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THE FEDERAL YEAR IN REVIEW

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PREFACE

The Federal Year in Review is the first of its kind: a guidebook to the important issues and events in intergovernmental affairs during the past year, designed to serve both students and practitioners of Canadian federalism. As intergovernmental relations have increased dramatically over the years in frequency and complexity, the need for an ordered reference to this mass of activity has grown as well.

We hope the Review will meet this need. Neither a simple package of highlights nor an all-embracing documentary, it is a survey of intergovernmental affairs which tries to strike a balance between panorama and precision. This edition focusses on the period from September, 1976, through September, 1977, although this time frame has been extended in some cases.

As the first attempt at what is to be an annual venture, this Review is necessarily a trial-and-error effort. There is room for significant improvement both in design and execution for future editions. Such progress, however, is heavily dependent on "audience participation": we invite - and need - your comments and suggestions. How might the Review better meet your needs in the future?

Indeed, this initial publication could not have been achieved without the generous cooperation of federal and provincial governments. In particular, the Chapter entitled "Report from the Capitals" is almost entirely based on information received from the eleven governments, and this debt is gratefully acknowledged. We have tried to use such material to the fullest extent possible, and while the scope of contributions varied considerably among governments, it is hoped that this first effort will pave the way for a smoother and more regularized accumulation of data.

A bibliography of books, articles and theses on federalism published over the last two years is being issued as a companion volume to the Review. While not claiming to be all-comprehensive, it can serve as a valuable reference for those wishing to further research the various subjects of the Review. This bibliography updates the one published by the Institute in 1975.

Special thanks are due to Ms. Karen Ort for her assistance in preparing the Review and the Bibliography.

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INTRODUCTION : THE YEAR IN REVIEW

Canadian federalism is in crisis, and the field of intergovernmental relations is no exception. While the year beginning in September of 1976 seemed routine at first, it ended in a state of deep confusion and uncertainty. The era of relatively calm, slow-paced developments in intergovernmental affairs appears to be ended; fundamental change and new directions seem imminent.

A number of major events combined to make this such a memorable period in intergovernmental relations. The challenge to Confederation, spurred by the election in Quebec of a government committed to secession, naturally overshadows all others. Whereas Canadian federalism may have been previously marked by a steady condition of tension in jurisdictional and procedural matters, the Quebec election instigated a true crisis, in which fundamental values are threatened and the time for resolution of the conflict is short. The activities and orientations of each of the eleven governments thus took on a new urgency, as a sense that Canadian federalism is to be renegotiated took hold.

Added to this was the dilemma of a rapidly deteriorating economy. This served to aggravate federal-provincial and regional strains, to the extent that the first Conference of First Ministers to be held in over a year - none was convened in 1977 - will deal not with national unity, but with the economy.

Other important issues in intergovernmental affairs during these twelve months included a new flurry of words between Ottawa and the provinces concerning patriation and an amending formula for the constitution. These debates provide a graphic illustration of two salient phenomena in federal-

provincial relations over the last decade: the preoccupation with the process or "rules of the game" of intergovernmental relations, rather than substance; and the unrelenting competition for authority between the central and provincial governments. To these familiar features was added a relatively new one: there appeared to be a new style in interprovincial relations, one which emphasized cooperation and a common front towards Ottawa rather than unprofitable division. The provinces have become increasingly competent and self-confident. But what may have ultimately produced a breakthrough on the constitutional question was nipped in the bud by the Quebec election, and future progress is uncertain.

The year also saw major changes in federal-provincial fiscal relations brought about by the development of the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977. Of particular importance are the substantial modifications effected by this Act in the financing of three key shared-cost programmes, Hospital Insurance, Medicare and Post-Secondary Education. In the spirit of "disentanglement", the burden for these cornerstones of the welfare state was transferred to the provinces, thus "clarifying" federalism but also throwing the federal commitment to social policy into question. Once again, interprovincial cooperation was a significant element in these negotiations.

The Supreme Court played an important and controversial role in intergovernmental relation, from its landmark verdict upholding the federal Wage and Price Controls Act through the rulings asserting federal dominance in communications. Its centralist-leaning judgements have evoked considerable response in an era in which opinion seems to favour a looser, more flexible, federation.

Other important events in the intergovernmental arena included:

- a variety of new agreements between the federal government and the provinces, including numerous Subsidiary Agreements under the General Development Agreements;
- debate on offshore mineral rights, with a new agreement signed between Ottawa and the Maritime provinces, but not Newfoundland;
- discussion of the removal of wage and price controls and the "post-controls" era;
- the Report of the Western Premiers' Task Force on Constitutional Trends ("Intrusions Report"), May, 1977;
- the federal Canadian Home Insulation Program, a novel initiative in that grants to individuals were made conditional on actions of provincial governments, thus demonstrating the continuing nature of federal "intrusions";
- new levels of international relations between individual provinces and foreign countries.

Interaction between Canada's eleven governments thus continued to be a vital and dynamic component of Canadian federalism, a rapidly-evolving institution whose viability is now being tested more severely than ever. This Review offers a survey of the past year's developments in the various aspects of intergovernmental relations mentioned above. In this way it is hoped that a timely contribution to the understanding of Canadian federalism may be made.

II NATIONAL UNITY

The election in Quebec of a government committed to leading that province out of Confederation precipitated a crisis of national unity which still shows no sign of resolution. Fundamental values and structures have been called into question, not only in Quebec, but also in other regions, as a reassessment of the federal system occurred across the country.

Canadian federalism is in disarray, at once a target of criticism and a system seemingly incapable of generating a coherent response or resolution.

Much has been and will be written on the unity crisis, and this section does not present a full analysis of its own. Instead, it sketches the highlights of the unity issue over the past year.

The Quebec government moved quickly to enact a program for independence. Premier Lévesque in his major speech to the Economic Club of New York in January, 1977, asserted that Quebec's independence was inevitable. The government's language legislation, Bill 101, proclaimed that "there will no longer be any question of a bilingual Quebec" and, through its provisions concerning education, strongly discouraged anglophone Canadians from moving to Québec. Legislation instituting the all-important referendum was introduced, and the province refused to participate in a review of the constitution before this is held. As well, the province initiated the "battle of the balance sheets" which weighed the economic costs and benefits of Confederation. The government has also been moving to elaborate its option of sovereignty-association, which in

its various interpretations has ranged from a new variation on the familiar special status theme, to a concept much different from this.

Reaction from the rest of the country varied widely. Prime Minister Trudeau, who came to Ottawa as an implacable foe of Quebec independence and of the two-nation view of Canada, matched Lévesque's New York speech with one of his own in Washington. In February, 1977, the Prime Minister appointed Paul Tellier to head a Co-ordination Unit on national unity within the Federal-Provincial Relations Office. This was followed in April by the establishment of an Assessment and Analysis group, also within the FPRO, and the appointment in May of Donald Thorson, Deputy Minister of Justice, as Constitutional Adviser to the Prime Minister. In June, the Canadian Unity Information Office was formed within the Department of the Secretary of State, and in July, the Task Force on Canadian Unity was established, under the co-chairmanship of Jean-Luc Pépin and John Robarts. The Task Force has committed itself to prepare a "Third Option" somewhere between the status quo and Quebec independence. Marc Lalonde was named Minister of State for Federal-Provincial Relations in October, holding the top post in intergovernmental relations under the Prime Minister.

These appointments notwithstanding, the federal government has not developed a coherent or consistent approach to the unity question, beyond the outright rejection of Quebec independence. At various times, Ottawa has called for fundamental structural change, the maintenance of the status quo, and "renewed federalism". The Prime Minister has said that it was his intention to sow "maximum uncertainty" over the unity issue during the past year, as part of a strategy to keep the PQ off balance and avoid giving it an easy target. In the Throne Speech of October, 1977, however, the federal government did commit itself to present Parliament and the

provinces with a package of proposals for constitutional change.

Most provincial leaders have been unequivocal in their rejection of the proposal for a negotiated association with an independent Quebec. Premiers Blakeney, Davis and Hatfield have been most active. Blakeney has strongly committed Saskatchewan to the preservation of Confederation in speeches to various clubs and associations across Canada and in a brief to the Pépin-Robarts Task Force. At the same time he has asserted a set of grievances concerning Saskatchewan's disadvantaged position in a centralist federal framework (resource policy, transportation, etc.) that makes strictly economic arguments in defence of federalism unacceptable. Ontario's Davis has moved more cautiously, meeting with Premier Lévesque, establishing a new Advisory Committee on Confederation and sponsoring the Destiny Canada Conference at York University. More recently, however, in a brief presented to the Pépin-Robarts Task Force, Davis advocated significant constitutional change. Declaring that "It is time to act", Davis called for significant changes in economic policy formation, federal-provincial machinery, and a new constitution which emphasizes federal responsibility for economic policy and provincial jurisdiction over social affairs. Premier Hatfield has spoken widely on national unity, calling for full-scale constitutional review as the best means of responding to the challenge at hand. In addition, he was active as the Chairman of the Premiers for 1977, organizing the Annual Premiers' Conference at St. Andrews.

Among other provincial leaders, Premier Bennett of British Columbia appointed an Advisory Committee on Confederation and has called for constitutional amendment based on his "five regions" view of Canada. Nova Scotia's Premier Regan has come forward in favour of substantial constitutional change to accommodate the legitimate grievances of all areas.

The Premiers have also responded as a group. The Western Premiers' Conference in May, 1977 rejected the Parti Québécois proposal of sovereignty-association but did seek changes in the federal system, and the Premiers' Conference at St. Andrews rejected Quebec's proposal for bilateral agreements on language of education for minorities. But they did commit themselves to a review of minority language education in each province, to be conducted by the Ministers of Education. The Premiers were to reconvene in the Spring of 1978 to consider their report and the possibility remained that some form of reciprocal agreement between Quebec and the other provinces could be worked out, despite the view of many that the question should eventually be dealt with in the constitution. It is clear that the nature of the political response to the unity crisis will depend heavily on the balance between federal and provincial initiative and the development of common front positions among the provinces in particular.

