

**Premier Kathy Dunderdale
St. John's Board of Trade
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The following are speaking notes delivered today by Premier Kathy Dunderdale to the Board of Trade in St. Johns:

Let me begin by thanking the St. John's Board of Trade for this opportunity.

In this room are hundreds of the individuals whose industry and ingenuity are driving one of the hottest economies in all of Canada. There is every reason to be energized as we celebrate our successes to date and the opportunities emerging on the horizon.

What a remarkable transformation Newfoundland and Labrador is experiencing!

I recently attended the Council of the Federation meeting of Canadian Premiers in Victoria, representing not Canada's poorest province but one of Canada's leading provinces, a pillar of confidence in a country and a world in which confidence is today a fiercely-coveted commodity.

How attitudes have changed!

Instead of wasting our time lamenting opportunities missed in generations past, we have set our gaze firmly on the opportunities before us now, determined to capture them to build a sustainable future.

This attitude is one I'm so grateful my father shared. He was determined never to let regret get a foothold in how he lived and worked.

'How' we think is central in determining 'what' we do and how 'well' we do it.

American author Napoleon Hill, an advisor to FDR, said: "First comes thought; then organization of that thought into ideas and plans; then transformation of those plans into reality. The beginning, as you will observe, is in your imagination."

What I believe all of us imagine for Newfoundland and Labrador is a future in which our children and grandchildren, instead of looking back on the opportunities we might have squandered, look back with gratitude on the legacy we built – a legacy of growth that is sustainable, grounded not in things that pass away, but in things that endure.

Today, we are enjoying growth the like of which Newfoundland and Labrador has never seen before. The transformation we have seen over the last eight years has been especially remarkable.

Personal incomes have increased. The unemployment rate has declined. The decline in our population has reversed and a modest increase is underway.

We are now a "have" province within the federation, and our fiscal health has dramatically improved. Our net debt as a percentage of GDP has decreased from 63.4 per cent to 26.2 per cent over these 8 short years, now equal to the Canadian average.

This is a remarkable change. Indeed, our fiscal policy has been heralded by economists and rating agencies, with our credit rating now the highest it has ever been.

We are in an enviable position, able to weather swings in the state of the global economy with greater resilience than ever before in our history.

Our economy has never been more buoyant – yet the foundation for long-term prosperity still requires more work.

The challenge is how to use our present strength to create a sustainable society. It is the most fundamental challenge we face as a government.

To ensure the growth we are seeing today is not transient but sustainable, we must chart a responsible course forward, meeting the challenges honestly and effectively so they do not prevent us from achieving our goal.

There are forces that would drive us right back to the era of decline that we have worked so hard and so effectively to leave behind. This will be a pivotal time in our province's history, and we must be vigilant to ensure we make the right choices.

My pledge as Premier is that we will work diligently to ensure Newfoundland and Labrador continues to grow and prosper.

This past October, our party was charged with a powerful mandate by the people of Newfoundland and Labrador to lead this province forward.

Today, as we look to the year ahead of us and beyond, we face three significant challenges.

The first is to deliver vital public services while decelerating the growth of public spending.

The second is to shift from over-reliance on non-renewable energy.

The third is to fully capture the opportunities at our doorstep.

Our government is ready to lead the charge in addressing all three, and I believe that, by working together to meet those challenges effectively, we will emerge even stronger than we are today.

Prudent fiscal management is a constant balancing act, made more difficult by the volatility of oil prices. In recent years we have benefited from rapid revenue growth. An ongoing priority has been debt reduction and our net debt is projected to be \$7.7 billion dollars at the end of the year, down from a high of \$12 billion.

Of course, certain market forces have worked to our advantage.

Markets for petroleum and metals for example have propelled production activity as well as prices. Look at the stunning success of the mining industry this year – \$4.5 billion in production and \$150 million in exploration activity – both are all-time records. The level of exploration investments is very encouraging because it means that the mining industry will continue to be one of the long-term bright lights in our economy, balancing out some of the fluctuations in other sectors.

The construction sector, as another example, will continue to boom for many more years, benefiting from our government's injection of billions of dollars into public infrastructure. These unprecedented investments were particularly important during the recession, protecting us against the full force of negative economic impacts while restoring the quality of our infrastructure that had eroded over many years.

