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Chair

Mr. Yvan Loubier

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• (0905)

[English]

The Chair (Mr. Yvan Loubier (Saint-Hyacinthe—Bagot, BQ)): Order.

Good morning, everybody. I want to thank you for coming to this meeting of the Subcommittee on Fiscal Imbalance.

I have the honour to welcome today the Honourable Lorne Calvert, Premier of Saskatchewan. I will allow the premier around 20 minutes to make an opening statement. Then we'll have a few minutes for members from all parties of Parliament to ask questions.

Mr. Calvert, welcome to the subcommittee.

Hon. Lorne Calvert (Premier of Saskatchewan): Thank you very much.

I want to welcome the subcommittee to the province on what I am told is the first full day of spring. In Saskatchewan we welcome the first full day of spring with what I am told is going to be a record heavy snowfall. Those of us who live in Saskatchewan appreciate anything that has water in it that comes from the sky, so we rejoice.

So welcome to the province, and thank you for the opportunity to address the subcommittee. We commend your work as you raise the public profile of the issue of fiscal imbalance and encourage the debate on what fiscal imbalance means to provinces like Saskatchewan, and what it means to the nation of Canada.

Saskatchewan has long been concerned over the growing fiscal imbalance between the federal government and the provinces and territories. As I am sure you are aware, earlier last year premiers established the Secretariat for Information and Cooperation on Fiscal Imbalance, under the umbrella of the Council of the Federation. The secretariat was tasked to examine the fiscal imbalance that exists between the federal government and the provinces and territories.

As part of the work of this secretariat, the Conference Board of Canada was asked to examine this issue. It concluded that there truly is a significant and growing fiscal imbalance, which stems in large part from provincial-territorial responsibilities for such key public services as health care, that will grow significantly over time. The federal government countered this study with one of its own. While federal assumptions were slightly different, it pointed to a steadily rising federal surplus over time and a steadily increasing provincial deficit over the same period. So we agree that there is a problem. The question is, what do we do?

Firstly, let me say that I believe the recent first ministers discussion on health care resulted in significant improvement in the

federal government's ongoing financial commitment to health care. I was very encouraged by the Prime Minister's spirit of cooperation through that process, but as we all know, future cost pressures will occur in providing Canadians with the quality of health care and other key public services that they expect and deserve. As a result, the level of the federal financial contribution to Canada's number one priority must be continually examined, as there is very little provincial flexibility to address potential cost pressures in the health care delivery system.

Secondly, we must work together to dedicate adequate resources to solving the other difficult social challenges that lay before us. Adequate funding for learning and child development is a key element in a prosperous future for our country. The recent federal commitment of \$5 billion over five years in support of an early learning and child care initiative, in cooperation with the provinces and territories, is in our view a very positive step. However, all provinces are concerned with the federal government's decision to arbitrarily split the CHST, with 68% for health care and 32% for education and social programs. While the federal government may now be investing more in health care, it has added to the funding concern in education and social programs.

I want to touch on and highlight one area where Saskatchewan is being treated unfairly in its current federal funding relationship with the Government of Canada. This deals with our province's financial responsibility under the Canadian agricultural income supplement, or the CAIS program.

Saskatchewan has 40% of the arable land, 40% of the farmland, in Canada. As a result, agriculture is a huge industry for our province. The current cost-sharing arrangement that the federal government has imposed under CAIS means that, with 3% of the population of Canada and 40% or more of the arable land, the residents of Saskatchewan will end up paying ten times more on average to support our farmers and residents than are other provinces called upon to support theirs.

Our Minister of Agriculture has advanced a proposal that we believe would bring much more equity to the funding of CAIS and other support programs for agriculture. You will recognize, I believe, that this situation presents a significant demand on our province's finances, and contributes to the fiscal imbalance that exists in favour of the federal government.

I now want to turn my attention to another key element of federal-provincial fiscal relations, that being equalization. I want to give you this morning our province's perspective on the existing equalization program and how this program should be reformed.

Canada's equalization program has taken many twists and turns since its inception in 1957. It began with simple rules, considering only three provincial revenue sources and basing program eligibility on just two provinces, Ontario and British Columbia. However, equalization has become more complicated with each successive five-year renewal, resulting in the current program, a complex maze of formulas, calculations, assumptions, proxies, and adjustments that is fully understood by only a small number of public servants and academics. One of them, Mr. Kirk McGregor, is in the room with us today. I think he's one of ten in Canada.

● (0910)

The equalization program lacks transparency, with the result that public confidence in a \$10.9 billion federal program is now low. The current program does not improve stability in provincial finances, as it is advertised to do, and it is not responsive to changing provincial fiscal circumstances. As my Minister of Finance told a recent hearing of the Senate Standing Committee on National Finance, the existing equalization program is like an old car that has seen better days, and no amount of repair and maintenance is going to make it look and run like new again.

As you know, equalization renewal occurs every five years. When these renewals are undertaken, a series of adjustments are built into the program. As time has elapsed, layer upon layer of adjustments have been introduced, each causing a shift in the manner in which the equalization program attempts to achieve the fundamental principle underlying the program, that principle being that comparable levels of public services can be provided by provinces applying comparable levels of taxation.

We also have a program that attempts to balance federal political and fiscal necessities. This has diminished the current program's ability to effectively measure interprovincial fiscal disparities in Canada. This reality was reflected in a major change to the equalization program that occurred in 1982, when the federal government decided to fully include non-renewable resource revenues in the formula and move to a five-province standard that excluded Alberta, Canada's largest energy producer. These changes were primarily introduced to control the federal cost of equalization and to ensure that Ontario would never be eligible to receive program benefits.

However, these changes also caused significant collateral damage to Saskatchewan, as we experienced a significant decline in our net gain from energy development after the negative effects of equalization were factored in. In some years this equalization effect, referred to as the clawback effect, is larger than Saskatchewan's

energy royalties, resulting in a net revenue loss for our province from these developments.

To illustrate, Saskatchewan's clawback rate for its energy revenues in 1981-82—prior to the move to the five-province standard—was 30%, which left our province with 70% of our energy revenues for reinvestment. Twenty years later, in the year 2001-02, the clawback rate was 103%. This meant that Saskatchewan saw a negative financial return from our non-renewable energy development for that year.

A second major change to equalization introduced in the 1999 renewal was to collapse four mining tax bases into a single base in the interests of simplicity, and to introduce the concept of economic rent into this revenue category. This change was pushed through in spite of provincial concerns over data quality and a general uneasiness over the introduction of the economic rent concept that would effectively ignore actual mining royalties collected by provinces. The result of this change has been very negative for Saskatchewan.

Saskatchewan's mining sector represents about 15% of all mining activity in Canada, but the new federal mining equalization calculation determines that Saskatchewan has about 40% of Canada's mining tax base. Other provinces that have large mining sectors are reported as having very little or no mining tax base. Now, this produces both confusing and unfair treatment for Saskatchewan.

● (0915)

In 1985 and 1986 respectively, the federal government granted Newfoundland and Labrador and Nova Scotia offshore energy accords to assist these provinces in developing their energy resources. The federal government further assisted these provinces by establishing separate revenue categories for off-shore energy revenues under equalization, ensuring that they would retain a minimum of 30% of their energy revenues after clawbacks under equalization, and generally much more.

Saskatchewan has long argued that high clawback rates on Saskatchewan's energy revenue are unfair. However, it wasn't until Professor Tom Courchene addressed this issue in a recently published article entitled "Confiscatory Equalization: The Intriguing Case of Saskatchewan's Vanishing Energy Revenues" that the federal government began to respond to Saskatchewan's concern.

To his credit, the federal finance minister has provided Saskatchewan some compensation for excessive clawback rates in prior, closed years; however, Saskatchewan's receipt of one-time funding to address high clawback rates in the past pales in comparison with what our Atlantic friends have received under their special arrangement for offshore energy developments.

A recent federal analysis identified that Newfoundland and Labrador retained over 100% of its offshore energy revenues over the period from 1999 to 2003-04. During that same period, Saskatchewan retained less than 10%. To put it another way, had we retained 100% of our energy revenues over the past 10 years when eligible for equalization, over \$4 billion in additional federal transfers would have been received by Saskatchewan.

We now learn of new offshore energy agreements that will guarantee 100% retention of offshore energy revenues for Newfoundland and Labrador and for Nova Scotia and will provide an estimated \$2.6 billion and \$1.1 billion respectively over the next eight years. These payments are in addition to the substantial financial benefits that will continue under the old offshore energy accord. These new arrangements can also be extended for a further eight years, which would further add to the benefits being provided to these provinces.

I am not in any way being critical of these agreements. In fact I embrace these agreements, as they recognize that non-renewal resource revenues are one-time in nature and should be retained by the rightful provincial owners of those resources to strengthen their economies.

Newfoundland and Labrador and Nova Scotia now have a wonderful opportunity to reinvest these one-time sources of revenue to achieve a level of self-sufficiency that could not otherwise be attained through the existing equalization program.

Our government, and if I may say so the people of Saskatchewan, are seeking the same opportunity. Since 1982 we have seen most of the financial rewards from the extraction of non-renewable resources flow out of our province through equalization, while we continue to face the high cost of managing and regulating this sector of our economy.

We in Saskatchewan must also ensure that our royalty and taxation regimes are competitive to encourage new exploration and development in the province. This is no small challenge, when one looks west at our chief competitor, who is unaffected by equalization clawbacks. I refer back to the 103% clawback rate Saskatchewan experienced in 2001-02 and I ask, how is Saskatchewan expected to manage its energy sector and compete with the province of Alberta?

Our request is the same as Newfoundland and Labrador's and Nova Scotia's. Let us retain the revenues from energy development for reinvestment in our province. Don't treat them as just another revenue source, as there is a fundamental difference between non-renewable resources whose value is permanently depleted once extracted from the ground and other sources of government revenue that are ongoing and renewable.

● (0920)

This is the principle that we now see established and welcome in the new offshore energy accords, and we believe it should be applied fairly to all regions of the country.

The federal finance minister's advice to Saskatchewan is to wait for the federally appointed expert panel to consider the treatment of resource revenues under equalization. While we will be very active in appearing before this panel on many areas of concern respecting the current program, we question how it is fair to strike new energy

agreements with one part of Canada in advance of the panel's deliberations, while telling another they have to wait.

I recently brought a real-life example to the attention of the federal Minister of Finance respecting the difficulty faced by Saskatchewan in encouraging project-specific investments in our energy industry due to the equalization consequences. The specific example is a company called Apache Canada Ltd., one of Saskatchewan's largest producers of oil and natural gas.

In 2003 Apache approached the province with a proposal to implement an enhanced oil recovery project using carbon dioxide injection technology in the Midale oil field in southeastern Saskatchewan. The project takes carbon dioxide, injects it into the oil field, and increases the production of that field. In this case, it gives the field perhaps another 20 or 25 years of active life. At the same time, it sequesters significant amounts of carbon dioxide, therefore providing significant benefit to climate change, and meeting our targets around climate change. Due to the high cost of an enhanced oil recovery project such as this, Apache Energy requested from the province a number of fiscal incentives in order to make the project economically viable.

In reviewing the Apache proposal, we found that over the 36-year estimated life of the project the province would receive approximately \$105 million in incremental revenue from various taxation sources related to the project. However, we also found that the total equalization clawback over the same 36-year period was estimated at approximately \$166 million. So that's \$105 million in new revenue, and a \$166-million loss under equalization. Given our assumptions at that time about oil prices and assuming no changes to the existing equalization program, it resulted in a projected clawback rate of well over 150% over the life of the project.

Due to the high cost of this type of project, Saskatchewan was faced with a choice: provide the fiscal incentive, or not have the project succeed. Our government approved the fiscal incentive necessary to ensure that the Apache carbon dioxide project at Midale would proceed, despite the punishing equalization clawbacks we could expect in the absence of remedy from the federal government. To date, Saskatchewan has never refused to approve any project on a purely financial basis due to the equalization clawback. In fact the EnCana carbon dioxide injection project near Weyburn, first begun when it was PanCanadian, demonstrated very similar equalization clawback rates when it was approved in 1996.

