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SPEAKER; THE HONOURABLE GERALD RYAN OTTENHEIMER

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The House met at 3:00 P.M.

Mr. Speaker in the Chair.

MR. SPEAKER: I would like to welcome to the House the Tanzanian High Commissioner to Canada, His Excellency Frederick Rutakyamirwa and he is at present in the Speaker's gallery.

I wish also to inform hon. members that two hon. gentlemen, the hon. member for St. John's South and Minister of Provincial Affairs and Environment and the hon. member for St. John's North, both this morning took the Oath of Allegiance before Chief Justice Furlong.

AN HON. MEMBER: St. John's Centre.

MR. SPEAKER: Sorry, St. John's Centre.

HON. A. J. MURPHY (Minister of Provincial Affairs and Environment): Thank you.

MR. SPEAKER: I wish to draw the attention of hon. members to certain resolutions on today's Order Paper. Regarding Resolution No. 6, I have consulted with the hon. member who gave notice for the motion, the hon. member for LaPoile, and he has concurred with certain changes which have been affected. This was a deletion of one of the preambles which, in my opinion, was argumentative, and the shortening of the main body of the resolution. With respect to Resolution No. 9 on today's Order Paper, I have again, after consultation with the hon. member involved, the hon. member for Ferryland and with his concurrence deleted certain words among the preambles which, in my opinion, were argumentative.

Hon. members will recall that on Wednesday I informed the House that I would take under advisement the motion referred to in the Notice of Motion given by the hon. member for Terra Nova. I rule that the motion is in order and it is consequently on the Order Paper of today in the same form in which notice of it was given. I wish to point out that the first part of the Resolution does not necessarily involve the expenditure of public money. The second part of the Resolution is the expression of an abstract opinion. On this ruling I cite as my authority, Beauchesne, the fourth edition, section 251, subhead 4, which will be found on page 217, which reads: "Private members may introduce Resolutions that do not directly

involve the expenditure of public money and have no operative effect but simply express an abstract opinion on a matter which may necessitate a future grant."

HON. R. WELLS (Minister Without Portfolio): Mr. Speaker, with the consent of the hon. members of the House, I would move that the normal procedures of the House be deferred on this day for presentation of the budget.

MR. SPEAKER: Is the House agreeable to the deferral of the regular proceedings for today?

SOME HON. MEMBERS: It is agreed.

MR. SPEAKER: It is agreed.

The hon. Minister of Finance.

HON. W. DOODY (Minister of Finance): Mr. Speaker, I move that the House resolve itself into a Committee of Ways and Means and that Your Honour do leave the Chair.

1975 FALL BUDGET

INTRODUCTION

MR. SPEAKER,

On October 10, 1975, in addition to being President of Treasury Board, I took on the added portfolio of Minister of Finance. Having already held the Treasury Board portfolio for more than a year I was completely aware of the financial situation facing the Province and the need to put together a revised financial plan and just six weeks after assuming my new duties it comes as no great surprise to be presenting an interim 1975 Fall Budget.

The main objectives of this Budget are to outline this Government's action plan with respect to (i) correcting present budgetary trends, (ii) proceeding with a revised approach to the Gull Island Project, and (iii) participating in the Federal Government's "Attack on Inflation" particularly as it relates to income and price controls. It is an austere Budget with a focus on restraint and realism. It is the hope of Government that we can all rise to the challenges it presents.

The first eight months of the 1975-76 fiscal year have been a most unusual period in the history of Newfoundland. The Province has experienced frequent and lengthy strikes in some of the major industrial sectors; a high rate of inflation has continued to erode our economic base and threatens our standard of living and way of life and Government spending has grown rapidly both on capital expenditures and current expenditure programs. It is also significant that the revenues from the Federal Government have fallen behind earlier projections, reflecting the recession that has gripped Canada for the past eighteen months.

When the 1975 Provincial Budget was delivered to the House of Assembly it was stated that while 1974-75 had been a difficult year to assess from a budgetary standpoint, the year 1975-76 would be an even more difficult year. At that time there were uncertain and confused worldwide conditions clouding our budgetary picture. However, many of the uncertainties have unfolded and their adverse consequences necessitate the first Supplementary Fall Budget since Confederation. It comes at a time when many nations, our Federal Government and all of the other Provincial Governments are wrestling with the conflicting forces of a recession and rapid inflation.

Unfavourable budgetary trends that have developed in this Province in recent months must be reversed quickly and forcefully, if our economic future is to be properly fulfilled. The short term repercussions of reversing these trends will be more than offset by the long range benefits. Newfoundlanders have endured and triumphed over the effects of tough decisions and harsh circumstances in the past, and I am sure the decisions outlined in this Budget will be accepted by the people of Newfoundland and Labrador as the necessary solution to putting this Province firmly on the long range course to permanent prosperity through realistic financial management.

