



ALBERTA

TREASURY BOARD AND FINANCE

*Office of the Minister  
MLA, Grande Prairie-Wapiti*

November 25, 2019

Honourable Bill Morneau  
Minister of Finance  
House of Commons  
Parliament Buildings  
Ottawa, ON K1A 0A6

Dear Minister Morneau:

Congratulations on your successful election campaign and your reappointment as Minister of Finance.

On election night, Prime Minister Justin Trudeau said to Albertans: 'I've heard your frustration and I want to be there to support you.' I look forward to working with you to make that promise a reality. With no ministers from Alberta in the federal government, I hope you will be especially mindful of the need to take our concerns seriously and work constructively with our government to address them in the best interest of our national economy and national unity.

As Alberta's Minister of Finance, I would like to highlight a few key issues so that we are able to move forward effectively on these critical issues.

### **Fiscal Federalism and Fiscal Transfers**

Over the past decade, Alberta has made a net contribution of nearly \$200 billion to the Canadian federation, as measured by the difference between what Albertans pay to the federal government in taxes and what they receive back in federal spending and transfers. From 2015 to 2018 – despite undergoing the deepest provincial recession in over a generation – Alberta's net contribution was more than \$73 billion.

Alberta's substantial ongoing fiscal contribution to Canada, through good times and bad, has continued against the backdrop of policies, including the federal government, that have acted to hinder Alberta's economic recovery. Albertans rightly find this situation to be fundamentally unfair and unprecedented in the federation. In order to be sustainable, and as a matter of basic fairness, the system of fiscal transfers must work for all provinces. In a number of key respects, however, it has not been working for Alberta.

### Fiscal Stabilization

The most urgent fiscal transfer issue is the Fiscal Stabilization Program (FSP). In the 2015-16 fiscal year, Alberta's revenues fell by nearly \$7 billion – 14 per cent. Despite this massive decline in revenue, however, Alberta received just \$251 million under the federal FSP. This payment covered less than four per cent of Alberta's revenue decline that year and just one per cent of Alberta's net fiscal contribution to Canada in 2015 (\$24.8 billion).

The main reason for Alberta's very limited FSP payment for 2015-16 was the \$60 per resident "cap" on payments. This arbitrary cap was put in place over three decades ago, and has not been revised or even adjusted for inflation since it was first implemented. Without the arbitrary cap, Alberta would have qualified for a Fiscal Stabilization payment of almost \$1.6 billion for 2015-16.

Alberta also has an outstanding FSP claim in respect of the 2016-17 fiscal year, regarding which the federal government must render a decision by November 30, 2019. My officials estimate the uncapped value of the 2016-17 claim at \$634 million.

The FSP has failed to address Alberta's deep revenue losses during the recent economic downturn, while at the same time the country continues to benefit from Alberta's large net fiscal contributions. This constitutes a serious failure of Canadian fiscal federalism, and is particularly frustrating given the negative impact of federal policy on the Alberta economy and on investment in the province.

Alberta is therefore requesting payment of the balance of the FSP amounts for 2015-16 and 2016-17 that the province should have received without the arbitrary \$60 per capita limit. My officials estimate this balance to be \$1.721 billion (or \$1.972 if you include the capped \$251 million payment we already anticipate for 2015-16). This amount would function as a modest "equalization rebate," in view of the fact that it is less than 1% of the total net transfers Alberta has made to the federation over the last decade, despite the economic pain felt by Albertans. This equalization rebate, which was recently endorsed by Quebec's Minister of Finance, would help our government put Albertans back to work.

### Equalization

Despite a narrowing of inter-provincial fiscal disparities in recent years, the Equalization program has continued to grow in size, reaching nearly \$20 billion in 2019-20. Over the past two years, the "automatic" growth in the Equalization program (with total payments tied to growth in Canada's GDP) has resulted in "floor payments" totalling over \$2 billion, over and above the entitlements determined by the basic Equalization formula.

Alberta views this "automatic" growth of the Equalization program as contrary to the purpose of the program. When interprovincial fiscal disparities decline, the size of the Equalization program should decline accordingly, regardless of overall national GDP growth. Alberta believes that the GDP constraint should function as a "ceiling" on total Equalization payments, to ensure that the program remains affordable to Canadian taxpayers. I would note that a similar GDP constraint is in effect for federal health transfers under the Canada Health Transfer (CHT).

