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| Alberta | 21e | 1re | Énoncé budgétaire | 16 juin 1986 | M. Archibald Johnston | Trésorier provincial | PC |

**Mr. Johnston:** On April 10 of this year the 1986 Budget Address was presented by our former colleague, the hon. Lou Hyndman. That evening the Premier and certain members opposite praised Lou Hyndman for his efforts as a dedicated member of this Assembly. I, too, want to thank him for his service to the people of Alberta and his stewardship of the public finances over eight budgets.

The fiscal proposals presented in April continue to represent the government's fiscal strategy. It is a balanced strategy that found the approval of the people of Alberta because it

- assists our vital agriculture and energy sectors,

- encourages job creation,

- strengthens Alberta's economic base, and

- maintains top-quality people programs.

Accordingly, tonight I am reintroducing our fiscal framework, updated to include developments since April 10.

First, I want to address what is foremost on the minds of most Albertans: the economy.

It is clear that the uncertain world oil situation has many Albertans worried about their future.

Alberta has an open economy. International developments in our key commodity markets affect us directly. The decline in world oil prices will temporarily dampen Alberta's economic growth this year. Nonetheless, with the economic momentum built up in 1985, I think real output of the Alberta economy will hold at last year's level.

The rapid employment growth that Alberta experienced in the second half of 1985 and the first quarter of 1986 means that employment over the year should average slightly above the 1985 level. Alberta will continue to be among the leading provinces in terms of the number of persons employed as a percentage of the total working age population.

The average unemployment rate for 1986 should be down somewhat from last year's level of 10.1 percent. Unfortunately, it is likely that the monthly unemployment rate will inch up as the adjustment to lower world oil price works its way through the economy in the months ahead. Our fiscal plan for 1986-87 takes this into account and is designed to help support employment.

Aggregate personal disposable income is projected to increase slightly faster than inflation. The growth in income is attributable to employment gains and moderate wage increases offset in part by higher federal income taxes Personal incomes in Alberta after provincial taxes will continue to be the highest in Canada.

Consumer spending will continue to be a positive factor in Alberta's economic performance in 1986. In real terms aggregate consumer expenditure should increase moderately this year, although not as fast as in 1985. Per capita retail sales in Alberta will continue to be the highest in Canada.

The area of most uncertainty in Alberta's economic outlook is capital investment, particularly in the petroleum sector. We are all aware of the announced cutbacks in exploration budgets. Many oil companies are in a holding pattern leading up to the next drilling season. If, as we expect, there is an oil price rise in the fall that appears sustainable, energy-related investment will rebound.

Moderating the present situation in the energy industry are the major activity-oriented programs introduced by this government. Last June we announced a phasing down of royalty rates, new royalty holidays, and an increase in the royalty tax credit. In April of this year we further increased the royalty tax credit, which is designed especially to help small producers. Mr. Speaker, we also introduced the exploratory drilling assistance program. Earlier this month we announced three more programs to assist the industry: the development drilling assistance program, the well servicing assistance program, and the geophysical assistance program. Through this comprehensive package of programs, we have improved producers' cash flow, stimulated drilling, and protected jobs.

The current problems of the oil and gas industry are a concern for Canada as well as Alberta. Energy self-sufficiency must continue to be the goal for Canada. We must not allow current low prices to reduce our development of new conventional and nonconventional energy supplies. Otherwise, we will be leaving ourselves vulnerable to foreign producers. We therefore call on the federal government to help assist this essential industry through this period of price uncertainty by eliminating the discriminatory petroleum and gas revenue tax. We also invite Ottawa to work with us to examine ways to back up Alberta's energy initiatives.

Alberta has some major comparative cost advantages which will allow the industry to weather current difficulties and put it in a strong position as the oil market recovers:

- our oil-lifting costs make oil production economic even at low prices, and

- our relatively low conventional finding costs mean that our exploration activity will be maintained at higher levels than elsewhere in North America and that Alberta will be a priority area in the search for new oil and gas supplies.

As with the oil industry, the outlook for Alberta agriculture depends heavily on international developments. Substantial agricultural subsidies, such as those by the European Economic Community, have kept world farm product prices artificially low. Recent retaliatory action by the United States in the form of their 1985 farm Bill has further depressed grain prices.

As price takers in the world market, Alberta grain growers have already seen declines of 19 to 27 percent in Canadian Wheat Board initial payments. Federal/provincial co-operation is needed to help our grain farmers. Premier Getty and the western Premiers have called for a major deficiency payment by the federal government.

Our farmers and ranchers are receiving support in these times through this government's massive agricultural action plan. We are assisting in two basic ways:

- first, through income maintenance by establishing a safety net of stabilization and insurance programs, and

- second, through cost reductions of the major farm and ranch inputs: credit, fertilizer, and fuel.

This government's support, coupled with a return to normal crop yields, is projected to result in improvements in net farm income in 1986.