In addition to significantly decreasing our debt and enhancing infrastructure, over the last eight years we have increased our spending on programs and services, particularly on health, education and the protection of children.

But our growth in spending, while absolutely necessary, must now be contained. The question we all must consider is how do we achieve the careful balancing act between economic growth, a high quality of life, and affordable public finances?

We have let the people of the province know for some time now that the string of budget surpluses of recent years would come to an end for the next two years. A combination of declining oil production, the re-fit of two production platforms, and an end to federal payments under the Atlantic Accord, will all accumulate to bring about a temporary deficit situation.

What is the best fiscal policy response in the face of this reality? Some may suggest that a balanced budget is the best goal in order to avoid taking on debt. However, this would require a dramatic reduction of spending.

As a general principle, of course, we support balanced budgets. And there is no question that fiscal discipline and efficiency is necessary. Government programs and services need constant pruning in order to remain affordable. And we must be vigilant in ensuring that these programs are both effective and efficient.

But in terms of a approach to fiscal management, for a province with wide swings in its revenue base, it is better to choose a longer term debt reduction target and manage the budget over time to arrive at that goal. For example, if our goal is to improve our debt position over ten years to achieve the same per capita debt as the Canadian average, we can get there through discipline in spending, and allocation of surpluses to debt reduction, while allowing for periodic deficits.

Budgets, of course, are where our minds are focused right now and the same is true of many other jurisdictions.

In the meeting of Premiers in Victoria a short time ago, our principal area of focus was health care funding. No area of public spending trumps health care in order of priority, nor does any other priority receive a comparable level of spending or rack up a comparable level of inflationary growth. Complicating the challenge is the fact that we are witnessing a massive demographic shift as the baby boom generation begins to slip into its retirement years, when the demands for chronic care and long-term care are significantly increased.

There is great urgency in finding a way to meet the looming challenges in health care without jeopardizing our fiscal health in the process.

I expressed my concern, as did other Premiers, about the decision of the Government of Canada to unilaterally determine the federal government's health care contribution, which will fall significantly short of the need. Nationally, the federal government provides just 20 percent of health care funding, and this is expected to decline when the new funding formula is implemented.

They are proposing a six per cent escalator until 2017, at which time funding growth will be tied to nominal GDP. Newfoundland and Labrador receives only about 15 percent of our health care funding from the Federal Government, so we will not even see the full six per cent.

What also concerns me, and I voiced these concerns during our meetings, is that a per capita approach to health care funding, as proposed, does not work for Newfoundland and Labrador, nor does it work well for the Atlantic provinces. It is discriminatory in that it favors provinces with higher populations and those

who do not face the geographical challenges that we do. So while demands increase, the share of federal funding of health care will go down. At the same time, all Premiers recognized that we have to find ways to rein in the growth of health care spending. Current trends are not sustainable. We have to explore opportunities for greater cooperation among provinces and more innovative approaches to health care delivery. To that end, the Council of Federation has struck a working group to identify new approaches to make our health care dollars work harder for the benefit of Canadians in every province, including our own.

I can tell you that the Health care budget occupies a good portion of my thoughts, especially as we work our way through budget preparations. It accounts for nearly \$3 billion dollars of our annual budget. We have one of the highest per capita expenditures on health care in the country. Demands are increasing, yet we can't let our spending continue to grow at the rate that it has. I've said before one sometimes needs the wisdom of Solomon.

We have to be responsible, fiscally prudent, but practical as well. We are committed to continuing to invest strategically in our health care system so that it meets the needs of Newfoundlanders and Labradorians, while examining ways to get more value for every health care dollar we spend.

These and other considerations have been in our purview as we have been at work since the election shaping a prudent and sensible budget to manage through these next two years of deficits. Careful decision making is critical, and we are mindful that on the international scene demand in the world economy is fragile with the European debt crisis, the slow pace of the American recovery and the periodic signs that Chinese economic growth may be moderating.

While I cannot get into specifics today of what we will announce on Budget Day, I can identify some principles that are guiding our discussions.

First, election commitments will be implemented on the basis of affordability. Our latest Blue Book has many progressive commitments, but our resolve to manage the treasury wisely will guide decisions on timing.

Second, the size of government cannot grow further. We have witnessed rapid growth in the size of the public service, with positive impacts in many key areas, but we must be mindful of the need to constrain spending growth. During our last contract negotiations, the valued skills and contributions of our public service were recognized with a substantial wage increase, and it was long overdue. A more moderate approach is now required in light of our fiscal forecasts.