My point is that these clawback rates are so excessive that they have become a serious consideration in our review of such projects. At present, the equalization program is a disincentive for the development of EOR projects in Saskatchewan that create jobs, enhance our national energy self-sufficiency, and contribute significantly to meeting national targets for climate change. We assume it's not the intention of the federal government to discourage economic development in Saskatchewan.

●(0925)

It is my understanding that the high cost of offshore oil and gas extraction is one of the primary reasons for the existence of the Atlantic accords, and their recent enhancement. Carbon dioxide injection in Saskatchewan represents the very type of project in our province that is very similar in terms of the difficult costs associated with extracting certain reservoirs of oil. This example underscores the necessity of immediate recognition of Saskatchewan's unique circumstances by implementing a Saskatchewan energy accord similar to those that recognize the unique nature of high-cost oil and gas extraction in Nova Scotia and Newfoundland and Labrador.

Saskatchewan's pursuit of fair and equitable treatment of our energy resource has been supported by reputable academics and think tanks. Notable is the support of Professor Tom Courchene, who published the article I referred to earlier entitled "Confiscatory Equalization: The Intriguing Case of Saskatchewan's Vanishing Energy Revenues", which highlighted the clawback rates on our energy in excess of 100%.

In addition, just this past February, the Conference Board of Canada released a paper, "Equalization: Fix it Permanently and Fix it Nation-wide". In this paper, the Conference Board acknowledged that "Saskatchewan oil revenues do not benefit from the special protections accorded to Newfoundland and Labrador and Nova Scotia. No Atlantic accord, no generic solution, no 100% commitment."

Kenneth Boessenkool, a noted public policy expert, strongly believes that non-renewable resource revenues do not belong in the equalization formula. In April of 2002 the Atlantic Institute of Market Studies published its paper, "Ten Reasons to Remove Nonrenewable Resources From Equalization". Boessenkool contends in the paper that their inclusion discourages recipient provinces from moving towards greater self-sufficiency.

Saskatchewan believes in the importance of equalization to address fiscal disparities between provinces. However, Saskatchewan looks upon the existing program as being ineffective in achieving the federal constitutional commitment of ensuring that all provinces can deliver reasonably comparable levels of public services at reasonably comparable levels of taxation. Therefore, we believe the program should be reformed in two steps.

Firstly, Saskatchewan should receive the same opportunity as Atlantic Canada to fully retain its non-renewable resource revenues through the immediate negotiation of a Saskatchewan energy accord. We can see absolutely no reason for different treatment of energy revenues between provinces.

Second, there should be a comprehensive review of both the existing equalization program and alternative ways of addressing interprovincial fiscal disparities in Canada. The high clawback rate on energy is just one of many issues that our government has with the representative tax system approach that has been in place now for almost fifty years.

The federal commitment to a broad-based review of equalization over the coming months is a positive undertaking. Our government believes that the expert panel provides an excellent opportunity to accomplish an effective reform of equalization, if its membership is

prepared to challenge the status quo and to look for creative new approaches.

Thank you very much, and I look forward to our discussion.

The Chair: Thank you very much, Mr. Calvert.

[*Translation*]

Thank you so much for a great presentation.

[*English*]

We will begin with Mr. Fitzpatrick for the question period. You have seven minutes for questions and comments.

Mr. Brian Fitzpatrick (Prince Albert, CPC): Thank you, and thank you very much, Mr. Premier, for your presentation.

I would like to first of all say that from my point of view, if we have an equalization formula in the country, it shouldn't create disincentives in the formula or barriers for provinces to work toward becoming true have provinces. That should be the goal of every province in the country, to become a true have province, and then maybe we wouldn't even need equalization. Your points about EnCana and Apache underscore that point.

In fact, I just had a conversation with some officials from Newfoundland and Labrador about Inco and the mining problems with Inco. They're thinking maybe it's going to be as high as 90¢ on the dollar in clawbacks on the nickel development in Labrador. You have to really ask yourself, what's the incentive for a province to go out and try to build an economy around its resource base if that's what's going to happen to them. You're really punishing initiative on the part of the provinces by including this. I really wonder how we ever got a formula where, out of 33 tax or revenue bases, 11 of them concentrate on and target non-renewable resources. It seems crazy.

But I do want to raise a point here. I've done some calculation; I'm looking at horizontal fiscal imbalance in the country. I could use different provinces and I don't mean to malign or in any way bring disfavour on our sister province Manitoba, but it seems like it's a good province for comparison. Manitoba has a million people and Saskatchewan has a million people. In many ways we have similar connections and so on.

I have calculated some rough averages between Manitoba and Saskatchewan over the past 10 years, and Manitoba has received something like \$800 million on average more than Saskatchewan under the equalization program. Then I thought to myself, well, I should look at the tables on per capita income and per capita GDP and see how they fit in. Much to my amazement, for that period Manitoba had a higher per capita income than Saskatchewan did, and I draw this to your attention.

I got a quote from Tom Courchene on that matter, and he makes mention of that as well. He says because of programs like this, Saskatchewan is becoming poorer relative to other provinces. The formula seems almost designed to make provinces like Saskatchewan poorer in the federation, and that seems to me to be quite absurd.

This brought more curiosity to my mind. Is this just an anomaly over 10 years? I started hunting around for other papers on this, and Robert Mansell, who used to be the chair of the department of economics at the University of Calgary in the nineties, published two or three papers that studied fiscal federalism going back to 1961. I don't have his recent one; I have one from the early 1990s, and I find something very interesting in this paper.

From 1961 to 1990—if I'm reading his charts right—Manitoba was at 92% of the Canadian average for per capita income; Saskatchewan was at 85% of the national average for per capita income. But for average net receipts out of our federal system, Manitoba on average was something like \$533 million higher every year for that period of time. To me, this is a colossal disparity in this country.

I could use other provinces for comparison, but I come to one conclusion, and I would like your response to it. It just seems to me that the inclusion of non-renewable resources in these calculations and the preoccupation with focusing on non-renewable resources are causing a terrible fiscal injustice for a province like Saskatchewan. The programs are supposed to be designed to give us the fiscal capacity to deal with our challenges and so on, but as Professor Courchene would say, it's having the exact opposite effect.

● (0930)

Would you have any explanation how Saskatchewan seems not to fit in with these transfer and equalization programs?

Hon. Lorne Calvert: Brian, as a bit of a student of economic history of the country, I would argue the significant change happened in 1982 when we moved to the five-province standard.

My understanding is that at that time the federal government of the day believed that the equalization program was reaching the capacity of the federal government to sustain it fiscally. There may have been some political considerations, and obviously some fiscal considerations to say we need to change how this is working, and we went to the five-province standard, which put Saskatchewan in this unique and interesting situation of being, of the five provinces in the calculation, the one that had developed already significant non-renewable resources, particularly in oil and gas.

Saskatchewan today is the second-largest oil producer in Canada, but in comparison to our good friends and neighbours to the west, in some ways a distant second, but second nonetheless. When, however, this province was the province in the five-province standard that was the only province to have significant oil and gas revenues, that was the moment at which the injustice significantly began to occur.

Now, some will argue that a return to a 10-province standard would solve this. There may, in fact, be some truth in that. My expectation is that the national government would be hesitant to move to a 10-province standard, but it would certainly be a solution that would bring about a level of fairness.

That said, we are also the province, as I said in my main remarks, that is the steward of this great resource called "arable land". In total, about 40% to 45% of all the arable land in Canada exists here. We are, however, 3% of the population. When you look at some of those per capita income levels, you will see they have been affected by the

years of low commodity prices occasioned by international subsidy—not by anything we are doing here, but by international subsidy—and on some occasions by the fortunes of drought and early frost and so on. You will see, therefore, a lower per capita income because of this large, dominant agriculture sector.

So we have the two whammies. Now, here we are planted in between the great province of Manitoba.... And please understand, we support the kind of support that Manitoba has received from equalization; it is fair and right. But here on the one side is the province that has a significant equalization benefit, and on the other side is a province that has a significant energy benefit, and we have to compete with both. We've done it by some very hard work.

Comparisons are sometimes made in these recent discussions about the energy accord with Atlantic Canada, and there's a difference between Saskatchewan, for instance, and Nova Scotia. It is arguable that Nova Scotia today has a higher debt-to-GDP ratio than Saskatchewan. Well, that is true, but the fact of the matter is not many short years ago our debt-to-GDP ratios were about the same. And through no particular assistance or equalization or any other federal government program this province has laboured mightily to get our GDP to one of the best in the country, and it's required some very personal and community sacrifice from the people of Saskatchewan.

Now, having worked that hard, we feel it is a little tough when someone uses that as an argument that there shouldn't be an accord that deals with our energy resources. But we've never stopped developing the resource because we know our incentive is in the employment, in the economic activity that's there.

Very recently we set out a course to significantly grow this industry in our province. We are sitting today on 35 billion barrels of oil. Today only about 15% of that oil is recoverable by conventional means. We have set on a course to develop that resource. That resource is, by the way, greater than the resource that sits in Alaska at the Prudhoe Bay. We intend to develop that resource. We've done it in the past, irrespective of equalization hurt, because we want to see it grow. Now we have this tremendous conversion of events where we can develop the industry and at the same time, through the enhanced oil-recovery mechanisms using carbon dioxide sequestration—it's a good example—we can significantly contribute to Canada's climate change goals.

● (0935)

So the moment is here for this province; the chance is here in the energy field. Therefore it is, from our point of view, essential that we get the fiscal relationship with Ottawa correct now.

The Chair: Thank you very much, Mr. Fitzpatrick.

Monsieur Bell, for seven minutes, please.

● (0940)

Mr. Don Bell (North Vancouver, Lib.): Thank you.

It's nice to be in Saskatchewan. I'm from North Vancouver, British Columbia. Last night when I left, it was a little bit warmer there than it is here.

On the second page of your presentation, you indicate that the province is concerned with the federal government's decision to arbitrarily split the CHST 68% and 32% to health care and to education and social programs respectively. Do you have suggestions? You say that now that the federal government is investing more in health care, that has added to the funding concern in education. What kind of split do you think would be better suited to Saskatchewan's needs?

Hon. Lorne Calvert: I take the point of view that it's very difficult to set actual percentage splits. As I say in my main remarks, we are very appreciative of the work the Prime Minister has done and the federal government has done in raising the level of health care funding. A concern exists, of course, if we raise the level of health care funding. At the same time, are we maintaining and building in other areas, particularly in education, particularly in post-secondary, and in other social programming, like early childhood programming and so on? These may suffer.

As a former Minister of Health, it is very clear to me that the health status of a population is not just determined by those dollars that we expend in acute care and delivery and so on. Much of our health status in fact relates to education, early childhood, issues of income, poverty, and so on. The concern is that if we see, by shifting resources into health, a diminishing of resources in post-secondary, then we can create long-term greater health problems.

I'm not one who says it should be 70-30 or 65-35. I think we have to look at each of the needs in our country and figure out a way by which we can, together federally and provincially, meet the needs to build a healthy nation.

Mr. Don Bell: If I can interpret what you're saying, then, it isn't the ratio so much as it is the dollar amount.

Hon. Lorne Calvert: Correct.

Mr. Don Bell: Okay.

I notice that two paragraphs down you talk about how Saskatchewan has proposed a different formula. You went beyond what your comment was in written form. Can you summarize that formula?

Hon. Lorne Calvert: I can. In terms of the CAIS program, just to go back to my first comments, as I say, we are 3% of the population, with 40% to 45% of the arable land. Through this arable land, we contribute significantly to the GDP of the country. In supporting our producers, we therefore compete with the treasuries of Washington and the EU. While Canada has moved appropriately in one fashion, moving away from agriculture subsidies—we would want to see the whole world move away; give our farmers a fair, competitive marketplace and they will compete with anybody in the world—while Canada has moved in the correct direction, we observe that Washington and the EU have not, and that subsidy levels exist. For our producers in Canada to compete, they need, they require, the support of the general public in the production of food, in the production of this very important trade commodity for the nation.

That said, in the current circumstance of agriculture funding generally and the CAIS program particularly, the federal government requires that the provincial jurisdiction provide 40% of the cost of the program. The federal government provides 60% and the province is called upon to provide 40%. But when you are 3% with 40-some

percent of the arable land, the 40% that Saskatchewan is required to contribute is significantly ten times greater per capita than the contributions of other Canadians on average.

