

NATURAL RESOURCE REVENUES AND CANADIAN FEDERALISM.  
A SURVEY OF THE ISSUES

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Preface

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This series is devoted to providing specialists in the field (practitioners, scholars, students, the press and others) with topical studies of important issues in Canadian federalism and intergovernmental relations.

Richard Simeon  
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## Introduction

To discuss the national political implications of the Alberta Heritage Fund is to touch on fundamental issues concerning the nature of Canadian federalism and the role of federal and provincial governments. Arguments over oil and gas revenues and prices engage deeply-held conceptions of the character of the Canadian community itself. And these are largely value judgements - matters of opinion, preference and choice. They are not primarily based on objective grounds like efficiency and effectiveness. Such criteria are in this debate distinctly secondary to the basic redistributive question of "who gets what" - a question which we in Canada tend to think of overwhelmingly in territorial, regional and intergovernmental terms. As John Helliwell has observed, "nothing is 'right' when it comes to the political division of authority and revenues." Nor is it easy to hide behind a smokescreen of complex economic models. The questions are more normative than analytical.

It is not the existence of the Alberta Heritage Savings and Trust Fund itself which generates tension within the federal system, even though that Fund, worth about \$5 billion by 1979 represents a massive capital pool. In fact, only about one-third of Alberta's oil and gas revenues enter the fund: the rest are allocated to general revenues allowing Alberta to roll up large budgetary services while keeping tax rates low and expenditures high. It is thus the broader question of the pricing of oil and gas and of the disposition of the massive flow of funds that rising prices generate which must be examined. How widely should these funds be shared, and what rights does each level of government have to them? How far does the provincial right to ownership of the resources extend? What, if any claim do other regions of the country have to them? In this paper I will examine the competing arguments and positions with respect to such issues. I will comment on the political rather than the economic arguments and will focus my attention on the Alberta case, since it is by far the largest oil and gas producer and recoups the largest benefits.

The conflict between producing and consuming regions, on the one hand, and between federal and provincial governments on the other, first became prominent in the early 1970's. It has been renewed more sharply by the recent round of further increases, as the regional imbalances increase and the inter-regional fiscal flows grow larger.

The conflict illustrates an important dimension of Canadian political economy. Exogenous economic forces like the energy crisis have a highly differential regional impact. Because the domestic economy is so regionalized this impact sharpens internal divisions. Similarly, the conflict illustrates the interplay between regional interests and the institutions of federalism. There is much truth to William Davis's observation that the issues surrounding energy would be quite different were Canada a unitary state, or if its constitution treated resources differently. The territorially specific location of resources combines with their allocation to the provinces to maximize regional conflict. Moreover, oil and gas differ in a fundamental way from most earlier Canadian "staples". Furs, fish, timber and wheat were mainly sold in international markets - so the transfers of income were from the rest of the world to Canadians, mediated by eastern based financial and transportation interests. The regional conflict then was less direct, taking the form of the sharing of benefits between these interests and the producers. Oil and gas, on the other hand, are sold mainly in Canada. The conflict is direct, as the transfers flow from one group of Canadians to another.\*

The conflict burst into the open with the release of Ontario's White Paper on energy just before the 1979 Premiers' Conference at La Malbaie, and was intensified in subsequent speeches and statements by various provincial leaders. Ontario has called for only modest increases in oil and gas prices and for maintenance of these prices well below world levels. It has also called for a major effort to "recycle" escalating revenues back into the economy, to cushion consumers from the effect of price increases, to make investments in the improvement of energy conservation and efficiency, to develop alternative energy sources and to promote further exploitation and development activities. It proposes creation of a national energy bank to carry out a "national energy adjustment and employment program", to be funded by the producing provinces, not in the form of loans but of contributions. If provincial agreement for such a plan - which "would again confirm the general and historic obligation of all members of Confederation to aid the country in a potential national crisis" - could not be achieved, then Ottawa should use its armoury of

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\* I am indebted to Ken Norrie for this idea.

constitutional Powers to act.

In supporting their case, Ontario spokesmen have used some strong language. Higher prices without recycling into the national economy says Treasurer, Frank S. Miller, "will rip the country and the economy apart". Without referendum or mandate, "petro-dollars, not constitutional lawyers, are rewriting our constitutional system." The money flows are "quickly destroying the authority of the federal government to pursue its historic responsibilities". The revenue imbalances, in Ontario's view, are a direct threat to national unity.

