Scotia</u>		
Mineral Development	17/02/75	31/03/80
<u>New Brunswick</u>		
Industrial Development	17/02/75	31/03/80
Tourism Development	16/12/75	31/03/80
<u>Quebec</u>		
Establishment of a Bleached Kraft Pulp Mill at St-Félicien	21/04/76	31/03/80
<u>Saskatchewan</u>		
Iron, Steel and Other Related Metal Industries	04/07/74	31/03/80
Interim Mineral Development	19/07/78	31/03/80
<u>Alberta</u>		
Nutritive Processing Assistance	11/03/75	30/09/80

projected expenditures by DREE were increased over earlier estimates for the year by \$37 million to \$577 million, mainly to cover the costs of the Emergency Herd Maintenance Assistance Program. As of September 1, 1980, the total maximum financial provisions of active and expired signed sub-agreements spent or committed by DREE was close to \$5.2 billion of which the federal government share was about \$2.9 billion (source: calculated from tables and information supplied by Program Analysis and Liaison, DREE, Ottawa/Hull).

Government Purchasing Policy

At a meeting of Public Works ministers September 7-10 in Winnipeg, the federal government proposed that a national crown agency be established to coordinate purchases by the federal, provincial and municipal levels of government. While the provincial ministers expressed interest in the proposal and the benefits of cooperative procurement, they argued that the implications of such a strategy for regional development had to be explored and stressed that more consultation was needed.

Canada Development Corporation

Also in September, Messrs. Gray and MacEachen announced a review of the Canadian Development Corporation. Although the CDC has been "modestly successful", the need to be responsible to its shareholders has prevented it from becoming a major instrument of government Canadianization policy. Herb Gray's plans for the CDC has the corporation, in his words, doing "something in the manufacturing sector that's parallel to Petro-Canada in the resources sector" (Toronto Star, September 23, 1980, p. A3).

Other Developments

While the government felt free to consider innovations in a number of areas, its manoeuvrability in others was severely constrained by existing political and economic forces and the need to improvise policy as ad hoc responses to crises.

Agricultural policy makers struggled with the consequences for prairie farmers of a boycott on increased grain sales to Russia and a drought. Difficulties with grain handling and transportation facilities continued to cast doubt on Ottawa's ability to deliver production to demand and no resolution to the problem of Crow's nest freight rate schedule was accomplished. In the area of manpower policy, the federal government argued it had only limited responsibility for Canada's poorly educated labour force since education is a provincial jurisdiction (Calgary Herald, December 6, 1980, p. C-22).

The textile industry was also a source of continuing concern. A study released by the North-South Institute put the cost of textile protection at \$100 per family per year, criticized the import quota system and advocated greater freedom of trade (Le Devoir, July 31, 1980, p. 1). However, in

August, a report from the federal Textile and Clothing Inquiry recommended extending the quota system to 1990. Coming as the report did within the context of more general efforts by the government to comply with its commitments to trade liberalization under GATT, no decision on it was forthcoming from the government. The present quotas expire at the end of 1981 by which time the government will have heard submissions on the issue from interested parties on how best to juggle its commitments under GATT, its responsibility to Canadian consumers and the implications of liberalization for those regional economies (principally in Quebec) which are heavily dependent on textile manufacturing for employment.

Constraints on the federal government's margin of manoeuvre was also evident in its efforts to deal with the difficulties faced by Canada's automotive industry as a result of low consumer demand for North American cars and of the Canadian industry's role in the structure of North American car assembly and parts production. The fate of Chrysler dominated discussions on the automotive industry during the first part of the year. The Government of Canada chipped in \$700 million in loan guarantees and the Government of Ontario a \$10 million contribution to a research centre in Windsor to match US government loan guarantees of \$1.5 billion.

Canada's record high deficit in the trade of auto parts also attracted attention and resulted in US-Canada consultation on the auto pact agreement regulating this trend. However, Canada possesses few bargaining levers to force a renegotiation of the agreement unless the scope of possible tradeoffs and concessions is expanded outside the terms of the auto pact to include non-automotive issues. As a result, Gray's attempt to re-open negotiations on the terms of the pact failed and Canada must wrestle with its consequences for awhile longer.

Warnings that aid to Chrysler would provoke similar requests from other corporations seemed to be coming true as the extent of Massey Ferguson's financial difficulties became known. A \$700 million refinancing package arranged in October by Massey's Management Board contained federal and Ontario government partial loan guarantees for \$200 million. Herb Gray suggested that he would be prepared to discuss investment in Massey by the CDC, a proposal which gained little immediate support from CDC directors (Ottawa Citizen, October 28, 1980, p. 5). All these issues involved close contact between federal and provincial governments.

THE PROVINCES

The significance of provincial governments as economic actors has grown to the point where their combined economic strength rivals that of the federal government. As this section shows, the provincial governments control large sums of money and vitally affect key sectors of the country's economy and society. Common to all provincial governments in 1980 was an emphasis on increasing research and development funding, on exploring new markets and on using resource industries as the keys to economic growth in the future. These policies, often aided by federal funds, are not as yet coordinated within the framework of a national economic strategy.

The ability of provinces to pursue growth policies varies, of course. BC, Alberta and Saskatchewan are in the strongest position due to their burgeoning resource revenues. Ontario and Quebec, although in deficit positions and troubled by "soft" sectors in their economies are still the heavyweights and can draw on substantial financial and political resources. Growth prospects appear good for Nova Scotia and Newfoundland and Labrador, but, at present, they still share with the other governments of the Atlantic region a common dependence on federal government transfer payments.

British Columbia

This year, a general optimism about the medium-term future for BC's economy was tempered with an expectation of some short-term difficulties. Declining world demand for the products of BC's export sector was expected to limit real growth of gross provincial product in 1980 to 2.1 per cent.

Fiscal and Budgetary Policy

The BC budget delivered on March 11, 1980 reflected a mood of cautious optimism. Revenues balanced with expenditures and appropriations at \$5.8 billion. However, with estimates of capital spending by crown corporations up from \$879 million in 1979-80 to \$1.4 billion in 1980-81, with additional expenditures of \$353 million from the revenue surplus fund, and with selective tax cuts of \$54 million, public spending on the whole was calculated to stimulate the economy in order to offset influences outside BC borders.

Any assessment of the BC budget must note that in the last four years, revenues at the end of the fiscal year have consistently exceeded the level forecast by the budget. By the end of the 1979-80 fiscal year, revenues received likely exceeded revenues forecast by around \$900 million, two thirds of which resulted from higher than forecast natural resource revenues. The resulting budget surpluses have been put into the Revenue Surplus Fund. This fund stood at around \$600 million at the end of 1979-80.

However, by the end of 1980, US markets for BC natural gas had weakened substantially. As a result, natural resource revenue forecasts had to be reduced. This threatened to place the 1980-81 budget in deficit and to drain the Revenue Surplus Fund.

The federal presence was strongly evident in the budget. Federal contributions were to constitute 18.1 per cent of total budgetary revenue, up from 17.5 per cent in the previous fiscal year. Federal expenditures under subsidiary development agreements were to occur in respect of forestry management and tourism. Federal contributions were to be made to fishery programs and grain handling facilities. Agreement had been reached on federal participation in the Pacific Rim Trade and Convention Centre in Vancouver and federal participation was to be sought in the development of BC Place and the Victoria Conference and Trade Centre. The cooperation of the federal government was to be sought also to ease the administration of tax credits available to Small Business Venture Capital Corporations.

The budget speech recognized the increasing importance of federal-provincial relations in the budget and emphasized BC interests in the conduct of federal energy, trade, economic development and fiscal policy. The budget speech clearly stated the government's opposition to federal taxation of BC's natural gas resources "beyond that currently applied to natural gas producers through the income tax system" (Budget Speech, p. 21).

The budget was also noteworthy in its attempt to ground policy in medium term economic analysis. This analysis focussed upon general trends affecting the BC economy and attempted revenue and expenditure projections. The budget also stated the intention of the Minister of Finance to introduce a new Financial Control Act and to consider channelling all natural resource revenues into a Revenue Stabilization Fund (BC Budget: March 11, 1980, Honourable Hugh A. Curtis, Minister of Finance).

Trade and Development Policy

Influenced by rising interest rates nationally, BC took action to lessen their impact on the province. In January, 1980, a \$200 million dollar program providing mortgages for the construction of new homes at 9 3/4 per cent was announced. The program aimed at stimulating the BC construction and lumber industry.

Several budgetary measures were specifically aimed at enabling BC to benefit from opportunities for higher growth over the medium term. The ability of BC to meet future demand for its natural resource products, and to facilitate economic development was to be enhanced by: a \$338 million program for forest management (the first installment of a five year \$1.4 billion program), capital spending on transport, health, education and hydroelectric projects, funding and tax incentives for small business and farmers, and research and development in a number of sectors, including mining and energy. However, BC placed a seven-year moratorium on uranium exploration and mining. Later in the year, the Ministry of Labour announced a \$14 million program to increase the enrollment of apprentices in a number of industrial trades.

Federal-provincial conflict occurred in a number of fields. The province criticized the reduction of federal subsidies to shipbuilders and the withdrawal of tax incentives for multiple unit residential construction. But conflict was greatest over the issue of developing BC's coal resources and transportation facilities (see p. 97).

Cooperation was more evident in the various projects funded under Subsidiary Development Agreements between the province and the federal government. Some examples include: a low interest loan for a Marine Technology Centre to house consultants and research groups engaged in various kinds of marine research and development, the extension of electrical services in rural areas, solar energy projects and resort developments.

Alberta

Fiscal and Budgetary Policy

Independent analysts at the start of the new year forecast another year of above national average growth and employment in Alberta. Even after "extraordinary" expenditures including \$1.1 billion for provincial pension plan funding and \$340 million for hospital debt over and above "normal" budgetary expenses of \$5.0 billion, the budget was to yield a \$308 million surplus. This surplus was to be added to the General Revenue Fund, raising its balance to \$3.1 billion by March 31, 1981.

Of total budgetary revenue of \$7.2 billion (up 23 per cent from 1979-80), 56.8 per cent or \$4.1 billion was to come from non-renewable natural resource revenues. This would be 70 per cent of all such resource revenues expected. The remaining 30 per cent was to be channelled to the Alberta Heritage Savings Trust Fund. Together with income from investment, the value of the fund was expected to rise to \$8.7 billion by March 31, 1981, up from \$6.4 billion over the year. Transfers from the Government of Canada were to total \$666 million, up 14.2 per cent from last year.

However, the budget was a cautious document despite these favourable figures. It argued that the human and social costs of development would be high. Money would be needed to further other provincial goals such as debt retirement, pension plan funding and diversified economic development. Finally, revenue levels were seen as vulnerable to political conditions such as "the danger presented by possibly unfair or misguided federal policies".

In line with this cautious attitude, only established prices for natural resources were used in calculating future revenues. (New price schedules must be presumed to increase revenues beyond budget estimates and entail larger than predicted flows into the Heritage Fund and the General Revenue Fund). No new tax cuts were announced and health insurance premiums were increased. Employment increase in the public service was restricted to the rate of increase in the population as a whole. Financing of hospital construction henceforth was to be by annual capital grants. Evidently, the financial watchword in Alberta for government programs these days is becoming "pay as you go" and "pay your own way".

Record high interest rates were linked in part to federal monetary and fiscal policy especially the coupling of Canadian interest rates to US levels. The budget reported that subsidized mortgages and low-interest loans to builders were available to aid the housing industry overcome a drop in demand due to interest rate levels and to the ending of the federal capital cost allowance for multiple unit residential buildings. Other measures included lending programs for farms, small businesses and municipalities.

The budget argued the need for new national trade and economic strategies. Oil self-sufficiency by 1990 and increased exports of natural gas were advanced as means of reducing the balance of payments deficit and strengthening the Canadian dollar. For its own part, the government of Alberta was to pursue its own strategies of economic development.

Alberta Budget: April 2, 1980, Hon. Lou Hyndman, Provincial Treasurer

Trade and Development Policy

Ironically, by the end of the year, Alberta's most important economic policy decisions aimed not to accelerate development but to retard it. On October 30, 1980, Premier Lougheed announced cutbacks in oil production and further delays to the tar sands projects to counteract federal energy plans (see pp. 72-73).

Energy related development promises to increase significantly Alberta's rate of growth in the coming years. However, Alberta's economy is already somewhat overheated and supply bottlenecks, particularly in skilled manpower and housing, are becoming a problem. Thus, many observers felt that a pause in Alberta's growth would allow the province to "catch its breath" and make provisions to handle better the coming round of renewed growth.

The key problem for Alberta economic policy has been to maximize both the short term and long term effect of a dwindling non-renewable resource. Over the year, government spokesmen mentioned frequently a strategy of diversification based on expanding petrochemical processing, coal development, support for agriculture, manpower training and high technology industries. A number of initiatives have been taken in line with this strategy.

To deal with some of its manpower problems, the Alberta government announced in the October 20 Throne Speech an expansion in its apprenticeship and technical training programs. In late September, the Minister of Advanced Education and Manpower announced the creation of an Alberta Heritage Scholarship Fund. Federal immigration policy which favours family re-unification over importing skilled labour, and federal anti-combines legislation which prevents the coordination of manpower planning among major energy consortia are viewed by the Alberta Government as exacerbating manpower shortages in the province (Globe and Mail, November 10, 1980, p. B25).

Research and development in high technology industries received support as well. Early in the year, the province announced the creation of \$300 million endowment fund for medical research in Alberta with a view to encouraging the growth of a pharmaceutical and biomedical technology industry. A two and a half year research program on oil and gas technology organized by the Alberta Oil Sands Technology and Research Authority got underway with substantial private sector support. The federal department of Industry, Trade and Commerce and the Alberta government Economic Development Department increased funding for a product and marketing program providing 50-70 per cent of the cost of consultant's fees and project budgets for manufacturers wishing to improve existing products or design new ones.

A loan of \$80 million was made by the Alberta Heritage Savings Trust Fund to the Alberta Agricultural Development Corporation. However, over the year opposition critics claimed that despite provincial government promises, little help had been given Alberta farmers suffering from inflation and high interest rates.

In its April Throne Speech, the government had announced it would consider establishing a multi-million dollar inland container terminal near Edmonton which would make it the major distribution centre for the prairies. However, few additional details had come forth by year's end. There was also an expansion of government advisory services available to small business in Alberta. The Northern Alberta Development Council sponsored an Opportunity North Conference designed to provide the awareness of business opportunities in Northern Alberta.

Saskatchewan

Saskatchewan's relatively strong growth rate in recent years has been based on its natural resources. The Saskatchewan budget in March predicted continued low unemployment and growth of the gross provincial product greater than 5 per cent. It attributed the health of the economy in large part to "hard decisions" by the government on natural resource revenue and financial management policy. However, this economic optimism was somewhat diminished by the drought conditions in the summer and the loss of oil export sales in the winter.

Fiscal and Budgetary Policy

Before declining revenues and increased expenditures occurred as a result of the summer drought, the budget projected estimated revenues of \$2 billion to exceed expenditures slightly. Of total budgetary revenues, 24.6 per cent came from natural resource revenues channelled via the Saskatchewan Heritage Fund. The Fund was to keep around \$149 million and its assets were to total \$915 million by March 31, 1981. Revenues from income tax and federal sources were to account for 24.1 per cent and 22.6 per cent of budgetary revenue, respectively.

Budget expenditures in several existing programs were to be increased. These programs included aid to farmers, health services, senior citizens, municipalities, schools, co-ops, small business and property owners in the form of tax relief, rebates and credits and subsidized interest rates. Major new initiatives included program packages to help protect the environment and to increase native people's participation in the economy and society of Saskatchewan. Sales tax exemptions were extended to a wider range of farm goods. At the same time, sales taxes were raised on tobacco products. The government also announced a new tax on corporation assets in excess of \$10 million to prevent large oil companies from escaping payment of a fair share to general revenues, which the government feels is possible under the federal corporate income tax system.

The budget speech repeated the government's dissatisfaction with the federal energy policy. It called for lower interest rates and national leadership and action by all governments on foreign ownership, dependence on foreign oil, the grain handling and transport system and regional disparity. Using the grain embargo policy as an example, the government was careful to emphasize that the costs of national policies should be borne fairly and not at the expense of any one region.

Saskatchewan budget: March 13, 1980, Hon. Ed Tchorzewski, Minister of Finance.

Trade and Development Policy

Development initiatives in 1980 were based on enhancing the yield from natural resources, on promoting new trade links internationally and on diversifying the provincial economy. New government initiatives in the resource field concern forestry and fertilizer production in addition to existing policies on oil and uranium resources. The Potash Corporation of Saskatchewan has been very active in developing new deposits, expanding production at existing ones and exploring new roles for itself in new areas such as the manufacturing of nitrogen based fertilizers. But there are indications that the pace of development in the uranium industry may be slowing down as a result of public protest (see p. 88).

While resources showed the busiest activity, other sectors also received attention. The Saskatchewan Economic Development Corporation (SEDCO) is increasing its support for research and industrial parks. In early November, the government appointed Dr. Alex J. Y. Guy as its special advisor on science and technology policy. Heritage funds were used to upgrade provincial parks and to fund the purchase of 1,000 hopper cars by the Saskatchewan Grain Car Corporation as well as to finance, in part, other capital expansion programs by Saskatchewan crown corporations. Also, a Saskatchewan Energy Security Division was created within the Heritage Fund and \$100 million allocated to it for energy research development and conservation.

The government was also active in promoting international trade links. In September, the Canada-Chinese Trade Conference was held in Regina, sponsored by the Universities of Saskatchewan and Regina. In October, Agriculture Canada, Saskatchewan Agriculture and Saskatchewan Co-operation and Co-operative Development sponsored an international trade seminar in Saskatoon for co-op producers and organizations in Manitoba, Saskatchewan and Alberta. In late October and early November, a Saskatchewan trade mission visited West Germany, Italy, the Netherlands and England.

Concern was also expressed over federal government policies regarding the location of federal agency and department operations in Saskatchewan. Saskatchewan wanted valid reasons for the move of some federal operations outside the province and delays in the setup in the province of others. Saskatchewan policy to develop the northern area of the province included manpower training programs and aid to co-ops.

Manitoba

Although concerned about net out-migration from the province and the need to revitalize the province's economic base, the May budget was optimistic that strong growth in manufacturing and mining sectors would result in real growth of gross provincial product of around 2 per cent. However, this projection did not take account of the summer's drought which reduced agricultural income.

Fiscal and Budgetary Policy

Despite the government's pre-occupation with financial management and the second highest provincial per capita debt in Canada, the budget estimated revenues of \$1.9 billion would fall short of expenditures by \$139 million. Spending of \$2 million was up 9 per cent, perhaps in anticipation of a provincial election in 1981. Capital spending by crown agencies and departments totalled \$534 million.

Revenues from natural resources were minimal and did not warrant a separate revenue category. Federal transfers were the largest single category of budgetary revenue, accounting for 39.5 per cent or \$744 million. Most of these payments were unconditional (80.6 per cent). Funding of shared cost programs occurred for education, community services and corrections, energy conservation and development, and assistance to agriculture, tourism, manufacturing and forestry.

The budget announced a revamped system of tax credits and other aid for special target groups such as low income families, the elderly and single parents. The government also introduced additional exemptions from provincial sales taxes and tax credits based on donations to provincial political organizations and candidates.

The Manitoba government took the federal government to task over the issues of high interest rates, the size of its deficit and energy policy. It advocated early joint review of federal-provincial financial arrangements, including the equalization system, DREE agreements, native services financing and the flexibility of the national income tax collection system to allow for justifiable provincial tax differentials.

Manitoba Budget: May 13, 1980, Hon. Donald W. Craik, Minister of Finance

Trade and Development Policy

The Lyon government's ideological commitment to the free enterprise system has been the hallmark of its economic development policy since its election in 1977. Accordingly, the government has avoided direct participation in economic development, for example, by the use of crown corporations and has "privatized" many government-owned corporations acquired by the NDP. It has limited itself to providing various types of

support services for private enterprise and emphasizing fiscal policies which aim at reducing government expenditures within the framework of a balanced budget.

In many ways, 1980 showed a continuation of these policies, even though budgetary spending on economic development and tourism was up 37.9 per cent. At the end of 1979, the government phased out the Manitoba Development Corporation which had been very active in financing large scale industrial loans, and the government continued to look for buyers in the private sector for the few remaining businesses which it owned.

In May, the government unveiled an economic growth plan for the 1980's. It consisted mainly of support services to private enterprise in Manitoba. There would be an effort to expand exports to Latin America, to be implemented by trade missions and by the newly opened Manitoba trade office in Mexico City. Markets in the United States would also be explored. The government hoped also to reinforce Manitoba's position as the manufacturing center of Western Canada. Investment in electronics, aerospace, health-care products, transport equipment, light machinery and food processing would be encouraged. A shortage of skilled manpower was expected in the next few years and career information programs were promised in order to attract young people to industry.

The federal government was active in aiding various subsidiary agreements for tourism, rural business and farming enterprises. In late May, the Manitoba Enterprise Development Centre was opened in Brandon. Jointly funded by federal and provincial governments, the Centre will provide advisory and technical services to businesses in Western Manitoba and lease factory space to fledgling industries. The Brandon Centre has a counterpart in Winnipeg. Other joint initiatives include an industrial infrastructure program, increased support for regional development corporations, and pasture and livestock quality improvement programs.

However, as the year wore on, events seemed to chip away at the government's policies of non-interventionism. Attempts to sell the McKenzie Seeds Ltd. in Brandon were shelved as a result of public opposition to the proposed sale to a foreign buyer. Strong world markets for potash seemed to make exploitation of deposits in southwestern Manitoba economical to develop and the government announced it would retain 25 per cent interest in a mine proposed by private interests (Western Producer, May 1, 1980, p. 26).

Finally, a slumping provincial economy signalled a need for the stimulation of economic growth. Reviving hydro-electric projects previously planned by the NDP government promised both jobs for Manitobans and revenues for the government and the budget indicated that more hydro development would occur (see p. 79). However, by the end of the year, no firm decisions had been taken on projects which would enable Manitoba to share more fully in the Western Canadian boom which so far has largely passed it by.

Ontario

Fiscal and Budgetary Policy

Although this year's budget might be termed unspectacular, it did avoid giving the NDP sufficient cause for uniting with the Liberals to force a provincial election. The prospect of real growth in GPP in 1980 of less than 0.5 per cent prompted the provincial treasurer to forego any tax increases which would cut into the disposable income of Ontario residents. The budget also increased health spending and replaced the system of aid to senior citizens based on tax credits with one based on cash grants.

In order to stimulate the economy, to create jobs and to maintain levels of public service, expenditures were to rise to \$17.1 billion, up 8.0 per cent from 1979-80, leaving a deficit of \$949 million, up from \$659 million in 1979-80. The financing of the deficit as well as \$500 million in funding for Ontario Hydro was to be from non-public sources, principally the Canada Pension Plan. The government still held to its projection of a balanced budget in 1982-83. Revenues were to total \$16.2 billion, up 6.4 per cent from last year.

Federal government payments were forecast to reach \$3.0 billion or 19.7 per cent of total budgetary revenue, an increase of 10.2 per cent from 1979-80. The greater part of the federal money involved Established Programs Financing and the Canada Assistance Plan. Other payments would come from DREE funding for economic development in Eastern Ontario, bilingualism development, extended health care services, community services, and adult occupational training.

The budget provided no immediate policies to deal with the effect of high interest rates on Ontario farmers, small businessmen, and homeowners. Instead, the budget stressed that high interest rates were primarily the responsibility of the federal government. The budget also wanted federal action on the size of the federal deficit, on support for research and development, on trade deficits occurring under the auto pact and on a "viable national anti-inflation policy." Ontario continued to press for an oil pricing policy aimed at achieving self-sufficiency without unnecessarily high social dislocation.

On November 13, 1980, in response to economic difficulties which had built up over the year and to the perceived inadequacy of the federal budget, the government introduced a special mini-budget intended to stimulate economic activity. Measures included the elimination of sales tax on certain building materials and most new household furniture and appliances, rebates of sales tax on new light trucks and vans, and measures to encourage research and development. Other measures included increased day care assistance and the promise to negotiate a federal-provincial shared cost program to aid low income families hit by rising home heating costs.

Ontario Budget: April 22, 1980, Hon. Frank S. Miller, Provincial Treasurer.

Trade and Development Policy

Throughout the year, opposition parties and labour spokesmen pressed the government about manufacturing plant closings and the stagnation of the province's economy. They argued that Ontario was "de-industrializing" and in danger of losing its pre-eminence in the Canadian economy.

Despite the sensitivity of the provincial economy to high interest rates, to oil pricing policy and to recent downturns in the level of economic activity in the US, Treasurer Miller rejected the idea that Ontario had become a second rate province in terms of economic well-being. Ontario, he argued, had shown strong growth in the 1970's and continued growth would be fostered by a number of economic development policies contained in the budget. These included: the improvement of tax credits and other incentives for an extended range of small businesses, sales tax exemptions to encourage research and development, energy conservation and the use of alternate fuels, incentives for mining exploration and development, and increased funding for manpower training and job creation programs.

A continuing theme over the year was on expanding markets for Ontario goods. "Export '80", a package of programs to encourage greater exports by Ontario manufacturers was introduced. The Ontario International Corporation was set up to market government expertise, and aid private sector companies in bidding on offshore capital projects. Larry Grossman, Minister of Industry and Tourism took a number of trips over the year including trade missions to Australia, the Pacific Rim, Switzerland and the US. Grossman held export talks with US officials in Washington early in the year, and the Ministry opened new trade offices in Dallas and Atlanta in April to supplement trade offices already in operation in New York, Chicago and Los Angeles.

Taking advantage of Canada's economic union also formed part of Grossman's trade strategy. In late February he visited Alberta in an effort to increase Ontario's flow of manufactured goods to the oil and gas industry. In return, he intimated that Ontario constituted a natural market for the pharmaceutical industry which the Alberta government is trying to establish. By the end of the year, in further efforts to show its commitment to the Canadian economic union, the Ontario government extended its policy of giving preference to Canadian goods and services which are less than 10 per cent above the price of non-Canadian goods and services to apply to public agencies such as school boards, hospitals, crown corporations and municipalities, and to industries receiving provincial development aid as well as to government ministries. The Ministry also tried to encourage increased demand for the product of Ontario industries, through the "Buy the cars your neighbours helped to build" program intended to encourage employment in Ontario's auto industry. It also encouraged Ontarians to vacation within the province.

