

Section 36(2) of the Constitution of Canada committed the Federal Government to the principle of making equalization payments to ensure that provincial government has sufficient financial capacity to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.

The concept of equalizing the provinces to reasonably comparable levels of service arose during the period following the Second World War as a means to support the potentially fragile economies of the provinces (except Ontario and Quebec, who did not participate). Equalization continued onwards without interruption, though the formula did continue to change in order to accommodate changing economic factors. Until recently the current formula, used a five province tax base, a ten province tax rate, variable inclusion rates for natural resources, and an equalization “floor” (an equalization “ceiling” was in place until 2004).

In 2004 and 2005 changes were made to the Equalization program which represented a significant departure from its long standing operations. In particular normal formula base calculations of provincial entitlements were suspended; an interim formula was used to allocate payments and a new financial plan for equalization was introduced .

In light of these changes, questions about the treatment of natural resources, enrichments to the companion arrangements, and the offshore accords directed the government to launch a full review of Equalization and Territorial Formula Financing which was chaired by Al O’Brien and began in 2005.

By 2006 the new government was committed to putting the Equalization back on a sound formula basis. The Budget in 2006 committed to taking actions after consultations with Canadians and all the provinces. In establishing a new program the government committed to ensuring that non-renewable resource revenues were recognized and treated in a fair and equitable manner and that such treatment encouraged economic growth through the development of these resources.

In 2007 the federal government announced an Equalization program that reflects the following:

- The formula recognizes the fiscal capacity of all 10 provinces
- A new approach to the treatment of natural resource revenues
- A fiscal capacity cap to ensure that Equalization payments do not unfairly increase a receiving province’s overall fiscal capacity to a level higher than that of a non receiving province
- An improved measurement of fiscal capacity

The Alberta Chamber of Commerce supports the Canadian Government’s commitment to ensuring the Equalization program meets the needs of all provinces and the Canadians

within. However we feel that under the new Equalization formula, the treatment of non renewable resource development needs to be reconsidered.

Under the new equalization formula, non-renewable resource development which is essentially the conversion of a capital asset-the conversion of the non-renewable resource into liquid cash asset- is booked as a general revenue source. In other words it is treated as if it were a perpetual revenue stream which it is not.

As outlined in our March 2006, Vision 20/20 Saving for the Future Document, the Alberta Chambers of Commerce recommends to the Alberta government, transfers of a pre-determined percentage of resource revenues into the Heritage Fund which would ensure the financial stability for the province for future generations.

In the 2007 Federal budget non-renewable resources were included in the current formula at a rate of 50%.

The Alberta Chambers of Commerce recommends that the Government of Canada immediately:

1. Implement changes to the Equalization program regarding non renewable resource revenues which would encourage provinces to deposit annual royalty revenues into a trust account at the time they are earned under the following guidelines;
 - The Trust account to be managed by an independent third party
 - If income generated by the trust fund is taken into general revenues, the income would be recognized in the equalization formula at 25%.
 - Withdrawals from the principal portion of the fund would be subject to inclusion in the equalization formula at 50%.

Submitted by the Red Deer Chamber of Commerce