There appear to be several reasons for this more assertive Ontario stand. First, there is the real fear of the consequences for the Ontario economy of rapid price increases. They would destroy one of the few competitive advantages of Ontario manufacturing. A \$7 per barrel price increase, Ontario estimates, would add \$3 billion to the coffers of the producing province, while adding 3.2 points to the inflation rate in Ontario, and reducing the Gross Provincial Product by 1.5%. Ontario consumers provide 29 per cent of the revenues flowing into the Heritage Fund. "The eventual size of fiscal imbalances created by revenue flows of these orders of magnitude is staggering and represents a significant challenge to the flexibility of the central financial arrangements of Confederation". Thus, the economic fears are genuine and they are accentuated by the economic insecurities of the North American and world economic situations. Such uncertainties are fertile ground for a politics of jealousy.

But Ontario's assertiveness has more immediate causes. It is a clear attempt to stake out a strong position for the intergovernmental bargaining now going on. Moreover, it may be that Ontario feels it must act aggressively because some obvious potential allies are unlikely to do so. The Conservative government elected in May 1979, with a strong Albertan delegation, was likely to be more responsive to that province's interests than was the previous government. Ottawa's new commitment to cooperation with the provinces, Ontario may have felt, means it will do little to defend broad federal powers so Ontario must. The previous government could be counted on to assert the national majority interest and on many issues then Ontario could safely line up with the other provinces.

Ontario could now depend on few potential allies among the other provinces. Newfoundland and Nova Scotia, both consuming provinces and heavily dependent on federal assistance through equalization and the oil import subsidy are looking forward to reaping petroleum riches of their own in the near future. Quebec, another major consumer would not assert the federal power because of its own broader goals. Thus, in recent months, it is Ontario which has carried the battle to Alberta. Its isolation in recent energy negotiations has been remarkable.

Alberta's position is diametrically opposed to that of Ontario. It has a strong interest in moving prices to the world level as quickly as possible, and in assuring complete control over resulting revenues. Thus, in his reply to the Ontario paper, Alberta Premier Lougheed rejected "both the concept and nature of the proposal" as "completely unacceptable". It was a clear attempt to alter the basic arrangements of Confederation by tampering with provincial ownership rights over oil and gas. Alberta, said Premier Lougheed later, would be prepared to make loans to Ottawa and to the provinces if it could get a satisfactory agreement on prices and gas exports. He was prepared to negotiate, but such loans should be commercially sound - Alberta was not interested in "subsidizing" projects in other parts of Canada.

Thus, while there was room to compromise - trading prices off against agreement on recycling, for example, - the interregional conflict over oil and gas is a direct one. Producers seek higher prices and control over revenues; consumers seek lower prices and shared revenues. In the short-run it is a zero-sum situation, a gain for one region is a loss to another. It is a conflict which is reinforced by other more symbolic elements: the sense of threat to its historic economic and political strength for Ontario, the chance to reverse its historic hinterland status for Alberta. All this makes the conflict bitter and intense. The Edmonton Journal speaks of an "historic struggle". Ontarians see blue-eyed Arabs bleeding them dry; Albertans, with equal hyperbole, see Ontario as using its political strength to make a brazen grab for Alberta's birthright.

Beyond the interregional conflict is an intergovernmental one. What rights does each level have to the benefits of oil and gas - and other resources? What is the relation between federal constitutional powers over trade and commerce and the provincial ownership of resources? And what is the appropriate mechanism for defining and implementing the national interest with respect to energy, the sharing of wealth, and so on? Is Ottawa primarily responsible? Or does policy emerge from the provinces and the federal government acting together, reflecting what might be called the collaborative model of federalism? Posing the questions in this way suggests that the conflicts over revenue are one aspect - a vitally important one - of a much broader debate over the sharing of responsibilities in the Canadian federal system. Let us examine how those issues relate to the energy debate. What are the competing positions which underly the conflict?