What we have proposed—our Minister of Agriculture and Food has proposed it, and it has enjoyed support from other ministries of agriculture across the country—is an equity concept built into the funding of agricultural programs, particularly the CAIS program. The equity concept would say that when a provincial taxpayer, per capita, has reached somewhere between two and three times the average contribution by taxpayers across Canada, that should signal the limit of the call on the provincial treasury.

We're willing to accept that because this arable land is here, there is a benefit to the people of Saskatchewan. Agriculture does benefit not only our economy, but our way of life and society. There is a benefit, but not a benefit that is ten times more than the responsibility of other Canadians. The equity program would say that when it reached somewhere between two or three times the national contribution, that should then cap a limit on the provincial contribution.

Mr. Don Bell: Would it be possible to get a copy of that presentation?

Hon. Lorne Calvert: It would be more than possible.

Mr. Don Bell: Could you arrange that through the chair?

The other question I had concerns Tom Courchene's case concerning confiscatory equalization. The argument there is, you say the federal minister, in response to this, has provided some compensation for the clawbacks. Those clawbacks recognized... You made reference to 2001; I'm trying to remember where the reference was. On page 5 you refer to the 103% clawback experienced in 2001 and 2002, in your second paragraph, and you ask how Saskatchewan is expected to manage its energy sector.

What is it now? Have there been changes since to that formula as a result of the finance minister's response? You are saying there was a recognition; you received compensation for the excessive clawback rates in prior closed years. How does that work now?

• (0945)

Hon. Lorne Calvert: I want to re-emphasize our appreciation to the Minister of Finance and the federal government for the work we were able to do last year in addressing the excessive clawbacks of I think it was a five-year period. That represented a cash payment to the province of Saskatchewan for monies that were clawed back under equalization that exceeded 100% of our revenue—only that which exceeded 100%.

Because we've now strengthened this economy we won't this year or likely next receive equalization; we've reached the "have" province status under that definition. But we're still in a circumstance where the formula itself would still take from this province, if we should be subject to the formula again today, 100% of the revenue. Nothing has been done to change that. If we earn a dollar from a carbon dioxide injection project or any energy project, a dollar is clawed back—this in comparison with the Atlantic accords that existed even before the most recent enhancement, where the cap was at 30% and was usually higher than that.

Now, in the Atlantic accord, it's a guarantee of 100% staying with Nova Scotia and with Newfoundland and Labrador, whereas we're still subject, under the current arrangement, to a 100% clawback.

Mr. Don Bell: The compensation you received took you back to where? Was it to the 100%, from the area that was above, or below the 100%? You mentioned that—

Hon. Lorne Calvert: It took us to 100%.

The Chair: Thank you, Mr. Bell.

[*Translation*]

Mr. Côté.

Mr. Guy Côté (Portneuf—Jacques-Cartier, BQ): Thank you very much for your presentation, Mr. Premier.

The hearings of the Subcommittee on Fiscal Imbalance are quite interesting, mainly because they give us an opportunity to learn about different perspectives according to the places we visit. You've given us an excellent presentation which tends to prove that the Canadian equalization system is not functioning very well. In Halifax and in Ontario, we were told about the issues that directly impact on the functioning of this program. Problems and causes are not the same but we can see that the equalization system fails to find solutions to identified problems.

In your presentation, you talk about non-renewable energy sources. You said your province would like to negotiate a side deal such as those of Newfoundland and Labrador and Nova Scotia. However, I have to say that while we thought the equalization system had serious flaws, we now find that the side deals with Newfoundland and Labrador and Nova Scotia have widened the gaps between provinces and deepened the fiscal imbalance. I have to question to ask you.

First, don't you think a side deal with Saskatchewan, which can of course be very beneficial to the province, would further widen the fiscal imbalance and the injustice to other provinces?

Second, you mentioned that while the ten-province formula may seem interesting, you don't think the federal government will really choose this solution. In the next-to-last sentence of your document, you say you hope

● (0950)

[*English*]

“to challenge the status quo and to look for creative new approaches”.

[*Translation*]

Of course, we're here to listen and to make suggestions to the minister of Finance at the end of these hearings. If you're going to challenge the status quo and to look for creative new approaches, what will these look like? Can you suggest to us a solution that would be interesting for all of Canada?

[*English*]

Hon. Lorne Calvert: Thank you for those two questions; both are important.

For the first question, if I could, I'll paraphrase. I would suggest that the question is, if we were to sign a Saskatchewan energy

accord, would that in fact worsen the imbalance we observe? I would respectfully say no, not at all.

As to precedent, there have been of course a number of agreements provided to recognize circumstances across Canada. The Atlantic accord agreements in fact are not new. They were, as I said, established in the 1980s. What we have seen recently is an enhancement to those accords. Therefore, precedent is well set, I believe.

Point two: Because of the uniqueness here of an energy accord that specifically deals with non-renewable oil and gas reserves, we are here in many ways...with perhaps the potential exception of British Columbia, which may have some offshore resources. I think that is yet relatively far down the way, but there may be some offshore energy resources in British Columbia. With that one exception, Saskatchewan is now unique in the country, whereas Nova Scotia and Newfoundland have these potential offshore resources that are difficult to get at and expensive to retrieve but important to our future as a nation. Saskatchewan now remains that one jurisdiction with this unique resource...not identified. So there's precedent. I think there is a uniqueness about the circumstance here.

Why this does not all contribute to a growing separation of provinces or to change is that development of this resource benefits not just Saskatchewan but the nation. As we develop this resource and with its great potential, we're contributing to the energy security of Canada and I believe the energy security of North America. Currently 70% of all the oil resource in Saskatchewan is being exported to the United States of America. There's great potential for us to contribute to the energy security of Canada and the continent. In that export there is significant benefit for the GDP of Saskatchewan and Canada in terms of the economic wealth that's generated. Of course, everybody who works in the oil field pays federal income tax and pays for federal benefits; it's a net contributor.

And then, because we have this particular opportunity to use enhanced oil recovery and at the same time contribute very significantly to the climate change initiatives of the country, it presents a benefit that goes far beyond the borders of Saskatchewan. We can sequester in our land here, through enhanced oil recovery and in other ways, carbon dioxide in such quantity that we will be a major player.

I spoke of two projects, and the EnCana project around Weyburn is one. It's not, if I may say so, an extensively large project; it's a relatively small oil field. That project alone on an annual basis sequesters an amount of carbon dioxide representing one-third of all the vehicle emissions in this province. The Apache project, when it's up and running, on a daily basis will lock carbon dioxide into rock formations in the ground at a rate equal to the emission of all carbon dioxide from all the homes in the city of Regina.

We have a tremendous opportunity here, I think, to benefit not just Saskatchewan and Saskatchewan people but the nation. So I would say no, it will not worsen imbalance but will provide a greater stability for all.

In terms of a future review of equalization and what we would want to see, first of all, establish the principle that non-renewables shouldn't be included. Then we're absolutely willing to sit down with our federal, provincial, and territorial counterparts and look at a variety of solutions. The ten-province standard is one, and we would want to have some very specific discussion about, as I said, how the mining industry is included in equalization.

We're not going into this discussion with hard positions on what the program should look like when it's done other than to take a very hard position on, one, the principle. We are 100% supportive of the principle that underlines equalization, that wherever we live in the country, we should have some expectation of comparable levels of public services for comparable levels of taxation. We believe that principle is important to the nation of Canada. We believe that energy is non-renewable and should not be included.

● (0955)

We want to go into this ready to discuss and ready to dialogue, not with a hard, hard set of recommendations, but with a hard commitment to the program and a hard willingness to build a better program. It is a \$10.9 billion program today. That's a big program. We don't need any more collateral damage or unintended consequences from it.

[*Translation*]

The Chair: Thank you, Mr. Côté.

Mr. Premier, I have a question to ask you. You say you are open to an improvement of the equalization formula but, at the same time, you're in favour of pursuing side deals like those signed with Newfoundland and Labrador and Nova Scotia. How would it be possible to improve a formula that already contains many distortions—we've been talking for many years about improving the 33 parameters of potential revenue included in the formula—when the agreements signed with Newfoundland and Labrador and Nova Scotia are creating further distortions?

I will give you an example. You're talking about the ten-province standard. I know that your government, just like the governments of Quebec and most other provinces, has often favoured this standard, but a precedent has been established by excluding oil resources, and that creates a whole new situation. We're not really getting a better representation of potential revenues drawn from different sources in each province since an important source of revenue is excluded. The ten-province standard doesn't mean the same after the signing of the Newfoundland and Labrador and Nova Scotia agreements. Do you have any comments on this? The Constitution clearly defines the purpose of equalization but, with side deals, the rules of the game have been altered.

[*English*]

Hon. Lorne Calvert: I will argue that an accord that would separate out non-renewable energy resources is not one I would describe as a side deal; I would describe that as a foundation for building an equalization program in Canada.

The argument here, which I tried to refer to in my main remarks, is that a barrel of oil coming out of the ground comes out once and will never come out again. As you well know, the constitutional ownership of that resource is with the province in which it occurs.

Only once can that benefit be achieved, whereas our agricultural and forestry resources, for instance, are renewable long term. If carefully stewarded and carefully managed, those are long-term renewable resources. Ergo, when you take out that one non-renewable barrel of oil, some of the investments from that barrel of oil should be for building an economy that's going to be long term.

We have some tremendous reserves in our resources, and with enhanced oil recoveries we can see this industry surviving and prospering for some many years. But we all know that at some point in time, we will not be a petroleum-based, fossil-fuel-based world or economy.

We are making some big changes right here in the province. We are generating with wind electricity. We are pioneering in hydrogen research. But we know that at some point—likely within this century—the role of fossil fuel will diminish, if it's only to achieve a cleaner climate, if it's only because new and more environmentally sustainable energy sources are there.

Therefore, as we take that one barrel out, we had better now be investing in our future with that barrel. If we could keep that barrel generating over and over and over, I think you could make an argument that it should be included in an ongoing equalization. Because it's one-time only, those benefits have to be carefully stewarded and invested in building a future.

That would be our argument about the non-renewable...coming out of the long-term base.

● (1000)

[*Translation*]

The Chair: Thank you, Mr. Premier.

Ms. Wasylycia-Leis, please.

[*English*]

Ms. Judy Wasylycia-Leis (Winnipeg North, NDP): Thank you, Premier, and Mr. Perrins and Mr. Styles, as well, for being here and for the very useful presentations just part-way into our cross-country study on fiscal imbalance.

It seems to me—and you've touched on this—we have a critical situation in this country right now, the likes of which we haven't seen for a long time. The way in which the federal government handles the whole equalization issue and the renewal of the agreement has.... By not respecting the united position of the provinces back in 2003 that had a ten-province formula with the full inclusion of all provincial revenues in the calculation of the formula, we've now ended up with this mess and the need to actually start to address it on a piecemeal basis. You're certainly doing your part to try to bring some sense to the whole situation and salvage what we can as soon as possible, but I worry about where we're headed and how we get out of this. I don't see the way out. I mean, I know you've made a passionate plea to Prime Minister Martin and to Finance Minister Goodale, but you haven't had a serious response in terms of some sort of fair-minded solution respecting what happened with respect to the Atlantic provinces.

So we have this situation with little movement from the federal government and growing concern among the regions and the provinces, and you're making a valid attempt to try to bring some sense to the whole thing. But I'm not sure how we are going to get out of it.

I have a couple of questions.

What do we do as a committee to actually...? And we have a minority situation, so we have some chance to do something. What do we do right now to try to avoid going over the precipice where we'd see so many threats to this federation that there would be no turning back? How do we take your advice and bring some sense to the federal government?

Number two, how do we convince the federal government that there is a fiscal imbalance? Because we have yet to have a single statement from a single minister or parliamentary secretary recognizing that there is a fiscal imbalance in this country. As recently as in Toronto, with the parliamentary secretary, they again said there is no such thing as a fiscal imbalance.

