From Calgary to Canberra: Resource Taxation and Fiscal Federalism in Canada and Australia

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Intergovernmental conflict over the allocation of resource revenue in federal systems is not uncommon. However, there is remarkably little scholarship on how such political tensions are managed in different federations and whether, over time, resource politics can reshape federal dynamics. This article assesses these questions through a strategic comparison of resource federalism in Canada and Australia since the 1970s. We argue that the political and institutional strategies employed within the Canadian federation, with its greater commitment to fiscal and political decentralization, has been more adept at managing short term political tensions associated with resource booms relative to the Australian model, with its creeping centrism and entrenched system of horizontal equalization. The study also finds that, over time, resource conflict has the potential to shape the practice of federalism in resource-rich jurisdictions by providing political incentives to decentralize nonrenewable resource revenue collection.

This article explores the politics of nonrenewable resource taxation in federal systems through a strategic comparison of Canada and Australia from the 1970s until the present. Recent studies into the politics of nonrenewable resource taxation within federal systems are relatively scarce despite the fact that many of the world's largest resource economies are federations (Brosio 2008; for a just published analysis of the Canadian case see Béland and Lecours 2014).[1] The analysis which follows focuses on Canada and Australia given their similar political histories, economic structure and common commitment to equalization (see Galligan 1982, 1987; Doern and Toner 1985; Cullen 1990). The article is timely and makes a contribution to the emerging literature on the impact of the rapid economic change in the form of the millennium resources boom or the Financial Crisis on the practice of federalism (Béland and Lecours 2011; Lecours and Béland 2010, 2013; Eccleston et al. 2013; Braun and Trein 2014).

The taxation of nonrenewable resources pose particular political challenges in federal systems because such endowments are geographically fixed and unevenly

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distributed, which results in some sub-national jurisdictions being "born" rich while others have few natural resources (Brosio 2008, 431; Lecours and Béland 2010, 584, 586; Béland and Lecours 2014). The potential for distributional conflict is particularly acute in common law jurisdictions which have historically granted sub-national governments the constitutional right to manage and tax land and natural resources (Otto 2001; Anderson 2010, 57; Cullen 1990). Taken together, it is perhaps inevitable that there is resource conflict within federal systems. A discussion of resource taxation and intergovernmental conflict arising from its allocation within federal systems is overdue given that real energy and minerals prices as well as production has increased dramatically since 2005. The millennium resources boom in particular has led to a reassessment of how federal systems deal with resource "rich" subnational jurisdictions that benefit from associated revenue windfalls. These "windfall" boom-time revenues may be forecasted, but their volatile and often temporary nature can exacerbate regional inequality and intergovernmental tensions.[2] This has been the Canadian experience both during the oil crisis of the 1970s as well as more recently and has been evident in the Australian context since the China-fuelled resources boom became established in the early years of the 21st century. These cases have been selected due to both their mining and energy intensive economies and their history of sub-national resource taxation within well-established federations.[3]

The goals of the article are two-fold. The first is to assess the relative effectiveness of the Canadian and Australian federal systems in managing short-term political tensions associated with resource booms. Second, the case studies provide an opportunity to evaluate the longer term political consequences of intergovernmental conflict over resource revenues on federal systems. This involves determining whether Canadian federalism, which has a greater commitment to fiscal and political decentralization, has been more adept at managing the short-term political tensions associated with resources booms since the 1970s relative to the Australian model, with its creeping centrism and more comprehensive system of horizontal equalization. In this sense, in the short term our analysis regards the institutions and practices of federalism as an independent variable that will shape the politics of resource taxation. However, over the longer term, we recognize that resource conflict can act as a means of reshaping the practice of federalism.

The analysis begins with an overview of established fiscal theory concerning the tax treatment of natural resources. It highlights potential tensions between claims that the resource tax base ought to be allocated to the sub-national jurisdiction in which it was extracted and the normative commitment to promoting fiscal equalization, which is a central feature of many federations. The second part of the article provides an overview of the resource taxation regimes in Canada and Australia, outlining the growing significance of resource taxes in each jurisdiction and the allocation of specific taxes between national and sub-national governments.

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This synopsis highlights important differences in the tax treatment of resources in Canada and Australia, differences which have resulted in distinctive political dynamics within the context of the current resources boom. Almost fifty years ago, William Riker (1964; Fenna 2011) made a compelling argument for the need to conduct detailed comparative analysis in order to understand the causes and consequences of variation in the design of federal systems. In response to this rallying cry and to gain a deeper understanding of the intergovernmental politics of resource taxation, we place a particular emphasis on resource taxation in Alberta and Western Australia—the jurisdictions in Canada and Australia with the most significant natural resource wealth. We conclude by reflecting on the implications of our comparative analysis for the design and consequences of resource taxation regimes in federal states.

Resource Taxation Theory in Federal Systems

There is considerable variation in the approaches to the taxation of nonrenewable natural resources (broadly defined to including license fees and royalties) across federal systems. Inevitably, this reflects the way in which various combinations of historical experience, political interests and fiscal theory have shaped regimes in specific jurisdictions. In established common law countries such as Canada and Australia strong and independent colonial governments preceded federation. Thus, the right to manage and tax natural resources was retained by sub-national governments in the subsequent federal settlement (Brosio 2008, 445).[4] In contrast, resource taxation in new and developing federations tends to be concentrated at the national level (Anderson 2010, 43; Okpanachi 2011, 419). The consensus in the literature is that the existence of valuable natural resource endowments tends to precipitate intergovernmental conflict over property and fiscal rights (Shar 2007; Brosio 2008; Anderson 2010; Béland and Lecours 2014).

Within fiscal theory, several arguments have been mobilized in support of the notion that sub-national jurisdictions should be allocated the right to tax natural resources. First and foremost, the fact that natural resources are immobile often limits the possibility of fiscal spillovers and externalities whereby regionally specific taxation regimes may distort the geographic distribution of investment, consumption or residency (Musgrave and Daicoff 1958). Second, local authorities generally possess the bureaucratic capacity to administer resources efficiently. Third, local authorities are usually best placed to establish fiscal needs in terms of the costs associated with infrastructure provision, environmental management, and resource depletion associated with resource projects (Shar 2007, 20).

