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HARNESSING THE PROFIT MOTIVE TO MAKE CONFEDERATION WORK BETTER

by

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(Preliminary draft of a paper to be presented to the Victoria Conference on Natural Resource Revenue, June 5-7, 1975)

This draft is for discussion purposes only and will be presented in the form of an annotated outline. The overall outline consists of five basic headings, as follows:

I. The profit motive of local government and its basic harmony with the organic general interest

II. Conflicts of particularistic local interests with general interests

III. Traditional means to overcome or submerge local-central conflicts

IV. Desirable federal policies

V. What to do until the doctor comes -- interim provincial policies.

I. The profit motive of local government and its basic harmony with the organic general interest

To organize a nation, the art of central government is to motivate provincial governments to act in the wider public interest -- to serve the nation by serving themselves. Provincial and local governments have objectives and operate under constraints and incentives just like persons and firms. Economists have analyzed persons and firms, since

Adam Smith at least, and examined how public policy can work with the market to harness private motives to public ends, but they have neglected the analogous question about provincial and local governments.

Provincial governments relate to national governments much as their own local governments relate to them, and I will use "local" to refer to the smaller component government vis a vis the larger one in both cases.

The local viewpoint differs from the central in that the local turf is more completely open to the movement of labour and capital. The local government is defined as an area of land. Men and capital may come and go, and the level of their economic rewards is determined in national and world markets. Land is fixed and from the viewpoint of local government is the residual legatee. That is, the benefits of local spending lodge mainly in higher local land values and the cost of local taxes lodge in lower land values. Land is the equity interest in the local corporation; land income is the bottom line of its income statement. Local motives therefore may be well understood as efforts to maximize land income and values. Maximizing land income can be quite harmonious with the central interest. A private owner maximizes net income from given land by using it so as to maximize its net service flow. His greed, harnessed by the market, makes him allocate his land in a socially oriented way. Increasingly one hears "highest and best use" belittled as though it were a morbidity, but basically it means the use serving the most human needs. That rule is subject to minor qualifications, but the qualifications are not the rule.

The same rule holds for local government which is in effect a group of landowners in league to improve their property and administer it jointly. Local government is a half-way house between the individual landowner and the central state. Landowner control is modified by democracy, but the fact that labour and capital must constantly compete with potential immigrants minimizes their motivation to maximize their factor shares by political means, other than those that exclude outside labour and capital.

There is an important element of truth, then, in viewing local government something like a business firm. The proper role of central government then is to create a framework of institutions within which

the firm maximizes the general welfare as an incident to maximizing its own.

The great nation-builders of history have recognized this truth. They must give the local satraps something to control and to maximize legitimately. This is a constructive governmental use of the invisible-hand principle.

They have also recognized that something more is required which I will call "citizenship". That is, there must be a direct relationship between each individual and the central state, a relationship in which each individual stands on common ground with each other. "Empires" may be distinguished from "nations" by the former's use of zamindars or caciques and mercenaries whose relationship with the state is more contractual than organic. Zamindars and caciques are local landowners in outlying colonies under the general military umbrella of the Mother Country. They perform local policing functions and enjoy the privilege of considerable immunity from taxes levied on citizens of the metropolitan country, but they lack any organic relationship with the metropolitan central state and historically tend to fade away, as Mr. Kipling predicted they might.

II. Conflicts of particularistic local interest with general interests

A. Hanseatic Mercantilism
B. Fiscal Mercantilism
C. Protecting the Commons
D. Covert Imperialism

A. Hanseatic Mercantilism

This is the kind of behaviour described by Gustav Schmoller in his classic work on mercantilism, that is the exercise of monopoly power by a state or locality which has some, and they all do. An outstanding modern example of course is OPEC, which could have learned everything it knows and perhaps did by observing the Texas Railway Commission and the Alberta system of pro-rationing production to market demand. The growing use of marketing boards lends itself to this kind of monopolistic price and output behaviour. The Anti-Combines Act in Canada, like the Anti-Trust legislation in the

United States, tends to exempt provincial, local and state governments from its purview.

A perfectly analogous exercise of provincial power which is much less likely to be recognized for what it is, is the deliberate withholding of real estate from the market in order to pull prices up. The purchase of real estate by immigrants is analogous to the export of products from the province. The passive withholding from sale of lands by the Crown provincial may, in some circumstances, be a form of Hanseatic mercantilism, under this description; so may a policy of agricultural land reservation by a province which reserves land from its highest and best use. The extent to which it actually fits the description depends however, not simply on the existence of the power, but the manner in which it is exercised, and this is not intended to assert that such powers are necessarily always exercised in this manner. A sometime aspect of Hanseatic mercantilism is the "employer gild variation". In this variation the objective is to hold down the demand for labour and therefore hold down wage rates. This is done by discouraging the allocation of land to labour-intensive industries. One way of exerting the monopoly power inherent in a local jurisdiction is to tax exports where it is believed the tax may be shifted to outsiders. In the case of real estate this includes newcomers and members of powerless out-groups and ethnic and national minorities and so on. A problem with this kind of device is that it does not discriminate between the intended victims and the children of the old settlers who are generally in the same role as immigrants and other out-group members.

B. Fiscal Mercantilism

This might also be called "fiscal environmentalism" or "fighting tax pollution". These names are suggested because this kind of behaviour so often is wrapped, rather hypocritically, in the flag of environmentalism. Fiscal mercantilism has four thrusts:

1) To acquire and enrich the tax base. Generally there is a compensatory principle at work in respect to local taxation. To wit, "local governments seek to attract whatever they are allowed to tax".

(This is an important factor to consider in evaluating the likely efficacy of user charges in controlling local pollution, congestion, and so on.)

2. To repel and reject public charges.

3. To minimize export of tax payments to senior governments.

4. To maximize the import of grants from senior governments.

Until fairly recent times, local governments acted as though they thought they could achieve these ends by competing to attract population. The traditional "Chamber of Commerce" was a boomer booster organization, but in the last twenty years these attitudes have changed drastically and the anti-growth rage is now in the ascendant, creating a whole new collection of problems. People as such have become unattractive, capital only moderately attractive, and open space highly attractive.

This change in attitudes is the combined result of several factors, many of which are fiscal. It is beyond the scope of this paper to look into the history of fiscal changes; it is limited to suggesting fiscal reforms to offset these changes in attitude towards immigration.

One change that is identifiable is a loss of belief in economies to scale of population. People are much less conscious now than they used to be of the advantages of a large market, the cultural advantages and variety of a large city, the advantages and economies of increasing load factors and sharing risk in a large population, the advantages of a regional population large enough to support local industry, and so on.

The changed attitude is partly a matter of increased democracy of folk ways and mores. A land-owning oligarchy is anxious to keep cheap, docile labour on hand, as long as it does not demand expensive education, equal rights in public places, and so on, but when the proletarians become assertive of their individual rights in these matters, the oligarchy is anxious to see them leave.

It is partly a matter of mechanization. Each person now sheds more external pollutants than formerly because he is armed with formidable engines of nuisance which have been made cheap. Thus each

person needs more room. Presumably this problem can be minimized when institutional and social controls shall have caught up with ATV's, portable radios, lawn mowers, imported sports cars and motorcycles, and similar artifacts which, in the hands of a small number of inconsiderate and irresponsible people can vastly increase the elbowroom required per capita.

It is partly a matter of the decline of public morals with concomitant increase in petty thievery, assault and so on.

The characteristic landowner defense against this kind of thing is typified by exclusionary zoning. However, as a fiscal device, exclusionary zoning is ultimately self-defeating because in order to fight one kind of social cost it inflates many others. For this and other reasons it must give way to more efficient devices.

C. Protecting the Commons

Every local jurisdiction contains some natural commons, like beaches and parks, and some artificial commons, like public schools and highways, whose attractiveness to old settlers may be reduced as population increases. Increasing population pressure which used to be a minor nuisance has now become a major threat, at least in the minds of many people, owing to the factors outlined above under B. The response has been the establishment of exclusionary local controls and at the provincial level, exclusionary provincial controls, such as the agricultural land reserve of British Columbia. These controls of course tend to keep land from what an economist would call its highest and best use. In a crude and ill-calculated sort of way these controls are designed to maximize the welfare of old settlers in a jurisdiction by protecting them from the competition of immigrants. In the process, of course, they redistribute wealth among the old settlers. Those who would like to sell their land for a higher and better use are considered "greedy" because of the conflict of their interest and that of the other old settlers. In terms of the national polity however, the greed of the owners wishing to sell is an expression of the interest of immigrants wishing to buy and have access to the resources of the province in question.

D. Covert Imperialism

The imperialism of local and provincial government under the umbrella of a national government must of course be covert. However, there is room for maneuvering in the establishment of sovereignty over unclaimed resources, such as radio spectrum, off-shore minerals, anadromous fish, and so on. The arenas in which this competitive imperialism occurs are also the questions of who shall levy taxes, who shall collect rents, who shall regulate, and in the ultimate absurdity, who shall have the right to waste public capital in premature and sub-economic development schemes. The last of course represents a miscalculation on the part of local government as to where its true interests lie and may reflect some conflict of interest between ownership and management, just as with a large corporation.

III. Traditional means to overcome or submerge conflicts

A. The tendency of exclusionary provincial and local policies if pursued by all is to drive landless, roofless proletarians from pillar to post until they become sufficiently desperate to offer their services for so little that they somehow become attractive to the dominant landholding oligarchy. Their problem is accentuated because as they become more attractive to said oligarchy they become ipso facto less attractive and more of a threat to other old settlers who have some influence, that is, organized labour. This problem is eased somewhat when they are easily differentiable as by speaking a foreign language or being of a notably different race or religion. With the decline in ethnic differentiation, however, this solution is becoming less feasible and in addition is less acceptable to modern concepts of justice and equity and definition of first-class citizenship.

B. A second traditional solution has been for an economy and an empire to expand so fast and acquire and move into new land so rapidly that land develops little or no value so that class structures based on property ownership remain weak or local or transitory. This was an essential part of the 19th century solution in Canada and the United States, and it had a notable revival in the 1930's following the burst of urban expansion of the 1920's when this and other factors conspired

to bring land values down so low that a great deal of land was abandoned for taxes.

In the 1960's a more overtly imperialistic expansion occurred which worked, but not quite as well. People tended to stay at home, at least within the continental limits and cheap labour was not welcomed in person but by proxy in the form of cheap, imported products of high-labour content. This cheap labour was differentiable by virtue of being located overseas.

In recent times there is little sign that this solution will indeed keep land cheap. For perhaps the first time in our history we are undergoing an extended period when land values remain high relative to wage and salary incomes over an extended period, resulting in exacerbated class distinctions between haves and have-nots.

C. Socialization of rent.

1. At the local level this is a traditional role for the property tax. It works, however crudely, so long as people accept the advantages of the economies of scale that attend growth, which is encouraged by property taxation, especially that part which falls on land values. It works better where the provinces prevent the development of tax havens by constantly balancing school district tax bases to equalize revenue sources. The provincial government, which is the seat of sovereignty, lends to local school districts its reserved right to tax real estate, a sovereign right which it never relinquished since the real estate was transferred to private owners, subject to taxation, which is an assertion of the ~~grounds~~ Crown's reserved equity in real estate. In return for lending this power to the local school districts, the Crown provincial requires them to provide free public education and other services, from this base. A kind of birthright principle is implicit, where every unborn child and every immigrant's child is granted a kind of equity in the lands of the province. The local powers cannot deny to the meanest immigrant's child the same common education they provide for their own. This has been quite an effective device over the last several decades in overcoming local particularism. We are all familiar with the strenuous and continuing local efforts to work out from under this servitude. In recent years exclusionary land-use policies administered

at the local level have proven to be an increasingly effective -- and exceedingly costly -- barrier to the effectiveness of this device, which is therefore in need of review and modification.

2. At the provincial level socialization of rent is most notable in the Crown-land provinces. The dynamically growing application of the principle has been a major change, just in the last two or three years, owing to a combination of the increasing level of such rents and the increasing assertiveness of provincial governments in asserting their ownership. At the same time there has been little or no socialization of rent from fee-simple lands, either in the Crown land provinces or elsewhere.

The federal government has taken strong exception to this trend, as everyone knows. It is playing a kind of dog-in-the-manger role by obstructing provincial collection of rents from Crown land without, however, effecting much federal collection of these same rents. That is, its propensity to grant favourite income tax treatment to resource companies is unabated in all respects but one, and that one, the non-deductibility of provincially-levied royalties, is clearly calculated to weaken the provinces.

The federal interest correctly perceives, I believe, that the level at which pooling of rents occurs is the level of loyalty, the centre of the organic element in polity. Thus, provincial rent collection is a threat of sorts to the national unity. I am skeptical of the alternative interpretation which is that the provinces are threatening the national revenues, inasmuch as the federal disposition is clearly not to collect much net revenue from resource corporations. However, I retain an open mind on this subject and would welcome comments from my learned co-conferees on this topic.

And yet the socialization of rent at the local school district level has not threatened the unity of provinces, but rather re-inforced it, and it seems to me that provincial socialization of rent could be a factor strengthening national unity rather than the reverse, always provided that the federal authority insist, in the strongest and strictest terms, that there be no direct or indirect barriers to free inter-provincial migration (including exclusionary zoning).

3. At the federal level, socialization of rent is currently minimal and partial and essentially negative in spirit. It is partial because it is focused almost entirely on the Crown land provinces and one particular kind of rent, that arising from "natural resources", very narrowly construed. There is no parallel effort to socialize the rents of fee-simple lands and the effect as among provinces is highly discriminatory.

The two primary means of this partial socialization, that is the two-price system for petroleum and the non-deductibility of provincial royalties, are the crudest, most uneconomical devices that can be imagined from the viewpoint of efficiency and conservation.

The economical way to collect rent is through a straight-forward tax system which identifies rent at the source, on the ground, in rem, distinguishing clearly between low-grade and high-grade deposits, between good locations and bad locations. The power to do this rests in the federal income tax which at the same time treats on an equal basis the income from fee-simple lands.

The route to this end was charted by the Carter Commission several years ago. It is not too late to dust off these recommendations and try again. Public sympathy for greater taxation of resource rents has increased in the last few years.

D. Appropriate distribution of spending. Socialization of rent is not so effective if we turn right around and return the money whence it came or should have come. If the distribution formula be keyed to real estate then in effect there is a de-socialization of rent. This is inherent in grants to municipalities as such, for example, and very likely in the federal equalization grants system.

Socialization only occurs when the grants have the character of a social dividend. That is, they are based essentially on a per capita formula. Provincial school equalization formulas and per capita grants to municipalities have some of this character. However, these devices at present appear to be too weak to overcome galloping exclusionary zoning and other exclusionary municipal policies.

IV. Desirable federal policies

There has been a growing tendency for central governments to subsidize local governments and at the same time to allow these governments to adopt exclusionary policies by which they limit the enjoyment of the subsidy to a smaller number of old settlers. I suggest that this combination of policies is the height of inequity and folly from the standpoint of national unity.

There has been a tendency to subsidize capital spending by local governments, as by capital grants and tax exemption of their bonds. This is a good way to make work for capital which is in short supply, but a bad way for labour, which is in long supply.

There has been a tendency to create an incentive structure which caused local powers to perceive their interest to be exclusionary and then to turn around and preach at them and scold them for their anti-social attitude. This suggests the legend of King Canute and the waves. Effective central policy will make use of the invisible ~~end~~ hand principle. People cannot be expected to act for long against their perceived interests.

There is a strong tendency for the federal government to extract tax money from persons through the federal payroll tax (that is income tax with preferential treatment of property income), and then return money, not to people as such but to governments as such, which is just a step or two away from returning it to property as such, since governments are defined as collections of real estate. Thus, central government relates to individuals as an exploiter and to local governments perhaps as a benefactor. Referring back to II B. in the outline, on fiscal mercantilism, this combination of central policies strongly affects the attitude of local government towards the desirability of attracting persons. To the extent that the federal government extracts money from persons, they are less able to pay local taxes, and to the extent the federal government gives subventions to local governments, the less they need resident citizens to pay local taxes. People as such come to be regarded as a pollutant; first a fiscal pollutant and then just a general nuisance, threat, liability and public charge.

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My recommendation obviously then is that this relationship should be reversed and that the federal government should relate to persons more as a net benefactor. Localities would then compete to attract people instead of as now to repel them.

One need not fear that localities would then be swamped with people since this is a zero-sum game (except for international immigration, to be considered separately). The difference would rather be a shift in the terms of trade in favour of labour and a higher degree of national unity and loyalty. Who, after all, would not value more highly his citizenship in a country whose federal government took less from him, and gave him more?

To implement this general scheme here are some more specific suggestions:

A. The federal government should review local and provincial zoning, building code, utility extension and related exclusionary policies as barriers to the free movement of persons in the nation. I invite your attention to the recent Petaluma, California, case in the United States where a city was successfully sued in a federal court on the grounds that its exclusionary zoning interfered with the inter-state movement of persons.

B. The federal income tax should be modified so as to tax payrolls less and property more. The Carter Commission has already shown the way.

As a counterpart to this and integrated with it, a vastly increased individual exemption in respect to earned income at least is in order. This would be a way of effecting the social dividend or per capita grant. There is no need for the cash to make a round-trip to Ottawa and back; we only need to increase the exemption. To be sure there would be a publicity value about an explicit "social dividend" which some political leaders might favour, however, I don't think myself that the average citizen who is capable of filling out a complicated income tax form is really that stupid.

C. Grants of all kinds should be on a per capita basis, and preferably sent directly to individuals rather than to provincial or local governments. That having been done, then each provincial and local

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government should be self-supporting, an independent profit centre. Those that are not self-supporting under these circumstances are a net drain on the national welfare and should be allowed to liquidate themselves on terms which they find most advantageous. It should not be assumed, however, that this is a draconian hardship policy which would particularly penalize outposts which now appear to be submarginal. On the contrary, the distribution of rents to persons would considerably reduce the relative attractiveness of those locations which generate more rents and enhance those of locations that generate less. This policy would remove a pronounced locational bias which we have lived with for so long that we are almost unaware of its existance.

D. It is probably appropriate for the federal government to lend considerable aid and comfort to localities in protecting their commons by the imposition of user and effluent charges. This is because of the law of selective fiscal gravity: local governments seek to attract whatever they can tax. This tends to limit the effectiveness of their use of user and effluent charges to protect their commons.

It also seems proper for the federal government to provide some leadership in a drive for more responsible and considerate public behaviour. Just how this might be done is a field outside my expertise, but it clearly would be a most productive use of public funds.

E. Some federal leadership could be exerted in promoting the use of mass transit and other mass systems in preference to individual transit and other individual systems (like septic tanks and private wells). Within mass systems we need more use of "inverted rate structures" granting lower rates to smaller users and promoting higher density.

F. All grants should be either to persons or on a per capita basis. There should be no capital grants or grants to governments as such. This includes "tax subsidies".

G. Social dividends should not in any way be described or thought of as "redistribution" of income, but rather as the original distribution. "Redistribution" is an offensive term in that it presupposes a distribution of property antecedent to taxes and social dividends which these are alleged to disturb and rearrange. The more proper con-

cept, I believe, is that taxes on the rent of the land over which the nation is sovereign are simply an expression of each citizen's equity in these lands and not a taking or redistribution from other presumed owners or occupants of these lands. The social dividend is a birthright or a citizenship right, rather than a grant of charity or noblesse oblige. Servitude to taxation and the possibility of increased taxation is an organic incident of every land title under the common law used by the English-speaking peoples and has its counterparts in other systems of law and land tenure as well.

H. There is a federal interest in better assessment of property which might be expressed through a national board of equalization or other device for auditing and improving provincial and local assessment. One purpose would be to protect the federal revenues by preventing any false depreciation of land for federal income tax purposes. Another is to prevent the use of inaccurate assessment as a device to interfere with inter-provincial migration. Any local exclusionary device is a barrier to migration of citizens and the under-assessment of undeveloped land relative to land in active use is clearly such a device, both in effect and intent.

It would be appropriate for the federal government to review provincial preferential assessment and tax rate laws which, for example, base the assessment of farm land on "use" instead of market or actual value. Once again I hasten to point out that each locality views these as devices to keep itself from being flooded with unwanted developers and so on, but from a national viewpoint we need to look at the total system and avoid falling into a fallacy of composition. The people who flood one area will desiccate another. Those who live here will not live there. And again we must remember that the system of per capita grants and social dividends described earlier will minimize the tendency, now frequently deplored, for people to congregate around the pot of honey! That is, around the local jurisdiction with the strongest tax base.

I. It would be desirable for the federal authorities to construe more broadly the concept of indirect taxes which are forbidden to the

provinces. An economist would say that the more direct a tax is, that is the less shiftable it is, the less excess burden it has. Excess burden in turn is some measure of the degree to which a tax penalizes immigration and economic activity generally.

Such a move would tend to limit the provinces to taxes of a more promotional type. as in U.S. before sales taxes

J. The problem of absentee ownership, about which so much concern is expressed, is largely solved when the federal and local governments take a higher percentage of their revenues from property, since it is property which is the object of concern here. This at once discourages absentee ownership and speculation and at the same time makes it less objectionable since the absentee owner is contributing to the support of the state. It obviates the alternative which is a variety of discriminatory measures against absentees which would be administratively difficult, invidious (like the California Alien Land Act of ill fame), and eventually probably unworkable, as well as inviting retaliation from other countries.

K. International immigration would now have to be controlled, since the value of citizenship in Canada would rise considerably above world levels. To an economist the best solution here would be to put a substantial price on Canadian citizenship. This may sound awful to the moralist and the poet because of conventional connotations and misunderstandings of language, but may actually be the most efficient and equitable way of handling this tortured problem. It would satisfy Canadian labour by keeping out cheap labour and it would satisfy Canadian bookkeepers by maintaining the value of Canadian citizenship, which our set of institutions creates and sustains. As world citizens we would doubtless set the price somewhat below its market value, and as humanitarians we would doubtless allow specific exemptions from time to time. This is material for whole books.

Having expressed the basic discrimination in a lump-sum cash payment, all further kinds of discrimination could be dispensed with, thus doing away with all kinds of unpleasant institutions we now labour under, and effecting great social efficiencies.

L. Finally, a policy of international free trade would be quite possible and feasible and would not threaten the unity of the nation. The national polity would be bound by sharing of resource revenues. This would free us from the alternative wasteful policies now used in lieu of this kind of genuine binding. We need not fear that the ties of trade alone would overcome citizenship ties made as strong as I suggest. This, it seems to me, is the only way to unite the Canadian nation durably, because on any other basis Canada as a nation is in conflict with powerful economic forces related to the high cost of east-west transportation.

V. What to do until the doctor comes: interim provincial policy

A. The province should tax rent at the source rather than at any commodity level and thus be more sure on legal grounds of the deductibility of the provincial charge. That is, the closer the provincial charge is to the ground from which the resource comes, the greater it has the character of a "direct tax" and the less vulnerable it is to federal raids. In this case good law also makes good economics since this is the only effective way to collect economic rent anyway. I believe that the province of British Columbia made both a legal and an economic error in collecting rents (from natural gas) through a marketing agency which is vulnerable to federal arrogation.

The Crown-land provinces would be advised well, I believe, to increase their taking of economic rent from fee-simple land as well. Then they will be armed with the weapon of consistency when they criticize the federal government for its inroads into the rents of Crown land alone.

This would also make it feasible to alienate more Crown land since the public equity would then be asserted through the imposition of property taxes. The deductibility of property taxes on fee-simple land is not likely to be challenged by the federal Department of National Revenue.

To be concluded.

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They have also recognized that something more is required which I will call "citizenship". That is, there must be a direct relationship between each individual and the central state, a relationship in which each individual stands on common ground with each other. "Empires" may be distinguished from "nations" by the former's use of zamindars or caciques and mercenaries whose relationship with the state is more contractual than organic. Zamindars and caciques are local landowners in outlying colonies under the general military umbrella of the Mother Country. They perform local policing functions and enjoy the privilege of considerable immunity from taxes levied on citizens of the metropolitan country, but they lack any organic relationship with the metropolitan central state and historically tend to fade away, as Mr. Kipling predicted they might.

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This is the kind of behaviour described by Gustav Schmoller in his classic work on mercantilism, that is the exercise of monopoly power by a state or locality which has some, and they all do. An outstanding modern example of course is OPEC, which could have learned everything it knows and perhaps did by observing the Texas Railway Commission and the Alberta system of pro-rationing production to market demand. The growing use of marketing boards lends itself to this kind of monopolistic price and output behaviour. The Anti-Combines Act in Canada, like the Anti-Trust legislation in the

United States, tends to exempt provincial, local and state governments from its purview.

A perfectly analogous exercise of provincial power which is much less likely to be recognized for what it is, is the deliberate withholding of real estate from the market in order to pull prices up. The purchase of real estate by immigrants is analogous to the export of products from the province. The passive withholding from sale of lands by the Crown provincial may, in some circumstances, be a form of Hanseatic mercantilism, under this description; so may a policy of agricultural land reservation by a province which reserves land from its highest and best use. The extent to which it actually fits the description depends however, not simply on the existence of the power, but the manner in which it is exercised, and this is not intended to assert that such powers are necessarily always exercised in this manner. A sometime aspect of Hanseatic mercantilism is the "employer gild variation". In this variation the objective is to hold down the demand for labour and therefore hold down wage rates. This is done by discouraging the allocation of land to labour-intensive industries. One way of exerting the monopoly power inherent in a local jurisdiction is to tax exports where it is believed the tax may be shifted to outsiders. In the case of real estate this includes newcomers and members of powerless out-groups and ethnic and national minorities and so on. A problem with this kind of device is that it does not discriminate between the intended victims and the children of the old settlers who are generally in the same role as immigrants and other out-group members.

B. Fiscal Mercantilism

This might also be called "fiscal environmentalism" or "fighting tax pollution". These names are suggested because this kind of behaviour so often is wrapped, rather hypocritically, in the flag of environmentalism. Fiscal mercantilism has four thrusts:

1) To acquire and enrich the tax base. Generally there is a compensatory principle at work in respect to local taxation. To wit, "local governments seek to attract whatever they are allowed to tax".

(This is an important factor to consider in evaluating the likely efficacy of user charges in controlling local pollution, congestion, and so on.)

2. To repel and reject public charges.

3. To minimize export of tax payments to senior governments.

4. To maximize the import of grants from senior governments.

Until fairly recent times, local governments acted as though they thought they could achieve these ends by competing to attract population. The traditional "Chamber of Commerce" was a boomer booster organization, but in the last twenty years these attitudes have changed drastically and the anti-growth rage is now in the ascendant, creating a whole new collection of problems. People as such have become unattractive, capital only moderately attractive, and open space highly attractive.

This change in attitudes is the combined result of several factors, many of which are fiscal. It is beyond the scope of this paper to look into the history of fiscal changes; it is limited to suggesting fiscal reforms to offset these changes in attitude towards immigration.

One change that is identifiable is a loss of belief in economies to scale of population. People are much less conscious now then they used to be of the advantages of a large market, the cultural advantages and variety of a large city, the advantages and economies of increasing load factors and sharing risk in a large population, the advantages of a regional population large enough to support local industry, and so on.

The changed attitude is partly a matter of increased democracy of folk ways and mores. A land-owning oligarchy is anxious to keep cheap, docile labour on hand, as long as it does not demand expensive education, equal rights in public places, and so on, but when the proletarians become assertive of their individual rights in these matter, the oligarchy is anxious to see them leave.

It is partly a matter of mechanization. Each person now sheds more external pollutants than formerly because he is armed with formidable engines of nuisance which have been made cheap. Thus each

person needs more room. Presumably this problem can be minimized when institutional and social controls shall have caught up with ATV's, portable radios, cigarettes lawn mowers, imported sports cars and motorcycles, and similar artifacts which, in the hands of a small number of inconsiderate and irresponsible people can vastly increase the elbowroom required per capita.

It is partly a matter of the decline of public morals with concomitant increase in petty thievery, assault and so on.

The characteristic landowner defense against this kind of thing is typified by exclusionary zoning. However, as a fiscal device, exclusionary zoning is ultimately self-defeating because in order to fight one kind of social cost it inflates many others. For this and other reasons it must give way to more efficient devices.

C. Protecting the Commons

Every local jurisdiction contains some natural commons, like beaches and parks, and some artificial commons, like public schools and highways, whose attractiveness to old settlers may be reduced as population increases. Increasing population pressure which used to be a minor nuisance has now become a major threat, at least in the minds of many people, owing to the factors outlined above under B. The response has been the establishment of exclusionary local controls and at the provincial level, exclusionary provincial controls, such as the agricultural land reserve of British Columbia. These controls of course tend to keep land from what an economist would call its highest and best use. In a crude and ill-calculated sort of way these controls are designed to maximize the welfare of old settlers in a jurisdiction by protecting them from the competition of immigrants. In the process, of course, they redistribute wealth among the old settlers. Those who would like to sell their land for a higher and better use are considered "greedy" because of the conflict of their interest and that of the other old settlers. In terms of the national polity however, the greed of the owners wishing to sell is an expression of the interest of immigrants wishing to buy and have access to the resources of the province in question.

D. Covert Imperialism

The imperialism of local and provincial government under the umbrella of a national government must of course be covert. However, there is room for maneuvering in the establishment of sovereignty over unclaimed resources, such as radio spectrum, off-shore minerals, anadromous fish, and so on. The arenas in which this competitive imperialism occurs are also the questions of who shall levy taxes, who shall collect rents, who shall regulate, and in the ultimate absurdity, who shall have the right to waste public capital in premature and sub-economic development schemes. The last of course represents a miscalculation on the part of local government as to where its true interests lie and may reflect some conflict of interest between ownership and management, just as with a large corporation.

III. Traditional means to overcome or submerge conflicts

A. The tendency of exclusionary provincial and local policies if pursued by all is to drive landless, ~~route~~rootless proletarians from pillar to post until they become sufficiently desperate to offer their services for so little that they somehow become attractive to the dominant landholding oligarchy. Their problem is accentuated because as they become more attractive to said oligarchy they become ipso facto less attractive and more of a threat to other old settlers who have some influence, that is, organized labour. This problem is eased somewhat when they are easily differentiable as by speaking a foreign language or being of a notably different race or religion. With the decline in ethnic differentiation, however, this solution is becoming less feasible and in addition is less acceptable to modern concepts of justice and equity and definition of first-class citizenship.

B. A second traditional solution has been for an economy and an empire to expand so fast and acquire and move into new land so rapidly that land develops little or no value so that class structures based on property ownership remain weak or local or transitory. This was an essential part of the 19th century solution in Canada and the United States, and it had a notable revival in the 1930's following the burst of urban expansion of the 1920's when this and other factors conspired

to bring land values down so low that a great deal of land was abandoned for taxes.

In the 1960's a more overtly imperialistic expansion occurred which worked, but not quite as well. People tended to stay at home, at least within the continental limits and cheap labour was not welcomed in person but by proxy in the form of cheap, imported products of high-labour content. This cheap labour was differentiable by virtue of being located overseas.

In recent times there is little sign that this solution will indeed keep land cheap. For perhaps the first time in our history we are undergoing an extended period when land values remain high relative to wage and salary incomes over an extended period, resulting in exacerbated class distinctions between haves and have-nots.

C. Socialization of rent.

1. At the local level this is a traditional role for the property tax. It works, however crudely, so long as people accept the advantages of the economies of scale that attend growth, which is encouraged by property taxation, especially that part which falls on land values. It works better where the provinces prevent the development of tax havens by constantly balancing school district tax bases to equalize revenue sources. The provincial government, which is the seat of sovereignty, lends to local school districts its reserved right to tax real estate, a sovereign right which it never relinquished since the real estate was transferred to private owners, subject to taxation, which is an assertion of the ~~grounds~~ Crown's reserved equity in real estate. In return for lending this power to the local school districts, the Crown provincial requires them to provide free public education and other services, from this base. A kind of birthright principle is implicit, where every unborn child and every immigrant's child is granted a kind of equity in the lands of the province. The local powers cannot deny to the meanest immigrant's child the same common education they provide for their own. This has been quite an effective device over the last several decades in overcoming local particularism. We are all familiar with the strenuous and continuing local efforts to work out from under this servitude. In recent years exclusionary land-use policies administered

at the local level have proven to be an increasingly effective -- and exceedingly costly -- barrier to the effectiveness of this device, which is therefore in need of review and modification.