Number three, tomorrow in the House of Commons the Conservatives are bringing forward a motion on the question of renewable equalization. The motion calls on the government to immediately extend the expanded benefits of the recent Atlantic accord to all of the provinces, since the existing equalization clawback on non-renewable resource revenues severely curtails the future prosperity of Canada, etc. Does that motion capture the sense of part of your presentation today that pertains to an equal approach, an approach of equality based on resource-producing provinces, and should we support it? That advice is important, because in fact if all opposition parties support that, we will win the day, and we may be able to convince—we ought to, if that passes—the government to do what you're requesting.

These are all broad questions, so I would like you to just expand on the roots of the problem, the fiscal imbalance question, this motion, and then finally, the notion of equalization itself, because although we have some unity around this table on some issues, particularly vis-à-vis your own motion, which passed in the legislature on March 14, we do have differences when it comes to the philosophy of equalization.

• (1005)

I don't think we have an official opposition in the country that has yet to accept the notion of a federal government playing a role to ensure that there is equalization across this country and that our taxpayers' money ought to go to ensure—to quote from papers documenting and describing the situation—an equalization that gives expression to Canadians' commitment to the core values of sharing and social solidarity.

There are some broad questions. Thank you for your appearance today.

Hon. Lorne Calvert: Thank you.

If you give me an opening here, I could perhaps keep us all till noon. Let me be very brief, and I will try to speak specifically on the motion. We very much appreciate the motion. We think it does in

fact speak to the position we have taken, and if I may say so, have taken now for months and several years.

A year ago May, we communicated to the federal Minister of Finance that any accord signed in Atlantic Canada should be reflected in other parts of the country. We have been on record for a long time, and the motion, as I hear you describe it, sounds very close to where we are, if not right on the money.

On the question of the broad philosophy of equalization, which relates, I think, to your first observation about the whole debate, this premier and this province believe in a strong Canada. As I have often said publicly, you will not see this premier taking down the Canadian flag on any occasion in the province of Saskatchewan. I may have a disagreement with the current government or current government policy, but we have no disagreement with the nation. We believe in a strong Canada. Historically, we've built a nation here in the northern half of the continent—and not easily, because of our geography, because of our various and disparate areas and sometimes various histories and so on. We've built a great nation here. Those of us living in the west have vivid memories, or our grandparents have, at least, of how we built a nation by building a railroad. We tied this nation together—the western half, at least—with steel.

I take the point of view that the steel holding Canada together is in building a fair and equitable community coast to coast to coast, and much of that fairness and equity comes through building good-quality educational opportunities, good-quality economic opportunities, good-quality health and quality-of-life opportunities, and much of that depends on a strong federal presence and a strong coordinating effort where we can share across the nation.

Equalization is one program of many that I believe is the responsibility of the national government. It is but one. There are federal transfers; there are federal expenditures; there are federal legislated powers; there is the important role that the federal government, in partnership with provincial and territorial governments, must play in partnership with first nations and aboriginal and Métis peoples across Canada—another area of significant federal responsibility and leadership.

There is a fiscal imbalance in Canada. I do not need the Conference Board of Canada to tell me that. I only need to review budget documents. I review our budget documents. I know what this province has gone through, after some of the devastation that was left behind in the 1980s, to put our fiscal house in order, to get us from the situation where we were the worst per capita in GDP's relation to debt—or if not the worst, we were very close; I think Newfoundland and we were in a race for a bit. I know what we have gone through to balance budgets, to bring us out of that, to take us from a credit rating that was in the tank where we couldn't borrow money to now having a credit rating that is double-A standard across the bond houses. I know what it has taken.

I look at our budget and see the challenge we have in facing municipal costs and health costs and education costs and infrastructure costs, and I look at how hard it has been for us to maintain a balance that's like this, never mind slipping back into deficit. At the same time I look at the budgets of the federal government, and each and every year I see growing, surpluses.

I don't need the Conference Board to tell me there is something wrong. When the provinces are charged with delivering those particular social programs that are most important to Canadians, health and education—our children and our health—and I see every province, with the exception of one, which has an extremely fortunate case because of oil, running deficits or razor-thin surpluses, and I see federal surpluses that grow and grow, I don't need a study to tell me there is something wrong here.

• (1010)

Part of the fix is in equalization and part of the fix will be in transfer payments. But if I may say so, I believe there has been a change in Ottawa. Although they may not yet be admitting in Ottawa that there is a fiscal imbalance, clearly in the health care discussions and negotiations there was what I think was a positive change. The federal government recognized more of its responsibility in providing health care to Canadians. There was a switch, and we're seeing a better share.

Now, as I said in my remarks, the caveat with that is that health will always demand. But there has been improvement. I see positive things happening around early childhood. There is some new commitment. But these are beginnings. So the solution isn't all in equalization, I think it's in the whole broad area of the relationship between Ottawa and the provinces and the territories, and in all the fiscal relationships. But I for one don't need any further convincing that there is some fiscal imbalance in the country.

The role of your committee is going to be very important because it is an all-party committee. It will be very important because you can speak from all political persuasions and from every region of the country, and the kind of work that you're doing in going around speaking to those Canadians who wish to appear before you, whether we're elected or unelected, is extremely important work. I would hope the House of Commons generally and the government in particular will take very seriously the response and the recommendations that you make.

The Chair: Thank you very much.

Mr. Fitzpatrick, for three minutes, including the question and answer. Thank you.

Mr. Brian Fitzpatrick: I have to be honest with you, Mr. Premier. In speaking firstly of the agreement, it may be strange for a Conservative and an NDP premier to be on the same page, but I really don't think there's much disagreement between your position and our position on this issue. The difficulty, of course, is getting other political parties in the House of Commons to agree with our position. I certainly hope my friends at the Bloc will understand the injustice of the equalization formula in the way it's set up. We now have to convince the finance minister and the Prime Minister of this country that this formula is grossly unfair to Saskatchewan. That's the challenge at hand. If we can accomplish that, we're going to get this inequity resolved.

You mentioned Mr. Boessenkool. I'm trying to throw out some points of argument in favour of removing non-renewable resources from the argument. I think Mr. Boessenkool at different times has actually crunched the numbers in this country by removing non-renewable resources from the formula. At first blush, most people

believe this will mean Alberta is going to get off the hook. His calculations don't show that.

Mr. Boessenkool actually makes the argument that Alberta had the benefit of developing its non-renewable resources in a different day when we didn't have this draconian equalization formula, and now we have all of the other revenue bases that are in the formula, like jobs, sales tax capacity, corporate fiscal capacity, and all the other criteria. Because Alberta had the opportunity to build its economy around its non-renewable resources without getting punished for doing so, it's strong in all other categories, and if non-renewable resources were removed, Alberta would still be contributing a whole lot to the fiscal balance in this country. My question is why we don't just give other provinces like Newfoundland and Labrador and Saskatchewan the same opportunity to build very strong economies by removing this detrimental impediment.

I guess the question I'm really going to ask you, Mr. Premier, is that if you have non-renewable resources like oil and gas, and if you develop them and the net effect is that you're going to lose 100% of the benefit of that development, why would anybody in their right mind even bother to try to develop them?

• (1015)

Hon. Lorne Calvert: On your first point, Brian, only in Saskatchewan do we vote by a majority for John Diefenbaker and Tommy Douglas at the same time.

On the second point—which is an argument I did not present to the committee this morning but one we have pointed to—the tremendous resource that was developed in Alberta was developed at a time when there was incentive to in fact do that. There is a significant or great difference between the resources that is nothing more than geology, whereby the Alberta resource is more abundant and more available or easier to produce. We have a challenging job to produce from our oil resource; it's just a difference in geology. But obviously the industry in Alberta was built at a time when there was no confiscatory equalization going on—no clawback—and it enabled the province and the people of Alberta to prosper from that industry and to take the resources, if I may say, from that industry and build other industries. The meat packing industry that is so central in Alberta now wouldn't be there if it hadn't been for the role of the Alberta government in directly intervening and building that industry with resources from the oil base. So my argument is that you should take the one-time resource, just as Alberta has done, and build for the future.

Why do we do it in spite of...? You know, you could push the argument and ask if it would be wise for the Province of Saskatchewan or would have been wiser fiscally for the Government of Saskatchewan to leave the oil in the ground. There have been those who would argue that; there are those who would argue that oil in the ground is money in the bank. I am taking the point of view these days that it's time for a major withdrawal from that account. But the fact of the matter is that there are those who argue that we'd be better off fiscally to leave the oil in the ground. According to Tom Courchene, for every dollar you are taking out you are losing \$1.03 or \$1.25. This is not rocket science. Why would any accountant argue that you should do that? We do it because of the economic benefit to the community. There is economic benefit that does occur for the province of Saskatchewan, through income taxes, through sales taxes, and through the support industries that grow up around the oil industry. We have seen success from heavy oil in terms of upgrading in our province; there are some economic benefits there.

But now we have this convergence. I go back to the convergence of today, which is a convergence of an energy-hungry continent; the convergence of 35 billion barrels of oil under the ground here—a reserve larger than Prudhoe Bay; the convergence that by enhancing the production here we can contribute significantly, environmentally to Canada; and the convergence of this premier and this government frankly being tired of seeing our young people going off to work in the oil fields of Alberta. It's time we brought the oil fields to our young people.

That convergence requires a number of things. It requires investment on our part in infrastructure. It requires significant research. We have that research going on here at the University of Regina; this is now the largest petroleum engineering faculty in western Canada. We have a petroleum technology research centre, a greenhouse gas research centre. We are investing in research.

On Friday of last week I announced a significant change in royalty and taxation provisions to benefit new enhanced oil recoveries. We are taking the leadership.

At the end of the day, we have to get the fiscal relationship right around these resources, in the context of the national government and the nation. We are very determined to do that because it's for the benefit of Saskatchewan. But in my argument, it's also for the benefit of Canada.

Finally, it has been a learning experience for me over these number of years in thinking about equalization. I think that many Canadians used to have the view, or still have the view, which I used to share, that have provinces contribute to equalization and have-not provinces withdraw from equalization. That is not the case, as you know. The equalization program is funded by all Canadians through their general revenue taxes; so Alberta contributes significantly to equalization, but so do the taxpayers of Saskatchewan and Manitoba and Quebec. Through our federal taxation, we contribute to equalization. Then it is apportioned out. So if one takes out the oil and gas, it doesn't change Alberta's contribution, because that economy is contributing to the nation.

I want the economy of Saskatchewan and the economies of Nova Scotia and Newfoundland and Labrador and Quebec, or every economy, to contribute to the nation, so that through this economic

generation we have a pool of resources—which goes back to my spiel that we can unite and build a nation through the expenditure of those resources and through good education, good health care, good infrastructure, and so on.

• (1020)

Thank you very much.

The Chair: Thank you, Mr. Fitzpatrick.

Monsieur Bell, tell me you are convinced now about a fiscal imbalance, and you will work to convince Mr. Martin of this.

Mr. Don Bell: I'm listening very carefully.

Just to clarify, in answer to the question from Brian, the reason for the investment is that despite the clawbacks there are other economic benefits that flow through from simple economic development—employment, for example. You talked about maintaining a lifestyle in the province.

In your paper on page 7 in the second-last paragraph you say that the high clawback rate in energy is just one of many issues your government has with the representative tax system approach that has been in place. Can you amplify on that?

Hon. Lorne Calvert: Maybe the best example from my paper is mining. Here too is a very strange circumstance. We have about 15% of the mining activity in Canada, which is substantial. We are the world's largest uranium producer. We are a significant player in the world in terms of potash. We have real potential in diamonds. We mine coal. We have rare-earth elements in our far north. The mining is a strong component of Saskatchewan's economy, but at the end of the day we are not dominant in Canada—15%.

But under this arrangement we are attributed to having 40% of all the mining revenue. This is a peculiar circumstance that takes 15% of the activity and somehow, supposedly, generates 40% of all the revenues in Canada. It flies in the face of common sense. That's where this has gone haywire, and we all know why.

Judy asked the question, how do we get out of this mess? Well, we got ourselves into it almost half a century ago, so it may take us a few months to get out of it, but we can. I really think Canadians of good will approaching this... Surely we can find a way to fairly measure capacity in the country, and then better allocate the \$10.9 billion.

Mr. Don Bell: I know you said you were willing to accept the principle that non-renewable energy resources should be included in equalization; it's just not the way it is right now.