The positions taken by Alberta, Ontario and other participants in the debate are based on very different assumptions and premises, and indeed on different readings of Canadian history, themselves rooted largely, though not entirely, in competing regional economic interests. At the most general level is the conflict between what has been called a province-building versus a country-building view of the character of the Canadian political community. In an earlier conference on a topic very similar to this one, economist Milton Moore asked: "Which political unit of a country constitutes the community?" Is Canada "a single community, or only a loose confederation or coalition?" His answer neatly captures the country-building impulse: "I like to think that Canada is a single nation, a single community." (Moore, 1976, p. 241).

A number of consequences flow from such a position. If the community is the country, then its resources belong to the country as a whole; they do not belong to any subnational province or region. Their benefits should be shared across the whole community. Moreover, if policies are to be made according to the principle of majority rule, then national majorities, in case of conflict, should prevail over regional or provincial majorities. This, in turn implies that the primary decision-making body should be the federal government since it embraces the national majority. The country-building view also stresses the importance of building aggregate national wealth. It asserts the need to equalize or redistribute wealth across the country. It argues that Canada must remain a true common market, without restrictions on the free flow of goods, services and capital. Again, it is Ottawa's role to act as a guarantor of the market, agent of redistribution and manager of the national economy.

The implications of this model for the present situation are clear. Oil and gas revenues do not "belong" to the province; they belong to the country. The rights of provincial ownership are limited. Ottawa must capture a large proportion of the rents, in order to maintain its fiscal dominance and share the benefits. Ottawa's taxing powers must therefore not be limited. Nor should its power over trade and commerce be trimmed. Its broad discretionary powers - especially the emergency power - must be retained to allow it to act decisively in an energy crunch. If cooperative negotiations fail, according to Ontario, Ottawa has an obligation to use its "influence and constitutional authority" to direct revenue flows "in accordance with the national interest."

The province-building model, on the other hand, stresses the primacy of the provincial community. Canada is a collection of provincial communities, a compact among them. It assumes that when an Albertan claims rights over "our" resources, the "us" in mind is all Albertans, not all Canadians. These communities have rights - such as ownership of natural resources - which cannot be taken away by



any national majority. Provincial governments are the juridical equals of the federal government. "There are no junior partners". In general, then, the province-centred approach seeks to decentralize power and to increase the provincial voice in federal policies with major regional impacts. It values redistribution somewhat less highly. And, seeing the provincial economy as the primary unit, and the provincial government as the major agent of economic development, it is less concerned with preventing erosion of the common market. In the present context, this position leads to the assertion of unrestricted provincial ownership of resources, including rights over management, pricing and revenues. Use of federal taxing powers to capture the rents is illegitimate. Except in emergencies, federal trade and commerce powers should defer to provincial ownership, and even the federal emergency powers should be limited. The declaratory power - or more generally any constitutional amendment formula - must not be capable of overriding the wishes of any provincial community.

The province-building approach also asserts that it is mainly provincial governments, not federal members, who represent and act as spokesmen for the provincial interest. Moreover, it implies a confederal view of the Canadian system: the national interest emerges from the interaction of eleven governments. "Who speaks for Canada?" Mr. Trudeau asked rhetorically at one conference. "We all do," replied Mr. Lougheed.

In recent energy debates, as in the constitutional discussions, the various governments have taken different views with respect to these two broad positions. The present Quebec government has expressed the province-centred, confederal view most clearly, but it envisions a confederation of only two units. Alberta has, in its constitutional positions come closest to the province-centred model, but in the provincial positions developed at successive constitutional conferences and Premiers' meetings there has been considerable provincial unanimity behind the provincialist thrust.

This has been tempered in Atlantic Canada, and especially in New Brunswick, by the recognition of the extent to which successful

province-building requires federal financial assistance. Nevertheless those Atlantic provinces which look forward to their own resource wealth have begun to assert the provincialist position more strongly. In its 1979 Throne Speech, for example, the Newfoundland government said that the people of the province intend to secure "to themselves the means by which they as a people can ensure their future as a distinct society." The province must break its dependency on a "paternalistic centralized federalism," a goal made possible only with "adequate control over our marine resources - fisheries and off-shore oil and gas." Exerting little weight in Ottawa, Alberta and other provinces have not been able to count on favourable federal policies. Not surprisingly then, once the tools for economic growth are at hand, they will seek to assert for themselves the role of primary instrument of regional development. They are no longer willing to remain in the position accorded them by the National Policy. Their economic and institutional interests lead them to a decentralized confederal view of the Canadian system.

