
Budget

in brief

October 28, 1980

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**Department of Finance
Canada**

**Ministère des Finances
Canada**



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**From the Budget speech
October 28, 1980**

"... a budget which sets new directions for the economy -- directions which will ensure both energy security and economic security for Canadians in the years ahead."

"To fail to solve our energy dilemmas would be to fail to realize our greatest source of opportunity in this decade Time is running out. While Canada is a net exporter of energy and is dealing from a basic position of strength, the chink in our armour is our dependence on imported oil The federal government feels compelled to put Canada's energy house in order."

**Allan J. MacEachen
Deputy Prime Minister and
Minister of Finance**

The Economic Strategy

"It is time that we moved to realize our great potential. We are more likely to do so if we understand that the problem is not a simple matter of ensuring an appropriate demand for goods and services but is more deep-seated. There are no quick solutions, so we will need to be patient and plan in a longer-term framework. There are no single solutions either, so we need to combine structural, industrial and regional policies with the right setting of fiscal and monetary policy. But we can then feel confident that we are dealing with the fundamental issues and embarking on the new directions which can secure the future of the country."

The budget's strategy balances restraint with essential measures to help increase productive capacity. Its main elements:

keep government spending within the rate of growth in the economy;

reduce the budget deficit steadily over the next three years, with a modest reduction next year because of expected slow economic growth but larger declines as the economy picks up;

avoid personal and corporate tax increases insofar as possible;

support monetary policies that do not accommodate inflation;

provide for major new expenditures in energy, economic development, industrial adjustment and manpower retraining;

expand aid to the developing world;

sustain social and economic assistance to those most in need;

strengthen competitive forces in the economy and reduce the weight of government regulation;

adopt an energy policy which continues protection for Canadians against violent shocks of OPEC oil price increases, promotes the most economic use of energy and substitution off-oil, and encourages development of new energy supply sources.

"These are the central elements. They are designed to ensure a steady reduction in the rate of inflation, the resumption of strong investment and productivity growth and the restoration, over time, of a fully-employed, strongly-growing, non-inflationary society."

Expenditure restraint will achieve an appropriate reduction of the deficit. Thus a general tax increase has been avoided, and full indexing of personal

income tax will continue for 1981 to avoid the tax increases that would result from inflation. Indexing will reduce federal personal income taxes otherwise paid next year by \$1,580 million.

The budget rules out new measures to limit the growth of prices and incomes, because of the inevitable government intervention and resulting inequities, and because there is little evidence of unreasonable price increases or wage demands.

"I want to make it quite clear that the pre-condition of our success must be the achievement of lower rates of inflation. If continued indexing is interpreted as a readiness to accommodate unlimited inflation rates, I may be faced with no alternative but to impose some limit on the indexing factor."

The National Energy Program

A series of measures are announced to begin implementation of the government's National Energy Program, set out in a paper by the Minister of Energy, Mines and Resources tabled with the budget.

The program's three basic principles:

security of supply and ultimate independence from the world oil market;

opportunity for all Canadians to participate in the energy industry, particularly oil and gas, and to share in the benefits of its expansion;

fairness, with a pricing and revenue-sharing regime which recognizes the needs and rights of all Canadians.

Main elements in the program:

- A blended oil price regime will produce a made-in-Canada oil price that will rise gradually and predictably. The price will remain well below world prices, and never more than 85 per cent of the lower of the price of imported oil or of oil in the U.S. so as to preserve a competitive advantage for Canadian industry.
- The blended price of oil consumed in Canada will be an average of the costs

of imported and of domestic oil. The mechanism for blending will be a Petroleum Compensation Charge levied on refiners. The new regime will be phased in, shifting the burden of subsidizing high-priced crude imports from taxpayers to consumers of oil products.

- Natural gas prices will increase less quickly than oil, thereby providing an incentive for consumers to switch from oil to gas.
- Having abandoned an export tax on natural gas that would have captured part of the difference between the world price and the Canadian consumer price, the budget proposes a new federal tax on natural gas and gas liquids, beginning November 1 for domestic sales and next February 1 for export sales, and increasing over the next three years.
- A new tax of 8 per cent, effective January 1, 1981, will apply to net revenue from production of oil and gas in Canada.
- The two new taxes will yield some \$11.7 billion over the next three years to the end of fiscal 1983-84, with the new revenues financing major spending initiatives in energy and a new Western Development Fund.

- Effective April 1, 1981 marine and aviation fuel used in international transportation will no longer be eligible for the lower prices available to domestic consumers.
- Half of federal revenues from existing export charges on crude oil will be remitted to the producing provinces, Alberta and Saskatchewan.
- The federal share of petroleum production income in recent years has been about 10 per cent, with producing provinces receiving somewhat more than 45 per cent and the industry receiving somewhat less than 45 per cent. Under the new program, over the period 1980 to 1983, the federal share will increase to about 24 per cent, that of producing provinces will be about 43 per cent and that of industry about 33 per cent.
- Depletion allowances under the Income Tax Act for oil and gas exploration and development, which have primarily benefitted large, mostly foreign-owned corporations, will be dropped or phased out except for frontier exploration and tar sands projects. A new system of direct incentive payments, structured to encourage investment by Canadian companies and individuals, with added incentives for exploration on Canada Lands in the north and offshore will be put in place.