Third, innovation and efficiency in the delivery of government services is necessary. By creating Service Newfoundland and Labrador we are emphasizing how technology and smart delivery can produce better client service for the same cost. We must benchmark ourselves against other governments to identify areas where we can be more productive. And municipal governments must look for more opportunities to collaborate in the delivery of regional services, not necessarily through amalgamation, but through cooperation that improves their economies of scale.

I have the utmost respect for those who serve in municipal government. I cut my political teeth in municipal government on the Burin Peninsula and I understand the challenges and responsibilities. I look forward to our continued discussions and collaboration.

Prudent fiscal management will be the underpinnings of every decision of our government. We do not believe that raising taxes is a good option in a province just getting its wings. That said, everyone must play a part as we take control of spending growth. It is a fundamental part of making our success sustainable.

This past November, I announced a new Cabinet, a leaner Cabinet which reflects my priority that our government operate as efficiently as possible, while providing quality programs and services that meet the needs of the people of our province.

Work is continuing in earnest in anticipation of the opening of the House of Assembly on March 5. I look forward to the presentation of the Speech from the Throne, our legislative agenda, and our budget to our colleagues in the House of Assembly and to the people of the province.

When we talk about fiscal sustainability, the discussion has to include the shift to renewable energy.

Right now, a significant portion of our revenue comes from oil, making budgeting and fiscal forecasts extremely challenging due to fluctuations in production and price.

While oil will play a very important role in our economy for many years to come, it is a non-renewable. The key to our sustainable future is renewable energy, and that future substantially rests with development of the Lower Churchill, beginning with Muskrat Falls.

Our vision for our transition from an oil-reliant economy to one based on renewable energy is laid out in our Energy Plan, which we released in 2007 and has been a pivotal component of the Blue Books we presented to the people of the province for their consideration in the last two provincial elections. In both instances, the people strongly endorsed our vision for Newfoundland and Labrador.

For generations gone by, the undeveloped hydro-power resources of the Lower Churchill were, for Newfoundlanders and Labradorians, like a treasure just out of reach, tantalizingly close but never close enough to enjoy. The gatekeepers of the natural transmission route through Quebec were denying us fair opportunity to get the power to market, and having been burnt once on the Upper Churchill, we were determined not to let that happen again.

Our government firmly believes developing the hydro-power resources of the Lower Churchill is the key to a sustainable future for our province over the long term. Muskrat Falls is a venture that will pay for itself through lower energy costs, new export revenues and new opportunities for economic development here at home.

Having said this, we are not wearing blinders and we are not prepared to tie ourselves to any scenario unless it is in the best interests of Newfoundlanders and Labradorians. To that end, we and Nalcor have engaged in one of the most thorough and open processes that any proposed development project in this province has ever received.

It is crucial to determine if this project is indeed the best option for meeting our province's energy needs. This determination is achieved by answering two simple questions: Do we need the power? And is Muskrat the least cost option?

An independent review by the internationally respected energy consultants Navigant validated Nalcor's assessment that Muskrat Falls is indeed the least-cost.

Our own province's Public Utilities Board will provide its full report by March 31. As part of that review, the PUB has contracted Manitoba Hydro International to provide its technical expertise and to produce a report. I understand the release of this report is imminent.

Memorial University economist Dr. Wade Locke, has concluded Muskrat Falls is the least-cost option by a factor of 2.2 billion dollars.

It is interesting to me that the most vocal and ever predictable critics of the Muskrat Falls development were quick in their attempts to disparage the work of Dr. Locke – something they had not done previously when Dr. Locke has presented on, for example, the province's financial position.

The Government of Canada has also reviewed the Muskrat Falls project and has concluded the proposal is in the national interest, worthy of warranting national support through the provision of a loan guarantee or equivalent financial support, in effect making a project that was already deemed cost-effective even more so. Work is progressing well in finalizing the guarantee.

I have to also address the fear mongering by some when it comes to the risk of cost overruns for Muskrat Falls. Yes, there is a risk of overruns, as there is with any major project and we have built in contingencies for that. But if we were to pursue alternatives other than Muskrat Falls, the potential for cost overruns still exist on construction and even more worrisome, on escalating fuel costs. But the bottom line here is we need the power, and if we never sell any of the surplus power, development of Muskrat Falls still makes sense. Frankly, we don't say we can't build a hospital because there might be cost overruns. We don't choose not to build schools, highways and ferries because of the fear of cost overruns. We plan as best as we possibly can and make decisions that are well-informed and in the best interests of our province. Fear cannot cloud our vision.