ECONOMIC OUTLOOK

Inflation and recession have threatened the stability of provincial, national and international economies over the past several years. Recoveries from the present economic recession will be slow in most countries with the exception of the United States, which appears to be achieving a stronger recovery than other industrialized economies. The United States recovery has mainly been achieved by a strong co-operative effort on a nation-wide scale between Government, the business community and the labour unions. Their outlook towards taking joint action to combat inflation and recession appears much more rational than in Canada and hence, their more rapid economic recovery. Recent reports point out that many countries have revised their 1976 economic forecasts downwards and this reflects a less optimistic view of the level of world trade next year and, of course, general concern with inflation. Although most major countries are starting to reduce their rates of inflation, associated deflationary policies generally reduce economic expansion and seem likely to prevent full recovery in 1976.

Canadian Economy

Earlier forecasts were that the Canadian economy would continue to grow and would add over 2 per cent to real output in 1975. Revised forecasts point to no real growth this year and there is now no doubt that Canada has not been able to avoid the economic problems which have beset most of the other developed countries of the world. With an anticipated record balance of payments deficit, with inflation approximating 10 per cent and with more than 7 per cent of the labour force unemployed, Canada is experiencing its deepest recession since World War II.

Assuming that the Canadian anti-inflation guidelines will be successful, and that recovery continues, then a real growth of about 5 per cent will be realized in 1976. Nevertheless, inflation will continue to present the major economic problem and although the aim of the present guidelines is to reduce inflation rates to about 8 per cent next year, the already pronounced opposition from organized labour and many other groups increases the uncertainties related to the success of the Federal program.

Newfoundland Economy

Previous estimates of real growth in Gross Provincial Product of 2 per cent in 1975 have now been revised to less than 1 per cent. These figures reflect the impact of the national recession and the fact that unemployment for the year will be around the 18 per cent level and price inflation will be about 12.5 per cent.

General economic conditions have had a depressing effect upon the manufacturing and service industries, and have not been aided by the record of man days lost through strikes and work stoppages. For the first eleven months of 1975, the number of man days lost totalled 293,000 as compared to 89,000 for the full year in 1974. Our economy cannot continue to sustain these kinds of

work stoppages and both management and labour must resolve these irresponsible and unacceptable levels of non-productive man hours if we are to survive economically and industrially. Newfoundlanders must not allow themselves to lose the work ethic which has characterized our life style for so long. Nor can we allow ourselves to become overly dependent on Government to the point where our objectives as an economically viable Province are harmed.

Provided the expected recovery in the national economy is realized, the outlook for 1976 is more encouraging with a projected increase in real output in the order of 3.5 per cent. Most sectors of the Province will share in this growth which will result in increased employment. Subject, of course, to the success of the national anti-inflation policy, it is estimated that the inflation rate in the Province will drop by about 2 percentage points. Similarly, personal income should increase in real terms by over 3 per cent.

FINANCIAL OVERVIEW 1975-76

The approved Budget of 1975 estimated net expenditures of \$542,307,000 on current account and revenues of \$543,786,000 for a contribution to capital account of \$1,479,000. The capital expenditures and debt retirement totalled \$206,316,200 resulting in net cash requirements of \$204,837,200. In the last eight months we have experienced continued cost increases in providing public services and justifiable but extremely costly wage settlements. As a result, we are faced with an unfavourable and developing trend on current account which must be reversed if Government is to retain its financially responsible policy of balancing current account.

In other words, Newfoundland, like all other Provinces and indeed the Government of Canada, has been hit severely by increased inflation. Wage earners across the nation have been bargaining to make up for lost purchasing power during the last two years and negotiations have led to unprecedented increases. Increases that even a year ago could not have been imagined. Demands of the Newfoundland worker were even more pronounced and understandably so, because at every turn he was faced with the need to catch-up, yet found continuous decline in the purchasing power of his dollar.

The 1975 Budget provided approximately \$45,000,000 to allow average annual increases of approximately 18 per cent in Public Service salaries. This exceeded, by far, increases that had been granted in the past but was considered at the time of the Budget to be reasonable and realistic. However, Government workers, in general, receiving lower wages than their counterparts in other provinces, were determined to recover losses due to inflation and to provide a cushion against inflationary tendencies in the future.

The salary demands of the public service unions were unprecedented in 1975 and the bargaining process was a long and difficult one. The final results were negotiated settlements averaging over 25 per cent. The additional cost to the

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Province over and above the amounts provided in the original Budget was in excess of \$20,000,000 including the settlements for Hospital Workers, Teachers and Government Agencies. In total, therefore, salary increases in 1975-76 cost approximately \$65,000,000 raising the total salary bill of the Provincial Government to \$345,000,000.

Government has responded to the need for increases in other areas of service and these have also added to the Province's tough budgetary position. There seems to be no end to the demand for education dollars. Teachers' salaries alone are expected to be \$8,500,000 higher than provided for in the original Budget and will total \$105,500,000 in 1975-76. In July of this year operational grants to School Boards were increased by \$2,200,000 to \$20,000,000 as an interim measure to help alleviate deficits of School Boards but even this, the School Boards tell us, is far short of meeting their requirements. School bus transportation which cost only \$3,100,000 five years ago and for which \$9,300,000 was approved by the House for this year, is now expected to cost an additional \$1,000,000 for a total of \$10,300,000.