Despite the case put forth in the public finance literature for the allocation of the resource tax base to sub-national governments in federal systems, there is also recognition of the need for national oversight, especially in relation to large-scale

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projects. This argument addresses the need to promote national equity and avoid significant disparities in wealth between regions. Furthermore, there is the consideration of whether sub-national tax regimes can manage the macroeconomic consequences of large-scale resource booms, or whether establishing national resource tax regimes and associated stabilization funds represent a better approach (Eccleston 2007). In practice, as the case studies below demonstrate, all of these principles inform the allocation and design of resource tax regimes in Canada and Australia. Generally speaking, pre-federation rent capture took the form of license fees and volumetric taxes levied by provinces and states. However, as the value of certain natural resources has increased, federal governments in both jurisdictions have invoked arguments concerning national equity to support their introduction of equalization regimes and national resource taxes. Finally, and most recently, the macroeconomic impact of resources development has served as a catalyst for proposals for a national "super profits taxes" in Australia and the creation of stabilization funds in both countries.

Federalism and Resource Taxation in Canada and Australia

The ownership of land and the associated right to impose taxes and charges on the extraction of natural resources in Canada and Australia remained with the provinces and states after federation in keeping with the original division of powers contained in their respective Constitutions (Anderson 2010, 43; Hueglin and Fenna 2006, 325; Boadway 2007, 102).[5] This can largely be explained by the reliance of colonial governments on mining license fees and charges as an important revenue source prior to federation. In Australia, resource royalties and charges introduced during the gold rushes of the 1850s became a significant source of colonial revenue (Warren 2004, 33). Given this history, it is unsurprising that the provinces and states successfully campaigned to retain the right to tax natural resources after federation. Despite this almost exclusive access to a resources tax base, revenues in both countries were modest until the 1970s. According to Stevenson (1976; see also Galligan 1982, 237), this was because federal structures and interjurisdictional competition for investment allowed private mining interests to secure public subsidies for costly infrastructure in return for modest rents.

In Canada, this changed with the 1971 election of Peter Lougheed's Progressive Conservative government in Alberta. Lougheed's government exploited the first OPEC oil shock by moving to "swiftly break all the old, fixed royalty agreements and to legislate new management and fiscal regimes for the province's extensive oil and gas resources" (Cullen 1990, 287; see also Galligan 1982, 244). Other provinces, such as Saskatchewan, followed Alberta's lead. As a result since the early 1970s, the resource rich provinces, particularly Alberta have reaped significant financial dividends from the resources sector as is evident from the recent snapshot of

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revenues (table 1). These political and economic developments during the 1970s set in motion a process which would largely be repeated in Australia three decades later: "rentier passivity," in relation to own-source revenues and capacity on the part of the provinces was replaced by a spirit of entrepreneurship and development which in turn prompted greater federal involvement (Galligan 1982, 247). In Canada, the 1970s was a decade of federal–provincial resource disputes, including attempts by Ottawa to cap oil and gas prices as part of the National Energy Program (NEP). By 1982, however, the western provinces led a successful campaign which culminated in the passage of Section 92A of the Canadian Constitution ensuring that the provinces retained primary legislative responsibility for the development, taxation, production, and marketing of natural resources (Doern and Toner 1985; Walton and Lockwood 2007).

In Australia, the pace of resource development has not matched that of Canada. However, the last decade in particular has seen a dramatic increase in Australian mining investment and taxation, and the emergence of constitutional conflict between the Commonwealth Government and resource rich states—particularly Western Australia. Although the Canadian provinces' right to tax mining operations was affirmed by the passage of Section 92A, the allocation of the resource tax base in the Australian case is more ambiguous. Previously, it was widely accepted that states had exclusive rights to tax mining operations on terrestrial resources and that the Commonwealth had the right to tax offshore oil and gas operations.

The precedent for this principle was established during the development of the Bass Strait oil fields off the coast of Victoria in the late 1960s. While the Victorian Government initially negotiated a 2:1 royalty distribution with the Commonwealth Government, the High Court of Australia has consistently ruled in favor of the Commonwealth in constitutional disputes concerning the allocation of the power to tax resources (Cullen 1990, 296; Lynch 2013). A critical example of this was the decision reached in the 1975 *Offshore* case, which allowed the Commonwealth to introduce a unilateral levy on Bass Strait oil and gas. By 1980, the Victorian Government had received A$117 million in offshore royalties—a mere 4 percent of the A$3.2 billion the Commonwealth raised from its offshore levy (Galligan 1982, 248). The *Offshore* case established a precedent that the Commonwealth Government effectively had the constitutional right to tax offshore oil and gas resources. This precedent was taken a step further by the introduction of the national Petroleum Resource Rent Tax (PRRT) in 1987 (Smith 2004, 89). The PRRT is a national profits-based tax (currently at a marginal rate of 40 percent) imposed on offshore oil operations, administered by the Commonwealth with a fixed percentage of revenues allocated to the relevant state in recognition of the on-shore infrastructure costs associated with such projects (McLaren and Chabal 2011).

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Table 1 Canadian provincial and territorial revenue from own-source nonrenewable natural resource taxes and royalties

Province or Territory	2012–2013 (CAD billions)	Percentage of total revenue
Alberta	7.171	19.7
British Columbia	1.9 (2.4)	4.5 (5.8 including forestry)
Saskatchewan	2.6	19.7
Newfoundland and Labrador	2.39	35.47
Ontario	0.5	0.5
Québec	0.245	0.35
Manitoba	0.040	0.35
Nova Scotia	0.04	0.3
Prince Edward Island	0	0
New Brunswick	0.09 (0.16)	1.22 (2.16 including forestry)
Northwest Territories[1]	0	0
Nunavut[1]	0	0
Yukon	0.0002	0.03

Source: Canadian Provincial and Territory Budgets 2012, 2013.
Note: (1) Both the Northwest Territories and Nunavut are subject to a federally administered royalties program designed for land mined on Inuit and First Nations communities.

