

Income Tax

proviso in each of these clauses by which certain sub-clauses would not take effect except by proclamation after April 15.

The two clauses to which I refer, namely, clauses 4 and 7, have caused great concern to the provincial governments and great anxiety to the oil companies and to the mining industry. They have also given rise to considerable opposition by hon. members in all parties on this side of the House. As the House knows, clause 4 provides that royalties paid to a provincial government in any form whatsoever are not deductible for income tax purposes. The minister has made it clear that royalties paid to private corporations, or royalties paid to a foreign government in cases where a Canadian firm is engaged in mining or petroleum production in other countries, will be admissible for income tax purposes. However, where royalties are paid to a provincial government they will not be deductible for income tax purposes.

Clause 7 contains a subclause dealing with fair market value. The result is that companies which are developing a non-renewable resource such as minerals, oil or gas will not be taxed on the basis of the price they receive for their products but on the basis of the price which is paid to the provincial government or any agency of the provincial government which sells those products. This looks to me and to my hon. friends like an attempt to prevent a provincial government from deciding how it will manage and market the resources of its province in a manner which it feels is most advantageous to the people to whom those resources rightfully belong.

It is the view of the members of this party that these two provisions in clauses 4 and 7 represent a serious and unwarranted intervention in an area of jurisdiction lying within the authority of the provincial governments. Under section 92 of the British North America Act, the resources of a province come within the exclusive jurisdiction of the province and the province has the right to determine the division of economic rent between the Crown in right of a province and the industry. The federal government has the right to tax the revenue which industry receives for exploiting and developing those resources. It also has the right to adjust the equalization payments so as to take into account revenue which the provincial government gets from the marketing of those resources.

But in this legislation the federal government has gone further and is seeking to intervene in deciding how a province chooses to manage its resources and how it shall decide to divide the economic rent between the provincial government and the industries engaged in resource development. This, in my opinion, is an act unprecedented in the history of Canada. Never before has a federal government sought to intervene in the field of resource development, in the field of royalties or with respect to the price a provincial government will get for the sale of products which belong to the people of that province.

I do not intend to deal, now, with the constitutional aspects of the matter. If the provincial governments decide that the federal government has exceeded its constitutional powers, it is a matter for them to determine whether or not to submit the question to the courts and it will be for the courts to decide the issue. There is, however, a political aspect to this whole question raised by these two clauses.

This country has to decide between the concept of co-operative federalism or confrontation federalism. The first prime minister of Canada, Sir John A. Macdonald, said that this was not an easy country to govern. That remark will probably go down in Canadian political history as the greatest understatement ever made.

It is well known that Sir John A. Macdonald would have preferred, initially, to see a unitary form of government. As events transpired, we developed a federal system, and I think most of us are convinced that this was probably the right decision for the Fathers of Confederation to make. It is true that there are some advantages in a unitary form of government, but it is equally true that in a federal system of government the advantages, at least in my opinion, far outweigh the disadvantages. In a country of such vast space, with a people extending from the Atlantic Ocean to the Pacific Ocean, there is a great deal to be said for having governments that are close to the people, in having governments that take over areas of jurisdiction such as health and welfare, education, resource development, labour laws and agriculture; matters which can be, I think experience has shown, much better administered on a provincial basis than by a unitary form of government which is operated from Ottawa.

● (1540)

Mr. Stanfield: Sometimes you get some very good provincial governments, too.

Mr. Douglas (Nanaimo-Cowichan-The Islands): However, as experience has shown, there arise differences of opinion with respect to the exercise of the respective responsibilities given to the two levels of government. Conflicts have arisen in the past and undoubtedly conflicts will arise in the future. We have to decide how these conflicts are to be resolved. They can be resolved by confrontation, by taking cases to the courts, and by building up hostility in which the people of Canada are torn between the claims of their provincial government and the claim of the government of Canada.

But there have been a surprising number of instances in our history where federal and provincial governments have been able to resolve their differences and reach consensus in settling conflicts. This has been true in the case of pension legislation, welfare legislation, health legislation. Solutions have been worked out in regard to labour legislation and in the particularly difficult field of agricultural legislation, where the federal government has responsibility for marketing and the provincial government for production. These differences in points of view have been worked out by compromise and negotiation and a solution has been found.

The energy crisis which began in the latter part of 1973 has raised a whole new area of possible conflict and confrontation arising from the fact that the provincial governments have the right to set the price of products such as oil and gas, or the price of a specific mineral, whereas the federal government has jurisdiction in dealing with these products when they cross interprovincial and international boundaries.

The Minister of Energy, Mines and Resources (Mr. Macdonald), whom I see in his seat, I think will acknowledge