Ontario development policy continued to be one of selective assistance. Ontario participated with the federal government in rescue operations for Chrysler and Massey-Ferguson. Funds for modernization of the pulp and paper industry were made available through Ontario's Employment Development Fund

jointly with DREE funds. Funds were also made available for modernization of Ontario's textile industry and notice was served to the federal government that Ontario would continue to support quotas on imports of textiles and textile products (*Financial Post*, March 15, 1980).

Toronto finally received approval of its long planned Convention and Trade Centre. Three levels of government will participate in its funding. Metropolitan Toronto will contribute \$13.5 million and the federal government \$19 million. The province will add \$27 million plus a commitment to find an additional \$5 million needed to complete the \$64 million centre and subsidize operating costs for the first five years.

High technology received a financial boost in Ontario with the promise of additional funding for the Ontario Research Council, an intellectual boost with the creation of a task force on the micro-electronics industry and a morale boost with the first major sale of the Urban Transit Development Corporation system to Vancouver and prospects for future sales in the US.

Other measures included increased funding for the employer sponsored manpower training program, a new mineral incentives act and joint DREE/Ontario funding of the Turbine and Generator Division of Westinghouse Canada Ltd. Ontario's "alternative" to FIRA was also introduced in 1980. The Foreign Subsidiary Buyout Program makes loans and loan guarantees available to Canadians wishing to buy foreign branch plants that would otherwise be sold to foreign investors or closed down.

Near the end of the year, the government announced the elimination of the two year old Employment Development Fund at the end of fiscal 1980-81 and its replacement by a Board of Industrial Leadership and Development (BILD). BILD is a Cabinet level body chaired by Frank Miller, Ontario Treasurer with Larry Grossman, Minister of Industry and Tourism as Vice-Chairman. The Board's responsibility "is to review existing economic development programs, to develop economic strategy for the province and to spend a budget of \$750 million over the next five years."

Quebec

Fiscal and Budgetary Policy

In an abrupt departure from the fiscal restraint of his previous budgets, M. Parizeau increased the budgetary deficit 45 per cent from \$1.6 billion in 1979-80 to around \$2.3 billion in 1980-81. After accounting for non-budgetary transactions, total borrowing would reach \$2.2 billion, up from \$1.8 billion in 1979-80. Budgetary expenditures of \$17.2 billion were up \$2.1 billion or 14.1 per cent from 1979-80. Budgetary revenues of \$14.9 billion were up \$1.4 billion or 10.5 per cent from 1979-80. Federal government contributions formed 27.1 per cent of total forecast budgetary revenue. Nearly half of total federal transfers of \$4.0 billion are to come from equalization payments.

A variety of tax cuts was partly to blame for the deficit's increase. A reduction of 3 per cent in the income tax rate of all income groups was

accompanied by a 7.5 per cent rise in personal income tax exemptions (to adjust partially for inflation). Sales tax exemptions were extended to all textile products and to furniture, except electrical appliances and television sets. Succession duties were reduced, but not eliminated, leaving Quebec the only province to impose such duties. A switch from a per litre tax to a 20 per cent *ad valorem* tax on gasoline would reduce revenues initially, but increases would now occur automatically as the price of gas rose. Taxes on tobacco products were increased by a switch to *ad valorem* rates and the tax on the profits of medium and large corporations was increased from 12 per cent to 13 per cent.

Rising expenditures also added to the large deficit. The discovery of major errors in school board financial statements dating back to 1976-77 led to an extra \$208 million in this year's budget with another \$300 million to be the subject of special financing arrangements. Reform of the property tax system increased transfers to school boards by \$292 million. Pension plan funding took \$110 million.

For the most part, the budget contained no striking new expenditure initiatives. The budget did announce that capital spending on traditional items such as roads, schools, hospitals and public housing would decline in future years, while spending on water purification and public transit would increase.

M. Parizeau criticized federal fiscal and expenditure policy for being out of step with Quebec efforts at managing the economy. He also said that changes to the unemployment insurance regulations had lowered provincial revenues derived from the taxation of recipient's incomes, while increasing welfare costs. Finally, M. Parizeau implied that Quebec's use of an *ad valorem* tax on gasoline was intended to influence in some undefined way oil pricing talks between Ottawa and Edmonton.

In summary, what we are saying to the other governments and especially to the one in Ottawa is this: you know roughly how high you intend to raise the price of gasoline in Eastern Canada. Keep in mind that by whatever means you plan to arrive at this price, 20 per cent of it will consist of taxes payable to the government of Quebec...Quebec will also be assured of its slice of the pie (Budget Speech, p. 36).

Of all the provincial budgets, Quebec's provoked the most tempestuous response among critics inside the provincial assembly and observers outside. M. Parizeau defended the increase in the deficit and the extent of the tax cuts as appropriate for the period of slow growth that Quebec was entering. His critics, however, argued that he had decided to jeopardize the future health of the government's finances in order to serve the PQ's short term political goals of winning the referendum and a future provincial election. Criticism of PQ fiscal policy reached a crescendo late in the year when new evidence of the shaky state of the government's finances became public.

Quebec Budget: March 25, 1980, Hon. Jacques Parizeau, Ministre des Finances

Trade and Development Policy

Although the outcome of the Quebec referendum settled, for the medium term at least, any economic uncertainty which Quebec's political instability might have caused, many of Quebec's other fundamental problems remained. High unemployment and low productivity persisted while the government's ability to spend on new policies was reduced by a steadily increasing deficit.

The government continued its policy of encouraging cooperative community development and small and medium sized businesses. This year's economic summit meeting in early February concerned the cooperative movement in Quebec and progress seemed to be made on increasing cooperation among various sectors of the movement in Quebec. *Opération Solidarité Économique* (OSE) was renewed for the fiscal year 1980-81 and, in July, had its funding increased. OSE is a package of aid programs to the private sector, community development and direct public investment. The government also claimed great success for its preferential purchasing policies which have caused the percentage of Quebec government's purchases of goods and services in Quebec to climb from 55 per cent under the Liberals to 75 per cent at present. The government also set in motion programs to modernize its textile and pulp and paper industries (see pp. 90-91) and to develop the province's petrochemical industry.

Intergovernmental conflict arose in other areas. The Quebec government's plans to develop salt mining on the Madeleine Islands did not receive support from the federal government, forcing Quebec to go it alone. The federal government would take action, it said, to help the islands develop their fishing, transport, agriculture and tourist industry. In June, Pierre De Bané, federal Minister for DREE responded to claims by Quebec's *Ministre a l'Aménagement*, Jacques Leonard, that the federal government was holding up development funds for a number of DREE projects by arguing that the claims were false and that Leonard was trying to colour federalism as a "marriage that would not work" (*Le Devoir*, June 21, 1980, p. 11). In October, De Bané was again involved in a dispute, this time with Yves Bérubé, Quebec's *Ministre de l'Énergie et des Ressources*, over the location of a new paper mill.

The role of Montreal in the Quebec and the national economy seems to be the coming priority for the government. Sifto Salt and CIL closed head offices in Montreal in 1980. The next economic summit meeting in February, 1981 is on Montreal. The federal government which is not participating in the summit meetings will hold meetings of its own with Montreal businessmen in January. The federal government intends to discuss port development and the textile industry among other matters.

Towards the end of the year, aware that the PQ's term in office was nearly over, many analysts chose to reflect on the PQ's performance in handling the economy. While some pointed to the large deficit, heavy rate of taxation, high unemployment and low growth, others emphasized that, all in all, given its independentist policies, the structure of the Quebec economy and world economic conditions, the PQ had managed well enough. This debate

will probably intensify as the election of 1981 approaches.

New Brunswick

Fiscal and Budgetary Policy

The budget planned that revenues of \$1.56 billion, up 8.6 per cent from 1979-80, should exceed operating expenditures of \$1.51 billion, up 13.8 per cent. However, capital expenditures of \$225 million, up 17.3 per cent, contributed to an overall budgetary deficit of \$124 million (three times the size of the deficit in 1979-80, and borrowing requirements of \$195 million, up 65.6 per cent. No new taxes were introduced and health user fees were dropped.

The deficit budget aimed at stimulating the economy in a period of slow growth, but in such a way as to support the longer term economic and social development of the province. Social programs and services emphasized income support, senior citizen programs, correctional programs and second language instruction.

Natural resource revenues were expected to reflect continued mineral exploration and development and should grow by 33 per cent. However, they will account for less than 2 per cent of total revenues. The largest provincial revenue source is still contributions from the federal government. Revenue from the government of Canada totalled \$706 million, up 4.7 per cent. As a percentage of total ordinary revenue, Government of Canada contributions declined from 46.9 per cent to 45.2 per cent. Equalization payments formed over 50 per cent of federal payments to the province.

New Brunswick Budget: March 25, 1980, Hon. Fernand G. Dubé, Minister of Finance

Trade and Development Policy

Support for the provinces' traditional industries was the keystone of provincial economic policy in 1980. The budget promised aid to small business, programs for the modernization of the pulp and paper industry, the expansion of Saint John Shipbuilding and Drydock Ltd. and support for an office complex in downtown Saint John. The budget also revealed that forestry and industry General Development Agreement (GDA) programs were awaiting federal approval and proposed that additional GDA programs regarding highways, tourism, and fisheries be set up.

At the beginning of the year, a new master plan for the Port of Saint John in the 1980's was unveiled. In September, a \$6 million loan and other aid to Saint John Shipbuilding and Drydock Company Ltd. was made by the province for the first phase of a \$20 million expansion scheme. A new Crown Lands Forest Act involving a substantial reorganization of the system of royalties on Crown timber lands levels was introduced in February and became law by the summer.

In the agricultural sector, the province, in another of a long list of attempts to stabilize the potato industry in New Brunswick, established a single producer-controlled, potato marketing board and supported attempts to create an Eastern Canada Potato Marketing Board (see p. 84). In July, funding under the Kent County sub-agreement with the federal government was received for a special program to increase production and improve storage of potatoes.

A joint DREE - NB study of the New Brunswick tourist industry was released in February. DREE was also active in the development of tourist centres in New Brunswick.

Prince Edward Island

Fiscal and Budgetary Policy

This year's budget exemplified the government's ongoing struggle to reconcile a desire for greater self-sufficiency with "vehement demands" by a "wide variety of individuals and groups for the continuation, expansion or introduction of programs affecting them" (Budget, p. 19). Expenditures on current account were to rise 12.3 per cent from 1979-80 to total \$306.8 million. In the face of poor economic prospects for the Island and high interest rates, the Minister decided not to defer tax increases by increasing borrowing. Rather, increases in gasoline, sales and personal income taxes were to produce revenues of \$307.6 million, up 12.5 per cent and to yield a surplus on current account of \$776,400. However, when net capital expenditures and sinking fund contributions were added in, a total budgetary deficit of close to \$8 million was projected.

A cabinet level review of existing government spending programs, new Financial Administration and Audit Acts, and tighter control on crown corporations might free funds for new government programs. This year's budget emphasized spending initiatives in the areas of resource based industry, energy conservation and development, provincial-municipal finance and social service programs.

Federal payments were to account for 53.8 per cent of current revenue. Federal spending under the development plan was to total around \$32.5 million, although this expenditure would still be dwarfed by \$85 million in equalization payments, up 6.9 per cent. The federal presence on the Island, however, still has not yet been bolstered by the transfer of the Department of Veteran's Affairs to Charlottetown.

The Minister cautioned the Assembly that the growth of federal transfers would slow down in the medium term, as a result of a general program of federal expenditure restraint which would extend to the renegotiation of the Fiscal Arrangements and Established Programs Financing Act.

Prince Edward Island Budget: February 28, 1980, Hon. Lloyd G. MacPhail, Minister of Finance

Trade and Development Policy

Development policy in Prince Edward Island remains heavily dependent on federal funding through the Comprehensive Development Plan and other policies. Administrative changes to the federal-provincial advisory board increased the representation of federal ministers and aimed at giving PEI representatives a greater say in how Plan funds were to be spent. The speech from the Throne and the budget both emphasized increased efforts at marketing, planning and promoting of natural resources, with a particular emphasis on forestry. Late in 1980, Newfoundland and PEI reached agreement in principle on a joint program to explore the small scale development of renewable resources in the fields of energy, agriculture and the fisheries.

Nova Scotia

Fiscal and Budgetary Policy

This year's budget emphasized aid to those provincial interests affected by inflation as one of the key elements of the government's strategy for riding out uncertain economic conditions in the years ahead. The budget contained no increases in personal income or taxes. Electricity rates were stabilized as the government committed itself to bearing 100 per cent of the foreign exchange costs of Nova Scotia Power Corporation and to subsidizing rural electrical rates. The corporate income tax rate on small businesses was reduced from 12 per cent to 10 per cent and the loss in revenue offset by increasing the rates for other corporations to 13 per cent from 12 per cent. Increased support for senior citizen property tax rebates and rental assistance programs was promised.

Another key element in government economic strategy was a 30 per cent increase in capital spending, now up to \$204 million. The other key element emphasized policies for resource development (see following section). The combination of these elements led to expenditures on current account being projected to total \$1.7 billion with a deficit of \$16 million. The combined deficits on capital and current accounts totalled \$184 million. Financing was aided by the borrowing of \$85 million from the Alberta Heritage Fund, a loan announced late in 1980.

Federal government contributions to provincial revenues were expected to reach \$820 million by March 31, 1981 or 48.0 per cent of \$1.7 billion in total revenues. Federal contributions are up by 10.2 per cent; revenues by 12.6 per cent over last year's estimate. Federal contributions under Established Programs Financing are to account for about 83 per cent of all federal funds.

The presentation of budget statements and estimates is expected to be improved by a new financial system. The system also allows ongoing monitoring of departmental expenditures and revenues and thus provides the province's newly created Management Board with greater control over budgetary transactions.

Nova Scotia Budget: April 2, 1980, Hon. Jack R. Matheson, Minister of Finance

Trade and Development Policy

Government economic strategy in the budget emphasized policies for resource development. Funding of the Fishermen's Loans Board was increased from \$25 million to \$100 million. Under the province's General Development Agreement with the federal government, \$73 million would be spent by the province. This sum included \$8 million on Halifax shipyards, capital spending of \$20 million in agriculture, fishing and forestry and support for tourist developments. Energy development, however, was the key plank in Nova Scotia's resource development policy and a number of plans got underway to reduce Nova Scotia's dependency on oil imports (see p. 80).

The government renewed its request for federal aid in levelling the \$278 million dollar debt of the Sysco steel plant in Sydney. Aid of \$50 million had been promised in January during the election by Liberal leader Pierre Trudeau. However, Ottawa seemed to be stalling on its commitment, citing the lack of plans for the use of federal funds. Near the end of the year, frustration led one Nova Scotia official to remark that when it comes to Massey-Ferguson or Chrysler it doesn't take long for Ottawa to make up its mind (*Globe and Mail*, October 30, 1980, p. 3).

Ottawa also seemed to be stalling on a \$6.5 million Halifax convention centre for which the Conservatives had offered \$4 million in federal funds. The federal government did follow through on two projects announced by the Conservatives - funding 80 per cent of the cost of a \$43.5 million drydock project in Halifax and 54 per cent of the \$46 million demonstration tidal power plant in the Annapolis Basin. In June, the federal government undertook to provide the Michelin Tires (Cda) Ltd. with a \$42 million grant (added on to \$14 million from the province) towards a \$400 million expansion program.

The federal government also followed through on its offer at the September constitutional talks to allow greater provincial input into fisheries policy. (see p. 89). However, federal proposals for strengthening FIRA angered Premier Buchanan of Nova Scotia. At an international businessmen's seminar in Halifax, Buchanan said: "We do not like FIRA in Atlantic Canada, we are opposed to FIRA" (*Halifax Chronicle-Herald*, October 8, 1980, p. 1). He pledged to help foreign investors fight FIRA if they want to invest in Nova Scotia.

Newfoundland and Labrador

Fiscal and Budgetary Policy

Finance Minister John Collins produced a cautious budget. Until hoped-for oil revenues from offshore wells become a reality, "live within your means" and "hold the line" continue to be financial watchwords in the Newfoundland government.

Revenues on current account were to total \$1.34 billion, up 11.4 per cent from revised estimates for 1979-80. Expenditures on current account were up 12.2 per cent to \$1.3 billion. The resulting surplus on current account made only a small dent in the deficit on capital account resulting in a combined deficit of \$140 million. This represented an 8 per cent drop in the combined deficit because gross capital spending was down from \$270 million to \$223 million. However, higher than normal debt repayment requirements bumped total financial requirements to \$289 million, up 26.8 per cent from the previous year. Newfoundland's per capita debt is one of the highest in Canada and one of the first things Newfoundland is likely to do with oil revenues is to try to reduce this burden.

Revenues from federal sources totalled \$649 million or 48.4 per cent of total revenues on current account, up slightly from the year before. Increased revenues from provincial sources were derived from raising the corporation tax from 14 per cent to 15 per cent (except for small businesses), the tobacco tax, and the fees for hunting licences and park user permits. As well, the interest rates on government loans for fishermen and farm and rural development were hiked from 6 per cent to 8 per cent.

The increases in expenditures found their way into the school system, social assistance programs, pension increases, hospital construction and services, highway improvement and a new system of municipal grants. The budget also announced a number of new initiatives: a local preference purchasing policy, matching government contributions to public service pension plans, reviews of health care financing and a five year development plan to be released later in the year (see below). In August, accounting, internal audit, pension and payroll functions were made the responsibility of a provincial comptroller. The Deputy Minister of Finance retains his role as chief policy advisor on fiscal and economic policy.

Newfoundland and Labrador Budget: March 28, 1980, Hon. John Collins, Minister of Finance

Trade and Development Policy

Near the end of the year, Newfoundland released a five-year development plan specifying its medium term economic objectives. The plan identified fisheries development, Labrador resource development (especially hydro-electric development), forestry, marine research and development, transportation and offshore oil development as the key sectors providing a sound economy and tax base for the future. Premier Peckford, however, had

harsh words for the Economic Council's report on Newfoundland (*Newfoundland: From Dependency to Self-reliance*, Economic Council of Canada, Ottawa, 1980). He said the report invoked inevitable economic forces as the source of Newfoundland's condition but argued that, "This is just not so, we are, if we wish, masters of our fates" (*Newfoundland Information Service*, November 19, 1980).

In anticipation of the plan, Peckford reorganized his administration in August, creating a new Department of Development headed by Neil Windsor. The new Department incorporates the old Department of Industrial Development plus responsibility for Housing and Tourism Services. Earlier in February, Peckford had announced an Offshore Petroleum Impact Committee in an effort to increase management control over the on-shore economic and social impacts of offshore development.

Over the year, the Peckford administration took a hard line on several federal-provincial issues. Energy policy was a major concern (see Chapter IV) as was fisheries policy (see pp. 88-9). A discussion paper on major Canada-Newfoundland bilateral issues emphasized as well Newfoundland's dissatisfaction with declining levels of DREE funding in the province, the lack of federal-provincial agreement on maintenance of the Trans-Canada Highway and the decline in rail transportation in Newfoundland (*Discussion Paper on Major Bilateral Issues, Canada - Newfoundland*, May 30, 1980). Federal government reluctance to fund CN Marine ship repair facilities in St. John's led the Newfoundland government to offer to underwrite the \$20 million needed in August. By October, the way had been cleared for agreement between the province and CN Marine. However, Peckford's most forceful statements on Newfoundland's economic development problems were reserved for the September constitutional conference. In addition to statements on Hydro development in Labrador, he pressed for greater control over the fisheries and offshore development.

The province engaged in a number of promotional activities over the year. In May, Newfoundland's participation in oil industry shows in Houston and a businessmen's trade mission to Calgary was announced. In October, in a search for investment capital, Development Minister Neil Windsor addressed an investment seminar for British industrialists on Canadian offshore development in London and then moved on to Oslo for discussions with Norwegian businessmen on the possibility of an aluminum smelting industry to use the sizeable output of power from Labrador hydro-electric development (*Newfoundland Press Release*, October 3, 1980). Also in October, Fisheries Minister Jim Morgan went on a fact finding tour of the Northwestern United States fishing industry focussing on secondary processing, marketing, fisheries management and new harvesting and processing technology. The government also announced a new program of loans from the Fisheries Loan Board.

Yukon

This year's budget for the Yukon Territory projected expenditures of \$89.7 million up 12.5 per cent from last year's projected expenditures of \$79.7 million. Revenues were to total \$86.7 million, up 10.5 per cent from last year's estimates. The slower expenditure growth meant an increase of 130 per cent in the planned deficit on Operating Account, up from \$1.3 million in 1979-80 to \$3 million in 1980-81. Capital expenditures of \$29.2 million were to exceed capital grants and recoveries by \$833,000. However, planned hospital expenditures were down slightly from last year's budget.

Departments experiencing fast growth in operating expenditures were Tourism and Economic Development (up 55.2 per cent) and Renewable Resources (up 42 per cent). However those two categories comprised only 6 per cent of the total Yukon 1980-81 operating budget. The largest operating expenditures occurred in Highways and Public Works (24.0 per cent), Education (22.9 per cent) and Health (15.3 per cent). Capital spending on tourism and economic development also increased tremendously from \$30,000 to \$2.6 million as a result of a subsidiary development agreement signed with the federal government. Capital expenditures on Municipal and Community Affairs were down from \$18.7 million to \$10 million. Yet they remained the largest category of capital expenditures followed by Education (up \$2.3 million to \$7.8 million) and Highways and Public Works (up \$977,000 to \$7.1 million).

A large percentage of territorial revenues for both operating and capital purposes continues to come from the federal government. Federal transfer payments plus Established Programs Financing and Extended Health Care total \$38 million and recoveries under the Alaska Highway Agreement total \$9 million. Total federal contributions were \$53.7 million for around 60 per cent of budgetary revenues (Letter, Yukon Budget Bureau, October 29, 1980).

The territorial government has been scrambling in recent years to improve its financial position, not only to fulfill responsibilities arising out of the boom associated with gas pipeline development but also to buttress its claims for greater political autonomy. This year, the territorial government pressed a claim for \$5 million in property taxes upon Foothills Pipe Lines (Yukon) Ltd. as provided under the tax collection schedule in the Northern Pipeline Act. However, Foothills does not yet own much property in the Yukon as a result of delays in pipeline construction and feels that claims for property taxes are premature.

Northwest Territories

For the first time, the Legislative Council was presented with a deficit budget. Moreover, only a few departments avoided a reduction in existing levels of funding. The necessary revenue was pre-empted by the government's rising energy costs and by federal policies of fiscal restraint. Spending by the Legislative Council, however was up 54.2 per cent to \$1.9 million partly to provide for further study of the territory's political development and constitutional strategy.

Total expenditures were to reach just over \$338 million, up 9.3 per cent from 1979-80. Total income was up 5.6 per cent to just over \$329 million. However, if only operating expenditures and incomes of the territorial government proper are contrasted, the deficit widens from nearly \$9 million to around \$14 million.

Federal contributions to the territorial budget totalled close to \$270 million or 80 per cent of total expenditures. The budget was optimistic that further federal payments would occur later in the year to compensate the territory for rising energy costs. Those payments would largely eliminate the deficit on the operating account. In general, however, the budget speech indicated dissatisfaction with current federal-territorial financial arrangements. The speech criticized the arbitrary and unilateral determination by the federal government of its financial contributions to the territory. The government also stated its wish to explore other income sources, for example, some method of resource-revenue sharing.

Such initiatives reflect a growing desire by territorial residents for greater independence. Independence in turn is linked to economic development. As Territorial Commissioner John Parker observed in his opening address to the Council,

...the degree of political power gained by the Northwest Territories in the next decade will be related to our ability to pay our own way. Thus if we wish to obtain greater control over our own lives in the political sense, we will have to achieve a higher degree of fiscal autonomy through development in the economic sense.

FEDERAL-PROVINCIAL FINANCING ARRANGEMENTS

Introduction

The present equilibrium in federal-provincial financial arrangements as regulated under the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977, (S.C. 1976-77, c. 10) appeared more and more shaky as 1980 drew to a close. The federal government chose to reaffirm its commitment to equalization in its constitutional Resolution. However, in his October budget, Finance Minister MacEachen indicated that the federal government expected to achieve "significant savings" when transfer programs to the provincial governments came up for renewal (Budget Speech, p. 13,). Table 3.5 shows that total transfers to provinces are expected to decline as a percentage of total budgetary expenditures. The budget indicates that the major transfer programs experience only slight declines. The bulk of the decline would seem to be at the expense of the minor transfer programs. However budget projections for Established Programs Financing, Canada Assistance Plan and equalization assume no change in existing methods of calculating such payments. In order to stay within projections for total transfers to the provinces, the federal government will have to squeeze funding for minor transfer programs in 1983-84 to 60 per cent of their level in 1980-81 or renegotiate the terms of the major programs (line 14, Table 3.5).

The Hall Report, Canada's National-Provincial Health Program for the 1980's (August 1980) pointed out difficulties in the financing of the nation's health system and recommended solutions affecting federal-provincial financial arrangements. The tax collection agreement is fraying around the edges as provinces seek greater flexibility in using income tax for policy purposes. Loans made to other provincial governments by the Alberta Heritage Savings Trust Fund have further complicated the system of intergovernmental finance. However, although the Fiscal Arrangements Act is scheduled to expire on March 31, 1982 and although legislation renewing or reforming its terms must be placed before Parliament by late 1981, work on new arrangements does not seem to have gone much beyond the official's level. In preparation for the upcoming negotiations, the Western provinces have set up a Minister's committee with Donald Craik, Manitoba's Minister of Finance, as chairman.

Equalization

Rising oil and gas revenues in the producing provinces continue to pose problems for the administration of the equalization program. Such revenues are used to calculate equalization payments, and, in response, payments have been rising. Ontario has recently calculated that "...in the absence of any constraints, a \$1.00 increase in Crown gas revenues would currently generate a federal obligation of over 78 cents in equalization, whereas a \$1.00 increase in non-resource revenues would generate less than 7 cents." Even Ontario qualifies for equalization payments under the Fiscal Arrangement Act's original 1977 formula. It is argued that the level of equalization payments calculated by the 1977 formula no longer reflects what is needed to achieve the principal goal of the program - the provision of public services across Canada at comparable levels. Rather, it "over-equalizes", as a result of the upward bias introduced by oil and gas revenues.

The problem of how to treat oil and gas revenues in any new equalization formula will be raised forcefully by both the federal and Ontario governments in negotiations leading to a new Fiscal Arrangements Act. It is the federal government which must raise the revenues needed to pay for the costs of equalization and faces even greater liability as energy prices rise in the future. Ontario is the province whose tax payers are likely to bear the brunt of federally imposed measures to raise the required revenues.

