

PRELIMINARY
TRANSCRIPT

HOUSE OF ASSEMBLY
FOR THE PERIOD:
3:00 p.m. - 6:00 p.m.
FRIDAY, MARCH 17, 1978

The House met at 3:00 p.m.

Mr. Speaker in the Chair.

MR. SPEAKER: Order, please!

I want to bring to the attention of hon. members that today is the birthday of an hon. gentleman who holds a very distinguished position in the House of Assembly being the member, number one, with the most number of years of service in the House of assembly and also, to the best of my knowledge, the only member serving now who is a veteran and that is the hon. member for Burin - Placentia West (Mr. P.J.Canning).

SOME HON. MEMBERS: Hear, hear!

The hon. the Minister of Finance.

MR. RICKMAN: Mr. Speaker, I move that the House resolve itself into a Committee of Ways and Means and that Mr. Speaker do leave the Chair.

MR. SPEAKER: The motion is that the House resolve itself into a Committee of Ways and Means and that the Speaker leave the Chair.

The hon. the Minister of Finance.

THE BUDGET SPEECH

MR. SPEAKER:

BUDGET THEME

The 1978 Budget theme reflects a determined and aggressive approach by the Government of Newfoundland and Labrador to fight for the most meaningful long-term development of our human and economic resources consistent with the overall fiscal constraints on the one hand and the immense potential of our natural resources on the other. This Budget will, therefore, combine resource revitalization with social service restraint. It is presented during a difficult period with the Province determined to achieve future resource potential while facing the constraints of financial reality.

This Budget will also reflect the courage of Government to put the long-term interests of the people of Newfoundland above all other matters. It will renew the pledge which has been articulated so clearly by the Premier of our Province that, no matter how anxious we are for additional development, no matter what the political pressures may be, and no matter what the short-term benefits appear to be, we will not barter the future of Newfoundlanders yet unborn by giving away our resources at bargain prices. The inequity of Churchill Falls will never again be repeated in this Province.

It can be said with absolute certainty that the Budgets brought before this Honourable House, particularly during the past three years, have demonstrated beyond all reasonable doubt the determination of this Government to manage responsibly the financial affairs entrusted to us. It is becoming increasingly clear and, indeed, it is the demand of all residents of our Province, that Government continue to live within its means. It has been a sign of encouragement to me, as the recently-appointed Minister of Finance, that we have received the support of the taxpayers of Newfoundland and Labrador for the fiscal measures we have taken.

It is also clear to all Newfoundlanders that during the past three years we have witnessed a major slowdown in the world economy. Canada has not escaped its share of related economic problems although, when compared to that of many countries in the free world, the Canadian economy stands out as being one of stability and cautious optimism. Newfoundland, faced with the necessity of reasonable fiscal restraint as a result of the economic downturn, responded definitively. The result has been that we continue to maintain a strong position in world financial markets and as a Government we are modestly proud that our performance has been assessed in financial circles as one of sound fiscal management.

1977 FINANCIAL PERFORMANCE

Current Account 1977-78

Government's financial performance over the past fiscal year indicates that on current account our overall position is substantially in line with the targets set out in the 1977 Budget. Expenditure variances on current account

were more than compensated for by an improvement in related revenues. We are projecting a small deficit of \$2,000,000 as compared with the budgeted surplus of \$8,600,000.

Table I summarizes an overview of our estimated year-end result compared to the original Budget:

TABLE I
SUMMARY OF 1977-78 BUDGETARY POSITION

	<u>1977-78</u> <u>Original</u> \$	<u>1977-78</u> <u>Revised</u> \$	<u>Variance</u> \$
Current Account:			
Gross Expenditure	947,395,800	954,335,300	6,939,500
Related Revenue	119,441,600	129,599,000	10,157,400
Net Expenditure	<u>827,954,200</u>	<u>824,736,300</u>	(3,217,900)
Provincial and Federal Revenues	836,536,000	822,757,000	(13,779,000)
Contribution to Capital Account	<u>8,581,800</u>	<u>(1,979,300)</u>	<u>(10,561,100)</u>
Capital Account:			
Gross Expenditure	222,157,400	202,929,700	(19,227,700)
Related Revenue	66,549,200	65,607,900	(941,300)
Net Expenditure	<u>155,608,200</u>	<u>137,321,800</u>	<u>(18,286,400)</u>
Total: Budgetary Requirement	147,026,400	139,301,100	(7,725,300)
Total: Debt Retirement	<u>54,165,300</u>	<u>48,100,000</u>	<u>(6,065,300)</u>
Total: Financial Requirement	<u>201,191,700</u>	<u>187,401,100</u>	<u>(13,790,600)</u>

The projected deficit on current account for 1977-78, while disappointing, was unavoidable as it was mainly attributable to a net downward revision in our Federal-Provincial revenue bases. During 1977 negative adjustments totalling \$8,600,000 in our equalization entitlements were made due to overpayments received in prior years. In addition, in September 1977 we were notified by the Federal Government, as were most other Provinces, that the previous federal projections for personal and corporate income tax revenues were overly-optimistic considering latest economic trends. It became clear that the Province would, after certain offsetting effects through Established Programs Financing, lose a net amount of \$5,000,000 from previous forecasts for these two revenue sources. The unfortunate aspect of the shortfall was the timing of notification. At a point halfway through the fiscal year, it was extremely difficult to take corrective and compensating measures against the net downward revision in revenues which totalled \$13,600,000. Nevertheless, many of our austerity measures to keep the deficit as small as possible have been successful as the projected year-end results indicate.

On a national basis, the September revision of tax calculations resulted in a decreased estimate in federal revenues of \$1.9 billion from the March 1977 estimates. The most important point to be emphasized in assessing our revenue shortfalls is they were not unique to the Province of Newfoundland. Most Provinces were confronted with similar revisions and in the Atlantic region net shortfalls are estimated to range from \$500,000 in Prince Edward Island to \$8,500,000 in New Brunswick to \$10,200,000 in Nova Scotia.

Capital Account 1977-78

The 1977-78 capital account expenditures show a decline of \$19,200,000 in gross expenditure from the budgeted amount. This reduction is largely attributable to (i) a revised method of financing working capital requirements for Newfoundland and Labrador Housing Corporation — \$8,800,000, and (ii) a delay in the start of construction of the Waterford Valley Trunk Sewer — \$5,000,000. Our reduced requirements on capital account enabled us to live well within our projected overall borrowing requirements despite the small deficit on current account.

The Province of Newfoundland had another successful year in capital financing. During 1977-78, the Province's direct capital market borrowings were limited to a single issue of \$75,000,000 U.S. (Canadian \$80,600,000) in the United States public market. The balance of our funding requirements were met by borrowing \$33,000,000 from the Canada Pension Plan and by expanding our highly successful treasury bill operation by \$26,000,000 which is the lowest cost financing available. Also cash balances at the beginning of the year were high as a result of the \$50,000,000 loan from the Alberta Heritage Trust Fund arranged in March of 1977.