Hospital care is expected to require an additional \$8,200,000 this year over the amount provided in the original Budget and this is merely to maintain the same level of services as last year. The cost of hospital services in 1975-76 is now estimated at over \$110,000,000. In addition we have had to increase our grants to Homes for Special Care by \$600,000 because of the increased operating costs associated with food, fuel, salaries and overall operations.

We have had to almost double our grant to the Medical Care Commission from the \$5,850,000 originally provided to \$9,800,000, an increase of close to \$4,000,000. This was due to an increase in the number of doctors, to patients visiting doctors more often, to the negotiated increase in fees, to a deficit incurred by the Commission last year that has to be paid in 1975 and to the reduction of national per capita medicare costs by the action of another Provincial Government in withdrawing from a portion of the Medicare Program. I should point out here that health costs are becoming more of a direct provincial burden in view of the Federal Government's plan to reduce its share of Medicare costs and its share of hospital operating costs under the Hospital Insurance program. In order to meet these higher provincial costs a redirection of health care priorities will be necessary in order that health costs do not become an unsustainable proportion of our total budget.

Mr. Speaker, these unexpected budgetary events in the past eight months not only adversely affected expenditures, but also our revenues. With a general slowdown of the national economy and with taxation changes in Quebec, Ontario and Alberta, we have been advised by the Government of Canada that our equalization entitlements will be \$194,200,000 or \$15,800,000 less than we had originally budgeted.

It was very difficult, if not impossible, to predict all of these developments when the original Budget was prepared. These developments have placed the

Province in an unfavourable budgetary position which demands action now. We cannot and will not ignore the position we find ourselves in. As a Government cognizant of its financial responsibilities, we propose acting firmly to correct budgetary trends and to ensure that Government spending does not exceed the revenue capacity of this Province.

Mr. Speaker, I would like to review the position the Government would be faced with if the measures I propose today and those announced by the Premier, were not introduced. We would be facing a completely unacceptable current account deficit of \$30,000,000 and increased borrowing requirements of over \$39,000,000.

**COMPARISON OF 1975-76 APPROVED BUDGET
WITH 1975-76 PROJECTED POSITION**

	<u>Approved Budget</u>	<u>Projected Position*</u>	<u>Variances</u>
	\$	\$	\$
Current Account:			
Gross Expenditure	685,072,800	720,800,000	35,727,200
Related Revenue	<u>142,765,800</u>	<u>154,800,000</u>	<u>12,034,200</u>
Net Expenditure	542,307,000	566,000,000	23,693,000
Provincial and Federal Revenues	<u>543,786,000</u>	<u>536,000,000</u>	<u>(7,786,000)</u>
Contribution to Capital Account	<u>1,479,000</u>	<u>(30,000,000)</u>	<u>(31,479,000)</u>
Capital Account:			
Gross Expenditure	244,324,200	240,000,000	(4,324,200)
Related Revenue	<u>80,813,400</u>	<u>70,000,000</u>	<u>(10,813,400)</u>
Net Expenditure	<u>163,510,800</u>	<u>170,000,000</u>	<u>6,489,200</u>
Total Budgetary Requirements	162,031,800	200,000,000	37,968,200
Debt Retirement	<u>42,805,400</u>	<u>43,908,400</u>	<u>1,103,000</u>
Total Borrowing Requirements	<u>\$204,837,200</u>	<u>\$243,908,400</u>	<u>\$39,071,200</u>

The complete details of all expenditure and revenue items are contained in a Supplement to this Budget document and show the variances between the approved Budget and the revised Fall Budget figures.

Current Account Position

The Premier announced on October 15th a freeze on new positions, restraints on filling vacancies; cutting back on travel, overtime, and temporary employment; and a reduction in the use of consultants. Current account expenditures would have totalled \$720,800,000 or \$35,727,200 more than we had originally estimated had Government not taken decisive action in October.

* Financial outcome that would have resulted without a Fall Budget.

The largest single contributor to this increase is the increase in wages and fringe benefits which account for \$20,000,000 and I have already mentioned some of the major variances in the area of Health and Education. Other items making up the more than \$35,000,000 in variances include increased costs of operating Memorial University, increased maintenance expenditures for provincial highways and bridges, and of course, increased requirements related to forest fire protection this past summer.

In addition to expenditure increases we are anticipating an overall decrease in Provincial and Federal revenues for the current fiscal year from \$543,786,000 to \$536,000,000 a decrease of \$7,786,000. There are two significant offsetting variances that mainly account for this decrease; one being a downward revision of \$15,800,000 in equalization grants from the Federal Government for the reasons stated earlier, and the other being a projected increase of \$11,400,000 in respect of Retail Sales Tax over and above the \$107,600,000 estimated originally. Although at the time of the Budget the Retail Sales Tax figure was considered an optimistic projection, this is one area where inflation has been of considerable assistance to our budgetary position.

