

PRELIMINARY  
UNEDITED  
TRANSCRIPT

HOUSE OF ASSEMBLY  
FOR THE PERIOD:  
3:00 p.m. - 6:00 p.m.  
FRIDAY, MARCH 28, 1980

March 28, 1980, Tapes 714 - 716 -- apb

The House met at 3:00 p.m.

Mr. Speaker in the Chair.

MR. SPEAKER(Simms):

Order, please!

The hon. the Minister of

Finance.

SOME HON. MEMBERS:

Hear, hear!

DR. COLLINS:

Mr. Speaker, I move that

the House resolve itself into a Committee of Ways and

Means and that the Speaker do leave the Chair.

**MR. SPEAKER:**

The Budget Speech, in our parliamentary system, presents Government's second major statement on the overall program it intends to pursue during a particular fiscal year. Government's first major statement to this effect is, of course, the gracious Throne Speech which opens each new session of this General Assembly of the Province, setting out the policy guidelines within which Government will operate.

This Budget, seeks to achieve several main objectives. Firstly, it gives an appropriate degree of continuity to ongoing policies and projects which are consistent with the philosophy of the Peckford Administration. Secondly, it provides the structure within which those programs, as well as new ones, will be carried forward during the fiscal year. Finally, this Budget stands as an integral part of our updated Five Year Development Plan, as it will in fact put into operation, the economic and policy decisions established for its first year. The full panoply of the Five Year Development Plan will shortly be displayed for examination by this Honourable House and by the public and I do not, in this Budget Speech, intend further to anticipate what it will contain.

This is the second Budget which I have presented on behalf of the Peckford Administration. The first, I labelled a "hold the line" Budget, as we were then new to office and engaged in a yet uncompleted forward planning exercise. This present Budget, is the result of those labours, pursued assiduously, almost without break, over the intervening eight to nine months by Ministers and senior Government officials, under the dynamic leadership of the Premier.

It is invidious to point otherwise, to individual contributions to the process which resulted in this Budget, but all Honourable Members will understand, if I do pay public tribute in recognition of the particularly onerous duties performed by the Treasury Board, guided by my Honourable Colleague, the president of Treasury Board, without whose unstinting efforts, the final result literally would not have been possible.

## OUR ECONOMY WITHIN CONFEDERATION

There never has been a formal cost-benefit study on the subject of this Province's membership in the Canadian Confederation. No balance sheet has been struck showing on one side the Federal Government's contributions to the Newfoundland economy, and on the other, ours to the Canadian economy, with a bottom line showing who is indebted to whom. Nevertheless, in recent times, statements have been made pointing out the sizable outlays by the Federal Government since 1949, to the benefit of Newfoundlanders. The payments mentioned include equalization, DREE and other transfers to the Provincial Government, plus unemployment insurance, pensions and other benefits to individuals, as well as the outlays by Federal Agencies operating in the Province such as CN, Air Canada and the Post Office. Undoubtedly, the aggregate of all these payments amounts to billions of dollars, regarding which full credit is certainly due the Canadian Confederation.

Mr. Speaker, this Administration is very concerned that due recognition be given, to the other side of the balance sheet. Let us set aside for the moment the real, but difficult-to-quantify, benefits to Confederation of our 600,000 human souls, our strategic geographic position, our unique tourist dimension, and our historic and cultural heritage so acclaimed on the mainland. When we turn to major economic factors, we need only recall the millions poured into the national treasury through Federal corporate and personal taxation measures applicable to this Province. Then there are the disproportionately large sums of foreign exchange earned for Canada by our predominantly foreign exports of fish and forestry products. We can add to that the spin off from millions of tons of iron and other mineral ores sent as unprocessed raw materials to give employment in mainland Canadian mills. We can recall, as well, the captive consumer market given to central Canada's manufacturing industry through Confederation. Goods and services from central Canada displaced our own locally produced goods and those of our pre-Confederation trading partners in England and the United States. Also, let us not forget the outrage of our enforced subsidy to the Province of Quebec through the sale of under-priced power from the Churchill River. And yes, Mr. Speaker, let us even recall the critical support our offshore discoveries have been giving the Canadian dollar in the currently chaotic world financial markets, resulting in significant restraint on Canadian interest rates. In total, these elements are worth billions of dollars to the Canadian economy — all of which would otherwise be lacking without our membership in Confederation.

Accordingly, Mr. Speaker, it is not unrealistic to contend that the balance sheet, if one were to exist, would be evenly reconciled, or the credit might well be in our favour.

Mr. Speaker, there is one regard, and a striking one, in which a distinct imbalance does exist, and has done so throughout the whole period of our Confederation. Newfoundland ranks a dismal last amongst Canadian provinces in terms of per capita earned income, so that presently ours is less than 54% of the Canadian average. The average in Ontario, Alberta and British Columbia is

100% or more than that in Newfoundland. With normal economic growth in the other provinces, it has been estimated that the Newfoundland economy would have to grow at more than double the national rate in order to catch-up to the Ontario average by the year 2000. That is, we would have to increase our real earned income almost four-fold over the next twenty years just to draw even.

If our contributions to Confederation, in terms of real goods, materials and otherwise, have been so great, it is pertinent to inquire why has our earned income been so much below the national average? Clearly, the answer must lie in the fact that our contributions have been consistently under-valued. Our contribution of hydro-power to Quebec is so blatant an example of undervaluation that no further comment is required. Our strategic geographic position has been, and is, under-valued in terms of national defence installations. Our prolific fishing zones were unprotected, and hence under-valued by Canada for years after Confederation, with enormous loss of our earning power, and even with the 200-mile management zone finally in place, trade-offs of fish to Foreign nations still continue to our detriment. The potential benefits of our own local consumer market are under-valued to us, by reason of the still uncorrected centralized nature of the Canadian economy and the same applies with regard to the high degree of export of our forest and mineral resources in raw material form — all with resulting loss of employment potential and earned income to Newfoundlanders.

Mr. Speaker, we contend, and feel the facts available to us bear out our contention, that had more appropriate jurisdictional, constitutional and economic management conditions been put in place at an early stage, then earning power in Newfoundland could have, and should have, approached the national average long before this present date.

That is the direction we will pursue at every available opportunity, in order to improve upon the basis of our membership within the Canadian Confederation.

## **THE BUDGET IN CONTEXT**

Mr. Speaker, before going forward, I want briefly to look back over the Budget presentations of the past five years, in order to detect the allocation trends which will help to lend continuity to this Budget. For this purpose, gross allocations on current account for each Department and activity of Government were studied individually.

The review showed that total gross allocations rose from just over \$700,000,000 in the Fall Budget of 1975 to nearly \$1,200,000,000 in my first Budget last year, an increase during the period of 63%. The year-over-year increases during the earlier part of the review period approximated 15%, but this fell to approximately 11% annually in the latter part, as consistently applied restraint measures took hold.

It is of particular interest to note the gross current account budgeting trends for the various broad areas of Government policy and activity. These are set out in Table I which follows:

**TABLE I**  
**PROPORTIONS OF GROSS CURRENT ACCOUNT ALLOCATIONS\***

|                      | 1975<br>(Fall) | 1976  | 1977   | 1978   | 1979  |
|----------------------|----------------|-------|--------|--------|-------|
|                      | %              | %     | %      | %      | %     |
| Social Policy        | 68.20          | 68.08 | 67.09  | 64.73  | 64.70 |
| Resource Development | 14.86          | 14.08 | 13.91  | 14.55  | 14.80 |
| Consolidated Fund    | 13.64          | 14.51 | 14.87  | 16.69  | 17.19 |
| General Government   | 3.30           | 3.33  | 4.13** | 4.03** | 3.31  |

Notes: \* Allocations to Departments comprising the various Service Groupings have been modified to conform to departmental responsibilities existing for the 1979 Budget.

\*\* 1977 and 1978 Department of Finance Budgets contained non-recurring allocations of \$8,600,000 and \$9,200,000 as operating advances in respect of Labrador Linerboard Ltd.

The following activities of Government are grouped together under Social Policy:

- Labour & Manpower
- Education
- Justice
- Social Services
- Health
- Municipal Affairs & Housing, and
- Consumer Affairs & Environment.