2. At the provincial level socialization of rent is most notable in the Crown land provinces. The dynamically growing application of the principle has been a major change, just in the last two or three years, owing to a combination of the increasing level of such rents and the increasing assertiveness of provincial governments in asserting their ownership. At the same time there has been little or no socialization of rent from fee-simple lands, either in the Crown land provinces or elsewhere.

The federal government has taken strong exception to this trend, as everyone knows. It is playing a kind of dog-in-the-manger role by obstructing provincial collection of rents from Crown land without, however, effecting much federal collection of these same rents. That is, its propensity to grant favourite income tax treatment to resource companies is unabated in all respects but one, and that one, the non-deductibility of provincially-levied royalties, is clearly calculated to weaken the provinces.

The federal interest correctly perceives, I believe, that the level at which pooling of rents occurs is the level of loyalty, the centre of the organic element in polity. Thus, provincial rent collection is a threat of sorts to the national unity. I am skeptical of the alternative interpretation which is that the provinces are threatening the national revenues, inasmuch as the federal disposition is clearly not to collect much net revenue from resource corporations. However, I retain an open mind on this subject and would welcome comments from my learned co-conferees on this topic.

And yet the socialization of rent at the local school district level has not threatened the unity of provinces, but rather re-inforced it, and it seems to me that provincial socialization of rent could be a factor strengthening national unity rather than the reverse, always provided that the federal authority insist, in the strongest and strictest terms, that there be no direct or indirect barriers to free inter-provincial migration (including exclusionary zoning).

3. At the federal level, socialization of rent is currently minimal and partial and essentially negative in spirit. It is partial because it is focused almost entirely on the Crown land provinces and one particular kind of rent, that arising from "natural resources", very narrowly construed. There is no parallel effort to socialize the rents of fee-simple lands and the effect as among provinces is highly discriminatory.

The two primary means of this partial socialization, that is the two-price system for petroleum and the non-deductibility of provincial royalties, are the crudest, most uneconomical devices that can be imagined from the viewpoint of efficiency and conservation.

The economical way to collect rent is through a straight-forward tax system which identifies rent at the source, on the ground, in rem, distinguishing clearly between low-grade and high-grade deposits, between good locations and bad locations. The power to do this rests in the federal income tax which at the same time treats on an equal basis the income from fee-simple lands.

The route to this end was charted by the Carter Commission several years ago. It is not too late to dust off these recommendations and try again. Public sympathy for greater taxation of resource rents has increased in the last few years.

D. Appropriate distribution of spending. Socialization of rent is not so effective if we turn right around and return the money whence it came or should have come. If the distribution formula be keyed to real estate then in effect there is a de-socialization of rent. This is inherent in grants to municipalities as such, for example, and very likely in the federal equalization grants system.

Socialization only occurs when the grants have the character of a social dividend. That is, they are based essentially on a per capita formula. Provincial school equalization formulas and per capita grants to municipalities have some of this character. However, these devices at present appear to be too weak to overcome galloping exclusionary zoning and other exclusionary municipal policies.

IV. Desirable federal policies

There has been a growing tendency for central governments to subsidize local governments and at the same time to allow these governments to adopt exclusionary policies by which they limit the enjoyment of the subsidy to a smaller number of old settlers. I suggest that this combination of policies is the height of inequity and folly from the standpoint of national unity.

There has been a tendency to subsidize capital spending by local governments, as by capital grants and tax exemption of their bonds. This is a good way to make work for capital which is in short supply, but a bad way for labour, which is in long supply.

There has been a tendency to create an incentive structure which caused local powers to perceive their interest to be exclusionary and then to turn around and preach at them and scold them for their anti-social attitude. This suggests the legend of King Canute and the waves. Effective central policy will make use of the invisible ~~end~~ hand principle. People cannot be expected to act for long against their perceived interests.

There is a strong tendency for the federal government to extract tax money from persons through the federal payroll tax (that is income tax with preferential treatment of property income), and then return money, not to people as such but to governments as such, which is just a step or two away from returning it to property as such, since governments are defined as collections of real estate. Thus, central government relates to individuals as an exploiter and to local governments perhaps as a benefactor. Referring back to II B. in the outline on fiscal mercantilism, this combination of central policies strongly affects the attitude of local government towards the desirability of attracting persons. To the extent that the federal government extracts money from persons, they are less able to pay local taxes, and to the extent the federal government gives subventions to local governments, the less they need resident citizens to pay local taxes. People as such come to be regarded as a pollutant; first a fiscal pollutant and then just a general nuisance, threat, liability and public charge.

My recommendation obviously then is that this relationship should be reversed and that the federal government should relate to persons more as a net benefactor. Localities would then compete to attract people instead of as now to repel them.

One need not fear that localities would then be swamped with people since this is a zero~~some~~ sum gain (except for international immigration to be considered separately). The difference would rather be a shift in the terms of trade in favour of labour and a higher degree of national unity and loyalty. Who, after all, would not value more highly his citizenship in a country whose federal government took less from him and gave him more?

To implement this general scheme here are some more specific suggestions:

A. The federal government should review local and provincial zoning, building code, utility extension and related exclusionary policies as barriers to the free movement of persons in the nation. I invite your attention to the recent Petaluma, California, case in the United States where a city was successfully sued in a federal court on the grounds that its exclusionary zoning interfered with the interstate movement of persons.

B. The federal income tax should be modified so as to tax payrolls less and property more. The Carter Commission has already shown the way.

As a counterpart to this and integrated with it, a vastly increased individual exemption in respect to earned income at least is in order. This would be a way of effecting the social dividend or per capita grant. There is no need for the cash to make a ~~round~~ return-trip to Ottawa ~~and back~~; we only need to increase the exemption. To be sure there would be a publicity value about an explicit "social dividend" which some political leaders might favour, however, I don't think myself that the average citizen who is capable of filling out a complicated income tax form is really that stupid.

C. Grants of all kinds should be on a per capita basis, and preferably sent directly to individuals rather than to provincial or local governments. That having been done, then each provincial and local

government should be self-supporting, an independent profit centre. Those that are not self-supporting under these circumstances are a net drain on the national welfare and should be allowed to liquidate themselves on terms which they find most advantageous. It should not be assumed, however, that this is a draconian hardship policy which would particularly penalize outposts which now appear to be submarginal. On the contrary, the distribution of rents to persons would considerably reduce the relative attractiveness of those locations which generate more rents and enhance those of locations that generate less. This policy would remove a pronounced locational bias which we have lived with for so long that we are almost unaware of its existance.

D. It is probably appropriate for the federal government to lend considerable aid and comfort to localities in protecting their commons by the imposition of user and effluent charges. This is because of the law of selective fiscal gravity: local governments seek to attract whatever they can tax. This tends to limit the effectiveness of their use of user and effluent charges to protect their commons.

It also seems proper for the federal government to provide some leadership in a drive for more responsible and considerate public behaviour. Just how this might be done is a field outside my expertise, but it clearly would be a most productive use of public funds.

E. Some federal leadership could be exerted in promoting the use of mass transit and other mass systems in preference to individual transit and other individual systems (like septic tanks and private wells). Within mass systems we need more use of "inverted rate structures" granting lower rates to smaller users and promoting higher density.

F. All grants should be either to persons or on a per capita basis. There should be no capital grants or grants to governments as such. This includes "tax subsidies".

G. Social dividends should not in any way be described or thought of as "redistribution" of income, but rather as the original distribution. "Redistribution" is an offensive term in that it presupposes a distribution of property antecedent to taxes and social dividends which these are alleged to disturb and rearrange. The more proper con-

cept, I believe, is that taxes on the rent of the land over which the nation is sovereign are simply an expression of each citizen's equity in these lands and not a taking or redistribution from other presumed owners or occupants of these lands. The social dividend is a birthright or a citizenship right, rather than a grant of charity or noblesse oblige. Servitude to taxation and the possibility of increased taxation is an organic incident of every land title under the common law used by the English-speaking peoples and has its counterparts in other systems of law and land tenure as well.

H. There is a federal interest in better assessment of property which might be expressed through a national board of equalization or other device for auditing and improving provincial and local assessment. One purpose would be to protect the federal revenues by preventing any false depreciation of land for federal income tax purposes. Another is to prevent the use of inaccurate assessment as a device to interfere with inter-provincial migration. Any local exclusionary device is a barrier to migration of citizens and the under-assessment of undeveloped land relative to land in active use is clearly such a device, both in effect and intent.

It would be appropriate for the federal government to review provincial preferential assessment and tax rate laws which, for example, base the assessment of farm land on "use" instead of market or actual value. Once again I hasten to point out that each locality views these as devices to keep inself from being flooded with unwanted developers and so on, but from a national viewpoint we need to look at the total system and avoid falling into a fallacy of composition. The people who flood one area will desiccate another. Those who live here will not live there. And again we must remember that the system of per capita grants and social dividends described earlier will minimize the tendency now frequently deplored for people to congregate around the pot of honey. That is, around the local jurisdiction with the strongest tax base.

I. It would be desirable for the federal authorities to construe more broadly the concept of indirect taxes which are forbidden to the

provinces. An economist would say that the more direct a tax is, that is the less shiftable it is, the less excess burden it has. Excess burden in turn is some measure of the degree to which a tax penalizes immigration and economic activity generally.

Such a move would tend to limit the provinces to taxes of a more promotional type.

J. The problem of absentee ownership, about which so much concern is expressed, is largely solved when the federal and local governments take a higher percentage of their revenues from property, since it is property which is the object of concern here. This at once discourages absentee ownership and speculation and at the same time makes it less objectionable since the absentee owner is contributing to the support of the state. It obviates the alternative which is a variety of discriminatory measures against absentees which would be administratively difficult, invidious (like the California Alien Land Act of ill fame), and eventually probably unworkable, as well as inviting retaliation from other countries.

K. International immigration would now have to be controlled, since the value of citizenship in Canada would rise considerably above world levels. To an economist the best solution here would be to put a substantial price on Canadian citizenship. This may sound awful to the moralist and the poet because of conventional connotations and misunderstandings of language, but may actually be the most efficient and equitable way of handling this tortured problem. It would satisfy Canadian labour by keeping out cheap labour and it would satisfy Canadian bookkeepers by maintaining the value of Canadian citizenship, which our set of institutions creates and sustains. As world citizens we would doubtless set the price somewhat below its market value, and as humanitarians we would doubtless allow specific exemptions from time to time. This is material for whole books.

Having expressed the basic discrimination in a lump-sum cash payment, all further kinds of discrimination could be dispensed with, thus doing away with all kinds of unpleasant institutions we now labour under, and effecting great social efficiencies.

L. Finally, a policy of international free trade would be quite possible and feasible and would not threaten the unity of the nation. The national polity would be bound by sharing of resource revenues. This would free us from the alternative wasteful policies now used in lieu of this kind of genuine binding. We need not fear that the ties of trade alone would overcome citizenship ties made as strong as I suggest. This, it seems to me, is the only way to unite the Canadian nation durably, because on any other basis Canada as a nation is in conflict with powerful economic forces related to the high cost of east-west transportation.

V. What to do until the doctor comes: interim provincial policy

A. The province should tax rent at the source rather than at any commodity level and thus be more sure on legal grounds of the deductibility of the provincial charge. That is, the closer the provincial charge is to the ground from which the resource comes, the greater it has the character of a "direct tax" and the less vulnerable it is to federal raids. In this case good law also makes good economics since this is the only effective way to collect economic rent anyway. I believe that the province of British Columbia made both a legal and an economic error in collecting rents through a marketing agency which is vulnerable to federal arrogation.

The Crown land provinces would be advised well, I believe, to increase their taking of economic rent from fee-simple land as well. Then they will be armed with the weapon of consistency when they criticize the federal government for its inroads into the rents of Crown land alone.

This would also make it feasible to alienate more Crown land since the public equity would then be asserted through the imposition of property taxes. The deductibility of property taxes on fee-simple land is not likely to be challenged by the federal department of national revenue.

To be concluded.

'Ottawa can't force B.C. to pro-rate gas supplies

By JEFF CARRUTHERS
Special to The Sun

OTTAWA — The National Energy Board doesn't feel it has the power to force British Columbia to share a natural gas shortage by pro-rating available supplies among users, domestic and export.

That's the opinion of federal Energy Minister Donald Macdonald who admitted in the Commons Tuesday that U.S. officials had expressed "in general terms concern about the supply of gas to U.S. markets" in the light of NEB hearings on the near-future Canadian natural gas supply and availability.

As yet, he stressed, there has not been "even a breath or hint or retaliation" and no U.S. official representations to the Canadian government.

In fact, Macdonald said he "doesn't place a lot of credence" in Washington reports suggesting that Ottawa risks drastic U.S. retaliation if it breaks natural gas export contracts.

B.C. has decided to cut back gas exports to the U.S. West Coast to protect its own consumers from a developing gas shortage in that province.

Marshall Crowe, NEB chairman, explained that the board only has the power to establish the maximum amount of natural gas that can be exported under an export licence.

"The board does not have the power to compel someone to export up to the maximum amount allowed," he said.

In effect, Ottawa only has the power to force export cutbacks — something B.C. has already done.

In light of dwindling Canadian natural gas supplies, the board certainly could not increase gas exports.

If Canadian gas exporters outside of B.C. were to face similar gas shortages, the federal government would not have the power under the National Energy Board Act to prevent gas exporters from cutting back exports to continue to meet domestic requirements.

That, Crowe said, would require a change in the legislation.

The only recourse would be in the courts, he added, where the importing companies could try to sue the exporting company.

One problem with legal action is that most energy export contracts contain "force majeure" clauses which allow the contract to be changed in the event of any energy shortage.

On the other hand, Crowe and other NEB members noted that the board is not compelled by law to change the existing long-term export licences for gas to the U.S. just because it turns out there is a domestic gas shortage either developing or threatening before those gas export contracts, some of which last into the 1990s end.

Macdonald told the Commons that the question of possible action to curtail U.S. exports "remains hypothetical" until the NEB has completed its hearings, on domestic gas supply and deliverability, recommended what action on exports might be required in light gas supplies, and until the federal cabinet has decided what action will be taken.

He suggested that the gas shortage and gas export cutbacks already happening in B.C. are "a different case."

When asked whether existing long-term gas export contracts could be renegotiated, Macdonald said that the "terms under which the gas is exported from Canada through the NEB are that the gas should be surplus to the reasonable requirements of the Canadian market and the contract does provide for the renegotiation of any such permit."

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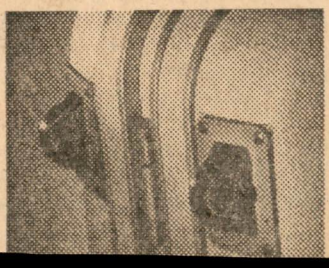

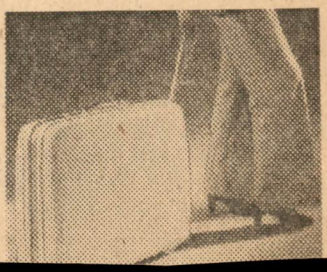

Commodities Stock

New deal on gas may not be all that great

By BOB SHAW

That new producer price of $1.15 per thousand cubic feet (mfc), which an arbitration board in Calgary says Trans-Canada PiepLines Ltd. must pay to Gulf Oil Canada Ltd. for natural gas, may not be all that great.

If it is not upset by the federal government, Trans-Canada will be paying the same price to all its Alberta suppliers. It will increase the pipeline company's cost of gas by $900 million, according to one estimate. It will cost Ontario consumers $500 million, says Premier William Davis.

Federal Energy Minister Donald Macdonald also has been waving his fists. He said Wednesday he hoped to negotiate a better price with the Alberta government.

The arbitrators made their decision on the basis that natural gas must be priced on a basis equivalent to competitive fuel, specifically oil, in the same market area. They no doubt also took into account the well-known pleas of producers that the price has been too low to make exploration and development profitable. Too many drillers have headed for the U.S.

But the unprecedented high price for Alberta gas to the eastbound pipeline doesn't seem to worry Dr. Andrew Thompson, chairman of the B.C. Energy Commission.

The commission will open a public inquiry here May 20 to examine the industry and hear submissions on how much the B.C. Petroleum Corp. should pay B.C. producers to attract the drillers out of Alberta, to produce more gas in northeastern B.C.

"We'll be interested to know what is the net back to Gulf and the other Alberta producers out of that $1.15 per mfc," Dr. Thompson told The Province. "It's one of the things we'll be asking the companies when they appear at our hearings. In any event, we have said many times that gas should be priced at competitive energy value. We include the domestic market."

the province
BUSINESS SECTION
Friday, May 2, 1975 BOB McMURRAY, Editor ★★★ 19

In Calgary, the accountants at Gulf Canada said they also were interested in the net back and were still trying to figure it out. The taxation system in Alberta is quite different from that in B.C.

Alberta levies a royalty on gas production. At prices up to 26 cents per mcf the royalty is 22 per cent; between 27 and 36 cents it is scaled upward to 50 per cent; above 36 cents the royalty remains at 50 per cent. This royalty adds up to around 50 cents per mcf. Then the federal government levies income taxes on the royalty, which is not a deductible expense.

Then there are costs of operation. In Alberta the producing companies own the scrubbing plants — usually with several companies sharing a plant. The costs of scrubbing are borne by the producers and they deliver gas at the "plant gate" which is where they expect to be handed their $1.15 per mcf. Gulf is now being paid an average of about 45 cents per mcf.

Producers in B.C. are now paid on an entirely different basis. The crown-owned B.C. Petroleum Corp. buys all their gas (except for one producer) and pays them on a no-royalty basis. There is a price scale ranging from 20 to 35 cents per mcf.

The federal government called for income tax from B.C. producers on "deemed" royalties. The producers are getting an average of 23 cents but Ottawa says they are "deemed" to be getting 57 cents. This effectively froze drilling prospects, so the B.C. government pays to Ottawa an amount agreed to cover the income tax on the deemed royalty. This has the effect of making them taxable on only their real income.

The effect of the arrangement is still uncertain, which is the reason for the B.C. Energy Commission's upcoming inquiry.

As for natural gas consumers, there are three general regions where the costs are different — B.C., Alberta and Eastern Canada.

Ontario consumers pay the cost of transportation — to Alberta Gas Trunk Line, to Trans-Canada Pipelines and to the distributors such as Consumers Gas. Premier Davis says domestic users now pay about $1.50 per mcf and the new Gulf producer price will mean at least $2.10.

Domestic oc household consumers in Calgary pay around 60 to 65 cents per mcf, depending on quantities used.

It's harder to determine just what Vancouver householders pay for their gas to B.C. Hydro. The utility takes in an average of 85 cents per mcf for all the gas it sells. (It pays about 58 cents.) Its domestic rates start with a minimum charge of $3 a month but the brackets range as high as $1.76 per mcf and seem to average between $1 and $1.03. Heating for an average small house is said to cost about $200 a year.

N.Y. advances again

The New York stock market, seemingly unruffled by the transition to full price competition on Wall Street, made another sharp advance Thursday.

The Dow Jones average of 30 industrials posted a 9.62 gain, to 830.96, to go with its 18.30 jump Wednesday. It was the highest close for the Dow since it finished at 833.23 on June 17 of last year.

In the space of less than

TORONTO STOCK EXCHANGE

TORONTO CLOSING STOCKS
Distributed by CP
Toronto jstock Exchange—May 1

Complete tabulation of Thursday transactions. Quotations in cents unless marked $. z—Odd lot, xd—Ex-dividend, xr—Ex-rights, xw — Ex-warrants. Net change is from previous board-lot closing sale.

A — B

Stock	Sales	High	Low	Close	Ch'ge
Aby jgln w	500	93	93	93	— 2
Abitibi	4560	$9⅞	9½	9¾	— ⅛
Abitbi 7½p	200	$42½	42½	42½	
Acklands	23	$14⅜	14⅜	14⅜	+ ¼
Ackind 2p	z30	$15	15	15	
Acres Ltd	583	$8¾	8¼	8¾	+ ⅛
Acres A pr	360	$35½	35½	35½	— ½
A,G.F.M	1285	205	205	205	— 5
Agnico E	3450	$6¼	5¾	6¼	+ ⅛
AKGRA Ind	300	$5¼	5¼	5¼	
Akaitcho	200	177	177	177	+ 2
Albany	6008	33	33	33	
Alt EG	10430	$7	6⅞	7	
AKLTA Gas A	1535	$12⅛	12⅝	12¾	+ ¼
Alta G C p	z30	$58	58	58	
Alta G E p	350	$21⅞	21⅞	K ¼	⅛ + ⅜
Alta Nat	200	$20½	20½	20½	— ¼
Alcan	16510	$23¾	22⅜	23½	— ⅛
Algo Cent	200	$15	15	15	
Algoma St	5155	$27	26¾	26¾	
ALLCAN P	7300	225	215	225	— 10

Stock	Sales	High	Low	Close	Ch'ge
Banister C	2200	$6⅞	6½	6⅝	+ ⅛
Bankeno	9325	182	175	182	+ 4
Bank B C	z4	$15½	15½	15½	
Bank Mtl	7841	$14	13¾	13⅞	+ ¼
Bank N S	4518	$43	42½	42¾	+ ¼
B Cdn Nat	100	$15½	15½	15½	— ½
Bartaco	800	219	206	206	—14
Baton B	z25	$7½	7½	7½	
Becker B p	200	$5⅞	5⅞	5⅞	+ ⅛
Bell Can	13160	$45	44¾	44¾	+ ⅛
Bell A pr	752	$44⅞	44¾	44¾	—1¾
Bell B pr	210	$44⅜	44½	44⅜	— ¼
Bell C pr	1400	$25¾	25½	25¾	+ ¼
Bell D pr	1756	$49½	49	49½	
Blkwod A	1000	$5⅞	5⅞	5⅞	+ ⅛
Block Bros	2400	305	300	300	— 5
Bombrder	2750	325	315	320	+ 5
Border C	1000	225	225	225	+ 5
Bovis Cor	125	110	110	110	— 1
Bow Val	23600	$16¾	16	16½	+ ⅛
BP Can	500	$11⅛	11⅜	11⅛	+ ⅜
Bralor Res	2340	143	138	143	+ 5
Bramalea	300	$5⅝	5⅜	5⅜	— ⅛
Brameda	1500	81	80	80	
Brascan A	7568	$13⅛	13¼	13⅜	+ ⅛
Brenda M	4800	485	475	475	+ 5
Br Am Bnk	132	$14½	14½	14½	+ ⅛
BC Forest	960	$15⅛	15½	15½	
BC Pack B	z50	$19¼	19¼	19¼	
BC Sugar A	2200	$22¼	21¾	21¾	— ¼
BC Suga p	z45	$12½	12½	12½	
B Phone	650	$10⅞	10⅝	10⅞	+ ¼
BCPh ¼% p	z20	$46	46	46	

Stock	Sales	High	Low	Close	Ch'ge
Campau A	1800	$5⅜	5¼	5⅜	— ⅛
Campau 7p	600	$8¼	8¼	8¼	— ⅛
Can Cem L	176	$10⅜	10⅜	10⅜	— ⅛
C Cem L p	z9	$13¼	13¼	13¼	
C Geother	500	53	53	53	+ 2
C Nor West	3000	335	315	330	
C Pakrs C	100	$18	18	118	+ ¾
Can Perm	555	$16⅞	16½	16⅝	+ ⅜
CS Pete	18620	205	183	195	+ 12
C Tung	3200	335	335	335	
C Cablesy	450	$14½	14½	14½	+ ⅛
C Cable w	310	145	140	145	+ 5
Cdn Cel	2050	$5⅝	5½	5⅝	
C Ex Gas	7200	345	340	345	
C Hidrogas	3000	155	152	155	+ 4
C Homestd	1900	490	480	480	+ 10
C Hydr	1000	$5⅝	5⅜	5⅜	+ ⅛
C Hydr pr	100	$12	12	12	— ⅜
C Imp Bank	8360	$23⅜	23½	23⅜	+ ⅛
CIGO	31330	$7	6¾	7	+ ⅛
CIL	300	$20⅜	20⅛	20½	— ⅛
C Manoir	1100	370	365	365	— 5
C Malart	3000	23½	23⅛	23½	—1½
C Marconi	700	330	325	330	+ 15
C Merrill	550	300	300	300	+ 10
CP Inve	2600	$15½	15	15⅛	+ ⅜
CP Inve pr	300	$30¼	30¼	30¼	+ ¼
CP Ltd	14040	$15⅜	15⅛	15⅜	+ ⅜
CPL A p	300	$8¾	8¾	8¾	+ ⅛
C Reserve	400	255	250	255	+ 10
Cdn Salt	z25	$14½	14½	14½	
Cdn Sup O	742	$36¼	35¼	36	
Cdn Tire	z35	$45	45	45	

Leaders

MOST ACTIVE VANCOUVER STOCKS
INDUSTRIALS

Stock	Sales	High	Low	Close	Ch'ge
Canterra	37500	50	48	50	+2
Venture	7300	37	35	37	+2
Gvt Natld	4500	85	80	82	
Block Bros	3900	305	300	300	—5

MINES

Can Col Rvr	68130	52	46	47	—5
New Pyramid	64975	91	85	88	+6
Reako Ex	55500	22½	22	22	
Gldn Granite	52400	52	49	51	+2

OILS

Stampede	42300	109	100	109	+9
Corp-Ex Mng	23500	16	15	16	+ ½
Galveston	23100	175	168	175	+5
Charleston	21000	60	60	60	+4

CURBS

Geo-Star Res	57800	18	16	16	—2
Diana Expl	55000	21	20	20	—2
Belmoral	35000	53	47	49	—4
TRV Min	33000	93	90	92	—1

MOST ACTIVE TORONTO STOCKS
By The Canadian Press

Stock	Sales	High	Low	Close	Ch'ge
INDUSTRIALS					
Cdn Ind Gs	31330	$7	6¾	7	+ ⅛

Stock	Sales	High	Low	Close	Ch'ge
IAC 5¾ p	800	$17½	17½	17½	— ⅛
Imasco A	830	$30½	30½	30½	
IOil A	16206	$28¾	27¾	28	+ ⅛
Indal Can	2400	$11¼	11	11¼	+ ¼
Indusmin	200	$7	7	7	
Inland Gas	750	$8½	8¼	8¼	— ⅛
Inter-City	300	470	470	470	
Inter C B w	300	255	255	255	—10
Intrmetco	1200	$6⅛	6	6	
IBM	311	$212¼	209	212	+ ¼
Int Mogul	800	250	235	235	— 1
Inco A	12805	$27¾	27¼	27½	— ¼
Inco B	400	$27½	27¼	27⅜	— ⅛
Int Obaska	3000	13	13	13	— 1
Interpool	1000	$15	14¼	14¼	— ½
IPipe	19300	$13	12¾	12¾	— ⅛
Int Pipe w	2400	155	150	155	— 3
Ipsco	1157	$18	17¾	17¾	— ⅜
Inv Grp A	1750	$6½	6¼	6¼	— ⅜
Inv Grp 5 p	150	$13½	13½	13½	— ⅛
IU Intl	5450	$12¼	12	12	— ⅛
Ivaco A	200	$12⅝	12¼	12⅝	+ ⅛
IWC Com	4300	151	151	151	— 4
Jannock	1000	$6	6	6	+ ¼
Jannock D	z87	$6	5¾	6	
Janock 6 p	210	$62	62	62	+ 1
Jannock A	180	$12¼	12¼	12¼	
Jannock B	245	$12	12	12	
Jelex	z100	7½	7½	7½	
Joliet	z112	20	20	20	
Jorex Ltd	8060	23	21	21	— 2
Joutel	750	45	45	45	

O — S

Stock	Sales	High	Low	Close	Ch'ge
Newco Fin	100	$9	9	9	
N Dimens	5500	19	19	19	
N Kelore	1000	22	22	22	— 1
N Provid D	500	21	21	21	
N Senator	5000	14	14	14	
N Que Ragl	700	250	240	250	+10
N Yok Oil	1044	41	41	41	+ 1
Nfld LP	z15	$10⅞	10⅞	100⅞	
Nor Acme	5000	10	10	10	
Noranda A	8175	$36½	35¾	35⅞	+ ⅛
Nordair L	200	246	246	246	+ 1
Norlex	4000	16	15	15	
NCO	15100	480	450	480	+40
Nor Ctl G	2015	$10⅞	10⅝	10⅜	+ ¼
Nor Ctl B p	400	$18⅜	18⅜	18⅜	
Nor Ct 270 p	200	$27	26½	27	— 3
Nor Ct 150 p	100	$18⅜	18⅜	18⅜	
Nor Ctl w	1200	180	180	180	+ 5
Nor Elect	1703	$24¼	24	24	
NE Bell w	4070	475	465	470	+10
Northgat	1400	430	425	425	
Northld	500	11⅛	11½	11½	
Nowsco W	500	$10	10	10	
NSI Mark	3800	104	101	102	+ 2
Nudlama	1000	70	70	70	— 2
Nufort Res	2667	15	10	10	
Numac	7400	$11⅞	10¾	11⅜	+ ¾
Nu-Wst A	1910	$8¾	8½	8⅝	+ ⅛
Nu-Wst B	5910	$8⅛	8½	8½	+ ⅛

T — Z

Stock	Sales	High	Low	Close	Ch'ge
Slater Stl	400	$10¼	10¼	10¼	+ ⅛
Slat W Can	130	$7⅛	7⅛	7⅛	
Sony Corp	1000	$11⅛	11⅛	11⅛	+ ⅝
Southm A	2915	$26¾	26	26	
Spar Aero	100	257	257	257	+ 7
Spooner	500	20	20	20	— ½
St Brodcst	225	$8¼	8¼	8¼	— ¼
Stelco A	9943	$27⅞	27⅝	27¾	+ ⅛
Steep R	6300	148	145	145	— 2
Steetley I	z50	$12	12	12	
Steinbg A	250	$19½	19½	19½	
Steintron	100	$6	6	6	
Strathrn A	700	101	100	101	
Sulivan A	600	176	173	173	
Sunbrst E	2000	9½	9½	9½	— ½
Sundle	37300	$5¼	5¼	5⅜	+ ⅛
Surpass C	400	130	130	130	
Systems D	1800	400	380	380	
Tara	200	$15¼	15¼	15¼	— ¼
Teck Cor A	1480	250	245	245	— 5
Teck Cor B	z75	205	205	205	
Tel Metr B	100	$7	7	7	+ 1
Teledyne	1500	470	460	470	+10
Texaco	2950	$30½	30¼	30½	+ ½
Texasglf	3400	$33	32¾	33	+ ⅜
Texmont	6500	22½	22	22	— 1
Texore	20000	13	12	12	— ½

Stock	Sales	High	Low	Close	Ch'ge
UGas 8¾	3800	$20⅜	20¼	20⅜	+ ⅛
UGas B pr	z12	$29⅝	29⅝	29⅝	
U Asbesto	5136	415	405	410	+ 5
U Canso	5425	$7	6⅞	7	+ ⅛
Un Fn Mgt	100	145	145	145	
U Keno	500	$9⅛	9¼	9¼	— ⅛
U Siscoe	5150	495	480	490	+10
Un Wstn OG	500	110	110	110	+ 6
U Gas	15100	299	290	290	— 6
U Sections	100	370	370	370	
Upp Can	1800	106	103	103	— 3
Van Der	200	375	370	370	— 5
Van Ness	1300	240	235	240	+ 5
Versatile	1520	$8⅛	8½	8⅛	— ¼
Versati A	1750	$8⅛	8¼	8⅛	— ¼
Vestgron	z50	$12	12	12	
Voyagr P	4650	$7⅛	7¼	7⅛	+ ¼
Vulcan Ind	2350	$7¼	7	7¼	
Wajax A	300	$12¼	12	12¼	+ ¼
Walk GW A	2390	$32¼	31⅜	32¼	+ ¼
Warn Can	500	$7⅞	7⅜	7⅞	+ ⅛
Weco Dev	115	155	155	155	—35
Weldwod	1310	$9½	9⅜	9⅝	+ ⅛
Wstburne	1600	$9¼	9	9¼	+ ¼
Wcoast Pt	200	410	410	410	+ 5
W Pet A p	212	$15⅜	15¼	15¼	— ⅛
Westcost	2321	$22	21⅞	21⅞	— ⅛
Wcost 8½ p	400	$51½	51½	51½	+ ⅛
Wcoast w	700	215	210	215	+ 5
Westeel	148	$12⅜	12⅜	12⅜	+ ⅜
W Bcas A	1000	$8¼	8¼	8¼	
W Decalta	9052	$5¼	490	5¼	+ 22
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Vanc Sun - Nov 27/74

Oil firm's head says gov't squabbles could result in ruining the industry

By LEW THOMAS

Federal and provincial governments were warned Wednesday that "the end results will be disastrous" unless they speedily resolve their taxation squabbling.