In addition, Personal Income Tax revenue is expected to be higher by \$2,782,000 because of a revenue guarantee adjustment received in April. Corporate Income Tax is expected to be lower by \$1,700,000 because of the economic slowdown. Revenue from the Newfoundland Liquor Corporation is expected to be \$1,000,000 higher despite the strike of last summer as the Corporation has recently increased its prices.

Mr. Speaker, in summary the presentation of a new Budget for the House at this time has been dictated mainly by two major developments that were difficult to predict eight months ago: first the unprecedented negotiated wage increases which were not anticipated and second, the decrease in equalization payments from our original estimate. These two alone account for an unfavourable swing of almost \$36,000,000 on current account and had they not occurred, budgetary action would not be required at this time as the original budget would have been adequate and our budgetary position today would be much more favourable.

Capital Account Position

The gross expenditures on capital account were approved at \$244,324,200 and the revised estimate is \$4,324,200 lower at \$240,000,000. This decrease is the result of a combination of factors, some of which are offsetting. The more significant increases are: higher capital requirements of Labrador Linerboard Limited which was budgeted at \$23,000,000 but is now estimated at \$28,000,000 and a net increase of \$2,000,000 in the improvement and reconstruction of highways and bridges. Offsetting these two amounts are savings of \$2,900,000 due to delays in the construction of the Health Sciences Complex and slow progress on various DREE programs resulting in over \$12,000,000 in expenditure savings. These expenditure savings on DREE programs resulted from the late signing of

many of the agreements and from the unfavourable construction conditions which existed last spring.

Related Revenue on capital account which was budgeted at \$80,813,400 is expected to total \$70,000,000 or \$10,813,400 less than the original estimate. The prime reason for this decrease is the lower expenditures on cost-shared programs which, in turn, resulted in lower revenue.

BUDGETARY ACTION PLAN 1975-76

Government must now take firm action to reverse the budgetary position in which we find ourselves. In order to act responsibly we must reduce our borrowing program and we must prove conclusively that our projected current account deficit will be reduced to a manageable size in 1975-76 and be eliminated entirely by 1976-77. We are proud of the financial reputation that Newfoundland has achieved under the Moores Administration and we are determined that it be maintained. It is our policy to show a balanced current account and although we will end this fiscal year with a relatively small and manageable deficit, it is imperative that in 1976-77 we demonstrate that current account is firmly in a surplus position. It is absolutely imperative that there be a contribution from current account to offset capital expenditures and this will continue to be a financial policy of this Government.

Premier Moores introduced our restraint program in his television address in which he indicated the initial steps that Government would be taking to curb expenditures within the Public Service for the remainder of 1975-76. However, a more comprehensive budgetary and financial plan of action has now been developed and approved by Government and I am, today, seeking the support of the people of this Province and the House of Assembly.

The simple fact is that Government spending has been growing at a rate in excess of our revenue sources and we would therefore be living beyond our means — not beyond our deserved or justifiable means as Canadian citizens but beyond the financial means of one of the smaller less wealthy Provinces in the Canadian Federation — unless action were taken at this time. The rapid growth in Federal transfer payments along with the large increases in provincial revenues in a time of double digit inflation has fueled the rising expectations of all of us. Our need for improved services in health, education and social assistance along with our need to develop our natural resources has placed heavy financial demands upon the Provincial Treasury, demands which were more easily met in times of high economic growth both in this Province and in this Nation.

Our attempt at meeting these demands was brought about by a strong desire to meet the expectations of the Newfoundland people. But we now must have a period of retrenchment in which we can re-adjust our expectations and in which we can re-establish a sound budgetary position. The priority emphasis during this period will be to maintain our budgetary position so that our natural resources can be developed.

Government therefore will institute the following additional measures of restraint and taxation:

Retail Sales Tax

There will be an immediate increase in the retail sales tax from its present 8 per cent to 10 per cent on some items and the complete removal of the tax on certain essential items. There will also be a significant shift in the philosophy of the sales tax as all clothing will be made exempt. This decision is in keeping with the philosophy of this Government to make essential day-to-day commodities such as food, heating fuel, gasoline, prescription medicines and school textbooks exempt from the retail sales tax. We are also giving a tax exemption for coal. With respect to the minimum purchase subject to the tax, we are raising it from the present 8 cents to 20 cents.

In view of the need for significant amounts of revenue it was felt that retail sales tax was our major revenue source from which a reasonable current account position could be achieved. The new exemptions will ease the burden on those low middle and fixed income families less able to pay and reduce the repercussions of the tax imposed. The increase in tax on other commodities will bring in an additional \$7,000,000 this fiscal year.