Thus, broadly defined, Australia's resource tax regime prior to the millennium resources boom constituted a complex mix of state-based royalties, license charges, and sector-specific national taxes. These included the Queensland Government's innovative use of inflated rail charges to extract economic rents from large inland coal mining operations, combined with an emerging national resource rent tax regime on offshore oil and gas projects (Galligan 1987). Given both the Commonwealth's desire to introduce a national resource tax regime and the High Court of Australia's willingness to favor the Commonwealth on a range of resource management issues, it is unsurprising that the federal Labor Government introduced a controversial national resource rent tax in 2010 in an attempt to capitalize on the resources boom. This proposal triggered a significant political backlash and precipitated unprecedented intergovernmental conflict, including an unsuccessful High Court Challenge regarding the Constitutional validity of the Commonwealth resource tax (Lynch 2013). Having committed to revoking the national resource rent tax while in opposition, the Conservative federal government led by Tony Abbott (elected in September 2013) introduced legislation into the Commonwealth Parliament to repeal the tax in November 2013 (Australian Parliament 2013).

Since the 1970s, the nonrenewable resource regimes in Canada and Australia have evolved in different ways. Provincial tax systems in Canada have historically been

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more complex and jurisdictionally competitive than Australia. For example, there has long been variation in sub-national corporate taxation across the Canadian federation which has been a historical barrier to tax reform (Bucovetsky 1975). In relation to mining more specifically the Canadian regime imposes three separate taxes on mining corporations (PWC 2011, 1–2). First, Canadian federal income tax features a number of concessions and credits specific to the mining industry. Second, many provincial and territorial governments mimic this system of income tax provisions particular to the mining industry. Third, specific provincial and territorial mining taxes and royalty regimes impose both taxes on the profits of mining operations and volumetric royalties. The broad structure of this resource taxation regime is consistent with the Canadian practice of sharing key tax bases between provincial and federal government, and is distinct from the Australian approach of exclusive allocation (Hale 2002, 321–324). Critically, Ottawa does not impose a direct federal tax on the mining and resources sector as Canberra now does.[6]

The Significance of Resource Taxation in Canada and Australia

The political economy of resource taxation in these two cases is driven by the growing fiscal significance of resource revenues, rather than more abstract questions of constitutional design. Indeed, both the Canadian and Australian federal governments have only attempted to impose national resource taxes once resource booms have been definitively established and the financial benefits from the ensuing constitutional and political battles with the provincial and state governments would be worth the fight. Additionally, it is important to recognize that in both Canada and Australia (and unlike the United States) the net financial benefits derived from resource taxation are also influenced by the treatment of sub-national resource revenue within national fiscal equalization regimes. As explained in greater detail below, equalization mechanisms are used in both Canada and Australia to transfer income from relatively affluent to less prosperous jurisdictions in order to promote national unity and ensure that all citizens have access to comparable public services—as would be the case under a unitary system of government (Eccleston et al. 2013, 17; Béland and Lecours 2014). Despite the broad normative commitment to fiscal equalization, such redistribution inevitably creates political tensions in most federations that are exacerbated within the context of a resources boom.

The uneven distribution of nonrenewable resources across the Canadian and Australian federations results in significant variation in the final financial dividend enjoyed by the respective provinces and states. Pre-equalization resource revenue for Canadian provinces and Australian states and their respective territories are presented in tables 1 and 2. It is worth noting that certain jurisdictions such as Prince Edward Island and the Australian Capital Territory derive no own-source resource revenue. In contrast, Canadian provinces such as Alberta, Saskatchewan

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Table 2 Australian state and territorial revenue from own-source nonrenewable natural resource taxes and royalties

State of territory	2012–2013 (AUD billions)	Percentage of total revenue
Western Australia	4.460	17.35
Queensland	3.0	7.14
New South Wales	1.87	3.13
South Australia	0.235	1.56
Northern Territory	0.107	1.98
Tasmania	0.055	1.18
Victoria	0.046	0.09
Australian Capital Territory	0	0

Source: Australian State and Territory Budgets 2012, 2013.

and Newfoundland, and the Australian states of Western Australia and Queensland all raised over 7 percent of their own revenue from resource taxation and royalty regimes in 2012–2013. Of these three Canadian provinces, Alberta has had the highest proportion of own-source resource revenues since the 1970s and unsurprisingly it has become the key political player in relation to nonrenewable resource taxation. Saskatchewan, although sharing similar fiscal concerns with Alberta, has until very recently derived a lower proportion of its total revenues derive from natural resources. Newfoundland and Labrador have an anomalous position having only joined the Canadian federation in 1949. The 1985 Atlantic Accord between the Newfoundland and Labrador Government and the federal Mulroney Government settled the territorial ambiguity of offshore oil and gas royalty claims. This political compact resulted in a prioritization of the province as the ‘‘principal’’ beneficiary of offshore royalties despite the Supreme Court of Canada previously finding the Canadian Government as the owner and claimant of offshore oil and gas. Despite this three-decade-old agreement, it is only within the last decade that Newfoundland and Labrador has begun to receive significant proportions of own-source revenue from offshore royalties. As a snapshot, these data profiles do not capture the historical volatility in resource revenues; however, they do demonstrate how resource endowments and subsequent revenue streams create potential for intergovernmental political conflict (Lecours and Béland 2010, 586).

Fiscal Equalization in Canada and Australia

Equalization has a strong basis in both fiscal theory and in the practice of federalism. However, specific equalization regimes may take a number of forms and are often the subject of political conflict and technical criticisms (Eccleston et al. 2013).

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An important conceptual distinction can be drawn between vertical equalization regimes, such as that used in Canada, which involve targeted transfers from the federal government to support poorer jurisdictions (Boadway and Shah 2009, Ch. 10). In contrast, equalization within the Australian federation is of a horizontal nature: transfers are between states to ensure that all states are compensated for both variations in revenue raising capacity and the cost of delivering services. Insofar as our analysis is concerned, the significance of this distinction is that Australia's comprehensive horizontal fiscal equalization regime effectively creates a zero-sum game, in that the gains of one state from equalization occur at the direct expense of wealthier "donor" states (Blöchliger and Vammalle 2012, 51). Table 3 shows both revenue and cost equalization regimes within Canada and Australia. The respective difference of these forms of equalization being the own source revenue available on a provincial or state basis per capita, and the per capita cost of provision of public services of a particular national standard within each jurisdiction (Blöchliger and Charbit 2008, 3).