Hon. Lorne Calvert: No. Don't misunderstand me. I think I have been very clear that non-renewables should be out.

Mr. Don Bell: All right. I wrote that down, and I wasn't sure if I'd heard it correctly.

That's it. Thank you.

[Translation]

The Chair: Thank you very much, Mr. Bell, for your discipline.

Mr. Côté, you have three minutes.

Mr. Guy Côté: Thank you very much.

My first question is very simple. If Saskatchewan were to get a Newfoundland and Labrador style accord, what would the fiscal impact be for the province?

I'm asking the second question very candidly. Frankly, I didn't think much about it. Since 1957, the equalization formula has become increasingly complex because of side deals. Should we consider a return to original terms as a possible solution? Shouldn't we try to simplify the equalization formula as much as possible? It's just an idea that was passing through my mind.

• (1025)

[English]

Hon. Lorne Calvert: Our goal in an energy accord is to strengthen the economy of Saskatchewan, thereby strengthening the economy of Canada, utilizing carbon dioxide sequestration, and our goal is equally to do what is right in terms of our environment. But it is not lost on me, of course, as steward of the public purse in Saskatchewan, that it would also be good for the provincial budget.

I illustrated in the paper that if the Atlantic accord had applied to Saskatchewan over the last number of years, it would have made a difference in equalization payments of about \$4 billion. That is a significant amount of money. We have heard Brian talk this morning about the difference between the equalization amounts that have accrued to the people of Manitoba, say, compared with those to Saskatchewan. So it would make a difference to provincial treasury.

While that is absolutely important, of course, to me as premier and to our Ministry of Finance and to our government, I in some ways place it in a secondary category of importance in seeing our economy strengthened. It's secondary in terms of what environmental benefit we can bring, what opportunities we can bring to the young people of the province. But there's no doubt about it, a fairer formula would have real impact on the treasury.

In terms of 1957—“back to the future”—simplicity ought to be the order of the day. I'm not here promoting the return to a two-province standard, but simplicity should be the order of the day. Every time we've changed this thing, it's become more complex and less transparent. Canadians ought to know and be able to see clearly how it is that \$10.9 billion, or whatever the appropriate equalization dollar is, is being provided to Canadians. There should not be 30, or whatever it is, categories of this, and it should not be the case that only 10 Canadians, we're told, understand how it works. Simplicity, transparency, and fairness: these ought to be our goals.

The Chair: Madam Wasylycia-Leis, you have three minutes.

Ms. Judy Wasylycia-Leis: Thank you very much.

Premier Calvert, you mentioned in your answer to me earlier that equalization is but one of the tools to address fiscal imbalance. I'd like to talk just a minute or two about the other options and focus specifically on the social transfer, because I think it is an important issue for us and I think it will be a big debate for our committee and for Parliament. You will know that the constant discussion around direct cash transfers—versus ending those transfers and simply giving more tax points to provinces, which in my view would lead to the dismantling of some very important national programs, whatever's left of them....

I'd like your comments on that issue, and what advice you would have for our committee vis-à-vis the social transfer.

Hon. Lorne Calvert: I understand that your committee may have some differences of opinion, as will exist also in the House of Commons. Let me share my own opinion, first of all simply as a Canadian, secondly as a social democrat, and thirdly as a social democrat who happens to be the Premier of Saskatchewan today.

In regard to the social transfer, there is always the question of a quantum, what the appropriate budgetary allocation is from the national purse to the social transfer, to the delivery of health care, and to other important social issues. We will have, on occasion, debates about what the quantum should be.

Secondly, I take the point of view, as a premier, as a Canadian, as a social democrat, that we believe there needs to be significant accountability at a provincial level for the expenditure of federal dollars. We believe there is an appropriate role for a partnership in establishing targets and goals for the national benefit, and this province is willing—as we have clearly done with health care dollars—to adopt what we believe are compatible national goals in terms of our own delivery of health care.

My concept of Canada is that as a resident of Saskatchewan or a resident of Prince Edward Island, I should have some expectation of reasonable access to that service and program, and that can only be achieved in the national umbrella through, for instance, national standards for medicare and access to health care services. We do not believe those national standards and national points of access can be guaranteed by the transfer of tax points.

As you well know, to speak to health care specifically, we are strong proponents of publicly funded and publicly administered medicare. We believe that concept, in some ways pioneered on this prairie and then exported from Saskatchewan to the nation, is one of the best gifts this province has ever given to the people of Canada, and we fought hard to see a national medicare program put in place. I referred earlier to that voter in Saskatchewan who would elect Tommy Douglas with a great majority and John Diefenbaker with a great majority at the same time, and who had two leaders who believed in a national approach to medicare. I give appropriate due to those who worked on the national level to institute a national medicare program, but in our view it can be very threatened if we resolve to provide federal benefits through tax points or walk away from the concept of federal standards and so on.

• (1030)

The Chair: Thank you very much, Judy.

Mr. First Minister, you have two minutes to conclude if you want. Thank you very much for your presentation.

Hon. Lorne Calvert: Again, on behalf of the Government of Saskatchewan and the people of Saskatchewan, I simply want to thank the committee for being present in our capital city. We wish you well in your travels across the nation. I repeat again that in my view, it is important that you take the opportunity to listen to Canadians—not just elected ones, but others—in terms of the question of the fiscal imbalance, in terms of building a strong Canada.

So our thanks for your work, and we anticipate the good work to be reflected in your report back to the House of Commons.

Thank you very much.

The Chair: Thank you very much, Mr. Calvert. It was a pleasure to welcome you to the subcommittee. We appreciate your presentation, and we will consider your point of view for sure.

•(1033) _____ (Pause) _____

•(1055)

The Chair: Good morning, Mr. Wall. It's a pleasure for us to welcome you to the Subcommittee on Fiscal Imbalance.

You will have 15 minutes to explain your point of view in an opening statement, and after that we will have two rounds of questions from and I hope answers for members of each party in the House of Commons.

Thank you very much for being here.

•(1100)

Mr. Brad Wall (MLA and Leader of the Official Opposition Saskatchewan (Saskatchewan Party), Legislative Assembly of Saskatchewan): Thank you very much, Mr. Chair, and thank you to the members of the committee for being here this morning to hear from witnesses on the so-called fiscal imbalance.

I know that with respect to this general topic there are a number of different issues you will be hearing about as you go across the country, not the least of which are the health and social transfers.

This morning you may have also heard from the premier of our province with respect to agriculture funding in Canada and the safety net. I don't want to give that short shrift, but I do want to say, by the way, that we concur with the premier in his concern about the 60-40 split and its specific impact on Saskatchewan. This province has the most arable acres in the country and therefore has as its share an inordinate and disproportionate amount of responsibility in terms of funding those programs for producers here in our province.

I'm going to focus mostly on equalization, and we'll get to that immediately.

I do want to introduce very quickly, Mr. Chair, the finance critic for the Saskatchewan Party, the MLA for Saskatoon Silver Springs, Ken Cheveldayoff. He is joining me, as is our director of policy development, someone I have asked to be a specialist on the equalization file. Iain Harry is also here.

So again, welcome here; *bienvenue en Saskatchewan*. We are happy to have you here. Thanks for your time.

There are many federal programs that contribute or in some cases are supposed to contribute to the achievement of the fiscal balance in our country, and we've talked a bit about those; I've highlighted them very quickly this morning. Some I didn't touch on include the national infrastructure program, the national highways program to the extent it exists—some would argue it doesn't necessarily exist as a strategy as it should—employment insurance, and the pending environmental supports related to the Kyoto implementation. All of these programs merit consideration in any discussion about Canada's fiscal imbalance, but as I said, I'll be focusing my comments this

morning on just one of those programs, the federal equalization program.

I do want to acknowledge that progress is being made on the imbalance that continues to exist in health and social transfers. More needs to be done and I'm confident that more will be done on that file, but the recent changes in structure and funding represent a good start in dealing with the huge fiscal imbalance that has developed with respect to health and education and social assistance funding for over the past two decades.

I think that is even highlighted, frankly, in a recent report by the federal government—you can access it on their website—that makes the case that there is no fiscal imbalance. Even in their own charts they highlight how that health transfer, especially in the mid-nineties, dropped significantly at a time, you could also argue, when provinces were facing very acute challenges in health care. That's when that transfer began to drop. Although we're making progress here in moving towards redressing that, more needs to be done, arguably.

We would suggest, though, members of the committee, that one area where there has not yet been the progress we would like to see is equalization. You could summarize the first part of our presentation by saying we would like to see some reform in the equalization program.

On that, let me just say I was surprised—"struck" is a better word, a word we use in the formal presentation—by the definitive mandate of your subcommittee. According to the information provided to our office, your subcommittee is here to find solutions to the fiscal imbalance that exists between the federal and provincial governments.

Nowhere is the fiscal imbalance more obvious and injurious, in our view, than in Canada's equalization program. We are the example; we're the specimen in the petri dish you can look at in a very real way to see there's a need to redress some issues here. From Saskatchewan's perspective, the equalization formula is fundamentally flawed in at least three areas: in the inclusion of revenues from non-renewable resources, oil and gas; in the use of national proxies to measure Saskatchewan's mining tax base, which we'll talk more about; and in the use of a five-province standard to establish the average fiscal capacity of all ten provinces. I'll address each of these issues this morning.

Firstly, I do want to talk more in general terms, however, about the nature of changes that should be made to the equalization program, in our view.

•(1105)

Equalization has always been on the national political agenda in Canada. Addressing the unique interests of Canada's regions was an integral part of the confederation debates of the 1860s and it has dominated the national political discourse ever since. Even as subsequent provinces considered membership in confederation, they were worried about this notion, at least, of equalization.

Since 1982 equalization has been a constitutional requirement of federal government policy, as members will know. It's perhaps repetitive or redundant, because of the knowledge you already have on this file, but it's important to restate subsection 36(2) of the Constitution Act, which commits our federal government to make "equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation".

So in our view it's more than a little ironic that since the changes to the equalization formula were implemented in 1982 the program has become not much more than a welfare trap, at least as regards our province. You know, that sentiment isn't echoed simply by provincial politicians. In February the Conference Board of Canada did a pretty impressive—it was brief, but impressive—and thorough look at what's happened with the signing of the Atlantic accord and its implications for provinces like Saskatchewan. They agree that for us the current formula, the current structure, has become like a welfare trap, where there is almost a greater incentive simply to not develop a resource, to not add value to our economy, and avoid a clawback of \$1.80 or so and higher. So there needs to be some short-term equalization reform.

Rather than addressing discrepancies in the ability of each province to provide a relatively similar set of services at relatively similar taxation levels when compared to other provinces, the equalization program has caused significant financial instability for some recipient provinces while triggering calls for changes to the program by non-recipient provinces like the province of Ontario. The most recent ad hoc adjustments to the program, the Atlantic energy accord that concluded last month between the Government of Canada and the provinces of Newfoundland and Labrador and Nova Scotia, are a good example.

These two agreements, while certainly no more than a short-term fix for the fundamental weakness of the equalization formula, are a positive step forward for those provinces. We don't begrudge those provinces what they have achieved. We don't believe, by the way, that this Atlantic accord has set a precedent for one-off arrangements or for accords with provinces. That precedent was set long ago, we would argue, and I'll get to it in a minute. We would argue it was set for the province of Alberta even in the 1960s. Because of the formula structure at the time, they could continue to benefit from equalization while they developed that oil and gas industry.

We would argue that the Atlantic accord, the accord that was reached in the 1980s with Atlantic Canada, while not as rich as what they have currently received from the Liberal federal government from the Atlantic accord today, was also an example of this kind of arrangement. There is precedent. There are precedents for the kind of thing that Saskatchewan asks for today.

The agreement, as you know, also ensures that any reduction in equalization entitlements to Newfoundland and Nova Scotia triggered by offshore oil and gas revenues will be paid back to those provinces from outside the equalization funding envelope. The Conference Board of Canada is concerned about that. Others may be concerned about it as well. But again, there's precedent that goes beyond the Atlantic accord. It goes further back than the Atlantic accord.