Under Resource Development Policy are grouped:

- Mines & Energy
- Forest Resources & Lands
- Tourism, Recreation & Culture
- Fisheries
- Rural, Agricultural & Northern Development
- Industrial Development, and
- Transportation & Communications

In the Consolidated Fund Services group are:

- Public Debt Management Services, and
- Administration of Government Agencies Pension Funds.

The final group consists of General Government Services which are:

- Legislative
- Executive Council
- Finance and
- Public Works & Services

The Social Policy group of activities, during the review period, received a slowly declining proportion of the budgeted gross current account, dropping from approximately 68% of the total in 1975 to approximately 65% in 1979. This modest down-turn was secured only through the application of constant restraint measures, wherever possible. Inflation and rising energy costs require that Government remain sensitive to the legitimate demands arising within the area of its Social Policy activities.

Perhaps surprisingly, the Resource Development Policy group demonstrated a declining trend of allocations during the initial three years of the period under review, but this was reversed with an increasing trend in the last two budgets presented. The overall effect was essentially "to hold the line" in this area of activity upon which we depend to no small degree for the future viability of our society.

Consolidated Fund Services, on the other hand, showed a steady rise, accounting for approximately 13½% of gross allocations at the beginning of the period and approximately 17% in the fiscal year now ending. However, it might be noted that the year-over-year increase for 1979-80 was the least for the whole five year period.

It is gratifying to see that excluding certain non-recurring payments in 1977 and 1978, allocations on account of General Government Services remained essentially steady as a proportion of the Budgets brought down throughout the five year period.

Mr. Speaker, I believe a useful conclusion can be drawn from this analysis. It seems obvious that currently available revenue sources leave Government little flexibility with which to undertake program innovations or respond to the various challenges which repeatedly confront us. Our resources are approaching their limits in every area and may be deficient in particular sectors. Yet, demands and opportunities abound which we should not ignore. Unless new wealth can be generated, we will experience great difficulty in obtaining the level of services enjoyed by other Canadians subject to lesser levels of taxation than our own people.

It is, therefore, Mr. Speaker, our great good fortune at this time of keenly felt needs, that large scale resource developments are about to take place which hold out the strong probability that our considerable revenue needs can be met from our own internal resources.

## **1979-80 FINANCIAL PERFORMANCE**

### **Current Account**

I am pleased to report that our latest projections on current account for 1979-80 indicate a significant improvement over the budgeted position. The actual growth rate in revenues has been stronger than the budgeted level and has

more than offset the net variances on expenditures. As a result, we are now estimating that current account will provide a net contribution to capital account for the year of some \$20,500,000 compared with the budgeted figure of \$10,800,000. Table II outlines a summary of the 1979-80 Financial performance:

**TABLE II**  
**SUMMARY OF 1979-80 FINANCIAL PERFORMANCE**

|   | <b>1979-80<br/>Budget</b> | <b>1979-80<br/>Revised</b> | <b>Variance</b>    |
|---|---------------------------|----------------------------|--------------------|
|   | <b>\$</b>                 | <b>\$</b>                  | <b>\$</b>          |
| <b>Current Account:</b>                   |                           |                            |                    |
| Gross Expenditure                         | 1,167,909,000             | 1,183,101,000              | 15,192,000         |
| Related Revenue                           | <u>144,046,000</u>        | <u>144,827,000</u>         | <u>781,000</u>     |
| Net Expenditure                           | 1,023,863,000             | 1,038,274,000              | 14,411,000         |
| Provincial and Federal Revenues           | <u>1,034,678,000</u>      | <u>1,058,738,000</u>       | <u>24,060,000</u>  |
| Contribution to Capital Account           | <u>10,815,000</u>         | <u>20,464,000</u>          | <u>9,649,000</u>   |
| <b>Capital Account:</b>                   |                           |                            |                    |
| Gross Expenditure                         | 253,641,000               | 270,208,000                | 16,567,000         |
| Related Revenue                           | <u>106,270,000</u>        | <u>96,812,000</u>          | <u>(9,458,000)</u> |
| Net Expenditure                           | 147,371,000               | 173,396,000                | 26,025,000         |
| Less Contribution from<br>Current Account | <u>10,815,000</u>         | <u>20,464,000</u>          | <u>9,649,000</u>   |
| <b>Total: Budgetary Requirements</b>      | <u>136,556,000</u>        | <u>152,932,000</u>         | <u>16,376,000</u>  |
| <b>Non-Budgetary Transactions</b>         |                           |                            |                    |
| Debt Retirement                           | <u>70,230,000</u>         | <u>75,543,000</u>          | <u>5,313,000</u>   |
| <b>Total: Financial Requirement</b>       | <u>206,786,000</u>        | <u>228,475,000</u>         | <u>21,689,000</u>  |

The overall increase in current account revenues was led by a very strong improvement in the growth rate of Retail Sales Tax revenues which accounted for some \$15,300,000 beyond the amount budgeted. Another major contributing factor is the increase in receipts from Corporate Income Tax which is projected to provide \$5,400,000 in excess of our original estimates.

On the expenditure side, there is no single factor which stands out as the prime reason for the variance. General trends such as escalating interest rates, a resurgence of inflationary pressures in certain areas, and the level of wage settlements, all contributed to the increase in our expenditure of \$14,400,000.



## **Capital Account**

The net variance on capital account from the amount budgeted in 1979-80 is some \$26,000,000. There were a number of variances which contributed to this situation. The most noteworthy included a requirement for an additional \$10,700,000 for the Fisheries Loan Board, which resulted from increased activity in the fisheries. Also, it was decided during the year to make a \$21,700,000 payment to Newfoundland & Labrador Hydro to facilitate the Province's investment obligations under the terms of the Lower Churchill Development Corporation Agreement. I would point out however, Mr. Speaker, that the additional contribution of \$9,600,000 from Current Account offsets somewhat the impact of the expenditure variance so that the net change in our borrowing requirement for Capital Account was \$16,400,000.

## **ECONOMIC REVIEW AND OUTLOOK**

With a 5.6% real increase in our Gross Domestic Product, the economy of the Province rebounded in 1979 from the negative 1.7% growth in 1978. The national growth rate slowed to 2.9% from 3.4% in the previous year.

The average employment level rose by 9,000 new jobs in 1979, 5.4% above the previous year, and this is about double the increase experienced in each year since 1975. The greatest proportion of new employment was in the fishery, while significant increases occurred in the manufacturing, construction and service industries. Last year, a record 175,000 Newfoundlanders were employed.

In terms of production, the most dynamic sectors of the economy in 1979 were the export - goods producing industries which include mining, fish products and pulp and paper. Markets for these exports remained strong throughout the year, allowing production and employment to approach capacity levels. The total value of minerals reached \$1.1 billion, with iron ore production accounting for 82%. The volume of fish landings exceeded 550,000 metric tons, an increase of 17.5% from 1978. The landed value of the catch rose to \$148,000,000 creating an additional 1,700 man-years of employment in the fish plants, while the final product value reached \$410,000,000. The pulp and paper industry operated at full capacity, marking the end of a period of slow growth in this sector.

Business income grew more rapidly in 1979 than in 1978, partly because of the recovery of the iron ore industry from the effects of the major strike in 1978, and partly because the low Canadian dollar exchange rate enhanced the viability of all of the Province's export industries. As in other provinces and in the United States, the rate of inflation rose sharply in 1979 and the major cause was again the renewed surge of oil price increases, pushing up the prices of nearly all imported and domestic goods. The Consumer Price Index rose by 9.8% over its 1978 level.

I am very pleased to report that new construction investment in Newfoundland increased by an encouraging 32% in 1979. By far, the largest contribution to the improved performance was the expenditure on offshore

exploration for oil and gas. Another large segment of the year's investment growth was attributable to Provincial Government capital expenditures. The manufacturing industry expanded its investment program by 37% in 1979, while the communications industry and the trade sector also increased their expenditures considerably. A continuation of this level of investment over the next several years will result in a significant strengthening of economic growth in Newfoundland.