The Canadian vertical fiscal imbalance, when understood as the difference between own source revenue and total provincial revenue including federal transfers, which at approximately 25 percent is relatively modest in comparison to the Australian case where states rely on the Commonwealth for almost 50 percent of total revenue (OECD 2012). Nonetheless, Ottawa provides both conditional and unconditional grants to the provinces to fund general provincial services and specific federal programs (Boothe and Kryvoruchko 2004). The major conditional grants, the Canada Health Transfer (CHT) and the Canada Social Transfer (CST), are allocated to provinces and territories on a per capita basis to fund health services. Unconditional grants are delivered through the "Equalization," a program designed to provide greater assistance to poorer provinces to deliver public services comparable to those of their more prosperous counterparts (Department of Finance 2011). In 2014–2015, it is estimated that the CHT and CST, constitute nearly 69 percent of federal-province/territory transfers, while Equalization will total just over 25.5 percent (Department of Finance 2013).

In Australia, the Commonwealth Government provides states with both unconditional general revenue assistance and specific purpose payments (SPPs). General revenue assistance, derived from funds collected through the Goods and Services Tax (GST), is used to ensure that each state and territory is able to provide services at the same standard (Commonwealth Grants Commission 2012). Each state's share of the GST revenue pool is determined through a complex assessment that considers the state's revenue raising capacity, cost of providing services, and numerous other factors (Commonwealth Grants Commission 2012). This complex regime is designed to provide comprehensive horizontal equalization but has been subjected to growing criticism due to its complexity and claims that it acts as a disincentive to state-level tax and expenditure reform (Warren 2012;

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Table 3 Summary of equalization regimes in Canada and Australia

	Cost and revenue equalization	Sub-national equalization	Revenue equalization				Cost equalization		
			Direction	Sub-national revenue base	Frequency of changes to the distribution formula	Equalization rate	Direction	Cost base	Frequency of changes to the distribution formula
Australia	Joint	Yes	Horizontal	Potential tax raising capacity, payroll, property sales, land values, mining activities	Every five years	n.a	Horizontal	Average / Standard cost	Every five years
Canada	Separate	Yes	Vertical	Representative Tax System (RTS) with 33 different taxes	Formerly every five years, currently more frequent	0 percent for provinces above average fiscal capacity, 70-100 percent for provinces below	Vertical	Average provincial expenditure growth	Formerly every five years, currently more frequent

Source: Blöchliger and Charbit 2008, 1–22.

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GST Distribution Review 2012a). In contrast, conditional, or "tied" payments are used by the Commonwealth Government to supplement state budgets in particular areas, such as health and education. In 2013–2014, it is estimated that general revenue assistance made up 53 percent of federal-state transfers, while just over 46 percent were delivered in the form of SPPs (Treasury 2014, 5).

There are three points of difference between the Canadian and Australian equalization systems relevant to this paper. First, Canadian provinces such as Alberta which exceed the national average fiscal capacity forgo general equalization payments (although not federal health and education funding) but do not subsidize poorer regions through horizontal transfers. In contrast, prosperous Australian states continue to receive GST—albeit at a reduced rate based on their assessed needs—but also subsidize less wealthy states (Eccleston et al. 2013). Second, Canada's equalization regime is only concerned with a province's revenue raising capacity (based on a notional, federally calculated benchmark) and therefore, unlike Australia, does not attempt to address variations in the cost of providing services between sub-national jurisdictions.

The third and most crucial difference is in the treatment of resource revenue under the Canadian and Australian systems. The Canadian equalization regime currently includes only 50 percent of resource revenue in its calculations of fiscal capacity. According to the 2006 Canadian Equalization Review, this concession is based on three considerations (Canadian Department of Finance 2006, 105): first, that provincial governments should get a net fiscal benefit as ostensible owners of the resource; second, that the provinces have control over the development of resources, and consequently incentives need to be provided to support this development; and third, that there are significant public expenses associated with infrastructure needs to effectively exploit natural resources. In Australia, all of a state's resource revenue is included in the calculation of its share of GST resulting in resource rich states such as Western Australia losing as much as 42 percent of their resource royalty revenue through lower equalization payments (GST Distribution Review 2012b, 31). Taken together, Canada's allocation of taxing powers and its fiscal equalization regime provides provinces with greater fiscal autonomy than that enjoyed by Australian states. Dyck and Dahlby (1999) describe this trend as the "provincialization of the Canadian fiscal system." Indeed, these intergovernmental financial arrangements have tended to promote greater political diversity and inter-jurisdictional inequality relative to the Australian experience (Béland and Lecours 2011). Such trends provide important context for our primary objective—the assessment of whether Canada or Australia's federal regime is best able to manage the political tensions associated with resource taxation. We first provide a general overview of national debates concerning resource taxation in Canada and Australia. We then turn to the intergovernmental dimension of this debate, through a detailed examination of the resource rich jurisdictions of Alberta and Western Australia.

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Resource Taxation Conflict in Alberta and Western Australia

The taxation and the equalization of revenues from nonrenewable resource projects in federal systems are complex. Consequently, the most appropriate method for analyzing the management of intergovernmental conflict over resource taxation in Canada and Australia is through a more detailed comparative analysis of Alberta and Western Australia, the most resource intensive jurisdictions in each country. Beyond relying on the resources sector for close to 20 percent of actual total revenues in 2012 (tables 1 and 2), both jurisdictions have similar populations (Alberta approximately 4 million; Western Australia approximately 2.6 million) and have experienced significant economic growth on the back of natural resource investment in recent decades. In 2012, Alberta was the most affluent province in Canada with a GDP per capita of CAD $78,100, compared to a national average of $52,178 (Government of Alberta 2012a; Statistics Canada 2012a, 2012b). In the same year, Western Australia had the highest GDP per capita in Australia at AUD $100,127, compared to a national average of $64,725 (Government of Western Australia 2012a).[7] In both cases, this wealth has been generated through the development of specific commodities: conventional oil, natural gas, and oil sands in Alberta; and the export of iron ore from the remote Kimberley region in Western Australia. Our analysis begins with the provision of historical financial data and a discussion of the relative importance of both resource-based revenues and the subsequent impact of equalization payments for both jurisdictions since the 1970s.