These important agreements recognize the serious flaws in the equalization program. They recognize the economic challenges faced by Newfoundland and Nova Scotia. They provide a fair deal that will give both provinces the opportunity to build economic capacity and to at least give them the opportunity to become more independent of the need for any equalization.

I am sure you would agree, members of the committee, that Saskatchewan families deserve the same fair treatment that the families of these two provinces have received as a result of their deal. The official opposition strongly supports the position taken by Premier Calvert in calling for a Saskatchewan energy accord. I'm sure that Premier Calvert and his officials made the strong and reasonable case to the subcommittee this morning that our finance minister made when he presented Saskatchewan's request, along with our finance critic, by the way, Mr. Cheveldayoff, for a fair equalization deal to the Senate committee on national finance only a few weeks ago.

● (1110)

I want to reinforce Saskatchewan's position this morning, Mr. Chair. We see it as a simple decision for the Prime Minister and for the Liberal government, and we know your committee would play and could play a very constructive role in getting us to the decision that we hope and believe the Prime Minister and his government should make.

If Mr. Martin believes in fairness, he should immediately support Saskatchewan's call for an energy accord that allows our province to retain 100% of its oil and gas non-renewable resources. If Mr. Martin believes Saskatchewan families do not deserve the same fair treatment that the Government of Canada has recognized as appropriate for families in Newfoundland and Labrador and in Nova Scotia, then the government would deny Saskatchewan's request for an energy accord.

In fact, the Prime Minister has already recognized that Saskatchewan is not being treated fairly by the current equalization formula when it comes to oil and gas revenue clawbacks by providing, to the government's credit, some compensation for the province in 2004-05. For that fiscal year, as you will know, the federal government has made the right decision. We congratulated the Prime Minister as an opposition party in the province when that occurred, and we congratulated our provincial government for negotiating the redress of some of those clawbacks in the past. So we know the Prime Minister understands fundamentally the unfairness of this, and so does our finance minister. The next step, then, is what we're asking for.

However, neither of these payments addresses the structural problems in the current equalization formula that are so injurious to Saskatchewan families. A Saskatchewan energy accord with terms similar to the recent Atlantic accord would provide an effective, fair, and short-term solution to get that done.

Those are some of the positions that we have outlined with respect to the need for a short-term change and a Saskatchewan energy accord. Again, as I conclude this section, let me just say there is precedent, members of the committee, for you to recommend this kind of thing that goes beyond the Atlantic accord today. Chief among them for us is what happened in Alberta with the de facto accord that they received as a result of the equalization formula at the time. That did allow them to continue to receive equalization while their industry developed and grew and while they were generating revenues from oil and gas.

We also believe that long-term equalization reform is necessary, and we appreciate the finance minister's and the federal government's commitment to do that. The nature of the reform, however, is crucial for us. It's the proof in the pudding, as it were, and we'll have to see how that unfolds. In the meantime, we don't want to leave it to chance, we want to offer some proposals on that front, Mr. Chair.

The people of Saskatchewan and all other provinces in Canada are best served in the longer term by a simplified, transparent equalization program that addresses Canada's fiscal imbalance on a more permanent basis, through a formula that is fair to all regions of the country. This point was effectively argued recently by the Conference Board of Canada in a paper that I highlighted, in the February 2005 issue of *Executive Action*. I urge members of the committee to avail themselves of that article if they haven't already done so.

I appreciate that the mandate of your committee presupposes that a fiscal imbalance exists in Canada. The Saskatchewan Party agrees. We need to ensure that the federal Liberal government also agrees. So far, their response on a request for an energy accord for our province would indicate that they do not agree that there is a fiscal imbalance, at least on this particular issue. In fact, the federal Department of Finance has published a document—I have had a chance to look at it—called “The Fiscal Balance in Canada: The Facts”. In it, the federal government argues that there is no imbalance.

As evidence, the paper argues that both the federal and provincial governments have access to the same major sources of revenue. The paper also notes the provinces have exclusive access to some very lucrative tax bases, including some non-renewable resource revenues. However, the paper fails to mention that in Saskatchewan the federal government has been confiscating between 90% and 108% of our non-renewable oil and gas revenues for the past five years. In effect, Saskatchewan is not being given a chance to access its oil and gas resource revenues. It has been given a chance to make the infrastructure investments. We have been given the chance to make those investments in Saskatchewan so that we can develop this industry. We've been given that opportunity. But we have not been given the opportunity to benefit from that development when the clawback exceeds the amount of money generated. I question how that kind of disparity created by the equalization formula contributes to the achievement of a fiscal balance, which is the very purpose of the equalization program.

● (1115)

It is also hard to understand how the same federal government paper could go on to argue that the equalization program delivers a

fiscal balance between the provinces. In its current form, the equalization program does no such thing.

Another powerful argument for making fundamental changes to the equalization formula is that while Saskatchewan has become poorer relative to other provinces, including its neighbour Manitoba—and that's using different indices and different measures of our economic performance—Manitoba's equalization payments have been going up while our payments have been going down.

How is it that Manitoba and British Columbia, both with faster-growing populations, stronger job creation records, and higher per capita income than our province, have experienced increasing equalization payments while Saskatchewan's equalization payments have shrunk? And how does the federal government conclude that an equalization program that generates these kinds of results is fair or balanced?

Mr. Chair, I have to tell you as the leader of the official opposition in Saskatchewan, these dubious arguments from the federal government are troubling, to say the least. We're still hopeful, because we've seen them do the right thing this fall with respect to an agreement to redress concerns. The finance minister is from this very province, so I have great hope that change can happen. But currently the position of the federal government is of great concern.

We're proposing some specific notions you'll have heard from the premier, I'm sure. Last month the official opposition critic, Mr. Cheveldayoff, wrote to the federal finance minister, Mr. Goodale, proposing three long-term changes to equalization that will go a long way towards addressing Canada's fiscal imbalance in general and addressing the unfair manner in which the formula treats Saskatchewan in particular.

First, the Saskatchewan Party supports moving from the current five-province standard for calculating the average fiscal capacity to the ten-province standard.

The constitutional requirement of the equalization program is to ensure that all provinces have sufficient revenues to provide reasonably comparable levels of public service at reasonably comparable levels of taxation. However, the federal government's decision in 1982 to use a five-province standard to establish the average fiscal capacity of all the provinces has had the opposite effect, by artificially reducing the entitlements of recipient provinces. Over a number of years artificial reductions in Saskatchewan's equalization entitlements due to the application of a five-province standard have forced a combination of tax increases and public service funding reduction that contributes to a broadening of the gap between have an have not provinces. In other words, the application of the so-called representative tax system since 1982, using a five-province standard, has exacerbated Canada's fiscal imbalance as it relates to our province.

Another decision taken by the federal government in 1982 was to include 100% of the revenue from non-renewable resources.

Saskatchewan families have paid a massive price for these two decisions. Since 1982 Ottawa has been calculating Saskatchewan's fiscal capacity relative to other provinces, including our significant oil and gas revenues. At the same time, Alberta's vast oil and gas resource revenues had been cut out of the calculation.

At risk of simplifying a very complex program—and that's probably a source of absolute unanimity that you'll find as you go across the country, that indeed it's complex—and at the risk of oversimplification, we would say that the net result has been the equalization formula overstates Saskatchewan's relative fiscal capacity and then claws back virtually all the oil and gas revenue we can generate, for distribution, you could make the case, to other recipient provinces.

In some years, as was demonstrated by Professor Thomas Courchene and supported by many other respected academics and equalization experts, Saskatchewan has experienced oil-and-gas-related clawbacks in equalization payments in some years that were greater than the oil and gas revenues actually collected by the province. That is giving until it hurts, Mr. Chair. In effect, the federal government has confiscated most if not all of the benefit of our non-renewable oil and gas revenues and then sent those revenues to other provinces.

Saskatchewan's Department of Finance has estimated that if oil and gas revenues were not counted in the calculation of equalization payments, Saskatchewan would have received another \$4.2 billion from the program over the past 10 years—\$400 million a year on average, on a \$6 billion provincial budget. That's a lot of money. It's significant. It's more than 2% on our PST; it's the ability to wipe out our capital tax and be more competitive; it's the ability to increase food allowance in our province, which hasn't been increased for a couple of decades. It's significant—\$400 million a year.

• (1120)

Clearly, any formula—equalization or otherwise—that allows the federal government to confiscate virtually all the oil and gas revenue that rightfully belongs to the province is fundamentally flawed. We believe it needs to be fixed, and we ask for your help in that regard.

The development of non-renewable resources is, by definition, a short-term proposition. This is especially true of oil and gas; once the resource has been recovered, sold, and consumed, the province receives no further value. I see it as a fair proposition that the exploitation of non-renewable resources should be counted as the sale of an asset. In this context, non-renewable resource revenue in general, and oil and gas revenues in particular, should be removed completely from the equalization formula calculation.

The Saskatchewan Party also supports the position of the Saskatchewan Department of Finance that the use of federal proxies to determine the revenue-raising capacity of Saskatchewan's mining tax base should be withdrawn in favour of the four individual mining tax bases—potash, asbestos, coal, and other minerals—that were used prior to 1999. The use of federal proxies to estimate provincial entitlements for mining operations has proven to be questionable at best. As members of the subcommittee may know, Saskatchewan's mining sector accounts for 15% of mining activity in Canada; yet Saskatchewan finance officials indicate that the equalization formula in place since 1999 attributes 40% of Canada's mining tax base to Saskatchewan. The result is that Saskatchewan's equalization payments have been reduced by an average of \$70 million every year since 1999 because of the inclusion in the calculation of what amount to imaginary mining revenues.

Again, a change to the equalization formula was forced on Saskatchewan based on the supposition that it would strengthen the program, but it has instead punished our province.

To summarize, we urge members of the committee to consider the following in their deliberations and recommendations: that we move to a ten-province standard from the current five-province standard; that the new formula excludes non-renewable oil and gas revenues from the calculation of equalization payments; and that we return to four separate mining tax bases instead of using proxies to determine the fiscal capacity.

Mr. Chair, we would also hope that members of the committee individually and collectively would support Saskatchewan's request for an accord similar to what the other provinces in Atlantic Canada have received. We know that the members of this committee who are here today.... Mr. Fitzpatrick, particularly, is known to me as a strong advocate of change to equalization with specific regard to our province. Long before anyone was talking about it, I would get e-mail as an MLA from Mr. Fitzpatrick on this issue. It's a longstanding issue; now it has come to the fore because of academics weighing in on our behalf. It's absolutely crucial.

You know, when we talk about equalization, it can sometimes—I won't use the word “devolve”—come down to mathematics and formulae, and it comes down to obscure terms. It was \$4.2 billion in the last five years for our province. For us it's more than numbers; it's about Saskatchewan families and about prosperity for our province.

I'm from Swift Current; that's my home town. It's about two hours west of here, very near the Alberta border. In the late 1950s, Swift Current and Medicine Hat were the same size. We have oil and gas near Swift Current, and cattle and grain; Medicine Hat has the same things. A short decade later, Medicine Hat now has 60,000 people, from 15,000 where it began, and we still have 15,000 today.

Can you blame all of that on equalization, Mr. Chair? No. I am not doing that at all. The province also has a role to play in developing industry, but so does the federal government.

So when we talk about changes to equalization, understand that the opposition is saying it's about our prosperity; it's about the economy. In the Saskatchewan Party, we believe this province should be a permanent member of the “have” provinces club. A short-term redressing of these concerns in an energy accord and some long-term changes I think will ensure that we don't darken the door of the equalization office again for money, because we will be part of a have provinces club, and all the other provinces in the country who will be recipients will be strengthened by that.

• (1125)

Finally, I just want to show you a map very quickly. I will pass it around to you as you consider questions for us. It's a bit dated. It's from 2001, and it's by Collins Barrow Securities, out of Calgary. It's a map of the developed oil and gas reserves in the west.

You will see on the map as it comes around, Mr. Chair, that you don't need to know where the Alberta–Saskatchewan border is to see it. The gas reserves are in red and the oil reserves are in green. Either the dinosaurs only died on the Alberta side of the border or we have not yet achieved the kind of oil and gas development that we could have achieved for our people. Part of that is a provincial responsibility, absolutely. Our tax regime has to be competitive and we have to have the right regulations in place. I understand that. But we also need a federal government that has a....