I want to emphasize that the exemption policies which this Administration has adopted since taking office have continued to lessen the effects of the retail sales tax. One of our first actions in March of 1972 was to exempt children's clothing and then in January of 1974 we eliminated the tax as it applied to domestic fuel and heating oil and now in this Budget a further measure of exempting all clothing whether it be for children or adults. These exemptions are aimed at helping the less wealthy groups in our Province in their day-to-day purchases of essential commodities.

In essence this change in retail sales tax policy will mean substantial additional revenue for the Province but equally as important means that the lower, middle and fixed income people will pay appreciably less retail sales tax and that the commercial and higher income people will be asked to share more of the tax burden.

Tax Collection Commissions

The commission paid to businesses and corporations for the collection of retail sales, tobacco and gasoline tax will be eliminated, thereby creating additional revenue of \$800,000 in 1975-76. At present, these commissions vary between ½% to 2% of the tax collected and its abolition is consistent with recent moves by other provincial governments.

Personal Income Tax

There will be an increase in personal income tax effective July 1st, 1976, from the present 40 per cent of the basic federal tax to 42 per cent. This

increase, however, will only have a minimal effect on the income tax to be paid by the average taxpayer but is important to the Province as it will bring in an additional \$4,000,000 in 1976-77. The effect on the individual in the 1976 tax year will only mean an extra \$20 or so per year in income tax depending on their income bracket. For instance, a married taxpayer with a dependent wife and two children will pay between \$0 and \$47 extra depending on his income bracket.

TAX EXAMPLES

Income Level	1976 Increase					
	\$4000	\$8000	\$12000	\$16000	\$20000	\$24000
Single, No Dependents	2	9	19	29	42	55
Married, one child	—	6	14	23	35	48
Married, two children	—	5	14	23	34	47
Married, four children	—	3	11	21	31	43

Motor Vehicle and Driver Licences

There will be an immediate increase in the fees charged for motor vehicle licences and driver's licences. In general, a three-year driver's licence will increase on average by \$2 per year and the annual registration fees for motor vehicles will increase by between \$7 and \$15 per year. These changes are estimated to bring in additional revenue of \$1,400,000 in 1975-76 and will raise our provincial rates to levels comparable to and in many instances still lower than those in the Atlantic Region:

MOTOR VEHICLE AND DRIVER LICENCE

1975-76 INCREASES

Registration Item	Present Rate	New Rate
	\$	\$
Drivers' Licences	3.00	5.00
Labrador Cars		
Up to 3000 pounds	5.00	8.00
3001 to 4000 pounds	6.00	8.00
4001 pounds and over	7.00	11.00
Island Cars		
Up to 2000 pounds	19.00	30.00
2001 to 3000 pounds	21.00	30.00
3001 to 4000 pounds	23.00	30.00
4001 pounds and over	25.00	40.00

We estimate that next year's capital account will contain over \$200,000,000 in capital expenditure related to on-going hospital construction, school construction, highway construction, Memorial University, forest access roads, fishery capital works, industrial and residential servicing, tourism, rural development programs and all other resource and social areas. Our program of restraint is not designed to stop construction and development but to prevent Government programs from totalling amounts not acceptable for good financial management.

The creation of job opportunities is the most important need in the Province at this time. Government will be presenting, during the coming months, new programs for resource development in the fishery, in forestry, in housing and in hydro development activities, and in all other areas of natural resource development. This will require a concentrated effort on the development of provincially funded resource programs and on the complete review and re-assessment of non-resource programs. Funds from the reduction or elimination of low priority programs must then be channelled into the implementation of job-creating projects.

As Minister of Finance and President of Treasury Board it will be my priority objective to ensure that this 18-month period is a successful one and it will be the responsibility of the people of this Province to create the environment which will allow today's measures to be of a temporary nature. This will only be possible if Government's restraint program is successful, if overall expectations are self-disciplined downwards and if our revenues produce sufficient contribution to capital account. We must properly plan and phase any new programs and set as an objective the eventual lowering of taxes.

INCOME AND PRICE GUIDELINES

In the Public Service the Government must set the example. Therefore, the announced program of staff freezes and overall restraint will continue in effect for at least the next 18 months. In addition we will be introducing legislation in the new year seeking approval of the House of Assembly to sign an agreement with the Federal Government with respect to income and price controls. Also, as announced in the Speech From The Throne, it is Government's intention to introduce legislation placing the prices of petroleum products under Government control and placing restriction on rent increases. Any other measures as may be necessary to keep prices under control will also be implemented.

The most significant areas for income restraint relates to the re-negotiation of our 27 public service contracts which will arise between March 31st, 1976 and December 31, 1976. We are prepared to be fair and reasonable and we are prepared to explore all areas of common ground where employee benefits and working conditions can be improved. But we are limited in our flexibility to negotiate generous wage settlements. The income guidelines allow basic increases of up to 10%, with the exception of groups who have, in recent settlements,

fallen behind the general increase in the cost of living. As our employees have received generous catch-up settlements in 1975, we are looking at an increase in provincial public service salaries consistent with the guidelines.