Two broad conclusions can be drawn from the data presented in table 4. First, Alberta's dependence on resource revenue dates back to a rapid increase in international oil prices in the late 1960s (Atkins and MacFadyen 2008, 96). In contrast, Western Australia's resources boom has largely resulted from the tripling of iron ore prices over the past decade, as a result, the Australian federation is now grappling with issues experienced in Canada in the late 1970s and early 1980s. Second, federal transfers are much less significant and relatively more stable in Alberta than in Western Australia. This is to be expected given the decentralized nature of the Canadian fiscal system and the smaller vertical fiscal imbalance (and consequent need for equalization). However, this begs the question of whether such a settlement is better suited to managing the tensions associated with resource taxation in federal jurisdictions? In order to shed light on these issues, it is necessary to examine the politics of resource taxation in Alberta in more detail.

Resource Taxation in Alberta

The 1971 election of the Lougheed Government in Alberta heralded a new era of resource development and provincial taxation in Canada (Cullen 1990; Galligan 1982). As is the case in Australia today, the federal policy response to the Canadian oil and gas-boom resulted in a provincial backlash which had profound

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Table 4 Alberta and Western Australia nonrenewable resource royalties as percentage of total revenue

Year	Percent of revenue from resources Alberta	Percent of revenue from federal transfers Alberta	Net fiscal benefit (revenue plus fed transfer) Alberta	Percent of revenue from resources WA[1]	Percent of revenue from federal transfers (GST distribution plus SPP) WA	Net fiscal benefit (revenue plus fed transfer) WA
1970–1971	24.3	13.0	37.3	6.0	67.0	73.0
1975–1976	51.8	10.5	62.3	3.9	69.4	73.3
1980–1981	49.5	9.2	58.7	3.9	65.2	69.1
1985–1986	33.4	13.4	46.8	4.6	61.6	66.2
1990–1991	18.9	15.6	34.5	6.0	54.1	60.0
1995–1996	17.9	11.2	29.1	6.1	41.8	47.9
2000–2001	41.4	8.1	49.5	9.6	42.9	52.5
2005–2006	40.3	11.0	51.3	10.4	41.9	52.3
2010–2011	24.2	9.7	33.9	20.5	35.2	55.7
2011–2012	29.6	12.1	41.7	21.1	33.8	54.9
2012–2013	19.7	12.8	32.5	17.3	35.0	52.3

Sources: Bradley 1986; Government of Alberta 2012b, 2013a, 2013b; Government of Western Australia 2012b, 2013a, 2013b.
Note: (1) The Western Australian statistics include North West Shelf Grants from the Commonwealth to the Western Australian Government as contributing to revenue from resources. Commonwealth transfers do not include North West Shelf Grants to the Western Australian Government as it was only in 2009 that the Western Australian Treasury stopped including the North West Shelf Grants in the overall Royalty Pool.

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consequences for the Canadian federation. The key development in this regard was the National Energy Program (NEP), which was implemented by the Liberal Trudeau Government in 1980 in the wake of the oil crisis of the late 1970s. The program was designed to facilitate a sector-wide management strategy, offset rising import prices and reduce cost of living pressures by capping domestic oil and gas prices at between 75 and 85 percent of world prices. While the approach had national support, the policy also had profound regional political consequences because the vast majority of Canadian oil and gas was sourced from Alberta, which was therefore forced to subsidize the regime. In any case, the NEP collapsed after only three years due to the decline in global oil prices.

Federal relations were further strained when Ottawa imposed an 8 percent federal surcharge on petroleum products (Scarfe 1981). The NEP was also deeply unpopular in the provinces west of Ontario, and as a consequence the governing Liberal Party of Canada struggled to win electoral support across the western provinces and in Alberta in particular (Craigie 2012, 638). The NEP served to reinforce the notion of ‘‘western alienation’’ which has been an enduring feature of both intergovernmental relations and party politics in Canada. Broadly ‘‘western alienation’’ reflects the perception in Western Canada, that it is politically and economically undermined by the more populous provinces of Ontario and Québec, through a lack of effective representation within federal government and the methods of federal transfers. Alberta has over the last three decades become the standard bearer of this notion helping to foster what Craigie (2012, 638) describes as the ‘‘sense of neglect and mistrust vis-à-vis Ottawa.’’

Pertinent to our analysis are the obvious parallels between western alienation as perceived within Alberta and the current political conflict between Western Australia and Canberra in relation to the tax treatment of natural resources. The perception in Western Australia has been that the controversial national mining tax introduced in 2010 by the former federal Labor Government was designed to capture the proceeds of the Western Australian resources boom with a view to promoting Labor's political interests in the populous eastern states. That the federal Labor Government, which introduced the national mining tax, held only three (of thirteen) parliamentary seats in Western Australia reinforced this sentiment. Despite these broad similarities, there are also subtle differences in the intergovernmental politics of the two federations. These subtleties may lead to different political settlements in relation to resource taxation given the stronger sense of regional autonomy in Canada combined with the fact that the growing political and economic significance of the western provinces and unique party dynamics have forced Ottawa to accommodate Alberta's concerns. Whether this will be the case in Australia remains to be seen.