Once the reviews of Muskrat Falls have been completed and we have the reports from Manitoba Hydro and the PUB in hand to supplement the findings of Nalcor and Navigant, debate on the proposal in the House of Assembly will be informed by the best information possible.

Then, the time will come to make the decision on whether to proceed with the Muskrat Falls project.

Far from a rush to judgment, the Muskrat Falls decision is one that has literally been decades in the making – a decision that has received more consideration and more expert analysis and more in-depth scrutiny than any other in our history.

There are some people, haunted by the infamous Upper Churchill contract, who see its ghost every time development of the Lower Churchill is put on the table.

For these people, no project will ever be good enough and no amount of scrutiny will ever be long enough.

But we must remember: Failure to take the right course of action today would be no different than taking the wrong course of action a generation ago.

If the project is sanctioned, it will mean an enormous increase in economic activity in this province. Think of the impacts on your businesses. During the six-year construction phase, it will generate some 18,400 person-years of total direct, indirect and induced employment in the province, with peak direct employment of about 2,700 in 2013. The total income boost for labour and business in the province during the construction phase will be over 1.4 billion dollars, or on average 220 million dollars a year for six years.

Add this to the work that is being generated by the Hebron project, the Hibernia expansion, and the White Rose expansion – work that has resulted from fair deals brokered by our government as we have built a collaborative relationship with the oil industry. As Natural Resources minister I was very involved in that process and the message was clear from our partners in the industry – tell us what the rules are, negotiate in good faith, give us clarity on what you expect from us. And that is exactly what we did and what we will continue to do.

Add to this the mining projects, mine expansions, mineral processing, ferry construction and other ongoing infrastructure initiatives, and you will get a picture of the level of activity that will be happening in our province in the next several years.

The beauty of Muskrat Falls is that it bridges us out beyond the years when offshore oil returns are forecast to decline, toward the period when the Upper Churchill rights will return to Newfoundland and Labrador. It represents a shifting of the balance in our economy from growth grounded on nonrenewable energy to growth grounded on renewable energy. It provides a low-cost, stable energy source we can use to attract new enterprise – and a fuel that, in surplus, we can sell.

We have been challenged by the Auditor General and others to reduce our reliance on oil. Well, this is how it happens. This is the beginning of the tectonic shift that will provide a new foundation for sustainable growth for generations to come.

This is one of the reasons why our blueprint for Newfoundland and Labrador's future is entitled "new energy" – because harnessing this treasury of renewable energy is the very cornerstone of the sustainable future we are working to build. Traditional industries like the fisheries and mining are vitally important to our future. So, too, are modern industries like oil and gas development. But at the heart of a sustainable future is the harnessing of our renewable energy potential, principally hydro.

This is the kernel of our comprehensive energy plan, released in 2007. We've embraced the plan. The people of the province have endorsed that plan. Now it's time to put it to work.

Imagine the potential! Hydro-power is a resource that Newfoundlanders and Labradorians can harness in perpetuity, generation after generation, to sustain strong and thriving communities – power which industry can buy to generate wealth – power we can sell to generate more.

What is the best thing we can do for our children 30, 40 and 50 years from now? It is to escape from a thermal future, taking our economy off the trap of fossil fuels, where we are hostage to rising oil prices. We will deliver a secure, sustainable economy to our children, and that is a legacy we can all be proud of.

When Muskrat Falls is paid off our children will still have the asset, it will still generate enormous quantities of electricity, and it will be lower cost than other jurisdictions still dependent on fossil fuels. Our mortgage will be paid off, rather than still renting energy from elsewhere at higher and higher prices.

A renewable energy future has the added benefit of delivering carbon-free energy. Climate change remains a reality and our children will praise our leadership and vision.

While we have created a route to market for surplus power from Muskrat that goes around Quebec, we are still pushing for access to the natural transmission path that has been blocked to us for too long.

Quebec is required to provide access to their transmission grid as a condition of their right to market power in the United States. This is laid out by the Federal Energy Regulatory Commission, and we will continue to pursue every avenue in this regard.

