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MEMORANDUM FOR DAVID CAMERON AND REEVES HAGGAN

Observations on the Events on Tuesday

Mood of the Talks

The mood at the talks shifted considerably on Tuesday from the relatively amicable and up-beat mood of last week. What seems to have happened is that over the weekend the provinces had time to study the federal position paper on Powers Over the Economy and, as a result, they became angry at the federal government for asking that it be given powers. Simultaneously they became nervous that the federal government might decide to move unilaterally in this area as well as in the areas of rights and patriation. The overall federal position is now perceived by all the provinces, but particularly the four western provinces, Quebec and Newfoundland, as a very significant retreat from its position in February 1979. The provinces clearly had not anticipated this and consequently they are upset and at least partly confused by it.

The second thing which has upset the provinces is the way in which the federal government publicized its positions at the first week's meeting. Several provincial delegations reviewed press clippings on the Constitution over the weekend and they discovered that even in places like Regina and Saskatoon the federal position had come through clearly and forcefully. While they expected a strong communications campaign from Quebec, they did not expect the federal government to mount a similar offensive and right now they feel that the federal government is doing a better job of getting its message across in their province (e.g. Saskatchewan) than the Saskatchewan government is doing in presenting its position to its own people.

These events on the weekend, combined with the perception in a number of the officials' committees (e.g. fisheries and communications) that the federal government is being unreasonable, inflexible and taking an unnecessarily hard line, has combined to further change the mood of the provinces. This hardening was also reflected in the positions which Mr. Chrétien and Mr. Roberts took on the issues of Offshore Resources, Resource Ownership and Interprovincial Trade and Powers Over the Economy at the Ministers' only meetings.

Resources and Powers Over the Economy

The provinces are making a determined effort to keep the two issues of Resources and Powers Over the Economy separate. They have not succeeded in doing so and a single committee has been established to look at both issues. (Explain why this is important to our strategy.)

First, there is a clear, fundamental difference of opinion between the provinces and ourselves over the role of the federal government in managing the Canadian economy. Almost all the provinces, but the western provinces in particular, firmly believe that, in an economic sense, Canada is "a community of communities". This was reflected in a number of statements by provincial officials and Ministers in private, but also by Mr. Romanow, the provincial Co-Chairman, in his press conference statements on Tuesday afternoon. For example, he said in commenting on the federal position in Powers Over the Economy that he flatly rejected the basic assumption of the paper which was that the federal government needs more power to manage the national economy in the national interest. He said that he was "very, very nervous" about federal initiatives in the economic powers area. He said further that the federal proposals would lead to "no provincial involvement in managing their provincial economy" and this position was causing "a considerable amount of anxiety among himself and his provincial colleagues".

More importantly, however, he went on to argue that even if one accepted the premise that provincial governments were instituting barriers to trade, as suggested in the federal paper, this was "a price of federalism". In other words, even if the assumption of the federal government's paper is correct, provincial barriers are an economic cost we have to live with precisely because we are a federation.

Mr. Romanow then went on to say that the basic difference between the federal and provincial governments, particularly the resource producing provinces, was that whereas the provinces want to limit the trade and commerce power in the resource area, the federal government wants to expand the trade and commerce area to include the movement of services and capital. This was a fundamental, and if the federal government does not change its mind, irreconcilable, difference between the federal government and the provinces and he implicitly implied could lead to the break up of the constitutional talks.

Second, one can assume that the tough provincial position is simply a bargaining one and that they assume the federal government is doing the same. However, the provinces are clearly uneasy that this time the federal government may not be bluffing. In particular, they think that the federal government may move on a wide range of issues in the fall, not just on patriation and rights. (Add David Cameron's Saskatchewan political analysis here.)

Third, it is becoming increasingly clear that provincial governments, particularly those from the West, look at the national economy in a significantly different way than does the federal government. The provinces want to be able to regulate the external world which impacts on their major resource areas (e.g. potash in Saskatchewan and oil and gas in Alberta). In effect, the provinces believe that the national economy consists of a series of regional economies and that the provinces themselves should control these regional economies. This is a fundamentally different view of Canada from that held by the federal government and Ontario and is, I think, the underlying cause of the concern and resentment which most of the provinces have towards the federal economic proposals.

It is interesting to note that the Atlantic provinces are schizophrenic on this question. They want a strong federal government until they become rich (through the ownership of offshore resources), at which point they would like to see the power of the federal government reduced.

As an aside, it perhaps is worth noting that what seems to have happened is that for the first time the English-speaking provinces have come to understand the federal government's view of its role in Canada. For the last 20 years or so, disputes over the role of the federal and provincial governments have focussed largely in the social and cultural policy areas, areas which are of primary, some might even say exclusive, interest to the provincial Government of Quebec and the federal government. Thus, while the federal government has been exerting its concept of its role in Canada for some time, because it exerted its view only in the social and cultural policy areas, English Canada has paid relatively little attention to it. Now that we have taken that view and applied it in the economic policy area as well, suddenly the English provinces have understood this view and, because it affects them directly and is in conflict with their perception of Canada, they have become emotionally involved in the negotiations.

Miscellaneous Notes

1. All the provinces clearly understand that the federal government is not prepared to bargain rights against powers. The debate has now moved into a give and take between Powers Over the Economy, Resources and Offshore Resources.
2. No province except Ontario accepts the underlying assumption of the federal paper, namely that there is a problem with the economic union as it now exists. That is, no one except Ontario thinks the feds need more power.
3. Saskatchewan and Alberta are trying very hard to get all the provinces to agree that at the First Ministers' meeting in September they will not vote sequentially on each item on the agenda, but rather they will wait to the end of the meeting and then vote on a package. These provinces believe that if each province is polled on each individual item, the federal government will then proceed to move on items on which there is a consensus, but not unanimity, whereas if provinces are forced to vote on a package of proposals, no province except Ontario will support the proposed federal package.

4. The provinces are planning a major communications offensive during the Premiers' conference in Winnipeg. We need to design a strategy to counteract this when it occurs.
5. Once again the federal government was hammered very badly on the offshore resources issue. The provinces, including Ontario, are unanimously opposed to the federal position. They all believe that the coastal provinces should be given jurisdiction over the offshore.
6. Saskatchewan agrees that there is some national role in resources, but they insist on provincial ownership and, in effect, provincial primacy. How to resolve the conflict between provincial ownership and the national interest is an issue with which none of the resource producing provinces, including Saskatchewan, has come to grips with. It is clear, however, that in view of the tough position which has been taken by the federal government, Saskatchewan would now gladly accept the best efforts draft as the final resolution of the resource issue.
7. Explain (as per Cameron's conversation with Saskatchewan and mine with B.C.) why the provinces think they are in a political box.
8. Explain what the Newfoundland strategy is and why it is effective.
9. Stress the need for the feds to give something on resources and/or offshore resources if we get what we want on Powers Over the Economy.

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