The Government of Newfoundland and Labrador will continue to accept the challenge of a balanced current account budget and to provide the leadership which ensures that the Province continues to live within its means. I am sure all Members of this Honourable House will concur with my view that we must provide the continued responsible fiscal management that our people demand. Many proposed current and capital programs which were assessed as necessary by the Government of this Province just a few short years ago may no longer be necessary in light of more realistic expectations. I am confident that this Budget will continue to enhance the reputation of the Province of Newfoundland as a fiscally responsible partner in the Canadian Federation, whilst at the same time providing the necessary stimulus to economic growth.

BLUEPRINT FOR DEVELOPMENT

Economic Growth Targets

The most exciting part of our economic and financial position is the incredible potential of this Province over the next few years, but in particular into the 1980's. The time is now ripe for us to responsibly and realistically make substantive progress toward our social and economic goals. The challenge facing the people of Newfoundland today is one that calls for confidence and determination. The challenge is to develop the Province's resources so that its

economic base can be dramatically transformed and revitalized. The people of Newfoundland, who constitute its greatest resource and its vital force, must have faith in a bright future based upon the natural advantages of the Province and the prospect for growth and development which they offer. Government has never been more optimistic about the future or more confident that economic growth can be hastened.

In preparing its economic strategy as contained in its "Blueprint for Development", Government has been guided by three main economic targets to be achieved during the next five years:

- To reduce drastically the unemployment rate through the creation of 40,000 new jobs;
- To increase the Gross Provincial Product at an average of 6 percent per year in real terms;
- To increase annual per capita income by 26% from \$5,000 to \$6,300 in constant 1977 dollars.

These targets will be achieved through a vigorous program in all resource sectors but depending heavily on fisheries and hydro-electricity. Government will be spending relatively more on resource programs and less on social programs in 1978-79 and the years beyond. Accordingly, the citizens of this Province must be prepared to accept a stabilization in the standard of public services provided and to this end, Government plans to moderate spending in social program areas. Also crucial to the success of Government's economic strategy is the recapture and exploitation of the Province's resources. The potential for resource development is enormous and the timing and implementation of programs to realize that potential is a tremendous challenge. Government is prepared to meet that challenge with a strategy that is planned, that is rational, and that is aggressive.

The complete details of our Blueprint for Development are outlined in the special Budget Supplement which I believe is the first of its kind ever presented to the people of Newfoundland. It is designed to show the way ahead for our economy over the next decade, but with particular emphasis upon the next five years. The Supplement details the economic potential of the Province and sets realistic targets for each sector as well as for the provincial economy as a whole. Its purpose is to present a development plan whereby self-sustaining economic growth will be initiated and solutions will be found to our two basic problems of high unemployment and income disparity between Newfoundland and the rest of Canada. The Supplement shows how realistic employment and income targets can be reached.

Investment Climate

A brief reflection on the Province's economic and investment climate portrays a favourable situation. The economy of this Province is based on the resource industries of fishing, forestry, mining and hydro power generation. While historically the fishery has been the mainstay of the economy, the industrial base has now broadened considerably so that the other resource

sectors rival the contribution of the fishery in total value of production. While in value terms other sectors may surpass the fishery, it still provides the largest industrial source of employment to Newfoundlanders and supports the greatest proportion of the population. Recent trends of increasing catches and improving financial returns in that industry indicate that it will provide growth and unprecedented stimulus to the economy and continue to play a large and increasingly dynamic role in future development. It will also be an area requiring substantial new private investment.

Table II shows the net value of production ascribed to the Province's main goods-producing industries in terms of their contribution to Gross Provincial Product (G.P.P.) in 1976:

TABLE II
NET VALUE OF PRODUCTION

<u>Industry</u>	<u>Value</u> (\$ Million)	<u>% of Total</u>
Mining	381.8	32.4
Construction	359.9	30.5
Electric Power	137.2	11.6
Fishing (including processing)	135.2	11.5
Forestry (including processing)	117.7	10.0
Manufacturing	47.8	4.0
Total Net Value of Production	<u>\$1,179.6</u>	<u>100.0%</u>

At present, the Province's economy is emerging from the world-wide recession which followed the energy crisis and the other economic dislocations of the early 1970's. During this period, Newfoundland suffered from a number of economic setbacks including the closedown of the Labrador Linerboard Mill, the failure of the large oil refinery at Come By Chance and the shutdown by Alcan of the mine in St. Lawrence. Despite these setbacks, employment in the Province has increased by over 8,000 in the last five years and we will ensure an ever-improving employment situation in future.

The overall economic outlook for 1978 could best be described with cautious optimism. G.P.P. is expected to increase at a higher rate than in 1977 and similarly retail trade, gross investment, wages and salaries and personal income are all forecast to increase at a somewhat faster pace than in 1977. Unfortunately, both unemployment and inflation will continue to be the main economic problems for the people of Canada in the coming year. The main challenge for Governments, provincial and federal, will be to increase investor confidence to the point where new investment will restore an increased degree of economic stimulus.

Newfoundland is no exception and as we develop our resources, there will be a major requirement for an infusion of private capital. As Newfoundlanders we welcome investment by Canadians and peoples beyond our shores. We have no patience with the petty parochialism that sometimes emanates from those who attempt to discourage foreign investment in Canada or in Newfoundland. Let me make our position loud and clear — there is no better place for private investment than in the resource-rich Province of Newfoundland and Labrador and those who are inclined to share with us in the profitable development of our resource will find the political climate stable and will find our provincial laws designed to protect the Province, its people and the investor.

They will also find the standard and quality of life throughout the Province of Newfoundland immensely improved in the last few years. To the perennial doubters I say, "Look around you" and even those who were nurtured on pessimism and negativism will have to say that Newfoundland is truly a good place to live. However, this Province and indeed, our Nation, will only find its place in the sun as our people improve productivity and ensure that an honest effort is exerted at all times. If we are to hasten our march forward, we must, as a people, keep before us at all times the challenge of maintaining the work ethic for which all Newfoundlanders are so justly famous.

Fisheries Development

We have, during the past year in particular, seen a remarkable recovery in the fishing industry of our Province with the result that the incomes of Newfoundland fishermen and plant workers stand at a peak. The significance of this exhilarating development is all the clearer when one realizes that for over 400 years, Newfoundland has had at its disposal one of the greatest, most profitable and abundant fishery resources in the North Atlantic. We stand at this time on the threshold of major fishery developments and we must discharge our responsibilities to a protein-hungry world. The Minister of Fisheries has already outlined a plan which, when implemented, will yield greater returns to our primary producers in the fishery and at the same time provide a healthy environment for new capital investment.

Over the next five years the fisheries will be the most dynamic sector of the provincial economy and one of the brightest development opportunities in Canada. Fish landings will increase from 386,000 metric tons in 1977 to 566,000 metric tons in 1982, and to 1,000,000 metric tons by 1987. The fishing industry has the potential to provide over 6,000 new jobs over the next five years in catching and processing activities. Consequently, Government proposes to (i) provide better handling and storage facilities, (ii) develop centralized fishing ports, (iii) assist in fleet replacement and expansion, and (iv) assist with new product and market development.

