

December 23, 2005

Dear Colleagues,

I am writing, as Leader of the Liberal Party of Canada, to respond to the thoughtful intervention of the Council of the Federation in the current federal general election campaign. The continuing evolution of our intergovernmental arrangements in the service of all Canadians on matters of national importance is of vital concern to the Liberal Party and to all Canadians.

Canada works. Federalism works. It works for Canadians, and works as we present our country to the world. Our way of doing things begins with a strong federal government, strong provinces and strong partnerships among these governments. I believe in a robust federalism, one in which governments work hard, together, to prepare our citizens and our country for the exciting opportunities -- and real challenges -- that lie ahead.

Partnerships begin with shared priorities. We all recognize that our priorities are established by Canadians - those who elect politicians at all levels of government. Our voters want results. I agree wholeheartedly that the priority areas you have identified are very important issues for Canadians. I also understand the fiscal pressures your governments face in serving Canadians in your provinces. Our sense of each other's challenges, and the demands of citizens, informs a common desire to address the priority areas you have identified in your letter.

These shared priorities, which come to us from Canadians, set the agenda. What we can bring to the table as governments is a sense of urgency; our citizens are eager for us to get on with the work. We also bring creativity, expertise and deep experience in working together. This is why we have been able to accomplish so very much. I am very proud of our track record of working together to find meaningful solutions to the challenges facing Canada. The list of our accomplishments is impressive by any standard -- not only on the historic 2004 Health Accord, and the steps we have taken toward a national system of Early Learning and Child Care, but as well in negotiating a New Deal for Cities and Communities and the recent landmark agreement to bring Aboriginal Canadians into the mainstream of Canadian society. We have made great progress. Now, much remains to be done for Canadians.

Meeting Canada's Post-Secondary Education and Skills Training Needs

You asked for my views as to how we can best move forward to meet Canada's post-secondary education and skills training challenges. In an age of emerging economic giants and rising education levels around the world, Canadians need access to post-secondary education ("PSE") and workplace skills training of the highest quality. This area is a fertile field in which the robust federalism I speak of is meeting the challenge.

My government has continued and accelerated support for PSE and skills training in the long tradition of federal Liberal governments. The federal government already contributes almost \$9 billion annually to support PSE through a range of programs and transfers to students, institutions, provinces (through the Canada Social Transfer or "CST"), and researchers. I am very proud that my government has taken the federal contribution to PSE to its highest level ever.

A re-elected Liberal government will increase this very substantial commitment and will invest in new resources through 2011 to ensure that Canadians of all incomes have access to first-class education opportunities. The centrepiece of this effort will be enhanced student financial assistance to ensure that students from low- and middle-income families are not prevented by financial barriers from pursuing post-secondary education. A Liberal government will continue as

announced to expand its support for provinces through the CST as well as direct funding to post-secondary institutions for research.

With regard to skills training, a Liberal government will work with provincial, territorial, business and labour partners to ensure that all Canadians have the opportunity to develop their skills so that they can obtain meaningful and enduring employment. The best social policy is ensuring citizens have good jobs. This is why my government has begun the process of negotiating with your governments new Labour Market Partnership Agreements. These collaborative efforts will include clear objectives, outcome-based performance measures and public reporting to your own citizens. We will invest \$3.5 billion over this fiscal year and the next five years, to implement partnership agreements focusing on six priority areas: apprenticeship; literacy and essential skills; workplace skills development; enhanced workforce participation of Aboriginal people; labour market integration of immigrants; and enhanced workforce participation of persons with disabilities and other under-represented groups. We believe that these vital initiatives have had an excellent start. Together, we can achieve even more.

You will be aware of the many ministerial-level federal-provincial-territorial meetings and consultations underway in a variety of policy areas, including post-secondary education and skills training. Indeed, the Council of the Federation will be holding a thorough consultation on PSE and skills training culminating in a public discussion on February 23 and 24, 2006. I thank you for your invitation, and look forward to sending observers as federal participants in this important event. In the area of skills training, a Liberal government would wish to take into account the work that has already begun with your governments in negotiating the Labour Market Partnership Agreements. As you are aware, my government has committed to annual First Ministers' Meetings. A Liberal government would prepare for calling such a meeting by taking stock of progress across the range of issues upon which our governments are collaborating, and identifying those areas that require the additional impetus that comes from a First Ministers Meeting. In this way, I am confident, we can make the very best use of the opportunity a First Ministers' Meeting offers. If re-elected, I will be pleased to commit to placing a discussion of post-secondary education and skills training as the first agenda item of our 2006 First Ministers' Meeting as an opportunity to discuss jointly coordinating our considerable efforts in this area.

Transportation

I agree with you that transportation infrastructure is another key national priority. Canada has before it tremendous opportunities that can be secured by enhancing our already-strong capacity to move goods and people efficiently. This is why the Liberal government in Ottawa has worked so hard to continuously improve the transportation sector's regulatory framework and to invest in infrastructure renewal. I am very proud of the federal government's leadership in the Pacific Gateway initiative, and our commitment of \$590 million to this end. My government is now in the process of developing a national gateways and corridors strategy, and I expect that other gateway initiatives will emerge. I am also proud of the work my government has done to address communications infrastructure, investing in the broadband networks that are as key to the economy of the 21st century as are more traditional, physical infrastructure networks such as road, rail, air and marine.