In addition to the elimination or reduction of “floor” payments, Alberta is also seeking the removal on non-renewable resource revenue from the calculation of Equalization payments. Provinces should not be penalized through the Equalization program for developing the natural resources which they own under Canada’s Constitution, nor should provinces who voluntarily choose not to develop their resources benefit from the fact that other provinces do.

It is our expectation that the Federal Government will demonstrate leadership and take a convening role in discussions about the outdated equalization formula.

#### *Canada Health Transfer (CHT) and Canada Social Transfer (CST)*

It is critical that the current equal per capita funding allocation among provinces be maintained for both the Canada Health Transfer (CHT) and Canada Social Transfer (CST). All provinces face growing health care cost pressures and differences between the provinces are likely to be transitory and unpredictable, evening out over time. As Alberta’s Premier noted in his October 22, 2019, letter to the Prime Minister, “an equal distribution of federal health transfers is the only equitable way to address these health challenges.”

Equalization is the federal program that is supposed to address horizontal fiscal disparities among provinces. All other federal funding mechanisms should be based on an equal per capita allocation and should not be used to supplement the role of Equalization.

Alberta is seeking a firm federal commitment to maintain an equal per capita funding allocation in all programs outside of Equalization, including for the CHT and the CST.

#### **Tax Issues**

Alberta’s economy, and the province’s energy sector in particular, contribute disproportionately to Canada’s economy. In 2018, over 10 per cent of Canada’s total income, measured by nominal GDP, was generated from the energy sector, of which Alberta is the largest contributor. That same year, energy companies attracted over 30 per cent of total private sector investment in Canada, equivalent to more than \$50 billion. This is in spite of ongoing weakness in energy sector investment since the 2015, since when a combination of the global decline in prices and federal policy have driven down investment in the sector and across Canada. In fact, business investment in Canada has yet to recover, and remains \$28 billion below 2014 levels. Given the interconnections of Alberta’s energy sector with manufacturing, transportation, and other labour markets across the country, a stronger energy sector in Alberta would create more high-paying middle-class jobs for Canadians from coast to coast to coast and a stronger federal tax base. For example, between 2010 and 2015, an average of 120,000 people per year worked in Alberta but lived in other provinces. These people brought a total of \$33.8 billion in taxable earnings back to their home provinces.

In recent months, we have seen resource companies announce decisions to delay projects or move operations abroad as they face increased competition and uncertainty about their ability to access markets beyond the United States. Urgent and immediate action is needed to protect the

investment gains already achieved in Canada and to preserve Canada's competitiveness for new investment in the energy sector.

Since coming to power, our government has taken actions to help improve Alberta's tax competitiveness and stimulate the provincial economy. These actions include the implementation of the Job Creation Tax Cut, which will lower the provincial corporate tax rate from 12 per cent to eight per cent by 2022 and the adoption of the federal enhancements to the capital cost allowance regime announced in the 2018 Federal Fall Economic Statement. While these policies will help, Alberta cannot reverse the uncertain investment climate alone. Given the magnitude of the challenge at hand, Federal support is crucial.

Alberta is therefore requesting that the federal government move swiftly to implement the following tax measures to restore investor confidence in Canada's energy sector and the competitiveness of this vital industry to our nation:

- Expand the 15 per cent federal Mineral Exploration Tax Credit to include all Canadian Exploration Expenses, Canadian Development Expenses, and the Canadian Renewable and Conservation Expense, that are flowed to individual investors under the flow-through share program.
- reintroduce an accelerated, 100 per cent capital cost allowance program for oil sands similar to the program phased out in 2015. Such a program could be reintroduced on a temporary basis with a "ring fencing" rule. This would align with the same 100 per cent deduction introduced for manufacturers in the 2018 Federal Fall Economic Statement.
- introduce a program that allows for a 100 per cent write-off of Canadian Development Expenses expenditures to support the conventional oil and gas sector. Again, this would be consistent with the tax treatment provided to the manufacturing industry here and in other provinces.

### **Mortgage Stress Tests**

I would like to reiterate Alberta's request that the Canada Mortgage and Housing Corporation (CMHC) and the Office of the Superintendent of Financial Institutions remove the requirements for stress tests on Alberta properties. The Alberta government has previously requested that stress tests be removed, including when Premier Kenney's met with you and the Prime Minister in Ottawa in May 2019, in a letter from me to you in August 2019, and in Premier Kenney's letter to the Prime Minister in October 2019.