The federal opposition parties have been active in trying to formulate a response to the unity crisis. By year's end this thinking had gone beyond mere statements of the need for a new consensus to some hard analysis of particular proposals.

The non-political elites, as well as public opinion in general, have also mobilized to respond to the current challenge. There have been a number of major conferences which have served this purpose: The Future of the Canadian Communities, held at Queen's University in May, 1977; The Destiny Canada conference at York University in June; and the Options Canada conference at the University of Toronto in October. As well, the Task Force on Canadian Unity has been a forum for public response across the country. Various associations were established, such as the Quebec-Canada movement of Quebec MNA Michel Gratton, and the Committee for a New

Constitution, closely affiliated with the Canadian Forum. A major academic contribution to the debate was made in Must Canada Fail?, a collection of essays which emphasized the very real possibility of a break-up of Confederation, and a new magazine devoted primarily to the unity issue, Report on Confederation, was begun.

Any attempt to "sum up" the year's responses and opinion described above is forced to recognize the fundamental lack of consensus on both the nature of the Confederation crisis and the appropriate solution. The first dilemma stems from competing images of Confederation: is Canada one country, two nations, five regions, ten provinces, or what? The second issue of the appropriate solution to the crisis obviously feeds on the different diagnoses just mentioned, but also persists because the options have not been effectively defined. Beyond the broad choices of status quo, centralization, decentralization, special status and others, there has been little delineation of the precise content of these categories - there is only limited national agreement, for example, on exactly what "decentralization" might include. It is possible that the current year's response may concentrate on more specific proposals, such as the increasingly popular suggestion that the Senate be transformed into a meaningful "House of the Provinces", modelled after the West German Bundesrat. This might provide the way to reconcile the desire not to nullify the powers of the central government with the desire to ensure a more effective regional and provincial voice in national policy-making. There will also likely be a focussing of attention on the upcoming Quebec referendum, and the report of the P  pin-Robarts Task Force is due this year.

While the first Conference of First Ministers to

be convened in over a year is to deal with the economy, there is always the possibility of one being called to grapple with the unity issue. As well, the outcome of the expected federal elections will be significant in determining the progress of debate.

III THE CONSTITUTIONAL QUESTION

Two major issues surrounded the constitution: 1) the patriation-amendment-jurisdiction debates, and 2) the national unity crisis. Just as the first was heating up, after several years of lying dormant, the second arrived to forestall further progress.

The unity debate changed not only the substance of the constitutional agenda, but the style as well. Whereas constitutional review had previously featured rigid, self-interested approaches on the part of the protagonists, the new crisis seemed to instil the desire for moderation, flexibility, dialogue, and common fronts whenever possible.

1. Chronology

October, 1974: Prime Minister Trudeau announces his desire for resolution of constitutional issue within the life of the current Parliament.

April, 1975: Trudeau proposes that the negotiations separate the patriation and amendment questions from the jurisdictional ones; suggests that if this proves unfeasible, Ottawa might go it alone regarding patriation.

March, 1976: Trudeau renews the unilateral patriation proposal and identifies four options in proceeding with the constitutional debates, ranging from simple patriation, with no further modifications, to a more complete constitutional package.

The Premiers reject this stance, and stress the need to tie discussion of patriation to some jurisdictional questions. They insist on playing a role in the constitutional reform process, opposing any unilateral action.

August: The Premiers' Conference rejects Trudeau's minimal route options, and calls for a total package of reform. Interprovincial discussions continue, under the chairmanship of Alberta's Premier Lougheed. ✓

October: Lougheed writes to Trudeau on behalf of all the provinces setting out the provincial position. This elicits a favourable response from Claude Ryan, who says that no other document in the last ten years has come closer to the Quebec position. ✓

James Richardson resigns from the Trudeau Cabinet in opposition to the Prime Minister's patriation proposal, which he fears could entrench bilingualism and give Quebec a permanent veto on constitutional change.

The Premiers reconvene. They agree on many matters, particularly in selecting policy areas in which provincial jurisdiction should be strengthened, but are split on the subject of an amending formula. British Columbia and Alberta seek the unanimity formula for at least some constitutional amendments while Ontario rejects this on the grounds that it would be "ultra-rigid" and subject to unpredictable judicial interpretation. In addition, Alberta insists on entrenching unrestricted provincial rights over natural resources.

November: The Parti-Québécois wins office.

December: The First Ministers' Conference, originally called to discuss the constitution, agrees that constitutional review is now not a worthwhile short-term focus.

January, 1977: Trudeau writes to the Premiers, including a new draft proclamation which combines previous federal positions with some of the provincial concerns. Three options are identified, all of which link patriation with an amending formula and/or jurisdictional revision.

February: Trudeau says the occasion for patriation is lost, even as the Council of Maritime Premiers is pledging to help the Prime Minister to achieve this goal.

May: Annual meeting of the Western Premiers issues Report of the Western Premiers' Task Force on Constitutional Trends, popularly known as the "Intrusions Report". It details some sixty recent federal legislative activities seen to intrude on matters of traditionally

provincial responsibility, in areas such as consumer and corporate affairs, resources, housing, economic development, communications, labour and justice.

August: Premiers' Conference at St. Andrews discusses language rights.

October: The federal Speech from the Throne promises a new package of proposals for constitutional reform. The proposals will deal with "the essential nature of the Canadian federation and its objectives, with certain fundamental rights and freedoms ... and with certain elements of the framework of the Canadian federation." The proposals are to "stimulate a process of constitutional review in which all governments in Canada will share" and from this process "may emerge a new federalism".

2. Substance

(1) The patriation-amendment-jurisdiction debates

Ending the hiatus which followed the rejection of the Victoria Charter, this was a federal initiative, with the provinces largely participating as respondents to proposals from Prime Minister Trudeau. There was also widely varying interest among the provinces on the subject; Premier Lougheed, for instance, noted on November 1, 1976, that the constitutional question "rated well down the list" of his government's priorities.

The federal course centred on a desire to achieve a minimum of progress on the constitutional question via the strategy of separating discussion of the seemingly unobjectionable procedural goals of patriation and amendment from the substantive dilemma of jurisdiction and other elements. The provinces, however, felt that while patriation was certainly desirable, a quick agreement on this might engender a federal feeling that "the basics had been taken care of" and that there was no need to rush with discussions of other constitutional revision. The same sort

of opinion was held by the provinces with respect to finding an amending formula, with the important added conviction that this would be an even more difficult subject of negotiation if it were not placed in the context of concrete jurisdictional revision. The provinces therefore insisted that all three issues of patriation, amendment and jurisdiction be resolved jointly. There was, of course, the additional objection to the inference of unilateral federal action. The provinces insisted on full involvement and initiated considerable discussion on their own.

The Premiers' Conference in August and October of 1976 failed to produce unanimous agreement on an amending formula. The dilemma was illustrated by the polarization between the Ontario and Alberta positions. Premier Davis supported the formula set out in the Victoria Charter which he felt to be more flexible than the rigid formula proposed by Premier Lougheed, which would have given each province a veto at least in some areas. Alberta's chief concern was to avert any threat to a province's control over its natural resources, and so it argued for the unanimity rule at least in this domain. At the same time, Lougheed continued to insist on his perception of the "fundamental principle of Confederation," which was the concept of equal partnership and was thus opposed to any amending formula which could allow provincial rights to be abrogated without that province's consent. British Columbia argued that it, along with Quebec and Ontario, should have a veto power.

While the Premiers were able to agree on the goal of patriation, they tied this to the negotiation of five areas of jurisdiction in which they unanimously sought greater provincial power: clear limits on the federal spending power on areas of provincial jurisdiction and a greater provincial

role in communications, culture, Supreme Court appointments and Senate representation. It was felt that further progress required a federal-provincial conference.

This orderly progression of events was arrested by the Quebec election of November 15th, 1976. There was little further development on the specific areas of patriation, amendment and jurisdiction, although Trudeau did reply to the provincial position in January, 1977. He linked patriation to an agreed amending formula and to entrenchment of linguistic and regional guarantees, suggesting various negotiating procedures which would include another federal-provincial conference. The Victoria amending formula was once again proposed and a new draft proclamation was offered. There was no hint of unilateral patriation. One month later, however, the Prime Minister maintained that the occasion for patriation had been lost, even while the Council of Maritime Premiers was pledging to help him do just that.

(2) The National Unity Crisis

The constitutional question assumed a dramatically different meaning after November 15, 1976. Concern shifted from a relatively narrow focus of constitutional review to the most fundamental issue of the viability of the present constitution in light of the challenge to Confederation. Should the constitution be re-affirmed, renovated, or scrapped entirely in favour of a new document? What role should the constitution play in dealing with the possibility of secession, if any? There seemed to develop a willingness to consider constitutional alternatives which formerly had been rejected as too radical - although some observers warned of the danger of throwing the baby out with the bathwater by casting a

well-tried constitution aside while not being able to agree on a replacement.

It quickly became clear that a major stumbling block to constitutional analysis in this context was the imprecise definition of options. Calls for a constitutional overhaul - as suggested by Premier Hatfield, the Committee for a New Constitution and others - usually failed to define exactly in which respects such change was sought: what precisely does decentralization or special status mean? On the other hand, counter-proposals for the preservation of the current constitution were largely based on an argument of proven flexibility, without being able to define just what the constitutional status quo stands for. Moreover, the worsening economic crisis increasingly occupied political attention.

By the Fall of 1977, however, some indications of movement were apparent. Premiers Davis and Regan, for instance, declared their support for a substantial constitutional overhaul, and the federal Throne Speech promised new constitutional proposals in light of the changed political environment. Suggestions such as the transformation of the Senate into a "House of the Provinces" came to the fore.

3. Implications

An important new element of constitutional debate may be a commitment to moderation and cooperation among the governments outside Quebec, as in the example of the St. Andrews Premiers' Conference. In addition, it appears that the traditional preoccupation with process or the "rules of the game" may be replaced by a common desire to deal with

substantive issues. This shift in emphasis, coupled with the crisis context in which it is taking place, could provide the stiffest test yet of the viability of intergovernmental institutions such as constitutional conferences.