Despite the foregoing statistics which reflect a buoyant 1979 economy, the growth rate is predicted to abate in 1980 to about the national rate which is forecasted to be around one percent. With the exception of the fisheries, the resource sectors are already at near capacity. Offshore oil and gas activity will provide some stimulus, but it will not be overwhelming. Employment should grow by about 5,000 jobs, thereby avoiding any increase in our unemployment rate.

Toward the end of 1980, the economy should strengthen its performance in response to expected improvements in the United States economy at that time. The commencement of operations of the Abitibi Mill at Stephenville, together with the prospects for the offshore and the Lower Churchill developments, make the outlook for 1981 very encouraging.

In order to illustrate the major developments projected for our economy in the coming years, I will now outline our resource perspective for 1980-81 by various major sectors.

## **RESOURCE PERSPECTIVE 1980-81**

### **Fisheries**

The Province's commitment to fisheries development is evidenced by the fact that gross fisheries-related expenditures since 1975 have exceeded \$120,000,000. These expenditures have greatly assisted the harvesting and processing sectors of the fishing industry to capitalize on the potential afforded by the rebuilding of the fish stocks, which has taken place since implementation of the 200-mile limit on January 1st, 1977.

The fishery is forecasted to remain the leading growth sector of our economy in 1980. Further investments are planned by the private sector in new catching and processing capacity. In the absence of any unforeseen adverse conditions, the total volume of fish landings is anticipated to exceed 600,000 metric tons in 1980 with a landed value of \$180,000,000 and a market value of \$540,000,000.

By its very nature, the fishing industry is one of the most labour intensive sectors of the Provincial economy. In 1980, nearly 15,000 fully committed fishermen and in excess of 14,000 fish plant workers will be gainfully employed in

the fisheries sector. Both directly and indirectly, the fishery now sustains approximately 25%-30% of our total population. These facts clearly indicate the basis for this Government's position that over the long-term, the fishery must remain the cornerstone for economic development within the Province. Conceivably, the Province's total fish catch could exceed one million metric tons by 1985.

The improved viability of the fishery over the last few years and the encouraging outlook for the future will enable Government, at the start of the new fiscal year, to discontinue the Gear Supplement Program which was initiated in 1977. It is Government's firm belief that the escalation in income earned by the people employed in the fishery will more than offset the supplements previously paid out under this program.

In recent months, this Government has undertaken an extensive review of the Fisheries Loan Board to ensure that it will continue to function as an instrument of overall fisheries development policy. On the basis of negotiations with the local representatives of the Canadian Banking Association, certain activities of the Board will, in future, be interfaced with the commercial banks. As a result of these changes, all future loans in excess of \$50,000 which were previously handled by the Fisheries Loan Board, will be channelled through individual banks. Government will subsidize the difference between the Loan Board interest rate and the normal bank rate. The Fisheries Loan Board will continue to establish the criteria for all loans to fishermen, including those channelled through the banks. Government is currently reviewing other aspects of the operations of the Loan Board and my Colleague, the Minister of Fisheries, will be making a statement in this respect in the near future.

### **Petroleum**

Petroleum exploration activities in 1979 were at an all time high, involving the expenditure of some \$275,000,000, of which 10% is estimated to have entered the Provincial economy. Operations were conducted at 8 locations on the Continental Shelf off Labrador and the northern Grand Banks and in the deep water areas of the Flemish Pass and the northeast Newfoundland continental slope. Seven drilling vessels and 21 supply ships were used in the operations, resulting in the employment of some 750 residents of the Province during the period of the activity.

The most significant result of the 1979 drilling campaign was the discovery of oil on a geological structure located some 164 nautical miles east of Cape Spear. The discovery well Hibernia P-15 was drilled by a consortium consisting of Mobil Oil Canada Ltd., Gulf Oil Canada Ltd., Chevron Standard Ltd. and Petro-Canada on acreage held by Mobil under Provincial permit. The discovery well tested medium gravity, sweet crude from several intervals at rates of up to 3725 barrels per day. It is estimated that production rates of up to 20,000 barrels per day are possible at the P-15 site.

Follow-up drilling activities are underway at two locations on the Hibernia structure — the O-35 and B-08 wells situated approximately 2.4 miles to the west and 2.2 miles northeast respectively of the discovery well. The purpose of these and future follow-up wells is to determine the size, geometry and fluid producing characteristics of the reservoir. It is estimated that five to ten wells will be required to provide the information needed to determine whether or not the find can be developed on a commercial basis and if so, the technological options which may be used to produce and transport the petroleum with the required degree of environmental safety. It is anticipated that the above information will become available during 1980.

While, as indicated above, a large amount of vital information regarding the Hibernia discovery remains to be gathered, the available well and seismic data indicate that the find has the potential of being a giant oilfield. For planning purposes at the present time, the Government of Newfoundland and Labrador is assuming that the Hibernia field will contain economically recoverable oil reserves in the range of 250 million barrels to 1.5 billion barrels, with the most probable size being in the order of 750 million barrels recoverable. Development costs of such a field would be in the order of \$2 to 2.4 billion (expressed in 1980 constant dollars).

Under Provincial ownership and the provisions of the Newfoundland and Labrador Petroleum regulations, the net cash flow from such an operation would be shared approximately as follows: 35% for the private developing companies and Petro Canada; 25% for the Federal Government directly; 25% for the Government of Newfoundland and Labrador directly; plus 15% for the Newfoundland and Labrador Petroleum Corporation (NLPC).

In these circumstances, and assuming world oil prices, the total of the Province's direct share plus NLPC's share would approximate \$4 to 4.5 billion in 1980 (constant) dollars. It is interesting to note that this sum would be received over a period of some 15 years and that in no one year would revenues exceed more than \$600,000,000, and, indeed they would exceed \$300,000,000 in only seven of those years. Obviously, such revenues would make a major contribution towards solving this Province's financial situation but would not, of themselves, constitute a complete solution.

Development time for the field is estimated to be between four and six years, with production income commencing some time between 1985 and 1987 — assuming that a withdrawal of the Federal Government's claim to ownership keeps the issue out of the Supreme Court of Canada. This time table also assumes that the consortium headed by Mobil Oil Canada Limited is able to demonstrate that the social and environmental impacts of the proposed development are within acceptable limits.

Should petroleum from Hibernia become available in the near future as outlined above, then it is Government's intention to use this crude oil supply in a strategy for the reactivation of the Come-by-Chance refinery. The Province's

ownership and control of the resource enables Government to direct the crude oil supply to provide for Provincial needs such as Come-by-Chance, as provided for in the Newfoundland and Labrador Petroleum Regulations.

In view of the probable development at Hibernia and its potential to affect the social, economic and natural environments of the Province in a significant way, the Government has taken appropriate action to increase its resource management capability by establishing the Offshore Petroleum Directorate, which bears Government's main responsibility for matters pertaining to petroleum exploration and development. In addition, to co-ordinate Government's overall activities stemming from oil developments, a committee system — termed the Offshore Petroleum Impact Committee — has been established involving all Government departments and agencies, supported by advisory groups from the public.

As indicated in the Speech from the Throne, Government's 40% interest in any offshore lease will be held by a Crown Corporation — the Newfoundland and Labrador Petroleum Corporation (NLPC) — in accordance with the Regulations. Government intends to present to the House during this Session, a Bill to incorporate the NLPC.

In addition to the the activities indicated in the Hibernia area, Mobil Canada will continue to explore other promising structures on its acreage on the northern Grand Banks during the year. The Labrador Group, with Petro Canada as operator, will conduct drilling operations on the Labrador Shelf as will the Chevron Standard — Paddon Hughes Group.

In all, it is estimated that there will be seven or eight rigs working on the offshore during 1980 for an expenditure of approximately \$220,000,000. Employment levels should be in the area of 800 jobs.

### **Come-By-Chance Refinery**

Mr. Speaker, one of the most trying situations facing this Administration upon assuming office was the problem of the idle, bankrupt refinery at Come-by-Chance. Possibly one of the first decisions of the new Premier was to appoint a small committee of Cabinet, consisting of the President of the Executive Council and myself, specifically charged with the task of seeking resolution of the problem. In so doing it was determined that certain essential criteria would have to be met by any new proposal to re-activate the Refinery, namely that there must be firm prospects of long-term operation, that the Province's environmental prerequisites must be met, and that we must receive a reasonable return on monies already invested under the Second Mortgage which the Province held.