Ontario leaders have tried to bridge the two models. On one hand, as the largest and richest province, Ontario has always argued for a greater share of the fiscal pie and has been able to challenge federal dominance in many policy areas. On the other hand, Ontario has been the major beneficiary of the Canadian common market and of general federal economic policies, in large part because of the political weight the province carries in Ottawa. A "national policy" and an "Ontario regional policy" have, in most cases, been synonymous. Hence Ontario has - in the constitutional debate, for example - warned against stripping away the federal power to manage the economy. This position appears to have been strengthened recently as provinces like Alberta have used their new resource wealth to challenge Ontario's economic hegemony. Ontario has thus moved closer to a majoritarian and centralist position in the face of growing provincial assertiveness elsewhere. Province-building, therefore, not only produces federal-provincial conflict over which should primacy over economic development, but also increasingly brings provinces into conflict with each other.

The clearest assertion of the country-building view has been expressed by Liberal governments. While forced in federal-provincial negotiations to make some concessions (such as giving provincial resource ownership rights supremacy over the federal trade and commerce power except in cases of "compelling national interest") in general the Trudeau government strongly resisted transfers of power to the provinces. The federal government must speak for Canada - it must not "give away the store" to power-hungry premiers. Federal imposition of the Oil Export Tax and ending of deductibility of royalties from federal corporate income tax in an earlier round of debate, were seen as a direct challenge to provincial ownership rights. Similarly federal intervention against Saskatchewan in the potash and CIGOL cases provoked a bitter reaction. Yet even the Trudeau government was forced - in the constitutional debate and even in earlier energy agreements - to concede considerable ground to the provincialist drive.

The Conservative government appeared somewhat more sympathetic to the province-centered view. It arrived in office with a promise of cooperation. That was underlined by Ottawa's quickly agreeing to give the provinces control of lotteries and, more significantly to accept provincial claims to ownership of off-shore minerals. The new government was also constrained politically. It represented in part the coming to power in Ottawa of the West, and must respond to its interests; but at the same time it is heavily dependent on seats in Ontario. Thus, its role in the current conflict was primarily that of mediator and referee in an interprovincial battle. Energy Minister Roy Hnatshyn nicely summarized the dilemma in a recent speech:

The federal government has an obligation to encourage sharing while at the same time permitting those provinces which have titles to resources to benefit fully from their development. I strongly endorse the ownership over resources of the producing provinces. But the federal government must deal with macro-economic and regional problems caused by the increases in oil prices.

There are serious problems with the application of either of the two conceptions of country or province-building to the resolution of the conflict over oil and gas revenues. First, the strongest version of country-building seems to point away from any form of federalism towards unitary government. But federalism is predicated on multiple communities, identities and loyalties. For some purposes the community is the country; for others it is the

province. In some circumstances the national majority is appropriate; for others the provincial majority is. If this is so, the question becomes: is the present issue of oil and gas revenues one in which the national or provincial majority should prevail?

Another flaw in the national majority view stems from the great disparities in population of the various provinces. Different provinces exercise very different weights in the central government. While this is exacerbated by the effect of institutional factors like the electoral system, it would exist under any system, and is likely to continue, barring quite massive population shifts. Thus, even after the 1979 federal election, widely interpreted as indicating a major shift of power in Ottawa to the West, it was still the case that Ontario held about a third of the seats and that Ontario had 58 seats in the Conservative caucus - mainly marginal and unsafe ones - while Alberta had only 21, as Ontario spokesmen often remind the new Prime Minister. This imbalance means that what is ostensibly "national" policy, generated by Ottawa, is often seen in other regions as no more than an Ontario or central Canada regional policy. Indeed one of the ironies of the present situation is that a flow of political power to Alberta to parallel its increased economic power can only come about with a decentralization of jurisdiction to the province.

Ontario and Alberta argue different views. Both argue that natural resource revenues are of special significance. For Ontario they differ from other resources because of the magnitudes involved and because they are critical inputs into all other areas of the economy, having a major direct impact on every citizen. They are unlike other resources. This makes the sharing of the burdens and benefits vital. Alberta and Saskatchewan also argue that resources are special. They are the province's birthright and heritage, the tools which will allow them to transform their economics, to diversify and industrialize, and to reverse the traditional patterns in the Canadian political economy.