"The petroleum industry has to know where it stands and it has to know very quickly," L. Merrill Rasmussen, president and chief executive officer of Pacific Petroleums Ltd., warned in an interview with The Vancouver Sun.

A long-drawn out fight between Ottawa and the leading energy fuel producing provinces of Alberta, Saskatchewan and B.C., probably on the legalities of jurisdiction involved, "will ruin the industry," he said.

Rasmussen, speaking in a telephone interview from Pacific Pete's Calgary office, was commenting on statements made earlier Wednesday by B.C. Industry Minister Gary Lauk, lining up B.C. with Alberta in condemning provisisions contained in Monday's federal budget for imposing new and heavy taxes on fuel resources.

Lauk said federal Finance Minister John Turner's proposals, particularly as they relate to the operation of the B.C. Petroleum Corp., a provincial Crown agency, were "colonial and a betrayal of the principle of Confederation."

If the federal government enacts the provisions tabled by Turner, the B.C. producers selling natural gas to the B.C. Petroleum Corp., will be hit by the new federal taxes.

Pacific Petroleums, B.C.'s largest natural gas producer, sells its products to B.C. Petroleum Corp. at the present time for about 22 cents per thousand cubic feet.

The Crown agency in turn gets prices ranging from 59 cents per thousand cubic feet from such B.C. users as B.C. Hydro to $1 per thousand from U.S. importers.

B.C. Petroleum Corp. turn over the gas at the wellheads to Westcoast Transmission, which ships it thrugh its distributing lines for a 9.5 per cent rate of return on investment.

Nub of the upcoming struggle between Ottawa and the energy-producing provinces such as B.C. in Turner's avowed intention to force fuel producers to pay federal taxes on the basis of "fair market values" rather than prices received from such agencies as the B.C. government-owned petroleum corporation.

Rasmussen said one of the interpretations of Turner's federal taxation at fair market values, rather than the prices received from B.C. Petroleum Corp., could reduce the producing firms "to a zero cash position."

He said he realized the "credibility" position of the pertoleum industry "is a difficult one. . . because of the large profits it has shown recently, when it comes to speaking out on this taxation issue."

But the industry's future in Western Canada will be a bleak one if the fight between the federal and provincial governments over their respective share of resources taxation drags out over a period of months, he told The Sun.

Pacific Pete reported net earnings of the first nine months of 1974 of $36.5 million, or $1.71 a share. This was nearly 100 per cent over the $18.5 million in net earning for the same period in 1973, or 87 cents a share.

Rasmussen said such profit pictures made it difficult for the industry to press home its concern over the uncertainties confronting it over the intergovernmental taxation squabbles.

"I'm just stupid and optimistic enough to believe the federal and provincial governments will work out their difference. . . that some accommodation will be reached," Rasmussen said.

But such a settlement must be reached quickly because the industry's multi-million dollar commitments to exploratory and development work cannot be continued without a definite outlook on its cost and profit situation, he said.

How long can the petroleum industry carry on in the present stages of uncertainty about its economic future?

"The industry must know where it stands within weeks . . . it cannot go on indefinitely spending millions of dollars, facing the possibility of a taxation result that reduces it to a zero cash position," Rasmussen said.

"We have to go out of business, that would be obvious,"

But a long-drawn out legal hassle over constitutional rights appears to be ahead for Ottawa and the affected provincial governments.

Lauk said earlier Wednesday the B.C. attorney-general's department is "looking at the constitutionality" of the federal budget's provisions for resources taxation.

The quickest result that Lauk could see developing from that, however, would be a statement that might be issued in a week or two.

James Rhodes, president of B.C. Petroleum Corp. said he did not want to comment on Lauk's statement or the general issue of taxation "at this time."

"We're still analyzing Mr. Turner's budget and the documentations supplied by the finance minister," he told The Sun.

"Until we know what the full impact of the budget provisions are, and the supporting legislation brought in by Mr. Turner, we are not prepared to make any comment."

Rhodes said he was in general agreement with Rasmussen's warning regarding the future of the private petroleum industry in the event of a drawn-out argument between Ottawa and the provinces and resulting heavy taxation of the oil and gas producers.

Rhodes said it would be fair to assume the private companies would pull out of the producing fields "if there's no money in it."

"But, I'm always an optimist, too," he said when told of Rasmussen's belief a settlement will be worked out.

He would not comment on the specific alternatives facing B.C. Petroleum Corp. if Ottawa proceeds with its plans to muscle in on the resource taxation revenue field.

The implications for BCPC from Turner's proposals, if they become federal law, are quite clear. It will have to make a decision whether to increase its payments to the producers and lessen its take, or face the prospect that B.C. gas producers will be forced out of business by the onerous new tax levels.

Spokesmen for the B.C. forest industry, meanwhile, said they were not unduly disturbed by a warning issued in the Commons Wednesday by Turner over the issue of federal taxing of the forest industry.

Replying to Tommy Douglas (NDP-Cowichan-The Islands), Turner warned provincial governments against trying to squeeze the federal government out of taxing the lumber industry.

Douglas had wanted to know if Turner's proposed move, that would see that royalties and other payments to provincial governments by mining and oil companies would no longer be deductible as business expenses for tax purposes, would apply to the lumber industry.

Turner said in principle his budget moves applied only to oil, gas and minerals.

But, he added, in an obvious reference to B.C., that "if stumpage rates should be converted from a flat royalty into a disguised tax we might have to look at that as well."

Council of B.C. Forest Industries spokesman Joe McKinnon said the B.C. stumpage rate, which operates on a sliding scale, is complicated but "nobody is trying to hide anything from anybody."

"The federal people are getting a fair shake out of it now," he said.

The revenues provided for the B.C. and federal governments annually from the stumpage rates, he said, are based on the volume and value of forest products.

McKinnon said the B.C. government, which owns the trees, gets the larger share of the stumpage rate. The federal government gets a proportionate, if smaller share through its taxation of the forest industry's income.

He said the provincial government had received $230 million in 1973 from the stumpage rates because of the booming lumber market.

the Bay

our ry Christmas Store

University of Toronto report:

Unprofitable to develop Canada oil

Claims by Canada's oil industry that it needs a higher return on its investment received support Monday from a report by the University of Toronto's faculty of management studies which says it is unprofitable to find and develop oil in Canada.

The report was presented at a seminar on tax and royalty treatment of the petroleum industry at the annual conference of Canadian Tax Foundation.

G. D. Quirin, who prepared the report with B. A. Kalymon, said the present tax system does not offer the prospect of a 15 per cent return on investment on Alberta oil. A minimum return of 15 per cent is needed to cover the cost of equity capital, he said.

Earlier, T. S. Tuschak, of the federal department of energy, mines and resources, told the seminar that current cash flows of the petroleum indstry are consistent with the need for projected exploration costs.

He said the industry can expect to generate, after royalties and taxes, about $2.8 billion to $3.4 billion a year which will be available for reinvestment and for financial costs such as dividends, working capital and interest.

But Sydney Ewens, manager of the tax department of Imperial Oil Ltd., said the oil industry agrees the government must reduce its take of oil revenues if huge capital expenditures required to give Canada long-term self-sufficiency in petroleum energy are going to be committed by the private sector.

And Robert Cochrane, treasurer of Gulf Oil Canada Ltd., said royalty and tax policies of the federal and provincial governments have served to eliminate any "reasonable share" of recent oil price increases to the oil companies.

Meanwhile in Calgary, Mobil Oil Canada Ltd. said it has indefinitely suspended drilling operations on the Scotian shelf and in the Grand Banks after spending $120 million in the last four years.

It said the decision was based on limited success in finding oil and gas reserves, political and economic uncertainty, the lack of federal regulations in the area, the federal-provincial dispute over jurisdictions and equipment problems.

In other business developments across Canada Monday:

- MacMillan Bloedel said the B.C. forest industry is being undermined by bureaucratic controls and conflicting regulations.
- John Prendergast, chairman of the Air Transport Association of Canada, said the airline industry in Canada will probably ring up one of its largest financial deficits ever this year.
- The Maritime Retail Gasoline Association said it has asked the federal government for immediate legislation for uniform petroleum prices in Canada.
- The anti-inflation board said it will set up at least five regional offices across Canada to handle consumer complaints and inquiries about violations of the selected wage and price controls.

Merchants flay boosts by BCR

PRINCE GEORGE (CP) — A new B.C. Railway policy that has raised freight rates as much as 85-per-cent on some items will result in substantially increased retail prices, say city merchants.

"Pretty soon we're not going to be able to afford to live in this country," said Mayor Harold Moffat, president of Northern Hardware.

On Aug. 16, the BCR increased its freight rates from $2.80 to $3.44 per hundredweight and its minimum charge from $6.50 to $8.50.

But some merchants say that what hurts more is that recently the railway has started enforcing higher rates for shipping goods weighing less than 15 pounds per cubic foot.

Tony Romeyn, owner-manager of Industrial Reproductions, said that before August he was paying $2.80 per hundredweight for freight on drafting supplies. Now he's paying $5.16 per hundredweight.

This 85-per-cent increase can't all be passed on to the customer, said Romeyn.

In fact, Rick Clements, manager of the provincial consumer services office here, said federal wage and price controls prevent merchants from increasing retail prices to reflect increased freight rates. The merchants are limited to a 10-per-cent increase in prices per year, he said.

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By Order of the Board
R. J. Bouwman
Secretary
Vancouver, B.C., October 30, 1975.
B.C. TEL

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Pictorial, Leader

Two weeklies change hands in Island deal

Andy Bigg, running as an independent in the Cowichan-Malahat riding in the Dec. 11 provincial election, announced Monday he has disposed of his interest in The Pictorial and the Cowichan Leader newspapers. He was publisher of both papers.

The sale was made to Westpres Ltd., the owners of The Parksville Progress weekly newspaper, the Duncan businessman said in a Victoria interview.

In making the announcement, Bigg stated that due to the fact he's entering the po- field in earnest, he ly fair to disas-

didate in the Cowichan-Malahat constituency. And it now appears that day has arrived," Bigg said.

"This is the only constituency I've ever been interested in representing in the Legislature," he said. "And the fact it was the only seat declared vacant prior to the announcement of the election, allows me to enter this contest on exactly the same level nd terms as any other in this area."

Bigg said no production trative tem

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Welsh Canadian corner

Graves of Canadian soldiers of First World War at Bodelwydden, North Wales, were photographed by Michael Bellas, 3868 Shelbourne, Victoria, while working in that part of British Isles for last two years. He learned that some died of wounds or poison gas but many were victims of influenza epidemic.

'No health ideas from Socreds'

BC75 X

VANCOUVER (CP) — The Social Credit party should be renamed the United Bankruptcy Party, Health Minister Dennis Cocke said Sunday.

Cocke told a Vancouver-Little Mountain nomination meeting that Social Credit leader William Bennett has yet to make a constructive comment on how to improve social programs or health care in British Columbia.

"I can only describe a leader like that as leader of a United Bankruptcy Party," Cocke said. "It's bankrupt if all it can do is criticize"

Cocke spoke to a standing-room-only crowd which re-nominated Consumer Services nister Phyllis Young and Cummings as NDP can- es in the riding.

aid a re-elected NDP mnt would continue to protect the health, money of the ordi- of B.C., but the province would regress under a Social Credit governemnt.

Before the government introduced pharmacare, Cocke said, about 30 per cent of the pensioners who received prescriptions from their doctors didn't get them filled because they couldn't afford it.

"Now they can . . . (yet) Human Resources Minister Norm Levi has been criticized about this program over and over again," he said.

Cocke also said that "Bennett the land developer is talking also about wanting to repeal Bill 42," referring to the act passed in mid-1973 which controls development of farm land.

"He wants to put pavement and houses over agricultural land," Cocke said.

B.C. cannot survive as an environmental entity unless the province's agricultural land is retained, he said.

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DEPARTMENT OF ECONOMICS

Dear Mason,

I hope you will let me have a revision and completion of your very interesting contribution. It was much welcomed at the Conference.

I enclose my ideas on depopulation and the role of the local government in a model not unlike yours. (See pgs 82 ff especially). Your comments would be welcome.

Tony.

To: All Participants in the Victoria Conference on Resource Revenue

From: Anthony Scott

Date: June 13, 1975

Subject: Proceedings of the Conference

A. I wish to thank all those who wrote papers or who in other ways contributed to the discussion of the conference subject. Most of the authors have agreed to re-write or revise their papers and some of the discussants have undertaken to put their main theme into the form of a short paper. When this is done we should have about 18 papers of various lengths, plus an introduction plus an index.

B. Content

Most papers can be shortened somewhat, and I am anxious of course to issue a volume that is both authoritative and slim.

However I would like to encourage everyone involved to consider extending their discussions in two directions.

The first direction has to do with "management". What decisions are made by the province or federal government that "manage" or "control" the resource, or should do so? In particular I feel that many papers could benefit by considering such matters as the control or determination of the distribution of resource quality and quantity over time. User costs, storage in the ground, ghost towns, and depopulation all are aspects of these matters. Another aspect is bringing time into supply and demand discussions: supply curves may shift over time backwards because of depletion and outwards because of discovery.

A second direction for extension is making the connection between analytical research findings on extractive-industry revenues or management and the question "Who Should Get the Revenues?". The discussion at the conference did smoke out the views of some authors on this question, but deeper and longer written consideration would be very useful. In the abeence of any other approach I suggest you add to the end of your paper a discussion having the

.../2

the following form:

> "My analysis (data, observations) of the X iron-and-gravel tax (subsidy, management problem, market, financing or royalty) has led me to the results just summarised. I now proceed to apply this result.
>
> If my interpretation of my paper were all the information that was available to the constituent assembly or those conducting federal-provincial negotiations, I would suggest that ceteris paribus this tax (this revenue, this industry, this problem, this resource, this market, this government function) should be assigned to the provincial (federal) government, or shared between them. My reasons are ..... "

To provide this judgement is of course difficult; but I hope that the invitation to provide it will inform other parts of each author's paper, and that certain authors will realize how much weight their paper could gain if they attempted this.

Other papers do not of course consist of applied analysis of particular resource problems. But I invite them too to make their argument lead to a definite conclusion(s) of the above form, wherever possible.

My own paper was very vulnerable from this and other critical points of view. However, I received very few suggestions and comments, and invite them now, from all participants.

I plan that the sequence of papers in the final volume will be similar to the "sandwich" used at the Conference. Have you comments on this?

C. The Timetable for all this was discussed with you on Saturday, the last morning of the conference. I have since confirmed it with the U.B.C. Press. A conservative estimate of the times involved looks as follows. Please read it because it suggests what your own role may be.

.../3

1. Present versions of papers are going now to reader(s) for the U.B.C. Press.
2. Authors and A.D. Scott correspond during June and July.
3. Final versions of all papers to A.D. Scott at U.B.C., Vancouver, by August 1.
4. All material to U.B.C. Press by mid-September.
5. Copy editor works with A.D. Scott (not with authors), getting material to printer by early November.
6. Galleys to authors by January 15.
7. Galleys returned to printer by January 30.
8. Page proofs to A.D. Scott late February.
9. Indexing (February-March).
10. Printing & binding March-April.
11. Published by end of April, in time for late spring

D. Style

1. We agreed, in Victoria, to follow the rules for authors and style of the CJE. These are printed inside the back cover of recent CJE numbers. Please note: double-spacing; one side only; footnotes double-spaced and typed separately (probably to be printed at end of chapter); artwork to be submitted oversize for reduction; notes on mathematical notation; notes on regressions and tables.

2. Diagrams: Do not use ink to label artwork - use a soft pencil. The U.B.C. Press's printer will label all curves, axes, spaces, etc. uniformly.

3. Tables: Instead of being set in hot type, all tables will be copied at the U.B.C. Press by typewriter, reduced and photographed. Please shorten and condense tables. Are all rows and columns needed? Would you expect this conference volume's tables to be the source of new data? If so, we will print. Otherwise please condense. (For style, a good model is the article by Blain, Paterson and Rae (1973) CJE 7, 381-401. Note that while tables have "Notes", extended source explanation is refered to in the text on pp. 384-5, and in the appendix (small type) pp. 399-400). We suggest that for uniformity throughout the volume, provinces be listed across the top (i.e., one column, not one row, per province).

4. Mathematics (including computer languate): Please follow CJE style guidelines. U.B.C. Press's printers will not have some symbols, so simple notation is to be preferred in the interest of speed. One-line composition, please: no circumflexes or two-line fractions. Please remember this is a conference volume; the mathematics should be reduced to what is necessary to make your point.

.../4

5. Headings: Please keep levels, or orders, of numbered or un-numbered headings to three or less. Have your headings typed as follows:

I ROMAN NUMERALS: CAPITAL LETTERS IN TITLE

A. Capital letters; underlined title.

1. Arabic numbers; no underlining title.

Please do not use dashes, or "point" form of listing ideas. Write out formally.

ADS:nd

(Master Copy)

M. Gaffney

The Victoria Conference

on

Natural Resource Revenues

June 5-7

1975

THE AIM OF THE CENTRAL GOVERNMENT ~~IS~~ TO MOTIVATE LOCAL GOVERNMENT ~~TO ACT~~ IN THE GENERAL INTEREST

M. Gaffney

B.C. Institute for Economic Policy Analysis

HARNESSING THE PROFIT MOTIVE TO MAKE CONFEDERATION WORK BETTER

by

Mason Gaffney
B.C. Institute for Economic Policy Analysis

(Preliminary draft of a paper to be presented to the Victoria Conference on Natural Resource Revenue, June 5-7, 1975)

This draft is for discussion purposes only and will be presented in the form of an annotated outline. The overall outline consists of five basic headings, as follows:

I. The profit motive of local government and its basic harmony with the organic general interest

II. Conflicts of particularistic local interests with general interests

III. Traditional means to overcome or submerge local-central conflicts

IV. Desirable federal policies

V. What to do until the doctor comes -- interim provincial policies.

I. The profit motive of local government and its basic harmony with the organic general interest

Yes, Va., there is..

To organize a nation, the art of central government is to motivate provincial governments to act in the wider public interest -- to serve the nation by serving themselves. Provincial and local governments have objectives and operate under constraints and incentives just like persons and firms. Economists have analyzed persons and firms, since

Adam Smith at least, and examined how public policy can work with the market to harness private motives to public ends, but they have neglected the analogous question about provincial and local governments.

Provincial governments relate to national governments much as their own local governments relate to them, and I will use "local" to refer to the smaller component government vis a vis the larger one in both cases.

The local viewpoint differs from the central in that the local turf is more completely open to the movement of labour and capital. The local government is defined as an area of land. Men and capital may come and go, and the level of their economic rewards is determined in national and world markets. Land is fixed and from the viewpoint of local government is the residual legatee. That is, the benefits of local spending lodge mainly in higher local land values and the cost of local taxes lodge in lower land values. Land is the equity interest in the local corporation; land income is the bottom line of its income statement. Local motives therefore may be well understood as efforts to maximize land income and values. Maximizing land income can be quite harmonious with the central interest. A private owner maximizes net income from given land by using it so as to maximize its net service flow. His greed, harnessed by the market, makes him allocate his land in a socially oriented way. Increasingly one hears "highest and best use" belittled as though it were a morbidity, but basically it means the use serving the most human needs. That rule is subject to minor qualifications, but the qualifications are not the rule.

The same rule holds for local government which is in effect a group of landowners in league to improve their property and administer it jointly. Local government is a half-way house between the individual landowner and the central state. Landowner control is modified by democracy, but the fact that labour and capital must constantly compete with potential immigrants minimizes their motivation to maximize their factor shares by political means, (other than those that exclude outside labour and capital.)

There is an important element of truth, then, in viewing local government something like a business firm. The proper role of central government then is to create a framework of institutions within which

the firm maximizes the general welfare as an incident to maximizing its own.

The great nation-builders of history have recognized this truth. They must give the local satraps something to control and to maximize legitimately. This is a constructive governmental use of the invisible-hand principle.

They have also recognized that something more is required which I will call "citizenship". That is, there must be a direct relationship between each individual and the central state, a relationship in which each individual stands on common ground with each other. "Empires" may be distinguished from "nations" by the former's use of zamindars or caciques and mercenaries whose relationship with the state is more contractual than organic. Zamindars and caciques are local landowners in outlying colonies under the general military umbrella of the Mother Country. They perform local policing functions and enjoy the privilege of considerable immunity from taxes levied on citizens of the metropolitan country, but they lack any organic relationship with the metropolitan central state and historically tend to fade away, as Mr. Kipling predicted they might.

II. Conflicts of particularistic local interest with general interests

A. Hanseatic Mercantilism
B. Fiscal Mercantilism
C. Protecting the Commons
D. Covert Imperialism

A. Hanseatic Mercantilism

This is the kind of behaviour described by Gustav Schmoller in his classic work on mercantilism, that is the exercise of monopoly power by a state or locality which has some, and they all do. An outstanding modern example of course is OPEC, which could have learned everything it knows and perhaps did by observing the Texas Railway Commission and the Alberta system of pro-rationing production to market demand. The growing use of marketing boards lends itself to this kind of monopolistic price and output behaviour. The Anti-Combines Act in Canada, like the Anti-Trust legislation in the

United States, tends to exempt provincial, local and state governments from its purview. I.e. "conservation" covers a lot.

A perfectly analogous exercise of provincial power which is much less likely to be recognized for what it is, is the deliberate withholding of real estate from the market in order to pull prices up. The purchase of real estate by immigrants is analogous to the export of products from the province. The passive withholding from sale of lands by the Crown provincial may, in some circumstances, be a form of Hanseatic mercantilism, under this description; so may a policy of agricultural land reservation by a province which reserves land from its highest and best use. The extent to which it actually fits the description depends however, not simply on the existence of the power, but the manner in which it is exercised, and this is not intended to assert that such powers are necessarily always exercised in this manner. A sometime aspect of Hanseatic mercantilism is the "employer gild variation". In this variation the objective is to hold down the demand for labour and therefore hold down wage rates. This is done by discouraging the allocation of land to labour-intensive industries. One way of exerting the monopoly power inherent in a local jurisdiction is to tax exports where it is believed the tax may be shifted to outsiders. In the case of real estate this includes newcomers and members of powerless out-groups and ethnic and national minorities and so on. A problem with this kind of device is that it does not discriminate between the intended victims and the children of the old settlers who are generally in the same role as immigrants and other out-group members.

B. Fiscal Mercantilism

This might also be called "fiscal environmentalism" or "fighting tax pollution". These names are suggested because this kind of behaviour so often is wrapped, rather hypocritically, in the flag of environmentalism. Fiscal mercantilism has four thrusts:

1) To acquire and enrich the tax base. (Generally there is a compensatory principle at work in respect to local taxation. To wit, "local governments seek to attract whatever they are allowed to tax".) Thus taxes do not drive away their bases)

(This is an important factor to consider in evaluating the likely efficacy of user charges in controlling local pollution, congestion, and so on.)

2. To repel and reject public charges.

3. To minimize export of tax payments to senior governments.

4. To maximize the import of grants from senior governments.

Until fairly recent times, local governments acted as though they thought they could achieve these ends by competing to attract population. The traditional "Chamber of Commerce" was a boomer booster organization, but in the last twenty years these attitudes have changed drastically and the anti-growth rage is now in the ascendant, creating a whole new collection of problems. People as such have become unattractive, capital only moderately attractive, and open space highly attractive.

This change in attitudes is the combined result of several factors, many of which are fiscal. It is beyond the scope of this paper to look into the history of fiscal changes; it is limited to suggesting fiscal reforms to offset these changes in attitude towards immigration.

One change that is identifiable is a loss of belief in economies to scale of population. People are much less conscious now then they used to be of the advantages of a large market, the cultural advantages and variety of a large city, the advantages and economies of increasing load factors and sharing risk in a large population, the advantages of a regional population large enough to support local industry, and so on.

The changed attitude is partly a matter of increased democracy of folk ways and mores. A land-owning oligarchy is anxious to keep cheap, docile labour on hand, as long as it does not demand expensive education, equal rights in public places, and so on, but when the proletarians become assertive of their individual rights in these matter, the oligarchy is anxious to see them leave.

It is partly a matter of mechanization. Each person now sheds more external pollutants than formerly because he is armed with formidable engines of nuisance which have been made cheap. Thus each

person needs more room. Presumably this problem can be minimized when institutional and social controls shall have caught up with ATV's, portable radios, lawn mowers, imported sports cars and motorcycles, and similar artifacts which, in the hands of a small number of inconsiderate and irresponsible people can vastly increase the elbowroom required per capita.

It is partly a matter of the decline of public morals with concomitant increase in petty thievery, assault and so on.

The characteristic landowner defense against this kind of thing is typified by exclusionary zoning. However, as a fiscal device, exclusionary zoning is ultimately self-defeating because in order to ~~fight~~ fend off one kind of social cost it inflates many others. For this and other reasons it must give way to more efficient devices.

C. Protecting the Commons

Every local jurisdiction contains some natural commons, like beaches and parks, and some artificial commons, like public schools and highways, whose attractiveness to old settlers may be reduced as population increases. Increasing population pressure which used to be a minor nuisance has now become a major threat, at least in the minds of many people, owing to the factors outlined above under B. The response has been the establishment of exclusionary local controls and at the provincial level, exclusionary provincial controls, such as the agricultural land reserve of British Columbia. These controls of course tend to keep land from what an economist would call its highest and best use. In a crude and ill-calculated sort of way these controls are designed to maximize the welfare of old settlers in a jurisdiction by protecting them from the competition of immigrants. In the process, of course, they redistribute wealth among the old settlers. Those who would like to sell their land for a higher and better use are considered "greedy" because of the conflict of their interest and that of the other old settlers. In terms of the national polity however, the greed of the owners wishing to sell is an expression of the interest of immigrants wishing to buy and have access to the resources of the province in question.

D. Covert Imperialism

The imperialism of local and provincial government under the umbrella of a national government must of course be covert. However, there is room for maneuvering in the establishment of sovereignty over unclaimed resources, such as radio spectrum, off-shore minerals, anadromous fish, and so on. The arenas in which this competitive imperialism occurs are also the questions of who shall levy taxes, who shall collect rents, who shall regulate, and in the ultimate absurdity, who shall have the right to waste public capital in premature and sub-economic development schemes. The last of course represents a miscalculation on the part of local government as to where its true interests lie and may reflect some conflict of interest between ownership and management, just as with a large corporation.

III. Traditional means to overcome or submerge conflicts

A. The tendency of exclusionary provincial and local policies if pursued by all is to drive landless, ~~route~~root less proletarians from pillar to post until they become sufficiently desperate to offer their services for so little that they somehow become attractive to the dominant landholding oligarchy. Their problem is accentuated because as they become more attractive to said oligarchy they become ipso facto less attractive and more of a threat to other old settlers who have some influence, that is, organized labour. This problem is eased somewhat when they are easily differentiable as by speaking a foreign language or being of a notably different race or religion. With the decline in ethnic differentiation, however, this solution is becoming less feasible and in addition is less acceptable to modern concepts of justice and equity and definition of first-class citizenship.

B. A second traditional solution has been for an economy and an empire to expand so fast and acquire and move into new land so rapidly that land develops little or no value so that class structures based on property ownership remain weak or local or transitory. This was an essential part of the 19th century solution in Canada and the United States, and it had a notable revival in the 1930's following the burst of urban expansion of the 1920's when this and other factors conspired

to bring land values down so low that a great deal of land was abandoned for taxes.

In the 1960's a more overtly imperialistic expansion occurred which worked, but not quite as well. People tended to stay at home, at least within the continental limits and cheap labour was not welcomed in person but by proxy in the form of cheap, imported products of high-labour-content. This cheap labour was differentiable by virtue of being located overseas.

In recent times there is little sign that this solution will indeed keep land cheap. For perhaps the first time in our history we are undergoing an extended period when land values remain high relative to wage and salary incomes over an extended period, resulting in exacerbated class distinctions between haves and have-nots, old & young.

C. Socialization of rent.

1. At the local level this is a traditional role for the property tax. It works, however crudely, so long as people accept the advantages of the economies of scale that attend growth, which is encouraged by property taxation, especially that part which falls on land values. It works better where the provinces prevent the development of tax havens by constantly balancing school district tax bases to equalize revenue sources. The provincial government, which is the seat of sovereignty, lends to local school districts its reserved right to tax real estate, a sovereign right which it never relinquished since the real estate was transferred to private owners, subject to taxation, which is an assertion of the ~~grounds~~ Crown's reserved equity in real estate. In return for lending this power to the local school districts, the Crown provincial requires them to provide free public education and other services, from this base. A kind of birthright principle is implicit, where every unborn child and every immigrant's child is granted a kind of equity in the lands of the province. The local powers cannot deny to the meanest immigrant's child the same common education they provide for their own. This has been quite an effective device over the last several decades in overcoming local particularism. We are all familiar with the strenuous and continuing local efforts to work out from under this servitude. In recent years exclusionary land-use policies administered

at the local level have proven to be an increasingly effective -- and exceedingly costly -- barrier to the effectiveness of this device, which is therefore in need of review and modification.

2. At the provincial level socialization of rent is most notable in the Crown land provinces. The dynamically growing application of the principle has been a major change, just in the last two or three years, owing to a combination of the increasing level of such rents and the increasing assertiveness of provincial governments in asserting their ownership. At the same time there has been little or no socialization of rent from fee-simple lands, either in the Crown land provinces or elsewhere.

The federal government has taken strong exception to this trend, as everyone knows. It is playing a kind of dog-in-the-manger role by obstructing provincial collection of rents from Crown land without, however, effecting much federal collection of these same rents. That is, its propensity to grant favoured income tax treatment to resource companies is unabated in all respects but one, and that one, the non-deductibility of provincially-levied royalties, is clearly calculated to weaken the provinces.

The federal interest correctly perceives, I believe, that the level at which pooling of rents occurs is the level of loyalty, the centre of the organic element in polity. Thus, provincial rent collection is a threat of sorts to the national unity. I am skeptical of the alternative interpretation which is that the provinces are threatening the national revenues, inasmuch as the federal disposition is clearly not to collect much net revenue from resource corporations. However, I retain an open mind on this subject and would welcome comments from my learned co-conferees on this topic.

And yet the socialization of rent at the local school district level has not threatened the unity of provinces, but rather re-inforced it, and it seems to me that provincial socialization of rent could be a factor strengthening national unity rather than the reverse, always provided that the federal authority insist, in the strongest and strictest terms, that there be no direct or indirect barriers to free inter-provincial migration (including exclusionary zoning). As a counterpart it would have to limit the Provinces to rent takes; and oblige them to render a service like schooling.

3. At the federal level, socialization of rent is currently minimal and partial and essentially negative in spirit. It is partial because it is focused almost entirely on the Crown land provinces and one particular kind of rent, that arising from "natural resources", very narrowly construed. There is no parallel effort to socialize the rents of fee-simple lands and the effect as among provinces is highly discriminatory.

The two primary means of this partial socialization, that is the two-price system for petroleum and the non-deductibility of provincial royalties, are the crudest, most uneconomical devices that can be imagined from the viewpoint of efficiency and conservation.

The economical way to collect rent is through a straight-forward tax system which identifies rent at the source, on the ground, in rem, distinguishing clearly between low-grade and high-grade deposits, between good locations and bad locations. The power to do this rests in the federal income tax which at the same time treats on an equal basis the income from fee-simple lands.

The route to this end was charted by the Carter Commission several years ago. It is not too late to dust off these recommendations and try again. Public sympathy for greater taxation of resource rents has increased in the last few years.

D. Appropriate distribution of spending. Socialization of rent is not so effective if we turn right around and return the money whence it came or should have come. If the distribution formula be keyed to real estate then in effect there is a de-socialization of rent. This is inherent in grants to municipalities as such, for example, and very likely in the federal equalization grants system.

Socialization only occurs when the grants have the character of a social dividend. That is, they are based essentially on a per capita formula. Provincial school equalization formulas and per capita grants to municipalities have some of this character. However, these devices at present appear to be too weak to overcome galloping exclusionary zoning and other exclusionary municipal policies.

