

Notes for a Speech by

**The Hon. Rona Ambrose**

**Government Revenues from Natural  
Resources: The Canadian Experience**

Santos, Brazil

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I am extremely happy to have been invited to speak to you here today in your beautiful city of Santos.

Canada's Prime Minister, Stephen Harper, has made the Americas a priority, and we are looking at a significant enhancement of our relations with the Americas in general and Brazil in particular.

Our strategic approach focuses on working with key partners to advance common interests and values under three key themes: Democracy, Prosperity and Security.

Our relations with Brazil are singularly important to this effort.

Canada-Brazil relations today are very positive and productive. Canada values its extensive and growing partnership with Brazil.

Our goal is to further strengthen that partnership to advance our shared interests in the region, and at a global level.

Our relations already have a rich history. Canadian companies have been investing in Brazil for more than a century, commencing with Brascan.

Levels of investment have never been higher. Brazil is the largest foreign direct investor from Central and South America in Canada.

The acquisition of Canada's Inco by the Companhia Vale do Rio Doce (CVRD) has made these links even stronger.

Trade between our countries also continues to grow. We have recently witnessed enhanced cooperation in agriculture as well as in science and technology. We are also investigating areas for collaboration in biofuels.

### *Sharing experiences in relation to natural resources*

Against that backdrop, I am particularly pleased to be here to share with you Canada's experience in how revenues from natural resources flow to governments under our federal system.

Any Albertan (such as myself) is instinctively eager to talk about the role of natural resources (especially oil and gas) both in Canada's economy generally and in the economy of my home province.

With its very significant oil reserves – notably in the form of the Athabasca oil sands located in northern Alberta, Canada is an emerging energy superpower. At the same time, there are few areas more likely to generate vigorous public debate in Canada than the issue of which governments should benefit from the revenues that come from natural resources.

Let me briefly explain why.

In particular, I will structure my explanation around a number of key facts about Canada and Canadian federalism and why the Canadian situation is in many ways similar to – but at the same time distinctly different from – that in Brazil.

### *Canada's natural resource wealth*

Fact 1: Canada, like Brazil, is a geographically large country that is particularly rich in natural resources.

While Brazil has experienced impressive growth in the oil, natural gas, electricity and biofuels sectors in recent years – for example, enabling you to achieve self-sufficiency in oil production last year – Canada has long been a major energy producer and exporter.

Canada's production of oil and gas (a particularly rich source of government revenues) has been especially important.

For example, in 2006, Canada produced some 2.6 million barrels of oil per day – compared to some 1.6 million barrels a day in Brazil.

And Canada's annual production of natural gas – at 220 billion cubic metres in 2006 – also exceeds Brazil's annual production of about 18 billion cubic metres.

### *Canada's relatively small population*

Fact 2: Canada's population of 33 million is only about a sixth of Brazil's.

As a result, Canada has been able to export much of its energy production – including oil and gas, hydroelectricity and coal.

The significantly greater government revenues generated from energy production in Canada also translate into significantly larger amounts per capita than in Brazil.

### *Provincial ownership of Canada's natural resources*

Fact 3: Under Canada's Constitution, natural resources located onshore are almost all owned by its provinces. (Resources in our three Northern territories are federally owned and a few Aboriginal First Nations also have significant natural resource wealth.)

As a result, it is provincial governments – and not the federal government, nor local governments – that collect and receive virtually all royalty payments and other revenues generated by the onshore resources produced in their jurisdictions.

Given the growing importance of offshore oil and gas production here in Brazil, I would add that this is also effectively true for offshore natural resources as well.

Constitutionally, offshore natural resources belong to Canada's federal government.

However, to level the playing field across provinces, agreements were signed in the 1980s to ensure that our East coast provinces of Newfoundland and Labrador and Nova Scotia both receive all revenues from oil and gas development that occurs off their respective shores.

### *Regional concentration of Canada's natural resource wealth*

Fact 4: Government oil and gas revenues in Canada are also concentrated in a handful of jurisdictions.

This is especially true of my home province of Alberta – with a population of about 3.4 million – that produces 1.8 millions barrels of oil per day and 167 million cubic metres of natural gas (over two thirds of Canada's total production).

But there are also significant government revenues from oil, gas and other natural resources that flow:

1to the neighbouring Western provinces of British Columbia (population of about 4.3 million) and Saskatchewan (population of about 1 million); and

2to the East coast provinces of Newfoundland and Labrador (with a population of about 500 thousand) and, to a lesser extent, Nova Scotia (population of about 900 thousand).

By contrast, provincial revenues from oil, gas and mineral production are relatively modest in other provinces – including our two largest provinces: Ontario (population of about 13 million) and Quebec (population of about 7.6 million).

I understand Brazilian oil and gas production is also regionally concentrated in a few coastal states, notably the states of Rio de Janeiro, Espirito Santo (and potentially São Paulo).