Moreover, the resource-owning provinces argue two other points. First, there is the realization that conventional oil and gas are rapidly depleting resources and consequently their returns must flow to the provinces and be carefully husbanded and used to create

the basis for economic health and stability after the oil has gone. Whether that can be done remains a moot point, but the arguemnt behind it is powerful. Second, the provinces also argue that their own particualr resource base has been singled out for treatment different from that accorded other resources in the past. "If we are to share nationally the benefits of provincial resources", asks Saskatchewan Premier Allan Blakeney, "why just western resources". Other resources, he argues, have been priced at world levels, and their revenues have flowed to the provinces. "We in the West find it passing strange that the national interest emerges only when we are talking about western resources or eastern benefits". Thus, Ontario asserts that in this case the national interest should prevail; others assert that instead the characteristics of this case are that the producer provinces' interest should prevail. The criterion of national versus provincial interest is of little help in resolving the issue.

The past history of Canadian political economy also offers competing answers. Ontario argues that it has, throughout Canadian history been willing to share its wealth with other regions. In recent years, the province's taxpayers have contributed about 40 per cent of federal revenues and hence of equalization payments. For years, Ontario consumers paid higher-than-world oil prices to support the fledgling Alberta oil industry. "Ontario only asks that they (the resource provinces) remember that when it was our turn, we did pay a price to be Canadians". Through the mechanism of the federal government, Ontario has indeed shared the benefits of Confederation, albeit sometimes reluctantly.

But westerners argue the other side of the coin. National economic policies have historically operated to the advantage of interests in Ontario. Confederation and the national policy produced a metropolis-hinterland economy in which the West was a market for

tariff-protected central Canadian manufacturing and a supplier of resources to be channelled through metropolitan centres. The primary public and private agencies of western development were located in central Canada. Westerners argue this pattern has continued: the Western Economic Opportunities Conference produced a long list of federal policies seen to benefit the east and to leave out or hurt the west. Alberta also argues it has shared the benefits of its oil and gas by accepting a Canadian price lower than the world price. The gap, it suggests, adds up to a subsidy of \$15 billion by Alberta to consumers - "an unprecedented subsidy by one province to the rest of Canada."

All attempts to calculate effective "balance sheets of Confederation" have, of course, been frustrated by massive problems of concept and method, but the fact remains that this perception of central Canadian economic dominance is a powerful one. It explains both the desire to go it alone now the resources are available, and the resentment against Ontario attempts to share the West's benefits which are seen as an unwarranted attempt by the province to use its power in Ottawa to change the rules of the game now they at last seem to favour the West. These are compelling arguments. They suggest that assertion of federal power to deny the West the rewards which flow from its resource base, in the name of the country-centered approach, or in the name of a national majority are unwarranted. To do so would, moreover, place immense strain on a federal government whose legitimacy, especially in the West, has been seriously undermined in recent years.

On the other hand, application of the strict province-building model also has important weaknesses. Utilization of resource ownership directly to threaten the interests of the large numbers in central Canada is likely to undermine the legitimacy of Confederation as much as is the exercise of unrestrained federal power in the name of the majority. Two values of the Canadian system in particular are called into question by using resources only for the benefit of the producing provinces.

First is equalization, or more generally, redistribution.

Regional disparities in wealth, government revenues and government services are, of course, persistent features of the Canadian scene.

A wide variety of regional development measures have failed to cure the underlying economic differences. However, redistributive

federal programs have mitigated the effects of such differences on citizens' incomes. The revenue equalization program has, in

the last two decades, virtually eliminated major disparities in provincial government revenues and hence in the services they can

provide. However, under the pressures of rising oil revenues, we have already moved away from full revenue equalization. Only one

half of natural resource revenues are now counted in the formula.