IV. Desirable federal policies

There has been a growing tendency for central governments to subsidize local governments and at the same time to allow these governments to adopt exclusionary policies by which they limit the enjoyment of the subsidy to a smaller number of old settlers. I suggest that this combination of policies is the height of inequity and folly from the standpoint of national unity. (& interests of labor)

There has been a tendency to subsidize capital spending by local governments, as by capital grants and tax exemption of their bonds. This is a good way to make work for capital which is in short supply, but a bad way for labour, which is in long supply.

There has been a tendency to create an incentive structure which caused local powers to perceive their interest to be exclusionary and then to turn around and preach at them and scold them for their anti-social attitude. This suggests the legend of King Canute and the waves. Effective central policy will make use of the invisible ~~end~~ hand principle. People cannot be expected to act for long against their perceived interests.

There is a strong tendency for the federal government to extract tax money from persons through the federal payroll tax (that is income tax with preferential treatment of property income), and then return money, not to people as such but to governments as such, which is just a step or two away from returning it to property as such, since governments are defined as collections of real estate. Thus, central government relates to individuals as an exploiter and to local governments perhaps as a benefactor. Referring back to II B. in the outline on fiscal mercantilism, this combination of central policies strongly affects the attitude of local government towards the desirability of attracting persons. To the extent that the federal government extracts money from persons, they are less able to pay local taxes, and to the extent the federal government gives subventions to local governments, the less they need resident citizens to pay local taxes. People as such come to be regarded as a pollutant; first a fiscal pollutant and then just a general nuisance, threat, liability and public charge.

Like "study lessons" of Eliz. times. (? refer of course to Eliz. I,)

My recommendation obviously then is that this relationship should be reversed and that the federal government should relate to persons more as a net benefactor. Localities would then compete to attract people instead of as now to repel them.

One need not fear that localities would then be swamped with people since this is a zero~~some~~-sum ~~gain~~ game (except for international immigration to be considered separately). The difference would rather be a shift in the terms of trade in favour of labour and a higher degree of national unity and loyalty. Who, after all, would not value more highly his citizenship in a country whose federal government took less from him and gave him more?

To implement this general scheme here are some more specific suggestions:

A. The federal government should review local and provincial zoning, building code, utility extension and related exclusionary policies as barriers to the free movement of persons in the nation. I invite your attention to the recent Petaluma, California, case in the United States where a city was successfully sued in a federal court on the grounds that its exclusionary zoning interfered with the interstate movement of persons. Not as precedent, but collateral experience.

B. The federal income tax should be modified so as to tax payrolls less and property more. The Carter Commission has already shown the way. Do this instead of raiding Prov. funds.

As a counterpart to this and integrated with it, a vastly increased individual exemption in respect to earned income at least is in order. This would be a way of effecting the social dividend or per capita grant. There is no need for the cash to make a round-trip to Ottawa and back; we only need to increase the exemption. To be sure there would be a publicity value about an explicit "social dividend" which some political leaders might favour, however, I don't think myself that the average citizen who is capable of filling out a complicated income tax form is really that stupid. Tax credit also possible.

This also satisfies work ethic.

C. Grants of all kinds should be on a per capita basis, and preferably sent directly to individuals rather than to provincial or local governments. That having been done, then each provincial and loc

government should be self-supporting, an independent profit centre. Those that are not self-supporting under these circumstances are a net drain on the national welfare and should be allowed to liquidate themselves on terms which they find most advantageous. It should not be assumed, however, that this is a draconian hardship policy which would particularly penalize outposts which now appear to be submarginal. On the contrary, the distribution of rents to persons would considerably reduce the relative attractiveness of those locations which generate more rents and enhance those of locations that generate less. This policy would remove a pronounced locational bias which we have lived with for so long that we are almost unaware of its existance.

D. It is probably appropriate for the federal government to lend considerable aid and comfort to localities in protecting their commons by the imposition of user and effluent charges. This is because of the law of selective fiscal gravity: local governments seek to attract whatever they can tax. This tends to limit the effectiveness of their use of user and effluent charges to protect their commons.

It also seems proper for the federal government to provide some leadership in a drive for more responsible and considerate public behaviour. Just how this might be done is a field outside my expertise, but it clearly would be a most productive use of public funds.

E. Some federal leadership could be exerted in promoting the use of mass transit and other mass systems in preference to individual transit and other individual systems (like septic tanks and private wells). Within mass systems we need more use of "inverted rate structures" granting lower rates to smaller users and promoting higher density.

F. All grants should be either to persons or on a per capita basis. There should be no capital grants or grants to governments as such. This includes "tax subsidies".

G. Social dividends should not in any way be described or thought of as "redistribution" of income, but rather as the original distribution. "Redistribution" is an offensive term in that it presupposes a distribution of property antecedent to taxes and social dividends which these are alleged to disturb and rearrange. The more proper con-

cept, I believe, is that taxes on the rent of the land over which the nation is sovereign are simply an expression of each citizen's equity in these lands and not a taking or redistribution from other presumed owners or occupants of these lands. The social dividend is a birthright or a citizenship right, rather than a grant of charity or noblesse oblige. Servitude to taxation and the possibility of increased taxation is an organic incident of every land title under the common law used by the English-speaking peoples and has its counterparts in other systems of law and land tenure as well.

F. There is a federal interest in better assessment of property which might be expressed through a national board of equalization or other device for auditing and improving provincial and local assessment. One purpose would be to protect the federal revenues by preventing any false depreciation of land for federal income tax purposes. Another is to prevent the use of inaccurate assessment as a device to interfere with inter-provincial migration. Any local exclusionary device is a barrier to migration of citizens and the under-assessment of undeveloped land relative to land in active use is clearly such a device, both in effect and intent.

It would be appropriate for the federal government to review provincial preferential assessment and tax rate laws which, for example, base the assessment of farm land on "use" instead of market or actual value. Once again I hasten to point out that each locality views these as devices to keep inself from being flooded with unwanted developers and so on, but from a national viewpoint we need to look at the total system and avoid falling into a fallacy of composition. The people who flood one area will desiccate another. Those who live here will not live there. And again we must remember that the system of per capita grants and social dividends described earlier will minimize the tendency now frequently deplored for people to congregate around the pot of honey, That is, around the local jurisdiction with the strongest tax base.

G. It would be desirable for the federal authorities to construe more broadly the concept of indirect taxes which are forbidden to the

provinces. An economist would say that the more direct a tax is, that is the less shiftable it is, the less excess burden it has. Excess burden in turn is some measure of the degree to which a tax penalizes immigration and economic activity generally.

Such a move would tend to limit the provinces to taxes of a more promotional type.

H. The problem of absentee ownership, about which so much concern is expressed, is largely solved when the federal and local governments take a higher percentage of their revenues from property, since it is property which is the object of concern here. This at once discourages absentee ownership and speculation and at the same time makes it less objectionable since the absentee owner is contributing to the support of the state. It obviates the alternative which is a variety of discriminatory measures against absentees which would be administratively difficult, invidious (like the California Alien Land Act of ill fame), and eventually probably unworkable, as well as inviting retaliation from other countries.

I. International immigration would now have to be controlled, since the value of citizenship in Canada would rise considerably above world levels. To an economist the best solution here would be to put a substantial price on Canadian citizenship. This may sound awful to the moralist and the poet because of conventional connotations and misunderstandings of language, but may actually be the most efficient and equitable way of handling this tortured problem. It would satisfy Canadian labour by keeping out cheap labour and it would satisfy Canadian bookkeepers by maintaining the value of Canadian citizenship, which our set of institutions creates and sustains. As world citizens we would doubtless set the price somewhat below its market value, and as humanitarians we would doubtless allow specific exemptions from time to time. This is material for whole books.

Having expressed the basic discrimination in a lump-sum cash payment, all further kinds of discrimination could be dispensed with, thus doing away with all kinds of unpleasant institutions we now labour under, and effecting great social efficiencies.

(J.) B. Finally, a policy of international free trade would be quite possible and feasible and would not threaten the unity of the nation. The national polity would be bound by sharing of resource revenues. This would free us from the alternative wasteful policies now used in lieu of this kind of genuine binding. We need not fear that the ties of trade alone would overcome citizenship ties made as strong as I suggest. This, it seems to me, is the only way to unite the Canadian nation durably, because on any other basis Canada as a nation is in conflict with powerful economic forces related to the high cost of east-west transportation.

V. What to do until the doctor comes: interim provincial policy. It is not only better to travel hopefully than to arrive, it is life -- i.e., what happens while we make other plans.

A. The province should tax rent at the source rather than at any commodity level and thus be more sure on legal grounds of the deductibility of the provincial charge. That is, the closer the provincial charge is to the ground from which the resource comes, the greater it has the character of a "direct tax" and the less vulnerable it is to federal raids. In this case good law also makes good economics since this is the only effective way to collect economic rent anyway. I believe that the province of British Columbia made both a legal and an economic error in collecting rents through a marketing agency which is vulnerable to federal arrogation. bec. a "commodity" is land commingled w. labor & capl. inputs which are taxable federally.

The Crown land provinces would be advised well, I believe, to increase their taking of economic rent from fee-simple land as well. Then they will be armed with the weapon of consistency when they criticize the federal government for its inroads into the rents of Crown land alone.

This would also make it feasible to alienate more Crown land since the public equity would then be asserted through the imposition of property taxes. The deductibility of property taxes on fee-simple land is not likely to be challenged by the federal department of national revenue. Selling land w. produce large revs, too.

To be concluded.

Provs. shd. force feds. into greater rent-taking by recognizing this as unpreempted field of taxn. & moving in.

Western Provs. shd. add to their popns. to Δ their voting strength; and their viability as indep. ecs -- posing potential separatist threat so Ottawa must stop treating w. contempt; and ecs. of local mkt., so can reduce ~~exploitability by dependence on~~ Ottawa central Canada.

They shd. be growth-oriented until emerge from contempt. Emulate Que. revanche du berceau.

Is some cost to this, but is good inv. Demonstration effect back east shd. help. Couple w. strict env. ~~to~~ controls -- attract people, not cars. Thus emulate the good in the Calif. model but avoid the bad.

Thurs., June 5

Scott (cont'd. by Peter Sundiver) "Does it make any difference"
"Redistrib." - bad term.
Def. NR rev. - too restrictive (to omits one small)
- domain revs.
- "prop-tax-like" incomes - to province, & only on mines & forests.
- mining & logging tax
- inc. tax on nat. res.

Fed. corp. inc. tax has been very small relative to Prov. revs. from N.R.s.

Lederman. Queens & Montreal.

"Rev" of NR is "total benefits" from res.

Pro judicial review.

Compromise of commerce & v. property.

When tangible goods cross borders, exclusive fed. jurisdn. This rule stands
(How about intangible)

Mktg. schemes must be national, qualy; but comply prod. leg. necy.

G. Thompson. There is a B.C. economy, isolated, and can be. Prov. sovereignty.

J. Maxwell. Stronger national role. Nat. energy mgmt.
Alta. is diversifying.
Rents shd. be internalized & encumbered.
Transfer rents to indy. to encourage supply.

Hepworth.
Coal in Vanc. $1.15/million BTU.
Gas " " 60¢/mcf from BC Hydro.
can be exported at $1.60/mcf or so.

80¢/mm BTU for hog fuel

Major oil cos. have moved north from B.C. & Alta, as well as South. Ottawa is promoting Arctic to supply central Canada free of Alta & BC control.

Laing & Powrie
All Prov. revs. shd. be federally taxed (?)

Non-renewability of a res. is a good argument for using less, but not for finding more --- bec. this just hastens the evil day.

G. Post – non-rational

Conclusion - Equalizing Payments & Energy

T.R [% prg - % base] is equ. formula. Funded from gen'l revs.

(Equ. payments seem to go all one way. General revs. go to ~~provs.~~ have-not provs, but there is no tax on losers. Levelling up, not down.)

Musgrave: equ. shd be funded by provs, via a prop'd tax on prov. revs.

Brian Howlett proposal

J. Helliwell.

D. Clark

Options

1. Fed. tax on NR
2. Scott - use NR to fund equ.
3. Musgrave. Provs. keep revs, but Fed. tax Prov. revs. (Now 40% fed. tax comes from Ont.)

False premises:

- Transfers are not social costs
- Depln. in Alta. not accel. by low price
- Depln. not all capt. loss.
- Undrgrd mining means shutting in is conservation.
- Declining sense of comm.
- "No province shall be below ave." - then all are same.

Fed. Parl.

Fed. proclaim that wells & mines are "works" under Fed. jurisdn. Wd. be declrn. of war on provinces, ~~would not~~ probly won't be done.

Fed trump: "peace, order & good govt. of Canada". Traditionally limited

Used in '52 re offshore minerals, given to Fed.

"Propty. & Civil Rts" is heartland of provincial power.

Defn. of direct & indirect tax.

Foreign ownership

Federalism

Severance does not create Fed jurisdn. Prov. cd. take res. in kind, store, & avoid Fed. jurisdn (but no one will do that)

Royalty to be under 109, must be on tonnage.
A. Thompson – QL-F is sale & urgent of res. Is consideration for a sale. Reserve.

To sit on or shut in res, wd. have to call it a conserv. measure.

Spry

Adam Smith

— Def. of NRs.
Alloc. & distr. effects.
Fed. v. local

Proceed iteratively.

Scott

Declining crops -- relate to exhaustibility

Clark

Fed. action limited. Provinces get more.
Pot of honey

Scott paper, ideas.

I. The ~~basic~~ profit motive of local govt. and its basic harmony with organic general interest

To org. a great state

1. Govt of central govt. is motivate ~~others~~ prov. govt. to act in wider public interest.

2. Local & prov. govt. max. l.v., like firms.

3. Great nation ~~organizers~~ builders of history have recognized this. Give the satraps something to control, & maximize. Make their interest our int. Invisible hand.

(Requires more: "Citizenship". I.e. imperialists w. their zamindars & caciques will not stay. Unity needed, some organic quality to state, not all contract.

4. Max. l.v. is good for all. — under comp. constraints.

II. Conflicts of particularistic local interests with ~~organic~~ general interests

~~A. But~~ are conflicts.

A. — Hermeatic mercantilism. Monopoly power.

E.g. OPEC

E.g. mktg. boards for exports .. ~~Bat~~ Alta oil; B.C. gas

Employer gild variation: hold down wages. Craft gild (over)

B. — Fiscal ~~Autarky~~ mercantilism: 2 "fiscal empire-building"; fighting tax pollu. Avoid importing tax costs; & Control immigr. Anti-growth stage now ascendant.

B. 1. Acquire & enrich ~~grow~~ tax base; avoid exporting tax ~~b~~ payments; import grants.

This is partly a matter of image re ees. of scale

Is partly a matter of democracy of mores. E.g. s.e. states were very anxious to keep slaves; also cheap docile labor [Also matter of Stasis -- they didn't want labor turnover, but to keep the old there & the new out.] But are happy enough to let blacks go now there is school integr. etc.

Is partly mechanics. Each person now sheds more externalities, needs more room. (Also changes as sub. for zoning)

variation: freeze methods, exclude newcomers & minorities etc.

Irony of zoning ... to fight school costs, inflates most others.
Law: LGs will continue to ~~be~~ attract whatever they are allowed to tax.

C & F. — Protect the ~~Threat to~~ commons

~~The~~ Used to be minor nuisance. Now major threat, due to machines of nuisance, decline of public morality & social controls on outrageous behavior. Result, cult of open space. Exclusionary local controls.

D & F. Overt & covert imperialism: Establish sovereignty over unclaimed res. (See BMS) Spectrum; offshore minerals; fish;
Arenas: who shall tax; who collect rent; who regulate; & in frequent absurdity, who shall have right to develop uneconomically & prematurely.

III 9. ~~To~~ overcome or subvert conflicts

Traditional means to

A. As rootless proles become more desperate they ask less & become more ~~diffe~~ attractive.
They ~~to~~ pull down other wages & become ~~a~~ threat to old settler labor. This is eased when they are differentiable.

Is a traditional solution; has been rejected now.

B. Expand so fast, land develops no value, class structure stays weak or local.
19th cent. soln? Also 1930s, urban expansion. 1960s, ~~was~~ more overtly imperialist expansion. ~~didn't work.~~ —
People stayed home. Cheap labor was diff-d by being overseas.
But Canada hasn't expanded, land is tied up, hi prop. values are dividing nation.

IV. Needed Fed. policies

To overcome Prov. exclusionary pols, Fed. needs to:

a. Note Petaluma case, interfere w. free movement of persons

b. Tax payrolls less, propty. more. Take firm out of land speculation, add "g". As do so, can reduce progressiveness of rates (own)

c. Lead drives for protecting common by use & effluent charges.

Res. of law of selective fiscal gravity: LGs will attract whatever they can tax, i.e. not use use charges efficiently. Taxing legitimizes. (the license to pollute argument)

Lead drive for responsible consideration public behavior

Promote mass systems ("g")

b. ~~&~~ Cash to or for persons, not to govts. or for capl. Thus no fed. control.

~~&~~. Social divid. - or p.c. grant. but cash to indiv. is surer. And no need for round trip, just raise flat exemption on earned income.

d. School

No capl. grants. Tax inc. of local bonds; and if LG builds K from current taxes, tax the K. i, somehow.

No grants of any kind except to persons, per cap. Thus each Prov. & outpost is self-supporting, an indep. profit center

e. In all ways create sense of community & polity & sharing (not redistribn.) at Fed level, based on persons. - citizens only.

f. Let newcomers buy citizenship; pay in cash or kind, instead of as now in ~~contumacy & bigotry~~ discrimination.

This couples w. tax & resp. Absentee ownership is no (own)

which now distort value of deductions & thus allocn. of propty.
Also do away w. corp. inc. tax & its distortions — i.e., Carter

threat if they pay taxes, obviates discrim. w. its high costs.

C. Socialize rent.

1. Local level. Tradl. role of prop. tax. Works sort of, as long as people buy ecs. of growth & scale. And Province constantly balances sch. distn. tax bases to equalize; & eqn. formula, too.

2. Provl. level. Is where we are now, in Crown land Provinces.

In others, there is little of this.

Fed. playing dog in manger, obstructing Provl. collection, but not effecting Fedl. collection. Weakens Provs. not to strengthen them ~~ex~~ value of citizenship, but resource corps (over)

3. Fed. level. Not just rev. from Crown Prov. lands

Involves reform of Fed inc. tax Carter.

Top prop. inc. better: cap. gains, minerals, imputed, inc. propty (over)

Fed. leaves no room for ~~trade~~ this. Leaves tax base unpreempted. Same time, clumsy 2 price system of redistrib, plus non-deduct. of royalties, double excess burden, neither collects revs. nor incents. work. Shd. abandon both, & assert fed. equity by taxing rents at source. So shd. Provinces

So meantime, Provs. shd. move in w. prop. tax, deductible,

D. Distrib. social dividend to persons, not local govts. Now subvene local govt., & it is exclusionary. Cap. grants, t.c. bonds

Is key to overcoming local exclusionary attitudes — subvene people not K

Avoid regulations & penalizing & forcing people to act v. their (over)
perceived interests

Province is pretty good about this, re schools, also per cap. grants to municipalities. Fed. is bad. So it is

Prov. of B.C. (over) Tax local propty. not persons. When Fed. taxes persons, then persons cannot pay local taxes. Reverse net flow of funds

Feds. correctly perceives that the level at which redistrib. occurs is the level of loyalty, the center of the organic element in polity. Thus Prov. organic policies are a threat to nat. unity.

(depreciation rackets & cap. gains); mimic. bonds (i.e. in Canada?) to create cap. gains

But not good enough to prevent strong exclusionary policies.

---

that adopted exclusionary zoning, ALR. Also, use-based farm assmt. & very low t.r., abound overest. of farm land's future & social value. Also holding back Crown land in lower uses.

deny their deductibility

goes w. "C"

g. Promote mass systems
" inverted rate structures
" lower rates where density higher

new g. Fed. support for better land assmt, Nat. Bd. of Equalizn.
- to protect Fed. revs., prevent any depletn. of land
- to keep migration free. Exclusionary local devices are barriers to ~~free~~ migrn. of citizens.

h. Enforce literally the prohibition on "indirect" taxes by Provinces. Any tax that is at all shiftable.
This limits Provinces to promotional type taxes.
Is zero-sum game, so result is just to favor labor — as a fn., not a class. (Always me when people forget we are all labor ~~fn~~ — what do they do for a liv?)
Limit Provinces to 1st Rent taxes. (note absentee ownership)
Recognize reservation of rt. to resource revs. by Crown Prov.

i. Free trade. Bind nation/polity organically by sharing res. revs — then free selves of alt. wasteful policies used in lieu. Fear not (over)

V. Meantime, while Feds are pursuing counterproductive line, what shd Province do?
Tax rent at source ... thus be sure of deductibility, on legal grounds, a direct tax. Abandon 2-price. Food bank is good ecs.
Tax rent from fee simple land too. Crown land Provinces then will be armed w. weapon of consistency wrt fed. inroads on rent.
Alienate Crown land subject to heavy prog. taxes. Fed. cd. never

that trade alone wd. overcome ties so strong. Is only way to unite nation for long, bes. on every other basis Canada or a nation is in conflict w. all ec. forces.

ON THE TRAIL

Brown starts eastern trip, opens campaign

New Democratic Party MLA Rosemary Brown left Vancouver Wednesday on a five-day tour of Manitoba and Ontario as part of her campaign for the NDP federal leadership.

The Vancouver-Burrard MLA will speak in Ottawa, Toronto, Sudbury, Thunder Bay and Winnipeg on the tour, appearing on several occasions with her opponents Ed Broadbent, Lorne Nystrom and John Harney.

She is due back in the legislature Monday.

The NDP will choose a successor to David Lewis, defeated in the 1974 federal election, at its convention in Winnipeg, July 4-7.

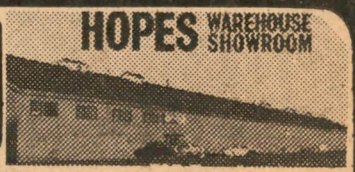
City patrollers to be honored

Fifteen B.C. school patrollers will be honored by the city May 21 before they attend the national school patrol jamboree in Ottawa May 23 - 24.

Dana Vagg, 12, of Fleming elementary, Mark Harfield, 13, of Emily Carr elementary, Ricky Homer, 13, of Gleneagles elementary, and Gillian GHughes, 12, of Burrard View elementary will represent Vancouver-area schools at the annual jamboree.

The B.C. patrollers, who will be guests of the B.C. Automobile Association, will be welcomed by Mayor Art Phillips and taken on a tour of the city.

In Ottawa, the jamboree will include a tour of Ottawa's historic sites and a parade past the Parliament Buildings.

HOPES


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Ottawa to take quarter of B.C.'s gas income

By JEFF CARRUTHERS
Special to The Sun

OTTAWA — About 25 per cent — between $30 million and $50 million a year — of the extra revenues from the announced higher export prices for British Columbia natural gas will have to be returned to the federal tax collector.

Under last November's controversial federal budget, natural gas producers in B.C. are taxed on an artificial "fair market value" for their gas set by Ottawa even though the gas companies receive on the average only 22 cents a thousand cubic feet (mcf) from the B.C. Petroleum Commission, which buys and then sells at a much higher price all gas produced in the province.

At present, Ottawa estimates that the "fair market value" for B.C. gas is about 58 cents per mcf.

Preliminary calculations indicate that this "fair market value" for B.C. gas will jump to between 80 cents and 85 cents per mcf on Aug 1, when the export price of all Canadian natural gas jumps from $1 to $1.40 per mcf.

On Nov. 1, the fair market value will jump to roughly 95 cents per mcf as a result of the increase in the export price to $1.60 per mcf.

The fair market value is currently being calculated by finance department officials in Ottawa by taking a weighted average of the domestic gas price in B.C. — between 55 and 58 cents per mcf — and the export price, and then subtracting the pipeline transportation costs.

B.C. currently exports about two-thirds of its gas production and the transportation costs are estimated to be about 25 cents per mcf.

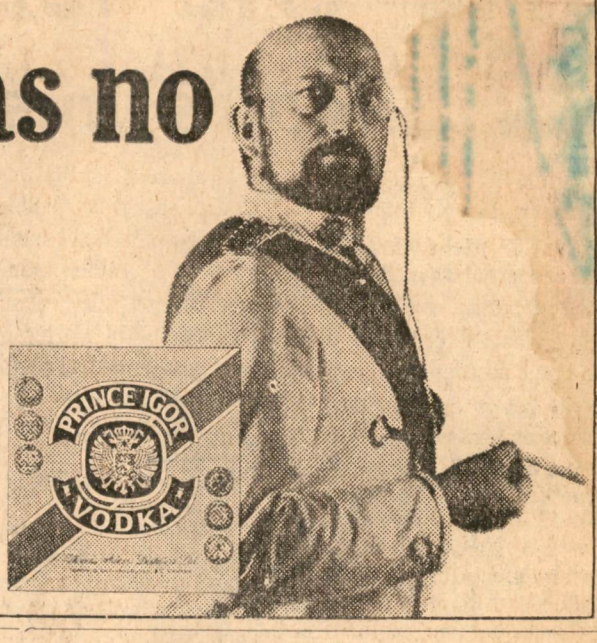
Federal officials also estimate that about 25 per cent of each extra dollar in revenues from increases in the export price of B.C. natural gas will be paid back to Ottawa by way of federal taxes.

B.C. agreed earlier this year to pay directly to Ottawa the extra taxes the B.C. gas companies face as a result of the difference between the actual wellhead revenues they receive from the B.C. Petroleum Corp. and the assessed "fair market value" wellhead price set by Ottawa.

As a result of this agreement, the B.C. government, not the gas companies, will have to pay the extra taxes from the higher export price.

B.C. Petroleum Corp., which receives all extra revenues from the increased export price for B.C. gas, should receive from $130 million and $150 million in the year starting Aug. 1, depending on the level of exports.

Prince Igor has no taste.



Prince Igor is vodka.
Pure vodka.
without a flicker of taste
or color or scent.
A prince of a vodka.
Have the Prince over
tonight.

from Thomas Adams Distillers Ltd. ...we still care about quality.

i. If you're ready or the best.

C colour portable.

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Ask any Hitachi owner. Have they had trouble with their set? Ask a TV dealer or repairman. Chances are, you'll hear nothing but praise for Hitachi. Because we put more into everything we make. More time. More care. More expensive parts. Our quality control is nothing short of fanatical. Consequently, our sets need less service calls per unit sold than any other set on the market. Need we say more?

F. Scott

THE OIL ISSUE

VAN. SUN Nov. 28/74

Trudeau's mistake acknowledged

OTTAWA (CP) — Prime Minister Pierre Elliott Trudeau was wrong in claiming the support of an authoritative 1967 taxation study for his government's contested plan to make oil companies pay income tax on royalties paid to provincial treasuries.

His office acknowledged Tuesday that Trudeau was mistaken in saying the tax move — denounced as illegal by the producing provinces — had been recommended in the exhaustive royal commission report on taxation by the late Kenneth Carter.

Further, the Carter report does not support the current federal argument that royalty money should be taxable behave become taxes based on profits rather than true royalties on the volume of production. The Carter report says money paid to provinces either as royalties or taxes should be exempt from federal taxation.

Trudeau is expected to concede his error in a Commons speech on taxation plans, but the decision to disallow provincial royalties as a tax-deductible business expense is unchanged.

The plan was announced first in the defeated May 6 budget and renewed in the budget nine days ago.

In between, during the campaign for the July 8 election, Trudeau defended the plan by claiming repeatedly that the Carter report had recommended it seven years earlier.

In a letter of protest against the federal tax plan published Monday, Premier Peter Lougheed of Alberta cited the Carter report saying the opposite.

Opposition leader Robert Stanfield said in the Commons last week that Trudeau was wrong.

"Several of the attitudes and statements coming from this government are frankly dishonest, and that word does not seem to me to be exaggerated," Stanfield said then.

"Too often, statements reflect a misconception of the facts and the prime minister himself has made such mistakes."

The Carter report's recommendation on resource royalties and taxes says:

"Whether the provincial governments derive revenues from natural resources through lease payments, royalties or a tax on income, the charges are nevertheless a cost of acquiring a supply of the mineral or the petroleum concerned.

"Therefore, such charges, regardless of their form, should be deductible in the computation of income in the same way as any other cost of doing business."

Solve resource fight, council chief urges

By MARJORIE NICHOLS
Special to The Sun

OTTAWA — Urgent consideration should be given to resolution of the dispute between Ottawa and the provinces over the issue of resource taxation, the chairman of the Economic Council of Canada said Tuesday.

At a news conference following publication of the Economic Council's eleventh annual review, Andre Raynauld also reiterated the council's recommendation that Canadian oil prices be allowed to rise to international levels.

The domestic price of Canadian oil has been frozen at $6.50 a barrel since last March, under an agreement with the provinces that extends until the end of June, 1975. The world price now is in the neighborhood of $11.50.

Projections of possible fluctuations in world oil prices are included in the Economic Council's report.

These projections, intended to calculate the potential impacts on Canada under a world-price system, all assume that there will be a slightly lower international price by 1976. These assumed prices range from about $8 per barrel to about $10.50 per barrel.

Raynauld said an immediate move to world price next summer might be too large for the economy to handle.

He said he thought it would be "preferable" if the governments would agree to the world-price objective and then work out a system for the gradual phasing in of the higher prices of the "medium term," of three to five years.

He also repeated the report's argument that domestic prices must rise to encourage needed exploration and discourage excess consumption.

The council chairman then added that the resolution of the "political issues" surrounding the resource taxation controversy should be considered "very urgent."

Raynauld said that the council's review had been prepared last spring before the development of the current feud with the provinces over sharing of resource revenues.

Tax right backed by court

REGINA (CP) — Premier Allan Blakeney said Wednesday the legality of Bill 42 and the right of the province to benefits of its oil and gas resources has been confirmed by a court decision.

Mr. Justice E. N. Hughes in Saskatchewan Court of Queen's Bench Tuesday dismissed an action by Canadian Industrial Gas and Oil Ltd. of Calgary which claimed the province's mineral income taxes and royalty surcharges were beyond the powers of the government.

Blakeney said in a prepared statement the judgment reaffirms the government's view of the legality of the legislation.

Meanwhile, a lawyer for the Calgary oil company said Wednesday the 162-page judgment document has been reviewed by company legal counsel.

While no formal decision has been made, it appears likely the judgment will be appealed to the Supreme Court of Canada, the lawyer said.

Mr. Justice Hughes, in releasing his decision, turned down CIGOL's arguments that the tax and royalty surcharges were unconstitutional because they constituted indirect taxation. CIGOL had argued, in court proceedings that ended in August, that the provincial government was interfering with inter-provincial trade.

Blakeney also gave approval in principle to a recommendation that oil prices be increased to discourage waste of the non-renewable resource.

But he cautioned that such an increase, recommended by the Economic Council of Canada, should be introduced extremely carefully to avoid inflationary pressure and hardship.

Because of world conditions, the price of domestic oil must go up, even in Saskatchewan, he said.

"We will not be able to isolate ourselves entirely from all the pressures."

Blakeney also repeated qualified assurances that the price of Saskatchewan oil will not be raised this winter despite his view that the agreed limit on oil prices no longer applies because the federal government has violated terms of the agreement.

Project to cost $2 billion

CALGARY (CP) — Rising costs have increased the price tag of the Shell group's proposed oil sands project in northeastern Alberta to more than $2 billion.

This compares with the last estimate of $850 million for Shell's proposed 100,000-barrel-a-day plant in the Athabasca oil sands, Shell Canada Ltd. officials said Tuesday.

The revised estimate further trims the economic viability of the proposed oil sands plants and comes shortly after the announcement last month that the U.S. half of Shell is withdrawing from the project.

Shell Oil Co. of Houston announced last month that its subsidiary, Shell Explorer Ltd., was selling its interest in the oil sands project, but Shell Canada would continue to study its viability.

In making the announcement, Shell Oil said oil sands development "has been seriously affected by the uncertainty as to whether crude oil will be available for export to the United States in the long term as Canada's own needs grow."

Energy Minister Donald Macdonald announced last week that to protect domestic requirements, oil exports to the U.S. will be gradually eliminated.

Shell Canada officials declined comment on whether feasibility of the oil sands plant is endangered.

Oil industry sources say the only certain project is the one being built by Syncrude Canada Ltd.

Syncrude has also revised the estimated cost of its plant to produce 125,000 barrels of synthetic crude oil a day to $1.5 billion from $1 billion.