The 1978-79 Estimates illustrate the priority which Government has placed on the fishery with expenditure increases of 10.5 percent provided as follows:

TABLE III
FISHERY DEVELOPMENT EXPENDITURES

	<u>1978-79</u>	<u>1977-78</u>
	\$	\$
General Development	8,780,700	10,904,000
Multi-Purpose Vessel Construction	4,750,000	4,116,000
Fisheries Loan Fund	3,250,000	3,000,000
Fishing Gear Supplement	2,200,000	1,000,000
Marine Facilities	1,000,000	825,000
Fish Handling Facilities	1,240,000	840,000
Cold Storage Facilities	1,000,000	150,000
Central Port Development	1,000,000	800,000
Research and Development	625,000	625,000
Inshore Fishery Enhancement	600,000	250,000
Product and Market Development	500,000	300,000
Fish Processing Incentives	250,000	—
TOTAL	<u>\$25,195,700</u>	<u>\$22,810,000</u>

One of the major development strategies for the fishery is to encourage further processing of fish before it is exported from the Province. To provide an effective incentive Government will introduce a program to assist fish processors in the acquisition of modern machinery and equipment to be used for further processing. This assistance will be in the form of loans of up to 75 percent of the cost of the machinery and equipment. These loans will be interest free for up to two years with a moderate interest charge for any amount outstanding at the end of the period. The repayment period will depend on the size of the loan and on the utilization of the equipment for production of consumer-ready fish products.

Such a program will effectively encourage the smoking, cooking, breading and canning of fish and increase the value added to our fish products. My Colleague, the Minister of Fisheries, will be announcing details concerning this new program. The opportunity for expanded employment through the production of fish in consumer packaging is very great indeed and this new program will accelerate the growth of this important aspect of the fishing industry.

Our constitutional jurisdiction in the fishery is limited, with the major responsibility resting with the Government of Canada. Yet we do believe that as a Province, with centuries of experience in the fishery, and as a Province which has traditionally led in new development and innovation in this primary industry, that any realistic and understanding Government in Ottawa will look to us for the kind of expert advice, which in my opinion abounds within this Province and which we are ready to share with others on a co-operative basis. Indeed, we have requested a larger role in the management of the fishery resource and a further delegation of responsibility to provincial authorities.

Hydro-Electric Energy

Newfoundland has been blessed with immense hydro-electric resources, particularly in the Labrador section of our Province. Churchill Falls is already producing 5,225 megawatts (MW) of power and 34.5 billion kilowatt hours of energy annually. The undeveloped power potential of rivers lying completely within Labrador including Gull Island (1,600 MW), Muskrat Falls (600 MW) and others collectively estimated at 1,900 MW is equivalent to 44 million barrels of fuel oil. To place this in perspective, the annual consumption of heavy fuel oil in Canada approximates 100 million barrels. Newfoundland therefore has the undeveloped hydro-electric potential to produce the energy equivalent of almost half of Canada's annual consumption of heavy fuel oil. Government strongly feels that these resources must be developed to serve the energy requirements of Newfoundland, and to provide an equitable economic and financial return to the Province.

On Island in 1978-79 we will witness major construction work on the Hinds Lake hydro site which, when completed in 1980 at a cost of \$80,000,000, will provide an additional 75 megawatts of power to the Island. In the Labrador section of our Province, the major hope is for a construction start on the Gull Island project early in 1979. The targeted date for delivery of power to the Island is early 1985 and the construction work on the project will generate 10,000 man-years of employment with about 3,000 men being employed at the peak of construction.

The Province of Newfoundland has already expended great effort and indeed invested \$110,000,000 into this critically important project. The Government of Canada recently agreed to commit \$5,000,000 to the proposed Lower Churchill Development Corporation to get the project moving. I can assure Newfoundlanders that Gull Island will be built for the benefit of this Province and on conditions favourable to our long-term development.

Oil and Gas Potential

The offshore petroleum potential in the 700,000 square mile area of the continental margin, over which Newfoundland is claiming jurisdiction, is estimated to be 3.5 billion barrels of oil and 40 trillion cubic feet of gas. Over the past several years 54 wells have been drilled at a cost of over \$250,000,000. Three significant natural gas discoveries have already been made off the Labrador Coast.

The Government has, over the last year, continued to defend the Province's rights to the oil and gas potential within the continental margin and will continue to defend such rights with all the means at our disposal. These resources hold the key to our long-term prosperity and it is crucial that they be managed for the benefit of the Province. The highlights of our recent effort in this regard were (i) the promulgation of the Newfoundland and Labrador Petroleum Regulations, 1977, and (ii) the issuance of 9 exploratory permits to Shell Canada Resources Limited on March 1st, 1978. Perhaps equally significant was the fact that this Government refused to concede to the significant and unacceptable demands made with respect to amendments to the Petroleum Regulations.

The coming year will see the conclusion of negotiations on first round applications and an escalation of offshore developments leading to a resumption of drilling in 1979. Also, final preparations for the Reference to the Supreme Court of Canada will take place in early 1979. The special interests of the people of this Province in the development of these resources are starting to be fully recognized by outside parties and it is the high purpose of this Government to ensure that those interests dictate the manner in which development of this energy resource takes place.

Forestry Resource

The forests of Newfoundland permit an annual cut of 2.0 million cords including 200,000 cords in Labrador. Government plans to ensure full utilization of its forestry resource and to increase forest yields in the long run through improved management practices. In addition to management programs, Government will be introducing programs to improve harvesting, processing and transport technology. The total cut required for all sawmills and pulp and paper mills, including Labrador Linerboard is 1.4 million cords. Employment in the forest industries should increase by 1,500 man-years by 1982 with approximately 400 of these jobs coming in the sawmilling sector, with most of the remainder resulting from the re-opening of Labrador Linerboard.

I would be the last to raise unnecessarily the hopes of those people in the Stephenville area who could be beneficially affected by a re-opening of Labrador Linerboard, but certainly Government has never been more optimistic about the Mill's future. The most attractive opportunity for divestiture is the interest amongst prospective purchasers in converting the Stephenville Mill to a one-machine newsprint operation. Approximately \$48,000,000 of new investment will be required in addition to the purchase price which Government will negotiate for the Mill. The work of converting the Mill to a one-machine newsprint operation will take from 18 to 24 months to complete from the time the divestiture is effected.

The projected rate of return based upon current market prices for newsprint is well above any minimum level that an investor might require for the degree of risk involved. Several newsprint producers are actively and seriously evaluating the acquisition of the Mill. Our aggressive but confidential divestiture effort is proceeding to an expeditious and hopefully successful selling effort in 1978.

An extensive Spruce Budworm Spray Program will be launched in 1978. Following extensive studies and research, Government has concluded that in order to protect our vital forest resources, it has no option but to take immediate action to curb the budworm infestation. A spray program covering 1.2 million acres will be undertaken this summer by the Department of Forestry with expenditures totalling \$3,500,000. The two major paper companies in Newfoundland have agreed to assist financially in this program with a contribution of \$1,500,000. The impact of the spraying will be closely

monitored by the Department of Consumer Affairs and Environment to ensure that there are no adverse environmental consequences resulting from the program.