I apologize to the clerk, but we don't have copies to distribute.

Part of the solution is for the federal government to create an incentive for us to develop our oil and gas industry, such that revenues wouldn't be clawed back. We're going ahead and developing it anyway. We congratulated the government on an initiative last Friday. We're trying anyway in Saskatchewan. But the province can do more and the federal government can do more so that we are a permanent member of this “have province” club and there will be more left for other recipient provinces from that \$10.9 million, indexed at 3.5%, in the years to come.

Thank you so much for coming here. I appreciate your time and your attention, and we will do our best to answer the questions that you may have.

The Chair: Thank you very much, Mr. Wall.

Mr. Fitzpatrick, for five minutes. Thank you very much.

Mr. Brian Fitzpatrick: Thank you, Mr. Chair.

Thank you, Mr. Wall, and welcome to our meeting, Mr. Harry and Mr. Cheveldayoff.

I know that in questioning Mr. Wall, I am talking to the converted. We're on the same page. But I did want to bring to Mr. Wall's attention the fact that tomorrow in the House of Commons, the Conservative Party will make a motion before the House, asking the Government of Canada basically to remove non-renewable resources from the equalization formula, period, not just for Saskatchewan but for the whole nation.

I'm quite sure we have the support of our NDP colleagues in the House of Commons. I would very much like to obtain the support of the Bloc on that motion, too. It doesn't compel the government to do this, but it would have a whole lot of persuasive authority in a minority government situation in order to bring about what I think is a badly needed change in the formula.

In some ways, then, my questions are directed more toward some of my Bloc colleagues on the committee, in order to bring them outside. Fortunately, I think Yvan is an economist, so that would certainly help.

I just want to bring a couple of points home here. The premier was in this morning, and I asked the premier point blank why a province—and your map underscores it—would develop its oil and gas or its mineral wealth if you are going to lose 127% in clawbacks. You're a net loser on the proposition. The premier said you'd have other economic spinoffs and benefits by doing it, like employment growth or increased fiscal capacity through corporate involvement in the province, or a growing population base, a property tax increase, and so on .

The only point I think Mr. Calvert brought home by using these illustrations is that we're into double taxation through the equalization formula, because every example he mentioned is already covered under the equalization formula. They're the other 22 revenue streams in the formula. So this is another reason why having non-renewable resources in the formula is most unfair. It involves a form of double taxation—and very brutal double taxation—to the province. So that was one point I wanted to raise.

I want to bring home another point, too, another reason. Perhaps, Mr. Wall, you could comment on it. This is a capital asset. In the world of business, capital assets are not the same as income. Any accountant knows that. I think Mr. Boessenkool used in one of his papers the argument about a baker who is in the business of making an income from making bread and selling it, and that's his sustainable business operation. But if the baker starts selling his ovens to pay his bill, or let's say farmers in Saskatchewan started selling their quarters of land off to pay for their bills, at some point in time you're going to get yourself in trouble with that kind of economics. It won't work. It's not sustainable. We sell these assets once and then they're gone. I think oil is actually even a far more serious problem than the bakery analogy. Somebody else can buy the oven and can produce the income, but the oil is transformed into energy and it's gone.

So I would appreciate your response to that feature of equalization. I think it's a most unfair feature of the whole focus on non-renewable resources.

• (1130)

Mr. Brad Wall: Thank you, Mr. Fitzpatrick.

Mr. Chair, I will say this. Compounding the problem that the asset is non-renewable is the fact that significant infrastructure is required to extract it and to develop the industry. In ours here, we have a unique challenge, by the way. Well, it's not unique, but it's a challenge that certainly most of Alberta doesn't have in this regard, and it is that our oil is not quite as sweet and is not quite as light, so typically it's not as easy to access. There are infrastructure requirements and there's a capital investment requirement that is very significant. I think that's why others, more than politicians, are now saying it is time for us to look at the whole question of whether non-renewal resources ought to be in the equalization formula. I appreciated the resolution to that extent that was passed at the convention of Mr. Fitzpatrick's party on the weekend, because generally speaking I think that's the direction we need to take in Canada. We hope others support that.

On the first point, why would we develop the industry, you know, I understand that the term “welfare trap” is pretty provocative, but it applies here. It truly applies in the case of Saskatchewan. If by that we mean there is a greater incentive for us to stay on equalization, to keep the payments coming and not develop an industry because the clawback's greater than the benefit, that's not building independence. In social services, I think people on all sides of the spectrum agree that we have to build independence for people through training and appropriate funding. The same is true for provinces. Let's build independence. Let's give them an incentive to add value to their economy and become permanently a “have” province. We believe Saskatchewan can and should be there.

The Chair: Thank you very much, Mr. Fitzpatrick.

Monsieur Bell, for five minutes.

Mr. Don Bell: Thank you.

From your comments, I gather that you're saying you believe the federal finance minister is responding to these issues, as we have seen in some of the changes that have come out. I'll go back to the agriculture question in a second, but the main thing I'm wondering is where the discussions have taken place that have resulted in some of the changes that have come. I don't know if you wanted to comment any further on that.

Mr. Brad Wall: Absolutely. Thank you, Mr. Bell.

First of all, I want to say that I appreciated the fact that the finance minister for the country took time this fall to meet with an opposition leader from Saskatchewan. He did that, and it wasn't a rushed meeting. He took some time to do it. And I also had a chance to meet with the caucus of Conservative MPs as well.

We were there to talk about a couple of things. First, very quickly, we talked about the deposit on the CAIS program. The federal government has made the right decision there. The opposition also lobbied for that, and we certainly want to publicly give credit as well to Mr. Goodale and to others who lobbied for that.

So we talked about that, and then he spent some significant time talking about equalization. We encouraged the finance minister to agree with the Premier of Saskatchewan about the previous year's redress that we believe was necessary in terms of clawbacks. The federal government and the province came to an agreement. It may be uncharacteristic of opposition politics, but we took that opportunity to say both to our provincial government, “Good job, thanks for the work”, and to the federal government, “Thank you for seeing that this has been a grievance of the province and for having that money flow back to Saskatchewan.”

That's why I have hope that we can effect some change in going forward, and that's why we are going to continue to use forceful language in trying to make the case that Saskatchewan still needs to be treated fairly, that if an accord was right for Atlantic Canada, then for all the various reasons that it was right there, it is also right for Saskatchewan. We're hopeful that the finance minister and the Prime Minister will agree that's the case. And then, going forward in the long-term, let's make these changes to equalization and set up in a very real way the chance that yet another province can become a have province on a permanent basis or very near to a permanent

basis. There will then be more left for other recipient provinces now that the funding has been indexed at 3.5%.

• (1135)

Mr. Don Bell: The other area you referred to is the.... Briefly, you focused clearly on equalization, and you did talk about the agricultural safety net program, the CAIS program, and made reference to it. You talk about the 60-40 sharing, and you made reference to paying up to five times—the premier said he thought it was something like ten times—more on average on a per capita basis. With this arbitrary split that occurred in the CHST, as the premier said in his statement, do you have any thoughts, in your discussions with Mr. Goodale, about what kind of formula might better meet the needs of Saskatchewan?

Mr. Brad Wall: That's a great question. I'll be honest with you that in our discussions with Mr. Goodale we have not said that 80-20 was much better than 60-40, affordability notwithstanding, which is pretty key for both levels of government. We have not done that.

We have committed, as a policy, to renegotiate with the federal government; to sit down and try to seek a better deal without handcuffing ourselves to specific numbers. But the question is fair, Mr. Bell. I would also say we have been clear that when the province does sign on to an agreement, as they did with CAIS, they should then fund their share. Because whether or not we wish that the program were better than 60-40, Saskatchewan knew it was 60-40 when we sat down at the table. In fact we negotiated improvements to CAIS, in terms of negative margins and some other issues for that program, with the current government, and we supported them. We said the NDP government had a right to request those changes, and then the federal government made them.

So how in the world, notwithstanding the debate about 60-40 being fair, can you ask for improvements to a program, receive those improvements to a program, and not fund your share? Now, 2003 has been funded, but we understand that 2004.... So there are two issues here. One, until the formula is changed our position is that if you sign on to the program you'd better sign a cheque. The second point is we would like, as a long-term solution, to see a greater responsibility here.

We're helpless in the province on the trade issues that happen. The province doesn't have an ambassador in the United States, in Washington. When the border is closed or when we're pilloried by commodity wars or subsidy wars across the world, it's our producers that hang in the balance. So we think there's a greater role for the federal government than 60-40.

The Chair: Thank you very much, Mr. Bell.

[Translation]

It's now Mr. Côté for the Bloc .

Mr. Guy Côté: Thank you very much for your presentation, Mr. Wall. Yes, it could be interesting to have ambassadors in the United States.

I want to commend you for speaking about hope several times in your presentation. However, I must say that I do not share this hope. Since the future is often a reflection of the past, I find it difficult to believe that a settlement will deal with the problems of equalization and fiscal imbalance. I am very skeptic. We all remember the most recent agreement on equalization, last October, which was a take it or leave it proposition. This is not exactly what I would call negotiation.

It is interesting to note that the notion of fiscal imbalance seems to transcend party lines. Since we began our tour, everyone, except the Liberal Party of Canada, agrees that there is a fiscal imbalance. The issues or the causes may not be the same everywhere, but the problem is real. Thanks to the BlackBerry technology, I learned a few moments ago that the minister has appointed the members of his panel of experts on equalization and territorial financing formula. The panel will report by year end. We will wait and see. I am not sure this will deal with all problems.

You presented to our committee today very specific proposals to correct these problems. I'm happy about this because we had many theoretical discussions, and you're one of a few to suggest specific solutions: let's return to the ten-province standard, exclude non-renewable resources and so on.

I would like to know what you think of some of the solutions suggested in other provinces. Until now, as problems are not the same from one province to the other, it seems solutions will naturally be different.

You won't be surprised to learn that in Quebec for example—and it's also the case in Ontario but to a lesser extent—the transfer of tax points seems to be favoured as a solution to fiscal imbalance. In Ontario, we were told among other things that the huge federal surpluses had two possible causes: either the federal government taxes too much, or it doesn't spend enough, thus forcing the provinces to spend much more in some areas. If there are unused surpluses, shouldn't they be directly transferred to the provinces?

I would like to have your perspective on these various matters.

●(1140)

[*English*]

Mr. Brad Wall: Thank you, Monsieur Côté.

When a country has the opportunity to review a key element of federalism like this, the equalization program, I think everything should be on the table. I mean, I don't think Saskatchewan should expect to be able to present its list and say “here, Quebec, agree with us on these three points” if it's not prepared to hear from the other partners in Confederation about what their concerns are with equalization, whether it's Quebec or Ontario, and their ideas to improve the formula. I think that should be a part of this process.

The finance minister is trying to strike this panel, and we certainly support that. We hope it's not an interminable process, that we can get some action on this in the short term. That's why we are supporting our government. With respect to tax points, though, that's the kind of discussion that happens at the Council of the Federation and then the first ministers conference, and it should be there. If we're discussing this, then let's discuss the different priorities of the provinces.

Here's why I have hope. I have hope because the same process we are relying on to make changes for the better has been used in the past. Unfortunately, in our case it made changes for the worse. In 1999 the mining proxy didn't work out. As I indicated in my presentation, the effort was well intentioned; the change was intended to help. It didn't. It actually hurt. We have changed the formula since the late 1950s. We have been able to change it. Sometimes we improve it; sometimes we take a step back. I have hope for that reason.

I have hope for another reason, Monsieur Côté, and that's that this province you are in right now, this Saskatchewan of ours, is the second-largest producer of oil in the dominion of Canada, the third-largest producer of gas. We are home to a third of the world's supply of uranium—that's world supply—a third of the world's supply of potash, more arable acres than anywhere else in the country, and the underpinnings for the information-based economy are already here in Saskatchewan at the U of S at the synchrotron.

We are set to become, in my view, if we get the fundamentals right in our province, a permanent member of the “have” provinces club. That's why I also have hope, because if we can get these changes, even an energy accord that has an eight-year span to it with an option similar to the Atlantic accord, if we can do that we are going to be a permanent member of that club. And then for other recipient provinces, maybe Quebec, maybe others, there is going to be obviously that \$10.9 billion indexed at 3.5.