These developments notwithstanding, the future of constitutional negotiations remains most unclear. This is especially due to the difficulties in formulating precise constitutional options, as well as Quebec's refusal to participate in constitutional talks until its referendum on the province's future is held.

There are several other variables which will significantly affect the course of constitutional debate. One is the locus of initiative: will the provinces leave the impetus to the federal government - the package announced in the Throne Speech should be revealed shortly - or will they themselves, individually or in a group, put forward specific new proposals? Second, will constitutional change be considered through the traditional mechanisms of federal-provincial conferences, or will there be a broader process involving legislatures and citizen groups?

Finally, the intensity or urgency attached to constitutional debate will very much depend on the extent to which the resolution of the crisis of national unity is seen to require enacting major constitutional changes.

IV FISCAL RELATIONS

By far the most important event in federal-provincial fiscal relations was the development of the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977, passed by the House of Commons as Bill C-37 on March 23, 1977, and given royal assent on April 1st.* Issues dealt with included taxation, equalization and the financing of the major shared-cost programs of Hospital Insurance, Medicare and Post-Secondary Education. The negotiating process was long and difficult, and marked by an unprecedented degree of interprovincial discussion. For those who viewed the outcome as involving important compromises by both sides, the exercise offered a good example of successful inter-governmental negotiation.

1. Chronology

April, 1976:	Federal-Provincial Finance Ministers' Conference
	Western Premiers' Conference
June:	First Ministers' Conference
July:	Federal-Provincial Finance Ministers' Conference
August:	Premiers' Conference
September:	Provincial Finance Ministers' Conference
October:	Provincial Finance Ministers' Conference
December:	Federal-Provincial Finance Ministers' & Treasurers' Conference
	First Ministers' Conference
Apr. 1st/77	Bill C-37 given royal assent.

* For those wishing more detail than is offered here, the Bank of Nova Scotia Monthly Review, March-April, 1977, presents a history and explanation of these arrangements.

2. Substance

The new Act replaced the previous five-year agreement, the Fiscal Arrangements Act of 1972, which expired March 31, 1977. There were a number of key elements involved in the complex negotiations:

- (1) The question of what the overall division of fiscal resources between federal and provincial governments should be;
- (2) the dialectic between the nation-building impulse of inter-regional equality and the province-building motive of regional autonomy; thus, Finance Minister Donald MacDonald noted that "We are looking for a system that is both more responsive to the wishes of provinces for greater freedom of action in managing their affairs and yet consistent with the continuing national objective of inter-regional equality".
- (3) the desire for the "disentanglement" of federal-provincial fiscal relations.
- (4) the federal desire to check the rapid growth in its transfer payments, especially in shared-cost programs, equalization payments and revenue guarantees.
- (5) a common front for all provinces, despite obvious disparities among provincial capacities and priorities; thus, Alberta Treasurer Merv Leitch was able to speak for all provinces and observed that "The Provincial Finance Ministers' meetings are unique in recent Canadian history. The objective has been to forge a provincial consensus on a proposal that would recognize the many special and legitimate concerns that are inherent in our diversity ... In the interest of Canadian unity the Provinces have made an unprecedented effort to achieve a national consensus - a process which has required an accommodation from each of our governments".

The outcome of the bargaining was in many ways a saw-off, with each side conceding various points to the other. There appeared to be an implicit consensus, however, underlying the negotiations, an agreement on the basic principle that there should be substantial "disentanglement"

and shifts of fiscal resources and administrative responsibilities to the provinces, at least in the vital area of shared-cost programs. The new Act touches on many components of federal-provincial fiscal relations, five of which are particularly significant:

- 1) Tax Collection Agreements are continued. These serve the causes of standardization and efficiency, allowing for the federal government to collect provincial personal and corporate income taxes on behalf of those provinces adopting the federal tax base and desiring this service.
- 2) The Revenue Guarantee begun in 1972 is ended, and replaced with a relatively limited new guarantee. The discontinued program was initiated to protect provinces from any revenue decline resulting from the major changes introduced in the federal tax structure at that time. This quickly became a very costly proposition for the federal government, however, with payments to the provinces rising from \$150 million in 1973 to a variously estimated \$600-\$900 million in 1976. Expense aside, the federal government argued that the program's original objective had been fulfilled - there were no longer any revenue uncertainties resulting from tax reform - and thus it terminated the arrangement. In the face of strong provincial opposition to the ending of these lucrative payments, Ottawa compensated the provinces by transferring, as a "final settlement" of all outstanding issues, the equivalent of two points of its personal income tax to the provinces, half in cash and half in tax room and equalized to the national average. The provinces had sought four such points, equalized to the highest provincial yield. The new form of revenue guarantees which was instituted is intended to protect the provinces for one year following any future change in the federal tax structure.
- 3) Revenue Stabilization: This program, which sets a "floor" level for provincial revenues, is continued. It provides for a deficiency payment to any province whose total revenues fall below the previous year's level due to an economic downturn, but with a new proviso limiting the federal liability with respect to natural resource revenues. However, the federal government has never had to make any payments under this program since its modern inception in 1967.

- 4) Equalization Payments: At the heart of Canadian federalism, this program is continued with some important changes. Only 50% of provincial revenues from non-renewable natural resources will now be included in equalization formula and the equalization due from all natural resources can now not exceed one-third of the total equalization payable. Some provincial revenue sources have been re-defined, with their total number growing from 22 to 29.

In these revisions, revenue from provincial government business enterprises will now join revenue from corporate income tax as a provincial revenue source in the equalization formula. This will prevent a province's equalization entitlement from increasing if it acquires a profitable corporation. In Saskatchewan's case, for example, the acquisition of potash companies would be a financial boon for the province and yet, under the old system, the drop in corporate income tax collected would entitle it to increased equalization.

- 5) Established Program Financing was perhaps the most difficult segment of the fiscal negotiations. Major "disentanglement" was enacted here, and the federal government terminated its matching, open-ended contributions for the vital shared-cost programs of Hospital Insurance, Medicare, and Post-Secondary Education. These have been replaced by a basic transfer of 13.5 tax points to the provinces, plus an equivalent amount in cash, to be indexed to the growth of the economy and not to the growth of provincial expenditures as previously. Concomitantly, the provinces are to have greater policy and administrative autonomy - federal audits are to be ended - as a trend towards "unconditionality" accompanies that of "disentanglement". The provinces have committed themselves, however, to continue to meet certain key standards in Hospital Insurance and Medicare and mechanisms for discussing this issue were proposed. It can be noted that of the 13.5 tax points transferred only 8.143 were actually new, as 4.357 tax points had already been shifted under post-secondary education financing and 1 was part of the two points transferred in final settlement of all issues noted above. Even with this transfer of taxing power to the provinces, the federal government still commands almost 70% of personal income tax revenue. The fourth key shared-cost program, the Canada Assistance Plan (welfare), is currently being negotiated.

In summary, the most important outcome of the new fiscal arrangements is the "disentanglement" and, in effect, the de-escalation of the growth in public expenditures concerning the three shared-cost programs which are a vital component in Canadian social policy. In overall net monetary terms, the new agreement appears as a saw-off, or perhaps more appropriately, as a mutually satisfactory trade: federal transfer payments to the provinces will increase by \$924 million in 1977-78 as a result of the new shared-cost program arrangements but will decrease by the more than \$900 million which would have been due under a continued Revenue Guarantee Program. (See Tables for further details).

3. Implications

The dollars and cents side of Canadian federalism has much to tell about all aspects of our political system. The major changes brought about in Established Programs Financing are probably potentially the most significant of the new fiscal arrangements for the future style and substance of federalism.

From an administrative perspective, the changes represent progress towards the widely-sought "disentanglement" of the complex and convoluted network of federal-provincial fiscal relations.

In a broader context, there has been a shift in responsibility and accountability, as the provinces now take greater control of three vital social programs. In this sense Canadian federalism has been better delineated or clarified. The provinces will be largely able to determine their own type and level of services in these areas without formal federal conditions, or the widely-criticized "skewing" of provincial priorities encouraged by the "fifty-cent dollars" of shared-cost programs.

Functional considerations aside, it is unclear in what policy directions these programs might move now that direct federal involvement is ended. The ending of the matching federal contributions means that provinces have a powerful in-

centive to halt the rapid expansion these programs have experienced over the years. Will expenditures be frozen, or even reduced, in the face of rising costs and limited federal contributions due to a stagnant economy?

The new arrangements also have implications for the precarious balance between "country-building" and "province-building" upon which Canadian federalism is predicated. This is particularly relevant if the new agreements are seen as a foretaste of future trends in federal-provincial fiscal relations. One issue is the fate of "national standards" for the social programs involved. To what extent will the provinces now act as ten independent units or, in a commitment to some country-wide levels of service, as a group of interdependent communities? A second dilemma stems from the federal government's attempt, in the new agreements, to check its expenses, accommodate the demands of some provinces to reduce its involvement in shared-cost programs and other areas, and simultaneously disentangle fiscal relations. It is uncertain how much further these goals can be pursued, without damaging the federal government's ability for overall management of the economy.

Finally, the new arrangements may signal an end to the federal commitment to an expansive welfare state - a federal "disentanglement" from social policy itself. They may indicate a shift in Ottawa's functions and priorities which places social policy far down the list, perhaps as part of a strategy to focus federal resources and activity on increased economic management. Whether this is indeed the trend will perhaps be made clearer by the outcome of the current negotiations over the Canada Assistance Plan.