In one of its 1980 Budget Papers, Ontario presented four scenarios for reforming the equalization program. Three of the four scenarios entail voluntary contributions by the richer provincial governments to the equalization program. The equalization program thus becomes a way of "recycling" the natural resource revenue "windfalls" of the producing provinces through the rest of the country in recognition of the country's "natural resource heritage."

Bill C-26 introduced in Parliament in the fall of 1978 attempted to provide an interim solution to some of the problems with the formula by amending the Fiscal Arrangements Act. However, it failed to become law. In May 1980, the federal government repeated the attempt with Bill C-24.

As with Bill C-26, Bill C-24

- phases out by April 1, 1980 the use of revenues from the sale of Crown leases and reservations on oil and natural gas lands in calculating equalization payments; and
- prevents any province where per capita income is above the national average in the current year and in the two years previous to being eligible for payments (at present this clause affects only Ontario and the province has agreed to the clause).

The Bill is retroactive to April 1, 1977.

Bill C-24 thus adds further complications to the treatment of oil and resource revenues in the equalization formula. Already, non-renewable resource revenues are discounted by 50 per cent of their value when calculating equalization payments and in no case are equalization payments derived from natural resource revenues allowed to exceed one third of the total equalization paid to a province.

Social Services Programs

The major social services programs to which the federal government contributes are those covering hospital insurance, medicare, post-secondary education and welfare. The first three are regulated under the Established Programs Financing program (EPF). Some combination of cash payments and tax transfers is provided unconditionally to the provinces. Only the contributions towards welfare, regulated under the Canada Assistance Plan (CAP) are cost-shared on a 50:50 basis.

The rapid growth in EPF payments has caused the federal government concern that its liabilities as calculated under the present formula are growing too heavy. The October federal budget served notice that the rate of growth in social affairs expenditures would be kept below the rate of growth in GNP. Savings would include "reductions in federal transfers to provinces relating to areas coming under provincial jurisdiction" (Budget Speech, p. 33) - that is to say, EPF and CAP payments. A review of cost sharing arrangements under the Canada Assistance Plan, the Vocational Rehabilitation for Disabled Persons Act, the Indian Act and the community services action of the National Housing Act is currently underway involving officials from the Ministry of State for Social Development, the Department of Finance, the Federal-Provincial Relations Office, the Department of Health and Welfare and the Secretary of State (Globe and Mail, November 4, 1980, p. 7).

Other problems with the current federal-provincial financing arrangements were highlighted in the Hall report on health care in Canada. Widespread concern over the impact on the nation's health system of doctors billing their patients extra or opting out of the medicare program led federal and provincial ministers of health to set up the Hall Commission in the fall of 1979. Its terms of reference gave it wide scope to deal with the future of the health system.

Table 3.5

Federal Transfer Payments to the Provinces, 1980-81 to 1983-84

<u>Item</u>	1980-81	1981-82	1982-83	1983-84
	(\$ million)			
1. Equalization	3,481	3,855	4,331	4,819
2. % Change	(4.8)	(10.7)	(12.3)	(11.3)
3. % Total Transfers	(27.2)	(27.2)	(29.0)	(30.3)
4. Established Programs Financing (incl. Extended Health Care)	5,708	6,404	6,938	7,590
5. % Change	(6.1)	(12.2)	(8.3)	(9.4)
6. % Total Transfers	(44.7)	(45.3)	(46.5)	(47.7)
7. Canada Assistance Program	1,802	1,971	2,123	2,294
8. % Change	(9.0)	(9.4)	(7.7)	(8.1)
9. % of Total Transfers	(14.1)	(13.9)	(14.2)	(14.4)
10. Subtotal Major Programs	10,991	12,230	13,392	14,703
11. % Change	(n.a.)	(11.3)	(9.5)	(9.8)
12. % of Total Transfers	(86.0)	(86.4)	(89.7)	(92.5)
13. Other Transfers	1,784	1,920	1,533	1,197
14. % Change	(n.a.)	(7.6)	(-20.2)	(-21.9)
15. % of Total Transfers	(14.0)	(13.6)	(10.3)	(7.5)
16. Total All Transfers	12,775	14,150	14,925	15,900
17. % Change	(n.a.)	(10.8)	(5.5)	(6.5)
18. % of Total Expenditures	(20.1)	(19.2)	(18.1)	(17.4)
19. Total Expenditures ¹	63,550	73,650	82,600	91,625

¹ National Accounts Basis; Source: pp. 23,33, The Budget, October 28, 1980, Department of Finance, Ottawa.

Table 3.6

ESTIMATED FEDERAL TRANSFERS TO THE PROVINCES, TERRITORIES AND MUNICIPALITIES
FISCAL YEAR 1980-81
(\$ millions)

Program	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	N.W.T.	Yukon	Total
Statutory Subsidies	9.7	.7	2.2	1.8	4.6	5.5	2.2	2.1	3.4	2.1	-	-	34.1
Fiscal Equalization	377.6	85.5	447.6	387.6	1,653.6	-	299.3	62.5	-	-	-	-	3,313.7
1971 Undistributed Income on Hand	.3	*	.8	1.4	13.1	18.8	1.8	1.0	3.1	4.7	-	-	45.0
Reciprocal Taxation	6.4	2.9	14.8	9.4	35.3	38.5	-	-	-	-	-	-	107.3
Public Utilities Income Tax Transfer	4.5	1.0	-	-	1.3	20.0	2.0	*	36.0	1.5	.3	.4	65.0
Youth Allowances Recovery	-	-	-	-	-	-	-	-	-	-	-	-	-
Prior Year Adjustments**	-	-	-	-	-161.6	-	-	-	-	-	-	-	-161.6
Total Fiscal Transfer Cash Payments	398.5	90.1	465.4	400.2	1,546.1	82.8	305.3	65.6	40.5	8.3	0.3	.4	3,553.5
Hospital Insurance	72.0	15.4	106.1	88.1	546.9	996.1	128.2	120.3	220.8	290.2	5.1	2.2	2,589.4
Medicare	24.7	5.3	36.4	30.3	187.1	342.0	44.0	41.3	75.8	99.7	1.7	.8	889.1
Post-Secondary Education	45.2	9.7	66.6	55.3	342.1	625.3	80.5	75.5	138.6	182.2	3.1	1.4	1,625.5
Extended Health Care	15.5	3.3	22.9	19.0	169.4	230.2	27.7	26.0	55.5	69.9	1.2	.6	641.2
Prior Year Adjustments**	-	-	-	-	-	-	-	-	-	-	-	-	-
Established Programs Financing Cash Payments	157.4	33.7	232.0	192.7	1,243.5	2,193.6	280.4	263.1	490.7	642.0	11.1	5.0	5,783.2
Canada Assistance Plan	50.8	11.8	62.5	78.6	541.4	508.1	67.8	66.1	150.0	254.9	1.6	8.7	1,802.3
Health Resources Fund	-	1.1	8.0	-	4.2	.2	.6	.7	.3	2.2	-	-	17.3
Other Health and Welfare	.9	.5	2.1	4.6	34.6	33.2	6.4	5.7	9.5	4.3	1.2	.4	103.4
Bilingualism in Education	1.3	.8	2.9	12.6	106.5	41.0	3.9	1.7	3.5	4.2	.1	.1	178.6
Economic Development	43.7	27.9	37.6	38.4	123.5	20.1	24.7	18.5	8.0	19.7	3.8	2.0	367.9
Crop Insurance	*	.6	.1	.1	2.6	8.8	8.1	33.2	20.7	1.8	-	-	76.0
Territorial Financial Agreements	-	-	-	-	-	-	-	-	-	-	-	-	-
Municipal Grants	1.7	.6	8.3	5.1	34.7	66.6	8.5	3.8	9.7	14.7	1.3	1.0	156.0
Total Other Cash Payments	98.4	43.3	121.5	139.4	847.5	678.0	120.0	129.7	201.7	301.8	23.5	64.5	2,969.3
TOTAL CASH TRANSFERS	654.3	167.1	818.9	732.3	3,637.1	2,954.4	705.7	458.4	732.9	952.1	234.9	69.9	12,306.0
Established Programs Financing Tax Transfer	-	-	-	-	-	-	-	-	-	-	-	-	-
13.5 Personal Income Tax Points	44.5	9.6	84.3	63.2	832.4	1,351.5	118.9	110.4	339.1	431.7	6.5	4.5	3,396.5
1.0 Corporate Income Tax Point	2.8	.6	5.2	3.6	59.3	109.3	10.2	9.4	52.0	36.5	.9	.3	290.2
Contracting-Out Tax Transfer	-	-	-	-	-	-	-	-	-	-	-	-	-
8.5 Personal Income Tax Points for EPF	-	-	-	-	476.2	-	-	-	-	-	-	-	476.2
5.0 Personal Income Tax Points for CAP	-	-	-	-	268.0	-	-	-	-	-	-	-	268.0
3.0 Personal Income Tax Points for Youth Allowance	-	-	-	-	161.6	-	-	-	-	-	-	-	161.6
TOTAL TAX TRANSFERS	47.3	10.2	89.5	66.8	1,797.5	1,460.8	129.1	119.8	391.1	468.2	7.4	4.8	4,592.5
TOTAL CASH PLUS TAX TRANSFERS	701.6	177.3	908.4	799.1	5,434.6	4,415.2	834.8	578.2	1,124.0	1,420.3	242.3	76.7	16,898.5
Fiscal Equalization - Dollars per capita	651	691	526	548	262	-	292	65	-	-	-	-	-

* Amount too small to be expressed.

** Distribution not available.

Source: Department of Finance, Federal-Provincial Relations and Social Policy Branch, Background Paper
on Federal-Provincial Fiscal Arrangements, October 16, 1980, p. 50.

The commissioner's inquiries gained added significance as a result of the February general election. With the return of the Liberal government came the return of Monique Bégin to the Health and Welfare portfolio. While in opposition, she had repeatedly claimed that some provincial governments were directing federal money away from health programs and into their general revenue funds in violation of the EPF agreements. During the election campaign, she further warned that a Liberal government might withhold federal funds from guilty provinces unless equal access to medical treatment was guaranteed (*L'Evangeline*, September 5, 1980, p. 6). By June 1980, however, she had ruled this possibility out (*Globe and Mail*, June 11, 1980, p. 5).

The Hall report was thus the subject of much speculation and concern by doctors, politicians and the general public. Its findings supported the provinces and debunked Miss Bégin's claims. In no case were federal cash payments being diverted to non-health spending. It was true that provincial contributions to medicare and the hospital insurance program had declined to less than the federal share but this was a result of provinces switching funds to other health programs - a rearrangement of health spending priorities which EPF had intended to encourage. Finally, Justice Hall noted provincial expenditures in health as a percentage of total budgetary expenditure had remained roughly constant from 1975-76 to 1979-80 (*Hall Report*, pp. 11-12).

Hall noted that extra billing and opting out, if allowed to continue, constituted a threat to the integrity of the national health system. The federal government should insist in the Medical Care Act that extra billing be eliminated. At the same time he argued the right of doctors to adequate compensation. His suggestion that compulsory arbitration be used to settle fee schedule disputes was not welcomed by representatives of the medical profession some of whom threatened to unionize if it were ever introduced. Hall also advised that some action was required to end the annoyance caused to Canadians by difficulties with the portability of health insurance across provincial boundaries.

Significantly, Hall argued that the federal role in health had not ended with the block funding arrangements of the EPF argument. Pointing to the emerging pattern of restraint on provincial spending on health, he predicted that, "a number of Provinces, particularly the four Atlantic Provinces cannot hope to expand their health services into other health areas such as drug and dental programs..." (*Hall Report* p. 13) His solution was for the federal government to cost-share the additional insured services that have-not provinces wish to introduce - a solution that on the surface does not seem to mesh well with Finance Minister MacEachen's plans for reductions in social service transfers to the Provinces after 1982.

In short, Hall's far-ranging report asserted once again the need for a commitment to a comprehensive system of national health care even as it indicated that one way or another everybody was going to have to pay for it.

The Alberta Heritage Savings Trust Fund

A key element in Alberta's economic strategy for the future is the role to be played by the large and growing amounts of money in the Alberta Heritage Trust Savings Funds. Some projections have it reaching \$30 billion by 1985. As of June 30, 1980, total assets of the fund were \$6.9 billion.

Indications are that it is growing faster than the ability of its managers to find new investments. In June, for example, the amount of the fund "on hold" in short term securities and bank deposits rose to 5 per cent from 1 per cent in March (Globe and Mail, November 10, 1980, p. B26). Fund revenues coming from returns on investment are increasing relative to resource royalties. At the end of June 1980, the Alberta Investment Division of the fund totalled \$3.27 billion or around 47 per cent of the fund. This amount comprises income producing investments such as loans to Alberta Government Corporations, debentures and equity in the Syncrude projects. The same is true of the next two largest divisions of the fund, the Canada Investment Division and Marketable Securities division.

The smallest division of the fund is the Capital Projects Division whose investments totalled \$769 million at the end of June 1980 or 11.1 per cent of the Fund. It is out of this fund that various infrastructural programs of both an economic and social nature have been funded. These include the above mentioned medical centre, land reclamation projects, applied health research, park and recreational development and forestry programs. (For a more detailed list of projects see Alberta Heritage Savings Trust Fund, Annual Report 1979-80.)

The Alberta legislation in its spring session amended the Alberta Heritage Savings Trust Fund Act to create two new investment divisions: The Commercial Investment Division and the Energy Investment Division. Both these divisions are intended to yield returns on fund investments. No projects were approved under these divisions in the first quarter of 1980-81. However, in September and October of 1980, meetings between Alberta and Quebec energy ministers and officials took place regarding Alberta investment in the supply and distribution of natural gas to Quebec and in the construction of heavy oil refineries in Quebec.

Other amendments to the Act included an increase in the ceiling on the Canada Investment Division from 15 per cent to 20 per cent of the total assets of the fund. In part this represents the need to find increased outlets for Fund resources, but it is also consistent with Alberta's commitment to recycle resource revenues in Canada. The Fund placed a variety of loans to other provincial governments and their agencies during 1980, all at very favourable rates of interest. Borrowers included all the provinces of the Atlantic Region, the Quebec government and Quebec Hydro. By the end of the year, however, some observers were speculating whether this indebtedness might be exploited for political purposes by the Alberta government, an hypothesis which Alberta officials heatedly denied.

Other Developments

Bill C-24 also revived the federal government's proposal to amend the **Public Utilities Income Tax Transfer Act**. Under the current Act, the federal government returns 95 per cent of the federal corporate taxes paid by privately owned utilities on income earned from the generation and distribution of electricity and gas, to the provinces. These payments are intended to reduce costs to utility consumers. C-24 proposed that only 50 per cent of the taxes be returned to the provinces but this provision was withdrawn in early 1981 as a result of representations from provincial governments, particularly those in the West (Department of Finance, Release, February 5, 1981).

The October federal budget announced, however, that 50 per cent of the export tax on crude oil would now be given to the provinces, a move which primarily benefits Saskatchewan.

A number of other events complicated the federal-provincial tax system in Canada. Alberta announced that it would withdraw from the Tax Collection Agreement governing the collection of corporate income tax. The province joins Ontario and Quebec as provinces collecting their own corporate income. The move would be effective April 1, 1981, although no changes to the tax schedule would be made until after April 1, 1982 and after consultation with affected parties. The aim of the action is to allow the government to use the tax system to aid the competitiveness of Alberta businesses. The federal government will continue to collect Alberta's Personal Income Tax.

BC is again hoping to introduce a tax credit for shares purchased in Small Business Venture Corporations - a measure requiring federal agreement for its administration under the tax collection agreement. However, it has given up its attempt to provide a special tax credit for corporations with head offices in the province.

Citing dissatisfaction with the treatment of oil companies under the federal corporate income tax system, Saskatchewan introduced a capital tax on large corporations designed to increase oil company contributions to general revenues.

CHAPTER IV

ENERGY POLICY

INTRODUCTION

There is one thing Canadians should always remember. In many parts of the world including much of the southern United States people will be uncomfortable if heating fuel is cut off, but in Canada many people would die. We need our energy fuels just to stay alive in our vigorous climate and fuel for our future is essential.

- J. Tuzo Wilson
(Colombo's Concise
Canadian Quotations, p. 77)

In 1980, intergovernmental quarrels undermined the assumption of many Canadians that the country's energy future was secure. The dispute over oil and natural gas policy which set Ottawa against the Western producing provinces, led by Alberta, dominated the public's attention. But conflicts also occurred in other areas of the country over hydro-electricity and nuclear power. Major energy projects were put on hold and the economy suffered as a result. Political tension between regions and provinces increased and by the end of the year, few simple solutions were in sight.

OIL AND NATURAL GAS POLICY

The Problem

Under the BNA Act, the provinces have constitutional jurisdiction over the development of natural resources and direct taxation of resource production within their boundaries. The federal government's powers include power over prices when resources are traded interprovincially and internationally and the ability to tax directly and indirectly. In normal circumstances, each level of government has control over different aspects of the production - distribution process for natural resources. Therefore efficient natural resource policy calls for co-operation between governments on the pricing of resources, taxation and the distribution of revenues among the federal government, the provinces and the private sector.

In the case of oil and natural gas, the major intergovernmental actors are the federal government and Alberta whose negotiations set the standard for the other producing provinces. Negotiations became more difficult in 1980. International oil prices continued to rise, making the stakes higher. Relations between west and east were strained by the election of a Liberal government lacking western representation and by the difficulties of constitutional reform.

The Setting

As 1979 drew to a close, the Conservative government announced with confidence that an oil-pricing agreement was within reach. Compared to the previous Liberal government, the Conservatives were much more willing to see prices rise. They believed that rising prices would encourage conservation and increase exploration and development. More funds would be available for energy investment. Federal expenditures on oil subsidy programs would be reduced and federal revenues would increase. Although never finalized in many of its details, the broad outlines of the agreement would have given Ottawa a larger share of energy revenues (32-42 per cent of the oil and gas increase) and would have accelerated oil sands and heavy oil development in Alberta. In return, Ottawa would have guaranteed a rapid rise in price to 85-90 per cent of the lesser of the Chicago or international price and would have intensified programs for substituting domestic natural gas for imported oil.

With the defeat of the budget and the election of the Liberals, Canadians were faced with the Liberal proposal made during the election for a blended pricing system. The Liberal pricing scheme involved a slower rate of increase in the well-head price. The provinces were faced with the likelihood that the federal government would squeeze their revenues and those of private companies in order to finance the oil import subsidy program and other federal programs.

This pricing policy was popular with eastern voters. The problem the Liberals faced was in reconciling it with the wishes of the western producing provinces before the current oil pricing agreement lapsed on June 30, 1980. Thus began a series of moves and counter moves by the federal and Alberta governments that continued after attempts to reach a new agreement failed and the federal government imposed its own price schedules in the National Energy Program of October 28, 1980.

March to October, 1980

Some flexibility in the federal position seemed evident in mid-March, when Federal Energy Minister Marc Lalonde stated that the Government's election promise to keep oil prices below Conservative policy would only apply to the first year of the federal-provincial agreement (*Financial Post*, March 15, 1980, p. 9). But he also announced that the Cabinet had approved the establishment of the Petroleum Monitoring Agency, which came into being August 1, 1980 with Harold Renouf as its Chairman. The agency took over the oil industry monitoring tasks previously done by Energy, Mines and Resources but some observers raised the possibility that its powers might exceed simply the monitoring of the industry (*Financial Post*, March 15, 1980).

Two days before Lalonde met with Alberta Energy Minister Merv Leitch on March 18, 1980 Premier Lougheed asserted that his province would not accept from a new agreement any less than had been promised by the Conservative government; furthermore, permits for heavy oil and oil sands projects in

Alberta would be withheld until agreement had been reached. The March 18 meeting amounted to little more than a "get acquainted" session. At the end of March, the federal government invoked a *force majeure* clause in its 1976 taxation and pricing agreements with Syncrude Ltd. and Suncor Inc. which allowed them to receive world prices for their products. Ottawa froze the prices the companies had been receiving because world prices had almost tripled since 1976, giving the companies "windfall" profits not foreseen under the original agreement.

In May, a few days before his second meeting with Lalonde, Merv Leitch introduced a bill which could limit oil production when the provincial cabinet "considers it in the public interest to do so" (*Globe and Mail*, May 27, 1980, p. B3). During negotiations, the federal government responded with a proposal to tax natural gas exports. This tax would have generated over \$10 billion for the federal government. The Conservative government would have raised a similar amount through a gasoline excise tax (*Globe and Mail*, May 14, 1980, p. B2). The Liberal proposal was strongly rejected by the province, because it was seen not only as an intrusion on provincial jurisdiction, but as another heavy tax on oil and gas. The second attempt to reach agreement failed. And negotiations failed in June when Leitch and Lalonde met once again. However, the two energy ministers did decide to extend negotiations for a month, hoping to reach agreement by the end of July. On July 12, 1980, a levy of 2.25 cents was imposed by the federal government on a gallon of all petroleum products. The government said the levy was necessary in order to maintain the funds used to pay the world prices for oil produced from the tar sands.

The last round of negotiations took place on July 24-25 between Premier Lougheed and Prime Minister Trudeau. Alberta's last "Energy Package" proposal would have brought the price of crude oil in Toronto to 75 per cent of the North American price by 1984. On this basis, the increase in the wellhead price for oil was estimated to be \$22.50 by January, 1984. This was to encourage research and development, compensate the producing provinces for the depletion of their resources and improve conservation. Natural gas would be priced at 85 per cent of Alberta oil, with a 20 per cent incentive discount for the eastern provinces. This discount would contribute towards the goal of energy self-sufficiency. Alberta's offer also included a willingness to accept lower royalties for tar sands projects and to forego any increases in royalties for conventional oil regardless of future oil prices. This offer would enable the federal government to gain billions of dollars through extra corporate taxes. Alberta would also offer lower royalties as incentives to development.

Stating that they were anxious for Canada to achieve energy self-sufficiency, the Alberta cabinet was also prepared to make substantial investments in Canadian energy projects. These included: investments in a pipeline to carry Alberta natural gas to Quebec and the Atlantic provinces, thereby replacing foreign oil, investments of millions of dollars in research and development and recovery projects; and investments in an improved transportation system for Western Canada.

In return, Alberta asked that the federal government not impose a natural gas export tax or a wellhead tax on oil and gas which were regarded

as intrusions on provincial jurisdiction. The Alberta government also requested that federal taxes on the oil and gas industries not be so heavy as to stifle exploration and development within the province.

The federal government rejected the Alberta proposal, stating that although it believed that prices must rise considerably, they should not be tied to prices set by the market. Instead, Ottawa proposed that prices rise in fixed amounts which would have seen the wellhead price for oil increase by \$12.75 by 1984. However, the increase in price to consumers would have been greater as the federal government would also levy a refinery tax designed to subsidize synthetic oil production and oil imports. This tax would have yielded \$13.6 billion to the federal government and raised the price to the consumer a total of \$18.75 by 1984. Lalonde asserted, "Ours is not a cheap oil policy, it is a Canadian oil price policy."

For future development of the oil sands, the Liberal government offered \$32.00 per barrel for synthetic oil. This would not be equivalent to world prices, but the central government felt that it would be a reasonable rate of return on the companies' investment. The federal government agreed that consumption of natural gas should be encouraged as an alternative to imported oil, but said the Alberta proposal would have natural gas rates increase more quickly than the conventional oil rate.

The federal government also wished to obtain a larger portion of revenues from oil and gas production in order to "carry out its national responsibilities" and wanted approval for a natural gas export tax. Finally, the central government was willing to commit \$4 billion to a Western Development Fund. It was not satisfied with Alberta's \$2 billion Western transportation package partly because it was not as extensive as the central government's proposal, and partly because the Liberals saw that type of project as a federal responsibility (Energy, Mines and Resources, News Release, August 1, 1980, p. 7). As Lalonde stated:

It is clearly not reasonable to suggest that for want of the financial wherewithal, the Government of Canada should delegate major parts of its responsibilities for national undertakings to a provincial government.

Disagreement between the federal and provincial governments on oil pricing issues stalled further negotiations but the difference between their comprehensive visions of Confederation also played a part. Alberta's attitude had moderated, expressing an interest in contributing towards the development of other areas of Canada. However, Ottawa wanted to capture a larger share of revenues which it would distribute through federal mechanisms.

Despite the lack of a long term package agreement on energy pricing the Alberta and Saskatchewan governments were able to raise oil prices unilaterally on August 1. The federal government did not object since the increase equalled what it had been prepared to allow in its previous proposals - \$2 a barrel. On September 1, the price of natural gas rose 30 cents per thousand cubic feet in accord with an August agreement between Ottawa and Alberta to extend the natural gas pricing agreement to October 31. Alberta did not raise oil prices on October 1 as some observers predicted they might. Instead, it tried to avoid giving Ottawa greater cause to impose its views on oil pricing in the upcoming federal budget (*Globe and Mail*, October 1, 1980).

The Budget and the National Energy Program

Federal-provincial relations at the time of the budget were extremely brittle. In the days following the failure of the oil pricing talks, Alberta carried the fight against federal energy proposals. Premier Lougheed warned Ottawa that an export tax on natural gas would amount to a declaration of war and, at the annual premiers' meeting in August, secured the support of eight of the other nine provinces (excluding Ontario) in the denunciation of the tax as a "direct attack upon provincial proprietary rights." However, Ottawa gave every sign that it would not be deterred either by these statements or by conflict over its constitutional resolution. Thus, the budget and the accompanying National Energy Program reflected an assertion of federal prerogative in energy matters and sanguineness about the feasibility of federal energy proposals.

Federal Goals for Energy Policy

The new national energy policy had three basic goals:

- a. **fairness**, with a pricing and revenue-sharing regime which recognizes the needs and rights of all Canadians;
- b. **opportunity** for all Canadians to participate in the energy industry, particularly oil and gas, and to share in the benefits of its expansion; and
- c. **security** of supply and ultimate independence from the world oil market. (Hon. Allan J. MacEachen, *The Budget*, October 28, 1980, p. 6.)

Fairness

The fairness aspect of the National Energy Program involves two components: pricing and revenue distribution. Oil and gas pricing policy in Canada has been based on several principles. Moderate price rises are favoured to cushion the impact of higher energy costs on Canadian consumers and industry. Prices lower than those on the international market are supported to reflect Canada's relative independence from imported energy and to enhance the competitiveness of Canadian industry. In addition to these

principles of "fairness", the new pricing regime in the budget was seen to be an incentive to substitute alternative energy sources for imported oil.