Home Oil Co. Ltd. and Petrofina Canada Ltd., operators for group s proposing 103,000-barrel-a-day and 122,500-barrels-a-day oil sands plants, said last week the federal budget to increase resource taxation has made their proposed projects even more uncertain.

$7,500 FINE FOR OIL SPILL

A $7,500 fine was levied in Coquitlam provincial court Tuesday against the Liberian freighter Ogden Clipper for spilling oil into Burrard Inlet last Jan. 26.

The 15,000-ton freighter was found guilty after a trial that had been delayed until the ship returned to B.C.

A stay of proceedings was entered in the section of the charge that named Captain Ulrich Nebuhr and Chief Engineer Lother Jung along with the ship.

The charge was laid after the vessel spilled 10,000 gallons of bunker oil into the inlet while she was taking on fuel from a barge at the Pacific Coast Terminals bulk loading dock at Port Moody.

A spokesman for the Crown told the court the ship also faces a civil action for recovery of the $86,000 clean-up bill.

MAURICE WESTERN re Scott

Land Restrictions Legal

OTTAWA — The unanimous decision of the Supreme Court of Canada in the Prince Edward Island land ownership case is plainly a reverse for the federal government.

It now turns out that the Citizenship Act of 1970 does not, and without constitutional change cannot, possess the full force attributed to it by Ottawa.

In the wake of the decision, the government is being urged to seek a remedy through constitutional amendment.

As matters stand this is baying for the moon. The fact that all the attorneys-general intervened suggests that the provinces would not be amenable to change restricting their freedom of action.

The case arose when two Americans challenged the validity of the Real Property Act, an island statute of 1972 which drew a distinction, not between aliens and non-aliens but between residents and non-residents in rights of land ownership. Only with the permission of the Lieutenant-Governor-in-Council may a non-resident hold or acquire title to property in that province exceeding 10 acres with shore frontage of five chains.

Nothing in the decision has anything to do with these details, which might presumably vary across the country in accordance with legislative wishes. The decision simply deals with broad principles.

Parliament Rules

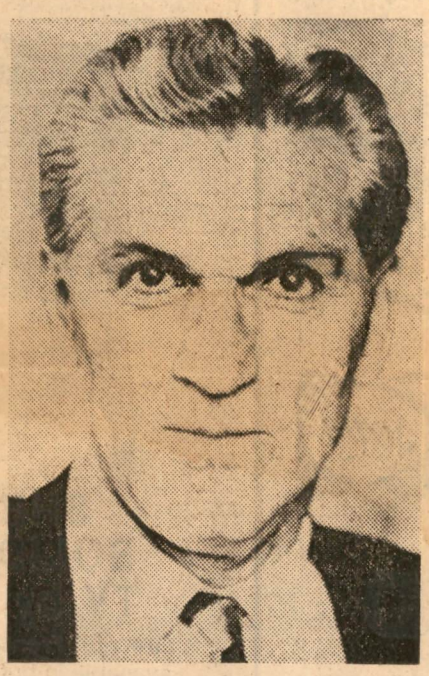
The position, as now clarified, is as follows. Only Parliament may define citizenship; how it may be acquired and how lost.

But citizenship does not mean, as the federal government held, "being at home in every province;" it is not a status that, being under exclusive federal definition and protection, is invulnerable to residential qualifications established by the provinces. The Trudeau government was obviously in error in assuming that it was free to invest citizenship with attributes which would in effect limit the provincial right to regulate land ownership even in a discriminatory way.

As appears from the judgment, the federal government was largely influenced by the Winner case of 1951.

Mr. Justice Rand observed at that time that "a province cannot prevent a Canadian from entering it except, conceivably, in temporary circumstances, for some local reason, as for example health." In his consideration of two historic cases, Union Colliery (1899), which barred Chinese from working in B.C. mines, and Cunningham vs. Tomey Homma, which dealt with the provincial franchise, Mr. Rand drew this conclusion from apparently divergent decisions.

"What this implies is that a province cannot, by depriving a Canadian of the means of working, force him to leave it: it cannot divest him of his right or capacity to remain and to engage in work there: that capacity inhering as a constituent element of his citizenship status is beyond nullification by provincial action."



CHIEF JUSTICE LASKIN
. . . landmark decision

He spoke of an attribute of citizenship "outside of those civil rights committed to the province and . . . analogous to the capacity of a Dominion corporation which the province cannot sterilize."

As noted by Chief Justice Laskin, the word "citizenship" is not found in the British North America Act; being implied, however, in the federal power over naturalization and aliens. Evidently, the Judicial Committee of the Privy Council was originally disposed to take a large view of the federal role but afterwards drew back.

In Union Colliery, it said that the subject of naturalization "seems prima facie to include the power of enacting what shall be the consequences of naturalization; or in other words what shall be the rights and privileges pertaining to residents of Canada after they have been naturalized." But then, in the later case, it found that the language used in the constitution "does not purport to deal with the consequences of either alienage or naturalization."

The Supreme Court is of the latter opinion.

Provincial land legislation does not strike at freedom of movement. "No one is prevented by Prince Edward Island legislation from entering the province and from taking up residence there." Absentee ownership of land is a legitimate provincial concern and was, indeed, in early days a very great problem in the island. Zoning does, however,

Something Lost

To sum up: "In the present case, the residency requirement affecting both aliens and citizens alike and related to a competent provincial object, namely, the holding of land in the province and limitations on the size of the holdings relating as it does to a limited resource, can in no way be regarded as a sterilization of the general capacity of an alien or a citizen who is a non-resident, especially when there is no attempt to seal off provincial borders against entry."

Despite the judicial reading, it seems clear that, as a practical matter, we have lost something. For years it has been possible for citizens, planning retirement, to buy property in anticipation in one of the more favored regions of the country. In future, if provinces take the restrictive action open to them, it will be possible for non-residents to make such arrangements only with the consent of the local government.

They will still, of course, be free to move on retirement and at that point to acquire residency, with the privileges flowing from it. This, however, is not quite the same thing and, considering what has happened and is happening to property values, it may be a very different thing.

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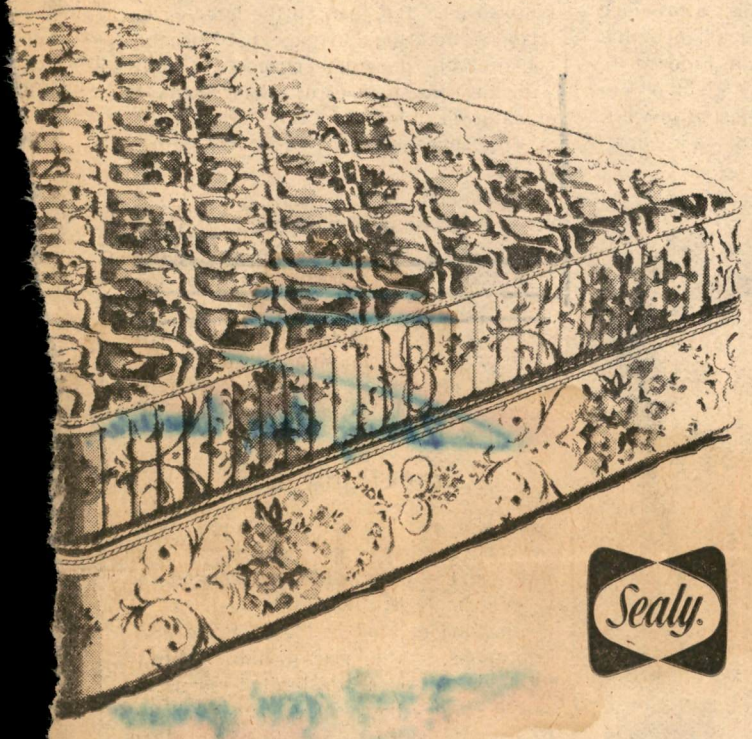

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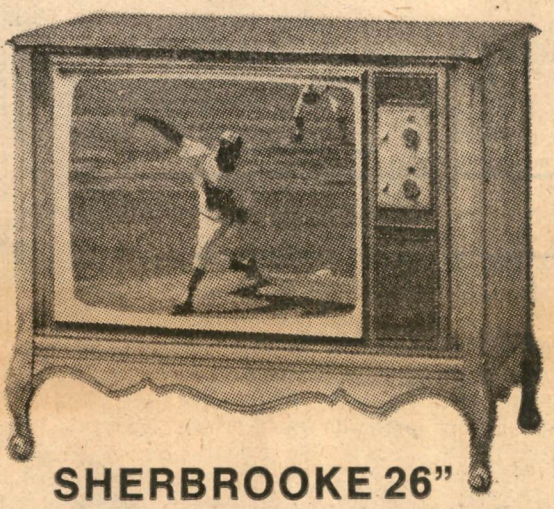

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The Vancouver Sun
May 17/75

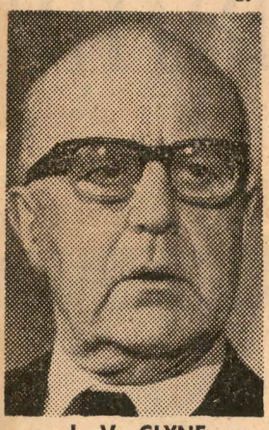
George FROEHLICH
BUSINESS EDITOR

George Froehlich is on vacation. Guest columnist this week is J. V. Clyne, former chairman of MacMillan Blodel Ltd.

In 1967 I gave an address to the Toronto Board of Trade in which I urged upon Canadians the necessity of reaching agrement on means of amending the Canadian constitution by purely Canadian agencies. I also urged, then, that the constitution ought to be modernized to reflect conditions in the last half of the 20th century.

Since that time, of course, we have not moved one step closer to those goals although an entirely new set of circumstances has now been added to our traditional problems and has made constitutional reform of paramount importance to our existence as a nation instead of a set of quarrelling states.

The new circumstances to which I refer are the country's non-renewable energy resources, the high prices which their scarcity commands, and the undisguised greed with which our 11 governments seek to divide those riches. In a free society of reasonable citizens, this ought not to be an insuperable problem, but the constitutional machinery which governs federal/provincial relations in this country is an archaic mechanism that does little to resolve conflicts and is actually divisive.



J. V. CLYNE

There was a time when our principal concern with the constitution was its effect on the two linguistic communities. Quebec was always fearful that the protection of its language and cultural heritage, enshrined in the British North America Act, might be eroded if the English-speaking majority out-voted it in altering the constitution. Therefore, the BNA Act has never been altered to any degree except in minor ways and remains an anachronism although it is still basic law for a modern nation in a volatile world.

Because Canada's constitution, the British North America Act, is so seldom amended in a substantive way — I believe there has been no change since 1964 — many people do not realize that when changes are made they must be enacted by the British Parliament at Westminster though the petition comes from Ottawa, addressed to the Queen.

No British parliamentarian has any taste for this oddity of history and must certainly hope that Canada would assume control of her own constitution in a manner consistent with her dignity as a sovereign state.

In the United States, where all ties with the mother country were severed violently and abruptly, the constitution has undergone steady change over 200 years.

There have been 26 amendments all of which reflect changing social conditions and which keep the constitution as a dynamic, evolving, living body of law. There have been amendments to abolish slavery, to repeal prohibition, to lower the voting age and to otherwise express new conditions of life as Americans live it.

In Canada, our constitution has been changed about 20 times since 1867, but these have been largely housekeeping alterations, nothing that would make it a more vital document. And never have the changes been made by the Canadian Parliament. None has been called a constitutional amendment. Each change is called a "revision bill" and one must study its contents to decide whether it should be considered an amendment.

As a result, authorities often disagree as to how many amendments have actually been made to the BNA Act. We have altered it to accept Newfoundland into confederation, to establish the boundaries of Ontario and to give the federal government jurisdiction over old age pensions, but not one change of substance has been made that would help Canada better manage her energy resources, or resolve other differences amongst her various governments.

This is certainly a matter that should have top priority in Canadian affairs, but, instead, the federal government has decided to proceed, first, with a Royal Commission on the growth of corporate power in Canada. The inventor of this idea could well lay claim to Kipling's line, "I am the prophet of the utterly absurd."

I do not know of any evidence to show that corporate growth has in any way damaged the political or economic life of Canada. On the contrary it is beneficial in that it increases employment and it adds to government revenue by way of increased taxation.

Such growth is accomplished only in the face of very great odds, all of them created by governments. As has been pointed out from time to time Canada is the most over-governed nation in the world. Our chief affliction is not excessive corporate power but it is that most dread disease, the elephantine growth of governments, unwieldy, uncontrolled and unproductive.

By comparison, corporations are powerless as midgets in a world of giants. There is no corporation which is immune to the government's power to regulate and to tax. Therefore, the notion that we need a Royal Commission to study corporate power while 11 governments squabble over resource revenues with all the dignity of a cock fight is plainly ludicrous.

It would be much more useful to appoint a commission to investigate waste in government spending and the unnecessary proliferation in government services.

Another useful exercise would consist in the appointment of a commission to bring in recommendations for amendment of the BNA Act. It is too much to expect today that amendments will be brought about by arguments between federal and provincial ministers of state. The most sensible approach would be to form a constitutional commission consisting of expert constitutional lawyers, academicians and representatives of business and labor to study the constitution in the light of present day necessities and to make public recommendations for amendment which would then form the basis of discussion and action on the part of the politicians.

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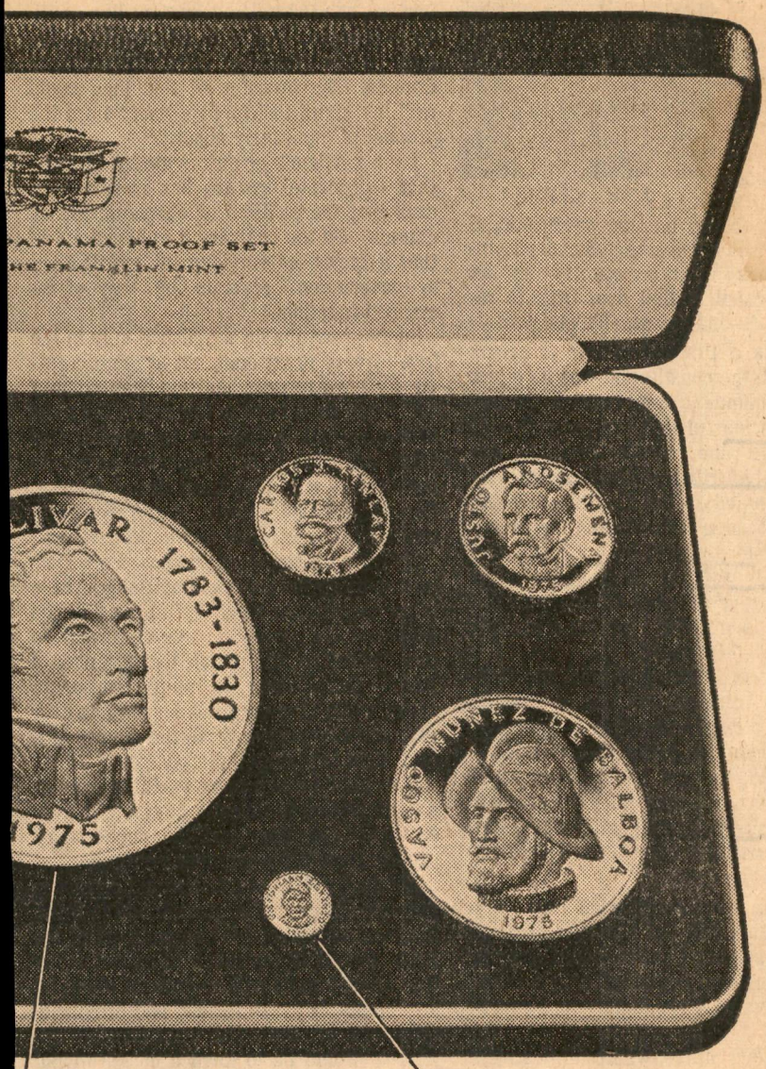


gest and smallest

The Biggest Little Superpower In The World

The Emir Of Kuwait:
Sheik Sabah Al-Salem Al-Sabah

NOT LONG BEFORE his assassination last March, Saudi Arabia's King Faisal is supposed to have remarked: "There used to be two superpowers in the world, the U.S. and the Soviet Union. Now there is a third—the State of Kuwait." Any Arab recognizes sarcasm when he hears it, and the Kuwaitis lost little time in sending a delegation to Riyadh, apparently to assure Faisal that Kuwait had no intention of upstaging its much bigger neighbor.

The king's slightly acid remark hit home. The Kuwaitis *do* have delusions of grandeur. This tiny, rich and essentially defenseless oil state has been throwing its weight around in the world as though it were a great power. The mouse is roaring like a lion, and though no one is trembling, nearly everyone is listening.

Kuwait has been aggressive in insisting that those who have the oil should squeeze the maximum advantage out of those who have need of it. Along with Iran—but with far less reason—the little city-state has argued that oil prices should go up and that production should go down. Kuwait, with its mouth and with its money, has backed anti-Israeli extremists. It led the boycott against Jewish-owned investment houses and set the pace among the Persian Gulf oil producers in taking over its oil industry. It was among the loudest in lambasting Secretary of State Kissinger for his threat to use force in the Middle East.

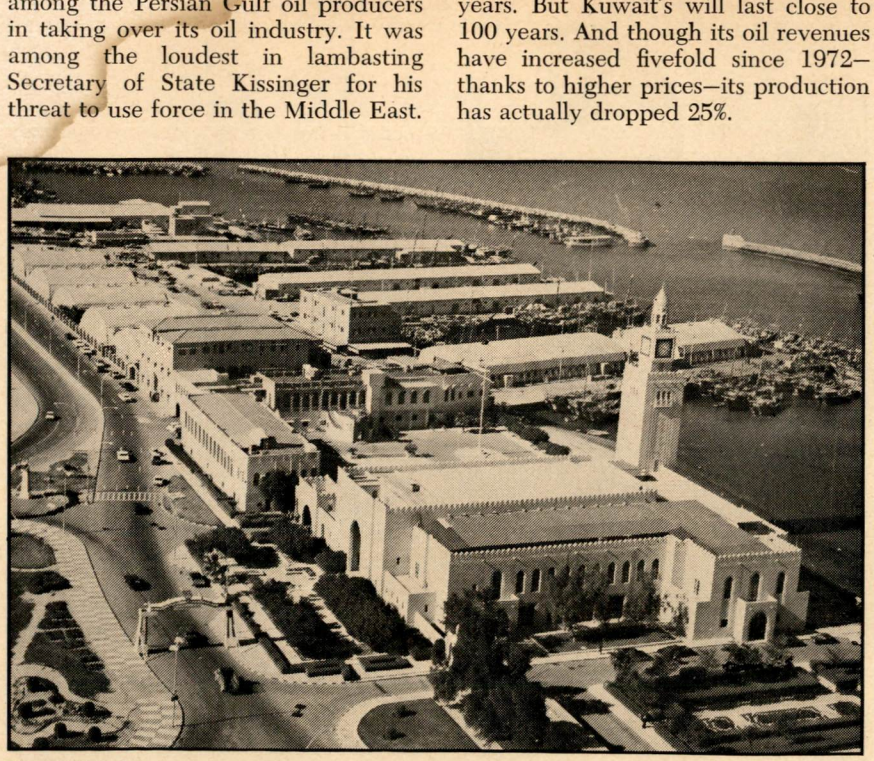
Not so long ago a Kuwaiti official boasted to an American acquaintance: "Within five years, we will be dictating your foreign policy."

By ordinary standards, Kuwait is the very opposite of a superpower. It covers only 7,780 square miles (about the size of New Jersey) and almost all of it is desert. The country has no surface water—no streams, no rivers, no rainfall to speak of—and hence no agriculture. It is a city perched on the edge of the desert. Its climate is so forbidding that in August, when the thermometer regularly shoots up to 120°F in the shade, a good third of its population goes abroad to cool off.

Population? All of 900,000, but even that is overstated, since a majority of its inhabitants are temporary, imported for their muscle and brain power, but without rights as citizens.

But the arrogance is, in a way, understandable. Behind every inhabitant of Kuwait stand 80,000 barrels of oil, worth, at $10 a barrel, $800,000—or not far from $1 *trillion* overall. Kuwait's per-capita oil reserves are four times those of Saudi Arabia, 40 times those of Iran, nearly 500 times those of the U.S.

At current rates of production, Iran's oil faces exhaustion within 30 years. But Kuwait's will last close to 100 years. And though its oil revenues have increased fivefold since 1972—thanks to higher prices—its production has actually dropped 25%.



The Sief Palace, seat of Kuwait's emir, at the edge of the Persian Gulf.

Whereas Iran, Iraq, Nigeria and Algeria earmark every petrodollar they earn for internal development, Kuwait already has in place the facilities and infrastructure of a modern state. Even with a fairly opulent scale of living, it was piling up excess cash last year at the rate of $100 million a week, $5 billion a year.

Kuwait's prosperity, unlike that of most Arab states, is broad-based. In most of the oil-rich countries, the new wealth is only slowly trickling down to the ordinary people, but Kuwait has been growing rich on oil for nearly 30 years now, and it has already gone a long way toward achieving a recognizably Western-style standard of living for the ordinary man. It is a more or less middle-class country, without unemployment, without the professional beggars that overrun most Arab countries. On a per-capita basis, Kuwaitis own as many cars as the French (one for every four people), as many telephones as the Yugoslavs (one for every 25), employ as many teachers as the Italians (one for every 16 school-age children). "Even the worst off," says one businessman, "earns enough to have the sort of living standard you have in the U.S.—a small car, a two-bedroom apartment, maybe a television set."

Because of the rapid growth its oil riches have brought it, Kuwait sometimes seems like an instant society. Its most ancient monument—a gate in a mud wall thrown up in 1919 to ward off some invading Wahhabis from out of the Nejd—is preserved at the foot of Fahd Al-Salem Street like a piece of the Roman Forum. But the city that

FOXMOOR CASUALS

Chess King and Foxmoor were the beginnings of Melville's nonshoe diversification—but only the beginnings.

ply are not throwing away shoes that go out of style; instead, they are wearing them out. Second, though Rooney had made his Tom McAn label far and away the top mass brand, Melville has been unable to increase its market share significantly above the 5% slice it has had for years. And finally, potentially serious trouble loomed ahead in the 770 Meldisco leased shoe departments that Melville operates in Kresge K marts.

In the past, Meldisco units had five-year leases with annual renewal options for five years. But the full ten years would have run out in 45 K marts in 1977, with more leases expiring each succeeding year. Question: Would Kresge itself take over those departments whose leases had expired—as it has with virtually every other K mart lease operation?

Rooney, feeling that he could not take the chance, negotiated an extension out to 25 years—but at the cost of increasing Kresge's share of Meldisco's profits from 25% to 49% over the next four years. "It wasn't our idea," says Rooney. "We didn't suggest this agreement."

That is why Frank Rooney is singing the praises of specialty retailing these days. It is also why he expects to open some 250 new stores per

chess king

year through 1976. "I don't mean the department stores won't be successful in the future," he says, "but in terms of volume per square foot, the specialty store should do better. One of the keys to specialty retailing is that you've got one guy concentrating on young men's apparel or whatever. The specialty retailer knows his customer blindfolded."

Financial man Ken Berland admits that it is harder to see beyond 1976. But, he says, "All the talk about a slowdown in shopping center construction doesn't trouble us all that much. If the economy turns around, retailing will improve in the existing stores, and that's where the leverage is." Furthermore, there is another way to expand—that is, by putting more Foxmoors and Chess Kings in existing shopping centers.

There's A Difference

Certainly Rooney gets no brownie points for moving away from the sluggish shoe business. His competitors, Interco and Genesco, diversified long before Melville did. But while Interco has been quite successful, Genesco has been a disaster. It bought every conceivable kind of apparel business: fashion department stores, specialty shops, discount stores and all kinds of clothing manufacturers. Right now Genesco is struggling to stay out of the red.

Rooney has done things differently from Genesco. "Many times," he says, "the most difficult thing is to decide what you *don't* want to do. Genesco defined its business as apparel. We define ours as specialty retailing." Rooney puts strict limitations on his diversification. It *must* involve chains of small stores, be adaptable to centralized merchandising control and be manageable by a merchandising generalist who can move from one Melville division to another.

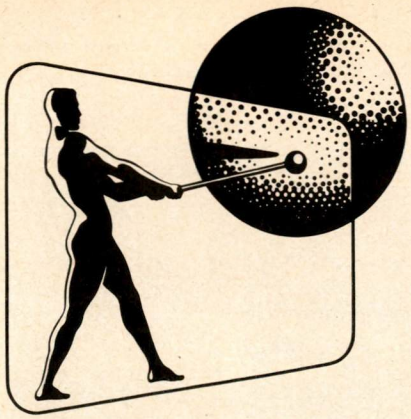
Last year, for the first time since 1963, Melville earnings declined—from $1.23 a share to $1.08—due to sagging sales in the men's apparel divisions. But in 1975's first quarter, earnings quadrupled to 13 cents a share, and Rooney is convinced he is on the right track. ■

for Rank, last year contributing $72 million of Rank's $75-million earnings.

But strains began to develop between Rank and Xerox, partly because fast-growing Xerox soon no longer really needed Rank as it once had, and partly because Rank Xerox' own management began to show occasional irritating signs of independence. So in 1969 Xerox moved to take 51% control of RX, giving Rank in return the European rights to some of its noncopier businesses.

But this left Rank and Davis, who had become chairman in 1962 after J. Arthur's retirement, with little to do but collect dividends from their growing stepchild. So Davis, whose operating style has been likened to that of a bull elephant—lower your head and charge full speed—at once began to hunt for things that Rank might buy with its dividend flow and high stock price, both courtesy of RX.

In 1972 Davis moved to buy Watney-Mann, a major British brewing company with a chain of pubs, but was diverted by the howls of U.S. investors. Even so, he managed to burden Rank with enough high-priced



real estate, hotels and radio and TV manufacturing to drop the company's total 1974 earnings by 9%, to $75 million, while RX's contribution was rising 20%, to $72 million. Davis has now handed the chief executive's reins to Graham Dowson, who is unloading some of Rank's losers.

As if to drive home to American shareholders the lesson that they should look at what they are really buying, Rank came to market with a share offering last April. The company decided not to include American shareholders in the offering because Securities & Exchange Commission regulations requiring financial statements using U.S. accounting methods would have resulted in material differences in Rank's earnings figures. Rank found reporting U.S.-style "unacceptable," in its attorney's words.

That offering raised $64 million, which Rank plans to put into property. The shares floated by that offering will further dilute RX earnings, but U.S. shareholders who thought they were buying those earnings have neither vote nor voice about that. Besides, who wants to own a British stock these days?

Statistically speaking, Rank Organisation ADRs are still a cheap way of buying into Xerox. Whereas Xerox stock itself still sells at 16 times earnings, Rank Organisation, with virtually all its earnings coming from the Xerox operation, sells at barely 7½ times last year's earnings. If Rank was a bargain then, it is doubly a bargain now. But was it really a bargain then? ■

has sprung up around it is a bustling community of steel, glass and concrete. It lacks only the delicatessens to be Miami Beach, only the nightclubs to be Los Angeles. There are no traces here of Lawrence of Arabia or of the Arabian Nights.

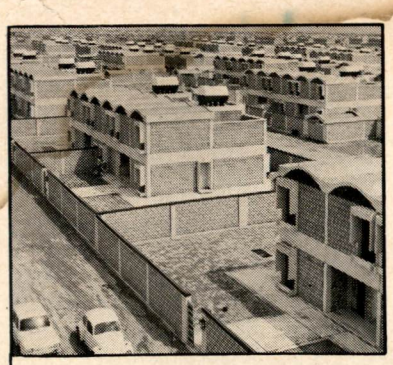
Kuwait is a city of low skyscrapers and ring roads, traffic jams and television antennas; a commercial city, busy, boisterous, just this side of looking seedy. The streets are filled with expensive cars—Mercedes, Cadillacs, BMWs; the shops with electric appliances, shoes, suits, fabrics, jewelry, perfumes, expensive watches. Yet the overall affluence is muted. There may be more millionaires per capita in Kuwait than anywhere else on earth, as one banker estimates, but the Kuwaitis do not flaunt their wealth locally, whatever they may do in Geneva, London or New York. They are a conservative society, and Kuwait itself is a city of social intimacy—warm smiles, relaxed conversations and endlessly consumed bottles of Pepsi and glasses of sweet tea. Everyone knows everyone else, and family and tribal distinctions are still the ruling impulses of the society. Family loyalties are often more important than national ones, and Kuwaiti Cabots (the Al-Ghanems, perhaps) worry as much about whom the Kuwaiti Lowells (the Bebehanis) are talking to as ever the Bostonians did.

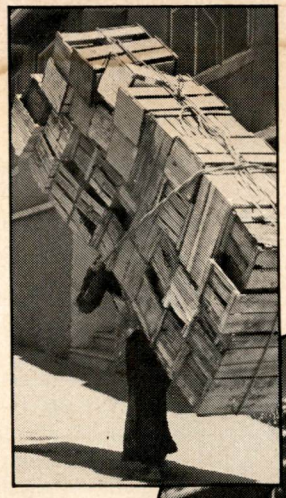
To be sure, the pressures of change are enormous. In spite of strict prohibition, Kuwait is said to have more drunkenness than any other country in the Middle East and, according to one study, it has a rising incidence of mental illness. It is not easy to reconcile the intensely private monotheism of Islam and the equally intense public materialism of the West. The structure of Western law is now rising side by side with the oral traditions of the Islamic Shari'a. The pattern of Western rational and scientific education is being imposed upon the literary and religious educational tradition of Islam. Kuwait has come far in a short time. It has much to be proud of.

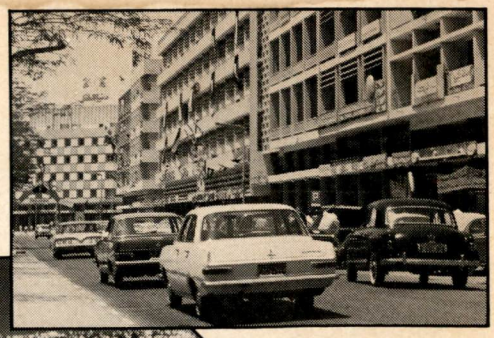
But though there is scarcely a building more than 20 years old, Kuwait is far from being a new society. The ruling dynasty goes back to 1756 when the fishermen, pearl divers, traders and dhow builders, who clustered about a primitive fort at the head of the Persian Gulf, selected themselves a new headman, a Bedouin named Sabah. The Sabah family has ruled Kuwait ever since.

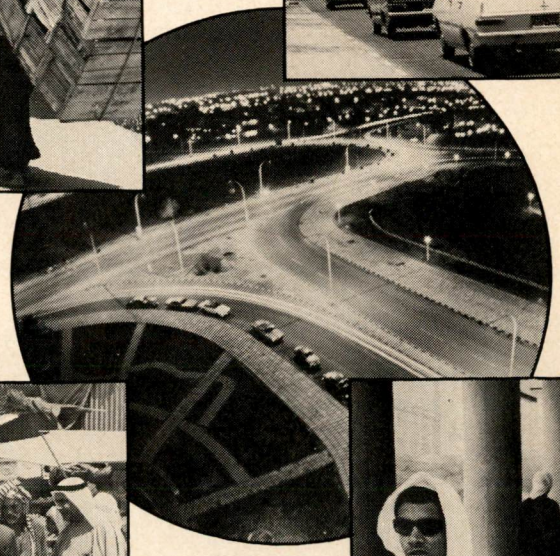
Perhaps it was because it won its authority by election rather than conquest, or perhaps it was because the merchant class was always strong there. But the fact is that the Sabah dynasty has always been the most democratic in the autocratic Arabian Peninsula. Kuwait today has a belligerently free press, free elections, freedom of speech and of religion. The emir is a constitutional monarch, and though he does appoint the prime minister and the cabinet, the elected National Assembly is a loud and often effective influence in affairs. Pressure from the Assembly caused the government to go for 100% ownership of its oil industry sooner than intended, and elections are so open that 25 of 48 representatives lost seats in the last one.

