

the terms of the Specimen Tax Agreement. With this I agreed. He concluded, however, that it would be advisable to put the points down for discussion because the first is a matter of considerable importance to Newfoundland and the second is potentially so. It would be as well, he thought, to have a specific understanding on these points.

Mr. James was also inclined to think that the wording of Clause 14 goes a long way toward answering the query raised in point 8. With this I also agreed. He nevertheless felt that the matter is one which ought to be discussed and clarified as fully as possible, and I did not in any way discourage him from this view.

I agreed with Mr. James that the remainder of the points are not explicitly covered by the terms and arrangements set forth by the Canadian Government and that, if clarification of them is desired, it would be advisable that they be raised in the course of any discussions with Canadian representatives. I asked for some elucidation of point 3. Mr. James said that, some time after we had sold our buildings and installations at Gander to the Newfoundland Government for the nominal sum of \$1,000,000, the United Kingdom authorities had raised with the Newfoundland Government the question of certain R.A.F. buildings at the airport which were also being taken over by the Newfoundland Government. It was eventually agreed that they should be purchased for the sum of \$200,000. Mr. James added that he realized that the Canadian authorities are probably unaware of this transaction and that he was mentioning it at this time for our information.

With respect to point 9, Mr. James asked for my views. I said that the Federal Government does spend money to assist the fisheries in various ways but that I thought the type of assistance he had mentioned is not now provided and it would therefore seem rather unlikely that it could be provided especially for Newfoundland in the event of union.

With reference to point 10, I told Mr. James that I was rather surprised to find that he anticipates a substantial provincial deficit at the outset. I told him that, on the basis of the figures for expenditure submitted by the Newfoundland delegation and of the estimate of revenue made by Canadian officials, we had ourselves anticipated that the provincial budget would come very close to balancing in the first three years of union. If there were to be any deficit it would probably be a small one which could easily be met out of the portion of the surplus earmarked for that purpose. It was envisaged by us that the Newfoundland provincial government should raise additional money by taxation but it was appreciated that this development would have to take place rather gradually and in the face of a number of rather special difficulties. It is for this reason that the transitional grant is to be paid in full during the first three years of union, gradually reducing thereafter as new sources of revenue are found in Newfoundland to replace it.

The problem of the provincial budget, I added, was probably the thorniest question which the Canadian and Newfoundland representatives had to tackle last summer, and the Canadian representatives on their part devoted more time and thought in an effort to solve it than to any other single question. It was felt that, if an offer was to be made to Newfoundland, the arrangements proposed must give reasonable assurance that the union would be workable.