Oil and Natural Gas Pricing

The blended price system detailed in the National Energy Program was promised by the Liberals in the 1980 election campaign. Under this new system, the domestic price of oil will equal the average cost of imported oil (world price) plus the cost of domestic oil. The wellhead price of domestic conventional crude will rise by \$2.00 per year from 1981-83; \$4.50 per year in 1984 and 1985 and \$7.00 a year in 1986 and thereafter. This schedule of increases is designed to bring domestic crude oil prices toward a "reference price" - the price offered for synthetic oil which was set at \$38 per barrel plus a cost of living escalator. The blended price system should never exceed 85 per cent of the world price, to preserve a competitive advantage for Canadian industry.

The heavy financial burden of compensating oil refiners for selling higher priced imported oil at the Canadian price is to be lifted from the federal government. Under the blended price system, a Petroleum Compensation Charge will be levied on all domestic refiners and passed on to consumers. Revenues from the Charge will be routed through the federal government to compensate refiners importing oil for the difference between the average cost of imported oil and the average cost of oil to Canadian refiners. The Petroleum Compensation Charge for 1980 will be \$.80 per barrel; the Syncrude levy of \$1.75 is added into the Petroleum Compensation charge; so the total charge for 1980 will be \$2.55. The compensation charge plus the \$3.00 increase in the price of oil in 1980 will be slightly less than \$4.00, as promised by the Liberals in the election. The Compensation Charge will increase by \$2.50 per barrel per year from 1981 to 1983.

The domestic price of oil resulting from the blended system will continue to be influenced by world prices and it is hoped that higher prices will encourage substitution. Furthermore, the cost of subsidizing imported oil will be shifted to the oil consumer through the refinery levy, which should also discourage oil consumption.

The policy for natural gas pricing to date has been to match increases in the price of oil with a proportionate rise in the natural gas price, to maintain gas prices at approximately 85 per cent of the price of oil. This policy was discarded in the National Energy Program. Instead, natural gas prices will rise less quickly to encourage substitution of gas for oil. For 1981 to 1983, the price of gas sold in Canada east of Alberta will increase \$.45 per thousand cubic feet with the price relationship between gas and oil falling to 67 per cent in this period.

The legislative authority for the new oil and gas pricing regime stems from the Petroleum Administration Act 1975 although the relevant section permitting unilateral price setting was only proclaimed on October 28. Division II of Part II of the Act allows the Governor-in-Council to prescribe maximum prices for crude oil and natural gas entering interprovincial trade when no agreement has been reached with the producing

Table 4.1

Canadian Domestic Crude Oil Price Changes
Comparison of Proposals
(Price Increases at the Wellhead)

Date	Proposal Contained in Federal Budget, December 1979	Alberta Proposal July 25, 1980	Federal Proposal July 25, 1980	National Energy Program October 1980
July 1980	\$2.00	\$ -	\$ -	\$ -
August 1980	-	1.00	2.00	2.00
October 1980	1.00	1.00	-	-
January 1981	2.25	2.50	1.00	1.00
July 1981	2.25	2.50	1.00	1.00
January 1982	2.25	2.50	1.00	1.00
July 1982	2.25	2.50	1.00	1.00
January 1983	7.56 ¹	3.00 ²	2.25	1.00
July 1983	2.25	2.50	2.25	1.00
January 1984	6.12 ¹	5.00 ²	2.25	2.25
TOTAL OF INCREASES	\$27.93	\$22.50	\$12.75	\$10.25

Note: 1. Under the proposal contained in the federal government budget of December, 1979, the price of domestic oil at Montreal would be adjusted to 75% and 85% of the lower of the landed import price at Montreal or the Chicago price on January 1, 1983 and January 1, 1984 respectively.

The average price of imported crude oil at Montreal was \$38.25 Cdn/barrel on July, 1980. It is forecast that the price of imported oil (in \$U.S.) will rise over the next four years by the U.S. GNP Deflator, plus 2% per year. When converting this price to Canadian dollars, it is forecast that the value of the \$Cdn. will increase to \$.90 U.S. by 1984.

2. Under the Alberta proposal of July 25, 1980 the price of domestic crude oil at Toronto would be adjusted on January 1, 1983 to 65% of the average North American crude oil price. On January 1, 1984 an adjustment would be made to 75% of the average North American crude oil price.

Sources: Assessment of Energy Pricing and Revenue Distribution Proposals, Alberta Energy and Natural Resources, August, 1980, Table III, National Energy Program, Energy, Mines and Resources Canada, October 1980. p. 27.

Consumer Crude Oil Prices

(the prices which refiners would pay for crude oil net of transportation charge and the Syncrude Levy)

Date	Proposal Contained in Federal Budget December, 1979	Alberta Proposal July 1980	Federal Proposal July 1980 ¹	National Energy Program October 1980 ²
January 1980	\$14.75	\$14.75	\$14.75	
July 1980	16.75	14.75	14.75	
August 1980	16.75	15.75	17.75	\$18.50
October 1980	17.75	16.75	17.75	
January 1981	20.00	19.25	21.25	22.80
July 1981	22.25	21.75	22.25	
January 1982	24.50	24.25	25.75	27.30
July 1982	26.75	26.75	26.75	
January 1983	34.31	29.75	29.00	31.80
July 1983	36.56	32.25	31.25	
January 1984	42.68	37.25	33.50	n.a.

69

Note: 1. Re: Petroleum levy - the federal proposal also includes a petroleum levy, to be collected at the refinery gate. This levy would be made up of the existing synthetic crude levy, and an additional levy designed to fund the oil import compensation programme. The maximum level of the compensation component of the levy would be \$1 per barrel in 1980, \$3.50 in 1981, and \$6.00 in 1982, 83 and 84. This levy would return to the federal government an additional \$13.6 billion over the four year period.

2. Re: Petroleum levy - The federal government altered its charges to allow maximum levels of \$2.55 for 1980, \$5.05 for 1981, \$7.55 for 1982 and \$10.05 for 1983. No figure for levy at January 1, 1984 was published.

Sources: Assessment of Energy Pricing and Revenue Distribution Proposals, Alberta Energy and Natural Resources, August, 1980, Table IV., National Energy Program, Energy, Mines and Resources Canada, October, 1980, p. 30.

provinces pursuant to Section 22 of the Act.

Revenue Distribution

The previous formula for distributing revenues from oil and gas production has been 45 per cent to the provinces, through royalties and taxes, 45 per cent to the producers and 10 per cent to the federal government through commodity and corporation taxes. Ottawa felt this system was unfair because it left "the national government with insufficient revenue to address the country's economic burdens, including those caused by rapidly rising world and domestic energy costs" (Energy, Mines and Resources Canada, *The National Energy Program 1980*, p. 33). The new system is touted as fair to all participants: the industry will continue to gain adequate revenues for exploration while avoiding excessive profits and the balance between orders of governments is redressed to recognize the claim of the federal government to energy revenues "on behalf of all Canadians."

To increase the federal share of resource revenues, a new tax on oil and gas production revenue was announced in the budget. Initially, the rate will be 8 per cent of net operating revenue effective January 1, 1981 but this rate will be increased eventually. MacEachen estimated that this tax will yield \$6.5 billion by 1985. The revenues from this tax were designated for new federal energy expenditures, such as production and substitution incentives and for western development.

In the budget, the federal government offered to share with the governments of Alberta and Saskatchewan 50 per cent of the revenue from the oil export charge, beginning November 1, 1980. This levy on crude oil exports determined by the NEB to be surplus to Canada's needs, is assessed monthly by the Board so that it fairly reflects the difference between the domestic price and the export price. Since its inception in 1974, the revenues from the export charge have been used by the federal government to subsidize selling imported oil at the lower Canadian price; this function will be assumed by the Petroleum Compensation Charge.

When expected revenues from new federal taxes have been calculated, the federal share of revenues from oil and natural gas production will rise from 12 per cent in 1979 to 27.5 per cent in 1982. The industry share will fall from 39 per cent in 1979 to 31.6 per cent in 1983 while the provinces will receive only 41 per cent of these revenues in 1983 compared to 49 per cent in 1979. (The figures used for these calculations are found in the *National Energy Program*, p. 108.) The federal figures represent revenue from the corporate tax on oil and gas production and the federal share of the oil export charge minus incentive payments to industry. The industry figures are calculated from its cash flow and incentive payments while the provincial share includes land bonus payments. The provincial figure is an average of the revenues to be received by Alberta, Saskatchewan and British Columbia.

Opportunity

In the new federal energy policy, opportunity denotes Canadianization of the oil and gas industry. There are two thrusts to this strategy - a Petroleum Incentives System to encourage increased Canadian private sector participation, and a plan to expand public sector involvement.

Production Incentives

The most salient production incentive to date has been the earned depletion allowance which allows one-third of oil and gas exploration and development expenditures to be deducted for income tax purposes. This program has been criticized as overly generous to the industry, especially those exploring in frontier areas. Furthermore, it was not particularly oriented to encouraging Canadian participation. The National Energy Program announced that the depletion allowance for exploration would be phased out over three years while the allowance for development expenditures would be eliminated immediately. It was to be retained only for non-conventional oil projects, such as oil sands, enhanced recovery and heavy oil upgraders.

Under the new Petroleum Incentives Program, incentive payments of up to 20 per cent of approved costs were offered for development expenditures anywhere in Canada. Exploration expenditure grants up to 80 per cent of costs are extended for those exploring in the frontier and offshore areas (the so-called Canada lands). Elsewhere in Canada, exploration subsidies of 35 per cent are offered. Essentially, the federal incentives program attempts to shift exploration and development away from provincial territory to the frontier and offshore areas where the federal government claims ownership and control.

These grants vary according to the level of Canadian ownership and control, creating a greater incentive for majority Canadian owned and controlled companies to explore and develop oil and gas reserves. The Petroleum Monitoring Agency will establish Canadian ownership rates and determine a firm's eligibility for payments under the Petroleum Incentives Program.

Public Ownership

While at least 50 per cent Canadian ownership of oil and gas production by 1990 is a goal of the new energy policy, the federal government believes that "a larger national public sector presence in oil and gas is the only equitable way to meet quickly our goal of increased Canadian ownership" (National Energy Program, p. 51).

The federal government plans to fulfill this goal by acquiring several of the larger oil and gas firms. Conscious of the substantial federal deficit, Finance Minister MacEachen announced that this acquisition program would be self-financing; a Canadian Ownership Account would be established, funded by special additional charges on oil and gas consumption in Canada.

The level of the charge and its initiation will be determined as prospects for acquisition become apparent. While the government plans to use Petro-Canada as the vehicle for procuring private firms, some of these new government acquisitions may be set up as crown corporations in competition with Petro-Canada.

Security

The insecurity of world oil supply and the unpredictable pricing situation contrasted with Canada's considerable energy resources galvanized the Liberals to seek independence from oil imports by 1990 (National Energy Program, p. 23). In addition to stimulating the exploration, development and production of domestic energy supplies, this goal will be pursued by encouraging reduced oil consumption and fostering substitution of more plentiful domestic energy sources for oil.

The government would like to see oil consumption reduced in each of the residential, commercial and industrial sectors to 10 per cent of their total energy usage. This will be achieved by an "off-oil" conversion program through which grants will be offered for conversion to gas, electricity, renewable energy sources and coal. The substitution of natural gas for oil is to be made possible through the extension of the gas pipeline to Quebec City and the Maritimes. Market development bonuses will be offered for distributors in these areas.

Other smaller projects are involved in this "off-oil" strategy: conservation in housing will be pursued through insulation grants; research and development of alternate energy sources will be supported; vehicle consumption standards will be encouraged.

Reaction to the Budget and the National Energy Program

The Provinces

Reaction from the western provincial governments was swift and defiant. On October 30, on province-wide television, Premier Lougheed told Albertans the budget and energy measures amounted to an "outright attempt to take over the resources of this province" (Globe and Mail, November 1, 1980, p. 14). He denounced them as unfair, discriminatory and harsh to Alberta and lamented that any chance of energy self-sufficiency for Canada was lost, and that further disunity, frustration and alienation would ensue. But, he admitted that the federal government does have the power to set oil and gas prices.

To counteract federal moves, Lougheed announced a plan to cut back oil production by 15 per cent over nine months to a maximum of 180,000 barrels per day. This order would be suspended if shortages arose in Eastern Canada or if negotiations on a "new and fair arrangement" were to commence with Ottawa. Subsequent actions by Alberta to combat federal energy plans took several forms. On November 13, it was announced that Alberta would launch a legal challenge to the federal excise tax on natural gas (See chapter VII, "Judicial Review"). At the end of the year, Alberta continued to withhold permits for the construction of heavy oil and oil sands projects, jeopardizing Canada's prospect for oil self-sufficiency by 1990.

Alberta attacked vigorously Ottawa's figures on the distribution of energy revenues among the provincial and federal governments and the industry. On November 18, Alberta Energy Minister Merv Leitch released an assessment of federal calculations. Alberta determined that its average share of revenues from oil and gas production 1980-83 would be 28 per cent rather than the 35 per cent stated in the budget. Conversely, it calculated that the federal share would increase from 12 per cent in 1980 to 36 per cent in 1983, for an average of 30 per cent, considerably higher than the 24 per cent claimed in the budget (Alberta Government Press Release, November 18, 1980).

Saskatchewan said it would challenge the 8 per cent production revenue tax in the courts. Saskatchewan held that the application of this tax to two crown corporations -- Saskatchewan Power Corporation and SaskOil -- is unconstitutional because it contravenes S.125 of the BNA Act (Regina Leader-Post, October 30, 1980, p. 3). Saskatchewan also disputed Ottawa's assessment of the distribution of oil and gas production revenue. Mineral Resources Minister Elwood Cowley claimed that the National Energy Program imposed an unfair burden on the province because 38 per cent of Saskatchewan's oil and gas revenues will flow to the federal government for the period 1980-83, compared to a Canadian average of 24 per cent (Government of Saskatchewan News Release, January 8, 1981).

In a related development, Saskatchewan suffered an unexpected loss of oil exports to the United States when the National Energy Board raised the oil export charge by \$6.00 to \$25.40 on December 31. Cowley pointed to this move as "one more example of how the federal government can act to effectively control the rate of development of the province's resources" (Globe and Mail, January 8, 1981, p. 1). Because of this decline in exports, Saskatchewan will lose royalty revenues as well as a portion of the oil export charge announced in the budget. There were parts of the budget with which the Saskatchewan government agreed, for example, a greater provincial share of the oil export tax revenues and proposals for Canadianization of the oil and gas industry.

British Columbia is also disputing the validity of the federal government's natural gas excise tax. On December 23, Energy Minister Bob McClelland announced that the tax will be challenged in the courts on the grounds that Ottawa is taxing natural resources under development by two crown corporations -- BC Hydro and BC Petroleum Corporation (Montreal Gazette, December 28, 1980, p. 1). In the meantime, the BC government withheld partial payment of the excise tax (Vancouver Sun, December 20,

1980, p. A-1). The federal government responded that BC's withholding of tax revenues was "contrary to the long-established practices and procedures in connection with tax measures" (*Globe and Mail*, December 23, 1980, p. 1).

In December, 1980, the ministers responsible for energy matters in Saskatchewan, Alberta and British Columbia met to form a united front against the National Energy Program. A five page communiqué was produced which questioned the NEP's projections for revenue sharing and for reducing Canadian dependency on imported oil.

Spokesmen from the other provinces viewed with equanimity the effects of the budget on their provinces. Most were happy that no export tax had been slapped on electricity. Some expressed sympathy with Alberta's plight such as Quebec Energy Minister Yves Bérubé who sprang to Alberta's defense arguing that "we don't agree with any unilateral decision by Ottawa" (*Montreal Gazette*, October 31, 1980, p. 17). Reactions to the budget from the Atlantic region governments were generally favourable as a result of proposed spending for the Quebec and Maritimes pipeline, grants for the conversion of oil-fired electrical generators to coal-field systems and funding for hydro-electric development on the Lower Churchill River in Labrador.

The Opposition

Both federal opposition parties objected to the program. The PC's attempted to shame the MacEachen budget by comparing it with the Crosbie budget of December 1979. The Liberals, they said, had respected neither the interests of the oil and natural gas producing provinces nor the need of the poor for protection against high energy prices. Their budget, the Tories argued, was based on an agreed oil and gas price schedule with the provinces not an imposed one; their budget had protected low income consumers with an energy tax credit. The NDP members argued the need to cushion consumers from price rises as well. However, they criticized the National Energy Policy's Canadianization policies as "phony nationalism" of benefit to few wealthy Canadians and said the multinational oil companies would continue to prosper under the program.

Other Reactions

The private sector's initial response to the National Energy Program was overwhelmingly negative. While reports of drilling rigs leaving the country peppered news reports, major expenditure programs by large oil companies were cancelled: Gulf Oil announced a 15 per cent cut in its five-year spending plan; Imperial Oil put its Cold Lake development on hold; Alsands Energy Ltd. threatened to shelve its \$8 billion oil sands development at Fort McMurray unless Ottawa-Alberta differences were settled by June 1981. Oil sands developers claimed that the synthetic oil price offered by the federal government - \$38 per barrel plus a cost of living escalator - was inadequate to cover future construction and exploration costs, especially in conjunction with the 8 per cent production revenue tax.

The Independent Petroleum Association of Canada, consisting mostly of smaller, Canadian oil and gas companies, placed full page advertisements in major newspapers which detailed their objections to the National Energy Program. IPAC claimed that the government's plans would make Canadians more -- not less -- dependent on imported oil; the development of frontier areas, oil sands and heavy oil would be delayed; and thousands of jobs which could be created by the oil industry would be lost.

Post-Budget Federal Policy

The federal government stood firm in the face of criticism of its budget. Nevertheless it took opportunities to demonstrate that its position was not as inflexible as the budget would suggest. A request from British Columbia to delay the rise in the price of natural gas was granted. Although this action reduced the likelihood that BC would lose US markets for its gas, the federal government would be taxing natural gas at the current price and returns to producers would decline as a result. The threat by Imperial Oil to disband its operation at Cold Lake unless it received a guarantee from either Alberta or Ottawa against its losses should the project fail as a result of intergovernmental wrangling, brought quick response from Ottawa which guaranteed all of Imperial's ongoing expenditures for the next six months -- an amount totalling \$40 million. Some changes proposed by energy companies regarding the 8 per cent tax on revenues were accepted. Ottawa invited industry comment on its proposed rules for calculating Canadian ownership and control rates. It also talked with co-operative organizations in western Canada about increasing co-op participation in the oil and natural gas industry as a means of increasing Canadian ownership and control.

As the year closed, and the cutbacks in Alberta oil production loomed nearer, serious negotiation between Ottawa and Alberta had not yet resumed.

Offshore Resources

The jurisdictional dispute between Newfoundland, Nova Scotia and the federal government continued throughout 1980. While the two provinces maintained that they should own resources off their respective coasts, the federal Liberals claimed that offshore resources belong to the central government.

The Supreme Court has ruled that BC's offshore areas are federal territory. Newfoundland, however, insists that it joined Confederation under different circumstances from the other provinces. It argued that before it joined confederation its offshore areas were a recognized part of its territory and under the terms of its entry, remained as such. The Conservative government was sympathetic to Newfoundland's case and was willing to grant the province ownership of the offshore, but it was defeated before any transfer could take place.

Nova Scotia is also anxious to lay claim to its offshore resources, particularly natural gas. Premier Buchanan introduced a **Petroleum Resources**

Act which he hoped would further the claim by asserting control over production and development of offshore resources. The Act also favored preferential hiring of Nova Scotians for jobs offshore. Federal Energy Minister Lalonde said the bill was unconstitutional. Unlike Newfoundland, Nova Scotia is not able to argue that it entered Confederation as a formerly independent state. The Buchanan government, however, is nevertheless tenaciously holding on to its claims, unwilling to abandon this opportunity of achieving energy, and possibly even financial self-sufficiency. To pursue this goal, in early October, Premier Buchanan and some of his ministers visited London to make a pitch for greater foreign investment in offshore oil to overseas investors.

The stakes involved offshore are potentially great. The federal government has estimated that the East Coast offshore resources may contain 20 per cent of the country's known oil and gas reserves with possibly 27 trillion cubic feet of gas and 2.6 billion barrels of oil reserves. (Appraisals from other sources report a reserve that is many times higher.) The Department of Energy, Mines and Resources has also calculated that there could be 13 trillion cubic feet of gas and 1.9 billion barrels of oil off the Nova Scotia Coast (Canada's East Coast Petroleum Prospects, Merrill-Lynch Royal Securities Ltd., Toronto, 1980, p. 7). The Hibernia Well, drilled in 1979 off the coast of Labrador contains excellent oil potential according to Chevron Ltd. The well could be producing within two years and would supply the East coast refineries with much needed local, rather than "imported feedstock" (Globe and Mail, January 4, 1980).

In June, the federal government proposed that central control be maintained over resources and the provinces be given 25 per cent of the revenues. Newfoundland's chief economic advisor, Pedro Vanmeurs, said that unless Newfoundland gets 75 per cent of revenue it would halt production. The provincial proposal would have given Newfoundland about \$300 million per annum, while the federal proposal would guarantee only about \$100 million.

Newfoundland did not accept a revised federal offer made in August, but to Nova Scotia it appeared attractive. At the constitutional talks, Nova Scotia sided with the federal position that the question of ownership should not be decided at the conference and it accepted the federal offer that the provinces would be allowed all "provincial type" revenues as if they actually owned them. The federal government would also be entitled to its share.

Newfoundland, supported by most of the other provinces, rejected the federal offer in favour of declaring provincial ownership of offshore resources. However, since the offshore issue was not resolved at the talks, the initiative continues to be with the federal government which in its National Energy Program designated the offshore areas as part of the "Canada Lands" making them eligible for special incentives and subject to Petro-Canada's 25 per cent interest in any development.

Caught in the middle of the dispute have been the oil companies operating in the area. Companies have had to deal with two sets of governments and a type of *de facto* concurrent jurisdiction has evolved. Until jurisdictional issues are settled, significant development is unlikely to occur. However, unlike the federal government, Newfoundland has been reluctant to refer the issue to the courts for a decision. According to some reports, at one point late in 1980, Newfoundland threatened to revoke exploration permits for Mobil Oil when the government learned of Mobil's plans to have the courts consider the matter (*Globe and Mail*, December 17, 1980, p. B6).

Newfoundland's strategy is thus to keep the question out of the courts and in the political arena where it may have a chance of securing jurisdiction over the offshore as a result of tradeoffs occurring in the context of constitutional reform. The failure of the September talks and the subsequent federal action, however, means this strategy has to wait for more favourable circumstances.

Hope also surfaced at various points in the year that the mothballed refinery in Come by Chance, Newfoundland would be taken over by Petro-Canada. However, in addition to the high costs of overhauling the facility, it was unclear whether Petro-Canada could assure sufficient supply of crude oil to the refinery at a time when the capacity of other refineries on the east coast was not fully utilized. A bid by the former owner of the refinery, John Shaheen, to regain control of the refinery further clouded the situation and no decision was reached by the end of the year.

Pipeline Policy

Pre-building of the Alaska Natural Gas Line

On July 17, the federal government announced that it would permit the building of the southern sections of the Alaska Highway Natural Gas Pipeline. These sections would be used to transport Albertan gas to the lower United States. The project was to be self-financing from revenues generated by US sales. The portion of the estimated \$21 billion pipeline will carry Alaskan gas to the south and should be completed by the end of 1985. There was considerable pressure on the Canadian government from the West to approve the pre-building of the line. The project will not only create jobs but will produce significant revenues for the gas industry which is anxious to generate new export sales.

The approval of this project stimulated considerable controversy because the federal government had not managed to secure the guarantees of American support that it had previously said were necessary before the project could be permitted to proceed. The Canadian government was assured that Congressional resolutions had been passed approving the enterprise, but no guarantees were forthcoming.

The Northern Pipeline Act of 1978 stipulated that the whole pipeline must be built as a unit rather than in pieces. Estimates of the cost of the projects at the time were less than half (\$10 billion) the present estimated

cost. The pre-built portion, therefore required an amendment to the Act. The New Democratic Party, concerned that sufficient guarantees had not been given by the United States, and that such a move could have far-reaching effects on Canada, thought the issue should be thoroughly debated in Parliament. One columnist summed up the NDP's position:

Canada will be pledging to the Americans, billions of dollars worth of gas it may need itself. By building the southern parts of the pipeline to deliver this gas, it will be committing itself to the delivery and there are already indications that the United States will refuse to pay the prices we are asking now, let alone the price we might ask in future. We could find the Americans cutting us off from Alaskan replacements. (Globe and Mail, July 24, 1980.)

Although the NDP's threat to filibuster was ruled out of order by House of Commons Speaker Jeanne Sauvé, the party did obtain consent for a special five hour debate. The government, however, was satisfied that the guarantees were sufficient and passed the amendment.

Quebec-Maritimes Pipeline

Nova Scotia lobbying efforts were successful in convincing the federal cabinet to allow the construction of the Quebec and Maritimes natural gas pipeline to Halifax where previous efforts at convincing the National Energy Board had failed. The National Energy Program also promised government support for the Q & M pipeline if no private proposals were forthcoming for its construction. However, by the end of the year, Transcanada Pipelines Ltd. of Calgary and Q & M pipelines of Montreal (owned by Nova Corporation of Calgary) joined to pursue the right to construct the pipeline. Plans call for the pipeline to be reversible so that liquefied natural gas can be landed at the eastern end of the pipeline and shipped west if necessary. New Brunswick argued that the pipeline to the Maritimes should be put on hold until further studies are completed. The province is concerned that petroleum discoveries offshore would make the pipeline redundant. Studies of the environmental and socio-economic impact of the pipeline were also urged by New Brunswick.

Nova Scotia efforts to secure a Petro-Canada gasification plant for liquefied natural gas from the Arctic were unsuccessful in 1980. The Province preferred to locate it in the Strait of Canso where development is needed to offset the closure of the Gulf Canada refinery, but the site faces stiff competition from one in Gros Cacouna, Quebec.

. . . .

The NEP also announced support for the extension of a natural gas pipeline to Vancouver Island, a project also favoured by Premier Bennett of BC.

ELECTRICITY

Manitoba Power Development

The Manitoba government, once again, considered additional hydro-electric development on the Nelson River in order to stimulate the economy and increase government revenues. Manitoba urged the creation of a Western Canadian power grid through which Manitoba would market its power rather than exporting it to the US. The government pursued the issue at the Western Premiers Conference (see pp. 103-104). In anticipation of such development, the government also staked out the position that:

We believe our hydro resources belong to the people of Manitoba in the same way as non-renewable resources under the Canadian constitution. And it follows that we will resist any effort by the federal government to divert revenues from hydro exports away from Manitoba (Manitoba Budget, p. 66).