Industrial Development Strategy

Experience has clearly proven to all Newfoundlanders that the most viable development strategy for this Province will be based upon our primary resources. Both the fishery and the oil and gas sectors have the ocean as their working environment. Exploitation of these marine resources will require development of a vibrant ocean-related industry base in this Province. To this end, Government has established the Newfoundland Oceans Research and Development Corporation and is endeavouring to have established a National Shipbuilding Engineering Program as well as the most technologically advanced model facilities for the testing of ice-breaking vessels. It is vital that the Province participate in the technological challenges which development of these resources will present and we intend to do so in a vigorous manner.

The development of Gull Island and other energy resources in Labrador will provide this Province with significant amounts of competitive and stable priced energy into the 1980's. This energy will provide a very real opportunity to attract industries in which energy constitutes a significant cost of production. Such energy intensive industry will permit expansion and diversification of the Province's economic base, provide greatly increased employment opportunities, and provide the basis for further manufacturing operations.

Government is optimistic that the outcome of the recently announced joint Canada/US feasibility study of the Wabanex Oil Storage Project will prove positive and lead to inclusion of the Wabanex facility in the strategic oil storage program of the U.S. Department of Energy. Overall, Government is confident that the manufacturing sector of our economy will produce an additional 3,700 jobs over the next five years, attributable in part to various programs which I have outlined. To ensure that this important sector of our economy can obtain the necessary capital for expansion and modernization, agreement was reached recently with DREE to extend the operations of the Newfoundland and Labrador Development Corporation and to significantly increase the size of projects that this Corporation can now assist.

Transportation Development

Government has also laid plans for continued expansion and improvement of the transportation network of the Province which is fundamental to economic development. Work will begin on upgrading the Trans-Canada Highway in 1978 and \$14,000,000 has been provided in the Estimates for this purpose. The full extent of highway construction activity and transportation development is not generally appreciated and Table IV attempts to put into perspective the massive efforts of Government in this important area aided, of course, by a very co-operative Minister of DREE, in the Government of Canada:

TABLE IV
TRANSPORTATION DEVELOPMENT EXPENDITURES

	<u>1978-79</u>	<u>1977-78</u>
	\$	\$
Trans-Canada Highway	14,000,000	100,000
Northern Peninsula Highway	13,200,000	11,000,000
St. John's Harbour Arterial	12,500,000	8,000,000
Bonavista Loop Road	6,400,000	5,000,000
Highway Paving	7,500,000	9,000,000
Highway Reconstruction	7,000,000	5,000,000
Burgeo Road	4,000,000	7,000,000
TOTAL	<u>\$64,600,000</u>	<u>\$45,100,000</u>

Tourism and Rural Development

The main pillars in our Blueprint are hydro, fisheries, oil and gas, forestry and industrial development. However, other areas will continue to grow and the impact of their growth will aid the successful implementation of our plans. For instance, Government's main plans for tourism development were contained in the recently signed Tourism Subsidiary Agreement. Over \$13,000,000 will be spent over the next five years to improve tourist attractions and to strengthen accommodations. In 1978-79, almost \$25,000,000 will be spent by the Department of Tourism, an increase of more than 27 percent over 1977-78.

Government will also continue its emphasis on developing the rural economy, particularly through Regional Development Associations. A five-year plan is proposed which should create up to 900 man-years of employment annually through grants and loans to small businesses and handicrafts, and through activities of Rural Development Associations. Such business developments will, of course, be based essentially on primary resources of the forests, fields and seas.

St. Lawrence is a prime example of rural Newfoundland in action. St. Lawrence recently suffered the loss of its single major industry when Alcan decided to terminate its fluorspar mining operation. A group of publicly spirited and dedicated citizens has decided to focus its efforts upon the fishing industry for employment and they were successful in identifying a company interested in establishing a fish processing plant in St. Lawrence. Government has agreed to provide a measure of funding and to support the community's efforts to secure federal involvement. We are optimistic that the new plant will be operational in 1979.

Impact of Blueprint

The impact of successful implementation of the various components of

our Blueprint will be substantial. The Gross Provincial Product should reach \$3.9 billion in 1982, in constant 1977 dollars. Per capita income in constant 1977 dollars should rise from \$5,000 to \$6,300 and employment should increase by nearly 40,000 jobs rather than 20,000 that would be projected without special action programs by Government.

These targets will be realized through a program of co-operation, investment and development. It is my belief that (i) the people of this Province will co-operate by postponing their expectations for new and expanded social programs, (ii) the private sector will be prepared to invest aggressively in new businesses or to expand existing enterprises, and (iii) the Government of Canada will co-operate through fisheries management policies, hydro-electricity financing and with funds for regional development. The next five years must and will lay the important foundation for maximizing the long-run development potential of this Province and this Government is determined that such a foundation will be put in place.

BUDGET PERSPECTIVE

Despite Newfoundland's great resource potential, it has experienced some short-run financial difficulties related to economic ills of both a provincial and national nature. These economic problems have required Government to make financial decisions aimed at maintaining and improving the Province's fiscal position and 1978 has proven to be no exception. I must emphasize, however, that we have not lost sight of the realization that the long-term solutions to our financial position will result from economic revitalization.

During the 1978 Budget process, Government paused and reflected upon whether our financially responsible decisions were consistent with an acceptable and equitable position for our Province within the Canadian Confederation. We had to assure ourselves that the fiscal actions that we were prepared to take would not downgrade Newfoundland to the status of a second-class and disparaged Province in our Nation.

We reflected on Term 29 award in the Terms of Union and the annual award of \$8,000,000 granted in perpetuity to the Province as a revenue deficiency payment. This deficiency payment was supposed to enable Newfoundland to continue with public services at the level and standard of that obtained generally in the Maritime region without resorting to more burdensome taxation. In view of the rising costs and the lack of any escalation provision in Term 29, the \$8,000,000 amount is now less than 1 percent of our current account revenues. When it was recommended in 1958, it constituted 15 percent of our current account revenues. We concluded, therefore, that Term 29 has become a relatively insignificant payment which most assuredly does not meet its original objective in terms of being an important revenue source related to service improvement and taxation moderation.

The perspective, therefore, that dominated the 1978 Budget process simultaneously comprised a number of conflicting factors including (i) enormous resource potential in the long run, (ii) achievable economic revival in the short run, (iii) standards of public services and levels of taxation relatively less favourable than Maritime Canada, and (iv) immediate budgetary constraints which demand actions undesirably inconsistent with our future potential but necessarily consistent with financial responsibility.

1978-79 FINANCIAL STRATEGY

Current Account

In facing the financial reality of our situation for 1978-79, it became obvious that we must accept a position that tough realistic budgets will be a fact of life until our overall financial and economic conditions change. This is not a pessimistic prediction as I believe it is inevitable that we will see a positive impact on our financial position from the development of our resources over the next few years.