There are approximately 28,550 public employees who will be paid about \$345,000,000 in 1975-76 for an average salary of \$12,000 including overtime and other fringe benefits:

PUBLIC SERVICE SALARY BILL

1975-76		
Employee Category	No. of Employees	Salary Costs
Teachers and Instructors	8,500	\$118,000,000
Hospital Employees	8,880	90,000,000
Government Departments	6,855	85,200,000
Government Agencies	3,750	45,000,000
Public Safety	565	6,800,000
	<u>28,550</u>	<u>\$345,000,000</u>

After allowing for related revenue of approximately \$45,000,000 with respect to shared-cost salaries, the net salary bill to Government for its public employees is about \$300,000,000 or \$3,000,000 for every one per cent increase which is negotiated at the bargaining table. Even by living within the federal guidelines, which we must do, the cost to the Provincial Treasury of total salary increases next fiscal year would be \$30,000,000.

I am pleased to announce that as part of our income and price review we have decided to raise the minimum wage from its present \$2.20 per hour to a rate of \$2.50 per hour effective January 1st, 1976. This measure is designed to help low income workers to cope with inflation and it recognizes that the \$600 minimum originally in the Federal anti-inflation program was inadequate. This increase in the minimum wage is a positive step to protect the working poor, which will not only allow but will require a 14 percent increase for those who are working at the minimum wage. The minimum wage will continue to be revised and any further changes which are necessary will be made at the appropriate time.

NEW HOUSING PROGRAM

Government recognizes the extent to which housing costs have escalated over the past few years. Large increases have taken place in the cost of construction materials, in the cost of land, in labour costs and in the cost of mortgage financing. The cost of a new home has risen to such high proportions that low and middle income people in this Province are finding it almost impossible to acquire their own home. In order to provide assistance for families to acquire

adequate housing accommodation, your provincial Government is now introducing major new housing programs which could make up to an additional \$4,000,000 available from January 1st, 1976 to March 31st, 1977.

The first new program is a grant of \$600.00 for those who acquire a new home, whether the home is purchased or built by the owner. This program will be effective January 1st, 1976, and will apply to families who are acquiring a home which is their first and which is being occupied for the first time. This grant will be of great benefit to low income families who find it especially difficult to meet present down payment requirements. Existing programs, particularly the federal Assisted Home Ownership Plan, helps low income people with monthly payments. This new provincial program will offer additional assistance by helping with the initial down payment and therefore assist in the arranging of mortgage financing.

In order to ensure that maximum benefit accrues to those families with low income and modest savings the full grant will apply for new homes whose size does not exceed 1200 square feet. For larger homes whose finished living space exceeds 1200 square feet the grant will be reduced by \$2.00 per square foot, but the grant will not apply to homes with more than 1450 square feet. It is estimated that this program will cost up to \$2,000,000 in the next eighteen months.

A second major housing program will deal with existing houses. Many homes are in need of repair and rebuilding and it is Government's intention to assist in the improvement of owner-occupied homes. An assistance program is now being developed in liaison with the Federal Government with the object of ensuring that a realistic measure of support is provided throughout the Province. The Federal Government is developing a home rehabilitation program which will apply to certain selected areas of Newfoundland and the Provincial Government will shortly be announcing a complementary program which will cover all areas of the Province.

In addition to these new programs for owner-occupied housing the Government is studying a third program which will increase the supply of rental accommodation. It is well known that rental rates are high and that low rental accommodation for low and middle income people is in short supply. Not only is there a short supply of rental units but the number of new units being built each year is completely inadequate to meet the demand. In order to encourage the construction of additional units for low income families the Government will introduce a subsidy for new rental units and this subsidy will be given on the condition that rents will be controlled and kept at a moderate level. As a result of this program it is expected that new rental starts will show a substantial rise in 1976.

These new housing programs represent substantial progress toward improving the standards of shelter and accommodation in this Province and they reflect Government's concern with housing as a basic necessity of life, and one which has become increasingly costly in recent years.

OFFSHORE PETROLEUM RESOURCES

The most important natural resource in the future development of this Province is the gas and oil potential off the coast of Newfoundland and Labrador. Discovery and development of commercial finds would completely change the financial position of this Province and result in an extensive development and diversification of our industrial base.

The two successful gas wells off Labrador drilled by the Eastcan group in 1974 and the further encouragement from two of the wells Eastcan drilled this summer increases the probability of discovery and development of commercial finds by the early 1980's. The Snorri well on the Nain Bank was drilled to 10,500 feet and a possible hydrocarbon bearing porous zone was identified below 8,175 feet. This zone will be tested during 1976. The Karlsefni well on Seglek Bank also found indications of hydrocarbons at 10,775 feet and drilling will be resumed next year. Exploration expenditures in the offshore areas this year totalled approximately \$40,000,000.