Currently, a \$1 million project feasibility study of this idea is being undertaken. If this power grid is agreed to by the three provinces, Manitoba could make \$2 billion over twenty years in power sales to Alberta alone (Globe and Mail, June 23, 1980, p. B4).

Newfoundland-Quebec Churchill Falls Agreement

Proposals to develop hydro-electric power on the Lower Churchill remain on the drawing boards as Quebec and Newfoundland remained deadlocked on the issue of transmission of Newfoundland power across Quebec territory. Several times during the year Newfoundland appealed for federal aid in enforcing its right to transmit power across provincial boundaries in the same way Alberta is allowed to transmit oil and gas across provincial boundaries (Discussion Paper in Major Bilateral Issues, Canada-Newfoundland, May 30, 1980; Newfoundland Press Release, October 2, 1980). Newfoundland has assured markets for its power in the US. However, the federal government kept out of the fray, a strategy Newfoundland alleges has more to do with Newfoundland's opposition to Trudeau's constitutional proposals and the extent of support for the Liberal party in Quebec than with the merits of the case.

Complicating negotiations on the Lower Churchill is Newfoundland's longstanding attempt to renegotiate the terms of the contract it has with Quebec for the sale of electricity already generated at dams on the Upper Churchill. Newfoundland wishes to use more of the Churchill output for its own use and to get a higher price for the remaining energy sold to Quebec (now sold at very low prices under a contract ending in 2041).

In the spring, Premier Peckford had ended negotiations with Quebec aimed at revising the old agreement. Quebec wanted to pay the same prices it pays for power from the Upper Churchill, but negotiate a deal for the development of the Lower Churchill. Near the end of the year, in an effort to break the deadlock with Quebec on the pricing and allocation of electrical power currently generated at Churchill Falls, Newfoundland passed The Churchill

Falls Water Rights Reversion Act which would recover the rights to the power now held by Churchill Falls (Labrador) Corp. Ltd. The Act comes into force, however, only when the Newfoundland Court of Appeal and the Supreme Court of Canada have ruled the Act legitimate.

Other Power-related Developments

A number of electrical agreements involving the Atlantic provinces were also concluded over the course of the year. Electrical lines between New Brunswick and PEI and between New Brunswick and Nova Scotia were put in place. Nova Scotia and the federal government signed an agreement which will fund tidal power development in the Bay of Fundy. Also in Nova Scotia, plans for conversion of oil-fired electrical generating plants to coal were spurred by federal action to remove its oil import subsidy for oil used to generate electricity (*Globe and Mail*, June 16, 1980, p. B7). Plans for a third and fourth coal fired generating plant are on the drawing board. The development of these plants would require the development of the Donkin coal mine whose output the plants would use. Federal aid for mine development had been approved by the Conservatives. Late in 1980 the Liberal government assured Nova Scotia its support would still be forthcoming and cleared the way for the development to begin in 1981.

COAL

Most of Canada's developed coal resources can be found in the Western provinces. In Alberta, coal (although coming a distant second to the immense revenues that oil and gas produce) brought in \$252 million last fiscal year and has strong growth potential.

British Columbia has tremendous coal reserves. In 1980, the province was negotiating a deal worth billions of dollars with Japan that would develop the northern coalfields of BC. Hindering the successful completion of the negotiations was strong disagreement between BC and the federal government over transportation subsidies and port development (see pp. 95-6).

In addition to the Donkin project mentioned above, Nova Scotia announced funding of \$5 million for research and development of coal resources. In February, agreement in principle had been reached between Nova Scotia, Algas Ltd. of Calgary and Petro-Canada to draw natural gas from the province's coal fields.

NUCLEAR POWER

Despite threatened shortages of world oil supplies, demand for nuclear reactors has been declining in Canada. In the most concentrated areas of uranium processing (Saskatchewan and Ontario) there is concern about the future of nuclear power on both the Canadian and world markets.

In Ontario's Throne Speech in March, the government emphasized that it was firmly committed to the development of uranium resources. At the same

time, the Ontario Royal Commission on Electric Power Planning concluded that Ontario at most would need only one more nuclear generating station by the end of the century. (Globe and Mail, March 31, 1980, p. 1.)

In British Columbia, while there has not been any actual development of uranium resources, enough exploration activity had taken place to warrant establishing a Royal Commission in 1978 to investigate the potential advantages or hazards that might accompany future development. In February of 1980, the government slapped a seven-year moratorium on further exploration. Environmentalists as well as mining developers were concerned about the abruptness of the decision. As was noted in the *Vancouver Province*, "A Government that can so arbitrarily remove the rights of the uranium companies may just as readily do the same with other people's rights, even those of environmentalist pressure groups" (Cited in *Globe and Mail*, March 5, 1980, p. 8).

Prince Edward Island, while totally dependent on imported oil for generating electricity, cancelled a 1978 agreement with New Brunswick to buy power generated by Point Lepreau in accord with a promise made by the provincial Conservatives in the last election in PEI.

ALTERNATIVE ENERGY SOURCES AND ENERGY CONSERVATION

The big money in energy development clearly still lies with conventional sources. However, some efforts over the year were made to encourage development of alternative energy sources and conservation of energy. A special House of Commons Task Force on Alternate Energy and Oil Substitution was set up in 1980. In addition to the proposals contained in the National Energy Program, many of the provincial budgets offered incentives for conservation and substitution. A few days after the release of its budget, the federal government announced the establishment of a new crown corporation, Canertech. Based in Winnipeg, Canertech will invest \$20 million in businesses developing renewable sources of energy. Projects will likely involve wind and solar generated power, biomass techniques and hydro power sources.

Note: This chapter was drafted by Sheilagh Dunn, Mary-Louise McAllister, and Ron Zukowsky.

CHAPTER V

GENERAL POLICY AREAS

INTRODUCTION

Federal-provincial relations involve much more than debate on constitutional and economic issues. As the following brief descriptions show, both conflict and cooperation are found in many other areas of public policy. Many of these other issues have their own internal dynamics which influence the pattern of conflict and cooperation in federal-provincial relations. But there are also some suggestions that conflict and mistrust generated by the "great issues" are increasingly spilling over to make cooperative relationships more difficult in all areas. Whether the trend is to conflict or cooperation, the institutionalizing of federal-provincial relations proceeds apace, and in 1980, more intergovernmental conferences took action to put their meetings on a regular, annual basis. Federal Environment Minister John Roberts has observed that the federal-provincial conference -- this "panel of princes" and their civil servants -- makes decisions that Parliament and legislatures cannot reverse. Stating that his position did not represent federal government policy, he argued:

On the whole, federal-provincial conferences are pernicious things, which of all procedures should be diminished. If you were to say to me you wanted to add a constitutional provision abolishing federal-provincial conferences, you would find me on your side (Edmonton Journal, October 21, 1980, p. B-2).

The need for coordinated federal and provincial policies, however, has not diminished.

AGRICULTURE

Responsibility for agriculture is concurrent under the constitution and in 1980, both levels of government met frequently in their struggle to aid farmers bedevilled by floods, drought, pests, inflation and depressed markets.

After the federal election, Eugene Whelan returned as Minister of Agriculture (replacing John Wise) and in late March and early April, toured provincial capitals to discuss provincial agricultural problems. The annual conference of agricultural ministers was held in Toronto, July 14-16. Items on the agenda included: drought relief, marketing policy and problems, energy, stabilization programs, farm credit and pesticides.

Federal-provincial meetings also occurred on specific issues. A federal background paper on the impact of rising energy costs on agriculture presented at the annual ministers' conference prompted the ministers to meet again in Brandon, October 20-21. The conference discussed how farmers might supply their own energy needs themselves, but a proposal by Whelan to establish a federal-provincial steering committee to follow through on

proposals raised at the meeting was not acted upon.

Stabilization and marketing systems also prompted federal-provincial meetings in 1980. Major steps have been taken towards the establishment of a potato marketing agency covering Ontario, Quebec, PEI, Nova Scotia and New Brunswick. Whelan met with agricultural ministers and officials from these provinces on April 17 to discuss the report of the Eastern Canada Potato Task Force (set up in December, 1979 under the Conservatives). As a result of this meeting, the National Farm Products Marketing Council (NFPMC) held public hearings preliminary to the establishment of a potato marketing agency, as required under the **Farm Products Marketing Agencies Act**. These hearings ended September 10, but the report of NFPMC had not appeared by the end of 1980. The report will have to reconcile the advantages of more stable market conditions for Maritime producers with the desire of Ontario and Quebec to promote self-sufficiency in potato production.

Agricultural ministers also met in Toronto on August 25 chiefly to discuss chicken marketing problems relating to US imports, aspects of the quota system and producer-processor cooperation in coping with surplus stocks. This meeting preceded discussions held between participating provinces, September 30 and October 1. Currently, only Alberta and Newfoundland do not participate in the Canadian Chicken Marketing Agency although Newfoundland is expected to join soon.

Greater cooperation among federal and provincial governments in implementing stabilization and marketing schemes seems to be high on the agricultural agenda. Action to assist hog and beef producers would appear to be next in line. Proposals to return feed grains to the control of the Canadian Wheat Board (CWB) also surfaced late in 1980 and received support from Hazen Argue, Minister in charge of the CWB. However, opposition to marketing systems seems to be developing. On October 24, André Ouellet announced creation of a "regulated sector branch" within his department of Consumer and Corporate Affairs. The branch will consider the pricing practices of farm products marketing boards. Earlier in October, anti-combines branch official Robert Bertrand appeared at NFPMC hearings on potato marketing to argue that supply management lowers farm efficiency, raises consumer prices and acts to "balkanize" the country (*Western Producer*, October 2, 1980, p. 4; also, *ibid.*, November 20, 1980, p. 5).

Other prominent areas of federal-provincial cooperation in 1980 included drought relief policies and the waterfowl crop damage program. Payments made by the federal government under the cost-shared Migratory Waterfowl Crop Damage Compensation program totalled \$1.2 million in 1979. The prairie provinces have been pressing for expanded levels of funding, a greater emphasis on funding compensation rather than prevention, and a longer term agreement to replace annual negotiations. However, action on these issues has been delayed by more pressing problems and the 1980 agreement simply renewed the essential terms of the 1979 agreement. These terms provide up to \$2 million in federal funding administered by Agricultural Canada for compensation and up to \$1.3 million administered by Environment Canada for damage prevention. The provinces match federal contributions.

One of the more pressing problems of 1980 was the drought which affected

chiefly Saskatchewan and Manitoba (BC and Alberta benefitted from June rains). To deal with the drought, intergovernmental negotiations took place at the level of ministers, deputy-ministers and officials. In particular, the joint Federal Task Force on Drought composed of agricultural officials was reconvened in May and considered cost-shared programs for feed supply and transport programs, emergency water pumping for farms and small communities and well drilling programs for rural areas. The Task Force last met in 1977. In August, an ad hoc committee of industry and government representatives was formed to examine the effect of the drought on the supply and demand for feed grains in Western Canada.

Concern centered mainly on aiding livestock producers. Cost-sharing with Saskatchewan and Manitoba of programs worth \$14 million and \$2.8 million were announced. In addition, the federal government announced a \$60 million program of its own after spending of \$30 million and \$40 million had been announced by Saskatchewan and Manitoba. Cereal producers were already largely protected against the effects of drought by crop insurance programs and the Western Grain Stabilization Plan.

In other developments, Agriculture Canada completed the last major phase of its internal reorganization. This phase saw the creation of a Marketing and Economics branch and a Regional Development and International Affairs Branch (RDIA). The RDIA unites the old Intergovernmental and International Services Branch with the Agricultural Development Directorate of the Policy, Planning and Economics Branch and part of the Production Development Directorate. The RDIA will have a regional director in each province in order to coordinate better federal policy with local concerns and provincial policy, particularly in the area of international sales and promotion where provinces have sometimes found themselves competing against each other.

BC and Ontario have taken action against foreign ownership of agricultural lands. BC has restricted the sale of agricultural Crown lands to Canadians only. Moreover, the land is leased initially and the lessee given ten years to enact 80 per cent development requirements after which the land may be purchased. Ontario, meanwhile, proclaimed on December 1, 1980, Bill 60, an Act to require the Registration of Non-Resident Interests in Agricultural Land in Ontario. The Act gives individuals owning land in Ontario who reside outside Canada up to one year to register that fact.

COMMUNICATIONS

One of the more noteworthy appointments made by the Conservatives during their tenure in Ottawa was that of Dr. John Meisel as Chairman of the Canadian Radio-Television and Telecommunications Commission (CRTC). The appointment of Meisel, a professor of Political Studies at Queen's University was questioned by members of the communications industry who, although impressed by his academic credentials, were concerned about his lack of experience in the industry itself. Meisel's background in Canadian political studies may prove useful as the CRTC grapples with the question of jurisdiction over cable systems and pay-TV which dominated intergovernmental relations in this issue area.

Over the last few years the federal government has increasingly been pressured by cable operators among others to introduce pay-TV. In March the CRTC opened the fourth set of hearings since 1972 on the question. Unlike previous hearings, the resulting report approved of pay-TV but gave it a lower priority than the extension of television services by satellite to remote communities. At the end of the year, the latter question was to be settled by hearings starting in February 1981. By the end of 1981, hearings are also to have been held on licensing pay-TV operators.

However, the CRTC has remained vague on several key elements of any pay-TV scheme - its organization, the degree of competition, the role of cable operators, and extent of Canadian content. In the meantime, provincial governments have become increasingly aggressive in asserting control over cable distribution systems within their provinces and the licensing of pay-TV on such systems. Saskatchewan, in particular is heavily involved with its own cable system and in March, 1980, announced that SaskTel was committing \$56 million for a fibre optics system linking major Saskatchewan communities. A number of other provinces such as Manitoba and Quebec have also been active in developing their own licensing schemes.

By the end of 1980, indications were that the movement was spreading, especially after the failure of the constitutional talks to resolve jurisdictional issues over communications. At a meeting of provincial ministers of communications, agreement was unanimous that the provinces should control pay-TV within their own borders and BC, Nova Scotia, Alberta and Ontario were talking about introducing or activating legislation to allow them to do so (Globe and Mail, December 4, 1980, p. 18). The provinces believe that such legislation would be constitutional as long as it is restricted to intraprovincial, closed circuit systems, and does not attempt to regulate broadcast signals. The federal government and the CRTC believe otherwise, but the issue will likely be either diffused by quick federal action to license pay-TV systems, by some sort of *modus vivendi* on the issue between the two orders of government, or by resolution in the courts. Some of the problems may be ameliorated by a new federal telecommunications bill which is expected from federal Minister of Communications Francis Fox in 1981.

In the meantime, the number of privately owned clandestine satellite signal receiving discs which pirate US pay-TV signals grew during 1980 and pressured governments to act to satisfy demand for greater amounts of television programming. While such operations are illegal under federal law, those in remote locations have been allowed to operate while those where larger numbers of channels are available have been shut down when they are discovered.

In other developments, a point of administrative law was settled in a case involving the CRTC. The CRTC's failure to hold a public hearing in Newfoundland into a license application for Newfoundland was appealed in the courts as a denial of natural justice. The hearing was held in Quebec. In *Attorney-General for Newfoundland and Norcable Ltd.*, the Federal Court of Appeal ruled on November 4, 1980 that the failure to hold such a hearing was not a denial of natural justice and was permitted under the federal Broadcasting Act, S. 19(6).

Ontario criticized the CRTC decision to allow Bell Telephone subscribers to attach their own telephones to the Bell System. Ontario claims the decision was made without a full appreciation of its impact on business opportunities for Canadian manufacturers. The Maritime premiers objected to CRTC investigation of rates and practices of the Trans Canada Telephone System (see p. 105).

The federal government along with provincial governments will fund a Clearing House and Repository for Telecommunications Decisions which will collect, index and publish orders and decisions by federal and provincial bodies with regulatory powers over telecommunications matters. The Department of Communications also loaned for one year 40 Telidon terminals to the Manitoba Telephone system. The Telidon system has been very successful in penetrating international markets for two-way cable systems.

ENVIRONMENT

The major environmental issue of the year was acid rain pollution and particularly its effects on fish populations in lakes. The seriousness of the problem was reflected in a number of intergovernmental initiatives. Preliminary reports in 1979 indicated that the problem was most serious in Ontario where the issue also has an international aspect since a large part of acid rain pollution comes from the US. In July 1980, a second major US - Canada study of acid rain was announced by federal Environment Minister John Roberts and involved the Ontario Ministry of the Environment and Ontario Hydro. In September a joint Ontario-Canada Task Force was set up to study sulphur emission control in the Sudbury basin, focussing on Inco and Falconbridge nickel mining operations.

In November, the second Canada-US study on acid rain reported that trout and bass have disappeared from an estimated 2,000 to 4,000 lakes in Ontario and that about one-half of the sulphur falling on Eastern Canada comes from the United States. The report motivated federal government meetings with provincial representatives to discuss the use of coal for fuel and singled out the coal-conversion program in Atlantic Canada as requiring adequate pollution controls.

Concern with acid rain has also spread to other jurisdictions. It was the major topic of discussion at the September meeting of Atlantic provinces' Environment ministers. In July, the federal, Saskatchewan and Alberta environment departments commissioned the Saskatchewan Research Council to study acid rain in Saskatchewan. In October, the Saskatchewan Environment department intervened at an Alberta Energy Resources Conservation Board hearing on oil sands development at Cold Lake to urge that natural gas and not coal be used for steam generation so that SO₂ emissions would be controlled. (Saskatchewan also raised the issue of the effect of plans for steam generation on downstream water levels in Saskatchewan).

Hazardous wastes management received attention by a number of governments. A February meeting of federal, Ontario and the four western provinces Environment ministers laid the groundwork for an agreement between

those governments and the two territories to study hazardous waste management. The topic was also discussed at the September meeting of Atlantic Ministers responsible for the Environment. Studies of waste generation in the Maritimes conducted by federal and Maritime governments are being augmented by a Newfoundland study and will aid the selection of a site in Eastern Canada suitable for toxic waste disposal. In Quebec, joint study of the problem is not as far advanced, but the federal government has offered some Crown land at Blainville for a disposal site. Public hearings on the site continued into 1981. The federal government passed the **Transportation of Dangerous Goods Act** allowing the control of shipment of hazardous products and wastes. The Act encourages interprovincial cooperation by allowing the Minister of Transport to delegate administration, enforcement and implementation of the Act to provincial governments (Bill C-18, 1st session, 32nd Parliament, July 16, 1980).

In other developments, environmental accords between the federal government and seven provinces were extended for another year while the governments involved study them further. The accords are statements of intent regarding federal-provincial cooperation on environmental matters. The first accords were signed in 1975. Quebec, Newfoundland and BC have not signed accords. The Government of Canada continued to support the governments of British Columbia and Manitoba governments in their opposition to dam projects in the United States. BC is opposing the Ross dam project of the Seattle City Light and Power Company and the federal government has requested a hearing on the issue before the International Joint Commission. Despite federal and Manitoba lobbying efforts, the US Congress passed spending approval for initial work on the Garrison water division project in North Dakota. BC fears flooding, and Manitoba, pollution as a result of the dam projects.

In January, 1980, Alberta and British Columbia ministers responsible for the environment met to discuss matters of common concern. BC is particularly worried about the effect on BC of dams built in Alberta. No further meetings were held in 1980. BC entered into a federal-provincial program aimed at minimizing the danger to fish habitats from logging operations (see also p. 90) and has tried to link its objections to increased US oil tanker traffic off its coasts to US - Canada talks on an all-Canadian oil pipeline link between Alaska and the US.

BC has also placed a seven-year moratorium on uranium exploration and mining. Meanwhile, Saskatchewan has run into public protest over its plans for a uranium refinery at Key Lake, and in July a federally appointed environmental assessment board deferred Eldorado Nuclear's plans for a uranium refinery at Warman on the grounds that the possibility of adverse social effects on the surrounding Mennonite community had not been adequately considered. Eldorado now has the option of doing a social impact study but has indicated it will likely seek to build the refinery elsewhere (Today Magazine, January 31, 1980).

FISHERIES

Romeo Leblanc returned as federal Fisheries and Oceans minister to preside over a turbulent year in the fisheries sector. On the east coast, by the end of the year Nova Scotia trawlermen were protesting federal fishing quotas for 1981. Processors were objecting to "over the side" sales by fishermen to foreign fleets. Newfoundland and Prince Edward Island had initiated inquiries into different aspects of the fishing industry of their provinces (Newfoundland as a result of strikes by fishermen and processing workers) and opposition from the US Congress was holding up ratification of a US - Canada fishing treaty governing fishing on the George's Bank, off Nova Scotia.

In this context, the Eastern provinces pressed for greater provincial control over the fisheries. Most of the pressure occurred within the context of constitutional talks. The effectiveness of this pressure was blunted, however, by the lack of provincial consensus on how much power should be transferred and by what means.

Newfoundland led the fight for concurrent jurisdiction over fisheries at the talks but was frustrated by Nova Scotia. The Newfoundland proposal would give control over the international aspects of the fisheries, fisheries research and conservation of fish stocks to the federal government. The provincial governments would have the final say over licensing inshore fishermen and fish plants, inland fisheries and aquaculture, sharing the fisheries catch among themselves (subject to federal quotas on the total allowable catch) and setting local quotas for certain areas.

Nova Scotia, however, was attracted by the federal proposal which offered less extensive transfer of power to the provinces coupled with promises for administrative arrangements to improve provincial input to federal fisheries policy. On October 24, Fisheries and Oceans Minister Romeo LeBlanc met with his Nova Scotia counterpart, Edmund Morris, to discuss the ways this greater administrative input might be accomplished. Nova Scotia's position was further elaborated in a fisheries policy document released in December, 1980 (Fisheries General Policy, Department of Fisheries, Nova Scotia, October, 1980).

In developments occurring outside the constitutional arena, the province of New Brunswick proposed in June 60 per cent federal funding for a \$250 million fisheries program including fleet modernization and industry improvements. By the end of the year no agreement had been announced. At the end of July, Natural Resources Minister J. W. Bird pressed the New Brunswick case for greater federal-provincial efforts in improving the stocks of Atlantic salmon at a meeting with LeBlanc. He failed to convince LeBlanc either to maintain the ban on commercial salmon fishing in New Brunswick in 1981, or to delay the start of the Newfoundland commercial fishery to provide increased escapement of New Brunswick spawning runs.

Federal fishing quotas provoked provincial ire. Newfoundland objected to the share received by foreign nations under the terms of a newly negotiated six-year agreement. Newfoundland favoured giving priority to its inshore and

middle range fishermen in the exploitation of northern cod stocks. This has not sat too well with Nova Scotia, home of most long range trawlers; nor have Newfoundland's attempts to route fish caught off its shores to fish processors located in Newfoundland. Newfoundland also objected to federal proposals for a new licensing system. It claims that the proposed system would, for the first time, explicitly limit the right to fish of inshore fishermen.

On the West Coast, a new US - Canada agreement on salmon fishing cleared the way for salmon enhancement programs to proceed. Concern about declining salmon stocks have made such programs essential if the industry is to flourish in BC. However, federal attempts to protect salmon spawning streams were attacked over the last year in the courts as unconstitutional. Logging interests and Alcan both challenged various sections of the federal Fisheries Act as violating provincial jurisdiction over freshwater rivers and streams. Despite Alcan efforts to persuade the BC government to enter the battle on its behalf, the BC government responded that the issue concerned federal jurisdiction and the issue was resolved in the courts in favour of the federal government (see pp. 110-12).

In other developments, further progress was made on the policy review of the Freshwater Fish Marketing Corporation involving Ontario, Manitoba, Saskatchewan, Alberta, NWT and the federal government. A report (tabled in the House of Commons, December 18, 1980) on the corporation written by an interprovincial committee of fisheries officials recommended retention of the corporation. Some changes in its operations were suggested to improve flexibility and its relations with participating governments.

FORESTRY

In late August, New Brunswick and the federal government signed a forestry subagreement which committed \$42.5 million to assist a \$500 million program of modernization of the province's pulp and paper industry. The federal government would contribute 80 per cent while the provincial government would cover the remainder.

New Brunswick thus joins Ontario and Quebec as participants in the federal government's modernization program for the pulp and paper industry. Federal government contributions to the cost-shared program will total \$276 million from 1979 to 1984, and is aimed at improving productivity, conserving energy and reducing pollution. The program aids chiefly mills in Eastern Canada since those in the West are more efficient. Observers have criticized the program as encouraging overcapacity in the industry, and in Ontario a leaked report argued that the industry was capable of undertaking the needed investment without government aid (Financial Post, October 18, 1980, p. 7).

In Quebec, demand for modernization funds exceeded original estimates and the Quebec government pressed for an expanded program. The original allocation to the province of \$150 million was cost shared between federal and provincial governments on a 60:40 basis. However, the federal government wanted a different split on the increment to the program which would have brought the overall split to 50:50. Final agreement on a 56:44 split of a total of \$240 million in subsidies was reached in October. Any additional costs of the aid program are to be met by Quebec. In October, Quebec-Ottawa conflict arose again, this time over the location of a new paper mill that would receive DREE funding.

Future efforts at federal-provincial cooperation on forestry matters will likely be in the direction of better forest management and reforestation. Greater attention is being paid to declining forest reserves and the issue was discussed at meetings of the Canadian Council of Resource and Environment Ministers (CCREM) at several points in the year. The basis for these discussions has been the CCREM report **Forestry Imperatives for Canada** released in 1979. As well, in September, New Brunswick set up a committee with federal, provincial and industry representation to advise on research priorities in forest management. Saskatchewan also made the case for greater federal contributions to forestry management, claiming that the federal government taxes the industry far more than it spends on its development.

HOUSING AND MUNICIPAL AFFAIRS

Responsibility for municipal institutions and for property rights lies with the province under the constitution. However, especially since World War II, the federal government has used its spending power to become increasingly active in affecting urban life. The demise of the federal government's Ministry of State for Urban Affairs in 1979 was heralded as a step in the direction of the "disentanglement" of the federal government from an essentially provincial area of responsibility. The past year showed clearly the effect of federal policies on housing and municipal affairs and revealed some of the limits to disentanglement in this policy area.