A special provision denying equalization to a province with a per capita income above the national average has been required to avoid

Ontario's becoming a recipient of equalization payments. As Tom Courchene and Jim Melvin have shown in their contribution to this

issue, it would have been prohibitively expensive for Ottawa to have continued fully to equalize oil and gas revenues. Moreover the asym-

metry in the operation of the plan creates further anomalies. Ottawa must use its general revenues to compensate poorer provinces for the

revenue gains to the rich provinces even though Ottawa does not share fully in the revenue increase. Not least of the ironies this creates

is that Ontario residents are taxed to make payments to New Brunswick because Alberta is richer. While it is true that the cut-backs in full

equalization can be justified by arguing that the program is designed to allow poorer provinces to provide an average level of services rather

than to share all revenues, the fact remains that the principle has been eroded and further large revenue changes are likely to erode it fur-

ther. Moreover, one province is able to provide services with substantially lower tax rates than others. It is hard to know how wide the

gaps can grow before they become morally or politically indefensible. If one is committed to the view that equalization is one essential base of

the Canadian community then it is indeed vital to ask how benefits can be shared, if not through the agency of the federal government then

through the provinces themselves.

Second, greatly divergent provincial revenues open up the possibility of use of these resources to weaken further the integrity of the Canadian common market. As with equalization, it can be argued that through subsidies, incentives, purchasing policies, and the like, the common market is already eroded to a considerable degree. It can also be argued that "market forces" are seldom neutral; they benefit the economic winners and penalize the losers. It is also true, as we have suggested, that government policies, as well as market forces are what led to Ontario's dominance. Nevertheless, if massive inequalities were to lead not only to competitive bidding for investment, but also to aggressive efforts to lure economic activity from one province to another - an explicit beggar-your-neighbour policy - then again the Canadian community accounts for little. Many recent constitutional proposals call for a constitutional prohibition on barriers to trade. In the meantime, much is to be said for inter-provincial agreement on a code of permissible practices which will limit, though obviously not eliminate, the kinds of economic competition which takes place between provinces.

Thus, there are important political values fostered by both province and country-building models. The former emphasizes the primacy of the provincial community, the latter the national community, the importance of majority interests and redistribution. Each, applied to the present case, has important flaws. In addition, each model, with respect to oil and gas revenues, carries with it enormous political backing and has powerful institutional bases of support. So, as in the wider constitutional debate, we must ask not which one will prevail, but rather what kinds of compromises are available?

There is considerable room for compromise. None of the major protagonists has stated the case in irreconcilable terms. Thus Alberta has recognized the need to recycle some of the revenues and appears prepared to accept something less than the world price.



Ontario appears tacitly to have accepted a faster price increase and does not challenge the principle of provincial ownership. While it looks to federal leadership in economic affairs generally, it calls for federal intervention now only as a last resort. There are also areas of common interest between consumers and producers, such as the goals of self-sufficiency and of rapid development of new oil and gas reserves. More generally, there is some recognition that the conflict should not be seen in simple zero-sum terms. Ontario interests benefit from a strong and growing Alberta economy; Alberta, perhaps less directly, gains nothing from a weaker Ontario economy. There is perhaps also a recognition that sharing in the Canadian system must be looked at in a long-term perspective. Saskatchewan and even Alberta were "have-not" provinces in the depression and Saskatchewan has been an equalization recipient until very recently, further changes in the relative wealth of different provinces may be expected in the future.

The existing division of constitutional powers also underlines the mixture of national and regional interests in energy policy, and gives bargaining levers to both sides. The threat to use them can be an important incentive to agreement. Finally, the political difficulty in which the present federal government finds itself offers expectations of compromise, however painful the competing pressures might be for the cabinet. I doubt that the common factor of partisan loyalty counts for much - as the dispute between Messrs. Davis and Lougheed has shown - but in the short-run it probably provides a lubricant. The fact that the federal government has strong representation from the major contending regions, and reflects their interests in its own make-up, suggests a strong incentive to act as conciliator, and perhaps a greater political capacity to do so than the previous government, which had slight western representation. Messy as it was, one can also argue that the trade-offs in earlier rounds of debate on this issue represent a reasonable compromise of the various interests involved.

#### CONCLUSION

Any potential solution must reconcile the basic elements of both the province and country-centred views. On the one hand,

the provincial claim of ownership with all that it implies is a very strong one. Any dramatic assertion of the view that these resources are national assets and must be disposed of by Ottawa would place exceptionally severe strains on the federal system. The bitterness would spill over into many other areas, not least into considerations about Quebec's future in Confederation. Thus the provincial claim must be underlined.