I will spare you, Mr. Speaker, the details of the prolonged and sometimes agonizing negotiations which were pursued subsequently with the various parties involved and with interested buyers of the Refinery. Throughout, we had the

consistent co-operation of the Export Credits Guarantee Department of the British Government, guarantors of the major participants in the First Mortgage, of which we are deeply appreciative.

Some weeks ago the Province took the lead in reviving interest on the part of Petro-Canada Exploration Incorporated in the possibility of rehabilitating the Refinery. A series of discussions was initiated among the Province, Petro-Canada, ECGD and Kleinwort Benson Limited, the major participant in the First Mortgage. I am most pleased to be able to report to this Honourable House that earlier this week Petro-Canada signed a Letter of Intent with the Refinery's Receiver and a Letter of Agreement with the Provincial Government.

Mr. Speaker, the Letter of Intent indicates that it is the intention of Petro-Canada to proceed to examine the economic and technical feasibility of repairing and starting up the Come-by-Chance Refinery. If these feasibility studies produce favourable results, Petro-Canada intends to purchase the Refinery and thereafter proceed with such repairs as are considered necessary or appropriate in the circumstances.

The Letter of Intent signed with the Receiver provided that Petro-Canada would assume 50% of the cost of on-site moth-balling until a contract for sale of the Refinery is executed or until June 30th of this year whichever is the earlier date. ECGD will pay the remaining 50% of on-site costs. Upon execution of the Contract of sale and the securing of the approval of the Trial Division of the Supreme Court of Newfoundland, Petro-Canada will thereafter assume full cost of mothballing. Certain payments will be made to the Receiver at the time the sale is closed, with further payments on the date of commencement of commercial production at the Refinery or by December 31, 1983 at the latest. Over the following 25 years of operations further payments will be made based on the through-put of the Refinery. These payments will be for the benefit of the First Mortgage and I should point out that it is not anticipated they will be sufficient in amount to pay all participants in the First Mortgage.

I must also point out that the Letter of Agreement between Petro-Canada and the Province confirms that we support Petro-Canada's initiative detailed in the Letter of Intent to the Receiver. It also confirms certain other very important provisions beneficial to the Province. Firstly, within three years after commencement of commercial production, the Refinery will be transferred to a new company in which Petro-Canada will retain equity of 90% and the Province may exercise an option to acquire the remaining 10% equity at nominal cost only. This means, Mr. Speaker, that the Province can obtain ownership of a 1/10th share in the fully rehabilitated and operating refinery, essentially free of cost, if it is advantageous to do so and it is difficult to imagine why that should not be the case. By this means, Mr. Speaker, the Province expects to secure payments equivalent to a reasonable return on its present Second Mortgage position.

Another, perhaps even more important provision, in the Letter of Agreement ensures that the Province must give prior consent if the Refinery facilities were to be used for the storage and trans-shipment of our offshore

petroleum resources or if the acquired facilities are used for a different purpose or expanded in a major way. The Province must also give prior consent for any sizeable long-term sales contract entered into by the Refinery in regard to crude produced off our coast. The intent here, Mr. Speaker, is to ensure that the use of the Refinery maximizes the value added aspect of operations for Provincial benefit and that the facilities are used in a manner consistent with the Province's long-term objectives in the petroleum sector.

A further provision ensures that our environmental concerns are fully covered. This includes a compensation scheme for inshore fishermen for damages that might be caused by the operations of the Refinery or related tanker traffic or from any pollution that might occur on a temporary basis.

There are a number of other provisions beneficial to the Province, Mr. Speaker. These relate to payments in lieu of taxes to the benefit of the local municipality and school tax authority, preferences for previous workers at the Refinery, residents of the Province, and goods and services produced in the Province; and provisions related to the supply of products to the local market. I should point out, Mr. Speaker, that Petro-Canada will pay full hydro rates and retail sales tax on the acquisition of new goods and services. Finally, Mr. Speaker, both parties undertake to use their best efforts to reach mutually acceptable arrangements for the sale to the Refinery of oil produced in areas over which the Province has the appropriate control.

I wish to emphasize that at this time there is no guarantee that the Refinery can be rehabilitated and placed back into production. A final decision on that matter must await the outcome of the inspection process and other feasibility studies which Petro-Canada has formally undertaken to conduct. However, Mr. Speaker, Government is extremely pleased with these arrangements with this Canadian oil company which is already engaged in the petroleum exploration activities around our coasts. We firmly believe that, by this means, the Refinery at Come-by-Chance has been given the best opportunity finally to achieve the potential for which it was originally designed and to provide the employment opportunities so richly deserved by the residents of the area and of other parts of the Province.

## **Hydro**

1980 will be another critical year in the electrical energy field in Newfoundland with major decisions in all areas, ranging from the displacement of diesel plants in rural Newfoundland to the decisions on Labrador power development. The recent opening of the 150 megawatt oil-fired unit at Holyrood was a striking reminder, in a Province endowed with unexploited hydro-electric energy, that we must eliminate our dependency on foreign imported oil and must ensure that our next sources of energy are hydro-electric rather than oil, coal or nuclear based.

For Newfoundland and Labrador, 1980 is the year of decision with respect to Labrador power. In the event that access to Upper Churchill power is denied to us in the short run, Newfoundland and Labrador Hydro will be compelled to undertake one of the Lower Churchill projects. Final recommendations from the Board of Directors of the Lower Churchill Development Corporation are expected within the next ten weeks. The most recent cost estimates indicate that expenditures totalling \$14,900,000 will be required by the Lower Churchill Development Corporation to put in place preconditions for project release. All engineering and financial work relating to Gull Island, Muskrat Falls and transmission facilities will be completed by May of 1980. Newfoundland's share for these expenditures is contained in the 1979/80 Estimates in the amount of \$2,600,000 and provided for in the 1980/81 Estimates in the amount of \$2,500,000.

Muskrat Falls has some advantages over Gull Island, despite its higher unit energy costs, in that it is more manageable in terms of financing, needs no major industrial users, and is more compatible with our projected success regarding the Upper Churchill. The decisions on Gull Island, which is a multi-billion dollar project, and Muskrat Falls will be dealt with during the Summer and Fall of 1980. The combined energy capability of Gull Island, Muskrat Falls and the available unused recall power from the Upper Churchill totals 17.3 billion kilowatt hours, with a capacity of 2,475 megawatts of power.

In addition to major developments in Labrador, Newfoundland and Labrador Hydro has been authorized to undertake an overall system rationalization in an effort to keep electric power rates to a reasonable minimum. The first steps towards streamlining have already been taken and Cabinet has authorized Hydro to take over responsibility for the capital program of the Power Distribution Districts. In so doing, Hydro will be continuing, where practical, the program of inter-connecting diesel areas to the main grid, thereby eliminating reliance on high cost diesel fuel. In addition, major upgradings to generation facilities will be made, particularly in those areas of rural Newfoundland where the fishery has strengthened the economy and has increased electrical load growth. Hydro has also been authorized to look at the power distribution systems in Labrador City, Wabush and Happy Valley - Goose Bay in an effort to improve efficiency through an integration of what is now three separate systems. The two mining companies will be relieved of their responsibilities for electrical distribution and Hydro will operate the integrated power grid.

It is anticipated that Hydro will spend up to \$15,000,000 in 1980/81 improving the rural electrification system. In addition, it will be continuing on the target of having the \$80,000,000 Hinds Lake project in operation by October of 1980. This will involve the employment of some 300 people this Summer. The Upper Salmon hydro-electric development will be getting into major construction activity in the weeks ahead and employment there is expected to peak at about 400 workers in the Fall of 1980. Hydro also anticipates completing the mini-hydro project at Roddickton and will be bringing forth to Government additional alternatives for small hydro developments in 1980.



Government is concerned about the rising energy costs in this Province. An increase for Newfoundland and Labrador Hydro which was recommended by the Public Utilities Board was recently approved and this should allow Hydro during 1980 to become a financially healthy company which can borrow in the capital markets of the world in order to undertake the types of capital programs already outlined.

