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A NEW OFFER TO THE PROVINCES

The following is the text of a letter that Prime Minister Diefenbaker sent to each of the ten premiers of Canada on June 16:

"At the Dominion-Provincial Conference of February 23 and 24, 1961, I presented certain proposals with respect to the financial arrangements which might exist between Canada and the provinces for the five-year period commencing April 1, 1962. The major aspects of these proposals were that we should discontinue the present system of tax rentals in favour of tax collection arrangements, that the Federal Government would leave considerably more tax room for the provinces by withdrawing substantially in the personal income tax and that a broader system of equalization should be adopted which would give greater weight to fiscal need, particularly when considered in conjunction with the proposal to increase substantially the Atlantic Provinces Adjustment Grants and to continue for a further five years the special payment of \$8 million per annum to Newfoundland.

"The above proposals were discussed at the Dominion-Provincial Conference of February 23-24. Since that time they have been discussed intensively by officials at two meetings of the Continuing Committee on Fiscal and Economic Matters. The Federal Government has given very careful consideration to all the points raised and the purpose of my letter is to acquaint you with the conclusions we have reached.

TAX COLLECTION AGREEMENTS

"In changing from a tax rental to a tax collection system of agreements, the first question to settle is

the type of tax collection agreements which can be adopted to put the new system into effect. Under the system proposed, the provinces will levy their own personal income and corporation income taxes. The Department of Justice has given intensive consideration to the possibility of devising agreements which would enable the Department of National Revenue to provide the tax collection service for those provinces which wished it without having to resort to provincial courts. If this could have been achieved, it would have greatly simplified the task of the Department of National Revenue. However, it is the opinion of the Department of Justice that any arrangement which attempted to provide for the enforcement of the provincial taxes otherwise than through the provincial courts would be of doubtful constitutional validity. This means that the only type of tax collection agreement which can be safely entered into between the provinces and Canada is one in which the Federal Government will act as the agent of the province for the purpose of collecting the tax imposed by the province. The fact that an agency system of agreements must be entered into will complicate the work of the Department of National Revenue and will make it necessary to exercise extreme care in defining the relationship between the federal and provincial taxes.

PERSONAL INCOME LEVY

"A second important question has been raised involving the relationship between the federal and provincial taxes on personal income. Two possibili-

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ties have been discussed. This first is that the provincial tax might be a percentage of the federal tax. The second is that the provincial tax might be imposed on the basis of taxable income as defined under the Income Tax Act of Canada with a schedule of rates which followed the rate of progression in the federal income tax. The Federal Government is not prepared to offer tax collection agreements on both of these bases concurrently, partly because of the administrative complexity which would result for the Department of National Revenue, and partly because of the inconvenience it would cause to taxpayers and to employers who are responsible for tax deductions at source. In order that it will be possible to separate the provincial content of all tax deductions at source without installing a complete system of separate accounting for the provincial and federal levies, it is necessary that the percentage relationship between the Provincial tax deductions and the Federal tax deductions must be constant throughout the year. Since this is the case, it seems to the Federal Government that a provincial tax levied as a percentage of the federal tax has very clear advantages. We are prepared, therefore, to offer tax collection agreements to provinces in which the personal income tax is levied as a percentage of the federal tax.

"There are no similar complications in the case of the corporation income tax and the Federal Government is prepared, therefore, to enter into tax collection agreements with the provinces for any corporation income tax which is expressed as a flat percentage of taxable income as defined for federal income tax purposes.

"Some provinces have enquired as to the possibility of the Federal Government collecting for the provinces in addition to the income tax, a further flat-rate tax which would apply subject to a stated dollar maximum, as is the case with the Federal Old Age Security Tax. The difficulty with this proposal is that the addition of such a tax to the provincial rate structure would destroy the uniform percentage relationship between the provincial and federal tax in all income ranges. The Federal Government could not, therefore, undertake to collect such a special tax without becoming involved in completely separate accounting on an individual basis for the provincial and federal tax. This is a task which the Federal Government cannot assume because of the unnecessary additional burden it would place on the Department of National Revenue.