Budgetary measures aimed at limiting the growth in public spending are a fundamental fact of life across Canada. The general public and taxpayers of all Canadian Provinces are demanding that Government spending be brought under control. Newfoundland has been sensitive to the need for more social effectiveness in its programs and recent Budgets have been consistent with this need. The strategy of the 1978 Budget is to re-arrange programs, priorities and revenue sources to achieve a financially, economically and socially responsible plan for the coming year.

The Government's financial plan for 1978 attempts to accommodate the unalterable requirement for restraint, not by across-the-board cutbacks on expenditures, nor by general tax increases, but rather by a combination of tailored expenditure programs and revenue revisions. For instance, we have made a number of decisions in relation to social programs which should lessen or re-distribute their burden on the taxpayers of Newfoundland.

Government is budgeting for a contribution to capital account of \$11,500,000 from current account in the coming year and thus re-affirms its commitment to a balanced current account. It is anticipated that current account expenditures will grow by 9.6 percent while revenues will grow by 11 percent to achieve the position outlined in Table V:

TABLE V
CURRENT ACCOUNT SUMMARY

	<u>1978-79</u>	<u>1977-78</u>
	\$	\$
Expenditures:		
School Operating Costs	190,904,500	178,957,700
Hospitals and Homes for Special Care	173,809,100	155,815,000
Interest on Outstanding Debt	157,574,500	136,337,000
General Service Salaries and Benefits	140,061,600	131,724,400
Social Assistance	52,000,000	50,100,000
Memorial University	48,456,200	46,548,900
Medical Care Commission	36,300,000	34,100,000
Other Expenditures	<u>246,568,200</u>	<u>220,752,300</u>
Total:	<u>1,045,674,100</u>	<u>954,335,300</u>
Revenues:		
Tax Equalization	300,108,000	263,877,000
Retail Sales Tax	185,300,000	156,776,000
Personal Income Tax	141,931,000	129,767,000
Established Programs Financing	115,506,000	93,192,000
Gasoline Tax	41,500,000	40,000,000
Newfoundland Liquor Corporation	37,000,000	34,000,000
Canada Assistance Plan	29,167,600	38,679,800
Corporate Income Tax	23,554,000	24,566,000
All Other Revenues	<u>183,120,600</u>	<u>171,498,200</u>
Total	<u>1,057,187,200</u>	<u>952,356,000</u>
Contribution to Capital Account	<u>\$11,513,100</u>	<u>\$ (1,979,300)</u>

Health and Rehabilitation

The new Health Sciences Complex will open in 1978 through a gradual transfer of services from the present Forest Road facility. This new modern complex will be the core of acute and specialized hospital care for all of the Province employing the latest facilities and treatment techniques which medical science has developed. Government is extremely proud of both the Medical School and its new Hospital Complex which is a great stride forward in medical care in this Province.

Unfortunately, under the new arrangements introduced in 1977 with the Federal Government, the cost-sharing aspects of hospital operating costs have been terminated and the start-up costs as well as the additional operational cost of the Health Sciences Complex, which would have been funded in excess of 50 percent by the Government of Canada, are now a full charge on the Provincial Treasury. This is one of the factors which has created an extraordinary difficulty to us in balancing the 1978 Budget. Accordingly, we have required

that the Complex be phased into operation over the next 18 months and that a maximum number of 290 of the 340 beds available be used in this fiscal year.

The vacating of the Forest Road complex by the General Hospital provides Government with an opportunity to improve the standard of care, and indeed the quality of life, of many of our people who are at present cared for in out-moded buildings and facilities. Government has long been concerned over the need to provide improved accommodation of such institutions as Hillview Lodge and the Children's Home. Accordingly, we have deferred the introduction of any new programs or additional services at the Forest Road complex. This action will enable us to concentrate on planning for the use of this valuable space in a manner which most satisfactorily accommodates our immediate priority of upgrading the standard of care for those people who need it most, but keeping in mind the need to severely restrict additional operating costs in the health field.

Despite the general restraint measures successfully imposed in previous Budgets, our hospital operating costs in 1977-78 rose by 12 percent and we are projecting a further rise of 11 percent in 1978-79 which, to say the least, is disturbing. In an effort to keep this growth to a minimum, further restraint measures will be imposed in 1978. Also, in order to help offset these costs, we propose to introduce a ward fee of \$3.00 per day up to a maximum of 15 days or \$45.00. There will be no charge after the fifteenth day. Private and semi-private room rates will be increased by 50 percent. These decisions will bring a measure of contribution toward the cost of running our hospitals and in a Province where there is no health insurance premium, this is surely a minimum measure.

Government is proud of our Children's Dental Health Program as it is one of the best in Canada. However, the disadvantage of the Program is that too many children do not continue to obtain dental services after their eleventh birthday. It is generally recognized that the early teenage years are critical years in terms of dental health. For this reason, Government has decided to expand the Children's Dental Health Program to cover children up to their thirteenth birthday, with the overall objective of covering children up to their fifteenth birthday in the next few years. To assist in financing this program, patients will now be required to pay a \$2.00 charge per service for dental "treatment" provided. Regular routine dental examinations which result in no treatment will continue to be provided free to all children up to their thirteenth birthday — as an incentive for parents to ensure regular examination of their children's teeth.

School Operating Restraint

In the area of education expenditures, we will be requiring School Boards to assume more local responsibility in meeting the cost of school bus transportation. Currently, the Province pays 95 percent of the cost of transportation of school children with the remaining 5 percent being paid by School Boards themselves. We will now require the Boards to finance 10 percent of the cost of busing from the various means at their disposal. In spite of these proposed changes, the 1978-79 Estimates will provide in excess of \$11,000,000 for school busing expenditures which are financed by Government.

In addition, a change will be made in the method of financing the cost of textbook materials supplied to school children. Starting in the next school year all consumable supplies such as workbooks and activity books, will have to be paid for fully by the students. However, the free textbook policy for Kindergarten to Grade VIII and the seventy-five percent Government subsidy for all high school textbooks will remain unchanged.

Government is aware of the financial problems facing School Boards and my Colleague the Minister of Education recently received a brief from the Federation of School Boards of Newfoundland relating to school board finances in the Province. The extreme restraint necessary in school board operations are, of course, being experienced elsewhere throughout the public service. We intend, with the co-operation of School Boards, to undertake a thorough examination of the costs of providing our basic educational programs in Newfoundland and it will be undertaken in the context of the operating and maintenance grant needed. It will also include an examination of the role of School Tax Authorities in the financing of operating costs in education. Hopefully this approach can strengthen the financial relationship between School Boards and Government.

Student Aid Policy

At the present time, Newfoundland has the most generous Student Aid program in the Atlantic region and probably in Canada, costing the Province approximately \$5,500,000 in the current year. In 1978-79, changes will be introduced in the present policy so that students will be required to borrow \$700 per semester under the Canada Student Loan Program before becoming eligible for provincial assistance. This change will bring our policy in line with that followed in other Atlantic Provinces. Although Government was reluctant to make this decision, it felt that in this period of fiscal restraint it could no longer continue a student aid program more generous than that offered in the other Atlantic Provinces.