Government is naturally disappointed that we are still required to subsidize industrial contracts to ERCO, Price-Newfoundland, Bowaters and Bowater Power in the amount of \$18,000,000 in 1980/81. In particular, the ERCO contract is heavily subsidized and hurts both the credit rating of the Province and Newfoundland and Labrador Hydro. We have indicated to ERCO Industries that unless a satisfactory solution is found and unless they are willing to share more reasonably the cost of electricity to their operations, then we will have no alternative but to introduce legislation into this House of Assembly which will require the subsidized users of electricity to pay their way more reasonably or find that the subsidized energy will no longer be available.

### **Forest Resources**

As all Newfoundlanders are well aware, our forest resource has for a number of years been threatened by a natural calamity — the spruce budworm infestation. Government has this year carried out a serious review of the problem and possible solutions and has concluded that the proposed use of chemical spraying needs further exhaustive study and debate before any long-term commitments can be made. It is Government's view that wider public contact with the essential details of the problem is necessary to validate the opinions of the people in Newfoundland as to the use of chemical sprays, the associated risks for protecting the forests and the long term viability of the forest industries. Accordingly, Government recently announced its decision to establish a Royal Commission on forest protection and forest management in order to investigate all aspects of the problem and alternate solutions, to disseminate factual information and to seek widespread public input.

In the meantime, Government is committed to protecting the silvicultural investments in the resource base and has therefore provided for all silviculturally treated forest areas that are forecasted to receive any serious infestation. Biological insecticide Bt will be used for this purpose.

The program for salvage of dead and dying timber initiated last year with Federal assistance, will be carried out with major concentration of work in the Bay D'Espoir, St. Georges, Portland Creek and Roddickton areas.

I would like to assure all Newfoundlanders that Government remains fully committed to the stability and expansion of income and employment opportunities in the forestry sector.

## **Industrial Recovery**

Last year, I pointed out the problems being experienced at Marystown Shipyards and, in particular, Government's concerns with respect to the level of funding being advanced to cover operating losses. During the year, Government has been in receipt of an indepth review conducted by the Yard's management and Board of Directors. The Yard has undergone a process of re-organization with the appointment of a General Manager and a new Board of Directors, and while not completely implemented, new management information systems are being instituted to provide more timely data for control of operations. A favourable order book in 1980 is in place. We are hopeful that the year-end statements will show a moderate improvement over most recent years.

Further to activities scheduled this year at the Shipyard, I am pleased to announce today that negotiations over the past several weeks between Government, Fishery Products Limited and Marystown Shipyard Limited have resulted in a decision by Fishery Products Limited to construct two wetfish trawlers at Marystown Shipyard. The vessels, measuring 173 feet overall, will be heavily reinforced for fishing in ice conditions off the East and Northeast coast of Newfoundland. The contract, valued at \$14,000,000 is the beginning of a long-range trawler replacement program for Fishery Products Limited, which owns and operates a total of 42 deep-sea trawlers. The new vessels will be delivered in June and October, 1981.

It is well recognized that the world shipbuilding industry is still suffering from an imbalance in that shipbuilding capacity is some 30% in excess of the needs of the shipping industry. In reaction to this situation, most countries offer assistance to their yards in the form of direct contract subsidies coupled with attractive financial terms. The successful conclusion of these negotiations represents a conscious effort on behalf of Government to address the situation in world shipbuilding by providing financing to Fisheries Products in the form of a loan from the Newfoundland Industrial Development Corporation at an interest rate of 10<sup>3</sup>/<sub>4</sub>% for ten years.

In my Budget Speech last July, I indicated that the Linerboard Mill has been sold to Abitibi Company Limited and that the Company had already commenced to convert the Mill to newsprint production. I am happy to report that the conversion process is well within schedule. Approximately 350 Newfoundlanders are employed in the conversion process. Production at the Mill is anticipated to commence in early 1981 and mill and wood harvesting operations will directly employ approximately 700 Newfoundlanders.

## **Mining**

The mining sector substantially improved Newfoundland's economic performance in 1979, due to a resumption of full production, and higher prices for mineral commodities generally. In 1979, the iron ore mining companies attained capacity levels of production and reported substantial increases in sales, profits and employment income.

New developments in mining hinge upon the results of extensive programs of mineral exploration which are presently underway. At the end of 1979, there were 14,560 active mining claims in the Province. Work on these claims is aimed at evaluating known mineral occurrences and searching for additional deposits. It is hoped that these efforts will be successful in bringing new deposits to development in order to maintain and expand present levels of mining activity throughout the 1980's.

## **FINANCIAL MANAGEMENT INITIATIVES**

In my Budget Speech last summer, I indicated that Government would be pursuing new initiatives in several areas of financial and program management. I would like to report on the progress that has been made to date in certain key areas.

### **School Construction and Financing**

During the past year, in an effort to strengthen the school construction capital grant structure, Government and the Denominational Education Committees have jointly carried out a thorough review of the problems associated with the present system. Our goal has been to stabilize the effects of escalating interest costs on existing debt and attempt to meet the demands for additional school construction to replace obsolete buildings and to handle increased enrolments in certain areas.

Our joint efforts to date have met with some success and as a consequence, I now outline the thrust of our initiatives in the school construction field.

- In conjunction with the Denominational Education Committees, new financial arrangements are now being negotiated to minimize the cost of short-term interest rates on the existing debt burden of the Committees. When implemented, these arrangements will substantially reduce the interest expense burden on existing and future borrowings for school construction.
- Government will provide the necessary funding to enable the Denominational Education Committees to undertake \$12,000,000 worth of critically needed school construction in 1980/81; this is in addition to a similar amount approved a few months ago.
- In order to service the existing debt related to school construction, and to provide for new construction, Government will increase its school construction grant from the \$17,200,000 provided in 1979/80 to \$22,000,000 in 1980/81.
- A joint committee composed of DEC's representatives and Government officials has been set up to review annually school construction and financing needs.

These four measures which I have just outlined will enable School Boards to construct high priority new schools, and provide a stable and less costly method to service and amortize the debt associated with school construction.

### **Financing Health Care**

I indicated in the 1979 Budget that we would be reviewing various means of financing our health care costs. A joint, Government-Newfoundland Medical Association team has recently submitted a report on the subject of medical care costs and fee options. During the course of its deliberations, this group addressed various optional approaches to the patient participation question, including the introduction of user fees. I wish to inform this House that Government has decided against the introduction of such fees at the present time. We will continue to keep abreast of new developments and will await with keen interest the report of the Federal Royal Commission, headed by Mr. Justice Emmett Hall. Justice Hall will be reporting the impact that various funding mechanisms have had on the delivery and accessibility of medical and hospital care.

### **Processing of Suppliers' Invoices**

Government has during the past eight months, as a component of the overall development of a modern financial management information system, carried out a study into the problems of certification procedures in spending departments and other causes of delay in processing invoices of suppliers of goods and services. Through the utilization of automated cheque-issuing procedures and other improvements in the system, a significant reduction in the time taken to provide payment has been attained. Funds have been provided in the Estimates to cover payments of interest to suppliers in cases where payments are unduly delayed.

### **Other Initiatives**

In accordance with a commitment made in this House last year, we have presented three columns of figures in this year's estimates — the 1980-81 estimates along with both the revised and original numbers for 1979-80. This will facilitate review of Government's financial performances in 1979-80 and generally provide more information both to the House of Assembly and to the general public. This is consistent with the policy of the Peckford Administration of full disclosure of financial information.

Government is becoming increasingly aware of the advantages offered by modern technology in the computer systems area, and the effect these systems can have, both on administrative costs and overall program efficiency. Accordingly, there will be a greater emphasis on computer systems development in 1980-81. Our overall expenditures on developmental costs in this area will rise to \$1,300,000 from the 1979-80 level of \$800,000 reflecting this new emphasis.

While I am pleased with the progress that has been made to date, I would hasten to add that we have really only begun our efforts to improve administration and financial management in Government. In the year ahead, we will be escalating activity on the new Financial Management Information System and pursuing new measures to strengthen financial controls and to revise our budgeting system.