NATIONAL RESOURCE REVENUE

"Questions have been raised as to whether natural resource revenue should be included in the formula and particularly whether certain elements of that natural resource revenue which have been referred to as non-recurring should be included. As I stated to the Dominion-Provincial Conference of February 23-24 in presenting the federal proposals, the reason for including natural resource revenue was to broaden the equalization formula by taking account of the great variation in provincial revenues due to natural resources. In our view, this addition to the equalization formula has greatly improved it from the standpoint of meeting the fiscal need of

the provinces. The decision to include 50 per cent of all natural resource revenue as shown in the Dominion Bureau of Statistics publication, 'Financial Statistics of Provincial Governments', was taken to avoid uncertainty in the application of the formula. We believe that a thin line separates recurring from non-recurring revenues in the resource field, if indeed there is any line of separation at all. Consequently, to attempt any such separation would, we believe, lay the whole formula open to doubt and dispute. Since we are including only 50 per cent of natural resource revenue, we are not in any event allowing the full weight of either the recurring or non-recurring natural resource revenue to affect the equalization payments. I conclude, therefore, that the proposal to include 50 per cent of natural resource revenue in the equalization formula should stand as an essential part of the federal offer.

EQUALIZATION GUARANTEES

"Some provinces have asked whether the Federal Government would be prepared to extend the guarantees offered under the federal proposals. One suggestion was that there should be an additional guarantee that no province would receive less in equalization under the new proposals than it would have received under a projection of the equalization component of the present arrangements. Another suggestion was that what was referred to in my statement to the Conference as the (a) guarantee should be extended to provinces above the national average. Under the proposals as presented by the Federal Government, the provinces will receive the benefit of substantially increased tax room in addition to equalization and the equalization guarantees. The federal withdrawal from the personal income tax is to be raised to twenty per cent by the end of the period compared with the standard rate of thirteen per cent for the present year. Having in mind its heavy responsibilities, the Federal Government cannot provide additional equalization guarantees of the type mentioned above while at the same time offering substantially increased tax room to the provinces.

"A further question was raised with respect to the application of the equalization guarantee to those provinces in receipt of the Atlantic Provinces Adjustment Grants. The Atlantic Provinces Adjustment Grants, which it is proposed to increase by \$10 million, will be paid separately under the terms of the new legislation. However, in determining the additional equalization to be paid to a province in the form of a guarantee, it is proposed to take account of the Atlantic Provinces Adjustment Grants. This seems a reasonable procedure in view of the fact that the guaranteed equalization already provides for payments to the provinces in excess of their entitlement under the basic equalization formula.

TAXATION OF FOREST INDUSTRY

"At the Conference I stated that the Federal Government was prepared to consider certain concessions in connection with the taxation of the forest industry if the provinces were willing also to

CHEMISTRY RALLY

Scientists from 40 countries who will attend the Eighteenth International Congress of Pure and Applied Chemistry in Montreal from August 12 to 16 will be visiting a country with a chemical industry that has reached the \$1,500 million mark. The industry is a vital one in Canada, with 54,312 persons employed in 1,141 chemical plants. Its economic importance is indicated by the \$240 million earned in salaries and wages in Canada's chemical industry. These plants burn more than \$50 million in fuel and electricity and use some \$625 million in raw materials. Imports hover about the \$340 million mark, and exports at about \$240 million.

The chemical industry in Canada is located mainly in the central provinces, although Edmonton in the western sector, with its oil industry, is as much part of the industry as Montreal, Toronto, Samia, Windsor, Trail and Niagara Falls. Almost 90 per cent of the jobs in this industry are held in Ontario and Quebec.

The industry is broken down basically into two groups, producers of basic chemicals used primarily by the chemical industry itself but also by others, and producers of allied chemical products whose output is sold through wholesale and retail outlets directly to the ultimate consumer.