So there are two sources of hope. First, we made changes in the past, and we can improve it in the future. Second, in the long term we would hope that if we can achieve some of these changes we won't have to darken the door of the equalization office for decades.

●(1145)

[*Translation*]

The Chair: Thank you, Mr. Côté.

Ms. Wasylycia-Leis, please.

[*English*]

Ms. Judy Wasylycia-Leis: Merci.

Thank you very much for your appearance today.

We're grappling with the issue of fiscal imbalance, and you've rightly pointed out that there is clear evidence of a fiscal imbalance in this country, even if we are having some trouble getting the present federal government to recognize it. Equalization is one tool to address the fiscal imbalance. Some, though, have argued that equalization is nothing more than a welfare trap, which prevents economic initiative and growth. I just wondered about your thoughts on the principle of equalization.

And secondly, with respect to the formula, in addition to the call for a ten-province standard, which I certainly support, which revenues should be included in the standard in the formula? In the past the provinces have said all revenue should be included. That may have held up until the point where in fact the federal government struck a side deal with Newfoundland and Nova Scotia. Is our option now truly one of simply excluding all non-renewable resource revenue from the formula as a way in the future, or is that an interim step? Is there another way to handle what I think is a very precarious critical situation as a result of these side deals?

Mr. Brad Wall: Thank you very much for the question.

First of all, with respect to the welfare trap point you've made, we support equalization as a principle. We support it as a key part of the Constitution Act. We think the notion that provinces should be able to provide comparable levels of service for comparable levels of taxation is a solid principle and a good one on which to build a confederation, and we think that provision has actually strengthened our confederation. We're unique in that respect. I think our fiscal federalism we have had in the country in the last half of the last century and here into 2005 is positive. And so too is social service programming in any province or the federal government. I mean, it can be a very constructive thing to be able to build independence to help people, sometimes simply help people who will not be able to help themselves. There needs to be a social safety net.

When we find as provincial governments or even as a country that we have a program whose principle is sound, whose intent is sound, but because of a nuance it is actually working against its very intent, we change that program. That's what we do. And we're saying the same thing should happen on equalization. The principle is sound. But if part of this equalization program as it exists today is actually discouraging development in Saskatchewan, discouraging us from adding value to our economy and building our independence, then we need to fix it, and that's our point on that question.

So to the extent that parts of the program can be a welfare trap, we've tried to lay out the case this morning where there's a real example of it here in Saskatchewan. But we think it can be fixed, and we think the principle of equalization is sound.

With respect to non-renewable resources, I would say we certainly believe that the ten-province standard, as we indicated in the submission, is the direction we need to go in. We have asked for the exclusion of non-renewable resources, and we were more specific: we said oil and gas. That might be an option that needs to be on the table with the Council of the Federation at a first ministers conference. You know, you can make a distinction between the oil and gas non-renewable resource and a mining non-renewable resource. In most examples, you'll find in the case of mining that you're going to have a longer life to that mine than you will necessarily for an oil and gas reserve.

I think our preference would be the complete exclusion of non-renewable resources, period, from a future equalization formula. I think that makes much more sense for the formula, given the nature of... And I think the Conference Board of Canada in their recent report, and Courchene and others, echo that sentiment. It isn't just politicians from provinces who say don't touch our non-renewable

resources. I think there's some fairness and efficacy to a formula that would do that.

I do think, though, in terms of an accord for Saskatchewan, we highlight oil and gas specifically in an energy accord for our province, as did the Atlantic accord, and we do that because of the uniqueness of the resource, its lifespan, and its prevalence in Saskatchewan.

• (1150)

The Chair: Thank you very much, Madam Wasylycia-Leis.

Mr. Fitzpatrick, for three minutes.

Mr. Brian Fitzpatrick: I want to reiterate a few points, and I would go to the Conference Board and Professor Courchene.

The Minister of Finance and the premier refer to Saskatchewan as a have province. Both of them would say we are only a have province through a very flawed equalization formula. If you look at all other valid economic indicators, Saskatchewan is anything but a have province. In some cases we are a declining province, and under this formula people who have increasing incomes and higher incomes than Saskatchewan are receiving more under the formula. So it's only through the formula that Saskatchewan can be classified as a have province.

I would point out to members that next year, using the Manitoba argument with the premier, with reference to Manitoba, it's not to attack Manitoba; it's just to show, I think, a comparable province to Saskatchewan. Senator Murray from Manitoba totally agrees with me on this front, that there are huge disparities between the two provinces. But next year, under the equalization formula, Manitoba will receive \$1.6 billion under the program and Saskatchewan will receive \$88 million. That's something like \$300 for a family of four in Saskatchewan, and in Manitoba a family of four will be receiving between \$6,000 and \$7,000. And the amazing thing is the per capita income in Manitoba is actually higher than it is in Saskatchewan. So this thing is crazy.

I referred Premier Calvert to a study by Robert Mansell, who used to be the chair of the University of Calgary School of Economics and who used to track this stuff before it became popular. His last paper, I think, was in 1998. I have his early 1990 model, but it goes back to 1961. The average per capita income of Saskatchewan was 85% below the national average; Manitoba was 92% of the national average. But lo and behold, over that long period of time, from 1961 to the mid-1990s, Manitoba on average received a net higher amount from Ottawa of \$530 million. And over the last ten years, my calculation shows it's something in the order of \$800 million.

That is a huge fiscal imbalance. That's a massive distortion between two provinces that should be quite comparable, and the cumulative effect on this province is not good. If we didn't have these fiscal imbalances maybe we wouldn't be talking about not being able to pay for our share of CAIS programs, and so on. But obviously we have problems stepping up to the plate to pay for these things.

I just want to make some of these points. I think you understand them, Mr. Wall, but I want the Bloc members to understand the huge disparity we have in this area.

Mr. Brad Wall: And it's a point you have been keeping for, as I said, some number of years, even before Courchene did his paper.

On page 7 of our presentation we highlight what's happening in Manitoba and in British Columbia. To his credit, Terry Stratton, the Liberal senator from Manitoba—I beg your pardon, the Conservative senator from Manitoba—who is benefiting significantly from the equalization program, when Ken and the finance minister from the province were there he agreed it's not fair, based on what his province is getting versus ours. Relative to other provinces, we are getting poorer.

So it's exactly the case we are trying to make here. According to the equalization formula, we have moved from have not to have status, but relative to other provinces we are actually going backwards in a lot of categories. So that's why it's patently unfair and it needs change.

Mr. Ken Cheveldayoff (MLA, Legislative Assembly of Saskatchewan): I would just add, Mr. Chair, that when I accompanied the finance minister to the Senate committee—and I should just add that MPs and senators were very well versed in this subject—that point was made very strongly, that Saskatchewan seemed to be standing still. We have had a 2% increase in job creation over the last five years, so that's less than half a percent per year increase. Also, our per capita income is low and it's not keeping up and our population has been stagnant. Again, comparing us to Manitoba, we haven't been keeping up. In light of the mineral resources we were blessed with here, Saskatchewan just doesn't seem to be keeping up with other provinces.

• (1155)

The Chair: Thank you.

Mr. Bell for three minutes, please.

Mr. Don Bell: Thank you.

I guess you're more or less in concert with what was put forward by the premier earlier with some particular emphasis on different areas. There is one question I wanted to ask you. You did meet with the finance minister already, I know, in the discussions that were taking place. Will you be presenting to the expert panel? The premier indicated that the province would be.

Mr. Brad Wall: We're going to take absolutely every opportunity we can, Mr. Bell, to make the case. When that panel is convening we'll be requesting a chance to do that. We joined the government at the Senate committee, and we'll be travelling to Ottawa again to request meetings with anybody who will hear us on this case. It could be the Saskatchewan caucus of the Conservative Party, the Minister of Finance, anybody who will hear us, including that panel. It is obviously very important that we appear before that panel, as they will be mandated to consider specific changes.

Mr. Don Bell: The reason I mention that is because that's clearly an agreement from the federal government and the minister that a broad look at the whole issue of equalization is important.

Thank you again for presenting today and helping me to understand the situation here.

Mr. Brad Wall: Thank you, Mr. Bell, for being here.

[Translation]

The Chair: Thank you, Mr. Bell.

Mr. Côté.

Mr. Guy Côté: I thank you too. It was very interesting. I will save time for the Chair because I don't really have any questions. Your presentation was very clear and described very well the problem as it exists in Saskatchewan. Thank you very much.

The Chair: Thank you, Mr. Côté.

Ms. Wasylycia-Leis, please. You have three minutes.

[English]

Ms. Judy Wasylycia-Leis: Can I have his five?

[Translation]

The Chair: You can take up to four minutes.

[English]

Ms. Judy Wasylycia-Leis: Okay.

I want to go back to the whole broad issue of fiscal imbalance and suggest to you that actually I think the problem of fiscal imbalance started with the federal Liberal budget of 1995, when there were huge cuts in transfer payments, and subsequent to that there were significant changes to the employment insurance program, creating all kinds of pressure on provincial governments to pick up the slack. So as we lost the Canada Assistance Plan and people were then forced onto provincial welfare rolls and we lost the protection of the EI fund, even though there's a \$46 billion surplus today, we sort of shifted everything onto the provinces, into areas of jurisdiction that are strictly provincial, creating a huge imbalance.

We did that, at the time, in the interest of having a balanced budget. I think we went overboard. I don't want to get into the whole theory and the history, except to say I think what we've got to do now is look at increasing transfer payments or at least shaping the federal role in terms of fundamental issues like income security, family violence programs, employment training programs, housing, things that used to be part of the federal government's responsibility and are no longer being picked up and are just sort of dumped on the provinces.

I guess I'd like your views on what we do about that other aspect of fiscal imbalance.

Mr. Brad Wall: Well, I think we've seen some progress. I highlighted in my presentation, as you will note, that in the mid-1990s—I agree—we saw a significant increase in pressure on provinces to deliver services in health care and in social services and education, post-secondary especially. I think we're not nearly recovered from that yet, but at least there seems to be a willingness now, as we've seen an increase in the CHT and also the social transfer and the health accord. There's at least some movement in that regard. I think we have to continue to push hard at the provincial end, with the help of federal members, both opposition and government—push hard for recognition that there was a significant hit taken by provinces and more importantly by families in the mid-1990s on those issues.

Now, if we're talking about surpluses federally, you know, the provinces were asked to share the pain, and they ought to be part of sharing the gain as well. We've seen some indication of that, whether it's the Atlantic accord or the health deal or the increase of transfers. We're not there yet, and the Saskatchewan Party would suggest we need to do more, but I'm an optimist. There's reason to be hopeful, especially if we have some of the comments that we have coming from the opposition in a minority government. I think there's a chance to continue to make progress here.

• (1200)

The Chair: Thank you very much, Madame Wasylycia-Leis. Three minutes and 22 seconds—that's a record.

Mr. Wall, you have three minutes to conclude your presentation.

Mr. Brad Wall: I hope not to use up three minutes, because I am grateful just for the opportunity to appear before you as an opposition leader in the province of Saskatchewan to make the case to support Premier Calvert and his government on this very, very important issue for our province.

As I said, \$400 million a year over the last 10 years is over \$4 billion. The case has been made by our Department of Finance, and we concur with that. For us, that is a large amount of money. The budget here is \$6 billion and change. That is our annual budget in the province. So we are talking about money that could significantly

help us provide service or reduce the tax burden on property, or be more competitive in our economy with the capital tax.

We would like to have that opportunity to make those decisions, but before we can have that opportunity, Mr. Chair, we need the federal government to make the right decision with respect to an energy accord for Saskatchewan and long-term change to the equalization program that is fair to all the provinces. That may well create another permanent member of that “have province” club that frees up resources for other recipient provinces.

Thank you very much for this chance. Merci.

The Chair: Merci, Monsieur Wall. It was a pleasure to welcome you.

I thank very much Saskatchewan for the high level of the presentation this morning. Thank you very much.

Mr. Brad Wall: Thank you very much.

[*Translation*]

Thank you for this opportunity to address the committee.

The Chair: Thank you, Mr. Wall.

[*English*]

The meeting is adjourned.

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