Government has recently engaged independent petroleum experts to reappraise the offshore resource potential and its possible monetary value to the Province on the basis of the available exploration data. Under various assumptions, it is estimated that an average of 40 trillion cubic feet of natural gas and 3.5 billion barrels of oil could be discovered, produced and sold on a commercially profitable basis. Based on this average estimate, the economic rent available to be shared would be approximately \$70 billion over a twenty to twenty-five year period. The probability of a commercial find being made within the next five years is now estimated at greater than 70 per cent.

In addition to direct revenue from economic rent, should there be commercial discoveries of oil and gas, Newfoundland would benefit from expenditures on exploration and production installations and/or the purchase of goods and services. These economic benefits to Newfoundland could average \$300,000,000 annually by the 1980's and 1990's.

Discussions have continued between the Government of Canada and the Province over the jurisdictional question of ownership and management of the continental shelf. It is unfortunate this situation adds uncertainty to the development of our offshore oil and gas resources, and Government has placed increased priority on the early resolution of this situation.

The Province is determined to use the offshore oil developments as a basis of developing its industrial capabilities. In this connection the development of marine-related industries has already started the Province along the road to reaping the industrial benefits of offshore exploration and development. Inventions such as the new underwater electrical connector and the research and development work of the newly-formed crown corporation, NORDCO, are promising achievements.

A most encouraging industrial opportunity with respect to offshore oil and gas is the use of concrete platforms for the development of offshore fields. These platforms are gigantic structures which require extremely deep water for construction and must be built close to the exploration and development region and then floated out to the petroleum resource. Newfoundland represents an ideal location on the Eastern Seaboard of North America where these massive structures can be built.

Also related to the oil and gas industry is the prospect of an underground storage development in the abandoned iron ore mines of Bell Island. One of Canada's largest corporate conglomerates, Power Corporation of Canada Limited, has successfully bid for the right to conduct a detailed feasibility study on the storage project. During the next two years Power Corporation will spend \$2,000,000 on this study. If the study results in the recommendation to proceed, then construction on the storage project will begin in 1977. It is envisaged that the total storage capacity will be 90 million barrels and will be developed in two phases at an estimated cost of \$104,000,000. Construction would peak at 500 jobs. The project comprises the conversion of the mines and the building of three large docks along with related service facilities.

COME BY CHANCE OIL REFINERY

During the past several weeks financial difficulties at the Come By Chance oil refinery have been the subject of much discussion and effort by Government in an attempt to ascertain the extent of the problems and to find solutions. The oil refinery is owned by Provincial Refining Company Limited which is controlled by Mr. John M. Shaheen.

During 1974 and for the first three quarters of 1975, the refinery experienced substantial operating losses and the First National Bank of Chicago, one of the company's creditors, took action to appoint a receiver for the company's inventory. This event occurred while several of the major unsecured creditors, along with the first mortgagee, Export Credits Guarantee Department (E.C.G.D.) of England and the Province of Newfoundland, were holding discussions in connection with the financial difficulties of the refinery.

The Province's financial commitment of \$41,340,000, which is \$30,000,000 in principal and \$11,340,000 in capitalized interest, is secured by a second mortgage. The first mortgage is approximately \$106,000,000. The Government of Newfoundland has no further obligation in connection with the refinery since in October 1973 the original arrangements were re-negotiated and the Provincial Government ceased to have any commercial, financial or other responsibilities for the debts or operations of the then Crown Corporation, Provincial Refining Company Limited. The Crown Corporation then became a privately-owned corporation. Had these steps not been carried out the Province would now be much more financially involved with the total operations of the Oil Refinery.

The present oil refinery cost approximately \$200,000,000 to construct and we are informed that it would likely cost in excess of \$400,000,000 to replace. The Government therefore considers that its second mortgage loan totalling \$41,340,000 is fully secured by the assets at Come By Chance since the total value of the first and second mortgages approximates \$148,000,000.

The current situation at the oil refinery is that additional credit has been extended to the refinery by one of the major unsecured creditors who is now in the process of negotiating final details for them to assume management responsibility. If these negotiations are successfully concluded, that creditor would be granted a third mortgage for the protection, not only of itself, but for all other unsecured creditors who wish to participate in the security.

The Government of Newfoundland and E.C.G.D. have agreed to such a third mortgage if certain conditions are met among which is the condition that our security is not impaired nor is the position of any of the unsecured creditors prejudicially effected. During the next several weeks the Province will be working with E.C.G.D. and with the new management towards its objectives of maintaining the continued operation of the oil refinery.

GULL ISLAND HYDRO PROJECT

Government has expended much effort during the past few years in evaluating the Province's hydro electric potential both on the Island and in Labrador. The administration and development of our hydro resources over the next decade is a most important financial and economic factor for the Province of Newfoundland. The nucleus of this development strategy is the Gull Island Hydro Project on the Churchill River, 140 miles downstream from the Churchill Falls powerhouse.

The Gull Island project comprises an 1800 megawatt hydro-electric generating plant and a transmission system which includes an intertie with the Upper Churchill power development and with the Happy Valley - Goose Bay area; an eleven mile long tunnel under the Strait of Belle Isle, and a high voltage direct current transmission facility to take the power from Gull Island to connect with the Island grid system.