One of the main thrusts of our commitment to renewing Canada's infrastructure has been working together to implement the New Deal for Cities and Communities - one of my principal campaign commitments from the 2004 election. During the 17 months of the last government's tenure, agreements were concluded with twelve provinces and territories to enable the flow of funds from a portion of the federal excise tax on gasoline to cities and communities. This was done in collaboration with your governments and in accordance with the principles to which we agreed together. There is no finer example of dynamic, collaborative federalism in action than how we have come together to seize this opportunity for Canadians.

It takes hard work. These negotiations were conducted in the belief that infrastructure needs are complex, and that each provincial government has a different relationship with its municipalities with regard to infrastructure. Our work together in this vital field is always evolving, and a Liberal government will ensure that the items eligible for funding, the channels through which funds flow, and the level of funding continue to meet those complex requirements. In addition, the federal government will continue through three dedicated infrastructure funds, to collaborate with provinces on key infrastructure projects on a case-by-case basis. I am open to further discussions on additional mechanisms for funding infrastructure priorities.

The role of provinces and territories in Canada's international activities

You inquired as to the Liberal position on the role of provinces and territories in Canada's international activities. I believe that the world we live in absolutely requires continuous, vigorous engagement in both multilateral bodies and bilateral dialogue. This imperative and the robust federalism we are putting in place yields impressive results.

I have always said that when Canada participates in international fora, or conferences of international organizations, it is as one country with one voice. In international negotiations, a country simply must speak with one voice in order to maintain the integrity of its negotiating position. If different Canadian voices disagree, our position becomes untenable. At the same time, Canada's voice needs to be enriched with the expertise of provincial governments. This is why I am personally committed to involving provinces in such matters. A Liberal government will adhere to this approach. In international fora, provinces are from time to time invited to express themselves on one or more aspects of the Canadian position. In cooperation with other departments, the Department of Foreign Affairs is committed to working more closely with provinces and territories to strengthen current notification, information-sharing, consultative and participatory intergovernmental mechanisms.

For example, I have undertaken consultations with many of you in matters such as advance discussions before talks with the President of the United States on softwood lumber. Our efforts together have begun to yield impressive results on this contentious issue. In another example, prior to the recent UNESCO cultural diversity meeting, my government worked very closely with the Government of Quebec to prepare for our negotiations and secure international consensus for our positions. For the meeting itself, the Quebec minister – as a member of the Canada delegation – spoke to reinforce the Canadian position on cultural diversity. This approach helped Canada play one of the leading roles in crafting an important global initiative.

Perhaps the best example of what our governments can do together on the international stage was this month's UN Climate Change Conference in Montreal. The federal and provincial governments worked together very closely, within the framework set out above. Canada spoke with one voice. Canada chaired and guided this conference to a very successful outcome – one which significantly enhances the global response to climate change. Our country led on this issue in Montreal, setting an example of collaborative federalism on the world stage in the service of goals that are vital to all Canadians, and to people around the world.

World Trade Organization negotiations

You asked about World Trade Organization ("WTO") negotiations. With 70 percent of our gross domestic product and one in five jobs linked to trade, Canadian businesses and agricultural producers need transparent and predictable rules and increased market access. WTO negotiations are the forum in which this progress can take place. Ministers from Canada and 148 other WTO member-countries met in Hong Kong last week to advance negotiations on the ambitious global trade agenda negotiated in Doha, Qatar, in 2001.

Regular and open dialogue with provinces, territories, business groups and agri-food stakeholders on Canada's negotiating positions – before, during and after the Hong Kong Ministerial Conference – means a strong Canadian presence at the negotiating table. The advice received from these groups was essential to informing and strengthening our approach. Nine of ten provinces sent ministers to serve on the Canadian delegation. These efforts were vital in setting the stage for our very successful outing in Hong Kong.

The final Declaration from Hong Kong provides scope for Canada to achieve its objectives in key areas. A number of Canadian proposals and ideas are reflected in the Declaration, specifically on non-agricultural market access and domestic support for agriculture. The Hong Kong Ministerial Conference achieved real progress in the areas of market access for non-agricultural products, services, export subsidies for agriculture, and duty-free, quota-free market access for least-developed countries. Moreover, the conference advanced the Doha process considerably. As the CEO of the Canadian Manufacturers and Exporters, Perrin Beatty, stated: "these talks have restored hope for a more open and fair trading system."

At the same time, while challenges from other countries continue, we will protect supply management and the Canadian Wheat Board. Much remains to be done. We will work aggressively with WTO members and domestic stakeholders toward completing the negotiations by the end of 2006.

A Liberal government will continue working with these stakeholders as Canada and its trading partners head towards the successful completion of an ambitious agenda in the Doha round.

Fiscal Arrangements

Finally, to your broad question regarding the balances within the federation's fiscal arrangements, let's begin with a few facts.