But on the other hand, the commitment to sharing as the Task Force on Canadian Unity put it, is fundamental to Confederation. Thus, it is essential that a large proportion of the new revenues be channelled into conservation and development schemes on a national basis. That is, the criteria of direct benefit to the province and of making loans only at market rates should be relaxed considerably. While many mechanisms can be envisaged the idea of a National Energy Bank, funded by grants from the producing provinces and from Ottawa and responsible to a federal-provincial committee of energy ministers, is an attractive one. In a sense, then, we have a choice between two models for achieving this sharing - a province centred or an Ottawa-centred one.

If it is politically unacceptable to have Ottawa become the instrument through which the bulk of resource revenues are captured and shared, then the sharing must be done collectively. Such a development would be an extension - and a critical test - of a pattern of decision-making which has been emerging with increasing force in recent years. This "collaborative" model suggests that Ottawa has neither the fiscal power, the jurisdictional authority nor the political strength to act alone in the national interest. Instead the national interest emerges from the pooled collective interests of the provinces in negotiation with Ottawa. If the "community is the country" it is represented by eleven governments. "Major Canadian economic and fiscal policies," argues Premier Lougheed, "should be by consensus among the provinces and the federal government." Whether or not one approves of this development, it is now far advanced. The outcome of the constitutional debate - itself a paragon of the collaborative process - is likely to reinforce the trend.

If we operate with a distinction which says Ottawa speaks for and represents the national interest, then there is no obligation on the provinces to do other than look after their own immediate interests. But, if the provinces are to act as national policy-makers, then, if the system is to work at all, they must temper the provincial interest with national concerns. In the present case, that means that the price of keeping Ottawa from appropriating more of the revenues, using its trade and commerce power to dictate price, or even exercising emergency power to dictate other aspects of resource management, is that provinces be able to negotiate acceptable compromises on these issues both among themselves and with Ottawa.

The role for the federal government in such a system would become in part a residual one as a broker between competing regional interests, a facilitator for reaching agreement. As provinces become more assertive and as their own regional development strategies conflict with those of other regions, this mediating role may become more characteristic of the federal role than was the policy leadership stance it undertook after Confederation, or after World War II. But this does not mean it should roll over and play dead: creative tension in the federal system requires the federal government argue for the federal interest.

Whether or not this collaborative model can work is very much an open question. It does weaken the country-centered focus and is thus repugnant to many Canadians, not only in Ontario, who see the country losing any central focus for its unity. The poorer and weaker provinces may well find themselves with even less bargaining power in a province-centered system, and their own resource riches which would allow them to compete effectively may prove illusory or only temporary. They may well see Ottawa as a more dependable agent of redistribution than their fellow provinces. More generally it may be that, given the competing interests involved, no agreement is possible, that no province is willing to permit more than a lowest common denominator. Or, it might be argued that only an overarching and powerful central government can enforce effective sharing,

because provincial politicians under pressure from their electorates will be unable to do so. Thus an essentially voluntaristic, confederal approach to the energy issue may well be hopelessly unrealistic. If so, then the prospects are for a further erosion of the legitimacy of the federal system, for a destructive politics of jealousy, for rapidly increasing regional disparities, and for a major renewal of calls for an assertive federal role.

In general then, the weight of argument supports the Alberta position on the ownership of resources, and exercise of federal force majeure on behalf of the consuming provinces is not justified or politically feasible. But if we are thus to limit Ottawa's role as national policy-maker and redistributor then the producer provinces must themselves accept those commitments.

The description of my topic in the programme for the Conference on the Alberta Heritage Trust Fund posed two questions: how can the fund be invested to reduce the existing tensions in the Canadian federation instead of increasing them? Can possible centralist desires to erode Alberta's ability to expand the fund for its own use be avoided? I think the answer to both questions is the same: the pressure from centralists to encroach on Alberta's ownership can be reduced, tensions can be alleviated and Alberta can be freest to pursue its own development policies only with an open and generous provincial decision with respect to the sharing of provincial funds. That should be accompanied by an Ontario willingness to concede on other fronts. The outcome will be a crucial test for the more province-centered style of Canadian federalism.

Reference

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