Where does all this leave the average Albertan concerned about the future? First, we must not let short-term developments cloud our view of the long-term fundamentals. While there will likely be some fluctuations around recent low oil price levels over the next few months, we believe that there will be a firming in oil prices toward year-end and that we will soon be over the worst. Oil is a depleting resource and current price levels are stimulating worldwide demand. Alberta is in a prime position to take advantage of firmer markets.

The longer term prospects for agriculture are also promising. Our farmers can compete internationally, and the world will continue to demand more agricultural products. We must continue to develop and apply new technology, liberalize trade, and market aggressively.

Second, while Albertans cannot be fully shielded from international developments, no other government is doing more to protect its citizens from the uncertainties of world markets.

Third, there are some encouraging economic signs: lower interest rates, improved economic conditions for our major trading partners, and a much improved fiscal regime for the petroleum sector.

Finally, Alberta's human resources are a fundamental strength. We Albertans have a staying power to see ourselves through this unsettled period and the talent to tackle the challenges ahead.

In April we tabled an expenditure plan suited to the economic circumstances. We proposed $10.7 billion in budgetary expenditure and $205 million in heritage fund capital projects spending. Tonight I am reintroducing those proposals and providing a road map document which translates them into the new departmental organization.

Also, Mr. Speaker, I am proposing net additional budgetary spending of $149.5 million and increases in heritage fund capital projects of $31.2 million. This additional funding of over $180 million will further meet the needs of Albertans. Combined expenditure in 1986-87 is now estimated to be 5.3 percent above last year's forecast.

In summary, our expenditure program for 1986 has the following main thrusts:

- assist our key agriculture and petroleum sectors,

- stimulate job creation,

- broaden our economic base, and

- maintain quality people programs.

Before I go any further, let me confirm that there are no tax increases or new taxes in this budget. Mr. Speaker, this was our commitment to the people of Alberta, and it has been met.

Albertans are fortunate to have the most enviable tax environment in Canada. Albertans have the lowest personal income tax rate in Canada and pay no retail sales tax, unlike other residents of other provinces. As well, our citizens do not pay a gasoline tax. Alberta businesses also benefit from the most investment-oriented tax climate in Canada.

While some other governments increased taxes in their budgets, we feel that Alberta taxes must be held level to encourage investment and consumption and thereby stimulate employment.

Agriculture and energy are Alberta's twin building blocks for the future. The fortunes of resource-based industries tend to be cyclical, a fact which has been largely forgotten over the past decade. Unfortunately, we are in a period where both our key sectors are in a cyclical downturn. This government has marshalled its financial strength to provide the needed support.

In agriculture we have launched a massive action plan to support our farmers and livestock producers. In total this year's budget for agriculture is $595 million, up 86 percent from the comparable budget figure for 1985~86 and more than double the amount of two years ago.

The highlights of our action plan for agriculture include:

- enhanced crop insurance and disaster assistance,

- red meat stabilization,

- feed grain price adjustment,

- the doubling of the subsidy for farm fuels, and

- the Alberta farm credit stability program.

I would stress that our innovative farm credit plan will provide fixed 9 percent low-cost financing for terms of up to 20 years. This will allow our farmers and ranchers to plan their credit costs with certainty. The statutory funding requirement for the interest rate relief is estimated at $25 million in 1986-87.

Mr. Speaker, for a description of the programs directed to agriculture, I would refer members to the separate budget document, Our Commitment to Agriculture, tabled on April 10.

In addition to the programs listed here, the heritage fund will provide $30 million in 1986-87 as the first part of our initiative to ensure that rural Albertans can obtain private telephone lines. The total project cost is estimated at nearly $500 million. It will generate numerous jobs in rural Alberta.

In energy the size and scope of our initiatives underscore our commitment to maintain a healthy industry and, above all, to preserve jobs.

- One year ago we announced a phasedown of royalty rates and increased incentives.

- In April of this year we further increased the royalty tax credit at an estimated cost of $100 million and established the exploratory drilling assistance plan at a budgeted cost of $300 million.

- Later that month we assisted the oil sands industry. An $85 million loan commitment was agreed to with Syncrude for engineering work on the proposed expansion. We also provided a $23 million royalty adjustment for Suncor.

- Also, in April we announced $13.5 million in royalty relief for Husky so engineering work could continue on the heavy oil upgrader.

- Earlier this month we brought in a $200 million package to bolster the geophysical, drilling, and well-servicing segments of the petroleum industry.

Through the initiatives taken by this government since last June, we have provided a fiscal regime and support plan which will safeguard our industry and stimulate jobs today.

The unemployment level in this province is a paramount concern of this government. Jobs are essential to how people feel about themselves, their families, and their communities. There is no replacement for long-term, productive employment.

This government, working with the private sector, has done more than any other to help provide meaningful employment. The record speaks for itself:

- In 1984 we undertook a unique 30-month, quarter billion dol1ar enrichment for job creation and training programs. This year $178 mil1ion is budgeted for nearly two dozen programs, many directed at youth unemployment.

- The combined capital program of government departments, the heritage fund, the capital fund, and Crown corporations will total over $2.8 billion and will maintain or create thousands of jobs.