Since 1974 Newfoundland and Labrador Hydro has been planning and designing the Gull Island project. The engineering work is well advanced and preliminary work on the preparation of the hydro site, the shafts for the tunnel and clearing for the transmission lines has commenced. Due primarily to the need to make much greater provision for escalation and interest during construction, the cost estimates for the complete hydro project have increased substantially during the past eighteen months and the latest revised estimates indicate the construction, allowance for escalation, and interest charges during construction will total approximately \$2.3 billion.

After many months of study and exhaustive discussions with the fiscal advisors to the Province and to Hydro, Government has decided to alter its proposed approach to the development of Gull Island. The project will now be developed in a phased manner and over a longer period of time. This will enable the large capital requirements to be spread over several more years, thereby enhancing the prospects of being able to successfully finance the project.

The construction of the hydro site will be postponed for at least one year and the construction of the transmission system including the tunnel and interties will continue. It is expected that over the next year \$55,000,000 will be spent on construction costs. The engineering and design work on the hydro site along with the required environmental studies will continue. This alteration of approach has the advantage of spreading out the capital requirements of the project to a manageable level given the large amount of funds required by the Province and by Hydro. It will also spread out the construction program and allow more Newfoundlanders the opportunity to work on the Gull Island project.

The phasing of the project will necessitate the purchase of power during the initial years after the completion of the transmission system. Newfoundland and Labrador Hydro will approach Hydro Quebec to negotiate the purchase of sufficient power from Churchill Falls (Labrador) Corporation, the subsidiary of Newfoundland and Labrador Hydro, which owns a 5225 megawatt power plant on the Upper Churchill River. Hydro Quebec has a 34 per cent holding in CFLCO and has a long-term contract to purchase all of the output of the plant for 40 years, with the exception of a 300 megawatt block which the Province is entitled to recall for use in the Province.

In addition, discussions will continue with the Government of Canada in connection with the request of the Province to obtain increased aid for the complete Gull Island project. In 1974 the Federal Government agreed to provide financial assistance for the transmission system of \$343,000,000 plus deferring interest during construction and for five years thereafter. No financial assistance on the hydro plant has yet been offered.

The need to phase the Gull Island project is a disappointment to the Government as all of the studies undertaken by our consultants, the Federal Government and Hydro indicate that Gull Island is the preferred source of new energy for the Province in the 1980's, and that the lowest energy costs would result from an early start. However, the financial resources of the Province do not permit the release of the complete project while major questions such as further Federal Government financial assistance; sale of surplus power during the first five years; and the ability to finance the project in the world capital markets remain unresolved. The Province plans to proceed in a careful manner while the major questions remain unsettled.

A relatively new development which could accelerate the construction of Gull Island is the study on the Eastern Canadian electrical grid which was

commissioned last month by the Premiers of the Maritime Provinces, the Premier of Quebec and Premier Moores. The study which will be completed by March of 1976 may well result in pressure from the Eastern Provinces to proceed with the early development of the hydro potential of Gull Island, and hopefully other hydro sites both in Labrador and Quebec.

CONCLUSION:

In conclusion Mr. Speaker, this first Supplementary Fall Budget of the Province of Newfoundland and Labrador is delivered during a period of high economic uncertainty. The Federal and Provincial Governments of Canada and most of the nation's municipalities are experiencing the effects of high inflation combined with eighteen months of economic recession. The next three years will be a very serious and important time in the history of our nation.

If Canada is to break the grip of inflation then co-operation of all of the major interest groups in the Canadian community will be essential. More importantly however will be the ability of the Government of Canada to control its spending and to reverse the rising expectations of our Canadian nation. The Government of Newfoundland and Labrador is fully prepared to participate in a program of national action and this requires realistic decision making at the provincial level.

This Budget document represents not only a correction of a difficult budgetary situation but more importantly represents a very essential message to all of the people of this Province, to labour and to management, to municipalities and to school boards, to hospital boards, to Government Agencies and to all politicians regardless of party affiliation. The message is this: — we must retrench, we must readjust, and all of us, must realize that we cannot continue the recent rapid pace of social and economic improvement which we have come to take for granted. We, in this province, have been trying to accomplish in twenty-five years, what other, more wealthy parts of our nation have taken 100 and more years to attain.

The economy of our nation, much less of this province, cannot continue to keep pace with the accelerated demands and the exaggerated expectations that have developed. This Government will act with fortitude in combating our problems and we will lead the way in our Province in showing restraint and in realigning our economic and social expectations.

Our actions now must have a lasting and long term effect if we are to responsibly and rationally plan our future. We are determined to be successful and we call upon all Newfoundlanders to create an environment which will allow the success to be a real and permanent one. We in Government, indeed I hope all of us in this Honourable House, will do all we can. The real test will be the desire of our people to make this program work.

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