COMPARISON OF PROJECTIONS OF EQUALIZATION PAYMENTS TO THE
PROVINCES UNDER THE OLD AND NEW FORMULAE
FISCAL YEARS 1977-78 TO 1981-82
(\$ million)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Man.	Sask.	Total
Projection of New Formula*								
1977-78	277	67	338	289	1,316	186	87	2,560
1978-79	306	76	377	325	1,453	207	88	2,832
1979-80	336	84	414	362	1,566	223	94	3,079
1980-81	367	93	455	402	1,687	240	98	3,342
1981-82	398	102	495	443	1,801	259	98	3,596
Projection of Old Formula								
1977-78	283	68	346	294	1,342	190	110	2,633
1978-79	310	77	385	330	1,465	205	103	2,875
1979-80	339	85	423	366	1,564	217	104	3,098
1980-81	365	94	464	406	1,670	232	102	3,333
1981-82	394	103	503	446	1,761	247	94	3,548

* Includes equalization with respect to Established Programs Financing.
Source: Department of Finance.

Guarantee
VALUE OF REVENUE UNDER 1972-77 AGREEMENTS FOR THE
FISCAL YEARS 1976-77 TO 1978-79
(\$ million)

	Payments in the fiscal year:		
	1976-77	1977-78	1978-79
Newfoundland	18.5	5.8	4.6
Prince Edward Island	4.0	1.2	1.0
Nova Scotia	25.2	8.2	6.6
New Brunswick	21.3	7.5	6.1
Quebec	219.5	64.5	51.4
Ontario	379.4	109.0	85.2
Manitoba	41.3	13.8	11.1
Saskatchewan	39.2	11.6	9.2
Alberta	73.3	23.8	18.9
British Columbia	121.6	29.8	23.7
Total	943.3	275.2	217.4

Source: Department of Finance.

**COMPARISON OF THE ESTIMATED VALUE TO THE PROVINCES OF THE
ESTABLISHED PROGRAMS FINANCING WITH A PROJECTION OF THE
PREVIOUS SHARED-COST PROGRAMS
FISCAL YEARS 1977-78 TO 1981-82
(\$ million)**

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Total
Projected Shared Cost Programs											
1977-78	133.3	26.7	208.4	161.5	1,635.6	2,194.5	255.4	223.0	471.0	600.7	5,930.1
1978-79	149.5	29.7	230.6	180.3	1,810.6	2,433.1	283.9	246.3	525.4	673.4	6,582.8
1979-80	165.2	32.8	253.7	199.7	1,984.9	2,716.2	311.5	271.8	584.6	752.8	7,273.2
1980-81	181.5	36.2	277.3	220.0	2,163.0	2,986.1	340.6	298.4	646.8	837.1	7,957.0
1981-82	197.4	39.3	300.4	239.8	2,337.3	3,251.0	368.6	324.7	707.6	920.1	8,686.2
Estimated Value of Established Programs Financing (tax transfers and cash payments)											
B) EPF—in millions of dollars											
1977-78	144.6	30.4	223.2	178.8	1,760.1	2,405.7	274.5	245.9	517.7	680.3	6,400.8
1978-79	171.8	36.7	260.1	214.1	1,988.3	2,760.5	319.1	292.2	599.3	809.3	7,521.4
1979-80	202.6	44.2	300.6	233.4	2,233.6	3,123.9	368.8	342.8	687.5	943.0	8,504.9
1980-81	224.5	48.7	332.9	281.7	2,462.7	3,486.4	406.4	381.3	768.5	1,066.4	9,459.5
1981-82	247.5	53.9	363.7	311.3	2,696.6	3,870.0	443.4	420.8	852.8	1,193.0	10,477.1

Source: Department of Finance.

V REPORT FROM THE COURT

The Supreme Court has been a crucial institution in shaping Canadian federalism, although its importance has varied according to the time period and the issues of the day. It has often been called upon to render judgements on the constitutionality of various pieces of legislation, sometimes with profound implications for the balance of power between federal and provincial governments. Although in the postwar period the Court seemed to take a back seat to intergovernmental negotiation as a mechanism for resolving disputes, recent events suggest that federal-provincial conflicts are increasingly being submitted to judicial decision. And while current political trends seem to point in the direction of decentralization, recent judgements have tended to reaffirm the powers of the central government, a paradox which ensures that the Court's move into the lime-light is a controversial one.

1. Cases

- (1) Reference re Anti-Inflation Act (1976), 68 D.L.R. (3d) (S.C.C.) 452

(a) Significance and Issues

The testing of the constitutional validity of Ottawa's Wage and Price controls program was of immense significance for both constitutional law and the workings of Canadian federalism. This was the first Supreme Court test of a major national policy since 1949. Even more important, since the policy in question involved massive federal regulation of an area normally under provincial jurisdiction, this was also a test of whether the Court would "liberate" Ottawa's general constitutional power to make laws for "Peace, Order and good Government" from its previously restricted judicial interpretation.

A second issue at stake, flowing from the interpretation of the "P.O.G.G." clause, was the balance of power in Confederation: if the court were to expand this mandate beyond the traditional "emergency" doctrine, it could lay the constitutional groundwork for a revolutionary shift of power in Canadian federalism toward the central government.

Third, the Court ruling might affect the type of public policy emanating from Ottawa. Whereas the federal government had previously relied on its spending powers to enact public policy in areas normally under provincial jurisdiction, the Anti-Inflation Act was a regulatory scheme and perhaps a foretaste of federal policy of the future.

The case featured an unusual siding of several provinces with the federal government for political reasons. Ontario, whose own Order-in-Council entering its public service under the federal program was also under question, argued for a broader interpretation of the Peace, Order and good Government clause; while Quebec, British Columbia and Saskatchewan also argued for the Act, but on the narrow grounds of the "emergency" doctrine. On the opposing side were Alberta and five labour unions. All provinces, however, agreed with the policy goals of the anti-inflation program, and were willing to bring their own employees under its umbrella.

(b) Ruling

In a 7-2 decision rendered in July of 1976, the Court held the Anti-Inflation Act to be constitutionally valid, but only on the grounds of the "emergency" doctrine. Two Quebec Justices dissented in the belief that Parliament would have to explicitly declare such legislation to be an emergency law in order to qualify for this doctrine. The Court majority, however, argued that as long as it was not irrational on the part of Parliament to consider that a crisis existed at the time, it did not have to expressly label such an Act as an emergency measure.

It is noteworthy that four of the seven Justices, led by Chief Justice Laskin, seemed willing to flirt with a broader interpretation of the federal mandate, to include matters of "inherent national importance" and not just emergencies. The Laskin report ultimately chose to apply only the emergency doctrine, but its lengthy, open-ended consideration of the "inherent national importance" doctrine - so eagerly sought by the federal government and centralists - could be important in future decisions.

The Court was unanimous in finding the Ontario Order-in-Council invalid. The reasoning was not, however, that Parliament could not bind a provincial public sector under such an Act, or that the Ontario Order-in-Council had to be ratified by the provincial legislature. Instead, the flaw perceived was that it had simply not been properly executed: had the federal legislation explicitly detailed the inclusion of the provincial public sector, the Ontario agreement would have been valid. Indeed, Laskin emphasized that those who claimed immunity for the provincial public service overlooked "the paramount authority of federal legislative power ... and the all-embracing legislative authority of the Parliament of Canada when validly exercised for the peace, order and good government of Canada."

(c) Implications

Most important, the federal government failed to win an expansive interpretation of its general power beyond the "emergency" doctrine, and a centripetal revolution in the federalist balance of power was thus not initiated by the Court. It seems clear, though, that the potential for such an interpretation at some future date does exist, as the musings of Laskin and others indicate.

Ottawa did gain, however, from the Court's application of the "emergency" doctrine, as the majority ruled that Parliament did not have to declare an emergency in order for the doctrine to be applied. Federal legislation could be upheld on emergency grounds as long as there was not sufficient evidence to show that it would have been irrational for

Parliament to have viewed the matter as a pressing national crisis. This approach to the application of the "emergency" doctrine obviously increases Ottawa's manoeuvrability in constitutionally contentious policy areas, since it would not be necessary for the federal government to embarrass itself or invite protracted debate by declaring that a national emergency existed.

Thirdly, the invalidation of the Ontario Order-in-Council represents a modest restriction of executive federalism, since the absence of explicit Parliamentary sanction was held improper.

(2) Communications - Cable Television

Dionne v. The Province of Quebec

In Re Capital Cities Communications Inc.

(a) Issue

The issue in both these cases was whether or not the federal government had exclusive jurisdiction over cable television. The first dispute involved a challenge of the constitutionality of a cable regulatory board established by the Quebec government four years ago, whose functions obviously overlapped with the federal regulatory body, the Canadian Radio-Television and Telecommunications Commission (CRTC). The plaintiff was supported by federally-paid lawyers, while Quebec was backed by the governments of British Columbia, Alberta, Saskatchewan and Ontario.

The second case centred on the right of the CRTC to order cable televisions systems to randomly delete commercials from American stations in order to replace them with "Canadian content" and to discourage Canadian advertisers from buying time on U.S. stations. Siding with the aggrieved American party were British Columbia, Alberta, Ontario and Quebec. Saskatchewan, however, intervened with the federal government in support of CRTC.

Arguments in both cases generally centred on the question of whether or not cable television was a "local" or intraprovincial operation with strictly distributive functions, and thus distinct from the larger field of broadcasting which comes under federal jurisdiction. In the Dionne case, however, Quebec went even farther in arguing that federal control over receiving radio and television signals must be limited to matters of technical interference or national security.

(b) Rulings

Judgements in the two cases were rendered on November 30th, 1977, and in both instances the verdict was a 6-3 split in support of the federal government's regulatory right. The three Quebec Justices dissented in each case. Again the Court has asserted the regulatory integration of primary transmission and secondary distribution through cable, and the regulatory integration of broadcasting content and hardware. It should be noted that the jurisdiction over pure (internally generated) cablecast was not an issue in these cases.

(3) Natural Resources

Canadian Industrial Gas & Oil Ltd. v.
The Government of Saskatchewan et al.