However, all these states have much larger populations than their Canadian counterparts: São Paulo state alone has a larger population than all of Canada.

As a result, relatively smaller resource revenues in Brazil translate into much smaller per capita revenue gains to Brazilian states than to Canadian provinces.

### ***Fiscal and economic disparities in Canada***

Fact 5: The concentration of petroleum resources in particular Canadian provinces creates inter-regional economic and fiscal disparities that are relatively large – at least by the standards of most OECD countries.

As a result, the role played by natural resource revenues in generating inter-regional fiscal disparities occupies a much greater place in the public discourse in Canada than in most other countries.

### ***Fiscal decentralization in Canada***

Fact 6: Canada federal fiscal system is also highly decentralized.

Under Canada's federal system, provincial governments are highly autonomous in both their expenditure responsibilities and in their ability to raise revenues.

They have primary responsibility for major policy areas, including health, education, social services, roads and other provincial infrastructure.

They also have access to all major sources of taxation – including personal and corporate income taxes, sales taxes and payroll taxes – on much the same basis as the federal government. As I mentioned earlier, they also have exclusive access to natural resource royalties and other related revenues.

In addition, provinces all levy their own taxes and therefore remain fully accountable to their own taxpayers for their tax policies.

For example, unlike Brazil (and many other federal countries in Latin America and Europe), there is virtually no revenue sharing between Canadian governments – that is, where one government collects a tax but shares a fixed proportion of the resulting revenues with another level of government.

Because provinces can raise own-source revenues more easily than in most other federations, federal transfers to provinces and local governments are relatively small by the standards of most other federal countries – though they have recently increased significantly and put on a predictable, long-term track after a decade of *ad hoc* annual funding changes that made provincial fiscal planning difficult.

As a result, Canadian provinces rely on own-source revenues to fund the large majority of their significant expenditure responsibilities.

This high degree of fiscal decentralization is a fundamental feature of Canadian federalism, though it does accentuate Canada's relatively large inter-provincial fiscal disparities.

### ***Fiscal Equalization and natural resources***

Fact 7: The equalization of natural resource revenues in Canada remains a matter of ongoing public debate.

The challenges posed by Canada's relatively large fiscal disparities have been addressed through a formal Equalization program that has now existed for a half century – and whose broad principles have been entrenched in our Constitution since 1982.

Under the program, the federal government (and not better-off provinces) makes transfers to less well-off provinces to ensure they have the capacity to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.

For much of the last half-century, the Equalization program operated with minimal intergovernmental disagreements under a formula-based approach that treated all provinces equitably.

To be sure, receiving provinces often argued the program was not quite generous enough – while provinces that did not receive Equalization transfers often argued it was already too generous.

But for most of the time, provinces – and Canadians generally – were reasonably satisfied with the program.

Different views over Canada's Equalization program have, however, surfaced from time to time – often coinciding with significant rises in commodity prices and the resulting increases in certain provinces' natural resource revenues that widened fiscal disparities across provinces.

In particular, concerns were often raised that too much equalization of natural resource revenues could undermine the incentives faced by their owners – that is, the governments of the provinces themselves – to develop those resources.

More recently, federal governments in Canada have reacted to pressures on the Equalization system arising from rising natural resource revenues with a series of *ad hoc* changes.

These changes were seen as undermining the longstanding formula-based nature of the program and were widely seen as discriminating unfairly between provinces.

When Canada's new Government, headed by Prime Minister Stephen Harper, came to office in 2006, it clearly saw the need to restore balance to Canada's fiscal relations – including a principle-based approach to Equalization in general and to the equalization of natural resource revenues in particular.

As part of a broader plan to restore fiscal balance in Canada set out in its 2007 Budget, the new federal government put the Equalization program back on a formula-driven basis while respecting outstanding agreements. In particular:

1It delivered on its commitment to remove natural resource revenues from Equalization calculations without reducing Equalization transfers to any province.

2In this way, it safeguarded incentives for the development of natural resources by ensuring that all provinces receive some net fiscal benefit from development of their resources.

3To ensure fairness to both Equalization-receiving and non-receiving provinces, it also implemented a “cap” that ensures no receiving province has a higher overall fiscal capacity than a non-receiving province.

4To ensure greater transparency and accountability for the operation of the program, it also greatly simplified the program, along the lines recommended by an independent expert panel.

Most observers in Canada have supported the return to a principle-based approach to Equalization – including the equalization of natural resource revenues.

### *Conclusion*

In making these remarks, I am conscious of the fact that it is always risky to make comparisons between countries so I have just outlined the facts on how things work in Canada and hope to learn more from all of you to put our own challenges into a broader context.

I am particularly interested in learning more about the challenges Brazil is facing – on intergovernmental relations, on fiscal arrangements including the treatment of resource revenues and on many other things – and how it is meeting those challenges.

Thank you.