## FINANCIAL TARGETS AND BUDGETARY POSITION 1980/81

### Summary of Position

The 1980/81 current account budget has been balanced and the excess of revenues over expenditures is projected to provide a \$12,500,000 contribution to capital account. Our overall capital account program has been restrained to a net expenditure of \$153,200,000 which will generate financial requirements in line with our traditional borrowing and debt servicing capability. Table III outlines a summary of the budgetary position projected for 1980/81:

**TABLE III**  
**COMPARATIVE SUMMARY OF BUDGETARY POSITION**  
**1980/81 versus 1979/80**

|                                      | Estimates<br>1980/81 | Revised<br>1979/80 |
|--------------------------------------|----------------------|--------------------|
|                                      | \$                   | \$                 |
| <b>Current Account:</b>              |                      |                    |
| Gross Expenditure                    | 1,327,858,000        | 1,183,101,000      |
| Related Revenue                      | 134,089,000          | 144,827,000        |
| Net Expenditure                      | 1,193,769,000        | 1,038,274,000      |
| Provincial and Federal Revenues      | 1,206,278,000        | 1,058,738,000      |
| Contribution to Capital Account      | 12,509,000           | 20,464,000         |
| <b>Capital Account:</b>              |                      |                    |
| Gross Expenditure                    | 223,631,000          | 270,208,000        |
| Related Revenue                      | 70,444,000           | 96,812,000         |
| Net Expenditure                      | 153,187,000          | 173,396,000        |
| <b>Total: Budgetary Requirements</b> | <b>140,678,000</b>   | <b>152,932,000</b> |
| <b>Debt Retirement:</b>              |                      |                    |
| Redemptions                          | 121,910,000          | 48,867,000         |
| Sinking Funds                        | 27,084,000           | 26,676,000         |
| <b>Total: Debt Retirement</b>        | <b>148,994,000</b>   | <b>75,543,000</b>  |
| <b>Total: Financial Requirement</b>  | <b>289,672,000</b>   | <b>228,475,000</b> |

## **Pension Funding**

Notwithstanding the achievement of our basic financial targets, however, I am very pleased to announce that we have been successful in accomplishing an extremely significant financial goal for 1980/81. Government will commence to match employee contributions to the various Public Service pension plans, starting in July of this year. Budget speeches of my predecessors have expressed concern over this matter and now Government has determined that the process must begin.

The contributions of Government and its Agencies, which are estimated to be \$15,300,000 in 1980/81, and the contributions of employees, will be deposited in a pension fund and benefit payments, along with refunds, will be paid directly out of the fund. The balance, which will be invested in revenue-producing financial instruments, will serve as a start, in a modest way, of a program to fund the mounting long-term liabilities of our pension plans. By this means, the Province, for the first time, is recognizing in a very concrete way the need to ease the burden of pension payments for future generations of Newfoundlanders. Government is also currently assessing the various organizational alternatives available for the administration of our pension funding program and will be making a decision in the near future.

## **1980/81 EXPENDITURE PROGRAM**

Over the past several months, Government has been engaged in a thorough review of Provincial programs and priorities. The results of this review and the new policy direction which this Government will be taking in the years ahead will as I have already stated, be laid before this House shortly when Government's Five Year Plan is tabled. A major consideration confronting Government in its planning exercise for a program development strategy, is the recognition that unless we can secure access to the wealth from our key resource sectors; our ability to finance any significant upgrading in public services will fall far short of our objectives. In this context, program improvements in the short to medium term can only be financed through trade-offs with existing programs or through further tax increases. Austerity and restraint will, of necessity, continue to be synonymous with Government's expenditure policy over this period. Our program objectives have had to be tailored to coincide with our revenue projections and also in recognition of the general resurgence of inflationary pressures. Many of our program goals have had to be deferred or confined to a modest commencement in 1980-81 with a phased approach being followed for subsequent years.

## **Health**

Government is committed to improving the health facilities in the Province. To this end, a multi-year hospital construction program will be commenced in 1980/81. While it is recognized that there are a number of pressing

needs for new hospital beds and replacement of obsolete facilities, it is not possible to meet all these needs at once. A responsible financial policy dictates that the hospital construction program be compatible with the financial capacity of the Province.

I am pleased to announce this coming year a start will be made on a new 55 bed hospital in Channel for which \$1,000,000 is allocated in the Budget. It is anticipated that this facility will have a total capital cost of \$9,000,000 and that it will be in operation in 1984. Government's assessment of all the pressing and very legitimate needs in this area indicates that, from a health care perspective, the Channel Hospital represents the most pressing priority. Also seen as major priorities are new health clinics for the communities of Forteau and Petit Forte and construction on these facilities will be commenced this year. Government's intentions with respect to the other health care priorities will be made known in the Five Year Plan.

In addition to the construction projects that I have outlined, Government will continue to provide funds for improving and modernizing existing hospitals throughout the Province. Capital projects will be undertaken in various cottage hospitals this year. Funding has also been provided for the continued redevelopment of the Leonard A. Miller Center and for the completion of the expansion at Western Memorial Hospital,

For some time now, this Government has been concerned over the financial burden being experienced by many senior citizens who are often confronted with excessive expenses in the procurement of prescription drugs. Mr. Speaker, it is gratifying to be able to announce that effective September 1st, 1980, Government will introduce a program of subsidized drugs for senior citizens. Under this new program Government will pay, at a cost of \$1,400,000 in this fiscal year, the cost of all ingredients used in prescriptions for citizens over the age of 65 who are in receipt of the old age security guaranteed income supplement. This is the group in which Government sees the greatest need. The individual will still be responsible for the payment of the prescription fee charged by the pharmacist, which is approximately \$3.75 per prescription. Over the next few months full particulars of the program will be made known, including details of registration. We estimate that approximately 80% of our senior citizens will qualify under this program.

A further area of concern to Government is the high cost of emergency air transportation where patients use scheduled airlines. Government will introduce a program of subsidizing the cost of these emergency air transportation services. The individual will only be responsible for the cost of an administration fee and Government will pay the balance of the costs. This program will be especially valuable to residents of Labrador, where the often only possible means of transportation for emergency cases is by air transport. This program will not apply to routine medical referrals.

## **Education**

Education will continue in 1980-81 to be a major priority of the Peckford Administration. In addition to the new school construction which I have already announced, Government will be responding on various fronts to the ever-increasing education demands of our people. We are concerned that the existing facilities of our Fisheries College are rapidly becoming inadequate to meet the rising needs for trained and skilled manpower to manage and develop our vast marine resources. While Government will be making some additional space available to the College in 1980, it will not be sufficient. Therefore, Government is now reviewing various alternatives with respect to the establishment of future training facilities in fisheries and marine technology. We will also be approaching the Government of Canada in order to seek their support and financial assistance in this most important endeavour.

Construction of Memorial University's new library is proceeding on schedule. Along with this new structure, the campus of our University will be enhanced with the construction of a new building to accommodate the Centre for Cold Oceans Resources Engineering (C-Core) at an approximate cost of \$1,000,000. Funding for this project will be provided by Government in 1980-81 through the Department of Industrial Development. It is the firm hope of Government that this new facility will become an international focal point for research and development in this increasingly important discipline.

With respect to a further capital project in education the upgrading of facilities at the Bay St. George Community College is well underway and I am pleased to say that a further \$2,900,000 will be spent on this project in 1980-81.

On the subject of teacher allocations, the existing formula indicates that approximately 143 teaching positions should be eliminated from the school system this year because of declining enrolment. Under a program introduced last year by Government to minimize the impact of declining enrolments, 27 of these positions will be retained. In addition, Government has now decided to provide a further 40 salary units, 25 of which will be allocated to special education to improve programs for handicapped children in our school system. In total, then Government will effectively be adding 67 positions to our educational system, beyond the number required by the current teacher allocation regulations.