Vocational and Adult Education

In keeping with our objective of concentrating on economic priorities and reducing expenditures wherever possible, there will be some changes in the administration of the vocational education program. While there will be no change in the variety of courses offered, there will be a reduction in the amount of duplication of course offerings among various schools. This may mean an actual reduction of courses given in certain schools. With respect to adult education, there will be a significant reduction in the evening and part-time courses offered, except for courses in academic upgrading. Moreover, fees for all evening and part-time courses will be increased next year.

A change is also being made in the student aid policy for vocational students so that these students will have access to funds available under the Canada Student Loan Program. Effective next September, provincial students will be able to take advantage of the Canada Student Loan Program for such additional financing they may require in relation to their need and in addition to their existing allowances. Government views this as a very positive step for these students.

Social Benefit Increases

Government is very much aware of the increasing economic pressures confronting the segment of our population which is on social assistance. In view of this, we have decided to increase our social assistance payments by 5 percent effective April 1st, 1978. Government believes the fundamental solution to the problems confronting these people currently in receipt of social assistance lies in the permanent and productive job-creating prospects which the Province is pursuing with our development plan.

I am also pleased to announce that Government has decided to grant an average increase of 5 percent effective April 1st, 1978 to pensioners who are receiving pensions from Government under any of the Public Service Pension Plans. This improvement in pensions will provide a greater percentage increase to persons with the lowest pension incomes. Therefore the implementation of the increase will allow for an award of \$240 a year or 5 percent, whichever is the greater, up to an individual maximum of \$600.

PUBLIC SERVICE MEASURES

Productivity

It is often suggested by the taxpayers of this Province that Government and its Agencies are inefficient and have low productivity. Government will be addressing this problem with the same type of aggressive approach that we are instituting in our resource development policies. Modern management techniques and staff training are helping us eradicate any existing inefficiencies in the Public Service. Certainly, no Government can justify increased taxation to preserve inefficiency or low productivity. A program to achieve staff reductions totalling 300 full-time positions and at least 200 seasonal positions in Government Departments will be instituted and completed during this year following a careful review of the staffing patterns in all Government Departments.

One of our major efforts in improving efficiency will concentrate on Government's highway maintenance program. It will be streamlined and the scheduling of seasonal employment will be refined to minimize the periods of under-utilization of manpower and equipment. While seasonal employment will be reduced by up to 200, greater efficiency can still be achieved through the employment of more modern engineering and technical concepts which will guarantee the preservation of a reasonable standard of maintenance.

The recent announcement that the number of teaching positions in the Province will continue to decline in line with enrollment decreases is a further indication of our efforts to keep staffing in the public service at levels consistent with our financial position. The emphasis on efficiency will be carried to all parts of Government activity and we will be ensuring that hospital boards, school boards, and Memorial University share with us in this emphasis on productivity. The small increase in operating grants to these institutions in 1978-79 reflects Government's determination in this area.

Public Sector Compensation

Government is facing a very busy year in public service collective bargaining. The collective agreements and compensation plans for virtually every group in the service will be up for review. It has been argued by some that the termination of the Anti-Inflation Program could greatly aggravate negotiations this year. There is apprehension that there may be greatly inflated wage demands with the commencement of the decontrol process. In Newfoundland we are already heavily burdened with a salary bill in the public service in excess of \$425,000,000 and I do not believe that union demands are going to be unrealistically inflated.

We have also received expressions of concern from certain of our public sector groups who feel their relative wage position within the public service will deteriorate as a result of the decontrol process due to the timing of their collective agreement. Government will ensure that the delicate balance which exists between the many public service groups is not disrupted by any aspect of the decontrols program. The 1978 Budget provides for a continuation of a moderate level of salary adjustments consistent with the need for Government to limit wage expenditures to live within its means.

The options open to Government to finance settlements beyond those provided for in the Budget are, frankly and realistically, further service reductions which will mean further lay-offs or even more tax increases. Government has decided that both options are unacceptable and it is our view that responsible union representatives understand these constraints. Accordingly, the major thrust of our bargaining strategy for 1978-79 will be that regardless of external factors and arguments, Government can only make settlements with its employees which are consistent with the Province's ability to pay.

Pension Policy

In the 1977 Budget, Government announced its decision to undertake a full-scale actuarial evaluation of all the pension plans which it presently administers. The final reports on all plans have not been received. Most of our existing plans are currently self-sustaining in that pension contributions collected from employees still exceed the annual cost of benefits paid out to pensioners. However, preliminary estimates show that by 1983 in the case of the teachers and 1980 in the case of the Public Service plan, the benefits paid out will exceed the contribution unless contribution rates are increased and funding measures instituted.

When pension funding is introduced, it will impose an additional charge against our taxation revenues and there will be a need for public employees to increase their contributions to the plans. Government has decided to defer definitive action on the pension plan to permit further discussion with employee groups and to develop a phased approach to solving our problems in order to minimize the impact of these necessary financial measures.

Pensions and pension funding are essentially long-term policies and problems but the sooner we are able to develop a meaningful approach the

easier the burden will be. Our current position is that a responsible approach to contribution rate adjustments and funding generally will involve incremental adjustments on a regular basis each year for the next several years. This phased approach to funding must and will be finalized during the current year for implementation in 1979.

FISCAL MEASURES

Taxation Measures

Even with the budgetary measures I have outlined, Government is still faced with the need for further expenditure reductions and/or additional tax revenues to achieve a prudent current account position. In agonizing over the immediate need for taxation measures which could be introduced to responsibly balance the 1978 Budget, Government gave serious consideration to the introduction of a user fee of up to \$3.00 per visit to a doctor for medical care. It also gave consideration to the introduction of a health insurance premium similar to that in the Province of Ontario where the family charge was recently increased by 37½ percent to \$528 per year. However, we decided for a Province of our size, with its economic structure, low per capita income and high unemployment rate, that both of these taxes would be highly regressive and despite their ability to produce substantial additional revenue, Government has rejected both at this time.

We have decided to add, effective immediately, an additional three cents tax to the price of a package of cigarettes and comparative amounts to tobacco and cigars. In addition, the profit level required from the Newfoundland Liquor Corporation will result in some price adjustments on wine and spirits during the fiscal year.

Retail Sales Tax

The major revenue options for 1978-79 involve retail sales tax which, in this Province, is already at a Canadian high of 10 percent and which will now be raised to 11 percent, effective immediately. The insurance premium tax on all new premium billings after today's date will accordingly be raised to 11 percent.