FUTURE OF CHEMICAL INDUSTRY

The scope for the chemical industry in Canada may be gathered from the fact that one out of three of the nation's manufacturing establishments employs chemical processes and makes products essentially chemical in nature. Industries such as metals, wood-pulp, petroleum products, explosives, fertilizers, soap, plastics, synthetic rubber, synthetic fibres, cement and glass are examples.

In terms of millions of dollars, the Canadian chemical industry has grown from \$129 in 1920 to \$223 in 1940 and to its present \$1,500 million value status in 1960.

It has been predicted by a recent Royal Commission that the expansion of the chemical industry in Canada will continue for many years. One of the criteria for such growth is expanded basic and applied research, and the Commission has noted that the trend is toward more research of this kind by industry.

One of the big factors in Canadian research is the National Research Council, a government-operated organization. New research facilities are constantly being installed by industry.

APRIL RETAIL SALES

Canadian retailers had sales estimated at \$1,358,494,000 in April, a decline of 5.2 per cent from \$1,432,251,000 in the corresponding month last year, according to a report released by the Dominion Bureau of Statistics. This followed a 2.9 per cent

advance in March and decreases of 2.0 per cent in February and 0.7 per cent in January. In the January-April period, sales declined 1.3 per cent to \$4,942,638,000 from \$5,009,626,000 in the like span of 1960.

All provinces had sales decreases in April, compared with the corresponding month last year, ranging between 0.2 per cent for Alberta and 6.3 per cent for Ontario. In the January-April period Quebec had a sales gain of 0.7 per cent and Alberta an increase of 1.4 per cent. Decreases in the other provinces were between 0.2 per cent in Manitoba and 4.7 per cent in British Columbia.

Among the trades, there were sales increases in April of 6.0 per cent for fuel dealers and 3.2 per cent for lumber and building-material dealers, and decreases ranging from 0.7 per cent for drug stores to 19.5 per cent for shoe stores. In the January-April period, six trades had sales increases; general stores 1.0 per cent, department stores 1.4 per cent, variety stores 3.7 per cent, garages and filling stations 0.5 per cent, family-clothing stores 3.3 per cent, and fuel dealers 0.7 per cent. The other trades had sales decreases between 0.7 per cent for drug stores and 6.5 per cent for motor-vehicle dealers.

IRON ORE SHIPMENTS

Shipments of iron ore from Canadian mines in April decreased 3.3 per cent to 341,335 tons from 352,924 a year earlier. With a decline of 2.2 per cent in shipments in the first quarter, deliveries in the January-April period fell 2.5 per cent to 1,346,713 tons from 1,381,328 in the corresponding 1960 period. End-of-April stocks were substantially larger than a year ago at 4,023,084 tons versus 2,845,792.

Iron ore shipped for export fell in April to 131,581 tons from 159,620 a year earlier, but rose in the January-April period to 814,405 tons from 795,061. The month's shipments to Canadian consumers increased to 209,754 tons from 193,304, while four-month shipment decreased to 532,308 from 586,267.

Total shipments were larger in April, compared to a year earlier, from mines in Quebec, Ontario, and Alberta and British Columbia; no iron ore was shipped from mines in Newfoundland. January-April shipments were above year-earlier levels from mines in Quebec, and Alberta and British Columbia, and below a year earlier from mines in Newfoundland and Ontario.

FAO FISHERIES MEETING

Expert opinions on the economic aspects of fisheries management and the results of studies made in various countries on the economic effects of fishery regulations were discussed during the week June 12-16 in a series of meetings sponsored by the Food and Agriculture Organization of the United Nations. The Canadian Government was host to the conference at the request of FAO, in recognition of

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the contributions to knowledge of the fisheries made by Canadian scientists and economists.