## **Housing**

Government will be pursuing a number of initiatives in the new fiscal year in the housing section. The Provincial Home Ownership Grant, introduced in mid-1979, has proven quite successful. This Program, designed to provide grant financing to first time home owners buying or building new homes, has been primarily effective in rural areas where a large percentage of homes are constructed without the encumbrance of a mortgage. To date some 400 families are eligible for assistance and a high degree of interest is continuing to be



expressed in the Program. While the impact on residential construction cannot be determined directly, it should be noted that, despite inordinately high interest rates in the last quarter of 1979 and the fact that housing starts in Canada as a whole declined an estimated 13.4% last year, housing starts in Newfoundland increased 4.7% in 1979. Based on these demonstrated positive aspects of the Provincial Home Ownership Assistance Program, Government will be continuing this Program in 1980-81.

An ongoing problem exists in certain areas of the Province where publicly financed building lots remain unsold for various reasons. In 1980-81 a program will be commenced of offering certain of these lots for sale at reduced prices. This effort will be initiated in conjunction with market studies by Newfoundland and Labrador Housing Corporation in an effort to more fully address this situation. Depending on the success of our sales efforts and the results of our studies, further action in this area can be anticipated in the future.

With the termination in December, 1978 of the Federal/Provincial Mortgage Lending Program resulting from the Federal Government's withdrawal of the parent Assisted Home Ownership Program some months earlier, a definite gap has been identified in respect of the availability of mortgage funds to modest income families living in many rural communities throughout the Province. While the Federal/Provincial Rural and Remote Housing Program is available to low income families residing in communities with a population of 2500 and less, no similar program is provided to families living in these same communities whose income may be in excess of the qualifying income under the Rural and Remote Program. Additionally, in many cases private lending institutions are reluctant to extend high ratio loans in small communities located some distance from major population centers. With this in mind, the Newfoundland and Labrador Housing Corporation has been authorized to implement a Rural Mortgage Lending Program to provide mortgage funding on the basis of a 'lender of last resort' in communities with a population of 5,000 and under. The maximum loan limit will be established at \$25,000 and the mortgage interest rate will be set approximately equivalent to the going market rate.

### **Municipal Grants**

The Report of the Whalen Royal commission on Municipal government in Newfoundland strongly urged Government to discontinue the present forms of financial assistance to municipalities and to implement a new Municipal Grants System that would contain appropriate incentives and encourage more municipalities to foster local autonomy and to accept a greater degree of fiscal responsibility. The Commission's Report has been thoroughly studied over the past several years and its implementation had been deferred in light of its overall cost and the impact it would have on the Province's fiscal capabilities.

A new Municipal Grants System along the lines recommended by the Royal Commission will be instituted in the 1980-81 fiscal year and it should prove to be an incentive to our municipalities by recognizing the effort made by

them to fully utilize their municipal property tax capacity. Operating grants to municipalities will now be based on population, the amount of road mileage in the community, the level of social assistance and the amount of property tax collected. In 1980-81, an amount of \$8,000,000 is being budgeted over and above what the old system would have cost this year. This level of funding represents very clearly Government's strong support for Local Government and it will provide the stimulus for municipalities to become more self-sufficient.

### **Transportation**

In the field of transportation, this Government is continuing its efforts to expand the Trans-Canada Highway reconstruction program and to seek an improvement from the existing cost-sharing arrangements. The 1980-81 fiscal year is the final year of a three-year, \$60,000,000 road construction agreement with the Federal Government. Government will be pressing Transport Canada this year for a new agreement with more generous cost sharing arrangements. As well, funds are being sought to assist with other high priority highways in the Province, but as yet no agreement has been reached.

In the area of ferry services, Government is undertaking a comprehensive study of intra-provincial ferry services. The study will address the adequacy of the present services from both an operational and administrative standpoint in a manner that will affirm this Government's commitment to the provision of efficient services within the confines of responsible financial management.

### **Local Preference Policy**

I am very pleased to announce today that Government has adopted a new policy of local preference for Newfoundland manufactured goods and services in all future Government procurement efforts. The new local preference policy which is based on a "value added" concept, taking into consideration local labour content and the use of local resources in the manufacturing process, is to take effect immediately and will include all Government funded groups and agencies. The "value added" approach used in the Policy will ensure that the Province gets the maximum dollar value for its procurement dollar, while at the same time, offering some degree of support and encouragement to local firms.

While the Department of Industrial Development has been assigned the responsibility for supervising the implementation and for the monitoring of the new Policy, Government Departments and Agencies will have primary responsibility for the new policy as it relates to work authorized by them. It is recognized that a "buy local" policy is a most complex and difficult issue, and there may be some problems with the implementation and monitoring process. Legislative changes will be necessary to permit the full implementation of the new Policy while other areas can be implemented with simple amendments to existing regulations and this will be done immediately. However, Government is confident that the new Policy will have a significant impact on the growth potential of the Newfoundland manufacturing and processing sector of the economy.

## **Social Services**

Mr. Speaker, it is the accepted responsibility of Government to provide a reasonable level of income support for needy persons in their own homes. Accordingly, I am pleased to announce that effective April 1st, 1980, Social Assistance rates will be increased by 10%. It is Government's hope this increase will help offset the inflationary pressures being experienced by those citizens who have no other means of support.

I am also pleased to announce that the allowances paid to foster parents will be increased by amounts ranging from 10% to 30% on April 1st, 1980. Furthermore, the Child Welfare Allowance rates for children cared for by relatives will be increased by 10%.

During the coming fiscal year, Government will be placing greater emphasis on community based services for children with special needs, including mentally and physically handicapped children and children in conflict with the law. Accordingly, funds will be allocated for additional Group Homes, Special Child Welfare Allowances and a home based respite care program for parents of mentally retarded children. In this regard, an amount of \$314,000 has been budgeted to begin the phase-out of the Children's Home in St. John's.

The purpose of expanding community based services is to make available an appropriate balance of services, both community and institutional, so that services can be provided to our citizens in accordance with their particular individual needs.

## **Correctional Services**

Through the Department of Justice, Government is giving increased emphasis to correctional services in this Province. Phase I of the reconstruction of Her Majesty's Penitentiary is projected to be completed at a cost of \$2,600,000 in 1980-81 and the planning for Phase II of this project is about to commence. Major renovations to an existing building will be started during the year to provide a new institution for female prisoners in Stephenville. In addition, it is anticipated that renovations to expand the existing correctional facility in Stephenville will be completed in 1980. Construction will also commence this year on a new regional correction center in the Province.

## **Pension Increase**

As a further demonstration of Government's commitment to our pensioners, I am pleased to announce that all pensioners will receive an increase of at least 8% effective April 1st, 1980. The minimum pension level will be increased from \$1,920 per annum to \$2,200 per annum. As well, in recognition of the impact of inflation and the rising cost of living on our pensioners, we will be providing an increase greater than 8% for those pensioners who currently receive less than \$3,500 per year or those who have been receiving pension payments for ten years or more.

## FISCAL MEASURES

Government will continue to honour its promise not to increase the rates of retail sales tax, personal income tax and the small business corporation income tax. Our commitment to maintain financially sound policies respecting revenues and expenditures is equally as important. Therefore, in order to finance our current account programs and to attain our essential fiscal goals, it has been necessary to adopt certain measures designed to increase revenues to attain these fiscal goals.

- The rate of corporate income tax payable by those companies whose incomes are of sufficient magnitude that they do not qualify for the "small business rate" of 12%, will be increased from 14% to 15%, effective in 1980. This will bring this Province's rate up to those of Manitoba and British Columbia.
- Effective immediately, the Tobacco Tax is raised by 4/10th of a cent per cigarette with proportionate increases in the tax on other tobacco products. This increase should result in an increased yield of some \$4,000,000.
- In order that all insurers are treated equally, the Insurance Companies Tax will be extended to cover certain non-profit insurance organizations. An additional \$200,000 will be generated from that adjustment.
- The exceptionally large increase in actual Retail Sales Tax revenues over those projected for 1979-80 is attributable in some degree to intensified efforts by our tax enforcement staff, which was supplemented during the year. We have now stabilized the arrears position and we will be further strengthening our tax collection effort in the coming year in an attempt to maximize our revenue collections.
- A number of fees charged for certain licences and permits such as hunting, fishing and use of parks will be increased to bring them into line with the current price structures. These increases are estimated to result in revenue increases totalling \$700,000.
- There will be an increase in the interest rate charged by the Fisheries Loan Board, the Farm Development Loan Board and the Rural Development Authority from 6% to 8%. While this increase reflects to a degree the increased cost of borrowing generally, it is still below the trends in interest rate increases that we have witnessed in the private sector in recent months.