High interest rates in the early part of the year prompted some provincial governments to press the federal government for some kind of action. Federal officials insisted that such rates were temporary and refused to take major measures to stimulate the depressed housing market or aid homeowners. While Ontario refused to take action without federal support, BC and Alberta introduced their own programs to fill the gap. The provinces were more successful in pressuring the federal government to re-introduce in the October budget tax incentives for multiple unit residential buildings (MURB). Interest rates began to rise again near the year's end, reinforcing the bleak outlook for the housing industry in Canada and setting the stage for further federal-provincial conflict.

Instances of federal-provincial cooperation included agreement on federal contributions for low income housing programs and for Montreal's regional transit plan. Towards the end of the year, the federal government also expressed interest in investing money from its Western Development Fund

in Vancouver's new transit system (to be built by Ontario's Urban Transit Development Corporation).

However, federal-provincial disputes seemed the more prominent theme. The provinces had major objections to the termination of the Community Services Contribution Program (CSCP). The CSCP is a cost-shared program providing capital assistance for a wide range of community facilities such as sewer and water systems, sidewalks, streets and recreation buildings. The program was established two years ago and replaced three major federal municipal improvement programs. The provinces claim that the federal government in ending the program unilaterally has reneged on a commitment made two years ago to renew CSCP before its expiry date of December 31, 1980. The program was apparently the victim of spending cutbacks taken within the framework of the envelope system (see p. 20), having a low priority compared to other programs in its envelope (Ontario Background 80/34).

Other sore points include:

- Bill C-4 - this federal bill provides for increased federal payments to municipalities in lieu of property taxes. The provinces are concerned that the bill still does not assure equitable sharing of the cost of municipal governments. At a meeting of Municipal Affairs Ministers, a Task Force of senior officials was directed to seek further increases.
- DREE's withdrawal of funding for two home improvement programs in PEI.
- Ontario's concern that as a result of problems in the application procedure, it is receiving fewer funds under the Urban Transportation Assistance Program now than it used to receive from the federal government for railway grade separation alone.
- Railway relocation projects in Regina and Winnipeg.

No specific action was taken on the future of CMHC after the release at the end of 1979 of the Matthews report which recommended privatization of many of the corporation's functions. The report was initiated by the Conservative government. With the return of the Liberals to power, the major recommendations of the report will likely be shelved, although some streamlining of the Corporation may occur.

The annual conference of provincial and territorial ministers responsible for municipal affairs was held August 12-15 at St. Andrew's, NB. Items on the agenda included: the future of Community Services contribution Program, regional government, downtown revitalization, and public participation in local decision making. Paul Cosgrove, federal Minister responsible for CMHC and Public Works was invited to the conference to discuss the CSCP but did not attend.

INTERNATIONAL RELATIONS

A diplomatic scandal late in 1980 erupted over the question of Quebec representation at a conference of Ministers of Francophone countries at Dakar, Senegal. The Quebec government wished to send Intergovernmental Affairs Minister Claude Morin as a participant to the conference and cited its status as a participating government in *l'Agence de coopération culturelle et technique* (ACCT) as a precedent. Prime Minister Trudeau and External Affairs Minister Mark MacGuigan argued that, unlike the ACCT, this conference would not concern cultural matters but issues of international trade and development - clearly a federal responsibility - and insisted that the federal government would speak for Quebec on these issues. The most the federal government offered was to allow the presence of a Quebec official in the federal delegation. The affair escalated from a squabble internal to Canadian politics to a diplomatic incident when France, declaring itself dissatisfied with Quebec's representation, withdrew from the conference. The Senegalese then postponed the conference, leaving the French and Canadian governments to quarrel about who was responsible for the whole imbroglio. By the end of 1980 no new date had been set for the conference.

LANGUAGE

The federal government cut its grants to provinces for minority language programs from \$200 million in 1978-79 to \$170 million for 1979-80 and for 1980-81. All provinces now have bilingual education programs in place and the federal cuts drew unanimous criticism at a meeting of provincial education ministers in Vancouver on September 23, 1980. The provincial ministers felt federal rhetoric to be at odds with federal action and said they would attempt to get a 5-year commitment from Ottawa for the support of bilingual education.

In May, 1980, the Joint Committee of the Senate and the House of Commons on the Official Languages of Canada was established and held its first hearings in October. The committee is to study and report on the last two annual reports of the Official Languages Commissioner and on application of the Official Languages Act in the operation of the federal government.

After the release of the federal government's constitutional Resolution, Ontario came under considerable public and political pressure to allow an amendment of the Resolution making the province officially bilingual rather than just committing it to French language educational services. Premier Hatfield of New Brunswick, for example, criticized Ontario's refusal to become officially bilingual. Both Jean Chrétien, federal Minister of Justice, and Claude Ryan, Quebec Liberal leader, argued that this decision should be respected. While both felt Ontario should become officially bilingual, both agreed that official bilingualism should not be imposed. Official bilingualism for Ontario would involve the requirement that French or English can be used in the operation of the legislative assembly including the printing of debates and laws, the courts and the educational system.

Ontario's program of translation of its statutes into French bogged down. Only about 40 Ontario laws were translated between January, 1979 and January, 1981. Government translators noted that this situation plus the lack of lawyers and judges able to handle civil cases in French leaves Ontario ill-equipped to deal with an increased demand for court services in French (*Globe and Mail*, p. 5, January 15, 1980). The budget for translation services in 1980-81 is \$707,000.

French language services have been extended in other areas of the Ontario government as well. The first annual report of Ontario's Provincial Coordinator of French Language Services was released in March and details Ontario's efforts. The Ministry of Health has completed its bilingual hospital signs program and is beginning French language courses for unilingual staff in francophone areas. The Ministry of Community and Social Services has released its policy on extending service in French to francophones and the Attorney General's Department has designated fifteen provincial courts for French language services. Extension of French language services is supervised by an Interministerial Committee for the Coordination of French Language Services. The Ontario-Quebec Permanent Commission continues to promote education and cultural exchanges. However, its budget is not growing significantly and its dynamism is restrained compared to the Quebec-New Brunswick Commission (see below).

Services to francophones have been increased in a number of other provinces. In PEI, amendments to the Schools Act have been made to allow for minority language instruction where numbers warrant. In Saskatchewan, funding has been increased for adult French language programs as a result of increased demand, and a bilingual education centre in Saskatoon has been set up with federal and provincial funding to provide a French learning environment.

In Manitoba, following the court decision in 1979 upholding the official status of the French language in Manitoba, the rate of translation of statutes has been very slow, with completion not expected for six years. The biggest problem has been recruiting qualified translators. An agreement is to be signed with the Faculty of Law at the University of Moncton to speed up translation. The Société Franco-Manitobaine has accused the Manitoba government of failing to follow through on increasing services to francophones as required by the 1979 Supreme Court decision (see *Year in Review*, 1979). It has complained that the government has no plans to provide a bilingual court system or to train necessary legal personnel (*Winnipeg Free Press*, November 22, 1980, p. 4).

In New Brunswick, Bill 84 - An Act Recognizing the Equality of the Two Official Linguistic Societies in New Brunswick was introduced to the legislature in July. Although New Brunswick has had an official languages act in effect since 1977, this Act would, in the words of Premier Hatfield, recognize not only individual rights but also certain collective rights (*Le Devoir*, July 18, 1980, p. 1). These include specifically the right of each society to its cultural, educational and social institutions. The Act was not passed by the end of 1980.

In March, the tenth meeting of the Quebec-New Brunswick Permanent Commission was held. It arranges for cultural exchange between Quebec and New Brunswick and offers a forum for discussion of common educational and cultural concerns. Agreement was reached in principle for the broadcasting of Radio-Quebec in New Brunswick, thus expanding the concerns of the Committee to include communications policy as well as cultural and educational links. The opening of Quebec House in Moncton was held in conjunction with the meeting of the Commission (see also Judicial Review, below for cases involving language rights).

SOCIAL AND HEALTH SERVICES

The fear of federal cutbacks in social and health service funding preoccupied the provincial ministers at intergovernmental meetings in 1980. This topic is discussed in more detail under the heading of federal-provincial financial arrangements (see p. 54). In the health field, other concerns of federal and provincial ministers were occupational planning and wage settlements, organ donor plans, and immigrant health problems. At the September 30 - October 1 meeting of provincial health ministers a committee was set up to investigate establishing a secretariat for the provinces and the territories which would aim to improve the exchange of information on these and other health topics.

One of the highlights of the September 12 meeting of the provincial ministers responsible for social services, was the release of *The Income Security System in Canada*, a report prepared by the Interprovincial Task Force on Social Security. After reviewing the ensemble of income security programs in Canada (including pensions, workmen's compensation, unemployment insurance and children's benefits), the report concluded that

The numerous interactions between income transfer programs in Canada create confusion, planning and coordination problems, and administrative inefficiency. They also result in unintended program effects and financial spillovers between programs and jurisdictions (Interprovincial Task force on Social Security, *The Income Security System in Canada*, Ottawa: Canadian Intergovernmental Conference Secretariat, 1980, p. 113).

The report did not support a major redesign of the major income security programs but rather the establishment of a process of review and reform that would examine ways to disentangle income transfer programs in Canada.

The ministers also sought greater flexibility in Canada Assistance and Vocational Rehabilitation of Disabled Persons programs to allow, for example, cost-sharing in incentive-to-work programs. The ministers also expressed concern about social assistance programs for Indians and emphasized the full constitutional and financial responsibility of the federal government for such programs. Many of these issues were taken up again when the provincial ministers met with their federal counterpart, December 8-9 in Ottawa. In addition, changes to the Unemployment Insurance program contained in the budget were criticized for shifting people to social assistance provided by the provinces from unemployment insurance,

thereby increasing provincial costs.

In October, Atlantic Region Health Ministers met twice. They supported the creation of a federal-provincial task force on the Canada Assistance Plan. They also sent a telex to Monique Bégin, federal Minister of National Health and Welfare, to express their concern about the present design of the unemployment insurance program and the importance of their participation in the present review of the program. The Hall Report on health care was also discussed and its recommendation of special additional funding for the development of health services in the Atlantic provinces was endorsed. A coordinated approach to the supply and distribution of health care personnel in the region was also seen as necessary.

TRANSPORTATION

At a September meeting with his Maritime counterparts, federal Transport Minister Jean Luc Pepin indicated new directions for federal transport policy were being discussed involving an "intermodal approach" to transportation grants. This approach would involve giving each province a guaranteed level of support and then letting it decide its distribution among its various modes. Further clarification of this approach in the form of a major statement on national transportation policy did not occur in 1980. As a result, the major transportation issue in 1980 concerned the continuing problems with western Canada's transportation and grain-handling system.

By virtue of its jurisdiction over interprovincial trade and commerce, the federal government plays the dominant role in grain handling and transportation through agencies like the Canadian Wheat Board, the Grain Transportation Authority and the Canadian Transport Commission. Federal policy on double-tracking, rail-line abandonment, and freight rates were the primary objects of Western concern. The resignation of Dr. Hugh Horner as head of the Grain Transportation Authority in October further compromised the position of the federal government on transportation issues. However, increased federal-provincial cooperation, such as was shown at the June 3 meeting of federal and Western provinces' transportation and grain-handling ministers in Victoria, seems to be making a dent in some of the West's transportation problems.

Federal and provincial governments cooperated on a program (arranged under the Conservative government) aimed at expanding the grain car fleet. The federal government has leased 2,000 hopper cars for addition to the fleet. Alberta and Saskatchewan have purchased 1,000 each and Manitoba has leased 650. As a result of the drought, cost sharing programs were introduced to provide transport subsidies for shipping feed to livestock producers (see p. 84). After some hesitation, the Liberals followed through on other aid promised by the Tories. The federal government, British Columbia and Alberta will be contributing to infrastructural development at the Ridley Island port site near Prince Rupert, BC. The federal government will spend about \$32.5 million for site preparation, rail embankments and other infrastructural services. DREE will split 50/50 with BC the cost of an \$8 million access road; Alberta will contribute to the cost of wharf related

structures. The development of grain terminals and handling facilities are the responsibility of a consortium composed of Alberta and Saskatchewan Wheat Pools and other grain companies. Financing of at least \$200 million for the project will come from the Alberta Heritage Savings Trust Fund.

Development at the port site will also aid BC plans to export coal to Japan. However, federal government aid for rail improvements and extensions needed to reach new deposits was rejected by British Columbia which also withdrew its offer to cost share rail development at the Port Ridley site. BC wanted much greater federal participation in funding railway development and a federal subsidy on the transportation of coal. Complicating the negotiations was Ottawa's attempt to tie its assistance on this project to BC's relinquishing of claims for compensation from the effects of the construction of the Alaska Highway pipeline project through northern BC. Ottawa was opposed to transport subsidies, arguing that the project must be financially feasible. BC argued that such subsidies are necessary if coal prices are to be competitive with Australian producers. In any event, BC rejected Ottawa offers of aid for rail lines and decided to finance them itself out of the province's natural gas revenues. However, with gas revenues declining sharply in the last half of the year, the provincial government may be regretting its decision (BC Government News, July, 1980, p. 5). Federal government aid for a \$47 million coal port expansion at Roberts Banks, BC was approved.

In other transport developments, the ownership of Nordair became a federal-provincial issue when the government of Quebec bought 10.3 per cent interest in the airline in September from Fédération des Caisses d'Entraides, a Quebec credit union group and then sold it in October to another credit union group, Société d'Investissement Desjardins. This makes Desjardins the leader of Regionair, a consortium which has been attempting to buy Nordair. At present, Nordair is 86 per cent owned by Air Canada which bought Nordair in September, 1978 when no one else wanted it. At the time it was assumed that Nordair would be sold when a buyer could be found. However, Nordair is designated as Ontario's regional airline and Ottawa, at the behest of Premier Davis, has refused to sell Nordair unless Ontario interests can get a shareholding equal to that of Quebec-based interests. The Quebec government meanwhile has supported majority control of Nordair remaining with Quebec interests. Complicating the issue are proposals for a merger of Nordair with Quebecair (which is part of the Regionair consortium) and the objections to the Regionair group by Nordair management and employees many of whom are participating in a bid to buy Nordair (Financial Post, October 11, 1980 p. 3).

Interprovincial cooperation produced the Commercial Vehicle License Reciprocity Agreement signed by nine provincial Ministers responsible for Transport at a meeting on October 3, 1980 in Toronto. The first phase of the agreement takes effect on April 1, 1981. PEI, Yukon Territory and Northwest Territory abstained from signing but voiced agreement in principle. The agreement permits a trucker to buy in his home province a licence based on miles travelled in other provinces which is valid in participating provinces. The agreement provides for full and free reciprocity for small trucks, trucks carrying household goods, charter buses and farm-plated vehicles carrying a farmer's own goods. The objective of the agreement is to

provide for smoother flow of goods across provincial boundaries.

Regionally oriented rail systems sought federal aid in 1980. Ontario has been protesting to the Canadian Transport Commission about cutbacks in rail services particularly in its northern communities. The 110 mile railway running between Whitehorse and Skagway, Alaska, owned by White Pass and Yukon Corp. Ltd. has been losing money since 1978. Federal aid of \$15 to \$18 million has been promised but is conditional upon contributions from the State of Alaska, the US government and the Cyprus Anvil Mining Co. - the railway's largest customer.

The aid package for the White Pass railway pales in comparison, however, with the Newfoundland government's request for a \$1 billion railway modernization program for Newfoundland's railway system. Much of the money would go to converting Newfoundland's narrow gauge track to standard gauge.

ETCETERA, ETCETERA

- * **Attorneys-General:** The federal budget announced the government's intention to renegotiate the terms of its contracts with provinces and municipalities for RCMP policing services when the contracts come up for renewal in March, 1981. This was the main topic at November 6-7 meeting of provincial Attorneys General. Under the new terms, the provinces - except for Ontario and Quebec which have their own provincial police forces - would pay approximately \$100 million a year more for RCMP services than the \$215 million a year they pay now; some provinces have threatened to set up their own provincial police forces in response. Other items on the meeting's agenda included the decriminalization of marijuana (which most provinces opposed) and federal intrusions in the field of land use regulation.
- * **Civil Emergency Procedures:** At a meeting of provincial ministers responsible for Civil Emergency Measures, present arrangements for peacetime emergencies and disasters were reviewed. The ministers concluded that there is a lack of coordinated federal policy and endorsed a federal proposal for an early series of conferences of officials leading to a federal-provincial conference in early 1981. Provincial ministers regretted that their federal counterpart, Yvon Pinard, did not attend the August 29 meeting in Charlottetown.
- * **Consumer and Corporate Affairs:** The 1980 conference of federal-provincial ministers of consumer and corporate affairs met in Saskatoon, October 9-10. The ministers discussed competition policy, food standards legislation, electronic funds transfer systems, bankruptcy legislation and consumer credit loans.
- * **Cultural Affairs:** On September 17, provincial ministers responsible for Cultural and Historical Resources met. On September 19, federal Secretary of State Francis Fox joined the discussions. Cultural exchanges, lotteries, studies of Canadian content and the federal-provincial role in regard to the arts and cultural development were discussed.

- * **Education:** The 36th Council of Ministers of Education, Canada met twice in 1980, in Quebec City, January 21-25 and in Vancouver, September 22-23. Items on the agenda included the use of satellites in education, comparative curriculum studies, science education and federal-provincial coordination on international educational conferences.
- * **Immigration:** In August, both Quebec and Ottawa governments announced inquiries into the problem of illegal Haitian nationals in Quebec. As a result, Haitian nationals already in Quebec were allowed to apply for immigration within a certain time limit and under special admission criteria. Under normal conditions, Haitians would have had to apply from Haiti. The federal government agreed to accept Quebec's wish for special criteria subject only to medical or security considerations. A visa requirement for Haitian travellers was further imposed in an effort to control future illegal entries.
- * **Northern Development:** The general theme "Transition from Traditional to Wage Economy" was discussed at the third annual interprovincial Conference of Ministers responsible for Northern Development held at Thompson, Manitoba, September 9-11. Participating provinces presented papers on manpower and housing and seminar topics included the problems of remote, isolated communities, community development, the level of services and attracting and keeping professionals.
- * **Sport and Recreation:** Federal and provincial cabinet ministers responsible for sport and recreation met in Toronto, October 20-21. As a result, federal and provincial governments will cooperate on a review of future recreation policy, Fitness Canada and the federal role in recreation policy. Proposals for a federal Crown corporation for sport contained in a May, 1979 federal White Paper are still being deferred, a position endorsed by the provinces.

CHAPTER VI

INTERPROVINCIAL RELATIONS

INTRODUCTION

In this chapter, interprovincial relations are discussed chiefly as they occur at the level of premiers' conferences. Chapter V contains references to interprovincial relations as they occur in different issue areas. As last year's Review noted, there has been a growing tendency for provincial governments to meet, to exchange information and advice on a broad range of public policy issues. Cooperation in specific tasks appears to be increasing as well. This cooperation is most highly developed in the Maritimes, where regional purchasing policies are being developed, among other initiatives. It is also beginning to show up among the Western provinces; the proposal for a western power grid is one example.

Regional and provincial demands upon the central government continue to be made. Perhaps the prime examples in 1980 occurred at the September constitutional talks (see Volume Two). However, the premiers increasingly discuss "confederal" approaches to national policies. This has been motivated in part by a desire to have national policy more adequately informed by regional considerations. But it can also be seen as an attempt by regional and provincial interests to legitimize and to rationalize their claims on national policy by seeking common agreement on them at the provincial level.

For the premiers, it has become politically more and more important to oppose federal policies from within a national policy framework. However, this tactic was vigorously opposed by Prime Minister Trudeau at the September constitutional talks. Then, he argued that even if ten provinces manage to agree on something, it does not follow that the federal government should fall in line with provincial desires. As he put it, the federal government "also speaks in the name of Canadians, not broken down by provinces, but taken as a whole..." (Verbatim Transcript Vol. 1, Federal-Provincial Conference of First Ministers on the Constitution, p. 206).

Although the current trend in interprovincial relations seems to imply the confrontation of two views of Canada, one formulated by federal spokesmen and the other by provincial spokesmen, appearances of provincial consensus may be misleading. As William Johnson observed of the annual premiers' conferences,

...its participants get decisive only when dealing with matters on which they and Ottawa are opposed. Matters that can divide them are either swept under the table or passed along to some committee (Globe and Mail, August 21, 1980, p. 8).

The experience with provincial interaction in 1980 suggests that the limits to such tactics are close to being reached, at least for some issues. Ontario and New Brunswick, for example, supported the federal government's

constitutional proposals in opposition to the other provinces and the Atlantic provinces were divided on fisheries policy.

TWENTY-FIRST ANNUAL PREMIERS' CONFERENCE

The premiers met in Winnipeg August 20 to 24. Once again, energy and the constitution dominated the conference. The deliberations were given a special urgency by the political context in which they occurred, with the imminence of the September First Ministers Conference and the continuing Alberta-Ottawa stand-off on oil pricing. The context made it more difficult for the Premiers to reach a significant consensus on many major issues. Even the leak of a confidential federal government memorandum outlining a method of achieving constitutional reform even if the September talks failed (the "Pitfield memo"), while the conference was in progress, failed to force the premiers to a unified position on many issues.

Only very careful phrasing permitted all the Premiers to support the communique on the constitution. For example, it avoided concrete statements on the question of the economic union and federal powers over the economy. The Premiers did, however, commit themselves to developing "a consultative forum such as an intergovernmental Committee of Finance and Economic Development Ministers that would allow them to work cooperatively for the development of their own provincial economies...in the public interest of Canada as a whole" (Communiqué #1, p. 3). It was also agreed that changes to the allocation of economic powers under the constitution require consent by the governments affected. The question of entrenching a charter of rights was similarly ignored in favour of a statement requiring that human rights be protected by the "most appropriate means".

A non-controversial statement on natural resources asserted that constitutional reform would have to recognize that "the ability of provinces to use natural resources to stabilize provincial economies is vital to the well-being of the people of the provinces." The division of powers was termed the key issue in constitutional reform.

The premiers accepted a commitment to honour the promises made to Quebecers during the referendum and promised to pursue discussions to a successful conclusion. Yet all rejected "artificial deadlines", an apparent reference to Prime Minister Trudeau's expectations for the outcome of the September conference. The communiqué, however, did not specifically mention the September talks thus allowing Premier Davis to say he did not regard a September deadline for important progress on the constitution as "artificial" and that the federal government would be justified in acting without unanimous provincial consent if no such progress was made at the talks.

According to newspaper reports (Globe and Mail, August 22, 1980) Premier Davis of Ontario played a large role in toning down anti-Ottawa sentiment in the constitutional communique. However, he was less successful with the communique on energy. Ontario withheld support from a passage in the energy communique which denounced any federal natural gas export tax as a "direct attack upon provincial proprietary rights over resources as provided for in

the Canadian constitution." Alone among the provinces, Ontario argued that the constitution allowed such taxation.

Ontario also withheld approval of the communiqué's statement on oil pricing. The communiqué wanted increases in oil prices to more adequately reflect value of the commodity, with the condition that oil prices in Canada should allow Canadian consumers a competitive advantage compared to their American counterparts. But Ontario argued further that any price rises should be tied to some guarantee that the resulting revenues would be shared equitably among all Canadians. The Premiers were unanimous on the need to increase domestic oil production and to include strategies of conservation and substitution as part of policies for self-sufficiency. They supported continued federal support for subsidies to utilities in the Atlantic region until the conversion of oil-fired generating plants to other fuels was complete.

In the communiqué on the economy, the provinces agreed that a Finance Ministers' Conference should be held before the next federal budget and that a "full-scale" First Ministers' Conference be held at the earliest opportunity in 1980. Only the former came about. They also urged that economic issues should not be obscured by constitutional problems. Nevertheless, the communiqué failed to come to grips with the problem of barriers to trade. The ministers confined themselves to directing their Finance and Development ministers to meet with "the objective of improving the coordination and harmonization of provincial development policies and strengthening the operation of the Canadian economic union. The final communiqué announced agreement on reciprocal licensing of commercial vehicles (see also p. 96).

In sum, a coherent provincial position on constitutional reform did not emerge from these talks and on the basis of the carefully worded communiques, it was difficult to see the shape such a position would take. Nor did Alberta gain unanimous unqualified support for its oil pricing policy to use in its battle with Ottawa. The meeting underlined Ontario's alliance with the federal camp on significant constitutional and energy issues. The division haunted the September conference as well and was hardened by the budget and the National Energy Program.

Some attempts to bridge this division were made by Premier Davis in November who argued that conflicts over energy policy and the constitution were symptoms "of a more fundamental disunity" (Notes for an Address to the Canadian Club of Ottawa, November 20, 1980 p. 15). In a December speech to the Vancouver Board of Trade, he proposed that some of his concerns about the future of the country be investigated by a "National Commission on Western Equality" to be established by the Premiers' Conference. The Commission would prepare a report "on which the Provincial Premiers and the Government of Canada can act and act aggressively in the interest of legitimate accommodation and balance" (Notes for an address to the Vancouver Board of Trade, December 5, 1980 p. 16). However, Premier Davis' proposal did not receive support from the other premiers. More significant efforts at "bridge-building" (to use Premier Davis' words) will likely be needed if the division is to avoid pernicious effects on prospects for interprovincial cooperation on a day-to-day basis and at the next Premiers' conference in British Columbia in 1981.

WESTERN CANADA

Western Premiers' Conference

The seventh annual Western Premiers' Conference was held in Lethbridge, Alberta, April 21-23, 1980. The conference has become increasingly more significant as the power and wealth of the Western provinces have grown. However, coming as it did soon after the opening of the federal Parliament nearly devoid of Western representation on the government side and less than a month before the referendum in Quebec, the Conference assumed added importance and attracted over 100 journalists and reporters (Regina Leader Post, April 24, 1980).

The Premiers issued nine communiqués demonstrating western consensus on a number of topics. They repeated their opposition to sovereignty-association, emphasized their desire for constitutional change and went on to advocate a new round of constitutional discussions after the Quebec referendum.

The Premiers also returned to the subject of federal intrusion in areas of provincial jurisdiction. They noted that it had been more than a year since their so-called "Intrusions Report" (The Third Report of the Western Premiers Task Force on Constitutional Trends) had been sent to the federal government. While the Premiers realized that a delay in the federal response to the report was excused by the two recent federal elections, they wanted a response as soon as possible so that the process of resolving and preventing federal-provincial conflicts might get underway.

Two communiqués dealt with grain handling and transportation. The Premiers renewed an appeal for greater federal participation in improving the grain handling and transportation system. They pointed to their own action in increasing the number of hopper cars in service by 2,400 and called on the federal government to follow through on its promise to add 2,000. They wanted improvements to port capacity in Western Canada, increased rail access to the ports of Vancouver, Thunder Bay and Churchill, greater representation on the National Harbours Board and stronger powers for the Grain Transport Commission to deal with transport problems. In a special communique, the Premiers requested the new government to honour the Clark government's promise to aid the development of Prince Rupert as a major west coast port for grain, coal and merchandise in bulk.