Professor Anthony Scott of the University of British Columbia, Vancouver, was the author of the first paper under review, on the economics of regulating fisheries; Dr. L.M. Dickie of the St. Andrews, New Brunswick, biological station of the Fisheries Research Board of Canada was the author of another paper on the effects of fishery regulation on the catch of fish. Other authorities who prepared papers, and their subjects, were Noriaki Oka, of the Fisheries Agency of Japan, together with Hirohiko Watanabe and Akira Hasegawa of the Japanese Fisheries Research Institute, on the Japanese trawl fishery; Professor G. Pontecorvo of Bowdoin College, Brunswick, Maine, on the Atlantic lobster fishery; Professor Sol Sinclair of the University of Manitoba, Winnipeg, on the Pacific-coast salmon fisheries; Professor J.A. Crutchfield of the University of Washington, Seattle, Washington, on the Pacific coast halibut fishery; and L.P.D. Gertenbach, of FAO, Rome on regulation of the South African west-coast shoal fisheries.

ST. LAWRENCE TEST MODEL

A hydraulic test model of the St. Lawrence River, from Nun's Island at Montreal eastward to Lake St. Peter, and including the Sorel Islands, is to be built by the Department of Transport to study control of the river levels. Preparatory work for the project will get under way shortly.

The model, which will be constructed of concrete, will reproduce all natural features of 54 miles of the river, such as bottom contours, shoreline and islands. Engineers will be able to run water through the model to study all aspects of water-level control relative to maintenance of adequate depth for shipping, flood control and movement of ice in winter.

The model will be built to a scale of one foot to 600 feet, horizontally, and one foot to 150 feet vertically, and will occupy an area of about 16,000 square feet. In order to house such a large undertaking, the Department of Transport has a building in the Montreal suburb of Ville La Salle, which formerly housed models required in the planning of the St. Lawrence Seaway.

The St. Lawrence River model will be approximately 500 feet long and will be built in two sections, placed side by side. Before construction begins, extensive work will be undertaken by the department's Ship Channel Division, in co-operation with the Department of Mines and Technical Surveys, to prepare aerial photographs of the river, as well as complete details of the entire river bottom and the flow of water, through soundings, metering of the flow in various channels, and other studies.

The project is being undertaken because of the fact that in recent years, with continuing improvement and deepening of the ship channel, the river level has been lowered appreciably in the area under study. The model will provide the information needed

to control the flow in a manner that will permit a desirable level to be maintained.

Construction of the model is expected to begin in the fall and testing of proposed control measures is to commence in the early spring of 1962.

BALANCE OF PAYMENTS

Canada's current payments to other countries in the first quarter of 1961 exceeded current receipts by \$361 million, compared with \$328 million in the same period of 1960; this is less than in the first quarters of 1956, 1957 and 1959. Virtually all the deficit, \$353 million, originated in non-merchandise transactions that were in greater imbalance than in any preceding quarter, with unusually large payments of dividends and rising interest payments coinciding with a seasonally large payments balance on travel account. In contrast, merchandise trade was close to balance, the import balance of \$8 million comparing with \$44 million last year and much larger deficits from this source in the first quarters of the recent preceding years.

Direct investment capital continued to flow into Canada at a rate which was high by historical comparison, while there were renewed inflows from transactions in portfolio Canadian securities. Capital in short-term forms made up a substantial part of the net capital movement into Canada in the quarter. Official holdings of gold and foreign exchange were substantially increased, but reductions in other holdings were a significant offset.

PROBE OF UNTRAVELLED ARCTIC

It was recently announced by the Minister of Transport, Mr. Balcer, that further consideration had been given to the possibility of carrying out a probe of areas in the Arctic archipelago not previously traversed by ships. As a result, it is now intended to employ CMS "John A. Macdonald" on the usual supply trip to Eureka, after which the ship will explore areas to the westward of its usual route and attempt to return to Melville Sound and Barrow Strait through channels north and west of Cornwallis and Bathurst Islands.

This operation will be dependent upon ice conditions at the time and the availability of icebreakers that can be spared from their normal duties of ensuring the safety of the regular supply convoys.

The purpose of the exploration will be to test the ability of the Canadian Marine Service to operate in these areas, in view of the possibility that commercial developments may occur that will depend on this knowledge. For this purpose the Department of Transport needs to learn more about ice conditions from the point of view of navigation and to determine the hydrography of the unexplored channels.

The work has the support and participation of the Hydrographic Service, and other scientific agen-

cies of government concerned with Arctic research have been invited to participate so that the maximum value may be obtained from this voyage.