Other Energy Measures

- A natural gas bank will purchase natural gas from Canadian producers who, despite successful exploration efforts, face severe cash-flow problems because of market inaccessibility.
- A new grants system will help homeowners convert from oil heating to natural gas, electricity and other fuels.
- Market-development bonuses will encourage expansion of the natural gas distribution system.
- Energy conservation measures will be expanded, including mandatory mileage standards for cars.
- Renewable energy technologies will be stimulated through research and demonstration programs and a new Crown corporation, Enertech Canada.

Regional Measures

A number of measures are addressed to particular regional concerns:

extension of the natural gas pipeline system to Quebec City and the Maritimes to be ensured, with the price of gas delivered at Quebec City and Halifax held at the same level as Montreal and Toronto;

a fund to support conversion of Atlantic region oil-fired electrical plants to coal;

a \$4 billion Western Development Fund, of which \$2 billion will be spent in the next three years on economic projects in consultation with western governments;

new funds to find ways of using large reserves of Cape Breton coal;

an industrial energy conservation program and housing retrofit program in Newfoundland, Prince Edward Island and the Yukon and Northwest Territories;

federal equity to support hydro development on the Lower Churchill River in Labrador.

Canadian Ownership

The energy program's objectives are to achieve:

at least 50-per-cent Canadian ownership of oil and gas production by 1990;

Canadian control of a significant number of the major oil and gas corporations;

an early increase in the share of the oil and gas sector owned by the Government of Canada.

A Canadian ownership levy will be introduced to assist in financing the acquisition of the Canadian operations of one or more multinational oil companies.

Other Tax Measures

- The Small Business Development Bond measure, designed to reduce interest costs of small business corporations, will be extended for three months to March 31, 1981.
- The tax incentive for multiple-unit residential buildings (MURBs) will be reintroduced for construction starts between October 28, 1980 and the end of 1981.
- The incentive of an extra 4-per-cent capital cost allowance for railway track and grading will be extended to the end of 1982 to encourage an upgrading of railway infrastructure especially in the West.
- A new program is introduced to counter regional inequalities through a 50-per-cent investment tax credit for certain new capital investments made in specially designated areas to the end of 1985.
- Fortified wines, with alcohol content over 14 per cent, will be taxed on the same basis as table wines, reducing the excise tax from \$3 to \$1.25 per gallon.
- After next April 1, excise taxes on alcoholic beverages and tobacco — levied as specific amounts per unit of

product — will be adjusted quarterly to reflect changes in prices of these commodities.

- Certain marginal manufacturing operations, such as the assembly, blending or packaging of goods, will be subject to sales tax on the value added by these operations, except in retail store operations.
- The 9-per-cent sales tax is extended to advertising flyers and catalogues distributed as newspaper inserts.
- The air transport tax for international travel will rise next year by \$2.50, with a similar increase in the ceiling on the tax for domestic air travel.

Expenditure Envelopes

While expenditures this fiscal year are up 13.2 per cent under the impact of charges for oil import compensation and public debt, over the next three years growth in spending will be held within the trend growth of GNP.

For the first time, expenditure limits have been set for the 10 expenditure categories, or envelopes, reflecting the government's policy priorities.

Under a new energy envelope, funding for existing and new programs will almost triple in 1981-82, excluding net petroleum compensation payments.

Funding for economic development will increase by 22 per cent.

A special four-year allocation of \$350 million is being made to promote industrial restructuring and manpower retraining and mobility in areas of particular need.

Departments will have to meet rising demands for services with few increases in person-years apart from identified purposes such as the census.

Economic and Fiscal Outlook

Output of the economy is expected to decline by about 1 per cent in 1980 and grow by about the same amount in 1981 in the face of international economic difficulties, continued high inflation and higher interest rates. Real growth rates of around 4 per cent are expected to start in late 1981.

A continued advance in the consumer price index of around 10 per cent is expected as higher food and energy prices are absorbed. The budget strategy will promote a gradual decline after 1981.

Under the impact of new energy taxes, budgetary revenues are expected to rise by 17.1 per cent in 1981-82 to \$52,935 million, and budgetary expenditures by 12.3 per cent to \$66,640 million.

The budgetary deficit is expected to decline from \$14.2 billion this fiscal year to \$13.7 billion in 1981-82 and then decline more rapidly in the following two years. Declines in cash requirements would be larger, to \$11 billion in 1981-82 and to \$8.4 billion and \$7.2 billion in the two subsequent years.

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