The third and final challenge I will address today, is the critical need to ensure Newfoundlanders and Labradorians are prepared to capture the opportunities available to us.

The Muskrat Falls development, projects in the petroleum and mining sectors, continuing infrastructure work and a host of other initiatives will generate unprecedented opportunities for skilled labour and corporate partnerships right here in our province.

In order to ensure local businesses are ready to capture contracts and local people are ready to capture jobs, all sectors of our economy – government, business, labour, academia and the community – must do an even better job of working together.

This is not a time to be working at cross purposes. It is a time for cooperation.

The resource boom in Western Canada has long provided jobs and opportunities for Newfoundlanders and Labradorians. As our fortunes change, the western draw on local labour looms as a significant challenge for local mega-projects. As our labour market tightens, we need skilled labourers right here at home.

We saw the labour squeeze coming years ago, and we have been working proactively to train and qualify our people to capture the jobs as they arise. We have raised our education investments to unprecedented levels in recognition of the fact that investments in education – just like investments in infrastructure – reap huge dividends benefiting all of us.

We have invested in leading the country in post-secondary accessibility through the most progressive student aid reforms and among the lowest tuition fees in Canada.

We have invested in expanding the required training programs and facilitating apprenticeships and journey person certification, and provided incentives for employers to hire apprentices, particularly those from traditionally under-represented groups, such as women, Aboriginals, and persons with disabilities.

We have established a new Department of Advanced Education and Skills to focus intently on supplying the highly educated graduates and skilled workers for our fast-growing economy demands.

More needs to be done in these areas, and we need the cooperation of enterprises and labour unions to ensure as many of our people as possible can benefit from the jobs that are coming. This is not a time to stand in the way of opportunity. It is a time to cooperate and coordinate, to remove the impediments and spread the opportunities to Newfoundland and Labrador families and communities.

And just as we need to cooperate to enable our young people to capture the jobs, we also need to cooperate to enable our entrepreneurs to capture the contracts.

As a government, we negotiated successfully to give Newfoundland and Labrador companies first dibs at work on offshore oil projects, such as Hebron. We want local companies to capture as many of those contracts as possible, and we are working to ensure no opportunity to secure that work is left unexplored.

Since the original agreement in 2008, the modules to be built have grown in weight and the anticipated work on the topsides has increased by 30 per cent since the agreement was signed. There will be more work for the province than originally anticipated. The bottom line is that the yards in this province will benefit significantly from the opportunities available with the Hebron development.

One of the most effective ways to capture opportunities is to diversify and innovate, and no sector demonstrates that better than the ocean technology sector.

At the height of an economic slowdown, the US-based industry trade magazine Marine Technology Reporter described our province's ocean industries as "standing tall as an international epicenter of marine technology" – a "hot commodity".

And 'hot' it certainly is, with numerous local success stories, many no doubt represented here today.

Recognizing this as an ideal industry for growth, in 2009 we launched our ambitious five-year, \$28 million dollar ocean technology strategy – "Oceans of Opportunity" – and set a target to grow the sector's value, through cooperation with industry, to a billion dollars by 2015.

We are in the process of creating a dedicated Ocean Technology division with a dedicated Assistant Deputy Minister to focus intensely on capturing even more opportunities in this sector.

We are drawing students and investors from around the world by establishing a reputation for excellence, leadership and teamwork in the “blue” economy – and this is but one of the leading-edge sectors in which Newfoundland and Labrador is capturing new opportunities through innovation and partnership.

I want to commend the members of the St. John’s Board of Trade and other business groups throughout our province for the role you are playing in changing the face of our province.

Government cannot and should not do it alone. We need your contributions and collaboration. We need young people hungry for lucrative careers to take up the challenge. We need business owners hungry for lucrative contracts to take up the challenge. As you step forward to capitalize on the major developments before us, your profits will grow, local economic activity will grow, public revenues will grow and all of us will benefit.

The sustainable growth we envision for Newfoundland and Labrador begins with the spark of imagination.

“First comes thought; then organization of that thought into ideas and plans; then transformation of those plans into reality.”

To those who say it cannot be done, I say look at how far we’ve come already!

For 2012, I wish you continued success and prosperity. Our future together in this amazing place holds enormous potential that some cannot even imagine. But I am absolutely certain that we can imagine it and achieve it together.

Thank you.