These rules were established to address overheated housing markets, primarily in Toronto and Vancouver. The housing markets in Alberta, and indeed many other regions, are far from overheated and in no danger of becoming so. The relevance of rules could, of course, be revisited if that were to change.

Additional elements to make ownership more accessible should also be considered, including having CMHC include coverage for mortgages with 30-year amortization periods. Alberta believes that this measure in particular will help make homes more affordable for Albertans.

### **Infrastructure: Investing in Canada Program (ICIP)**

The Investing in Canada Program (ICIP) has been a challenging program for Alberta to participate in for a number of reasons.

The federal government's departure from working primarily with the provinces to set infrastructure priorities has undermined the ability of Alberta to effectively and efficiently manage our capital plan. This is further complicated by the streaming of funds, which distorts priorities and creates needless delays to getting shovels in the ground. Alberta requests that the federal government respect the provincial relationship with municipalities and collaborate directly with provinces to set infrastructure priorities.

Alberta is also seeking a streamlining of federal oversight at the approvals stage. Alberta Government ministries closely review all elements of an application, so there is no need for a duplicative federal review process. If the federal government would accept a provincial attestation for approval, successful applicants would be able to initiate procurements and projects more quickly.

### **National Pharmacare**

If, as expected, your government brings forward a proposal for a national Pharmacare program, Alberta will seek similar terms and conditions as expected from Quebec to opt out of the program with full financial compensation. We are as capable as Quebec of administering our own made-in-Alberta Pharmacare program.

### **Orphan Wells**

Alberta is requesting new federal funding for the creation of green jobs by putting Albertans to work to accelerate the reclamation of abandoned wells. Additional support for Alberta's Orphan Well Association would directly target the reclamation of existing wells that no longer have owners, so it would not function as a subsidy for future oil and gas activity. This would support your government's election platform commitments/priorities on the environment, which include giving "energy workers...training, support and new opportunities needed to succeed in the clean economy." Most importantly, it would stimulate economic activity, create jobs, and mean the difference between survival and bankruptcy for companies in the regions that have been hit hardest by the recent economic downturn.

We urge you to consider the Petroleum Services Association of Canada's proposal to use flow through shares to encourage investment in well reclamation, and we cannot stress enough how important this would be to those local economies as well as the provincial economy.

### **Canada Pension Plan (CPP)**

Alberta has recently established a *Fair Deal Panel*, which will consult with Albertans how best to define and to secure a fair deal for Alberta within Confederation. I am requesting that your

department agree to work with the Fair Deal Panel (and provincial officials, as appropriate) to supply data and other information needed as part of the Panel's review of the potential establishment of an Alberta Pension Plan.

### **Federal, Provincial, and Territorial Meeting**

Alberta is offering to host the next meeting of Federal, Provincial and Territorial (FPT) Finance Ministers in Edmonton and we have begun preliminary preparations. We propose that the agenda include the following items:

- Fiscal Stabilization
- Equalization
- Tax Issues (including flow-through shares and ACCA)
- Mortgage Stress Tests
- ICIP

Given the urgency of many of these issues for Alberta, I am requesting an in-person meeting with you while I am in Ottawa on December 10, 2019.

Alberta's energy sector plays a key role in the Canadian economy. It employs hundreds of thousands of men and women not just in Alberta but across the country – from the ports of British Columbia to the manufacturing heartland of Southern Ontario to refineries in Quebec and Atlantic Canada and even workers in your home province of Newfoundland and Labrador – and it is important that we work together to ensure its growth and protect those jobs. By addressing the issues outlined in this letter, I believe that we can make substantial progress toward a more equitable fiscal federation, one in which a strong Alberta can contribute even more to the national economy and to the programs upon which Canadians rely.

The Government of Alberta will continue to fight for a Fair Deal for Alberta within Canada, as we have done since the day our government was sworn in, and ensure our legitimate concerns are heard and understood by your government. I look forward to meeting you soon to and working together on federal policies that address the needs of Albertans and all Canadians.

Sincerely,



Travis Toews  
President of Treasury Board and Minister of Finance

cc: Honourable Jason Kenney  
Premier of Alberta