Our retail sales tax rate is deceptive. It is only levied on the purchase of tangible personal property and services, on accommodations, telephone and electricity, and our rate cannot be directly compared with that of other Provinces where the retail sales tax is applied to a much wider range of goods. The highly regressive nature of the retail sales tax has been removed in Newfoundland by our policies to totally exempt all food purchases; all clothing; all footwear; prepared meals of \$3.00 or less; furnace fuel oil and stove oil; farm machinery and fertilizers; fishing equipment; wood and coal; and fuel oil, gas and coal for manufacturing. In addition, 50 percent of the sales price of mobile homes is exempt from tax. These exemptions mean that retail purchases for the necessities of life are, for all intents and purposes, totally exempt. As a further retail sales tax exemption measure we are removing, effective immediately, the tax from wood-burning stoves and wood-burning furnaces used for heating purposes.

One of the inconsistencies in our exemption policy to date has been that fuels for heating purposes were exempt but electric heat was still subject to retail sales tax. I am pleased to announce that, as of today, retail sales tax has been removed from all domestic consumption of electricity and this not only includes household consumption for electric heating but also domestic consumption for lighting, cooking, hot water production and other non-heating purposes. This decision again reduces the regressiveness of the retail sales tax and puts into further perspective the new rate of 11 percent.

Government is currently studying the feasibility of exempting School Boards and Memorial University from the payment of retail sales tax on electricity. The possible impact of such a decision has not been fully examined but in view of the increased operating costs at these institutions Government is seriously considering alleviating the burden of tax on this significant aspect of their operating costs just as we have relieved domestic consumers.

Cost of Electricity

As all taxpayers of the Province are aware, Government decided last year to require Newfoundland and Labrador Hydro to justify its need for rate increases before the Public Utilities Board. It was our belief that this was a wise decision which would allow the general public to have a greater awareness and understanding of the factors which influence the cost of producing electricity. During the hearings on the requested rate increase, the Public Utilities Board allowed a full discussion on all aspects of power rates and showed a determination to give no grounds for claims that Hydro was not required to make full and complete disclosure of its cost of service.

In light of these hearings, Government is more convinced than ever of the prudence of its decision to compel Hydro to submit its rates to the Public Utilities Board. The Commissioners have submitted to my Colleague, the Minister of Mines and Energy their recommendations for an increase of 25 percent in the rates charged by Hydro to Newfoundland Light and Power. The Government of Newfoundland and Labrador have accepted in total the recommendations of the Board and the increases will become effective immediately.

It is critically important that this rate increase to Hydro be put into a proper perspective as it affects Hydro and as it affects the people of Newfoundland. The granting of the increase to Hydro will improve its overall standing in world financial markets and this is particularly important to our Hydro Corporation, to whom Government has given the mandate to develop the hydro electric potential of our Province. We must never lose sight of the need for a financially sound Corporation to carry out these hydro projects which are so important to our future and so important to reducing our dependence on thermal power to produce electricity.

As far as the consumers of electricity in Newfoundland are concerned, the retail increases allowed by the Public Utilities Board will have the effect of raising their rates by approximately 9 percent. However, in view of Government's decision to exempt domestic consumption of electricity from the sales tax, household consumers of electricity in Newfoundland can look

forward to no effective increase in their electricity bills despite Hydro's approved increase. Let me reiterate that even though we have decided to approve a 25 percent increase in the retail rates charged by Newfoundland Hydro, the domestic consumers in Newfoundland will not have to pay any increase in their electricity bills because Government has decided to exempt such bills from retail sales tax.

Corporate Income Tax

In the area of corporate tax we were determined to provide an incentive for small enterprises and for struggling larger companies suffering from low profit levels. Therefore, Government will initiate a two-tiered corporate income tax rate, effective commencing in 1978, in which the rate for small business will be reduced to 12 percent and the rate for all other business will remain at the existing rate of 14 percent. The definition of small business will coincide with that in the Canadian Income Tax Act and, in general terms, means a Canadian-controlled private corporation whose total taxable income since 1970 is less than \$750,000.

If a company qualifies as a "small business" its first \$150,000 of taxable income in any fiscal year would be taxed at the lower rate and the balance in excess of \$150,000 be taxed at the higher tax rate. The effect of the introduction of such a policy would mean that small businesses would be taxed at the combined Federal and Provincial rate of 27 percent on their first \$150,000 and at 50 percent on all income in excess of that amount in each fiscal year. Based upon the best information available, approximately 90 percent of the 1,550 Newfoundland tax paying companies will benefit from the new two-tiered corporate income tax structure. It is estimated that the tax savings to qualifying companies will approximate \$1,600,000.

This new corporate tax rate system will hopefully encourage small business and re-inforce both our rural development policies and the work of our Special Action Group. It will also enhance our program of encouraging businesses of all types to invest in all areas of the economy.

CAPITAL ACCOUNT AND FINANCIAL REQUIREMENTS

The 1978-79 capital account budget reflects Government's determination to limit, wherever possible, capital projects not directly related to resource development. In particular, we were very cognizant of the effect new projects may have on our future operating costs on current account. Capital account expenditures will total \$239,400,000 with emphasis being on resource and transportation development. The Government of Canada has been particularly helpful in areas such as the Trans-Canada Highway, Tourism, Forestry and major highway construction and the net capital account figure is \$157,000,000 after taking into account revenue which is mainly from DREE.

While Government has imposed a program of general restraint in all areas the provincial public sector will, nevertheless, generate a high level of construction activity in 1978-79. In total, Government and its agencies will oversee projects totalling some \$300,000,000 in fisheries, transportation, Hinds

Lake, housing, water and sewer and school construction. Gull Island, of course, is a hopeful addition to this amount. These projects will provide continued stimulus to our economy.

Library

Government will, in 1978, ask this Honourable House to approve the start of construction of a new library at Memorial University, an approval which will be granted in the sure and certain knowledge that the very heart and core of the University - namely, the Library - will continue to serve the growing needs of this institution of learning. The student body of the University has overwhelmingly voted to give \$750,000 of the student union fund toward the construction of the Library and Government will be making a similar contribution in 1978-79. We have also agreed to help the University Administration in whatever manner possible to get a successful Drive For Funds started and we have agreed to match any of the contributions on a dollar-for-dollar basis up to a maximum of \$7,000,000. With this kind of arrangement, a start can be made on the Library in 1978-79 with construction to be completed and financed over the next three years or so.

I cannot emphasize enough the priority we place on University education. The decision of the student body to turn over the funds for construction of the Library re-affirms the confidence Government places in the University and its potential.

Hospital Construction

We have a responsibility as a Government to maintain a strong reputation in the capital markets of the world and therefore certain responsible decisions must be taken this year. During the past several years we have seen a vast improvement in the health care services and facilities available to all residents of our Province regardless of where they live. In that light and in the discharge of our financial responsibility, Government has decided there will be no new hospital construction this current fiscal year. The high additional operating costs of new hospital facilities are difficult to justify particularly given the high standards of care we have now reached in this Province. Concentrated effort to ensure the protection of the present standard will go on.