(a) Issue

At stake were the Oil and Gas Conservation, Stabilization and Development Act and the Mineral Resource Act promulgated by the Saskatchewan Government in 1973 and 1974. These Acts sought to prevent the province's oil and gas companies from reaping windfall profits from the post-1973 price jump, and instead to divert these additional revenues to provincial coffers. The grounds for the challenge were that the Acts constituted a scheme for imposing an indirect tax (and were thus ultra vires of the

provincial government), that they interfered with inter-provincial trade, and that they regulated trade and commerce in general. The federal government intervened on the company's behalf (indeed, Ottawa had unsuccessfully attempted to join in the Court of Appeal hearing as a co-plaintiff and not just an intervenant), while Alberta, Ontario and Quebec backed Saskatchewan. Saskatchewan Premier Blakeney saw this as a crucial test case for federalism:

Arrayed against us are the big resource companies and the federal government. An adverse decision will be a decision against all the provinces. An adverse decision will be a victory for centralist power and a defeat for federalism.

(b) Ruling

In a 7-2 decision on November 23, the Supreme Court found Saskatchewan's legislation to be unconstitutional, on the grounds described above. This verdict opened the possibility that the Saskatchewan Government might have to refund the \$600 million it has collected from oil and gas companies under these Acts. It was not clear whether it would be possible for the province to devise other mechanisms to achieve the same ends, which could survive constitutional challenge. If not, the case could represent a significant increase in federal authority through its trade and commerce power as against the provincial constitutional responsibility for natural resources. The topic will undoubtedly be on the agenda for future constitutional conferences.

(4) Environmental Control

Interprovincial Co-Operatives Ltd. &
Dryden Chemicals Ltd. y. The Province
of Manitoba.

(a) Issue

This case challenged the validity of The Fishermen's Assistance and Polluter's Liability Act of Manitoba, which had been applied against Ontario firms whose wastes had carried down-river into Manitoba, thus polluting Manitoba waters. At stake was the province's legislative competence in matters which could have extra-provincial regulatory implications.

(b) Ruling

The Court held, by a majority of 4 to 3 (Justices Laskin, Judson and Spence dissenting) that the provincial power to enact laws in respect of "property and civil rights in the province" does not extend, as was previously thought, to making laws which have an extra provincial regulatory effect. The only restriction on this power was thought to be that the law had to relate to a circumstance, occurrence or thing in the province. It, now, appears from Mr. Justice Pigeon's majority opinion that federal legislative jurisdiction under Canada's federal arrangement includes law making power in relation to interprovincial torts, and that this power serves to exclude provincial power to enact laws which alter the common law rules pertaining to liability for extra-provincial acts. This case therefore finds in the limiting phrase "in the province" new legislative competence for the federal government.

(5) Other cases raising constitutional issues
included:

(a) Amex Potash Ltd. v. Government of Saskatchewan
October 5, 1976.

(b) Robinson v. Countrywide Factors Ltd., January 22,
1977.

2. Implications

The Supreme Court rulings in the important cases concerning the anti-inflation program, cable television and natural resources indicate a centralist tendency on the part of the Supreme Court despite strong provincial interests in these cases. (In this light, the outcome of a Supreme Court ruling on a second resource issue arising in Saskatchewan, the challenge to its potash prorationing plan, bears watching. In the Saskatchewan Court of Appeal, the Attorney-General for Canada took the unprecedented step of becoming a co-plaintiff, calling witnesses and introducing evidence.)

As pointed out in the Report of the Western Premiers' Task Force on Constitutional Trends (May, 1977), it appears that there is "an increasing tendency on the part of Ottawa to oppose the Constitutionality of provincial legislation." From January, 1973, through January, 1977, the federal government has attacked the validity of provincial legislation in 9 of the 10 cases in which such legislation has been challenged in the Supreme Court of Canada. Referring to federal participation in the potash challenge, Premier Blakeney has claimed that it indicates "a systematic and deliberate attempt to destroy, through court action, the provincial rights of resource ownership."

Whether intentionally or not, the Supreme Court has entered the "political thicket", since its decisions deal with the most contentious issues in intergovernmental relations and the question of national unity. Moreover, whereas the Court has occasionally served as a forum for the resolution of federal-provincial conflict, the above rulings do not resolve or even alleviate such disagreement. While they do significantly affect the bargaining power of the participants, their ultimate effect is to aggravate and fuel these disputes.

Given the above three considerations, it seems reasonable to conclude that the Supreme Court and judicial review will not play a directly constructive role in the resolution of current crises in Confederation. While this institution may be successfully clarifying and interpreting the existing constitution, it is not furthering political progress, except perhaps as a by-product of the heightened controversy which its rulings inspire. Resolution of current intergovernmental conflicts, therefore, may be dependent on institutions and mechanisms other than our courts.

VI REPORT FROM THE CAPITALS

This section is a survey of major events and activities involving each province, based on information kindly supplied by the provincial governments. The number and variety of intergovernmental relations outlined indicate that despite the prominent conflicts which often dominate public attention, the day-to-day business of federalism has continued, with a high level of interaction among the eleven governments.

While the material gathered consists largely of quantitative data which recorded "what happened" during the year, we hope to include reports on the political quality of intergovernmental relations as viewed by each government in future editions.

The material has been classified according to five categories:

- 1) Major Intergovernmental Agreements Initiated
- 2) Major Intergovernmental Agreements Terminated
- 3) Major Intergovernmental Issues under Discussion.
- 4) International Activities
- 5) Administration of Intergovernmental Affairs.

BRITISH COLUMBIA

(1) Major Intergovernmental Agreements Initiated.

- (a) Coastal Ferry Agreement, signed April 18, 1977; provides an annual federal subsidy for ferry and coastal freight and passenger services, initially \$8 million and indexed to inflation.
- (b) Industrial Development Subsidiary Agreement, under the General Development Agreement, signed on July 8, 1977, and to expire on March 31, 1982; its objective is to coordinate existing programs and initiate new ones to stimulate industrial development; maximum total cost will be \$70 million, shared on a 50-50 basis.
- (c) Agriculture and Rural Development Sub-Agreement, signed July 8, 1977, to expire July 31, 1982; objective is to develop the agricultural sector and food processing industry in rural areas; maximum total cost will be \$60 million, shared on a 50-50 basis.
- (d) Northeast Coal and Related Developments Sub-Agreement, signed May 10, 1977; objective is to evaluate potential coal development in the northeast of the province; maximum total cost will be \$10 million, shared on a 50-50 basis.

(2) Major Federal-Provincial Agreements terminated

(3) Major Intergovernmental issues under discussion

(a) Constitutional Trends

The province participated in the development of the Report of the Western Premiers' Task Force on Constitutional Trends ("Intrusions Report") (cf. Saskatchewan)

(b) GATT

The province is part of the Joint Western Committee on GATT (cf. Saskatchewan)

(c) Maritime Boundaries

Ongoing discussions with Ottawa.

(d) Pipeline

Discussion of pipeline location issues with Ottawa and relevant American States.

(e) Miscellaneous

(i) Skagit Valley issue under discussion with Ottawa, State of Washington and Seattle.

(ii) West Coast tanker traffic under discussion with Ottawa, Alaska and Washington.

(iii) Black Head River issue under discussion with Ottawa and Montana.

(4) International Activities

(a) Trade Missions

To Japan, Indonesia, New Zealand, Australia and, led by Premier Bennett, to Europe.

(b) Boundary and related issues with U.S.

As noted above.

(5) Administration of Intergovernmental Affairs

ALBERTA

1) Major Intergovernmental Agreements Initiated

- (a) 1976-1979 Agreement for Western Northlands - Northern Alberta Transportation, signed February 18th, 1977, to expire March 31, 1979; object is to improve transportation facilities (roads, bridges, airstrips) in Northern Alberta, following the WEOC agreement for such assistance for the northlands of all four western provinces; cost-sharing is on a 50-50 basis, to a maximum federal contribution of \$15 million.
- (b) Oil Funds Transfer Agreement
- (c) Anti-Inflation Agreement (renewed on March 30, 1977).

2) Major Intergovernmental Agreements terminated

- (a) Post-Secondary Education Adjustment Payments
- (b) Federal-Provincial Agricultural Manpower Program
- (c) Assisted Home Ownership Plan.

3) Major Intergovernmental Issues under Discussion

(a) Constitutional Trends

The province participated in the development of the Report of the Western Premiers' Task Force on Constitutional Trends ("Intrusions Report") (cf. Saskatchewan). In addition, Premier Lougheed played a leading role in constitutional negotiations as chairman of the Premiers for 1976.

(b) GATT

The province is part of the Joint Western Committee on GATT (cf. Saskatchewan)

(c) Transportation

Alberta joined the other Western Provinces in endorsing the Hall Report on grain transportation (cf. Saskatchewan).

4) International Activities

(a) Foreign Trade

Premier Lougheed led a trade mission to the United States from June 16-28, 1976. The Alberta government is concerned with developing new American markets for agricultural, resource and industrial products exports, noting that "the potential for new markets in the States is ... crucial to Alberta's goal of diversifying its economy through the development of competition world scale industries."

(b) Foreign Visitors

Prime Ministers, Ambassadors and other officials from Belgium, Britain, Switzerland, Soviet Union, Iraq, Nigeria, Japan and other countries visited the province. The Alberta government notes that "Ambassadors and High Commissioners to Canada now make a point of visiting Alberta soon after taking up their appointments in Ottawa."

5) Administration of Intergovernmental Affairs

(a) Appointment: On January 1, 1977, Dr. J. Peter Meekison replaced the retiring Harold S. Millican as Deputy Minister of the Department of Federal and Intergovernmental Affairs.

(b) Organization: On January 1, 1977, the Urban and Municipal Affairs Division was created, joining the three other divisions of the Department of Federal and Intergovernmental Affairs.