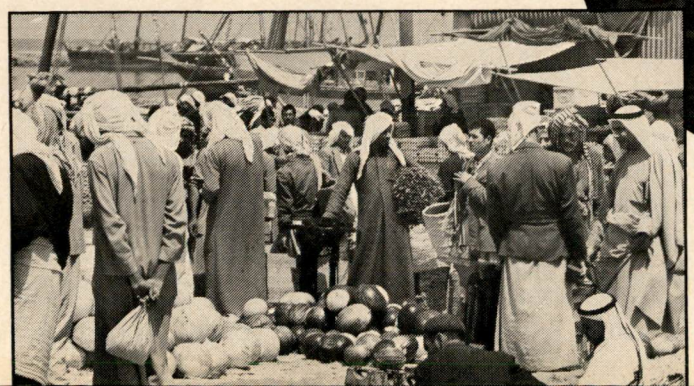
Because power and influence are not limited in Kuwait to the royal family, the spread of wealth has not been limited either. Kuwait is the world's greatest cradle-to-grave welfare state. Education is free from kindergarten to university—including, if necessary, education abroad. If the local medical facilities are not adequate, Kuwait will send not only the patient, but his family (to keep him company) to the best facilities anywhere in the world. There is special housing for the aged, for sailors, for nomads; subsidized housing for low-income groups. Telephone service is free; gasoline is 25 cents a gallon. In an effort to lure its Bedouins into the towns—as a local source of manual labor more than anything else—the government has found ways of put-

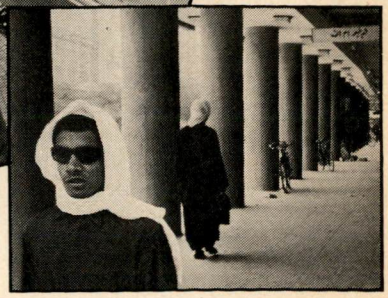












Vestiges of the old Kuwait still remain—the trader with his wares piled on his back, the harborside markets—but Kuwait today is a city of prefabricated low-income housing, four-lane superhighways, traffic jams and shopping arcades lined with high-priced consumer goods.

ting money in their pockets and a roof over their heads.

Nearly everyone is on the gravy train. The government provides low-cost loans to Kuwaitis interested in starting their own businesses, to Kuwaitis wanting to get married, to Kuwaitis wanting to buy or build their own homes. It pays monthly salaries to the handicapped, to widows with families, to divorced women with no one to take care of them. Even the emir gets a salary—$28 million a year with which he in turn supports the rest of the royal family.

Kuwait has managed to combine a welfare state with virtually unfettered free enterprise, developing the country in such a way as to enable a Kuwaiti to become well-off through the workings of the economy. If you were smart enough to get into the construction business, to sell Caterpillar tractors, General Motors trucks or, more recently, Datsun or Toyota cars, you could hardly lose. If you weren't smart enough or energetic enough, sometimes you didn't need to do anything. In a booming economy, your land inevitably increased in value, or your business automatically boomed.

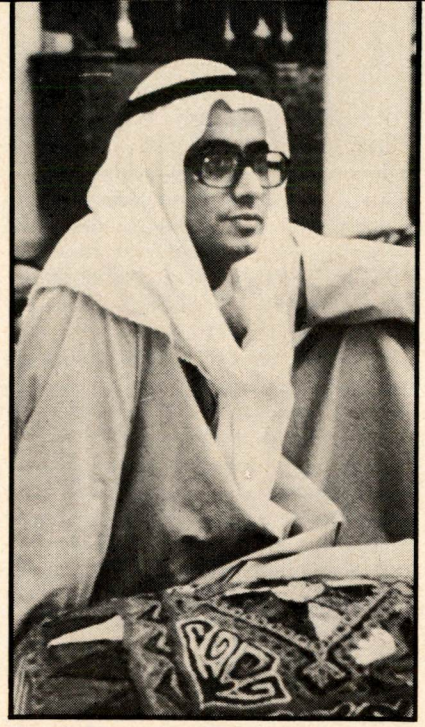
"The place was founded by traders," says H.J. Kwant, general manager of the Commercial Bank, "and even the middle-level Kuwaiti businessman gets into all kinds of things. He will have three or four stores, a number of houses and a couple of pieces of real estate strewn around Kuwait. He can hardly fail to branch out because there is very little business any outsider can do here without a Kuwaiti as sponsor, partner or guarantor."

Chosen People?

What is unfortunate is that Kuwait's good fortune has produced an illusion of power and of grandeur that may prove dangerous both to Kuwait and to the Western world.

"The Kuwaiti has come to consider himself an elite person," a psychiatrist told *The New York Times* a few years ago. "It's not important in his eyes whether he works or not. If he does something wrong, he feels he can be excused."

"You've heard the joke about how at a traffic intersection the Kuwaiti always has the right of way?" one foreign businessman inquires. "Well, it's true. They own this country, and they know it. They can be very arrogant. These Kuwaitis used to be very poor, and what do you have when you're poor? Only pride, and the poorer you are, the more pride you need. So now the Kuwaiti has money, but he's still proud. And arrogant. And insufferable. What would I be? I might be worse."



The Kuwait Fund's Abdlatif Al-Hamad

This pride, this arrogance may help push the oil producers to a confrontation with the oil users. As demand slumped with the recession, Kuwait scoffed at suggestions that it cut prices. Instead, it progressively cut back its *production* from a peak of 3 million barrels a day in October 1973 to 2 million barrels or less currently, and in so doing, it extended the life of its reserves from 70 to 100 years.

Radicals in the Kuwait Assembly are even talking about setting a production ceiling of 1.5 million barrels a day, a level that would still yield Kuwait over $5 billion a year—$2 billion more than it needs to run its domestic economy. "It has been estimated," says Abdlatif Al-Hamad, director general of the Kuwait Fund for Arab Economic Development, "that less than a third of our current production is more than sufficient to meet all of Kuwait's financial needs."

In Kuwait, the West and the Western oil companies do not have the technological leverage they have over less-developed oil-producing countries. Kuwait has long since acquired most of the technical skills it needs to run its own oil industry. The country is already thoroughly explored and its oil spurts out under great pressure, giving Kuwait a production cost of barely 8 cents a barrel, about the lowest in the world.

This year's production cutbacks should reduce Kuwait's oil revenue from $8.5 billion to $7 billion. But that's no problem. It simply reduces the pressure to find new investments in an inflation-ridden world. Therefore, a price increase this fall could trigger even further cutbacks. Kuwait's domestic budget is unlikely any time soon to rise much above its current $3.3-billion-a-year level, and even that leaves around $4 billion to be invested. More surplus than that might be inconvenient, and Kuwait's rulers seem more concerned with what is convenient for them than what is good for the people who buy their oil, upon whom Kuwait's prosperity ultimately depends.

Unease In Eden

Such self-satisfaction has its dangers. Life has become so easy that it is difficult to motivate Kuwaitis to pull anything like their weight in the society. Every government employee —and that's 48% of the work force— gets 45 days vacation a year, and he doesn't exactly work himself to death during the rest of the year. A Kuwaiti theoretically can be fired, but so much red tape is involved that nobody bothers to try. "Kuwaitis do their work," says one official defensively, "but not with the same enthusiasm as the non-Kuwaiti who is subject to losing his job if he doesn't do it properly."

What worries Kuwaitis most at the moment is not angering the West, but rather the Fifth Column of foreign workers that they have taken into their midst. Without these workers, Kuwait could not function. Kuwait is desperately short of native labor, and so it has been willing to pay well to bring labor in from outside, but the result is that non-Kuwaitis—N.K.s as the government reports style them—now run the affluent Kuwaiti society, and they are already a majority of the population. Kuwaitis hold over 38% of Kuwait's government jobs, but they hold less than 5% of the jobs in private employment. The N.K.s hold 82% of the jobs in the oil industry, over 90% of those in personal and social services, and well over 96% in manufacturing.

When the new census is completed this year, the Planning Board expects there will be something like 450,000 native Kuwaitis, just under 50% of the total population, *vs.* 55% in 1957. But there are skeptics who find it hard to believe that the *native* Kuwaiti population has been growing at the rate of 9.8% over the past 17 years, a rate of growth more than twice that of any other country in the world—even granting the progenitive possibilities of the leisurely Kuwaiti life. One informed observer, in fact, estimates that the Kuwaitis are now no more than one-third of the total population. Another third, he guesses, is made up of Palestinian refugees (which helps explain Kuwait's bitterly anti-Israel posture), and the rest, a wide variety of other N.K.s—Egyptians, Iraqis, Iranians, Pakistanis.

How "Dr." Ledder Cured Abbott Labs

Abbott Labs was a sick company when Ted Ledder took it over. Skillfully, he has nursed it back to health.

Ledder of Abbott

"THERE WERE DAYS," Ted Ledder recalls, "when I didn't even want to drive to work." Edward J. (Ted) Ledder, 57, is remembering 1971 when he was chief operations officer of North Chicago's Abbott Laboratories, and the health-care company suddenly had all its intravenous solutions recalled from hospitals because of bacterial contamination. Those were scary days. Hanging over the company's head was the constant fear that someone might die from the contaminated solution (probably no one did). From a corporate point of view, the solutions were Abbott's biggest single product and its very reputation was at stake. Pretax, the recall probably cost Abbott $50 million in direct and indirect losses.

While Abbott was struggling with the problem, Chairman George Cain, Ledder's boss and Abbott's chief executive for 14 years, suddenly died of a heart attack. The mess was entirely in Ledder's hands.

In 1971 the company's sales were flat, and its earnings dropped 41% to the lowest level since 1964. This was no way for a pharmaceutical company to perform. Slowly, painfully, Ledder brought Abbott back. Last year on sales of $765 million, up 67% from 1971, Abbott earned $55 million. Among health-care companies only Johnson & Johnson and G.D. Searle beat Abbott's 13.6% return on capital.

Abbott's momentum is continuing. At the six-month mark this year, sales were $446.4 million and earnings $31.3 million ($2.27 a share). For the full year, Abbott should earn $5 a share or thereabouts, 25% better than last year's excellent showing. The turnaround was the product of the late George Cain's long-range plan, skillfully executed by Ted Ledder.

In the Sixties, Abbott was a drug company with a modest research and development program, a hospital-products company leaning heavily on its intravenous solutions, the marketer of a miscellany of pediatric, consumer and other products. Today Abbott is spending $50 million on research and development, double what it spent in the late Sixties. Half of that goes to drugs and is concentrated in anti-infectives, anti-inflammatories, cardiovascular and mental health areas.

With Ledder leading the search party, Abbott launched a major recruiting drive. Today more than one-third of its top executives are people who worked for other companies until recent years.

Foreign sales are now 37% of the total, and since the total has grown, they now amount in dollar terms to more than double what they did a scant five years ago.

Abbott has done well in the roughly competitive consumer products market. Its Selsun Blue antidandruff shampoo is currently running at an estimated $10 million a year and is in second place in antidandruff shampoo sales to Procter & Gamble's Head & Shoulders.

Full Recovery

The hospital products division is the greatest success of all, despite the 1971 recall. At $256-million sales in 1974, it is the company's biggest and fastest-growing division, having more than doubled its sales from $109 million five years ago.

Before the recall, Abbott had 42% of the U.S. intravenous-solution market. Getting that market back, Ledder decided, was his first order of business. He supplied his customers with intravenous solutions purchased from Cutter Laboratories, and within a year had over 25% of the market again. By last year the figure was up to nearly 30%.

This cost, of course. "You cut price," Ledder remembers, "reduce your product to commodity status, just to get that market share." Today, however, Abbott has a new intravenous-solution container, plastic instead of glass. Baxter Laboratories, its major competition, also has a plastic container. But Abbott's new one is good enough to cause Baxter to rush to emulate some of Abbott's improvements.

Ledder has kept a stream of new hospital products flowing, principally in the fast-growing diagnostics field. Diagnostic use is growing not only because machines are more accurate and faster, says Ledder: "With so many malpractice suits, doctors are turning more and more to diagnostics to be sure." Abbott is especially strong in blood diagnosis; one of its new machines tests 90% of all blood donations for serum hepatitis.

Pharmaceutical research results are just starting to trickle in. Last year two mental health drugs, Cylert, a calming agent, small at perhaps $5 million in potential sales, and Tranxene, a tranquilizer with much larger sales potential, were approved by the Food & Drug Administration.

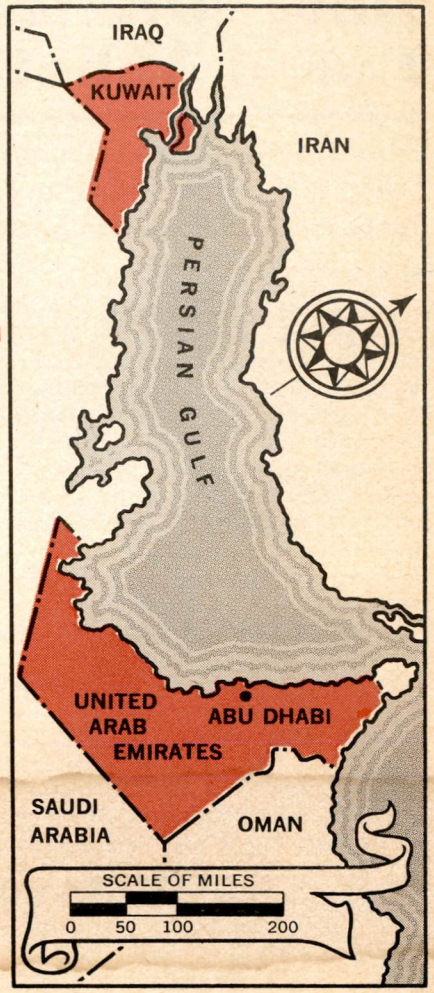
The measure of any drug-health-care company is its new products, and Ledder has Abbott up among the leaders in this critical area. Products introduced within the past three years contributed in excess of $100 million of last year's $765-million sales. And several, like the intravenous solutions in plastic containers and Tranxene, are both young and potentially very large.

At a recent 76, Abbott's stock went at 18 times last year's earnings. Less profitable health-care companies, like American Hospital Supply, Becton, Dickinson and Baxter Labs, command multiples ranging from 20 to 35. For Wall Street, the memory of Abbott's recall is still stronger than the allure of its new-found health. ■

coffee, when the bull horns of a minaret interrupt a business conference with the hollow cry of muezzin. Or when the headlights of your car pick up the white-robed shapes of two Kuwaiti men lying together in the darkness. Or when your cab driver pulls up at the side of the road and throws himself head down upon the sand, to rise, his sightless and oblivious eyes lifted in prayer to some invisible, internalized Mecca.

"Oh, it is true," says one Kuwaiti, "we drive your cars and we sit in front of your television sets, and we cool our homes with your air conditioners and heat our food with your electric ranges. And you say: 'Same. All the same.' But no. Inside, we are different."

In that difference may lie the danger. ■



Last year, $135 million went to the Abu Dhabi Fund for Arab Economic Development, for instance, $200 million to Egypt and Syria, with the rest spread among a long list of countries, most of them Arab, but including Pakistan, Bangladesh and India.

Over what remains—$1.5 billion last year—Butter has considerable say, and his job is to convert it "into some sort of asset that may, hopefully, keep its value in the future when the oil is exhausted."

Butter split last year's surplus into three parts: 40% went into common stocks and real estate, with Morgan Guaranty handling the U.S. and Canadian portion; Robert Fleming & Co., the British portion; and the Banque de l'Indochine, the European portion. Another 40% went into bonds, picked and managed by the Union Bank of Switzerland and Britain's Crown Agents. The remaining 20% ($300 million) was lent to various nations short term—in dirhams to protect at least part of the surplus against currency devaluations.

How successful have these investments been? "Our managers," Butter says dryly, "were wise enough not to lose us any money."

The recycling meanwhile proceeds at a furious pace. In 1973, in anticipation of higher oil revenues, spending got ahead of income. In 1974 income got ahead of spending. In 1975, with spending soaring and income flat or down slightly, the two will be in balance again. "Demand for infrastructure capital is on the upslope," Butter says. "In 1975 we are having to choose between projects and the timing of projects. We won't have much of a surplus to invest in 1975."

As a faithful follower of the Organization of Petroleum Exporting Countries, Abu Dhabi flirted briefly with taking over oil production within its borders. It acquired 60% of the equity and started pushing toward 100%. But when petroleum demand slumped early this year, Abu Dhabi found its premium-priced, low-sulfur crude priced almost out of the market. Production within its borders dropped 50%. The government quickly backtracked, sweetening the deal for the oil companies and ceasing to talk of 100% ownership. In response, the companies agreed to raise production back to 1.5 million barrels a day—nearly the 1974 level.

Even with 30% of their oil money flowing back out of the country to finance their sheik's largesse, there is enough left over to transform life for his subjects. In addition to the highways and power plants and water systems it is building, Abu Dhabi now provides free health and medical services, free education and subsidized housing on a massive scale.

When C. Northcote Parkinson said that expenditures invariably rise to meet income, he was not thinking of Arabs, but the rule quite clearly applies. One way or another, the new-rich Arab nations will send back more of their oil revenues than anyone thought possible a few years ago. ■

The Hong Kong Of The Gulf

WHERE the new city of Abu Dhabi is almost imperial in concept—as befits the capital of a ruler who doesn't have to answer to his subjects—Dubai, Abu Dhabi's chief rival in the U.A.E., is belligerently commercial and urban. Dubai's population and its businesses are concentrated around the Dubai Creek, an inlet on the Persian Gulf that is the center of its trading and maritime activity. Dubai prospered as a trading center before oil was discovered, and it will probably prosper when the oil runs out. "We used to do without oil," says William R. Duff, customs inspector of the port of Dubai, "and we still could. We're basically middlemen. We import something in the region of $1.2 billion a year, and of that, 40% goes out again —60% when the smuggling trade goes well." Right now, thanks to the high price of gold, smuggling goes badly.

The two sheikdoms vie with each other in internal development. Abu Dhabi built an international jetport, so Dubai built a bigger one. Dubai built a deepwater port, so Abu Dhabi dredged up one of its own. But when Abu Dhabi's Sheik Zayed agreed to underwrite the entire federal budget at the time the federation was formed, Dubai's less openhanded Sheik Rashid made no effort to top *that*. To Zayed's annoyance, Dubai still pays nothing at all.

The Creek: Dubai's commercial center

mies. As such, they may be more effective than the $630 million worth of military aircraft Kuwait has bought in the past five years.

The Kuwait Fund itself was set up a decade or so ago after Iraq attempted to take over the country. Its object was to win the political support of the rest of the Arab world for Kuwait's independence. That threat has receded. These days the Fund also serves to win friends and influence people in the non-Arab Third World. A $10-million, 3% loan goes a small way toward reconciling a developing nation to a $20-million annual increase in its oil bill.

How Deep?

But can such a country as Kuwait —900,000 people, 40,000 of whom have the vote—really be a world power? Many Kuwaitis seem to think the answer is yes, and this makes many Western observers wonder just how worldly these seemingly wordly people really are.

You forget sometimes—the contemporary surface of Kuwait is so rarely broken—just how recent and how superficial the Westernization of Kuwait really is. It comes home to you, pungent as the taste of cardamom

An Arabian Santa Claus

If you are worried about the recycling of oil money, you ought to take a look at Abu Dhabi. In it pours, out it pours.

IT TOOK KUWAIT about 20 years to go from a dusty, sunbaked fishing village to a metropolis with traffic jams and luxury hotels. But Kuwait was built when oil was $2 a barrel. About 75 minutes by jet down the Gulf coast is Abu Dhabi, capital of the United Arab Emirates. Abu Dhabi is being built on $10 oil, and what it took Kuwait 20 years to do, Abu Dhabi may well do in less than ten.

Abu Dhabi looks like a world's fair under construction. Here and there you catch a glimpse of the mud huts that were old Abu Dhabi, but the new city springing up on the sand is fast burying them. It is a place of vast distances and modern buildings, designed for the automotive age.

To be sure, few of the 100,000 or so Abu Dhabians have cars, but most of them almost certainly will one day soon. Statistically, they are already the richest people in the world. Abu Dhabi's per-capita income this year will hit $35,000. In theory, at least, this makes the average Abu Dhabian over three times as rich as the Kuwaitis and six times richer than the average American. The sheikdom of Abu Dhabi as a dusty, sultry, stony land, but under its 26,000 square miles lies almost as much oil as lies under the entire continental U.S.—which is more than 100 times bigger.

Abu Dhabi financeman John Butter

With an oil income of $3.5 billion last year, Abu Dhabi's absolute ruler, Sheik Zayed, has become a kind of Islamic Santa Claus, handing out money in hundred-million-dollar wads to deserving nations and causes. Abu Dhabi is the largest of the seven sheikdoms that make up the United Arab Emirates, but Zayed is so rich that, as president of the U.A.E., he is bankrolling the entire federal budget—$700 million a year. Except for last year, when his income temporarily soared ahead of his largesse, Zayed has been spending the money as fast as it pours in.

The man who keeps watch over those expenditures is John Butter, a tall trim Britisher with that air of detached, almost disdainful, authority that once cowed the natives of six continents. At 59, the veteran colonial civil servant commands no more, but now, as director general of Abu Dhabi's Finance Department, he makes sure Abu Dhabi doesn't spend its money faster than it comes in.

Recent rumors had it that his sheik had spent himself into a hole.

"Quite incorrect," insists Butter. "It wasn't a liquidity crisis. It was merely that we couldn't finalize our 1975 budget until we were a little surer of what our revenues would be." Abu Dhabi did borrow $200 million in late 1973 to get cash for some gifts the sheik wanted to make to other Arab countries. But that's more like the wealthy man who has to borrow the cost of his wife's Christmas present pending receipt of his January dividend checks. The loan has long since been repaid out of last year's surplus.

Those who worry about the recycling of oil money can take some comfort here. The sheik took in $3.5 billion last year and managed to spend $2 billion of it. According to Butter, about $1 billion was spent in Abu Dhabi and the other emirates on infrastructure development: "On everything that a country that started as a fishing village in the sand and camels in the desert needs for present-day life—schools and hospitals, roads, airports and seaports, desalinization and electric-power plants."

Another $1 billion went into various forms of foreign aid. Sheik Zayed is a devout Moslem, and Abu Dhabi has lavished its oil surplus on Islamic countries that need its help—sometimes in the form of low-interest loans, sometimes as outright gifts.

Balanced Powers: The U.A.E.'s president and vice president, Abu Dhabi's Zayed (**right**), Dubai's Rashid.

If this estimate is correct, it means that two-thirds of the inhabitants are second-class citizens—or rather second-class *non*citizens. "Kuwait is not open for immigration," is how the government puts it, "although she welcomes all who want to stay or work or operate a business, provided their stay is temporary. Citizenship is only granted to those who render outstanding service to Kuwait." And that runs around 50 persons a year.

Kuwait has deliberately excluded its foreign workers from anything like full participation in the benefits of its welfare state. Fundamentally, they are exploited in precisely the same fashion that blacks are exploited in white South Africa, and they know it. They make the society work, yet they are denied most of its rights and benefits.

As noncitizens, the N.K.s have no political rights. But then, few Kuwaitis do either. The Kuwaitis themselves have two grades of citizenship. There are those whose forebears lived in Kuwait before 1920, or Kuwaitis by Origin, and those whose forebears did not, Kuwaitis by Naturalization. Like an N.K., a Kuwaiti by Naturalization cannot play a role in politics, vote or become a member of parliament. Nor can his children or his children's children. The celebrated parliamentary democracy in Kuwait excludes N.K.s, women, males under 21 and Kuwaitis by Naturalization. It reflects, according to one estimate, the franchise of not much more than 40,000 people.

The N.K.s have only limited economic rights as well. They do have access to most of Kuwait's education and the health services, but not to its multitude of financial benefits—the loans for buying land or houses, for financing businesses, marriages or what have you. The N.K.s are not permitted to own any real property other than the houses they live in. They may not own a business unless they share 51% of it with a Kuwaiti. They cannot even buy shares in the eight government-controlled and 19 privately owned companies traded on the Kuwait stock exchange.

As workers, they are not permitted to join a union until they have been on a job for five years, and even then they are not permitted to hold office or vote. As wage earners, they are paid, as the blacks are in South Africa, at lower rates than Kuwaitis are for doing the same work. Overall, the wage gap is 50% or more. "The differential is not dictated," says one businessman. "Very little in this part of the world is dictated. But it's a fact of life."

This is not to say that life in Kuwait is still not very attractive to its army of foreign residents, as indeed white South Africa is to the black workers who come there from poorer places. Foreigners come to Kuwait to make money; if they work four times as hard as Kuwaitis for half the pay, why that's how the game is played.

But for those who have lived in Kuwait for many years, these financial considerations begin to fade before the basic uncertainty of their lives. Deportation is always a possibility, and it happens often enough to make even the most law-abiding foreigner uneasy. "They owe me citizenship," grumbles one Palestinian. "I've been here for nearly 20 years, and I helped create this country's great wealth. I did. I haven't simply earned my citizenship, they owe it to me." But he is unlikely to get it.

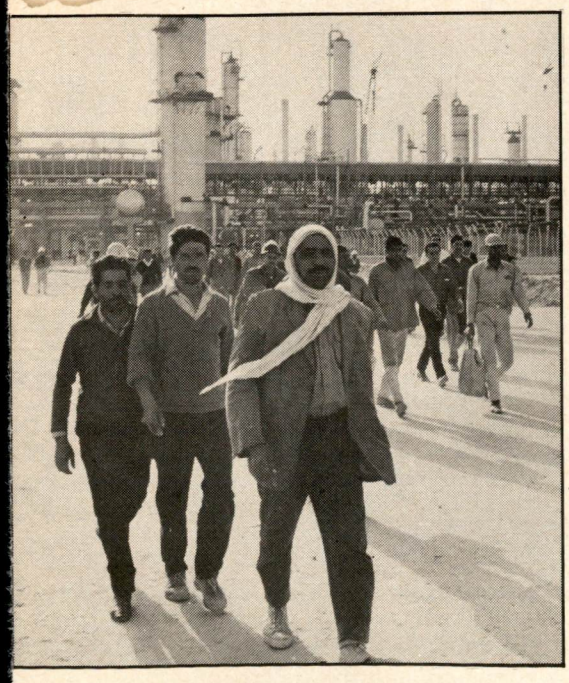
Hired Help

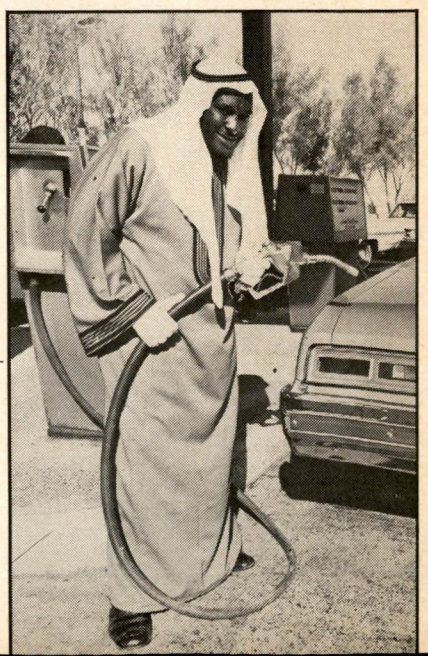
To protect themselves, the native Kuwaiti minority has pushed hard to keep Kuwaitis in the key posts in its economy, especially in technical, professional and administrative jobs. But it doesn't work. The Kuwait Oil Co. has succeeded in enrolling 1,330 Kuwaitis out of a total work force of 2,900. However, more typically, the Commercial Bank has only 42 Kuwaitis out of 627 employees. The government has decreed that its banks must be solely Kuwaiti-owned, but it has never been able to make them Kuwaiti-managed. Kuwait banks are also run, under contract, by foreigners.

Needless to say, even the smuggest Kuwaiti by Origin has nightmares about what might happen if the foreign majority ever decided to take the law into its own hands. Short of violence, the foreign workers, or at least the most proficient ones, might demand a change as a price for their continuing to make Kuwait run efficiently. The rising oil income of some of the other states in the Gulf has begun to siphon off foreign workers who once found Kuwait the most congenial place in the Middle East. Partly for this reason the Planning Board has proposed that Kuwait step up the naturalization of highly qualified Arabs who have contributed to the country and grant permanent residents all rights except political and voting rights. But sooner than support such proposals, the chairman of the Planning Board resigned.

Just as Kuwait's privileged position has created dangers within, so, of course, it creates dangers from without—from poorer, but much stronger neighbors. To buy friendship, at least in the underdeveloped countries, Kuwait has adopted a kind of Robin Hood attitude. Part of what it has taken from the oil-users of the world, it is giving back in the form of grants and development loans to poorer countries, mainly Arab. The Kuwait Fund for Arab Economic Development, a sort of private World Bank, has underwritten more than $450 million in low-interest or interest-free loans in recent years—to finance an oil pipeline in Algeria, an aluminum smelter in Bahrain, the Suez Canal reconstruction in Egypt, mining, power and agricultural projects in Jordan, Tunisia and the Sudan.

The Kuwait Fund and others like it serve certain hardheaded political purposes—to win friends for Kuwait in a world filled with potential ene-





In most things, free enterprise predominates in Kuwait, but not in oil. Kuwaiti investors used to own 40% of the Kuwait National Oil Co., the local refining and marketing outfit, but last spring the government took that over too.

7: Scott

Bill Herriot

U. S. oilmen ponder bids on Canadian drilling rigs at a recent auction.

CANADA

Fleeing the oil fields

The oil drilling industry is one of the few bright spots in the midst of worldwide recession—every place but in Canada, that is. For as the rest of the world pursues its frantic search for new oil and gas, Canada is in the drilling doldrums as oilmen struggle with a whole string of adverse circumstances: harsh new federal tax measures, stiff provincial royalty rates, a domestic price frozen at $6.50 per bbl., and restrictions on export to U. S. markets. As a result, Canadian oilmen have been packing up their rigs and moving to where prices are higher and taxes lower, leaving behind potential discoveries estimated at a minimum of 100-billion bbl. of oil.

Continual political uncertainties and brighter prospects in the U. S. have stemmed the flow of U. S. tax shelter dollars that traditionally supplied a big chunk of Canadian exploration funds. "With the lower level of activity in Canada, our rigs really weren't getting very high utilization," says Walter Zaruby, president of Westburne International Industries, Ltd. "So we decided to employ the equipment and our assets elsewhere."

Last month, Westburne Drilling (Canada), a subsidiary and the country's largest drilling contractor, auctioned off eight of its rigs, mostly to U. S. buyers. The sale brought $2.3-million, which Westburne is using for its $100-million capital expansion program now under way in Brazil, Gabon, Iran, and the North Sea. Just a few years ago, the Calgary-based company had 70 drilling rigs in Canada. Now, only 38 are left, with eight more scheduled for a second auction in June. Twelve are now with Westburne Drilling, Inc., the Denver-based U. S. subsidiary that Westburne set up a year ago when it sent its first rig south.

Attractive move. Active rigs in Canada last year averaged 152, down 13% from 1973. They drilled 8% fewer wells and 10% less footage. In the U. S., active rigs increased 23% to 1,472. This February, the peak of Canada's 150-day drilling season, there were 211 rigs working, a 23% drop from last year. But in the U. S., activity continues to surge: The number of rigs working in February averaged 1,611, a 19% increase over last year. And the U. S. drilling season is twice as long as Canada's, making a move south doubly attractive.

'There's no way to make satisfactory money in Canada now,' says Thomson

To make matters worse, the equipment that is leaving Canada is, in most cases, the best and newest rigs, especially those with drilling capacities of more than 8,000 ft.

Canada's drilling season is now winding down. As the muskeg that covers Canadian oil country begins to soften with spring thaws, it can no longer support the weight of equipment or the pressures of drilling. Activity will speed again in late fall, but the critical planning process is now beginning for next season's operations. "If the situation here is not clarified before September," says John Porter, general manager of the Canadian Assn. of Oilwell Drilling Contractors, "we'll see more rigs and related service companies leaving Canada."

The Canadian drilling industry is not optimistic as operators continue to slash their exploration budgets in the wake of Ottawa's November decision to disallow deduction on income tax returns of royalties paid to the producing provinces. Exxon's subsidiary, Imperial Oil, Ltd., promptly cut $115-million. Gulf Oil Canada cut $100-million, and many smaller, more flexible independent drillers shifted their activities elsewhere.

Drastic situation. "I'm prepared to live with all sorts of regulations, providing we can make a decent rate of return," says John Thomson, president of Thomson Industries, Ltd., a small independent. "In Canada today, there's no way to make satisfactory money. The situation is pretty drastic."

Thomson felt it was drastic enough to move most of his operations to the U. S. at a cost of $1-million. Eleven rigs have been operating out of Denver since last September. On Mar. 1, Cayuga Oil & Gas, Inc., Thomson's exploration subsidiary, set up shop in Houston.