The Premiers also repeated their general concerns about Canada's economic situation. High interest rates, the balance of payments deficit, and the federal deficit were again singled out for criticism. They offered a six-point program they considered essential to any independent national economic strategy. It called for:

- a realistic energy pricing and investment policy;
- fiscal policy to influence inflow of foreign capital and outflow of Canadian capital;

- incentives to encourage Canadian participation in corporations active in Canada;
- coordinated federal-provincial planning of foreign borrowing by governments in Canada;
- the sale of newly discovered natural gas to obtain foreign currency to improve the balance of payments problem (with the conditions that such exports do not endanger the supply of future Canadian needs and that they be linked as far as possible to a commitment on the Alaska pipeline);
- a reduction in the federal deficit.

Other communiques dealt with western support for the disentanglement of federal-provincial responsibilities and greater liberalization of trade. A study on the rationalization of the training of health care personnel in the West was set up and the completion of a final study of the development of a Western Canada electric power grid was promised for September 30, 1980.

Several pressures acted to shape this wide-ranging consensus. The Premiers feared that disagreement among the western premiers would convince some westerners that separatism was a better alternative and they wanted to show Quebecers that consensus is possible in other parts of Canada on constitutional change. In any case, the persistence of western complaints and the extent of consensus supported the contention of one observer that "the Premiers are marching to a powerful western drumbeat that is drowning out the differences among them" (Edmonton Journal, April 24, 1980).

Alberta-British Columbia Joint Cabinet Meetings

This year for the first time, joint cabinet meetings were held by BC and Alberta. Both cabinets met on July 11 in Victoria and October 3 in Edmonton. At the July meeting, they announced their opposition to any export tax on natural gas and the creation of a Resources Policy Strategy Committee. The committee will consider measures to deal with federal energy policy and with other resource issues, such as natural gas marketing. The October meeting covered the same subjects but also included discussions on transportation and the constitution.

EASTERN CANADA

Council of Maritime Premiers

The Council of Maritime Premiers met four times in 1980: March 24 in Halifax, June 16 in Dalvay, PEI, September 22 in St. Andrews, NB and December 8 in Amherst, NS.

Constitutional issues were prominent in all discussions. At the March meeting, the Premiers met with Claude Ryan, leader of the Quebec Liberal party to discuss his party's position paper on constitutional issues (the

"Beige Paper"). Although the Premiers declared greater philosophical support for Ryan's proposals than for Levesque's concept of sovereignty-association, they did not specifically endorse the Beige Paper's package of proposals. At the June 16 meeting, the upcoming constitutional talks were discussed and agreement reached on the so-called "Dalvay principle":

That offshore mineral resources should be dealt with in such a manner that benefits would accrue to the provinces as they would if those resources were onshore.

The September and December meetings concerned the evaluation of the September Conference on the constitution and possible responses to the federal government's constitutional resolution. However, the Council did not become a major forum for formulating and implementing a consistent response to the federal government. The Premiers had to contend with reconciling their divergent positions on constitutional issues. Premier Hatfield has been a strong, often zealous supporter of the federal government position and his performance at the September talks confirmed him in this role. Premier MacLean of PEI was closely aligned with the more "hardline" provinces at the talks, while Nova Scotia tried to find some middle ground between the two extremes. This degree of divergence, moreover, has not encouraged Newfoundland to seek more regular ties with the Council. In particular, it opposed Nova Scotia's position on fisheries policy and offshore resources over the year, and, especially at the September talks. As a result, Newfoundland's relations with the Council remained on an ad hoc basis at the end of the year, involving only a small number of the Council's ongoing programs.

In addition to their discussions on constitutional issues, the Premiers found time to make adjustments to ongoing programs of cooperation and initiate new ones. Major changes were made to cooperation on Maritime energy problems. The concept of a Maritime Energy Corporation was abandoned as no longer feasible. Instead, the Premiers, together with Marc Lalonde, federal Minister of Energy, Mines and Resources, will set up a body to study and recommend proposals for Maritime cooperation on medium and long-term energy development. In December, a Coordinating Committee of Maritime Electric Utilities composed of senior officials of the Maritime Electric Utilities and official observers from the provincial governments and the Government of Canada was established.

Long standing proposals for a veterinary college in the Atlantic region moved closer to reality. The Premiers announced in June that a planning committee for the college had been struck, including two representatives from Newfoundland. A new agreement on the future of the Land Registration and Information Service (LRIS) has been reached, putting it on a more stable basis following the withdrawal of federal funding last year. A long term planning document has been released. Administrative changes were made over the year and the LRIS International Corporation has been activated to market the system internationally.

New initiatives include the establishment of an Atlantic Coastal Resources Information Centre to collect and disseminate information on coastal zone management and development. In an effort to maximize the

regional multiplier of Maritime government spending, a Maritime purchasing policy has been put into effect. The policy involves the exchange of information among governments on the ability of business in their provinces to fill government tenders. The Council also agreed to establish a committee of senior officials from their Departments of Development and Fisheries to study how the manufacture of fishery-related "hardware" could be encouraged in the Maritimes. Coordination of financial aid for higher education and the development and supply of teaching resource materials at the public school level were also discussed.

In June the Premiers received the report of its Committee of Ministers responsible for Communications on the CRTC investigation of the rates and practices of the Trans-Canada Telephone System of which the provincially-regulated telephone companies of the Maritimes are members. The premiers supported the ministers' opinion that this action was an unwarranted extension of federal jurisdiction.

Conference of Eastern Canadian Premiers and New England Governors

The eighth annual conference took place on June 26-28 at Vergennes, Vermont this year. Topics discussed included regional economic linkages, local history and tourism development. The governors and the premiers agreed to establish and fund the International Tourism Region Foundation. It will engage in researching the common tourism marketing problems of the region, focussing on improving international tourism.

However, energy concerns dominated the conference. Governor Richard Snelling of Vermont proposed a "massive, accelerated international investment plan" to develop the potential for hydro-electric power generation in eastern Canada. Governor Snelling favoured 100 per cent financing of the plan by American utility companies, American ratepayers and the US government. Ownership and title of the developments would be 100 per cent Canadian. US utility companies would buy electricity surplus to Canadian needs and sell it to US customers. Snelling foresaw an investment of \$40-50 billion in Canada and proposed a "North Atlantic Energy Organization" to oversee development and to cut through red tape and financing difficulties. However, while his idea was favourably received by some Canadian Premiers, many foresaw difficulties. The Premiers of Newfoundland and Prince Edward Island noted that the issue of interprovincial transmission of electricity would have to be resolved before the project could become a reality. Premier Lévesque, while willing to begin discussions on the idea, stopped short of committing himself to tangible steps at next year's conference as Governor Snelling wished.

CHAPTER VII

JUDICIAL REVIEW

INTRODUCTION

In 1980, Canadians were asked to pay more attention to their court system than ever before. The constitutional talks in September dealt with the position of the Supreme Court in the constitution and the power of appointment of superior court judges. Proposals for an entrenched Charter of Rights would greatly increase the court's role in our political and social life. Many Canadians were forced to ask themselves whether this would be for the better or for the worse. As a result, the performance of the courts and the opinions and attitudes of their judges were closely scrutinized. Finally, at the end of the year, a number of provinces took steps to resolve in the courts their political battle with the federal government's constitutional resolution. All this has occurred at a time when more and more cases coming before the Supreme Court have had constitutional implications.

Of course, the courts have always had more than a transitory importance for federal-provincial relations. Their decisions have limited or enlarged the powers and responsibilities of the two orders of government. The different types of cases and the frequency with which they come before the courts serve also to indicate areas of stress and strain between the two orders. As Bora Laskin, Chief Justice of the Supreme Court of Canada has said of the Supreme Court:

So long as we have a federal system, this Court is going to be at the heart of it, no matter what the ultimate form of distribution of power or what other provisions may be included in a revised constitution (Financial Post, September 20, 1980, p. 211).

The cases involving the provincial challenge to federal action on the constitution form part of Volume II of this Review. The following chapter highlights a selected number of other cases with federal-provincial implications. Our survey is not comprehensive but does illustrate the continuing refinement of constitutional law in 1980. As will be seen, many important cases initiated in 1980 still await resolution at the Supreme Court level.

ADMINISTRATION OF JUSTICE

Hauser vs. Her Majesty the Queen was reported in last year's Review. At issue in that case was the ability of the Attorney-General of Canada or his agent "(1) to prefer indictments for an offence under the Narcotics Control Act and (2) to have the conduct of proceedings instituted at the insistence of the Government of Canada in respect of a violation...(of) any Act of the Parliament of Canada or regulations made thereunder other than the Criminal Code" (Year in Review: 1979, p. 117).

In a split decision, on May 1, 1977, the Court ruled "yes" to both questions. Upholding the ability of the Attorney-General of Canada to prosecute federal non-criminal code offences, the Court then allowed him to prefer indictments under the Narcotics Control Act by ruling it to be a non-criminal code offence. This judgement left unanswered a number of questions: whether the Attorney-General of Canada may prosecute Criminal Code offences and whether provincial Attorneys-General can prosecute non-criminal code offences. This latter point was at issue in two cases which were granted leave to appeal by the Supreme Court of Canada in 1980, although they had not been heard by the end of 1980.

In *Regina vs. Stevenson*, the New Brunswick Supreme Court, Queen's Bench Division, ordered a provincial court judge to proceed with a prosecution under the Narcotics Control Act initiated by the Attorney-General of New Brunswick on the grounds that any person (including the NB Attorney-General) could lay an information under the Narcotics Control Act. In *Regina vs. Sacobie and Paul*, the New Brunswick Provincial Court dismissed the information against the accused on the ground that only the Attorney-General of Canada could prosecute violations of the Fisheries Act.

On December 11, 1979, the New Brunswick Court of Appeal upheld the Court's decision in *Regina vs. Stevenson* but reversed the Court's decision in *Regina vs. Sacobie and Paul*. In reasons for his judgement, Justice Limerick held that the Hauser case should not be interpreted as reserving exclusively to the Attorney-General of Canada the power to prosecute non-criminal code Acts like the Fisheries Act or the Narcotics Control Act. Rather, the Hauser case asserted only that the Attorney-General of Canada had precedence in any actions initiated under such Acts. In support, Limerick quoted Justice Pigeon from the Hauser case.

I find it clear that the effect of this enactment (s. 2 of Code) is to make the Attorney General of Canada the "Attorney General" in respect of all criminal (sic) proceedings instituted at the instance of the government of Canada and conducted by or on behalf of this government in respect of an offence or conspiracy pertaining to a statute other than the Criminal Code. This results in the exclusion of the attorney general of the province from any authority in respect of such proceedings so instituted. (emphasis is that of the Appeal Court Judge).

The power of the Attorney-General of Canada to prefer indictments and conduct prosecutions under the Combines Investigation Act was upheld in Ontario's High Court of Justice on February 5, 1980 in the case of *Regina vs. Hoffman-LaRoche Ltd.* In *Regina vs. Canadian Industries Ltd.*, the Attorney-General's power to prefer indictments and conduct prosecutions under the Fisheries Act was held to be unaffected by the existence of the Canada-New Brunswick Accord for the Protection and Enhancement of Environmental Quality. The Court, on September 9, 1980, rejected CIL's claim that the exclusive right to prosecute had been delegated to the province and held also that the accord did not have the force of law since no legislative sanction or executive authority existed for it.

In short, as these cases illustrate, the issue of the powers of Canada's

Attorneys-General to prefer indictments and conduct prosecutions is still unresolved at least until the Court has had a chance to pronounce upon *Regina vs. Stevenson* and *Regina vs. Sacobie and Paul*.

One other case should be noted. It concerns whether a provincial statute creating a law enforcement board can confer upon that board the authority to investigate the conduct of the RCMP who perform policing and law enforcement functions in the province. On April 29, 1980, the Alberta Court of Appeal in *Putnam and Cramer vs. Attorney-General of Alberta* ruled that Section 92(14) of the BNA Act giving control over the administration of justice in a province to the province was not a sufficient authority to allow such an investigation, since federal legislation was paramount in the matter of the internal operations of the RCMP. Leave to appeal was granted by the Supreme Court of Canada in June but the case had not been heard by the Court by the end of 1980.

APPOINTMENT OF JUDGES: CASES INVOLVING SECTION 96 OF THE BNA ACT

One of the minor skirmishes during the constitutional talks concerned whether the power of appointment of Superior Court judges should be discussed with the Supreme Court. The provinces in general wanted the power of appointment which Section 96 of the BNA Act currently reserves to the federal government. In addition to being a very important tool of patronage politics, the power to appoint judges to superior courts would allow the provinces to diversify the ways in which certain of its legislative goals are implemented. This can be seen in the following cases.

At the end of 1980, the Supreme Court was considering two references from provincial Courts of Appeal involving Section 96. Reference re: *Residential Tenancies Act*, 1979 involved the question of whether it was within the legislative authority of the Legislative Assembly of Ontario to empower the Residential Tenancy Commission to make orders evicting tenants and/or requiring tenants to comply with obligations imposed under the *Residential Tenancies Act*, 1979. On February 21, 1980, the Ontario Court of Appeal decided that in allowing the Commission to make such orders, the Act was effectively giving powers normally exercised by courts cited in Section 96 -- Superior, District, County -- to the Commission. Since the province cannot do this without running counter to the intent of Section 96, the Court ruled that the legislation was *ultra vires*. On November 28, 1980, the Supreme Court heard arguments in the Ontario reference but had not released its decision by the end of the year.

The other reference before the Supreme Court involves Section 6 of the *Family Relations Act*, 1978, British Columbia. Here the issue concerns whether the legislature of BC could confer upon judges of the Provincial Court, a court of inferior jurisdiction, the duties and powers of Section 6 of the *Family Relations Act*. On June 26, 1980, the BC Court of Appeal ruled that Sections 6(1) (a) and (c) were *ultra vires* of the Legislature because they extended judicial powers over guardianship and maintenance of children, exercised by Superior Courts, to the Provincial Court. At the end of the year the case had not yet been heard.

The effect of Section 96 was also felt at other levels of the court system in 1980. Sections of the Residential Tenancies Act (Nova Scotia) were declared ultra vires because they offended Section 96 (*Easton et al. v. Residential Tenancies Board et al.*, June 20, 1980, Nova Scotia Supreme Court). Sections of the Nova Scotia Lands and Forests Act which appointed a commissioner and gave him a variety of powers were ruled ultra vires because they offended Section 96. (*Nova Scotia, Attorney General of, v. Gillis*, Nova Scotia Supreme Court, Appeal Division, April 2, 1980). Other cases in 1980 involving Section 96 arguments include *Kasper and Manitoba Department of Labour et al.*, Queen's Bench, September 23, 1980 and *Concerned Citizens of BC et al. vs. Capital Regional District*, BC Court of Appeal, November 26, 1980.

In short, Section 96 has been construed as rendering invalid provincial legislation which confers Superior Court or similar powers on a provincially constituted official or tribunal, unless those powers are clearly only incidental to a broad administrative scheme within the province's legislative authority. Whether this is viewed as preserving the individual's right to have recourse to the courts for certain issues or as clogging up the court system with issues better handled elsewhere, the effect of the section has been to restrict the ability of provincial governments to deal with a variety of issues and disputes outside the established court system, and this accounts for the concern of many provinces to make Section 96 an object of reform.

CONSUMER AND CORPORATE AFFAIRS

In *Labbatt Breweries of Canada Ltd. vs. The Attorney-General of Canada*, the Supreme Court ruled 6 to 3 on December 21, 1979 that sections 6 and 25(1)(c) of the federal Food and Drugs Act, R.S.C., 1970, c. F-27 were ultra vires of the Parliament of Canada. In the interpretation of the Court, these sections attempted to authorize a detailed set of regulations prescribing standards for the production of certain kinds of foods - in this particular case, beer. After examining federal powers concerning criminal law, trade and commerce, and peace, order and good government, the Court found that none of these headings justified the detailed regulation of product composition and ruled it to be properly within provincial jurisdiction. As a result the legitimacy of standards for other products under the Act has been cast in doubt.

In his dissent, Chief Justice Bora Laskin held that the legislation was an exercise of federal trade and commerce power and that he would not further attenuate this power by denying the federal Parliament the power to prescribe uniform standards for the manufacture of food, drugs, cosmetics, etc.

The basis for the federal Combines Investigation Act (R.S.C. 1970, C-23) may come up for clarification at the Supreme Court level as a result of the decision in *Regina v. Hoffman - La Roche Ltd.* (op. cit.). The presiding judge ruled that the section which deals with unfair competition was within Parliament's competence under section 91 of the BNA Act regarding peace, order and good government. The judge argued that the Act is "directed at a genuinely new problem which did exist at the time of Confederation which is

clearly not of a local or private nature and which is of serious national concern" (pp. 164-5, Ontario Reports, 29 [2d]).

However, on December 4, 1979, in *Rogois Construction Inc. v. Quebec Ready Mix et al*, after ruling that sections 31(1)(a) and 31(1)(3) could not be based on federal criminal law power, a Federal Court Judge further held that section 91 did not give authority to Parliament to pass s. 31.1(a) and s. 31.1(3) of the *Combines Investigation Act* to the extent that it applies to local commerce.

FISHERIES CASES

Supreme Court of Canada decisions on sections of the federal *Fisheries Act* further clarified the extent of federal constitutional powers over fish and fish habitat. Section 91(12) of the BNA Act gives the federal government jurisdiction over "Seacoast and Inland Fisheries". This jurisdiction has been interpreted to include fish habitat and has been the basis for federal laws regulating pollution of fish environment.

In *Dan Fowler vs. The Queen*, Section 33(3) of the *Fisheries Act* was ruled *ultra vires* the federal Parliament. Section 33(3) reads:

(3) No person engaged in logging, lumbering, land clearing or other operations, shall put or knowingly permit to be put, any slash, stumps or other debris into any water frequented by fish or that flows into such water, or on the ice over either such water, or at a place from which it is likely to be carried into such water.

In his reasons of June 17, 1980, Justice Martland, with all judges concurring, held that the section clearly trespassed on provincial jurisdiction specifically under Section 92(13), BNA Act which gives jurisdiction over "Property and Civil Rights" to provincial governments. Justice Martland said that "such encroachment of federal law on provincial jurisdiction may be allowed if it could be shown that it provided for matters which are necessarily incidental to effective legislation regarding sea coast and inland fisheries, or any other subject of legislation expressly listed in Section 91, BNA Act. However he further observed,

Subsection 33(3)...is a blanket prohibition of certain types of activity, subject to provincial jurisdiction, which does not delimit the elements of the offence so as to link the prohibition to any likely harm to the fisheries. Furthermore, there was no evidence before the Court to indicate that the full range of activities caught by the subsection do, in fact, cause harm to fisheries. In my opinion, the prohibition is not necessarily incidental to the federal power to legislate in respect of sea coast and inland fisheries...

Unlike the previous case, the Supreme Court decision on July 18, 1980 in *Northwest Falling Contractors Ltd. v. Her Majesty the Queen* reinforced federal control over fish habitat. In this case, the constitutional issue concerned the legislative competence of the federal Parliament to enact

subsection 33(2) of the Fisheries Act. Subsection 33(2) reads:

(2) Subject to subsection (4), no person shall deposit or permit the deposit of a deleterious substance of any type in water frequented by fish or in any place under any conditions where such deleterious substance or any other deleterious substance that results from the deposit of such deleterious substance may enter any such water.

Northwest Falling Contractors argued that the subsection had no relation to Section 91.12, BNA Act but that it was legislation regarding the pollution of water in general or the protection of all animal life in the water. Citing authorities, Judge Martland, with all judges concurring, disposed of the latter point by holding that Section 91.12 concerned more than "fish" in the technical sense but rather the "fisheries" which has been considered as something in the nature of a resource. Accordingly, he observed,

The power to control and regulate that resource must include the authority to protect all those creatures which form a part of that system.

The former point turned on the construction of the statute. Here, Justice Martland argued that the subsection did aim specifically at the protection and preservation of fisheries. Hence, being unlike the more generally worded subsection 33(3), he ruled the section *intra vires* the federal Parliament.

The significance of the Northwest Falling Contractors Ltd. was felt quickly in at least one other case in 1980. In *Canadian Industries Ltd. vs. Her Majesty the Queen*, the accused was charged with polluting water contrary to subsection 33(2) of the Fisheries Act but argued before the New Brunswick Court of Appeal that subsection 33(2) was *ultra vires*. The Court's decision was postponed pending the outcome of *Northwest Falling Contractors Ltd.* On September 9, 1980, the Court of Appeal upheld the charges after taking account of the Supreme Court's decision on *Northwest Falling Contractors Ltd.*

Another case involving jurisdiction over fisheries involved the refusal of the Aluminum Co. of Canada Ltd. (Alcan) to increase the flow of water from its hydro-electric reservoir in northern BC on the order of Romeo LeBlanc, federal Minister of Fisheries and Oceans. Federal officials argued before the BC Supreme Court that the increased flow was necessary to protect salmon spawning grounds downstream on the Nechako River. Alcan officials argued that the federal government had no constitutional grounds to issue the order and that it was responsible only to the BC comptroller of water rights under the terms of its 1950 water license. Using arguments reminiscent of *Northwest Falling Contractors Ltd.* and *Dan Fowler* above, Justice Thomas Berger ruled on August 5, 1980 that when the ministers' orders are intended to preserve the fisheries, "he is not overstepping the boundary of federal jurisdiction" (*Globe and Mail*, August 6, 1980, p. 10).

He accordingly issued an injunction ordering Alcan to increase the flow and said the order may be renewed if necessary. Alcan has not appealed the decision, but instead announced a review of its plans to triple its aluminum smelting capacity in BC and create 5,000 jobs over a 12-15 year period. The plans depended upon total diversion of Nechako River Waters in order to generate hydro-electricity for its smelters (Globe and Mail, August 15, 1980, p. 8). In the face of the Court decision and mounting local opposition, total diversion now seems unlikely and Alcan is searching for alternative solutions.

INTERPROVINCIAL TRADE AND COMMERCE

On May 6, 1980, the Supreme Court of Canada pronounced judgement in *National Freight Consultants Inc. vs. The Motor Transport Board of Alberta et. al.* In this case, National Freight Consultants challenged the authority of the Motor Transport Board of Alberta to issue licenses restricting the transport of cargo interprovincially between BC and Alberta. The issue in the case was not constitutional. Although the federal government has jurisdiction over interprovincial trade, the federal Motor Vehicle Transport Act, R.S.C. 1970, C. M-14 requires extra-provincial motor vehicle operations to obtain licenses from provinces where licenses are by law required for local motor vehicle operators.

National Freight Consultants argued, however, that the Act could not be interpreted as allowing a province to stipulate the points outside the province to and from which they may transport cargo. The Supreme Court disagreed, holding that the "pattern of the statute contemplates multiple licensing by adjoining provinces." The Alberta Board was allowed by the Motor Vehicles Transport Act to restrict interprovincial transportation in this way. Although it had been argued that such power invites impasse in the regulation of interprovincial trucking, the Court held that such internecine conflict would be impractical and that the Act allowed the federal government to suspend quickly the need for a license from the offending board.

In *Fulton et. al. vs. Energy Resources Conservation Board of Alberta and Calgary Power Ltd.*, the Alberta Court of Appeal had to decide whether the Board had the jurisdiction to grant a license to Calgary Power Ltd. to construct and operate a power transmission line to a point near the Alberta-BC border, the intention being to connect the line with BC and US power grids in the future. *Fulton et al* contended that the line was an interprovincial work, and involved interprovincial trade and commerce. It, thus, fell under the jurisdiction of the federal government. Hence the Board was without jurisdiction to grant a license.

On January 22, 1980, the Alberta Court of Appeal ruled that the matter concerned the regulation and distribution of a provincial resource within the province and not trade and commerce. It further ruled that the Board had licensed only construction and operation of the line within Alberta and that the line would not be an interprovincial work until connected extra-provincially. Hence, the Board did have jurisdiction to grant a license. Leave has been granted to appeal to the Supreme Court of Canada.

However, by the end of 1980, the case had not been heard.

The constitutional validity of Sections 50, 53-61 of the National Energy Board Act has been challenged in *Saskatchewan Power Corporation et al vs. Trans Canada Pipelines, the National Energy Board and the Attorney-General of Canada*. The appeal was filed October 31, 1980. In the case, Saskatchewan Power Corporation is challenging the powers given by the Act to the NEB to set oil and gas prices. The powers were used to raise the price of natural gas bought by the Corporation from TransCanada Pipelines Ltd. under a 1969 contract which set lower prices. Lower courts so far have rejected the Corporation's arguments that the NEB had no right to void the contract.

The long standing court dispute (since 1976) between Hydro-Quebec and the Newfoundland and Labrador Government moved closer to a resolution in 1980. The Supreme Court agreed to hear Newfoundland's case against the refusal of Churchill Falls (Labrador) Corporation to sell 800 megawatts of power to Newfoundland. Counsel for Hydro-Québec have argued that its 1969 contract with the Corporation gives Hydro-Québec precedence on Churchill Falls power and precludes the Corporation from supplying Newfoundland. Newfoundland, which owns a majority share of the Corporation, has argued that a clause in the Churchill Falls lease requires puts the Labrador corporation to give priority to consumers of electricity in Newfoundland "where it is feasible and economic to do so" (*Globe and Mail*, June 3, 1980).

Further, court action on this issue became likely when Premier Peckford's government passed a bill in 1980 reclaiming water rights leased to the Churchill Falls Corporation on the basis of its failure to assure the above clause in the lease. The bill is to become effective only after a ruling by the Supreme Court that the bill is within the authority of the Newfoundland legislature to pass. This court action will likely take two years to complete.

LABOUR LAW

Labour law cases involving constitutional issues in 1980 concerned the extent of the application of provincial statutes to federal works or undertakings i.e. those operating extra-provincially. In some of the cases surveyed, the power of provincial labour boards to certify unions was at issue and in general was upheld. In *Canadian Pioneer Management Ltd. et al v. Labour Relations Board of Saskatchewan* (December 21, 1979) the Supreme Court of Canada upheld the power of the Board to certify a union representing Canadian Pioneer employees even though Canadian Pioneer (an insurance company) operated interprovincially. Citing earlier decisions, the Court ruled that the insurance business lies within exclusive provincial jurisdiction.