SASKATCHEWAN

(1) Major Intergovernmental Agreements Initiated

Federal-Provincial

- (a) A new, five-year Special Rural Development Agreement was signed on May 30, 1977, replacing the previous agreement signed under the Agriculture and Rural Development Act (ARDA) of 1970 and extended for two years; the purpose of the new Agreement is "to provide economic and social development assistance to disadvantaged people", particularly the Indian population, in rural Saskatchewan; provincial expenditures for this will be a minimum of \$7 million; costs will generally be shared on a 50-50 basis between Saskatchewan and Ottawa, except in some cases in which the federal government will assume 100% of the costs.
- (b) A Subsidiary Agreement under the General Development Agreement was signed on July 28, 1977, for the general purpose of encouraging the diversification of Western agricultural production into livestock and, specifically, for the expansion of the facilities used by the Canadian Western Agribition (international livestock show) and Mexabition and the general capability of Regina to host trade shows and demonstrations of Saskatchewan manufactured goods, especially farm equipment; projects are to be completed by 1979; costs are shared on a 50-50 basis, to a maximum of \$850,000 per party for a total maximum expenditure of \$1.7 million.
- (c) The Subsidiary Agreement for Planning, whose purpose is to identify new economic opportunities in Saskatchewan, was on November 19, 1976, extended by one year until March 31, 1978; this was originally signed in August, 1975.
- (d) The Interim Subsidiary Agreement on the Saskatchewan Northlands, whose purpose is to provide for the economic and socio-economic development of Northern Saskatchewan, was also extended by one year to March 31, 1978; additional funds totalling \$8.3 million were included in the extension; this was also originally signed in August, 1975.
- (e) A \$16.2 million shared-cost program to develop new methods of recovering heavy oils from Lloydminster and similar oil fields was signed in October, 1976,

by the federal Department of Energy, Mines and Resources, and the provincial Department of Mineral Resources.

- (f) A drought program, in response to the disastrous weather conditions in Saskatchewan in the spring of 1977, was signed by the provincial and federal Departments of Agriculture.

Inter-provincial

- (a) Manitoba, Saskatchewan, Alberta and British Columbia, together with private funding, agreed to support the Veterinary Infectious Disease Organization at the University of Saskatchewan in Saskatoon.

(2) Major Federal Provincial Agreements terminated during the Year.

- (a) The Special ARDA Agreement, which Saskatchewan and DREE entered into in 1971 and renewed in 1975, ended in 1977.
(This was replaced by another five-year Agreement, as noted above).

(3) Major Intergovernmental Issues under Discussion

(a) Constitutional Trends

The Report of the Western Premiers' Task Force on Constitutional Trends ("Intrusions Report") was released in May, 1977. Following a common concern for a perceived tendency on the part of Ottawa to initiate federal legislation in traditionally provincial spheres of operation, the Report presents an inventory of these apparent intrusions and makes recommendations.

Primary examples include consumer & corporate affairs, resources, economic development, communications, labour, housing and justice. In all, some sixty "intrusions" are listed.

(b) GATT (General Agreement on Tariffs and Trade)

The four western provinces have attempted to influence the negotiating stance of the federal government at the Multilateral Trade Negotiations

in Geneva through the Western GATT Committee of officials. This Committee first produced a general statement on GATT in December, 1974, and during the past year presented three briefs or representations to the federal government: a Joint Western Agricultural Brief, December, 1975; a Joint Western Industrial Brief, April, 1977; and a Joint representation presented at the Finance Ministers' meeting, October, 1977. According to the Saskatchewan government, the Western provinces have found this to be "a useful and effective exercise", which has not prevented individual provinces from raising trade and tariff matters of particular concern to them.

(c) Transportation

The Hall Commission on Grain Handling and Transportation submitted a three-volume report beginning in May, 1977, after almost two years of research and inquiries, entitled Grain and Rail in Western Canada. This has become the focus of the transportation issue in the West and was endorsed by the four Western transportation Ministers, who sought full and immediate implementation by Ottawa of the report's recommendations, without notable success so far. Consultation on the Hall Report has occurred mainly at the ministerial level. Neither of the ongoing mechanisms for intergovernmental consultation on Western transportation - the Federal-Provincial Committee on Western Transportation (FPCOWT) or the Western Transportation Advisory Council - has been a forum for dialogue on the Report.

Relatedly, the Transportation Agency of Saskatchewan published in 1977 a booklet strongly defending the Crows Nest Pass rates, The Crow Rate and National Transportation Policy. This vital issue for prairie agriculture received new impetus from both the proposed new federal transportation policy of "user-pay", which would threaten these rates, and the endorsement of the Crows Nest arrangements by the Hall Commission. In addition, FPCOWT is currently engaged in a study on intermodal passenger services.

(d) Communications

Two disputes concerning cable-television and closed circuit cable systems (pay television) have involved long and difficult negotiations between Saskatchewan, the CRTC and the federal Department of Communications.

The first centres on the issues of public ownership of the cable hardware system and community involvement in the provision of services. The second conflict is one of disputed jurisdiction, with both Saskatchewan and Ottawa claiming jurisdiction over the introduction and regulation of pay television.

Negotiations between Saskatchewan and the CRTC in August and September of 1977 apparently produced an agreement overcoming the impasse on hardware ownership, and Saskatchewan is hopeful that further progress can be made resulting in the provision of cable services throughout Saskatchewan.

(e) Pipeline

Negotiations have begun on a federal-provincial agreement relating to the Foothills gas pipeline. The province consulted with Ottawa during negotiations of the Canada-United States pipeline treaty. Saskatchewan feels it thus had some influence on the outcome, and is being kept informed by the federal government of developments in this area.

(f) Grasslands

Discussions have begun on the federal proposal to establish a Grasslands National Park in southern Saskatchewan, to which Saskatchewan has given its conditional approval. There is also discussion with DREE on a Subsidiary Agreement on tourism and recreation development in this area of the province.

(g) Northlands

Negotiations are underway for a long term Northlands agreement (five years) to replace the current Interim arrangement.

(h) Primrose Lake Air Weapons Range Agreement

Negotiations are taking place regarding a reassessment of compensation payments under this agreement.

(i) Manpower Training

Discussions have begun on a new federal-provincial Manpower Training Agreement to provide training services in Saskatchewan.

(j) Ongoing consultations with the federal government

- (i) Saskatchewan - DREE: formulation and implementation of sub-agreements under the G.D.A.
- (ii) Saskatchewan - External Affairs: transboundary issues relating to the power project on the Poplar River in southern Saskatchewan.
- (iii) Saskatchewan - External Affairs: assistance in arranging for both foreign trips and visitors.

As a final note on federal-provincial and interprovincial negotiation, the Saskatchewan government has found cooperation and joint negotiation by the four Western provinces to be a valuable effort. It states that since the Western Economic Opportunities Conference in 1973, the four provinces

have increasingly identified common interests and objectives, particularly in areas relating to economic development. Finding it to be in our best interest to deal collectively with the federal government in many issues, the western provinces have developed excellent working relationships through many common efforts.

(4) International Activities

(a) Trade Missions

- (i) Visit by Premier Blakeney and other to China, Japan and other states in the Far East in May of 1976, focussing on potash trade. A Chinese delegation returned the visit in June, 1977.
- (ii) Visits by Agriculture officials to Iran and Israel in Fall of 1976, concerning the marketing of pea protein concentrate and Saskatchewan milled flour; to Eastern and Western Europe

in Spring, 1977, also regarding pea protein concentrate; and to Hungary in July, 1977, regarding the marketing of Lacombe purebred swine.

(b) Ministerial Trips

- (i) Agriculture Minister to Colorado, January, 1977
- (ii) Environment Minister to Argentina, March, 1977 for United Nations Water Conference.
- (iii) Minister of Education to Geneva, August, 1977, for UNESCO Conference on Education Information Services.
- (iv) Consumer Affairs Minister to France, England and Ireland regarding government-run insurance.

(c) Foreign Visitors to Saskatchewan

Ministers, ambassadors and delegations from the following countries visited Saskatchewan between July 1976 and August, 1977: Mongolia, Germany, Roumania, Great Britain, Japan, Soviet Union, Zambia, Malaysia, China, Greece, Lesotho, and India.

(d) Speeches

- (i) Premier Blakeney to the World Fertilizer Conference, New York, September 21, 1976.
- (ii) Premier Blakeney to the Southern Council on International Affairs in Atlanta, Georgia, May 13, 1977.

(e) Appointment

A new Agent-General for Saskatchewan at Saskatchewan House in London was appointed in September, 1977, with responsibility for the promotion of the province's interest in trade, industrial development, immigration and other matters.

(5) Administration of Intergovernmental Affairs

In August, 1977, a new Office of Intergovernmental Affairs was created, to be situated within the Executive Council

and to report directly to the Premier. The Director is Robert Weese. The basis for this Office was the already existing Intergovernmental Affairs Unit of the Planning and Research Branch of the Executive Council, although a marginal increase in staff is expected, as well as new procedures regarding its relationships with line departments.

The increasing complexity of intergovernmental relations and the special demands of the national unity issue were given as reasons for the establishment of this Office.

MANITOBA

(1) Major Intergovernmental Agreements Initiated

Federal-Provincial

- (a) Special Rural Development Agreement, under the Agricultural and Rural Development Act, signed March 9, 1977, to expire March 31, 1982; object is to help initiate new jobs, increase incomes and improve living standards for Indians in rural and northern Manitoba; costs to be generally shared on a 50-50 basis.
- (b) Two agreements under the Community Water Project Program of the Prairie Farm Rehabilitation Act (PFRA) signed on January 24, 1977, expiring in December, 1978 and July, 1980; both are for construction of community dams and reservoirs, with costs shared on a 50-50 basis.
- (c) An agreement signed January 21, 1977, commits the Manitoba and Federal governments to share 84% of the costs of providing a mobile legal aid service to rural communities for 3 years.
- (d) An agreement between provincial and federal Communications Ministers was signed on November 12, 1976, clarifying federal and provincial responsibilities for regulation and supervision of cable television services in Manitoba; according to the Manitoba government, the agreement recognizes the traditional responsibility of the province for the provision of telecommunications within the province yet provides for this to be carried out "in harmony" with Ottawa's responsibility for the supervision of broadcasting and broadcasting-related services.
- (e) An agreement providing for federal loans of up to \$193 million to Manitoba Hydro was signed on April 1, 1977; this will cover half of the cost of expanding the Nelson River installation.