"The prospects in Canada are actually better," says Cayuga President Burt Dunn, "but unfortunately there is no profit incentive." In Texas, whose royalty bite is about 13%, Thomson can net up to $5 on an $11 bbl. of "new" oil; in Canada, however, the company would make about 47¢ out of that frozen $6.50. Alberta's royalty take averages 36%.

That price was agreed upon by Ottawa and the provinces last spring. It was set to expire on June 30, and Canadians had resigned themselves to a $2 to $3 per bbl. price increase. But intergovernmental wrangling at the federal-provincial conference, called last month to determine a new price, frustrated any agreement. While the producers still are publicly planning for an increase in July, any such increase is unlikely before early next year.

The producers also are fighting hard to retain more of the revenue from the next price increase. The Apr. 1, 1974, price increase of $2.70 per bbl., they note, actually cut their take from 53¢ to 47¢ per bbl. because of higher royalties and Ottawa's tax move. Says Gulf Oil Canada President Jerry McAfee: "Thank you very much, but until the tax and royalty rules are changed, please . . . please don't give us another price increase. The last one nearly ruined us." ■

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THE WORLD

in charge of the bank's accounting and reports division, remains as president of the trust. O'Keefe is now the chairman of the executive committee. And Haeffner continues as the adviser.

On the operations side, the distinction between the bank and its trust is even less clear. According to the trust's prospectus, the investment opportunities generated by the adviser were no different from those suggested for the bank's own account.

Chase Bank is already the trust's biggest creditor, with its $150-million in loans—approaching its legal limit for a single customer. But more aid will be needed, and Chase Bank will again be expected to lead the way.

A likely bailout course is for the banks to begin buying the trust's trou-

GAMI's plan calls for the banks to trade their notes for the REIT's real estate

bled real estate loans or participations in those loans at par—even though their actual market value may be much lower, according to Philip A. Delaney, senior vice-president at Chicago's Harris Trust & Savings Bank, which has a $5.8-million participation in the revolving credit lines. Such a scheme may well follow the precedent established by Great American Mortgage Investors and its banks.

Exchange. According to one source close to GAMI, which has changed from an REIT to a management company, nearly $36-million of its assets have been sold to banks wanting out under a "two-for-one" scheme. Under the plan, if a bank has $1-million in loans, it must buy $2-million of assets out of a bundle the trust selects to sell at book value. The banks replace a loan drawing low interest with a chunk of real estate—albeit of questionable value. And the cash-hungry REIT reduces its debt and gets a cash infusion.

Chase Trust would use those extra dollars first to fund its commitments, later to reduce the amount of its revolving credit, and eventually to retire its outstanding public debt. Thus, although the REIT is unlikely to end up in court, the majority of its assets will, in all likelihood, be liquidated.

Although that course of action could "save the trust" and the Chase name, it will not end all the problems for the bank or its parent corporation. Given the unavoidable areas of conflict of interest between the bank and the trust, some of Chase Manhattan Corp.'s stockholders are likely to take exception to the bank buying assets from the trust at prices significantly above the prevailing market price. Thus in leading the rescue of its troubled stepchild, the bank may still have to answer to its stockholders. ■

Pipeline company refuses to build Sarnia extension

Van. Sun. Mar 27/74

F. Scott

By ANDRE OUIMET

OTTAWA — Energy Minister Donald Macdonald revealed that International Pipelines Ltd., the company which built and operates a pipeline from the Alberta oil fields to Sarnia, Ont., has refused to build an extension to Montreal under terms offered by the National Energy Board.

"They gave a final 'no' last week and now the cabinet will have to find a way to break the stalemate between the company and the NEB," Macdonald told reporters yesterday.

The Sarnia-Montreal extension is a key factor in Macdonald's plans for assuring Eastern Canada consumers of a supply of oil at Western prices to counter the cost of importing foreign crude for Montreal's refineries.

His policy of phasing out oil exports to the United States takes into account the 250,000 barrels of oil a day to be pumped to Montreal when the Sarnia-Montreal link is built and sets aside that amount of oil as of Jan. 1 of this year for future shipment to Montreal.

But International Pipeline was not satisfied with the assurances given it by the NEB that it would not be vulnerable to possible interruptions of oil shipments from Alberta sometime in the 1980s, Macdonald said.

"Cabinet will now have to find a way to assure the company" that it would not be vulnerable to eventual interruption of western supplies.

The NEB's own report, released last Friday, predicted that western reserves would not be able to supply Eastern Canada starting in 1983.

"We can decide in cabinet to do one of three things," Macdonald said:

"We can make a deficiency agreement whereby if there is an interruption of oil supplies, the fixed operating costs of that section (Sarnia to Montreal) will be borne by the government;

"We could build the extension of the pipeline ourselves and have Interprovincial Pipelines operate it — they have the experience;

"Or we can have the whole project built and operated by a government corporation."

Interprovincial was in a position to "hold us up with some hard bargaining," the minister added, but he warned that "it is conceiveable that the government will say 'the price is too high' and we'll build it ourselves."

It was a question of weeks before a final decision would be taken because "obviously we want to get the pipeline started as soon as possible."

Target date for completion is sometime in 1976.

Macdonald has been saying that an agreement with the company was a matter of days for several weeks and yesterday he allowed that negotiations had not borne the fruit he had hoped for and only cabinet could resolve the situation.

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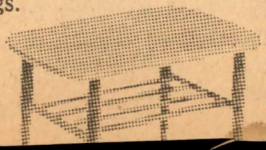

 F. Scott

Special royalty concession given to Syncrude firms

OTTAWA (CP) — The companies participating in the Syncrude development in the Alberta oil sands will have several favorable tax arrangements, government officials said Tuesday.

Finance Minister John Turner said the companies will get only one special deal but officials said there are other factors which make oil sands developments attractive.

Two provisions make the oil sands project different for tax purposes:

It is considered a mine and not an oil well.

It is a joint venture and not a separate company.

Tax laws allow partners in a joint venture to claim tax credits against other parts of their operations and there is a broader range of deductions available to mines.

Turner tabled in the Commons Tuesday copies of letters to the Syncrude partners. The companies in the project are Imperial Oil Ltd. and Gulf Oil Canada Ltd., both U.S. subsidiaries based in Toronto, and Cities Service Co., of Tulsa, Okla.

The federal government and the governments of Alberta and Ontario agreed earlier this month to buy 30 per cent of the project between them and Alberta has options to buy more.

Turner's letter outlined the federal position on tax treatment, which included a special arrangement on treating provincial royalties.

The federal budget tabled in November announced intentions to disallow provincial royalties as a deduction when corporations compute income tax. Royalties have been considered a payment to the owner of a resource — the provinces — for using up that resource. Turner contended that royalties had become disguised taxes.

As an incentive to develop the Syncrude project, Alberta had said it would charge no royalties. Instead it will take half the profits when the project begins production later in the decade.

Turner confirmed in two letters to the Syncrude partners that the Alberta share of the profits would not be considered royalties.

"In all other respects the provisions of the existing income tax law and the other recently proposed amendments thereto will of course, apply to the Syncrude operations," Turner said in a Jan. 24 letter. The proposed amendments refer to legislation now before Parliament to enact provisions in the November budget.

Meanwhile, Atlantic Richfield Co. of Los Angeles has reported a consolidated tax write-off of about $35.7 million associated with its withdrawal from Syncrude.

The reference to its December withdrawal from the consortium, formed to develop the oil sands, is made in the company's fourth quarterly report.

The report stresses the company's problems in continuing a financial program of $1.4 billion during 1974 and an amount approaching $2 billion in 1975.

critic's role

CBC's director of information programs, English Service Division, which includes news coverage.

He described McGall's performance here as "remarkably successful in reporting B.C. news."

Nash said McGall is recognized in Toronto as one of the strongest executives in the corporation.

The hearing continues today.

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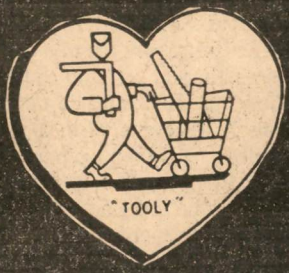

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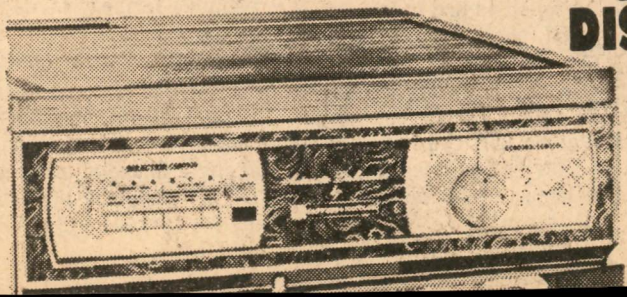

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Z. Scott

No lifeboat from Turner

VAN. PROV. NOV. 19/74

Oil industry 'still distressed'

By MARK WILSON

John Turner has acknowledged the distress signal of the country's oil industry, but instead of sending a lifeboat he has dispatched a note of encouragement, the president of the Canadian Petroleum Association, J. S. Poyen, said Monday.

The association's manager, Hans Maciej, predicted the budget will cause many companies "including some of the big ones" to lose money on 1974 operations.

Poyen, who listened from the public gallery of the Commons to Turner's budget speech, said that neither the petroleum industry nor its potential backers in the money market are going to be encouraged by what he heard.

"It is not going to turn industry on and it is not going to turn investment markets on," he said.

Poyen accused Turner of risking Canada's energy supplies in continuing his fight with the oil producing provinces over the division of revenues mulcted from the industry.

"Turner claims that he has reduced Ottawa's tax load on the industry by $100 million. What is that against the $2.5 billion to $3 billion that Ottawa and the provinces will draw off from the industry this year?

"One hundred million sounds a lot, but not when contrasted against the industry's investment needs if exploration and development are to be pushed along at the appropriate rate.

"One large company alone can spend $100 million on exploration in a year.

"Canada is facing a period of oil deficiency. If it occurs or how long it lasts if it does come depends on what governments do now."

Poyen was slightly more sanguine about oil prospects than his association. He said Monday that the probability is that there will be a period of supply deficiency some six or more years down the road.

The Canadian Petroleum Association has said that the shortfall in domestic production is a certainty, starting in 1978. Other industry forecasters have put the date even earlier.

Poyen said that with governments laying claims to so much of the petroleum industry's cash flow at a time when major investment is needed, the future well being of Canada's citizens is being placed at risk.

"It took 27 years of effort and big investment to make Canada self sufficient in energy and now we are hazarding this."

Poyen said that the only encouragement he drew from the budget was a show of recognition by Turner of what is at stake.

"He seems to recognize that we have a problem, with industry having wound back from what would have been a very active exploration program because of the financial uncertainties introduced by Turner's first budget announcements (delivered May 6).

"But Turner's decision to lop a relatively insignificant $100 million off Ottawa's intended cut only signals that he knows something is wrong but has no idea of the magnitude of the problem."

Ottawa is retaining its claim to a 50 per cent tax bite out of oil company profits. But by a special abatement is reducing this to 30 per cent to

JOHN POYEN

apply this year, with a further lowering to 25 per cent in 1976.

Exploration expenses are being allowed as 100 per cent deductible in the year which they are incurred, while only 25 per cent deductions are being granted on development costs.

Development work in the oil industry is the bringing in of secondary wells once a successful exploration well has been drilled on a fresh site.

Besides these allowances, companies can claim as tax exempt up to 25 per cent of production revenues if they can show a twelvefold outlay on specified production and exploration costs.

This tax exemption up to 25 per cent maximum is what has become of the old straight one-third depletion allowance, which was changed in 1969 to what is now termed "earned allowance."

Basically, industry used to be awarded an arbitrary 33 and one-third per cent write-off to compensate it for a depleting resource. The allowance has since been tied to production and exploration endeavors and is calculated on cumulative expenditures dating back to 1969.

Maciej said that industry was expecting that the May 6 budget measures would be seriously recast. Instead they find themselves saddled with heavy federal income tax demands on top of judge royalty payments to producer provinces.

Turner has refused to agree to these royalty payments being made tax deductible, regarding them as disguised taxes rather than true royalties.

Maciej said that industry was hoping to be able to escape from its role as piggy-on-the-middle in the war between central and provincial governents over oil revenues. Instead Turner has given no real relief.

"Many companies are going to find themselves paying out more than they are taking in. I think big companies are involved and though it is impossible to calculate the margin by which taxes and royalties are going to exceed earnings, millions of dollars are involved."

Maciej said that the budget contains absurd contradictions. For example, companies can claim 100 per cent tax allowances so long as they drill dry holes, but should they strike oil they could well start losing money. "It is ridiculous," he said.

He claimed that companies who have been anticipating a repeal of Turner's May 6 announcements have not sufficient time left them to pull their 1974 operations into shape so as to avoid losses.

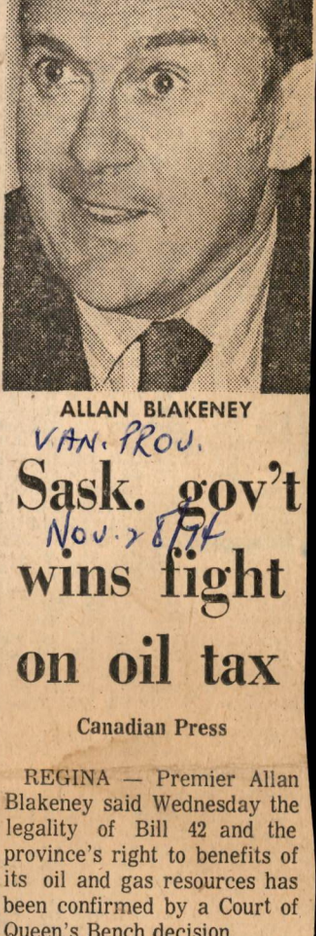
He said that the remedial action open to them, insufficient as it is, would be to halt all exploration and use the money saved to help pay Ottawa's tax bill.

M. P. Paulson, president of the Independent Petroleum Association of Canada, commented that the budget shows that the federal-provincial fight over revenues continues. The result will be a strangulation of the industry's cash flow, damaging its exploration efforts.

"The budget will not result in the exploration and development required to maintain Canada's self sufficiency in oil and gas. Ottawa has only modified, not removed, the harsh provisions of the budget proposals of May 6. The resulting situation is untenable," he said.

F. Scott

SINESS



ALLAN BLAKENEY

VAN. PROV.
NOV. 28/74

Sask. gov't wins fight on oil tax

Canadian Press

REGINA — Premier Allan Blakeney said Wednesday the legality of Bill 42 and the province's right to benefits of its oil and gas resources has been confirmed by a Court of Queen's Bench decision.

Mr. Justice E. N. Hughes in Saskatchewan Court of Queen's Bench Tuesday dismissed an action by Canadian Industrial Gas and Oil Ltd. (CIGOL) of Calgary which claimed the province's mineral income taxes and royalty surcharges were beyond the powers of the government.

Premier Blakeney said in a prepared statement the judgment reaffirms the government's view of the legality of the legislation.

Meanwhile, a lawyer for the Calgary oil company said Wednesday the 162-page judgment document has been reviewed by company legal counsel.

While no formal decision has been made, it appears likely the judgment will be appealed to the Supreme Court of Canada, the lawyer said.

Mr. Justice Hughes, in releasing his decision, turned down CIGOL's arguments that the tax and royalty surcharges were unconstitutional because they constituted indirect taxation. CIGOL had argued, in court proceedings that ended in August, that the provincial government was interfering with interprovincial trade.

In Calgary, company lawyer Jim Crawford said if CIGOL had won the case, it would have saved the company between 30 and 40 cents per barrel in extra taxes.

GEORGE OAKE Victoria Times - Nov. 26/74 F. Scott

The Sad Scenario of Oil

A piecemeal Canadian energy policy coupled with resource taxation policies outlined in last week's budget have left this country in an uncertain, even dangerous position regarding its petroleum reserves.

The American-dominated petroleum industry claims that Finance Minister John Turner's policy of taxing royalties paid to provincial governments will force development and exploration out of the country.

Even more worrisome, a motion tabled with the budget could prevent provincial marketing boards from buying oil, natural gas or minerals from companies below market value and re-selling at a profit.

"This is an attempt to amend the constitution by a budget declaration which is complete and arrogant centralization," says Eric Kierans, former federal communications minister who is now an economics professor at Montreal's McGill university.

Kierans was in Victoria last week to attend the Canadian Council of Resource and Environment Ministers. In a word the ministers were upset by the federal moves, especially those from the energy-rich provinces.

Power Crush

" . . . We are in effect being submitted to a power crush by the federal government regardless of the provisions of the constitution," said Dr. Allan Warrack, Alberta's minister of lands and forests.

And what does the venerable British North America Act say about all this? A 1930 amendment and section 109 of the constitution defines provincial property as lands, mines, minerals and royalties. By the same token, in imposing a federal tax on oil company royalties paid to provincial governments, the budget may be contravening section 125 of the BNA Act which states: "No lands or property belonging to Canada or any province shall be liable to taxation."

It becomes increasingly obvious that the federal realm is intent on bulldozing its way into what was previously considered a provincial realm. The question is why now after years of indifference?

"When I left the cabinet they were not interested in resource revenues because they were giving them all away to the major companies," said Kierans.

"The only time their attitude changed was when the provinces began to make noises about recovering some of the value of their own resources, then they moved in," he added.

Kierans is truly perplexed about what he considers an inept faux pas on the government's part.

"I can understand this throughly coming out of the department of finance. I can't understand Turner or Trudeau accepting it in this form. The politics of this thing are horrendous."

Inflated revenues accruing from petroleum production may in part explain the sudden federal thrust. Or perhaps the government is finally frightened about the consequences of selling out our petroleum reserves — aided and abetted by the producing provinces, it should be added — over the last 20 years.

ERIC KIERANS
. . . arrogant centralization

Whatever the reasons, the federal policies have created an angry climate and new divisions in federal-provincial relations.

" . . . What is being foregone each year from the production of Alberta oil is more than the total amount of Alberta's provincial budget which is being taken and distributed across Canada, and this is not even taking into consideration the equalization calculations," Warrack said.

"We feel that we reached an accord on the price of oil and accepted considerable sacrifice as compared with what the market would have provided . . . and despite that accord we now have this (the non-deductibility of provincial royalties) added on to the situation which we think violates the trust and agreement that we had."

Is Alberta being parochial and small-minded on an issue which affects the whole nation?

"We have analyzed accusations of rich, selfish Alberta and you know, we do not have the highest Canadian income . . . and even if we did, we feel the way to get the equity from rich versus poor is through the progressive tax system," Warrack said.

He added that federal resource taxation will take away a net amount of $800 to $1,000 per man woman and child in Alberta.

Despite talk of separatism from alarmists and political lunatics there is probably little danger to confederation over an issue that will eventually be resolved through negotiation or in the supreme court.

But Warrack, a strong federal supporter, agrees that current federal resource policies will have an "adverse affect" in Alberta.

Larger Question

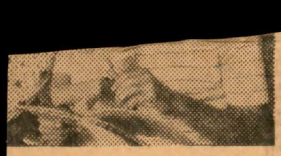
"In Alberta, very close to 75 per cent of the people voted other than for the federal government party in the last election," he said.

Aside from the legal aspects of the federal-provincial dispute there is an even larger question. Should one province receive inordinate financial benefits, at the expense of the rest of the nation, simply because it sits on top of a scarce resource? And supplementary, would Ottawa be taking such a tough line if Quebec, where the Liberals have 56 of 74 seats, had the oil, rather than Alberta, where the Liberals have nary a seat? It's a mean, but relevant question.

In a legal sense the provinces have a good case. Beside the BNA Act, the 1962 Carter Royal Commission on Taxation concluded that royalties are different from tax and should be considered a legitimate cost of doing business. Kenneth Carter also said resource industries were not paying their fair share of tax.

Had the government of the day had the courage to implement Carter's proposals the current contretemps might have been avoided for the good of the nation. But because of ineptness, inertia and procrastination on the part of successive Liberal regimes the battle is on.

No matter who wins — federal or provincial realms — the country will lose and the American-owned oil companies will win.



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$3M Gas Losses?

The federal government's delay in allowing a natural gas price increase is costing B.C. $3 million every 10 days, Premier Barrett charged Tuesday.

B.C. is exporting 800 million cubic feet of gas to the U.S. every day for $1 per thousand cubic feet and if the price was increased to just $1.50, the government would earn an additional $300,000 a day, he said, accounting for the current shortfall in gas supplies.

The premier said later he did not believe the federal government had refused to raise the price because it was intimidated by the U.S. but rather because Ottawa does not fully appreciate the rapid changes in natural resources.

But Barrett said he firmly believes in the federal government's promise to increase the gas export price and he expects to return from the federal-provincial finance ministers' conference in April with good news for B.C.

A National Energy Board decision to allow a new high price for natural gas exported from Alberta to U.S. will help B.C.'s case, said Barrett.

That decision approved the export of up to 55 million cubic feet of Alberta gas to the U.S. for prices ranging from $1.61 to $1.91 per thousand cubic feet.

The higher price was also approved by the U.S. Federal Power Commission, said Barrett, showing that the U.S. agrees it is a fair price.

Barrett has said B.C. will eventually seek an export price of $1.91 and has promised to give municipalities one-third of any additional revenue accruing to the province from that increase.

Natural gas exports and the recent battle between Victoria and Ottawa over gas taxation occupied a great deal of debate of the premier's estimates in the legislature Tuesday.

Barrett made the comments after Liberal MLA Pat McGeer called on the provincial government to launch court action against the federal government.

★

No Court Decision on Gas

British Columbia cannot take the federal government to the Supreme Court of Canada to settle a dispute over natural gas taxation, Premier Dave Barrett said Tuesday.

Outside the legislature, Barrett told reporters that a suggestion by Dr. Pat McGeer (L—Vancouver-Point Grey) to take the federal government to court under the British North America Act has already been checked by the Alberta government.

McGeer told the legislature he supported the premier's fight to convince Ottawa to give B.C. a fair market price for its natural gas.

Under the BNA Act resources and royalties belong to the provinces and the provincial governments should set fair market prices, not the federal government, he said.

"This is one of the greatest issues that has ever come before this legislature and the people of British Columbia," McGeer said, adding the premier "sold B.C. out" by yielding taxation rights on B.C. resources to the federal government.

Earlier in the debate on estimates for the premier's office, Barrett said the B.C. Petroleum Corp. has been asked to monitor oil leases held by private companies in the province.

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Alberta oiling royalties?

Legal technicality cited

F. Scott

CALGARY (CP) — The Alberta Petroleum Marketing Commission may be using a technical legal distinction to circumvent federal taxation of oil royalties paid to the provincial government by oil companies.

The commission has sent a letter to Alberta oil producers declaring that its present method of receiving the province's royalty share of oil production does not involve the traditional concept of royalties.

Under procedures which went into effect in December, oil producers operating on crown leases deliver the royalty share of their production to the commission which sells the oil itself.

Between March, when the commission began operation, and last November, the producer sold the production and later turned the province's royalty share over to the commission.

The commission now maintains this does not involve actual payment of royalties since under present practice the province's share of production is taken in kind and the producers no longer pay any royalty.

The commission maintains that between March and November the oil producers were acting as agents for the commission and did not actually make a royalty payment.

The commission letter was sent out after oil producers received tax forms from Ottawa requesting information on payments of royalties.

Several companies have apparently named the commission as recipients of royalty payments.

More than $90.6 million is involved and includes funds turned over by the commission to the provincial treasury as royalties from December oil production.

If the federal government rules that the money is a true royalty, the 180 oil producers will have to pay federal taxes on that amount.

and GNP nosedives, than any other in the Western World, including that of our big neighbor to the south? So what was Trudeau talking about?

★ ★ ★

What he was talking about was the more than 800,000 unemployed revealed by Statistics Canada the other day, but already without jobs when he spoke to the glittering gathering of his supporters in Montreal.

He may not have had the exact figure then, but he knew that the army of unemployed was growing at a fast rate because he knew that nothing was done to prevent it since the all-is-well-and-don't-worry picture was painted in the

Why this irresponsible and increasingly harmful course was maintained right to the end of the year (and in December actually aggravated by the outrage of the 50 per cent pay raise proposal for parliamentarians) is a good question, for no amount of wishful thinking and self-delusion could by that time conceal the plight of the mismanaged economy.

One plausible answer to this puzzling "why" is that Finance Minister Turner genuinely misjudged, as he now maintains he did, the speed and extent of the recession

friendly to the Soviet Union and the Soviet establishment sets great store by such reputations.

Miss Fonda is starring with Elizabeth Taylor in a film of Maeterlinck's play The Blue Bird, a Soviet-American co-production. Recently the Literaturnaya Gazeta carried an interview with Miss Fonda by a man well known in the Soviet film world, script writer Alexei Kapler. He is proba-

★ ★

Indeed, few of her films have been shown in the Soviet Union. Only one of them,

"I'm not easily scared," Miss Fonda declared when Kapler tried to question her about her reaction to the difficulties created for her by American right-wingers and the U.S. authorities. But she also took a dig at her own position in the Soviet Union. She said: "In the Soviet Union people know more about me, not as a film actress, but as a fighter against the Vietnam war."

★

creasingly difficult in Hollywood to make films in which it would be possible to convey something important."

More interesting are Miss Fonda's views on the New Wave films in Europe and America. "I often criticize modern films," she declared, "because I think they are obscurantist. I think the country where very interesting films are being made at present is Cuba."

Miss Fonda also went on to condemn some of the more esoteric film trends on the ground that she did not think a work of art should be meant

Gov't clash likely over coal

Special to The Sun

CRANBROOK — The federal and provincial governments are headed for a confrontation in the East Kootenay following the announcement Monday that Ottawa intends to begin exploring for coal near here.

Gordon MacNabb, senior assistant deputy minister in the energy, mines and resources department, confirmed that Ottawa will start exploring coal properties it holds near Fernie without waiting for B.C.'s approval.

The move brought an immediate reaction from B.C. Mines Minister Leo Nimsick, who said Victoria "will certainly insist on an exploration permit," treating Ottawa like any mining company.

The federal move will also spark a controversy over mineral and royalty rights on federally-owned land.

MacNabb said the federal government wants to begin exploration on the smaller of two properties which together are estimated to contain 10 per cent of the known coal reserves in the Rockies.

It is about eight square miles located near Hosmer, northeast of Fernie.

"We could be doing preliminary surveys this year but it all depends on funding," MacNabb said. "But there's not much doubt we will do it."

Development of the properties, he said, is still "a long way down the road."

MacNabb refused to comment on the issue of mineral and royalty rights but said: "We don't feel we need a provincial exploration permit."

Nimsick noted that the provincial government requires mining companies to take out exploration permits and post a bond guaranteeing land reclamation.

"They (the federal government) can't be treated any differently than anyone else," he said.

Nimsick asked last week to meet federal Energy Minister Donald Macdonald to discuss long-standing disagreements about the federal coal properties, but Macdonald has not yet replied.

The B.C. minister said the question is whether rights to the coal were included when the land was first granted to the federal government in the controversial Crowsnest Pass agreement of 1897.

In return for building a line from Lethbridge to Nelson, the B.C. government agreed to grant the Canadian Pacific Railway 20,000 acres of land for every mile of railway.

The CPR agreed to grant half the coal-bearing lands obtained under this agreement to the federal government.

But Nimsick said both governments lay claim to the coal rights, with B.C. maintaining they were not granted along with the land.

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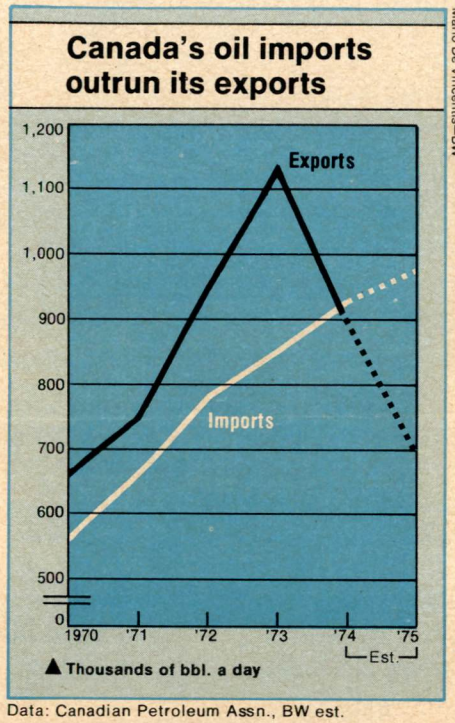
By Reggi Ann Dubin

The feud that keeps Canada's oil underground

Just before Thanksgiving, Canada suddenly announced that the 800,000 bbl. of crude oil it now ships to the U. S. each day would be phased out starting this year and ending possibly as early as 1981. It was disappointing news, to say the least. The U. S. has always considered Canada its most secure source of foreign crude—it is also the largest—and several refineries along the U. S. side of the border have been built to run exclusively on Canadian oil. As recently as two years ago, Ottawa was still badgering Washington to relax import quotas so that Canada could sell even more oil to the U. S., and energy planners here were looking longingly at Canada's High Arctic Islands, its extensive continental shelf, and its fabled oil sands.

What happened? Last year, Canada came to the startling realization that it faces an energy crisis of its own. After years of exporting more oil than it imports, Canada is now becoming a net importer. Its known oil reserves will run out in just seven years. Yet, while the rest of the world searches desperately for new oil and gas deposits (BW—Feb. 3), Canada was the only country to show a decrease in drilling last year. The reason: Canada's restrictive price and taxing policies on oil provide virtually no incentive.

As a result, oilmen have been packing up their rigs and moving to the U. S., where the incentives, if not the reserves, are still large. Five service rigs and 46 drilling rigs—more than one-fourth of the total—left Canada last year, along with experienced personnel. All but one went to the U. S., where new oil brings about $11 a bbl. and so provides a producer with perhaps $5-a-bbl. cash flow after taxes. In Canada, the federal government fixes the price to producers at $6.50 and tacks onto that an export tax of $5.20. Thus, Alberta oilmen make less than $2 a bbl. In Saskatchewan, where royalty rates are especially high, producers suffer a net *loss* of around 30¢ a bbl.



Data: Canadian Petroleum Assn., BW est.

The right to tax. The shame is that Canada has abundant resources that could again make it a major oil supplier to the world market by the mid-1980s. Canada boasts a potential of 121-billion bbl. of conventional crude oil. Only 9-billion bbl. have been found to date. Canada's gas resources are estimated at 725-trillion cu. ft. Only 55-trillion cu. ft. have been proved. And then there are the 300-billion bbl. of synthetic crude recoverable from Alberta's oil sands.

But unless Canada resolves its internal conflicts, it may not be able to satisfy even its own needs, let alone others'. Like hyenas fighting over a kill, the federal government and the petroleum-producing provinces are vying for the revenues from Canada's resources. As one has tried to outdo the other, the total tax bite has cut so deeply into profits that the remaining prey has fled. "If this situation persists for more than a year," says C. William Daniel, president of Shell Canada, Ltd., "the industry will have lost so much momentum that it may take too much to turn it around."

The conflict is deeply rooted in the nature of the Canadian confederation. Canada is a country of 10 highly diverse provinces loosely bound by the British North America Act of 1867. Western Canada was originally settled as a supply colony, to furnish the raw material for Ontario's manufacturing economy. But in 1930, the federal government granted all provinces ownership of their resources, and in recent years the West's energy and mineral riches have brought unaccustomed prosperity—as well as a louder, prouder voice within the confederation.

High royalties. Alberta, which produces 85% of Canada's oil and 88% of its natural gas, last year had energy revenues of $1.4-billion. The provincial government controls 85% of Alberta's producing acreage, and Alberta's premier, Peter Lougheed, the strongest proponent of provincial rights, intends to use his province's energy resources as seed money for an industrial base that will keep the economy growing when the oil and gas have run out. The province agreed to the oil price freeze, which obviously keeps a lid on royalties as well, because the federal government dangled concessions that would spur industrial growth. But Alberta continued to jack up its royalty rate from 15% a year ago to an average of 36% today. By contrast, the average royalty in Texas, where 96% of the oil-producing acreage is in private hands, is only 13%.