In *Pacific Customs Brokers Ltd. v. Office and Technical Employee's Union et al*, the BC Supreme Court ruled (January 11, 1980) that a customs broker was not a federal undertaking and that the Labour Relations Board of BC had the power to certify a union for it. Similarly, in *Windsor Airline Limousine Services Ltd. and Ontario Taxi Association*, a taxi company which answered 98 per cent of its calls from the local area and the rest from the US was ruled

a local undertaking in Ontario Divisional Court (September 2, 1980) and hence the Labour Relations Board of Ontario had jurisdiction over it.

In other cases, however, provincial statutes did not fare as well. In *Canadian Pacific Ltd. v. Attorney General of Alberta*, the Alberta Court of Appeal considered a case arising out of a complaint by an Indian woman to the Alberta Human Rights Commission alleging that CP discriminated against her by failing to hire her for a position in a railway frog shop contrary to the Alberta Individual's Rights Protection Act, 1972. In its judgement of January 16, 1980, the Court held that the frog shop was an integral part of the CP trans-continental railway and hence fell within exclusive federal jurisdiction under section 92(10)(a) of the BNA Act. In consequence the Rights Protection Act did not apply to CP and the decision of the lower court in favour of the woman was reversed.

In *Alltrans Express Ltd. and Workers' Compensation Board of British Columbia*, the BC Supreme Court decided (September 15, 1980) that sections of the Workers' Compensation Act governing safety regulations and their enforcement conflicted with provisions of the Canada Labour Code. Thus, the sections could not be enforced by the Board against Alltrans.

LANGUAGE

Last year's Year in Review reported on *Attorney General of the Province of Quebec vs. Blaikie et al.* In that case, Chapter III, Title 1, The Charter of the French Language (Quebec, 1977) was ruled *ultra vires* the provincial legislature of Quebec because, by proclaiming French to be the only official language in the courts and the National Assembly, it violated the provisions of Section 133, BNA Act which Blaikie et. al. contended was beyond the power of Quebec to amend unilaterally. After its ruling, the extent of the application of Section 133 became an issue and on March 27, 1980, the Supreme Court of Canada ordered that a re-hearing take place on whether or not Section 133 of the BNA Act applies to regulations of statutory bodies or regulations or bylaws of municipalities and school boards. On November 26 and 27, arguments were heard in the re-hearing and judgement reserved. No judgement had been pronounced by the end of 1980.

MEDICAL LAW

In November, 1980, the Supreme Court of Canada agreed to hear a test of the constitutional validity of British Columbia's Heroin Treatment Act. Under the Act, a person who is dependent on heroin may be forced to undergo medical treatment. A BC trial judge ruled in 1979 that the Act trespassed on exclusive federal responsibility for criminal law by creating a "new crime of narcotic dependency." However, a BC Court of Appeal ruled in 1980 that the Act concerned a health matter and thus was within provincial jurisdiction.

NATIVE PEOPLES

No attempt to deal with the many cases involving native rights and the status of Indians will be made here. It can be briefly noted that the scope for the application of provincial statutes to Indians is widening. Two cases illustrate this trend. In *Four B Manufacturing v. United Garment Workers of America*, the Supreme Court of Canada ruled (December 21, 1979) that the Ontario Labour Relations Board could certify the UGWA as bargaining agent for Indians employed by Four B at its manufacturing plant located on an Indian Reserve. The Board could also order Four B to reinstate four of its employees. The Court held that the power to regulate labour relations does not form an integral part of primary federal jurisdiction over Indians and Lands reserved for Indians (s. 91(24), BNA Act). Nor had Parliament occupied the field by provisions of the Canada Labour Code. In *Hopkins and Hopkins*, an Ontario County Court Judge on May 30, 1980 ruled that granting an application by an Indian woman under the Ontario Family Law Reform Act for exclusive possession of the matrimonial home located on an Indian reserve did not conflict with the federal Indian Act since the land transferred remained the possession of an Indian.

POWERS OF TAXATION

Several cases concerning the constitutional propriety of new tax measures arose in 1980. On July 18, the Supreme Court of Canada pronounced judgement in the case of *Manitoba vs. Air Canada*. Intervenants in the case included the Attorneys Generals of Canada and several provinces. This case concerned the attempt by Manitoba to apply its Retail Sales Act to Air Canada operations and services in through flights which do not touch down in Manitoba and in through flights which land in Manitoba or which take off in that province. Air Canada challenged the tax it was assessed and was successful in the Manitoba Courts in having its assessment reduced from \$1,375,387.00 to only \$1,856.00.

The Supreme Court of Canada, with all nine judges concurring, held that neither through flights nor flights which temporarily land in Manitoba can be considered to be "within the province" under Section 92(2), BNA Act which allows the provinces to impose direct taxes within the province only. Chief Justice Laskin held that

In the case of aircraft operations, there must be a substantial, at least more than nominal, presence in the Province to provide a basis for imposing a tax in respect of the entry of aircraft into the Province.

He also argued that the assessment of the tax related to aspects of Air Canada operations which however defined in the Retail Sales Act cannot properly be considered as purchasing or consumption:

...there is, at best merely a notional drawing into the taxation net of interprovincial and extra-provincial operations and constitutional authority...cannot be extended by self-serving

In deciding the case on these grounds the Chief Justice avoided answering the questions of whether airspace over a province falls within the jurisdiction of a province or whether the tax was indirect.

The nature of provincial power to tax directly only within the province was also at issue in *The Attorney-General of British Columbia vs. The Canada Trust Company and Olga Ellett*, (June 27, 1980) and *Frank M. Covert, Q.C. et. al vs. The Minister of Finance of the Province of Nova Scotia*, (July 18, 1980). Both these cases dealt with the power of provincial governments to tax provincial residents to whom property located outside the province had passed on the death of a person. In both cases (although the vote was 4-3 in the latter case), the Supreme Court of Canada ruled that in fact the province was taxing its residents directly and that there was nothing to prevent the use of extra-provincial attributes in determining the tax on provincial residents.

Indirect taxation by provinces was also at issue in two cases which are before the court but which had not been heard by the end of 1980: *Minister of Finance of New Brunswick et al. vs. Simpsons-Sears Ltd. (NB)* and *Massey-Ferguson Industries Ltd. et. al. vs. Province of Saskatchewan*. In the former case, New Brunswick has sought to apply its sales tax to sales catalogues distributed by Simpsons-Sears in New Brunswick. This is the second time around for this case. In an earlier decision, the Supreme Court ruled the tax to be indirect as no sale took place in the province. After this ruling, New Brunswick amended its legislation retroactively to define "consumer" specifically to include "promotional distributors." In 1980, the Trial Division and then the Court of Appeal of the New Brunswick Supreme Court ruled the tax *ultra vires*. As with *Manitoba vs. Air Canada*, the issue turns on whether legislative definitions can extend the constitutional authority of a province. In the first Supreme Court decision on the matter, Chief Justice Laskin observed that

It would be strange indeed if under the terms of the definition of consumer, a province could validly tax a seller or a distributor regardless of the subsequent impact or general tendency of the tax" (*Globe and Mail*, January 14, 1980, p. B3).

In the latter case, the province of Saskatchewan assessed farm implement vendors for money to establish and maintain an Agricultural Implements Compensation Fund. The Trial Court ruled the assessment to be an indirect tax and, hence, *ultra vires*. In its decision, the Court of Appeal held that whether a tax was direct or indirect depended on its "general tendency". It further held the general tendency of a tax may be discerned from the intention of the legislature as disclosed in the enactment at the time it was adopted. The Court was satisfied that the legislature intended the tax to be paid by those on whom it was assessed and not passed on to consumers, and so overturned the earlier decision.

The federal power of taxation will likely be explored further in the courts in 1981. The provinces of BC, Alberta and Saskatchewan have all indicated that they will challenge the constitutionality of certain of the taxes proposed in the National Energy Program. At issue is the immunity to federal taxation of provincial government property principally under Section

125 of the BNA Act: "no lands or property belonging to Canada or any Province shall be liable to Taxation". Section 117 which provides for the ownership by the provinces of their public property, section 109 which gives Lands, Mines, Minerals and Royalties to provinces and section 126 which assures to the provinces any revenues raised by them and used for the public services of the province are also relevant to the challenges.

Saskatchewan objects to the tax of 8 per cent on net revenue from oil and gas production (see p. 73) should it be applied to oil and gas production by provincially owned Saskatchewan Oil and Gas Corporation and Saskatchewan Power Corporation. BC which uses crown corporations - BC Hydro and BC Petroleum Corporation - to sell natural gas in the province vowed in late December to challenge the tax in the courts by February 1, 1980. Alberta's challenge will relate to taxation of its natural gas exports from a provincially owned well in southern Alberta.

CHAPTER VIII

NOTES ON THE INTERGOVERNMENTAL BUREAUCRACY

INTRODUCTION

The following notes highlight recent changes to the organization and personnel of the intergovernmental bureaucracy in Canada. They give further evidence of the growing importance of intergovernmental relations to government policy-making in Canada. As usual there was a certain amount of change in personnel and organization. But, by far the most interesting development in 1980 was the opening or expansion of provincial "embassies" in Ottawa. BC and Saskatchewan both opened offices while Alberta's office expanded. According to some newspaper reports, other provincial governments are thinking of doing the same (Montreal Gazette, September 24, 1980, p. 33).

The offices do some research and also provide services for visiting provincial government officials. However, their primary purposes are liaison with federal (and other) government representatives and officials and monitoring of federal government policy and action. As such, they are the geographic expression of the growing need of provincial governments for quick, accurate, information on the effect of federal or provincial government actions on intergovernmental relations and for regular, ongoing exchanges of information and opinions between governments. The creation of a liaison section with provincial desks in the Federal-Provincial Relations Office of the federal government indicates a similar need at the federal level.

A more detailed assessment of the development and organization of the intergovernmental bureaucracy can be found in the forthcoming publication *Organizing Intergovernmental Relations* by Timothy Woolstencroft (Institute of Intergovernmental Relations, Kingston, 1981).

BRITISH COLUMBIA

In 1980, a major change was made in the position of the Constitutional Affairs Branch within the BC government. In June, the Branch was split off from the office of the Premier and attached to the Ministry of Intergovernmental Relations. Melvin H. Smith who has directed the Branch since its creation in 1977 became Deputy Minister of the Constitutional Affairs Branch. In September, the Ministry opened "BC House". Heading up the office is the team of David McPhee and Ann Vice. The office has an annual budget of around \$300,000. Its address is: BC House, 90 Sparks Street, Suite 506, Ottawa, Ontario, K1P 5B4, Telephone: (613) 234-8451.

Earlier in the year, Mark Krasnick was appointed Executive Secretary of the Cabinet Secretariat in the Ministry of Intergovernmental Relations. The cabinet secretariat is responsible for the administration of the government's cabinet committee system, but Mr. Krasnick also has some intergovernmental responsibilities.

ALBERTA

Alberta has had an Ottawa office since 1943. However, in June 1980, the office moved to larger quarters on Sparks Street. The office has two directors, Judy Wish and James Seymour. Mr. Seymour is a representative of Alberta's Department of Energy and Natural Resources and is responsible for energy matters. Other areas of interest to the Office are handled by Ms. Wish in her capacity as an official of the Department of Federal and Intergovernmental Affairs. The office's address is: Government of Alberta, 90 Sparks Street, Suite 1110, Ottawa, Ontario; Telephone (613) 237-2615.

No significant changes to Department of Federal and Intergovernmental Affairs personnel occurred in 1980. Dick Johnston is still Minister and Dr. J. Peter Meekison, his Deputy Minister.

SASKATCHEWAN

Saskatchewan opened its "embassy" in Ottawa in October, 1980. Dick Proctor was appointed as director of the office which is the responsibility of the Department of Intergovernmental Affairs. The office has a budget of around \$100,000. The office's address is: Government of Saskatchewan, 151 Slater Street, Ottawa, Ontario; Telephone (613) 236-6921.

Elsewhere in the Department, no major changes were made. Roy Romanow is still Minister and was co-chairman of the CCMC. Howard Leeson, Deputy Minister, Robert Weese, Executive Director of Constitutional and International Affairs, and David Hawkes, Executive Director of Intergovernmental Coordination round out the upper echelons of the Department.

MANITOBA

Intergovernmental relations in Manitoba are handled through the Premier's office, and Premier Sterling Lyon also holds the official title of Minister of Dominion-Provincial Relations. At conferences, the Executive Council staff is supported by staff from Finance or the Attorney-General's department. The general direction of intergovernmental relations involving Manitoba is done by the clerk of the Executive Council, Derek R. C. Bedson. Under this general direction, many of the day to day relations with officials in other governments are the specific responsibility of the Policy Coordination Group headed by Donald A. Leitch.

ONTARIO

Early in 1980, Denis Massicot was appointed Senior Communications Adviser in the Ministry of Intergovernmental Affairs. Mr. Massicot was formerly CBC-Radio Canada's chief Queen's Park correspondent. He is involved generally in all areas of the Ministry's operations and, particularly,

handles liaison with the French media concerning federal-provincial and interprovincial affairs, and the ministry's operations. Thomas Wells remained the Minister of Intergovernmental Affairs and his Deputy minister is Donald Stevenson. Ed Greathead continued as Executive Director, Office of Intergovernmental Affairs and Gary Posen as Director, Federal and Interprovincial Secretariat.

QUEBEC

A number of personnel changes occurred within Quebec's Ministry of Intergovernmental Affairs. M. Jean Chapdelaine became Sous-ministre adjoint (assistant Deputy Minister) and Directeur général des affaires internationales. M. Florent Gagne becomes Directeur général des affaires canadiennes after the departure of M. Pierre Lefrançois (former sous-ministre adjoint aux affaires canadiennes) to become Sous-ministre (deputy minister) du Loisirs, de la Chasse et de la Pêche. The Délégué général du Quebec in New York is now M. Richard Pouliot. M. Claude Morin is still the Minister of Intergovernmental Affairs and M. Robert Normand, the Sous-ministre.

On March 3, 1980, Quebec opened an office in Moncton, New Brunswick. Charles-Henri Dubé holds the position of le Représentant officiel du Quebec there. Moncton thus joins Edmonton and Toronto as cities outside Quebec with Quebec offices. The Bureau du Quebec's chief roles in Moncton are to act as liaison with provincial governments in the Maritimes, monitor developments there and provide information to citizens. Its specific concerns include programs of cooperation or aid set up with Maritime governments, institutions or groups, cultural, educational and communications issues (especially as they concern Acadians), fisheries and tourism. Address: Assumption Place, 770 Main Street, Moncton, NB, E1C 1E7; Telephone (506) 382-7851.

NEW BRUNSWICK

No major changes in the organization or staffing of New Brunswick's intergovernmental bureaucracy occurred in 1980. The Cabinet Secretariat is responsible for intergovernmental relations and, Premier Richard Hatfield retains responsibility for intergovernmental policy. Reporting to the Premier, the main contacts for intergovernmental relations are Barry Toole as Deputy Secretary (Cabinet Committee on Policy and Priorities) and Don Dennison, Coordinator of Intergovernmental Affairs for the Cabinet Secretariat.

PRINCE EDWARD ISLAND

There is no separate ministry for intergovernmental affairs in the Prince Edward Island government. However, there is an intergovernmental division of the Executive Council Secretariat which advises Cabinet on issues of concern. The Minister responsible for intergovernmental affairs is Premier MacLean. The official in charge is D. G. MacCormac, Assistant

Secretary to the Cabinet for Intergovernmental Affairs. Mr. MacCormac assumed this position in June, 1980. He replaced Arthur Currie, who was appointed deputy minister of Justice for Prince Edward Island. A special Constitutional committee composed of Premier MacLean, Hon. Fred Driscoll, Minister of Education, Hon. Horace Carver, Minister of Justice, Douglas Boylan, Assistant Clerk to the Executive Council, David Weale, Principal Secretary to the Premier, Arthur Currie and D. G. MacCormac was responsible for constitutional issues over the summer and continued to meet after the September talks.

NEWFOUNDLAND

In Newfoundland, intergovernmental relations falls within the ambit of the Intergovernmental Affairs Secretariat which reports to the Executive Council of the Government of Newfoundland and Labrador. The Executive Director of the Secretariat is Cyril Abery, the Assistant Executive Director is John Fitzgerald. Premier Brian Peckford remains the Minister responsible for Intergovernmental Affairs. The major change in the Secretariat over the past year was the transfer in August of the Communications component of the Department of Transportation and Communications to the Secretariat. Premier Peckford said the transfer reflected the increased importance of the communications issue in constitutional negotiations (The Week in Review, Selected News Releases from the Government of Newfoundland and Labrador, August 14 to August 20, 1980).

Our report on changes to the intergovernmental bureaucracy in Newfoundland and Labrador would not be complete without mention of the appointment this summer of Douglas Brown as research analyst in the Secretariat. Douglas Brown was Research Associate at the Institute of Intergovernmental Relations for two years beginning in July, 1978. In addition to working on a number of projects for the Institute, Mr. Brown also worked on publications for the Science Council of Canada and the Canadian Foundation for Economic Education. In particular, our readers might remember him as the author of Intergovernmental Relations in Canada: The Year in Review for 1978 and 1979.

NOVA SCOTIA

Nova Scotia's relatively small Intergovernmental Affairs Office underwent virtually a complete turnover in personnel at all levels. On July 4, 1980, Edmund Morris, former mayor of Halifax, was named Minister responsible for Intergovernmental Affairs, replacing Roland Thornhill. Mr. Morris is also Minister of Fisheries. On October 6, 1980, Jeremy Akerman, former leader of the Nova Scotia NDP, took over the position of Executive Director of the Office from Zilpha Linkletter who has retired. The appointment of Trevor Murray and Martha Lloyd as Intergovernmental Affairs Officers completes the roster of personnel changes in the Office staff for 1980.

THE FEDERAL GOVERNMENT

Canadian Unity Information Office (CUIO)

As a result of the Quebec referendum and the government's proposed constitutional resolution, the CUIO has assumed a more active role in federal-provincial matters and has had its budget greatly increased. A new Executive Director of the office is to be appointed in 1981 and his appointment may signal the future directions the CUIO will take. Former Executive Director Pierre Lefebvre left CUIO in December on sabbatical and on his return will assume a position elsewhere in the public service. André Contant was appointed from within the CUIO to serve as Acting Executive Director for the interim.

Federal-Provincial Relations Office (FPRO)

After the election of the Liberals, the Ministry of State for Federal-Provincial Relations was abolished. The Federal-Provincial Relations Office underwent some changes in personnel and administrative structure. Gordon Robertson had resigned as Secretary to the Cabinet for Federal-Provincial Relations in December, 1979. The position remained vacant until after the February election, although the Conservatives had intended to appoint J. Peter Meekison, deputy minister of the Department of Federal and Intergovernmental Affairs in Alberta, (*Discipline of Power*, op cit., p. 135). The Liberals on their return to power appointed Michael Kirby to the post. Mr. Kirby was formerly president of the Institute for Research on Public Policy, a position now held by Gordon Robertson.

Holding the position of Senior Adviser to Mr. Kirby is William Haney. Director of Legal Services is Barbara Reed on loan from the Department of Justice. The position of deputy secretary has been eliminated and a reorganization of the responsibilities of the assistant secretaries has occurred. The Assistant Secretary (Strategic Planning) is David Cameron whose section has a major involvement with constitutional issues. Assistant Secretary (Liaison) is Darwin Kealey. His section maintains provincial desks. Assistant Secretary (Economic Policy and Programs) is Alan Nymark; Assistant Secretary (Social Policy and Programs) is Louis Tousignant. All four assistant secretaries form a management team responsible to the Secretary.

Senior personnel who have left FPRO in the past year include Nicholas Gwyn (to the Royal Commission on Newspapers), Clovis Demers (to the Department of Indian and Northern Affairs) and Douglas Rowland (to the Parliamentary Centre for Foreign Trade and Foreign Affairs).

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Three studies in the Canadian Tax Foundation's series on financing Canadian Federation which deal with individual aspects of fiscal arrangements in the Canadian federal system.

BRETON, Albert and Raymond Breton, *Why Disunity? An Analysis of Linguistic and Regional Cleavages in Canada*, Institute for Research on Public Policy, 1980.

A study which argues that tensions in the Canadian federation stem from the conflict over the distribution of organizational power, rather than from the traditional ethnic or linguistic differences.

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Through the use of the methods of economic analysis, the authors present a model for a new federation, which includes a larger and more representative constituent assembly.

CARTY, R. Kenneth and W. Peter Ward (eds), *Entering the Eighties: Canada in Crisis*, Toronto: Oxford University Press, 1980.

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A *Citizen's Guide to the Constitutional Debate*, a joint publication by the Business Council on National Issues and the Institute of Intergovernmental Relations, 1980.

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DARLING, Howard, *The Politics of Freight Rates: The Railway Freight Rate Issue in Canada*, Toronto: McClelland and Stewart Limited, 1980.

Darling's work delves into the issue of railway transportation policy in Canada. Because railway politics has played such an important role in the development of the Canadian nation, the author traces the political, economic and social significance of the railway in Canada and also assesses the present problems that surround the freight rates issue.

DOERN, Bruce G. (Ed.) *Spending Tax Dollars: Federal Expenditures 1980-81*, Ottawa: The School of Public Administration, Carleton University, 1980.

The expenditures of several departments and agencies in the federal government are examined. This is the first of what will become an annual review of expenditures of different federal departments and agencies prepared by the School of Public Administration at Carleton University.

DWIVEDI, O. P. (ed.) *Resources and the Environment: Policy Perspectives for Canada*, Toronto: McClelland and Stewart Limited, 1980.

A collection of policy overviews and selected case studies which discuss the critical relationship between the exploitation and use of natural resources and its impact upon the environment.

ECONOMIC COUNCIL OF CANADA, *A Climate of Uncertainty*, 17th Annual Report, Ottawa, 1980.

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An analysis of the economic problems of Newfoundland, the report discusses such issues as alternate means of reducing the unemployment rate in Newfoundland, raising earned incomes and planning development strategies.

ELKINS, David J. and Richard Simeon, *Small Worlds: Provinces and Parties in Canadian Political Life*, Toronto: Methuen Publications, 1980.

An analysis of the multiple dimensions of regionalism and provincialism in Canada and their relations to national politics.

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A study of the problems faced by municipalities in negotiations with provincial and federal governments, which also outlines how municipalities can participate more effectively in intergovernmental decision making processes.

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An overview of federal and provincial politics of the Prairies from 1905 to the end of the 1970's, with a regional, cross-provincial perspective.

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(1) Marie-Hélène Bergeron, Douglas Brown, Richard Simeon (eds.), Sheila Fischman (trans.), *The Question: Debate on the Referendum Question*, Quebec National Assembly, March 4-20, 1980.

(2) Douglas M. Brown and Richard Simeon (eds.) *The Response to Quebec: The Other Provinces and the Constitutional Debate*.

LESLIE, Peter M., *Canadian Universities 1980 and Beyond - Enrolment, Structural Change and Finance*, Association of Universities and Colleges of Canada, September, 1980.

An A.U.C.C. report which studies possible financing alternatives and their impact upon the university system in Canada, with a major focus on intergovernmental issues.

MAXWELL, Judith and Caroline Pestieau, *Economic Realities of Contemporary Confederation*, C. D. Howe Research Institute, 1980.

This book, the last publication in the Accent Québec series, describes the important political and economic forces prevalent in the Canada-Quebec relationship and also focuses upon issues in forthcoming negotiations between Quebec and Canada.

ONTARIO ECONOMIC COUNCIL, *Energy Policies for the 1980's: An Economic Analysis*, vols. 1 and 2, Toronto, 1980.

A series of conference papers and discussions which analyse the complex issues surrounding the formulation of Canadian energy policies.

SCOTT, Anthony, *Divided Jurisdiction over Natural Resources*, Institute of Intergovernmental Relations, 1980.

A paper which studies the increasingly complicated area surrounding provincial ownership of resources and inter-regional redistribution of wealth.

SIMPSON, Jeffrey, *Discipline of Power*, Toronto: Personal Library Publishers, 1980.

An analysis of the events and the people who dominated the Canadian political scene from the election of the Conservative Party in May, 1979 through to their defeat in February, 1980.

SMILEY, D. V., *Canada in Question: Federalism in the Eighties* (3rd edition).

The updated version of Smiley's comprehensive and important textbook on Canadian federalism.

WOODROW, R. Brian, Kenneth Woodside, Henry Wiseman and John B. Black, *Conflict Over Communications Policy - A Study of Federal-Provincial Relations and Public Policy*, C. D. Howe Research Institute, 1980.

This study discusses the controversial constitutional issue of power over the telecommunications field in Canada.

Articles

THE ALBERTA HERITAGE SAVINGS TRUST FUND - *An Overview of the Issues, Canadian Public Policy - Supplement*, February, 1980.

A collection of papers presented at a conference held at the University of Alberta in October, 1979 which consider the basic political and economic questions that have arisen in relation to the Alberta Heritage Savings Trust Fund.

BUSHNELL, S. I. "The Control of Natural Resources through the Trade and Commerce Power and Proprietary Rights", pp. 313-324, *Canadian Public Policy*, (Spring, 1980).

A discussion of the vitally important constitutional battle between the federal and provincial governments over the control of Canada's natural resources.

FOURNIER, Pierre, "The New Parameters of the Quebec Bourgeoisie", pp. 67-91, *Studies in Political Economy* (Spring, 1980).

This article is a refinement and extension of previous work on the Quebec bourgeoisie, with clearer definitions of the bourgeoisie's economic power, its cohesiveness and its political intentions.

VEILLEUX, Gérard, "Intergovernmental Canada: Government by Conference? A Fiscal and Economic Perspective", pp. 33-53, *Canadian Public Administration*, (Spring, 1980).

The author reviews the main financial and economic issues discussed at federal-provincial conferences in the past twenty years and discusses to what extent future negotiations will shift from financial issues to questions of economic development.

SIMEON, Richard, "Intergovernmental Relations and the Challenges to Canadian Federalism", pp. 14-32, *Canadian Public Administration* (Spring, 1980).

This article examines the possibility of improving collaboration among the eleven governments in Canada, in order to reduce the tensions in the federal system and produce more effective national policies.

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The year 1980 saw the demise of one political affairs magazine and the birth of another policy magazine. *Report*, (formally entitled *Report on Confederation*), an English language public affairs bi-monthly publication was closed due to lack of financial support. The magazine published articles from leading Canadian political analysts, journalists and academics focussing on current political issues.

In March, 1980, the Institute for Research on Public Policy began publishing *Policy Options* which hopes to provide Canadians with a national magazine that covers a whole range of contemporary policy concerns.

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