First, a key legal development which secured Alberta's right to tax resources were the amendments associated with the ‘‘patriation’’ of the Canadian

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Constitution by the Trudeau Government in 1982 (Hueglin and Fenna 2006, 255). The constitutional politics of this process were multidimensional and focused on the amendment procedures for the "new" Canadian Constitution. By this stage, veteran Alberta Premier Lougheed was able to exploit this process by brokering a political alliance with Québec and later Saskatchewan. The provinces thereby secured enduring constitutional recognition of their right to control the exploration, development, conservation, management, and export of nonrenewable natural resources, codified in Section 92A of the 1982 Constitution. While Québec had little direct interest in the amendment, both provinces were united by a common interest in warding off increased federal interference. In the words of Premier Lougheed, "[we s]urfed adroitly on the constitutional waves generated by the nationalist movement in Québec" (Lucas 2012).

Second, the movement to protect provincial autonomy has also been reinforced by party politics within the Canadian federation. Unlike in Australia, Canada's western provinces—and Alberta in particular—have been unwavering in their support of the Progressive Conservatives. In Alberta, for example, the center right Progressive Conservatives have been in power since 1971. Neither Western Australia nor Australia more broadly has experienced such electoral rigidity even over the past two decades. In Australia, both the conservative Coalition and center left Labor parties have formed governments in every state and territory over this period. Indeed, in Western Australia, there have been no less than six changes of government since 1971. Moreover, consistently strong support for conservative parties in Alberta also extends to the federal level, where MPs have been able to harness "the conservatism of the Albertan population as a whole coupled with traditional Albertan grievances against Ottawa" (Craigie 2012, 636). Regional interests are more vocal in Canada than Australia, in part because—with the exception of the New Democratic Party—the major federal political parties do not dominate provincial politics and have limited capacity to temper parochial demands (Lecours and Béland 2010, 589). In contrast, the Coalition-Labor duopoly pervades both Australia's state and federal politics—creating a dynamic where party allegiance and discipline temper, if not completely displace, regional demands. Indeed, the Abbott Government's first federal budget delivered in May 2014 has attracted the ire of all Australian states for cutting an estimated $80 billion in health and education payments to the states over the next decade (Winestock 2014).

Third, the sheer size and wealth of Canada's western provinces has contributed to the accommodation of regional interests and the provincialization of its resource taxation. The fact that the western provinces account for 30.7 percent of the Canadian population and 36.5 percent of GDP means that federal governments must accommodate western interests—particularly those of a conservative orientation, such as the current Conservative Party led by Stephen Harper (elected

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2006) (Statistics Canada 2012b, 2012c). In contrast, and despite strong recent growth, Western Australia is home to only 10.6 percent of the Australian population and produces 16.2 percent of national economic output. Given that Victoria and New South Wales represent almost 60 percent of the Australian population, Western Australian interests are unlikely to dominate the Australian federation at an electoral level (Australian Bureau of Statistics 2012).

A fourth and final point of differentiation between the Canadian and Australian cases is that, having established a high level of fiscal autonomy in relation to resource taxation in the 1980s, Canada's provinces have experienced relatively little political conflict with Ottawa in the context of the current resources boom despite a significant increase in provincial royalties derived from natural gas (before 2006) and growing oil sands production. Two factors have contributed to the relatively successful management of regional tensions in the Canadian context. First, price deregulation between 1985 and 1990 was accompanied by a collapse in oil and gas prices, and a rapid growth in western provinces energy exports to the United States—thus diffusing the previous zero-sum game in federal-provincial and "east–west" relations noted above. Second, Prime Minister Chretien and his successor Paul Martin deliberately avoided conflating central Canadian and national interests in an appeal to regional envy after 2000. The Harper Government's 2007 decision to exclude 50 percent of resource revenue from the equalization formula has also been a significant factor in appeasing regional interests (Béland and Lecours, 6–7). In contrast, the fact that Western Australia has only been able to retain a modest share of the revenue windfall from the resources boom (table 4) has proven to be a major source of political contention with the Western Australian Premier stating that his state is being "besieged by Canberra" and that a "Boston Tea Party revolt was looming" (Kelly 2010).

Resource Taxation in Western Australia

Conflict over resource taxation in Australia has only become prominent in the past five years.[8] This can be attributed to both the structure of the federation and the size and scope of the "millennium resources boom." The boom resulted in a 40 percent increase in Australia's terms of trade between 2004 and early 2012, and contributed an estimated 12–15 percent to national economic output over this period (Stevens 2010). Despite the positive impact of the tripling of export resource prices (particularly for iron ore and coal) on national income, the boom has proven to be a mixed blessing for public finances. At a national level, the resources boom has delivered few immediate revenue dividends because of its capital intensive nature and because at the sub-national level the benefits have been distributed unevenly across the federation. Resource-rich Western Australia experienced a 235 percent increase in royalty revenues between 2005–2006 and

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2011–2012 (from A$1.79 to A$4.21 billion). In contrast, nonresource states have experienced few revenue gains while having to contend with the economic challenges arising from a historically high exchange rate and relatively high interest rates. The resulting "two-speed economy" has also been experienced in Western Canada since 2006 (Cleary 2011). In the aggregate, the concentration and intensity of the Australian resources boom between 2004 and 2012 have provided the context for unprecedented intergovernmental conflict over resource taxation.

The first and most predictable element of the conflict has been the Commonwealth's attempt to introduce a broad-based national resources tax. This represented an effort to capitalize on the 260 percent increase in the real value of mineral exports between 2004 and the peak of A$193 billion in 2012 (Grafton 2012, 11). The precedent for a national resource tax lay in the proposed national resource rent tax of the mid-1980s and the PRRT (Smith 2004, 89). Furthermore, it was a prominent recommendation of the 2009 *Australia's Future Tax System Review* (AFTS Review), albeit on the proviso that it replace existing state-based royalties and that "[t]he allocation of revenue and risks from the new tax should be negotiated between the Australian and state governments" (AFTS 2010, 47; Eccleston and Marsh 2011). However, amidst the chaotic political negotiations prior to the federal Labor Government announcing its national mining tax in 2010, the Commonwealth failed to win the political support of the states for this initiative. The 40 percent Resources Super Profit Tax (RSPT) was therefore implemented without the abolition of state-based royalties (Eccleston and Marsh 2011). The Commonwealth's failure to negotiate an agreement with the states over the allocation of the new RSPT created a second source of intergovernmental conflict. The then Labor Government, under pressure from the mining industry, made an eleventh hour decision to grant mining companies the right to offset state-based royalties against the new Commonwealth RSPT (Australian Senate 2011, 23–58). Predictably, states such as Western Australia, Queensland, and New South Wales have exploited this provision by increasing royalties on iron ore "fines" and coal, knowing that such increases would occur at the expense the new RSPT rather than imposing an additional cost on mining companies (GST Distribution Review 2012a, 121–134; GST Distribution Review 2012b, 61).[9]