- The new $500 million Alberta municipal partnership in local employment program and the new $10 million heritage fund municipal recreation/tourism areas program will help to create work across Alberta.

- As well, our various programs to encourage small business to foster research and technology will help generate employment.

Long-term jobs will result from the government's efforts to expand Alberta's economic base. Our strategy is to build on strengths. Our small business sector is a definite strength. Small businesses are the economic innovators and prime creators of employment for Albertans.

To assist small businesses in obtaining long-term, fixed rate financing, the government announced on April 21 a $750 million loan program with interest rates fixed at 9 percent for terms of up to 10 years. In 1986-87 this program is estimated to require $15 million in statutory funding. Through this program we have removed the risk of interest rate fluctuations to give our small businesses a new measure of stability.

We also propose to add $7.7 million to the budget for the smal1 business equity corporations program. This will reinstate sufficient funding authority to meet our legislated total commitments of $50 million.

The private sector is the key to further diversification and long-term employment. Loan arrangements have been made with Procter & Gamble Cellulose Ltd. for upgrading its pulp mill in Grande Prairie and with Millar Western Industries Ltd. for a pulp mill in Whitecourt. In addition, the government has agreed to provide a loan guarantee for a magnesium plant near Aldersyde.

A strong financial sector is another important element of economic development. To follow through on our commitment to a healthy provincial credit union system, the government, under existing statutory authority, will provide a $30 million advance to the Credit Union Stabilization Corporation.

Research, tourism, and forestry are strengths of the Alberta economy. The new departments of Technology, Research and Telecommunications; Tourism; and Forestry, Lands and Wildlife will spearhead the government's diversification thrust.

Albertans are fortunate to have access to the widest range of top-quality people programs and facilities in Canada.

For this fiscal year we are budgeting $2.6 billion for health with no increase in health care premiums. Highlights include planning funds for the Northern Alberta Children's hospital, start-up money for western Canada's first heart and heart/lung transplant program, and a major increase to the family and community support services program.

Education funding is budgeted at $2.5 billion in 198687. Our basic grants to school boards and postsecondary educational institutions will increase by 4 percent. Student financial support will remain the best in Canada. Other highlights include the funding for the New Basics curriculum, matching grants for the revised Advanced Education Endowment Fund, and planning approval for new college facilities in Grande Prairie and at the Lakeland campus in Lloydminster.

To help those Albertans who are disadvantaged and who require special support, we propose $1.2 billion in funding for a comprehensive range of social service programs. This will include major funding increases for the severely handicapped and day care.

This government has a steadfast commitment to Alberta's elderly. We will continue to provide them with unmatched health, shelter, and income assistance. Major initiatives this fiscal year include enhanced funding for the seniors' home improvement program, the home care funding program, and nursing home quality improvements. In total we will provide approximately $830 million in support for our elderly so they can live in dignity.

In the April 10 budget forecasting revenue accurately was likened to hitting a moving target. It has proven to be an apt description. During the time the budget was being finalized, the spot price of the marker crude west Texas intermediate dipped as low as $10 U.S. per barrel. In May the price ventured into the $17 U.S. per barrel range. These fluctuations have been large and unpredictable.

We continue to feel that picking a single price in today's volatile environment would not be productive. Therefore, we are working from our basic assumption that resource revenue will be about one-third lower than last year.

Since April 10 announcements have been made which affect resource royalties and which should be reflected in the revised financial plan. I am lowering our earlier revenue estimate by $242 million to reflect the royalty relief for Suncor and Husky and the June 4 package to help the geophysical drilling and service sectors. Our updated resource revenue estimate is now 39 percent below the 1985-86 forecast level.

Combined revenue of the General Revenue Fund and the heritage fund is now forecast at $8.7 billion, which is 17.5 percent lower than the forecast for 1985-86.

The amended revenue and expenditure estimates for 198687 result in a combined deficit of the General Revenue Fund and the heritage fund that is now estimated at S2.3 billion.

The deficit is in part being financed by drawing down a portion of the assets of the General Revenue Fund. Net assets at the beginning of the year exceeded S900 million. We have also reactivated a Treasury bill program to complement our promissory note program. In addition, in May we offered $200 million in Alberta bonds for sale in the Canadian market. Future borrowings will take place when and where market conditions are most favourable.

In conclusion, Mr. Speaker, this budget provides a balanced strategy for these uncertain times. It provides priority support for our vital job-producing agriculture and energy sectors. As well, jobs will be stimulated through the government's capital spending, special employment programs, and diversification efforts. All this is achieved without any tax increases.

The budgetary deficit this year is large and cause for some concern, but it is manageable given Alberta's unique financial strength. We enter 1986-87 with an accumulated budgetary surplus of over S900 million and SI2 billion in income-earning assets in the heritage fund. Our per capita debt level is by far the lowest of any Canadian government.

Mr. Speaker. Albertans have the skills and determination, the abundant natural resources, and the financial strength to carry this province to the growth, years that lie ahead.