- (f) Government approval was given on October 15, 1976 for the reciprocal agreements between the Manitoba Pension Commission and pension authorities of the federal government, Alberta, Saskatchewan, Ontario and Quebec; these agreements protect the rights of Manitoba employees working in the other jurisdictions and of employees in Manitoba employed by parent companies in the other participating provinces or Ottawa.
- (g) A manpower development and training program for federal and provincial correctional employees in Manitoba was signed on December 17, 1976, to expire December 31, 1979; estimated costs of \$725,000 will be shared on a 50-50 basis; Manitoba noted that "the high degree of cooperation between the federal and provincial governments" produced this program, apparently "the first of its kind in Canada".

(2) Major Intergovernmental Agreements Terminated

- (a) The Fund for Rural Economic Development (FRED) Agreement, begun in 1967 with the purpose of aiding municipalities and agriculture, expired on March 31, 1977; \$75 million was spent during this time.

(3) Major Intergovernmental Issues under Discussion

(a) Constitutional Trends

The Province participated in the development of the Report of the Western Premiers' Task Force on Constitutional Trends ("Intrusions Report"). (cf. Saskatchewan).

(b) GATT

The province is part of the Joint Western Committee on GATT. (cf. Saskatchewan).

(c) Transportation

Manitoba joined the other Western provinces in endorsing the Hall Report (cf. Saskatchewan). In addition there was limited endorsement of the

Snavely Commission's Report on the cost of transporting grain by rail.

(d) Communications

Manitoba has been concerned with the issue of provincial rights in the cable and pay television fields. In April, 1977, following a meeting of the Council of Communications Ministers, the province felt that the federal government was prepared to consider provincial concerns and implement relevant federal-provincial agreements before the final enactment of the new Telecommunications Act, thus establishing "a conciliatory atmosphere in resolving long-standing issues in communications".

(4) International Activities

- (a) Foreign Aid: a number of grants for various projects in underdeveloped countries, especially African, were announced; the province matches funds provided by Manitoba agencies for foreign aid, up to the government's maximum allocation; for 1977-78, \$175,000 has been allocated for international aid.
- (b) Foreign Trade: The Manitoba Trading Corporation (Manitrade) has been active in promoting export sales of Manitoba firms, negotiating 75 such sales to 17 countries on behalf of 14 firms during the last nine months of 1976.

(5) Administration of Intergovernmental Affairs

The new Progressive Conservative government elected in October, 1977 has appointed a task force on government organization which could affect the province's administration of intergovernmental affairs. These are presently the responsibility of the Federal-Provincial Relations Division of the Department of Finance.

ONTARIO

(1) Major Intergovernmental Agreements Initiated

- (a) Single-Industry Resource Communities Subsidiary Agreement, under the General Development Agreement, signed October 18, 1976, and to expire on March 31, 1980; objective is to diversify the economies of Northern Ontario, with the Kimberly Clark area as the first target; maximum total cost will be approximately \$16 million, shared on a 50-50 basis.
- (b) National Chicken Marketing Plan
- (c) Upper Ottawa Valley community development agreement.

(2) Major Intergovernmental Agreements Terminated

- (a) The Railway Grade Crossing Fund has been ended de facto by the introduction of the Urban Transportation Assistance Plan.

(3) Major Intergovernmental Issues under Discussion

Federal-Provincial

- (a) Negotiations on a successor to the 1972-77 ARDA.
- (b) Negotiation of the application and administration of the Canadian Home Insulation Program.
- (c) Discussion of federal proposals on competition policy (Stage II of revisions to the Combines Investigation Act), the Bank Act, the Borrowers' and Depositors' Protection Act, and the new federal telecommunications legislation.
- (d) Review of financial arrangements for the replacement of the Canadian Assistance Plan by the proposed Social Services Act, and of the financing of the Canada Pension Plan.

Interprovincial

- (a) Study of minority language services in each province
- (b) Study of national energy grid.
- (c) Ongoing consultation under the Ontario-Quebec Permanent Commission on cultural, educational and economic programs.

(4) International Activities

(a) Trade Missions

- (i) Premier Davis visited Israel in January, 1977, and Japan in September, 1977.
- (ii) Ministerial and officials' missions to Europe and Asia in January, May and September, 1977.
- (b) Trade Office opened in Paris in October, 1977.
- (c) Ontario participated as a member of the Canadian delegation in a number of cultural and scientific exchange agreements with France, Germany, Belgium, Mexico and England.
- (d) Ontario participated in the Canadian delegation reviewing the Canada-United States Great Lakes Water Quality Agreement.

(5) Administration of Intergovernmental Affairs

QUEBEC

The election of the Parti Québécois on November 15, 1976, set the tone for the province's intergovernmental affairs over the next year. Committed to secession from Confederation together with a new contract of association, and moving quickly to further this aim, the Quebec government brought all aspects of the federal system into question, even as it participated in much of the daily business of federalism.

(1) Major Intergovernmental Agreements Initiated

Federal-Provincial

- (a) Highway Subsidiary Agreement, under the General Development Agreement, signed June 22, 1977, to expire in 1982.
- (b) Agricultural Development Sub-Agreement, signed June 22nd, 1977 to expire in 1982.
- (c) Forest Resources Sub-Agreement, signed June 22, 1977, to expire in 1982.
- (d) Agreements concerning Water Level Control in the Montreal region were signed on August 2 and October 4, 1976.
- (e) Numerous agreements signed with the Central Mortgage and Housing Corporation in August, September and October, 1976 and June, 1977.
- (f) Agreement concerning the intergovernmental committee on urban and regional research, signed with the other provinces and Ottawa, July 25, 1977.

Interprovincial

- (a) Agreement concerning implementation of Atlantic lottery signed with the Council of Maritime Premiers, January 31, 1977.
- (b) Agreement concerning salmon protection signed with New Brunswick, May 27, 1977.

(2) Major Intergovernmental Agreements Expired

Federal-Provincial

- (a) Industrial Studies Sub-Agreement, signed March 29, 1976, expired March 31, 1977.
- (b) Agreement concerning joint study with Transport Canada of urban mass transit service, signed December 10, 1976, expired December 31, 1977.

Inter-provincial

- (a) Agreement with Ontario Hydro to provide electricity signed February 10, 1969, expired May 31, 1977.

(3) Major Intergovernmental Issues under Discussion

(a) Constitutional trends

While sharing the concern of other provinces for federal intrusions in provincial jurisdictions, Quebec refused to participate in a constitutional review before its referendum on the province's future is held.

(b) Language Rights

The province sought to sign bilateral agreements with other provincial governments to guarantee citizens the right to choose either English or French as the language of education. The other governments rejected this procedure at the Annual Premiers' Conference in St. Andrews, but did espouse the principle of providing such choice wherever numbers warrant. At the same time, the Premiers directed the Council of Education Ministers to review the state of minority language education in each province.

(c) Communications

The cable television dispute between Quebec and Ottawa continued. The decision of the Quebec

Court of Appeal that the province's new cable licencing body was unconstitutional was appealed by the province to the Supreme Court, which sustained the earlier verdict. (See "Report from the Court").

(d) Fiscal Relations

On March 25, 1977, the Quebec government published The Economic Accounts of Quebec, which claimed that the province had been drained of \$4.3 billion since 1961 due to its disadvantaged role in Confederation. This report precipitated the "battle of the balance sheets", with the federal government issuing analyses disputing the provincial claim.

(e) Quebec-Labrador

This boundary dispute was renewed with greater force by Quebec, as it rejected the 1927 Privy Council decision giving Labrador to Newfoundland. The province has stated that an independent Quebec would appeal this decision to the International Court at the Hague.

(4) International Activities

- (a) Premier Lévesque's speech in New York to the Economic Club, January 25, 1977.
- (b) Lévesque visit to France, October, 1977
- (c) Numerous Ministerial trips abroad.

(5) Administration of Intergovernmental Affairs

With the election of the Parti-Québécois government Claude Morin, former Deputy Minister of Intergovernmental Affairs and an adviser to governments from Lesage to Bourassa, became Minister of Intergovernmental Affairs. In 1977, Robert Normand was named Deputy Minister.

NEW BRUNSWICK

(1) Major Intergovernmental Agreements Initiated

Federal-Provincial

(a) Highways 1977-80 Subsidiary Agreement, signed February 11, 1977, to expire March 31, 1980; object is to complete previously begun highways and build new ones; total cost is \$56 million, of which the federal share is 75%.

(b) Northeast New Brunswick

Sub-Agreement, signed June 23, 1977, to expire March 31, 1982; object is to boost economic development of the Northeast; total cost is \$95 million, of which the federal share is 75%.

(2) Major Intergovernmental Agreements Terminated

(3) Major Intergovernmental Issues under Discussion

(a) Council of Maritime Premiers

The province is actively involved with the CMP (see note below).

(b) Atlantic Lottery Corporation

Created September 3, 1976, its first Annual Report was issued on March 31, 1977.

(c) Miscellaneous

Telecommunications, transportation, energy, off-shore mineral rights.

(4) International Activities

- (a) Officials from the Industrial Development Branch of the Department of Commerce and Development have made about 12 trips abroad over the past year, related to industrial promotion. Countries visited include Japan, France, Germany, Belgium, Great Britain and Italy.

(5) Administration of Intergovernmental Affairs.

NOVA SCOTIA

(1) Major Intergovernmental Agreements Initiated

(2) Major Intergovernmental Agreements Terminated

(3) Major Intergovernmental Issues under Discussion

(a) Fisheries

The 200-mile limit and joint ventures are two concerns here (cf. Newfoundland).

(b) GATT

The province is pursuing a role in the GATT negotiations, through the Department of Development.

(c) Local development

The rejuvenation of Sysco and the continued development of the Halifax Waterfront, including the acquisition of a second container pier are important current issues.

(d) Council of Maritime Premiers

The province is actively involved with the CMP (see note below).

(4) International Activities

(5) Administration of Intergovernmental Affairs

PRINCE EDWARD ISLAND

(1) Major Intergovernmental Agreements Initiated

Federal-Provincial

(a) Electrical Interconnection Agreement

Provides an underwater cable to connect the Island to the Maritime power grid; total cost is \$36 million with the federal government contributing a 50% grant and a 25% loan.