The royalty hikes did not sit well with Ottawa. Prime Minister Pierre Trudeau is determined to strengthen the government's position *vis-à-vis* the provinces, and when Finance Minister John Turner saw the federal tax base being eroded—royalties paid to the provinces were deductible from federal income taxes—he disallowed royalties as a deductible expense. Lougheed maintains that Ottawa's move interferes with the provinces' rights of resource ownership. Turner counters that he is only invoking a section of the British North America Act that gives Ottawa the right to raise funds "by any mode or system of taxation."

The next generation. "Both sides are right," says Richard G. Reid, president of Imperial Oil Co., an Exxon subsidiary and Canada's largest oil company. "I only hope that in this division there's enough left to the industry to provide for the next generation of development."

The next generation of energy development in Canada will cost plenty. Conventional reserves in Alberta and Saskatchewan, which together account for 96% of Canadian production, have been declining for five years. Future supplies must come from difficult frontier areas, and from the oil sands. Estimates of the industry's capital needs over the next decade run to $50-billion and more.

In Canada, taking up the cause of the oil industry is about as popular as clubbing seal pups to death. But the current impasse is absurd because neither Canada nor its oil industry can afford a halt in exploration. Only one solution seems possible: The domestic price of Canadian crude will have to rise soon, and both the federal government's and the provinces' take will have to drop. And in the long run, Ottawa and the provinces must resolve their conflict.

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7. Scott

Sex 'Rights' Passes

SACRAMENTO (AP) — The California Legislature has approved a sexual "bill of rights" for adults, but refused to relax penalties for marijuana possession.

Thursday the assembly passed and sent a bill to Governor Edmund Brown that repealed the state's 100-year-old sex laws and makes legal all heterosexual and homosexual acts in private between consenting adults.

But the assembly rejected by a narrow margin legislation that would have made an individual found in possession of an ounce or less of marijuana subject to a maximum $100 fine.

Current law allows a judge to treat possession as either a felony or a misdemeanor, with a possible sentence of up to 10 years in prison.

Backers of the marijuana measure said they would seek reconsideration of the bill later.

25% Ottawa Tax on B.C. Gas Profits

MACDONALD
. . . producer benefits

Ottawa will receive one quarter of additional profits coming to B.C. because of increases in the price of natural gas.

Attorney-General Alex Macdonald said in an interview Thursday increased export prices announced this week will escalate Ottawa's estimate of fair market gas value, meaning higher government taxes going to the federal government on behalf of gas producers.

Macdonald also said he expects B.C. gas producers will receive an increase in the price they are paid for gas by the B.C. government.

Producers now receive an average of 22 cents per thousand cubic feet while the new export price of gas will be $1.40 on Aug. 1 and $1.60 on Nov. 1.

No gas price increases have been promised the producers and the B.C. Petroleum Corporation is studying the wellhead price of gas in B.C.

Macdonald told the legislature no decision on price increases will be made until the study is completed in late August but he said later he expects adjustments will be made.

He also said the BCPC will show earnings of $92 million last year—its first year of operations—but $18 million of that profit will go to Ottawa in the form of new taxes on gas, paid by the BCPC on behalf of the companies.

The figures will be released soon in the BCPC's annual report, he said.

Macdonald said he is not sure exactly how much the 25 per cent of additional revenues going to the federal government will represent but Premier Barrett has said the increase in price would mean about a $60 million increase in revenues.

"So it (the amount going to Ottawa) will probably be about $15 or $20 million," said the minister.

The additional money to Ottawa is the result of a floating fair market value of gas.

Earlier this year, the federal and provincial governments came to an agreement over natural gas taxation and agreed that gas producers would be taxed on the basis of what Ottawa believes to be a fair market value, even though producers are paid a much lower price by the BCPC.

Gas is now sold at $1 per thousand cubic feet on the export market and about 60 cents on the domestic market for an average price of 80 cents. Allowing about 20 cents for transportation costs, Ottawa sees the fair market value as 55 cents, said Macdonald.

So the taxes on the difference between the 22 cents the producers receive and the 55 cents Ottawa thinks is fair, is paid directly by the BCPC to the federal government.

When the export price increases in August, said Macdonald, the fair market value will rise to 80 or 90 cents and therefore the taxes B.C. has to pay for the producers will increase.

Since the rate of taxation on gas companies is about 25 per cent, said Macdonald, B.C. will have to pay about 25 per cent of its increased revenues in taxation to Ottawa.

Sands
SIX FUNERAL CHAPELS

'Canadian' . . . Without Canadians

Times News Services

OTTAWA — Secretary of State Hugh Faulkner said Thursday it is conceivable that periodicals could receive tax benefits as "Canadian" publications without a single article by a Canadian writer or about a Canadian subject.

"Conceivable but, I am bound to say, not desirable," he stated.

This was about the only clarification Faulkner gave on the controversial "content" issue when he opened debate in the Commons on his bill to remove tax benefits for Time and Reader's Digest magazines.

He passed on to Revenue minister Ron Basford the responsibility for deciding when a magazine is or is not a Canadian magazine and there- [illegible] to tax benefits.

[illegible] certainty a certain format and editorial content, it is possible, I am assured by my colleague the minister of national revenue, to obtain an advance ruling from his department on the eligibility or not of that periodical for the (tax) benefits," Faulkner declared.

The bill under consideration, an amendment to the Income Tax Act, would remove the 10-year-old exemption for a handful of foreign-owned Canadian-based periodicals and the two large American-owned magazines from tax regulations imposed on foreign publications circulating in Canada.

It would also disallow deductions against income for Canadian firms advertising on U.S. border television stations received in cities like Vancouver and Toronto.

Officials of Time have com- [illegible] quirement—one of several which must be met to allow them to keep publishing in this country.

Faulkner also attempted to wipe any suggestion of censorship from the government's move to end tax privileges for advertisers in the Canadian editions of Time and Reader's Digest.

"It in no way implies government interference with the editorial policy of periodical publishers," he said.

Scattered cries of "censorship" rang from the Progressive Conservative benches during Faulkner's speech. Gordon Fairweather (PC-Fundy Royal) told the House his party believes both magazines should be given time to increase their Canadian ownership.

Cyril Symes (NDP-Sault [illegible] said the bill is

though between them they had 48 per cent of the country's magazine advertising revenue.

He noted that Time is wholly-owned by its U.S. parent while Reader's Digest has less than 32 per cent of its shares in Canadian hands.

Symes said much television and newspaper news gives Canadians "a viewpoint on the world through other people's eyes and our own lifestyle is becoming very Americanized."

"In terms of newspaper content, because there are not many Canadian foreign correspondents, there is a heavy reliance on The Associated Press, United Press International and Reuter."

The Canadian Press, the national news co-operative, distributes foreign news supplied by AP, Reuter and Agence

AIRLINE TRAVEL AGENCY PLAN STILL ALIVE?

MONTREAL (CP) — A Montreal travel agency official said Thursday he is unsure whether an Air Canada plan to invest in a country-wide string of travel agencies is still alive.

Raymond Tarbet, secretary-treasurer of McGregor Travel Co. Ltd., told the Air Canada inquiry he was informed by one Air Canada official that a deal for a nationwide travel agency would not go ahead.

But R. Y. McGregor, McGregor Travel president and Mr. Tarbet's boss, had been told by Yves Menard, former Air Canada vice-president, that the deal would probably go through.

Mr. Tarbet said he considered a $100,000 payment by Air Canada to Mr. McGregor last November as an investment in McGregor Travel and a first step to a larger national agency.

Mr. Justice Willard Estey, presiding over the inquiry, suggested Air Canada was getting a poor bargain if it was paying $100,000 for a 1.7-per-cent interest in a national agency.

"It looks like someone paid 10 times too much for a 1.7-per cent interest," he said.

Mr. Justice Estey of the Supreme Court of Ontario is investigating the $100,000 payment as well as the financial control and management of Air Canada.

Air Canada is not allowed under the Air Canada Act to own a travel agency.

The document approving the payment to Mr. McGregor said the money was for his consulting services in influencing provincial, Middle Eastern and Latin American governments for Air Canada.

Mr. Tarbet told the inquiry these terms were a "total surprise" to him as previous negotiations had concerned an Air Canada share in a national travel agency which would include McGregor Travel and Burke's Worldwide Travel of British Columbia.

He said there was a "gentleman's agreement" that the $100,000 payment would give Air Canada an option on 10 per cent of McGregor shares.

This would, in effect, give the airline a 1.7-per-cent share in the larger national company.

Mr. Justice Estey noted that the total value of the enlarged national company would be $1 million but Air Canada would be entitled to only 1.7 per cent of the shares with a payment of $100,000.

He suggested this was an inflated price for such a small interest.

F. Scott

Van Sun Mar 19/75

Marjorie NICHOLS

VICTORIA — This dress rehearsal for the Ottawa energy conference now being performed on the floor of the legislature makes good political theatre. It is a shame that it has been reduced to a duet starring Dave Barrett and Dr. Pat McGeer.

McGeer, alone among the opposition, has demonstrated an ability to match Barrett manoeuvre for manoeuvre, tactic for tactic. The former Liberal leader put on a magnificent performance Tuesday afternoon. Barrett was also brilliant, but McGeer is hereby declared the winner of the round on grounds of superior audacity.

The Liberal member forced the premier into defending the federal government's constitutional position on the contentious natural resource taxation issue. As a feat, that ranks with climbing Mount Everest barefoot.

It was a beautifully shameless performance. McGeer stood and read, with theatrical emotion, from the British North America Act. He quoted at length from the section declaring that the natural resources deposited in the earth as well as the royalties derived therefrom are the sole property of the provinces.

He lamented the fact that the Barrett Government has failed to march on Ottawa, waving a copy of the BNA Act, demanding redress in the courts. He accused the Barrett government of having sold out to the federal Liberals.

McGeer did not, of course, read from a further section of the British North America Act which gives the federal government the right to tax by any means or mode.

But he didn't have to. Dave Barrett did that. As McGeer was winding to his finale, the premier kept hollering across the floor that Ottawa has "the right to tax."

And later, outside the house, Barrett pooh-poohed the McGeer demand that B.C. take the case to the courts to test the constitutionality of the new federal tax laws.

The Alberta oil companies, said Barrett, had already investigated the constitutional route and declared it non-viable. Now, it must be understood that the name of this game is public relations. Publicity, if you want to be brutally frank.

Barrett is going to march to Ottawa next month to demand increases in the export price of B.C. natural gas. The scenario has been well-built. If Ottawa refuses the increase, the premier can return to B.C. and start stirring the political waters.

The budget promised the municipalities a share of an increase in price. It therefore follows, politically if not logically, that Ottawa will be responsible if the municipalities suffer.

Any B.C. politician with an ounce of perception is able to anticipate the consequences. McGeer is a man with several pounds of such perception.

Shortly before the former Liberal leader rose to speak, Barrett had made a few devastating points.

He had an advance copy of the announcement from Ottawa that the national energy board had confirmed a decision of an American court, holding that some Alberta gas sold to the U.S. was worth an average of $1.61 a thousand cubic feet.

The premier did not mention that the volume involved was a mere 55 million cubic feet a day. The premier did not mention that the energy board's official reason for granting the price increase in this one case was to fill the void caused by production shortages in B.C.

But Barrett made the only point that counts for his purposes. An agency of the federal government has agreed to export price increases in the amount that he will be demanding when he goes to Ottawa. The premier hammered his only relevant point: This is a precedent. Therefore, how can B.C. be turned down?

It does not logically follow, of course, but that is not the game. Barrett had been assured of headlines. He had ammunition to whipsaw the B.C. public should he fail in Ottawa. The implication can be anticipated: The federal government has a double standard.

It was good stuff. McGeer knew it. And thus we had the academy award - winning performance. The former Liberal leader didn't counter - attack. He indulged in a bit of pre - emptive strike. It was good.

McGeer, in one giant leap, managed to: Dissociate himself from the evil federal Liberals; force Dave Barrett to defend John Turner's understanding of fiscal federalism; persuade the premier to argue that, if the evil oil monopolies say federal law is constitutional, then it must be constitutional. Magnificent.

It would be folly, however, to count the premier out yet. McGeer's speech was delivered just as the house rose for the dinner hour. Barrett returned for the evening sitting prepared and alert. He turned his guns on the allegedly sympathetic Ottawa press, which he charged were domesticated pets of the Liberal government.

Another good performance. But the Liberals would not be put down. Gordon Gibson grabbed the McGeer theme and continued to hammer it.

Politicians are like good athletes or actors. They need challenge to force themselves to great heights.

The only danger in the case of B.C. natural gas is that the actors may peak too soon. There is still another month to go.

'Somebody walked off with a million'

Sun Victoria Bureau

VICTORIA — Pat McGeer (L — Point Grey) challenged Premier Dave Barrett in the legislature Tuesday to deny that "somebody walked off with $1 million" in the Minnekhada farm deal.

But Barrett didn't rise to the bait when McGeer repeated a demand for an answer to a question 10 days ago about how much money Daon Development Corp. made on the property it sold to the provincially-owned Dunhill Development Corp. for the Coquitlam showplace.

Barrett announced Jan. 27 Dunhill had acquired the 1,030-acre property for $2 million. Daon had bought it shortly before from former Lt.-Gov. Clarence Wallace.

"If I'm wrong, say so," challenged McGeer. "If I'm right, it's a scandal."

McGeer pursued the issue during a sitting Tuesday night, after deploring the fact that the premier had failed to give answers to questions during the afternoon sitting.

Barrett said in the original statement that Dunhill acquired the property by exercising rights under an agreement negotiated with Daon concurrent with Daon's purchase from Wallace.

He said the land is ideal for supplying the green belt and open space necessary for the Burke Mountain community being planned.

Stamps the rage

One of the latest crazes is the rubber-stamp rage, a kooky decorative art form that has people stamping envelopes, walls, themselves and you name it.

SUPER VALU AD CORRECTION

We regret that an error in sizing occurred in our Sun advertisement dated Monday, March 17th.

The item should have read:
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U.S. says Canada risks retaliation if gas sales cut

Globe & Mail Feb 18/75

By ROSS H. MUNRO
Globe and Mail Correspondent

WASHINGTON — Ottawa will risk drastic U.S. retaliation if it breaks natural gas export contracts, a U.S. State Department official warned in an interview.

The extraordinarily frank warning was voiced apparently because U.S. energy officials fear that Ottawa soon may delcare that an immenent shortage of natural gas will force it to curtail contracted-for exports to the United States.

The U.S. position is that since Ottawa approved long-term export contracts, Canada and the United States must share any shortage of Canadian natural gas on an equal, proportional basis.

The State Department official listed a number of severe retaliatory steps that the Ford Administration or Congress could take if Canada unilaterally breaks the contracts and declares that the United States must bear the full brunt of the shortage.

Any specific retaliatory step would have to be approved by Congress or the President. But the State Department official said U.S action could range from cutting off Candian oil pipelines running through the United States to ending U.S. coal shipments to Ontario steel mills and electrical generating plants.

The official expressed concern that his warning could backfire and be labelled a threatening interference in Canadian politics. But at the same time, he said, "it is vital that we leave the Canadian government in no doubt about the determination to [illegible]

OTTAWA — Domestic natural gas bills could go up 15 to 50 per cent later this year under proposals put forward by the federal Government. The proposals are part of a Government plan to bring natural gas prices into line with domestic oil prices by 1978. At present, gas costs about 65 per cent of what the equivalent amount of energy from domestic crude oil would cost. Details on Page B1.

F. Scott

arrying on business as Reid's Book Store, Book Villa and Book Mart.

The church, incorporated in Ontario in 1967, sought general damages of $500,000 and punitive and exemplary damages of $1,000,000 from Tower Publications, alleging that statements in a book entitled The Scandal of Scientology, written by Paulette Cooper, were defamatory.

The church also sought general damages from Sheldon Books. The jury awarded the church $3,000 against Tower

Laws on rights called threat to minorities

A pioneer in the battle to make race discrimination illegal warned yesterday that the human rights legislation he fought for can be used against minorities and the poor.

The legislation can frustrate its own aims, Kalmen Kaplansky of Ottawa told a conference for human rights officers from across Canada.

Unless there are "restraints and constraints" on existing law, "the human rights movement—this effort—will fail."

Mr. Kaplansky, Canadian director of the International Labor Office and special adviser to the director-general of the ILO in Geneva, is regarded by many as the dean of the human rights movement in Canad[illegible] at a lu[illegible] w[illegible]

G. A. Jepson, resident minister of the church and president of the corporation, told P. M. Champagne, counsel for the church, that the church's creed holds that all men have equal rights and are basically good.

All that is required for membership in the Church of Scientology is an interest in it, Mr. Jepson said. He testified that the church does not use lie detectors, but employs what is known as an E-meter.

"The purpose of the machine is to help the parishioner to find his own areas of upset," Mr. Jepson said. He said the church does not ask intimate sexual questions and then report them to a leader of a group.

Mr. Champagne asked about a reference in the Cooper book to payment of 10 per cent of the denomination's gross income to L. Ron Hubbard, the founder of Scientology.

"That's untrue," Mr. Jepson said.

"The book says Scientology is evil and its practices are evil and that an Australian report says Hubbard uses hypnotic techniques," Mr. Champage said.

Mr. Jepson said this was not true.

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Retaliation threat

● From Page One

gate the natural gas export contracts. He said the issue is political, economic, and above all, one of fairness—that is, the fairness of breaking long-term contracts.

The U.S. Government's concern has arisen recently, the official said, because it sees signs that Ottawa may handle natural gas exports the same way it handled crude oil exports. The NEB, he noted, is studying the supply and demand situation in Canada. If it follows the same path it did with crude oil, it will discover an imminent domestic shortage and recommend in effect that the United States bear its entire brunt.

He added that Canadian Government officials are suggesting privately that Ottawa will be forced to cut back contracted-for gas exports because it will be unable politically to ask Canadian customers to bear their share of the shortage.

He said U.S. officials have responded by making it clear that the United States will insist that any shortage be shared on a proportional, or pro rata, basis. However, he said, the U.S. Government believes that there is really no need for any shortage to develop.

If Ottawa were to allow the domestic Canadian price of natural gas to rise to market levels, he said, wasteful consumption would be discouraged while exploration and production of new natural gas would be encouraged. In addition, he said, the United States will be wary of any NEB manipulation of production reserve statistics which he said could produce a "shortage" on paper overnight.

He indicated that the United States has accepted the principle that it should pay market prices for Canadian natural gas but he suggested that the United States will not accept any Canadian attempt to push export prices to an artifically high level well above world market prices. Such a move has been suggested at the current NEB hearings.

The official was asked why no action has been taken against British Columbia for its recent cutback of natural gas exports to Pacific Coast states. He replied that the B.C. case is considered special "because the kind of Government that is there doesn't exist elsewhere in Canada."

However, he added, the State Department is engaging in mild retaliation by holding up a B.C. request for U.S. aviation and residual fuel in exchange for Canadian crude oil.

Another State Department official said the situation is also complicated by the fact that Washington appreciates how Ottawa has "gone all out" to encourage the B.C. Government to conserve domestic gas consumption in order to export as much gas as possible under existing contracts.

Film Board spends $8,470,000 and the Canadian Film Development Corp. provides $4-million. It suggested at least 15 per cent of pay-TV revenue be channelled into production of Canadian programs other than sports.

At the same time a policy statement was issued saying that cable television operators should put 10 per cent of their revenue into production of community programs.

Details on Pages 14 and B2

union representative, said t

Government digs in
Page 2
Mailboxes jammed
Page 5
Picture on Page 8

strikes will possibly la through today.

There are about 2,000 me bers of the union group in T ronto. Mr. Lyons said oper tions at Toronto Internation Airport were not yet affected

Mr. Kritsch said in Otta that the talks broke off aft union negotiators determin that the Treasury Boa would not offer more mone

There had been hopes e pressed earlier that a co tract with a shorter te could provide the flexibil needed for a settlement.

Thomas O'Connor, a feder mediator appointed Frida said he is certain the parti will meet again soon.

As the strikes began Mo day, hundreds of the worke demonstrated in front Treasury Board headquarter the hotel where mediati talks were taking place a on Parliament Hill.

The Alliance has rejected

ropane truck; d no one hurt

truck was struck by the CNR freight operated by engineer Frederick Palmer, 54, of Gormley.

Police said Mr. Palmer brought the train to a full stop after the truck was broken in two and pushed clear of the tracks. A flagman was reported to have jumped clear when the collision was imminent.

Fesserton is about 20 miles west of Orillia.

ough the 'patien

tube right into the windpipe gen could be carried directly i

nt has now begun to vomit a distress is increasing," the nem.

dly voted to clear the patier the tube into his windpipe.

Of the four choices, it boi er cent oxygen or getting a la on the level of oxygen and ot atient's blood.

again, and "by a fine margi voted for getting the lab repo

F. Scott

Gas shortage possible, energy minister warns

OTTAWA (CP) — Energy Minister Donald Macdonald warned Monday of a potential natural gas shortage next winter and said Alberta will be responsible if it occurs.

"It's possible . . . because of a political decision by the Alberta government," he said as the Commons resumed debate on the powerful and controversial petroleum administration bill.

The proposed legislation, under detailed study by the House, would give Ottawa unilateral power to set the price of crude oil and natural gas. But it would not force Alberta, the main energy-producing province, to sell oil or gas against its will.

This could cause a shortage by next year in Saskatchewan, Manitoba, Ontario and western Quebec, Macdonald said.

He referred to an application two years ago by TransCanada PipeLines Ltd. to pipe greater quantities of natural gas from Alberta to outside markets. Approved by the province's energy resources conservation board, the application has not been endorsed by the Alberta government because it wants assurance of higher prices, Macdonald said.

Hearings are planned in the province to set a new price for natural gas, currently selling for 60 cents a thousand cubic feet. But they have been delayed pending more negotiations between Ottawa and the provinces on a price mutually acceptable to consumers and producers.

Macdonald said he hopes an agreement will be reached and that Alberta will approve additional exports from the province to meet outside needs.

Saskatchewan, Manitoba, Ontario and the Montreal area depend on Alberta for natural gas, while B.C. is self-sufficient. Little natural gas is used in the Atlantic provinces.

The current 60-cent price was set last year. Earlier contracts negotiated by TransCanada averaged 44.5 cents a thousand cubic feet.

Macdonald has said the planned Alberta hearings could result in a wellhead price of more than $1.

Natural gas exported to the U.S. already sells for $1 and an increase is expected to be announced soon, perhaps as early as the end of the week. Sources indicate the cabinet has been considering an increase of 50 cents to 60 cents.

Macdonald has said a new export price is Ottawa's top energy priority. But he added Monday that domestic pricing also is an important question.

The new Alberta price, whether set by federal-provincial negotiations or otherwise, is scheduled to take effect Nov. 1.

With this deadline fixed at the wholesale level, it is important to give gas companies time to apply for retail price increases, Macdonald said.

Officials distressed to find subdivision over salmon stream

Sun Staff Reporter

POWELL RIVER — A breakdown in communication between various levels of government has enabled a new subdivision here to include six lots that span a local creek.

But the subdivision is entirely legal, so it will go ahead in spite of the concerns of fisheries officers, local citizens and the regional district.

"It's really too bad, but we were a bit too late to do anything more about it," said district administrator Jim Went in an interview Monday.

"It is very distressing that something as brash as this has come about under our very noses," said Martin Rossander, a local resident who organized a protest against the subdivision. "This is a very bad precedent."

The controversy involves a subdivision planned by Thunder Bay Enterprises Ltd.,

He said the go-ahead for the subdivision is particularly unfortunate because, in the last year, the regional district has adopted a policy of slow growth, anti - development and preservation of the environment. "We were aware something was going on and we should have looked into it faster," said Went.

Federal fisheries officer Norm Lemmen said Myrtle Creek runs through a large ravine which serves as a wildlife corridor.

"I can see lots of problems if these lots are allowed across the creek," he said. "We are very concerned about it because it is a salmon spawning area.

"We were not notified that a subdivision was planned, at least there is nothing in my files to indicate that we were notified. Nowadays, when an application like this comes up, it is referred to us for our input.

"Pretty soon there will be no salmon streams left in B.C. with so many people

F. Scott

Province Apr. 10/75

Export gas hike to help pay cost

Barrett to build oil refinery

By NICK HILLS
Southam News Service

OTTAWA — B.C. appeared close to agreement with the federal government Wednesday over a new price for expoted natural gas; and Premier Dave Barrett announced he would build a $350 million oil refinery with part of the increased revenues.

The refinery, to be constructed over four yeas as a joint-venture project possibly involving British capital, will process 100,000 barrels of Alberta oil a day into refined products for the B.C. market.

The exact type of refinery has not been settled on, but it seems certain to be built. Said Barrett: "We must have a refinery."

No site has been chosen, but Barrett said that several including a controverisal one in Surrey — were being considered.

It is possible that the federal government will also be a partner in the project, although Ottawa would not commit itself to this Wednesday. Instead, Energy Minister Donald Macdonald gave the impression that he was very sympathetic to Premier Barrett's proposal for increases in the price of B.C. gas exported to the U.S.

Macdonald said he expected the National Energy Board would have some recommendations ready in about two weeks, and that the first price increase would go into effect in August.

Barrett said: "This makes the conference worthwhile for B.C.," and thanked the federal government for its positive attitude even though he has no precise price commitment to take home.

Barrett had proposed to the first day of the federal-provincial energy conference that the export gas price be raised from $1 per thousand cubic feet to $1.40 on May 1; from $1.40 to $1.60 on August 1; and then to a full value of $2 per thousand cubic feet on November 1.

The recommendations from the energy board, which go to the federal cabinet, are not likely to be exactly what Barrett wanted, but the premier was clearly heartened by a commitment from Prime Minister Trudeau that the price of exported gas would eventually have to equal the world price of oil.

On top of this, Macdonald said the price increases would be phased in faster than those expected for domestically-used gas.

After the conference ended for the day, Barrett told Southam News Service that he expected to be able to reach a compromise agreement with Ottawa on the new price levels and the timetable for their implementation.

Doubling the price to $2 per thousand cubic feet would generate an additional $1 billion — one third would go to Ottawa, one third to the B.C. government, and one third to the province's municipalities. It is likely, however, that the energy board will recommend the first price rise be to only about $1.40 or $1.50, with the other increases phased in over a longer period of time than Barrett proposed.

The B.C. premier has estimated that if the gas price went to $1.50 at first, the municipalities would get an additional $20 million in annual revenues from the provinces. He told a press conference that he intended to advance increased funds to the municipalities even before final agreement is reached with Ottawa.

As for the refinery, its financing will be arranged by the B.C. Petroleum Corporation. Barrett and corporation chairman Jim Rhodes will be going to Britain shortly to attempt "to confirm the participation of British interests in the financing and perhaps even operation of the refinery," the premier said.

Some talks with the government of Alberta over supply of the oil have already taken place. The oil will be carried

Laughter appeals to Premiers Dave Barrett and Allan Blakeney.

7: Scott · Van Sun Mar 22/75

Barrett will honor U.S. gas promise

By MIKE GRAHAM
Sun Victoria Bureau

VICTORIA — Premier Dave Barrett labelled Liberal opposition members as "irresponsible" Friday for suggesting that B.C. cut off natural gas exports.

"Under no circumstances will be threaten our American friends," he told the house during debate on his financial estimates.

He accused Allan Williams (L—West Vancouver-Howe Sound) of suggesting that the province "turn the tap" on its U.S.-bound exports, and Pat McGeer (L—Vancouver-Point Grey) of supporting that suggestion.

Both MLAs should stand up in the house and state specifically whether or not they personally back an immediate cut-off to the Americans, he added.

"It's the most irresponsible statement ever made in this house," he said.

"A contract is a contract," he added, admitting that it was "stupid and foolish of the Socreds to sign a long term, 15-year contract" to export natural gas.

Eighteen months ago when he was asking for Ottawa's permission to make a "moderate increase" in the export price, he said, McGeer accused him of greed.

Now, he added, two Liberal members are saying, "You're not being greedy enough."

"They change positions so often they make a whirling dervish green with envy."

McGeer said B.C. should be working to conserve natural gas.

Barrett should listen to William's suggestion, made in the house Thursday, that B.C. cut exports, he added, and that it seek the fair market value for the fuel.

Using natural gas to heat homes, said McGeer, is like "heating with $20 bills."

A contract is a contract, he agreed, "but that doesn't say we export gas forever.

"Sure we can get them to turn the taps. It's just a question of when it can be done consistent with the contracts."

He also said Barrett was mistaken in going to Ottawa last fall and agreeing to have the Crown-owned B.C. Petroleum Corp. pay the federal government in lieu of a fair market value tax on petroleum companies operating in B.C.

"Royalties belong to the province," he told Barrett during the debate. "You haven't had the backbone to fight for this.

"He has sold B.C out, not just on the question of natural gas, but on all our natural resources."

Barrett denied McGeer's claims, saying the Liberals "were leaving the impression that we have absolute authority to handle these resources any way we wanted."

But it is the federal government's National Energy Board that must approve export prices, not B.C. he said.

And if B.C. had accepted the Liberal's argument, more revenues would have gone into the pockets of the petroleum companies, rather than to the public through the petroleum corporation.

"I will not force money down the throats of the oil companies," he said.

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the house to the Liberals when he moved adjournment because they said they had more questions to ask him.

The house has set aside 135 hours for debate on 269 estimate votes and has used up 24 on the first two.

City housing sc

VICTORIA — The provincial government has given a $566,590 grant to a Vancouver - based housing society.

The grant to the St. Mary's Ukrainian Senior Citizens' Housing Society covers one-third of the cost of the society's 90-unit

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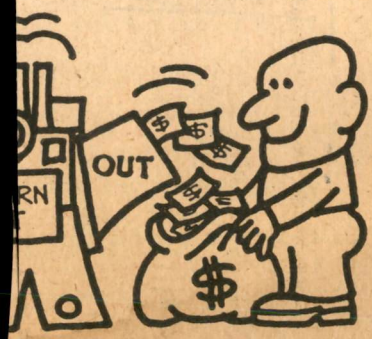

Our long experience assures you of getting the best

We must have a refinery — Barrett

FROM PAGE ONE

line system, and Alberta will apparently guarantee supply.

Petroleum corporation chairman Rhodes said the refinery would satisfy product demand in the province "for some time," in conjunction with the seven other refineries already operating.

The apparent meeting of minds on the B.C. gas issue was the one solid accomplishment of the first day of the energy conference. It was particularly surprising as senior members of the NDP government have been hinting in recent weeks that no agreement with Ottawa could lead to a snap May election.

In the B.C. legislature, Economic Development Minister Gary Lauk made it clear the refinery would be built somewhere in the Lower Mainland.

Economics dictate that any oil refinery must be built as close as possible to consumer markets, he said, and it would not be good economics to build a refinery even as far inland as Merritt.

He confirmed that the oil for the refinery will come from Alberta, and said the government believes this will be "a safe source of crude."

The refinery will not be part of a full petrochemical industry, he indicated, because B.C. does not have the oil to support a petrochemical industry based on crude oil. However, a petrochemical industry based on natural gas might be feasible for B.C., he indicated.

Lauk was replying to questions from Liberal leader David Anderson who said the refinery could become a white elephant unless it has a guaranteed source of crude. Anderson said his indications from the Alberta government are that it wants to export refined oil products, not crude.

And if Alberta doesn't supply the refinery, B.C. would have to resort to buying overseas oil, he said. That would result in all sorts of problems, not the least being greatly increased tanker traffic around the B.C. coast.

Anderson also questioned the $350 million cost figure given by Barrett. He said if the refinery is to be large enough to take over from the current privately-owned ones, the cost would probably be closer to $1 billion.

Outside the House, Bob McClelland (SC—Langley) said Barrett's announcement seemed to show the refinery is "going to be shoved down the throats of the people in Surrey" whether they want it or not.

Speculation has been high the refinery will be built in the Surrey-Langley area in a region where the government has been buying up large amounts of land. "This (announcement) looks like a decision to build in Surrey for sure," said McClelland.

But, he said, "I think it's a totally wrong place to build a refinery." He said it is important the refinery be moved out of the narrow confines of the Fraser Valley because of the valley's ecological sensitivity and aesthetic beauty.

"There won't be much left of that part of the valley by the time an oil refinery and all peripheral industry is put there," he said. "It practically amounts to despoilation of the valley."

Surrey Mayor Bill Vander Zalm said Wednesday night that a government oil refinery would be a blight on the Lower Mainland.

"Council is on record opposing this."

He said he has inspected the oil refinery at Cherry Point in Washington State which operates under rigid controls.

"I would not even like to see something like that here.

"But if the provincial government built the refinery who would be responsible for controlling the pollution? It scares me."