PUBLIC HARBOUR AT SEPT-ILES

The continuing growth of marine traffic at Seven Islands, Quebec, and the increasing need for control of shipping in the harbour have made it necessary to proclaim it a public harbour under the Canada Shipping Act, it was announced recently by Mr. Léon Balcer, Minister of Transport.

Figures compiled by the Dominion Bureau of Statistics for 1960 show more than 1,800 vessel arrivals, of a total of 4.7 million registered tons. Cargo loadings and unloadings for the period were nearly 12 million tons, making the harbour one of the busiest on the St. Lawrence River. Though much of the cargo tonnage was connected with the handling of iron ore produced in the region, a large percentage of the traffic was made up of smaller coastal and ferry vessels calling at the public wharves.

To take care of this expansion of traffic the necessary steps have been taken to define the limits of the public harbour for administrative purposes. The limits will include the entire navigable waters of Seven Islands Bay but will exclude the islands, and the channels between them.

Following proclamation of the harbour, all shipping activities become subject to the provisions of the Canada Shipping Act and Public Harbour Regulations.

NEW DIETARY FORMULA

The Canadian Council on Nutrition has now approved a new formulation of "Canada's Food Rules" and has, in the process, changed the heading to "Canada's Food Guide". For nearly 20 years the terse phraseology of "Canada's Food Rules" has provided a rule-of-thumb guidance for the appropriate selection of Canadian foods to maintain health. A generation of school-children has memorized the rules and applied them in classroom projects.

As scientific knowledge of nutrition has extended, slight amendments in the "Rules" have been necessary from time to time. The Canadian Council on Nutrition felt that the research achievements of recent years required a re-appraisal of the entire statement, and a revision not only to incorporate these advances but also to recognize changes in the foods commonly available and changes in educational methods. At the same time it desired to maintain the style of the text which has proven effective through years of use. The new formulation, approved by the Canadian Council on Nutrition, is as follows:

CANADA'S FOOD GUIDE

These foods are good to eat.
Eat them every day for health.
Have three meals each day.

Milk

- Children (up to about 11 years) 2½ cups (20 fl. oz.)
- Adolescents 4 cups (32 fl. oz.)
- Adults 1½ cups (12 fl. oz.)
- Expectant and nursing mothers 4 cups (32 fl. oz.)

Fruit

- Two servings of fruit or juice
- Include oranges, grapefruit or tomatoes three times a week.

Vegetables

- One serving of potatoes.
- Two servings of other vegetables, preferably yellow or green and often raw.

Bread and Cereals

- Bread (with butter or fortified margarine).
- One serving of whole grain cereal.

Meat and Fish

- One serving of meat, fish or poultry.
- Eat liver occasionally.
- Eggs, cheese, dried beans or peas, may be used in place of meat.
- In addition, eggs and cheese each at least three times a week.

Vitamin D

- 400 International Units for all growing persons and expectant and nursing mothers.

Approved by the Canadian Council on Nutrition, 1961.

Nutrition Division

Department of National Health and Welfare.

Commenting on the new formulation, the Chairmen of the Canadian Council on Nutrition Dr. J.E. Monagle, Chief, of the Nutrition Division, of the Department of National Health and Welfare, said:

"Obviously, 'Canada's Food Guide' is in principle only a restatement of 'Canada's Food Rules'. Intended as an aid to appropriate food selection for health, the original version was often applied as a dictum. In the revised text the Council on Nutrition makes greater allowance for the flexibility of selection permitted by the variety of foods available in Canadian markets. There has been no change in underlying philosophies, and the basic grouping remains. More precise definition of requirements for certain nutrients has brought about slight changes in recommendations for some groups of foods. We wish to particularly stress that 'Canada's Food Guide' is applicable for all age groups, and that dietary selection on this basis is conducive to health without any vitamin or mineral supplementation or resort to other panaceas. Moreover, it is a practical guide for even the most limited food budget"

A printed version of "Canada's Food Guide" will be available to nutritionists, health educators and the general public in the near future.