(2) Major Intergovernment Agreements Terminated

(3) Major Intergovernmental Issues under Discussion

(a) Energy

The feasibility of a Maritime Energy Corporation, controlled jointly by Ottawa and the Maritime provinces is being investigated. The P.E.I. government notes that such an agency "would be critical in harnessing and coordinating new energy resources and sharing in the Maritimes and would be needed to round up export markets, for example, to make Fundy tidal power an economic reality".

(b) Council of Maritime Premiers

The province is actively involved with the CMP (see note below).

(4) International Activities

(5) Administration of Intergovernmental Affairs

While the province does not have an intergovernmental affairs agency or secretariat, the Department of Finance has been increasingly moving into this function and expects to develop some expertise in this area.

A NOTE ON THE COUNCIL OF MARITIME PREMIERS

In surveying the intergovernmental affairs of New Brunswick, Nova Scotia and Prince Edward Island, special mention is due the Council of Maritime Premiers. It has become involved in a number of important issue areas in its efforts to facilitate cooperation and coordination among the three provinces.

Some of these activities during the past year include: post-secondary education (Maritime Provinces Higher Education Commission), land management (Land Registration and Information Service), municipal government (Maritime Municipal Training and Development Board), labour relations (Council of Maritime Premiers' Labour Relations Board), transportation, regional economic development, harmonization of legislation and others.

NEWFOUNDLAND

(1) Major Intergovernmental Agreements Initiated

Federal-Provincial

- (a) Labrador Interim Subsidiary Agreement, under the General Development Agreement, signed December 3, 1976, to expire March 31, 1980; objectives are to help the Happy Valley - Goose Bay municipality to maintain its socio-economic viability following the substantial reduction of American military operations at Goose Bay airport, to initiate improvements in infrastructure and services in various communities to encourage economic diversification and development, and to "reinforce the long-term orderly development of Labrador"; projects include an industrial park, a bridge, a student dormitory and a sewage system; total cost is \$11.2 million, of which the federal share is approximately 90%.
- (b) Planning Sub-Agreement, signed June 22, 1976, to expire March 31, 1981; objective is to provide planning staff for analysis of economic and socio-economic development opportunities; total cost is \$6.4 million, of which the federal share ranges from 50% to 90%.
- (c) Inshore Fisheries Development Sub-Agreement, signed June 22, 1976, to expire March 31, 1981; objectives are to increase income of inshore fishermen and to increase employment and productivity in the processing sector of the fishing industry; total cost is \$12.5 million, federal share is 90%.
- (d) Highways Sub-Agreement, signed June 22, 1976, to expire March 31, 1978; objective is to upgrade selected roads in development areas; total cost is \$38 million, federal share is 90%.
- (e) Mineral Development Sub-Agreement, signed December 17, 1976, to expire December 31, 1981; objectives are to increase data on mineral deposits and to develop management policies to stimulate exploration and development; total cost is \$12.5 million, federal share is 90%.

- (f) The Newfoundland and Labrador Development Corporation Limited, originally created in a 1972 agreement with the purpose of aid to small and medium business, was on July 17, 1977, extended for an additional five years.

(2) Major Intergovernmental Agreements Terminated

On March 31, 1977 the Canada-Newfoundland Second Special Areas Agreement ended. Its objective was to promote economic expansion in selected areas, with about \$140 million in grants and loans provided wholly by the federal government.

(3) Major Intergovernmental Issues under Discussion

(a) Energy

Newfoundland has proposed to Ottawa and other provinces the creation of a national energy grid based on the Gull Island Development in Labrador. The province wants Ottawa to ensure that "there are no restraints to interprovincial trade", feeling that "the transmission of electrical energy is no different than oil or gas pipelines."

(b) Fisheries

The adoption of the 200-mile offshore fishing boundary has spurred demands for increased federal assistance for the fisheries including a proposal for large-scale renovation and expansion of the province's offshore trawler fleet.

(c) Natural Resources

The confrontation between Newfoundland and Ottawa over the control of off-shore mineral resources has continued, and during 1977 the industry halted its exploration because of the jurisdictional uncertainties. These have now resumed, following a joint agreement limited to drilling regulations. Newfoundland did not sign the federal-provincial offshore resources agreement with the Maritime provinces.

(4) International Activities

Premier Moores led a trade mission to European fishing nations to promote proposals for joint ventures in the fishing industry, whereby Newfoundland plants would process European catches. The federal government has thus far allowed these ventures on a limited, experimental basis.

(5) Administration of Intergovernmental Affairs

A NOTE ON FEDERAL ADMINISTRATION OF
INTERGOVERNMENTAL AFFAIRS

In October, 1977, Marc Lalonde was named Minister of State for Federal-Provincial Relations. This post is in addition to the Federal-Provincial Relations Office, under the direction of Gordon Robertson, and the new Co-ordination Unit within the FPRO, under Paul Tellier. While there has apparently been no official statement on the organizational implications of the move, the new portfolio is evidently the top position in the intergovernmental field after the Prime Minister.

Lalonde has said that:

In effect, nothing goes to the Prime Minister in the area of federal-provincial relations, without my seeing it ... I have the right of veto.

VII - LOOKING AHEAD

What can we expect from intergovernmental relations in the near future?

First, there may be at least a short-term shift in priorities for joint activity, from the unity problem to the issue of the economy. The first clear signal of such a shift is the First Ministers' Conference scheduled for February 13-15 in Ottawa, to deal with the economy. Preceded by an intensive round of ministerial meetings examining different economic sectors, it will try to find some agreement on medium and longer-term strategies to deal with persisting structural problems. For Ottawa it perhaps represents the end of its attempt to develop national policy through tripartite discussions with business and labour, and a return to the more traditional forum of intergovernmental discussion. The upcoming meeting takes on added significance as it is the first such conference to be held since December, 1976. The First Ministers' Conference is the central institution in intergovernmental affairs; none is presently planned on the question of either national unity or constitutional review. The most important immediate test, then, for intergovernmental relations over this year could well be the challenge of making and implementing effective economic policy, an area in which close coordination among the eleven governments is essential to success.

The unity issue will remain ever-present, however, especially as both the federal election and the Quebec referendum draw nearer. The latter vote will be a prime incentive for federal and provincial governments to develop

concrete proposals for the future character of the Confederation bargain. In addition, the federal package for constitutional change is due in this session of Parliament, and the government has committed itself to serious discussion of this with both Parliament and the provinces. Several provinces are moving quickly to formulate their own initiatives, as are the federal opposition parties. The proposals under debate are likely to go well beyond those set out in the 1971 Victoria Charter.

The Supreme Court will likely continue in the political thicket, as more important constitutional challenges are ruled upon. In particular, the tension between centralist and decentralist judicial interpretation, and the legal doctrines applied for this purpose, bear close watching. One of the major judgements awaited concerns the test of Saskatchewan's potash prorationing plan, a case in which the Attorney-General for Canada has taken the unprecedented step of becoming a co-plaintiff.

Fiscal relations should continue to be a crucial element in the intergovernmental arena, even though last year's agreements set the stage for the next five years of fiscal relations. The fourth key shared-cost program, the Canada Assistance Plan is currently being renegotiated. Add to this the heightened concern with the economy, and Ottawa's apparently growing interest in concentrating its fiscal resources on detailed economic management, and the current importance of fiscal relations is evident. The trade-off between expenditures for social policy and economic management may be especially noteworthy. In the postwar period, spending on social policies has been the fastest-growing segment of government expenditure. "Cooperative

federalism" had its fullest development in social policy, as Ottawa used its spending power to promote growth in many areas. In the current economic and social context, there appears to be a widespread desire to limit further expansion of the welfare state and a renewed emphasis on measures to improve investment, productivity and economic growth. (Last year's fiscal arrangements may be an example). One effect of this is that federal policy initiatives in areas of provincial interest and jurisdiction have shifted from spending to direct regulation in many economic fields. This has opened up a wide range of new sources of federal-provincial conflict - in transport, banking, competition policy, natural resources, and so on, since most such regulatory activity is now in the hands of the provinces.

Increased economic management and conflicting jurisdiction could, in turn, engender not only intergovernmental conflict but many new agreements as well, whether under the General Development Agreements or in more specialized target areas. The daily business of federalism, as exemplified by the host of intergovernmental agreements signed and issues under discussion, is certain to continue even as the more dramatic battles of principle are being fought. One area of both short-term and long-term negotiation, certain to be more prominent in intergovernmental discussion this year, is that of energy. Further developments, and possibly agreements, could take place in issues such as Newfoundland's case for offshore resources, Alberta's desire to export surplus natural gas, and Saskatchewan's wish to control the revenues from its oil and gas. In the social and cultural domain, new agreements might be forthcoming in the hotly-disputed communications field, a clear case in which a political resolution must supplant a legal one.

Apart from questions of substance, the style and strategies of intergovernmental relations this year could play decisive roles. The trend toward inter-provincial cooperation and initiative begun in the last decade and reaching new peaks in last year's fiscal negotiations, is especially important. The development of "common front" provincial positions in all domains is both a fascinating example of intergovernmental negotiation and a critical factor in the outcome of federal-provincial bargaining. Relatedly, developments in the provincial administration of intergovernmental affairs - new ministries, agencies, secretariats or other organizational changes - may figure prominently in the near future.

Finally, the machinery of intergovernmental relations is a variable to be carefully assessed over the next year. Will the irregular and unpredictable First Ministers' Conference remain the dominant institution, or will other mechanisms become comparably important? The hundreds of meetings between Ministers, Deputy Ministers and Officials are sure to continue, including the numerous intergovernmental committees established in all policy areas. The recent "sectoral" Ministerial meetings on the economy are another sign that executive federalism goes on unabated. Whether the intergovernmental process will expand beyond the executive confines is another matter. In this vein, the future of "tripartite" consultation between government, business and labour, and of proposals such as that for a "House of the Provinces", will be important in determining the course of intergovernmental relations.