Finally, and perhaps most significantly, the resources boom and the resultant multi-billion dollar royalty windfall to resource rich states such as Western Australia has precipitated heated debate concerning Australia's regime of horizontal fiscal equalization. As resource-rich states such as Western Australia have experienced dramatic increases in revenue yields, the windfall is being clawed back—albeit with a three-year delay—by the equalization provisions in the Commonwealth Grants Commission's formula for distributing Goods and Services Tax (GST) revenues (figure 1; table 4). It has been estimated that Western Australia alone forgoes A$42 in federal transfers for each additional A$100 raised in mining

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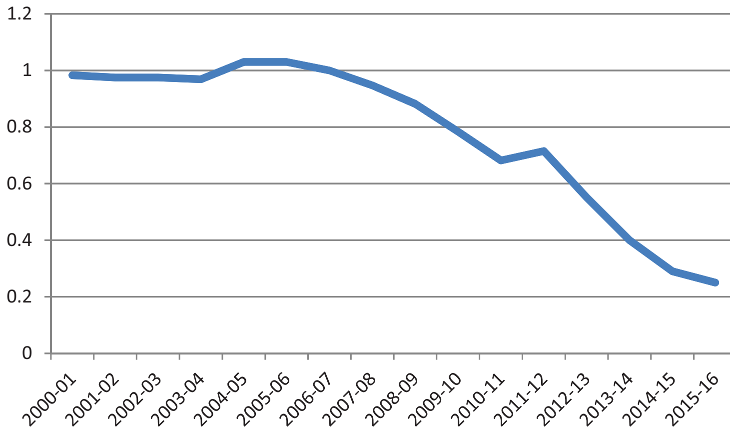

Figure 1 Decline in Western Australia's GST relativity from 2001 to 2016.
Sources: Actual Commonwealth Grants Commission Relativities 2000–2012 (CGC 2012, 100) Western Australia Relativity Forecasts 2013–2016 (Government of Western Australia 2012, 102).

royalties (GST Distribution Review 2012b, 31). The unprecedented extent of horizontal equalization has led the Western Australian Government to argue that its treatment in the context of the resources boom is unfair and draconian; for example, former Western Australian Treasurer Christian Porter has claimed that the existing regime is "too extreme - it fails equity tests, penalizes hard work, encourages welfare dependency and is now a divisive rather than unifying influence" (Porter 2011). Most commentators dismiss Western Australian claims as being parochial and self-interested. However, many agree that the projected growth in horizontal redistribution between the states as a result of resource-driven inequality is creating significant political tension in the Australian federation and has been one of the catalysts for the 2011 GST Distribution Review (Brumby 2011).

As with most comparative analyses there are both similarities and differences between the Alberta and Western Australia cases. In both the respective countries, there have been attempts by the federal government to impose a national profits-based resource tax to extract federal revenues from a booming non-renewable natural resources sector. Although both governments were thwarted, the failures occurred for different reasons. In Australia, the RSPT's demise was the result of a national political movement (Eccleston and Marsh 2011; Bell and Hindmoor 2013); in Canada, the proposed excise tax on exported gas did not succeed due to Alberta's argument being upheld by the Supreme Court of Canada that found it to be a tax on provincial property, which was subsequently expressly reinforced by a provincial power to tax nonrenewable resources under Section 92A. In Australia, the political conflict in relation to resource taxation and equalization is far from resolved and will be played out on two fronts (Eccleston et al. 2013).

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The first point of conflict concerns the reform of Australia's unique system of comprehensive horizontal fiscal equalization. Western Australia's main resource tax related grievance is not wholly focused on retaining the exclusive right to tax nonrenewable natural resources. Rather, it is concerned with the fact that a large portion of its resource windfall is being used to support the poorer Australian states. Indeed, as noted above, such concerns precipitated a review of Australia's equalization regime which was cautiously sympathetic to the Western Australian perspective. It argued that comprehensive equalization did not adequately recognize the full costs of mining related infrastructure and associated economic development costs (GST Distribution Review 2012, 105–120). Since the publication of the GST Distribution Review's final report in October 2012 there have been growing calls to reform Australia's equalization system. Victoria and New South Wales (who are both net donors) have joined Western Australia in calling for the distribution of GST revenue on a per capita basis, with the Commonwealth providing compensation to claimant states and territories via balancing payments. Both major political parties avoided making firm commitments on the issue of reforming Australia's equalization model during the 2013 federal election campaign. Despite this, there have been indications that the Abbott Government intends to replace Australia's current model after the June 2014 announcement of the *White Paper on the Reform of the Federation*, *(White Paper)* (DPMC 2014). The terms of reference of the *White Paper* include addressing "the issue of state governments raising insufficient revenues from their own sources to finance their spending responsibilities" (DPMC 2014). It is unknown whether this will eventually result in a system more like that used in Canada, but it does show that there is an increasingly broad consensus that Australian federalism requires comprehensive review (Abbott 2013).

Significantly, Australian federal governments—in contrast to their Canadian counterparts—are clearly within their constitutional powers to introduce such a tax (Lynch 2013). Moreover, most economists and many mining industry representatives agreed with the recommendation of the AFTS Review that the inefficient volumetric royalties currently levied by the states should be replaced by a nationally consistent profits-based resource tax (albeit not necessarily managed by Canberra). Given the Abbott Government's commitment to conducting its own tax review before the 2016 general election, there is a real possibility that a federal mining tax may again be on the Australian political agenda. In fact, it is likely and perhaps inevitable that Australia will see a compromise—whereby the resource rich states such as Western Australia accept a national mining tax in return for a fixed percentage of the new federal tax and/or more generous equalization treatment (Eccleston et al. 2013, 27; Garnaut 2012). Such a pragmatic compromise would recognize the centralizing forces in Australia's political culture, party system, and Constitution, while acknowledging the need to take into account the financial

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interests of resource rich states to ensure the political legitimacy and sustainability of the Australian federation. As noted by John Brumby, a former Victorian Premier and a member of the *GST Redistribution Review Panel,* "[a]ny hint of unfairness can adversely affect public confidence in Australia's federal financial relationships" (Brumby 2011).