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make some concessions. It has been conceded that because the logging profits tax is levied in addition to the corporation income tax, the forest industry bears a greater tax burden than other industries. The possibilities of lessening the burden of taxation on the forest industry have been discussed at the official level. One of the possibilities discussed was that a tax credit, shared between a province and Canada, might be granted to the industry. Before this can be done some further technical discussions will be required to reach agreement on the definition of logging income which will be subject to tax and accepted for the purpose of this tax credit. Subject to reaching agreement on this matter of the definition of logging income, the Federal Government is prepared as a means of relieving the tax burden on the forest industry to offer a tax credit equal to two-thirds of the logging tax up to a maximum rate of ten per cent, provided the province gives a tax credit equal to the remaining one-third of such logging tax.

"Request has been made for the preparation of a list of federal agencies and corporations which might be subject to provincial sales taxes. We are proceeding with the preparation of such a list and this matter will be resolved before the expiry of the present agreements at March 31 next.

UTILITIES INCOME TAX

"I indicated in my statement to the Conference of February 23-24, that the Federal Government was prepared to continue for the fiscal year 1961-62 the arrangements whereby the provinces receive a half share of the income tax collected from certain public utilities. A number of provinces have indicated that they believe there are strong reasons for continuing this sharing beyond the year 1961-62. We now propose as a concession to these representations to give the assurance that this sharing will be continued throughout the period of the next agreements, that is, for the next five years up to and including the fiscal year 1966-67.

"With regard to the progress which is being made with the preparation of legislation to implement the proposed financial arrangements for the period after March 31, 1962, it is our intention to introduce at the current session of Parliament legislation which will provide the basis for the proposed new arrangements. The Department of Justice is making good progress with the drafting of this legislation. While the legislation will provide authority for the Government of Canada to enter into tax collection agreements with the provinces, there will be a great deal of work involved in drafting the agreements themselves. This can come at a later stage. As soon as the draft legislation has been prepared which will provide the basis of the new arrangements, it will be possible for the Department of Justice to turn their attention to the preparation of

model provincial legislation which would complement the draft federal legislation. I understand that it was the wish of some of the provinces that the Federal Government should assist them in this fashion.

"I believe that the above comments deal with the major points which have been raised in connection with the federal proposals and I trust that they give you an adequate account of the progress to date."

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WARTIME EMERGENCY SITES

Prime Minister Diefenbaker announced on June 21 that tenders were being called for the construction of wartime emergency sites for government in Manitoba and Nova Scotia. This announcement supplements that made by the Prime Minister on April 19. At that time, plans respecting British Columbia, Alberta, Ontario and Quebec were announced. The site in Manitoba will be at Shilo, and that in Nova Scotia at Debert.

Decisions have also been made regarding the emergency sites in New Brunswick and Prince Edward Island. These will be at Camp Gagetown and at Charlottetown, respectively. The location of such sites in Saskatchewan and Newfoundland is under review and a statement regarding them will be made in due course.

These centres are designed to provide an operational capability for the small group of federal, provincial and army personnel who would direct emergency measures within the provinces. While they are not designed to give protection against nuclear explosions, they will be constructed in such a manner that operations can be carried out despite the presence of radioactive fallout. The purpose is to establish centres where communications can be reasonably assured and from which necessary information and instructions to local communities and the general population can be given.

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FAA-DOT MEETING

Civil aviation specialists from both sides of the border met in Ottawa June 22-24 to discuss mutual problems ranging from noise control to measuring the roughness of runway pavements. A 15-man delegation attended from the Federal Aviation Agency (FAA), Washington, D.C.

Subjects discussed included the co-ordination of air traffic control, the compatibility of navigational aids in both countries and the distribution of weather reports made by pilots.

The previous DOT-FAA meeting had been held in Washington in May 1959. Informal contact between the two agencies takes place frequently.

The FAA delegation was headed by the Agency's Deputy Administrator, James T. Pyle. His Canadian counterpart is Air Vice Marshal A. de Niverville, Assistant Deputy Minister (Air).