Provincial governments are vital and valued contributors to our tremendous national success story in the crucial field of public finances. And while it is impossible to describe all provinces and territories in the same way, some analyses of the province and territories as a whole are helpful. Both the federal and provincial-territorial governments have contributed to the significant turnaround in Canada's fiscal situation over the last 12 years. The provincial debt-to-GDP burden is, on average, significantly lower than that of the federal government and falling at a not dissimilar pace. Furthermore, the rate of increase in recent federal government transfers to provinces has outstripped that of its revenues.

The federal government's share of national revenue - that is, the portion of the national income that is drawn into federal coffers, has dropped from approximately 18 percent in 1992-93 to approximately 15.5 percent in 2004-5. This decline is primarily due to the tax reduction measures announced in 2000, much of which benefited individual Canadians, as well as reductions in employment insurance premium rates every year.

Looking ahead to future federal budgets, it should be noted that the Government of Canada has announced significant funding initiatives in response to the priorities of Canadians and taking cognizance of the fiscal pressures provincial governments face. The 2004 Health Accord, and the steps we have taken toward a national system of Early Learning and Child Care, our commitments to PSE and skills training, the New Deal for Cities and Communities and our initiatives regarding aboriginal Canada are just some of the ways in which Ottawa has responded to the needs that citizens have presented to governments. My government has increased transfers to provinces as well as direct funding for the priorities we share.

The measures I have taken entail deploying a significant portion of potential budgetary surpluses going forward. Of course my policy is not to put at risk our overall positive financial position; I am absolutely determined we will not return to federal deficits in the foreseeable future. I remain committed to the prudent planning, cost-control and accommodation of the potential for the unexpected that have been the hallmarks of our successful financial approach. At the same time, however, the measures I have taken mean that I do not anticipate large surpluses of the kind that we have seen in recent years.

To ensure that future surpluses do not exceed the annual Contingency Reserve of \$3 billion, I have taken a further step. My government introduced legislation on October 7, 2005, that clearly spells out how the Government and Parliament would be able to allocate future surpluses above and beyond the annual Contingency Reserve of \$3 billion in a balanced way among the three categories of tax cuts, priority investments and debt reduction. Tax cuts will benefit Canadians who are residents of your jurisdictions, increasing their disposable incomes. Priority investments may well, depending on circumstances, be made in areas of emergent pressures felt by your governments. Continuing debt reduction, of course, keeps debt payments and interest rates low – for all Canadians and all governments in Canada.

Within this approach, investing in the specific programs that individual Canadians care about is a key thrust. Improved finances have allowed the Government to make these investments. The result has been a period of intense collaboration, one of the most successful bursts of intergovernmental activity in decades.

Canadians demanded action on waiting times and health care. The federal, provincial and territorial governments negotiated a \$41-billion Health Accord providing for sustainable funding, action to reduce waiting times, home care and pharmacare negotiations and accountability measures to ensure results.

Canadians in some provinces raised concerns about the Equalization program. That is why the federal government, the provinces and the territories worked hard to ensure that new, fair equalization arrangements were worked out to reflect current realities. A re-elected Liberal government would look forward to receiving the important input of the two expert panels, one commissioned by the federal government and one by your governments, who are studying the Equalization program.

Canadians wanted action on child care to create the spaces and options parents require. The federal, provincial and territorial governments worked to create a national system of early learning and child care, investing in affordable, quality care and teaching – to make sure future generations of Canadians will have the best possible chance to succeed.

Canadians wanted action on improved infrastructure for their cities and towns. The federal, provincial and territorial governments worked to implement our New Deal for cities and communities, investing to help ensure our municipalities are great places to live, work and raise a family.

Canadians wanted concerted action to bring Aboriginal Canadians into the mainstream of our society. The federal, provincial and territorial governments with the provinces, territories and national Aboriginal groups worked to create a detailed plan to help improve the lives of First Nation, Inuit and Métis people.

On labour markets, justice policy, parental leave, climate change response – a host of areas in which governments serve Canadians – the Liberal government is taking an open-minded approach, offering fiscal and other resources to an unprecedented degree in order to make collaboration with the provinces a living reality. Some have criticized this approach, saying it

offers too much to provinces and territories. I disagree. I believe that Canadians' needs must be addressed, and it is the role of the Prime Minister to marshal the resources of the whole society - especially governmental partners - to bring their collective energy and resources to bear.

Let me conclude by stating what a fruitful 17 months we have enjoyed working together so hard and so successfully on responding to the concerns of Canadians. We have reforged our federalism into a robust partnership that is delivering new and exciting results at an unprecedented pace. This is the kind of collaboration that Canadians expect from us, as the pace of change in their lives and around the world accelerates. Our strong partnership is keeping pace and more important, the delivery of results is keeping pace as well. If I am re-elected Prime Minister, I look forward with genuine excitement and enthusiasm to continuing to develop the highly successful partnership we have forged in addressing the issues that matter most to our electors.

Yours very sincerely,

Right Honourable Paul Martin, PC, MP
Leader
Liberal Party of Canada