Overall Financial Requirements

The budgetary measures taken on current account along with the realistic limits set on our capital account expenditures, will enable the Province in 1978-79 to maintain its borrowing requirements at a level consistent with financial prudence. In the coming year, we are budgeting for total borrowing requirements of \$190,463,000 compared with the revised requirement for 1977-78 of \$187,401,100. Our borrowing needs will be accommodated through a combination of financing from the Canada Pension Plan, the Canadian bond market and the international financial markets. Table VI summarizes our requirements:

TABLE VI
OVERALL FINANCIAL REQUIREMENTS

	<u>Estimates</u> <u>1978-79</u>	<u>Revised</u> <u>1977-78</u>
	\$	\$
Capital Expenditure - Gross	239,439,900	202,929,700
Related Revenue	<u>82,366,300</u>	<u>65,607,900</u>
Net Capital Expenditure	157,073,600	137,321,800
Debt Retirement	44,902,500	48,100,000
Contribution from Current Account	11,513,100	(1,979,300)
OVERALL FINANCIAL REQUIREMENT	<u><u>\$190,463,000</u></u>	<u><u>\$187,401,100</u></u>

CHURCHILL FALLS – A TRAGEDY

The decisions made in the 1978 Budget have not been easy ones for Government. They have been made in the best long-run interests of the people of this Province. It is more than symbolic therefore that the cover of the 1978 Budget shows the mighty Churchill River flowing over the famous Falls which today are still a reminder of the great economic tragedy of the Churchill arrangements for the people of Newfoundland. It is certainly ironic that Government is forced by the necessity of financial prudence to reduce services and increase the burden of taxation while this inequitable contract continues to allow the flow of hundreds of millions of dollars in potential profit from our Province into neighbouring Quebec.

It is disheartening to review the figures which show the conversion of energy from Churchill Falls into an equivalent amount of heavy fuel oil, which is used in thermal plants to generate electricity. The 34.5 billion kilowatt hours produced at Churchill is equivalent to more than 55 million barrels of oil annually and at a world price of \$15 per barrel this oil would be worth \$825,000,000. The price of approximately three mills currently paid by Hydro-Quebec provides a total revenue annually to Churchill Falls (Labrador) Corporation of about \$100,000,000 which translates into an equivalent price for oil of \$1.80 per barrel. The loss of potential profit to CFLCO is therefore in the order of \$725,000,000 annually and the loss of economic rent to the Province of Newfoundland exceeds \$400,000,000 annually.

It is our hope that Quebec will be reasonable in re-negotiating this contract. Recapture of our fair share of this economic loss would significantly alter the overall financial position of Newfoundland and Labrador, improve our credit rating and ensure absolutely our ability to finance our resource development potential particularly as it relates to hydro sites at Gull Island and Muskrat Falls.

I am sure all Honourable Members agree that the greatest source of undeveloped hydro in North America is situated in the Labrador sector of our

Province. Yet today it continues to flow unharnessed into the sea. The fact that the Gull Island site and others on the rivers of Labrador have not yet been developed to meet, firstly, the demand for industrial development in our Province and; secondly, the energy needs of Eastern Canada is a quandry which confounds even the most fundamental rules of economics. I can assure the people of Newfoundland, however, that when they are developed, it will not be on the basis of sell-out arrangements similar to Churchill Falls. Nor will joint river development with the Province of Quebec proceed unless Newfoundland gets its equitable share of the economic rent involved.

What Newfoundland wants and deserves is what we are fighting for and that is an equitable access to Churchill power, a reasonable escalation in price based on current world energy costs and a co-ordinated operating agreement with the Churchill plant which will allow the development of the other Churchill River sites at Gull Island, Muskrat Falls and Lobstick. The Government of Newfoundland and Labrador is not prepared to act rashly in its attempts to have the Province of Quebec respond to our willingness to re-negotiate the Upper Churchill. On the other hand, we will not stand by and allow our position to deteriorate while the people of our Province demand more imaginative and drastic measures and when decisions such as those taken in this Budget perpetuate and increase such demands.

CONCLUSION

Mr. Speaker, I bring down this, my first Budget, at a time when Newfoundland stands on the threshold of a giant leap forward based on the sure and certain development of our resources. We have been part of the Canadian Federation for almost 28 years and we consider ourselves an integral part of this dynamic nation, whose leadership in the free world is becoming increasingly more important every day. The benefits which have accrued to Newfoundlanders as a result of this happy union are known to all, yet we still have a long way to go to bring the level of public services in our Province up to the standard prevailing throughout Canada at a cost which Newfoundlanders feel is equitable.

If we are to accomplish this desirable end, we can only do so as a result of the leadership of an understanding national government and the determination of our people to develop what is around us. We will not compromise our way of life, we will not sacrifice our heritage and traditions, we will not give away our resources but we will move forward with carefully-planned resource-based economy that is conducive to a healthy, free enterprise environment.

I say with absolute confidence that whilst the twentieth century belongs to Canada, the last quarter of that century most assuredly belongs to the people of Newfoundland and Labrador.

Vive la Terre Neuve Libre!

On motion, debate adjourned until tomorrow, Monday.

MR. A. HICKMAN(Minister of Finance): Mr. Speaker, I have a message from his Honour, the Lieutenant-Governor.

MR. SPEAKER: The following message is addressed to the hon. Minister of Finance:

"I, the Lieutenant-Governor of the Province of Newfoundland, transmit estimates required for the public service of the Province for the year ending 31st. day of March 1979, in the aggregate of \$1,063,143,600 and in accordance with the British North America Act of 1867, as amended, I recommend these estimates to the House of Assembly.

(Sgd) Gordon A. Winter
Lieutenant-Governor."

MR. HICKMAN(Minister of Finance): Mr. Speaker, I move that the message from His Honour, the Lieutenant-Governor, together with the estimates be referred to a Committee of Supply.

On motion that the House resolve itself into Committee of Supply, Mr. Speaker left the Chair.

MR. CHAIRMAN: Order, please!

On motion that the Committee rise, report progress and ask leave to sit again, Mr. Speaker returned to the Chair.

MR. CHAIRMAN: Mr. Speaker, the Committee of the Whole have considered the matters to them referred, have made some progress and ask leave to sit again.

On motion report received and adopted Committee ordered to sit again on tomorrow.

MR. SPEAKER The hon. Minister of Finance.

MR. HICKMAN: Mr. Speaker, I give notice that I will on Monday ask this House to resolve itself into a Committee of the Whole to consider certain resolutions relating to the imposition of a tax on the income of corporations.

MR. HICKMAN: Mr. Speaker, I give notice that I will on Monday ask this House to resolve itself into a Committee of the Whole to consider certain resolutions relating to the imposition of a tax on retail sales.

Mr. Speaker, I give notice that I will on Monday ask this House to resolve itself into a Committee of the Whole to consider certain resolutions relating to the imposition of a tax on tobacco.

Mr. Speaker, I give notice that I will on Monday ask this House to resolve itself into a Committee of the Whole to consider certain resolutions relating to the imposition of a tax on insurance premiums.

Mr. Speaker, I move that the remaining orders of the day do stand deferred and that this House on its rising do adjourn until Monday, March 20, 1978, at 3:00 p.m. and that this House do now adjourn.

On motion, the House at its rising adjourned until tomorrow Monday, March 20, 1978 at 3:00 p.m.