

*Oil and Gas*

Since I became Minister of Finance, the equalization payments have risen from roughly \$1 billion to \$2 billion this year. That is a doubling of equalization payments in a period of three fiscal years. That is just not as a result of the burgeoning provincial revenues, particularly of the sales tax in Ontario, British Columbia and Alberta which has increased the revenue base. Some of the increase derives from conscious decisions to add some additional oil revenues, one-third in this bill, and increasing the base for equalization by adding municipal taxes for school purposes to the formula.

The hon. Leader of the Opposition (Mr. Stanfield) asked me what the prospect was of future negotiations with the provinces for a continuation of the statute, and of the equalization formula, after the expiry of the current arrangement which terminates on March 31, 1977. It seems clear that undoubtedly the formula will have to be reviewed. This appears desirable partly because of the anticipated problems created by the international oil disturbance and partly because of a review which I believe is necessary of the entire provincial revenue picture.

Here is what I said on December 9 and 10 in a statement to the provincial ministers of finance and provincial treasurers. Since the hon. Leader of the Opposition quoted himself I hope that I can put on the record what I said to my colleagues at that time:

I would also like to say that I am conscious of the need to begin looking at the equalization arrangements for the 1977-1982 period. As you know, the present program expires on March 31, 1977. There is no doubt in my mind that this program must be renewed. It is customary for the federal government and the provinces to sit down together and examine the program in order to consider any improvements which may be needed. A review will be particularly useful prior to 1977 in view of the recent, and totally unanticipated, disruption brought about by the international oil disturbance.

While equalization is a federal program and we must assume responsibility for it, I am very anxious to have the views of the provinces concerning any long-term changes which should be made in it. I would hope that the necessary steps to get such a review under way could be undertaken some time within the next few months. I would, therefore, suggest that this matter be referred to the continuing committee of officials with instructions to proceed with a review and to report progress at our next meeting.

That is being done, Mr. Speaker.

The Leader of the Opposition mentioned the special case of the province of Saskatchewan. Saskatchewan is in a unique position in the sense that it is a receiving province under the equalization formula. It is also a province in receipt of oil and, to a much lesser extent, gas revenues. If there had been no adjustment made at all, Saskatchewan would have lost under the equalization formula by reason of the additional oil revenues—and to quite a considerable extent—just as would be the case if in the province of Nova Scotia oil were to be brought in in marketable quantities off the coast within provincial jurisdiction. Until the amount of \$200 million per year in royalties was reached, the effect on the equalization formula would be negative so far as Nova Scotia was concerned.

The federal proposal of March, 1974 to the provinces was to exclude from equalization any oil revenues that were sequestered by producing provinces to non-budgetary capital funds for energy development. The result was to put Saskatchewan in a protected position so that the entire amount of additional oil and gas revenues would

not be brought into the formula to the detriment of that province.

At the time the proposal was made, the federal government understood that Alberta would sequester about 65 per cent of its additional revenue from oil to the capital fund, that Saskatchewan would sequester 100 per cent and the other producing provinces would not sequester anything. The federal expectation having regard to the relative percentage of oil revenues as among Alberta, Saskatchewan and the other provinces was that, over all, about two-thirds of additional oil revenues of the producing provinces would be sequestered and hence excluded from equalization.

Accordingly, the principal provision of Bill C-57 before the House adopts that principle—that is to say, the exclusion of the additional oil revenues of the producing provinces in the ratio of two-thirds to one-third. That, Mr. Speaker, gives approximately the same result for all the provinces as the proposal I made to the provincial ministers of finance and the provincial treasurers one year ago.

Bill C-57 does, however, differ in two significant respects from the proposal to exclude sequestered oil revenues which I made in March, 1974. First, it applies to revenues from natural gas as well as to revenues from oil. Revenues from natural gas were not discussed by first ministers in March of 1974 as the talk at that time related only to oil. The second difference is that Bill C-57 provides for the reclassification of oil and gas revenues into six revenue sources in lieu of four as at present, and for changing the treatment of remittances from oil and gas enterprises. These further changes have had the effect of enlarging equalization by approximately \$33 million as of 1974-75, of which \$26 million goes to the province of Saskatchewan. The substantial benefits to Saskatchewan arise from the recognition of freehold oil and gas as separate revenue sources.

Now, why did I exclude the original proposal of sequestration or setting into capital accounts? The original proposal to exclude sequestered revenues from equalization was dropped for a number of reasons. Principal among these was uncertainty as to how it would work out. As of last November when the government's new proposal was announced, Alberta—the principal producing province—had made no public announcement as to the establishment of a capital fund. They now have the heritage fund. We had no commitment from Alberta, nor should we have had as to what percentage of its oil revenues or additional oil revenues would go into that capital fund. While such a fund was finally announced by Alberta in April of this year, the legislation to establish it has not yet been brought forward and there are still uncertainties about certain aspects of the proposal, such as the purposes for which the sequestered revenues will be used.

Had we really depended upon provincial action to set aside or characterize revenues as capital or revenue, the whole equalization formula would have depended really upon unilateral provincial action as to how a province would characterize or qualify those amounts. In any event, this bill removes these uncertainties in so far as equalization is concerned. I believe this is desirable, both for the federal government and the equalization receiving provinces. Those provinces need to be able to budget on the