Conclusion

Resource development and the revenue windfalls it generates are an ongoing source of tension in federal systems. Despite some consensus in the public finance literature that immobile nonrenewable resources are best taxed by sub-national jurisdictions, it is perhaps inevitable that federal governments will try to extract a share of any bounty. This has certainly been the case in Canada and, more recently, in Australia. It is clear that the higher the revenue stakes, the more determined federal governments will be to intervene. The inevitability of intergovernmental conflict over resource taxation raises the question of which institutional settings and political strategies can be used to manage these political pressures in federal systems.

The case studies presented here offer some insights. In Canada, the riches of Albertan oil and gas were such that the Trudeau Government tried and failed to defy the strong culture of provincial autonomy that characterizes the Canadian federation. In Australia state governments—Western Australia in particular—have been able to mount effective political resistance to federal control over resource taxation, despite a culture of centralization and constitutional support for federal intervention. The historical and current centralization of Commonwealth revenue raising has lead resource rich states, such as Western Australia, to question the merits and effectiveness of collecting own-source revenues. This is particularly the case when the fiscal benefit of nonrenewable resource revenues is greatly diminished by equalization transfers. It also suggests the complementary and comparatively decentralized nature of Canada's dual federal–provincial taxation systems in areas such as corporate and personal income tax, and consumption tax mitigates the perceived zero-sum nature of nonrenewable resource taxation among resource-rich Australian states. These observations suggest resource conflict over the short term in Australia has the potential to become an even greater flashpoint for intergovernmental conflict than in Canada due to the comparative inability for states to raise own-source revenue from alternative sources.

The resource related conflict over the last decade has been clearly more pronounced in Australia relative to Canada, leading to the tentative conclusion that federal settlements granting sub-national governments greater control over resource taxation are perhaps more politically and financially sustainable within the context of a resources boom over the longer term. A similar logic applies to equalization

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regimes in that there is clear evidence that Australia's unique system of comprehensive fiscal equalization has exacerbated political tensions both between states and between Western Australia and Canberra in particular. The Canadian resource conflict experience during the early 1980s coincided with a period of substantive constitutional change was likely a consolidating factor in the continued expectation of a federal commitment to fiscal and political decentralization. Canada's federal system has nonetheless been more adept at managing the short term political tensions associated with resources booms since the 1970s relative to the Australian model, with its creeping centrism and entrenched system of horizontal equalization. These insights are informative as Australian authorities undertake a fundamental review of federal relations in an attempt to resolve ongoing intergovernmental conflict.

Perhaps the strongest conclusion to be drawn from this analysis is that the political economy of resource development does shape the practice of federalism over the longer term. The evidence presented in this article suggests that it is not so much a question of designing federal systems to manage resource conflicts, but rather a case of resource conflicts shaping the practice of federalism by reinforcing decentralized nonrenewable resource revenue collection. Despite its flashpoint potential, we do not expect the current resources conflict in Western Australia to have the same direct level of substantive political and constitutional impact on the Australian federation to that of Albertan oil and gas on Canada's. However, resource conflict remains likely to continue to exert a centripetal force which will counter the strong centralization dynamic in the Australian federation. This factor is particularly relevant given the Abbott Government's commitment to preparing a *White Paper* to discuss the recalibration of the relationship between the states and the Commonwealth.

Notes

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1 For example, in addition to Canada and Australia, which are central to the current study, other prominent "resource federations" include Brazil, South Africa, and Nigeria.

2 Prices for iron ore, Australia's most significant commodity increase by in excess of 300 percent between 2005 and 2012 (RBA 2012). The price of oil derived from Canadian oil sands has not increased as dramatically but a doubling of production from key oil sands fields in Alberta has had a similar impact on resource revenues (ADE 2011).

3 Other potential cases such as Brazil, Nigeria, South Africa, and the United States were excluded because sub-national governments play a relatively minor role in resource

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taxation. For example, the national government in Brazil has only recently increased mining royalties to 4 percent, approximately one-third the rate imposed in Australia (*The Economist* 2013; Okpanachi 2011). The Canadian and Australian minerals and energy sectors are twice the size of the US as a percentage of GDP (Natural Resources Canada 2011).

4 It should be noted that Canada's three Prairie provinces did not obtain this right exclusively until 1930.

5 A partial exception to this principle was the Canadian Government's withholding of control of sub-surface mineral rights from Alberta and Saskatchewan, as a condition of being admitted to the Union in 1905. These rights were returned to the provinces in 1930 after much conflict (Denis 1997; Cullen 1990, 286).

6 A partial exception to this rule is the mining operations on Crown Land in both the Northwest Territories and Nunavut. In these territories, royalties are collected by the Canadian Government and returned to the local indigenous First Nations and Inuit communities, respectively.

7 It should be noted that in Canada the Northwest Territories has the highest GDP per capita in Canada; however, the importance of this is offset by its negligible population.

8 Notwithstanding the previously noted tensions arising between the Commonwealth and the states over the tax treatment of offshore oil and gas in the 1970s.

9 The original RSPT was announced in May 2010. However, when the Federal Labor Party replaced Prime Minister Kevin Rudd with his deputy in the lead up to the August 2011 election the appointed Prime Minister Julia Gillard made an undertaking to review the proposed tax in the face of a fierce campaign from the mining industry. The amended tax, renamed the Minerals Resource Rent Tax (MRRT), was introduced in July 2012. It features a 30 percent rate and applies only to iron ore and coal operations. The Abbott Government, elected in September 2013, has promised to abolish the tax.

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