While any measures relating to increased taxation and fees for public services are undesirable, Government has endeavoured to design these additional revenue generating sources so as to minimize the impact on essential services and the segment of our population which is least able to pay.

## FINANCIAL REQUIREMENTS

For the 1980-81 fiscal year, the total financial requirements will be \$289,700,000, compared with the revised total financial requirement for 1979-80 of \$228,500,000. Table IV shows a summary of the 1980-81 financial requirements.

**TABLE IV**  
**FINANCIAL REQUIREMENTS**

|                                     | <u>Estimates</u><br><u>1980-81</u> | <u>Revised</u><br><u>1979-80</u> |
|-------------------------------------|------------------------------------|----------------------------------|
|                                     | \$                                 | \$                               |
| Capital Expenditure — Gross         | 223,631,000                        | 270,208,000                      |
| Related Revenue                     | 70,444,000                         | 96,812,000                       |
| Net Capital Expenditure             | 153,187,000                        | 173,396,000                      |
| Non-Budgetary Items                 | 148,994,000                        | 75,543,000                       |
| Contribution from Current Account   | (12,509,000)                       | (20,464,000)                     |
| <b>Total: Financial Requirement</b> | <u>289,672,000</u>                 | <u>228,475,000</u>               |

While the net requirements for capital account in 1980-81 is down from the revised estimate for the year just ended, the increase in the overall borrowing requirement is due primarily to the higher than normal debt repayment.

The Province's financial requirements for the coming year will be met from borrowings in the Canadian and International Capital Markets and from loans from the Canada Pension Plan.

## CONCLUSION

Mr. Speaker, it must now be obvious to all members of this Honourable House that there are two complexions to this Budget. On the one hand, it recounts the financial plan for the forthcoming fiscal year consistent with our existing economic resources and conscious of the need to preserve the financial integrity of the Province. In this respect, it is a "live within your means" Budget.

On the other hand, this is a Budget which seeks to sketch the prospective outline, for the medium term, of the economy of our Province, both in comparison to the relative wealth of the other Canadian Provinces of average, and in comparison to the potential benefits reasonably to be anticipated from petroleum discoveries off our shore.

This administration holds that both messages are of fundamental importance to the people of this Province, whom we serve.

Mr. Speaker, I have already dealt at some length with the present and short-term view of the state of our economy. I would like to conclude by briefly filling some details of the medium term picture.

The terms of world trade and commerce are slowly, but surely, turning in our favour, and a new vitality is being felt throughout the land. We welcome with enthusiasm, the exciting news from the offshore, but, Mr. Speaker, we are not over-whelmed by it and we have not lost hold on our basic sense of purpose.

Newfoundlanders stand accused of having traditionally sought a panacea for our economic woes. Offshore oil is no panacea, it is no cure-all. Its direct effects will be strictly time-limited but will be truly awesome as a catalyst for the re-invigoration and expansion of those activities, based on our renewable resources which are the true guarantee of our long-term prosperity.

Indeed, this newly discovered birth-right could slip through our fingers, if we allow our attention to wander: if we are distracted by disruptive side-issues, if we do not lay unshakeable claim to its possession. That such a possibility can even be contemplated surely surpasses all understanding.

What are the cold, hard facts of our medium term financial requirements, compared to the revenues from our petroleum resources, as projected by a rational interpretation of the facts currently available? I have stated that a reasonable expectation for Hibernia (under our own petroleum regulations and at world prices) are in the order of \$4 to \$4.5 billion totalled over a 15-year field life. That is a large sum of money, equivalent to three times our current annual revenues.

But, Mr. Speaker, in terms of relative magnitude, compare that sum with our present public sector debt which, as the budget shows, totals \$2.7 billion. In order for this Province to reduce that debt burden to the average of the other Provinces, we would have to retire on that account alone, in excess of \$800,000,000. That is but one example of the costs we will incur merely to draw level with our sister Provinces.

Then there is our heavy tax burden, depicted in the Budget, which far exceeds the Canadian average and which should be reduced as early as possible. There is the heavy annual borrowing program which we have had to undertake in order to just maintain a status historically below the other Provinces: to bring our public services up to the National standard would require further large financial outlays. Also, there are the Federal tax equalization payments, totalling some \$384,000,000 this year, which must be traded off against new, additional revenues from our own sources.

Such factors as these, put the potential petroleum revenues we can expect into a proper prospective. Admittedly, there will be other substantial revenue generation of an indirect nature from an expanding economy related to offshore exploitation activities, but these in turn will be offset by development-related demands, such as for the Lower Churchill Development Corporation which I have not yet included.

The message I wish to convey, Mr. Speaker, is that for many years oil revenues must go to correct deficiencies and fuel developments before we can ever contemplate such a thing as a Heritage Fund or contributions to any other cause no matter how worthy.

Mr. Speaker, as a Province of Canada this uniquely structured country, we have every right to determine how we dispose of the resources natural to the land and seas we possess by right of history and law and to dispose of them in light of our present requirements and future best interests. Legitimate unfulfilled needs must first be satisfied and our long term economic objectives must not be compromised by unwise dispositions of our natural riches. We must remember that generations to follow us have a claim on our good stewardship: our children will be quick to condemn any decisions we make which serve to destroy a future they have every right to expect. Mr. Speaker, this Government is convinced that our fellow Canadians will validate our claim to offshore natural resources, and will wholeheartedly support our desire to bring the quality of life in this Province up to Canadian standards in all respects.

SOME HON. MEMBERS:

Hear, hear!

MR. SPEAKER(Simms):  
Finance.

The hon. the Minister of

DR. COLLINS:

Mr. Speaker, I move that  
the debate on the motion be adjourned until tomorrow.

On motion, debate

adjourned until tomorrow.

MR. SPEAKER:

The hon. the Minister of  
Finance.

DR. COLLINS:

Mr. Speaker, I have  
received a message from His Honour the Lieutenant-  
Governor.

MR. SPEAKER:

All rise.

The following message is  
addressed to the hon. the 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. of March 1981, in the aggregate  
of \$1,335,227,240.00 and in accordance with the provisions  
of the British North America Act of 1867, as amended, I  
recommend these estimates to the House of Assembly.

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

I should like to take  
a moment or two to distribute some documents to hon.  
members, the estimates and so on.

Order, please!

The hon. the Minister of  
Finance.

DR. COLLINS:

Mr. Speaker, I move that  
the message from His Honour, together with the estimates,  
be referred to a Committee of Supply.

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



MR. CHAIRMAN(Butt):

Order, please!

The hon. the President

of the Council

MR. MARSHALL:

Mr. Chairman, I move

that the Committee rise and report progress.

On motion, that the

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

MR. SPEAKER(Simms):

The hon. the member for

Conception Bay South.

MR. CHAIRMAN:

Mr. Speaker, the Committee

of Supply has considered the matters to it referred, has made some progress and ask leave to sit again.

On motion, report

received and adopted, Committee ordered to sit again on tomorrow.

NOTICES OF MOTION

MR. SPEAKER:

The hon. the Minister of

Finance.

DR. COLLINS:

Mr. Speaker, I give

notice that I will on tomorrow ask leave to resolve the House into a Committee of the Whole to consider certain resolutions relating to the imposition of a tax on tobacco.

I give notice that I

will on tomorrow ask leave to resolve the House into a Committee of the Whole to consider certain resolutions related to an imposition of tax on the income of corporations.

I give notice that I

will on tomorrow ask leave to resolve the House into a Committee of the Whole to consider certain resolutions related to the imposition of a tax on insurance companies.

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MR. SPEAKER(Simms):                   The hon. the President  
of the Council.

MR. MARSHALL:                   Mr. Speaker, I move  
that the House at its rising stand adjourned until  
tomorrow, Monday, April 14, 1980, and that this House  
do now adjourn.

On motion, the House  
at its rising adjourned until tomorrow, Monday, April  
14, 1980 at 3:00 p.m.