

Standing Committee on The Alberta Heritage Savings Trust Fund Act

Tuesday, September 4, 1979

Chairman: Mr. Payne

1 p.m.

MR. CHAIRMAN: I'd like to bring this session of the Select Committee on The Alberta Heritage Savings Trust Fund Act to order. We obviously have a quorum. I might mention that it's been asked what constitutes a quorum of this committee. As is the case with all committees of this nature, and as specified in Standing Orders, five members comprise a quorum. We would hope, however, because of the significance of the work of this group, that that's an academic consideration only, and that we'll have strong attendance on any occasion we meet.

Before calling on the Provincial Treasurer, Mr. Hyndman, to make some preliminary comments on the annual report of the Alberta Heritage Savings Trust Fund and expenditures related thereto, at this time I'd like to take care of two or three matters of business arising from our meeting this morning. First, I believe it was Mr. Clark who suggested that the two-hour allocation we had given to the Minister of Hospitals and Medical Care for September 12 was not long enough, and that we reschedule Mr. King, the Minister of Education. I have been in contact with him, and he has agreed to the following change: transfer his 11 to 12 time on September 12 to 1 o'clock on Tuesday, September 18. That is the last day that we meet with witnesses prior to our consideration of recommendations phase. Okay? So delete the reference to Mr. King on Wednesday, September 12, and insert it on Tuesday, September 18, after a one-hour lunch break, hopefully, on the day we meet with the Minister of Public Lands and Wildlife in the morning. Any questions on that? Is it agreeable? Good.

The second item arising from this morning is that one of the members of the committee indicated it might be useful for us to read the Premier's comments during the debate in 1976 when The Alberta Heritage Savings Trust Fund Act was being passed. I have taken the liberty of doing a quick review of *Hansard*, and I believe each of you has, or will soon have, a copy of page 832 of *Alberta Hansard* dated April 23, 1976. I had asked that two relevant passages be underlined which relate specifically to the question of terms of reference, discussion of which gave rise to the recommendation that we obtain that *Hansard* extract.

Third and finally, during our discussion this morning, I was asked regarding the 4 o'clock termination time on Thursday, September 13, for the appearance of the Minister of Agriculture. I believe Mr. Appleby asked if that was a firm time, or could we go beyond that.

MR. APPLEBY: Mr. Chairman, my question was not specifically related to the time for the Minister of Agriculture; it was related to all times terminating in the afternoon.

MR. CHAIRMAN: Thank you for that clarification. Then to speak to the original question: no, as they presently sit, those termination times are not fixed, with the exception of the one referred to this morning -- that is, for the Minister of Agriculture. I had arbitrarily put 4 o'clock because a number of us are required to be in Calgary that evening for the Premier's dinner, and I had felt that the two-hour period was adequate for that department. Should that not be the case, I think we'll simply decide on that occasion whether to extend or to pick another occasion. Questions?

MR. NOTLEY: We'll go to 6 o'clock, then.

MR. BRADLEY: You mean you're not going to the dinner?

MR. CHAIRMAN: There being no further items of business arising from our meeting this morning, I'd now like to call on the Provincial Treasurer, Mr. Hyndman, to make some preliminary comments, after which questions will certainly be entertained from members of the committee. Mr. Minister?

MR. HYNDMAN: Thank you very much, Mr. Chairman. May I first thank the committee for its consideration in starting an hour early, I understand, and in adjourning an hour early, at 3 o'clock.

On a procedural note, I'd first like to confirm to the committee that the report setting forth the disposition of the recommendations of the last two years was delivered last Thursday, I believe. That was pursuant to the procedural recommendation that this committee made last year, Recommendation D.3. on page 16.

With regard to that report, there is a follow-up matter which I should mention now: the committee should be aware of a policy change with respect to investments of the Alberta investment division. That relates to loans to businesses, investment in new corporate debt.

Effective immediately, the Alberta investment division of the Heritage Savings Trust Fund will now consider Canadian dollar investments in the debt of companies active or to be active in Alberta. These loans to businesses, at competitive rates of return, will assist in the creation of new jobs and diversification through investment in expanded plants and equipment.

I think all members of the committee realize that the major investments of the Alberta investment division now are: first in the shelter area, the investments of the Alberta Housing Corporation and the Home Mortgage Corporation; and in terms of diversification, in the areas of the Agricultural Development Corporation and the Opportunity Company, shares of AEC, the Syncrude project equity, and the convertible debentures.

The heritage fund act, of course, requires that investments under the Alberta investment division must meet two criteria: first, yield a reasonable return or profit, and tend to strengthen and diversify the Alberta economy. So that test will be applied with respect to these loans to businesses.

To date, under the policies so far, the Alberta investment division has loaned moneys primarily to Alberta government Crown corporations, and has not focussed its investment activity on loans to the private sector. The new policy will strengthen and diversify the Alberta, broaden investment holdings of the fund, and will encourage capital investment in the Alberta private sector.

Some of the guidelines that will be followed: first, the investments could be in both public and private offerings of bonds and debentures of private and public businesses. Those would be businesses which are active or have

significant operations in Alberta. This would include businesses which are not now located in Alberta, but which indicate an intention to be active, or to have significant future operations in the province. As well, businesses in which there may be an investment would have to have a sound financial track record, and the securities would have to represent a good investment quality. Examples of the general categories of businesses and industries to which the division could make such new loans would include the areas of manufacturing, transportation, utilities, agricultural processing, forest products, heavy oil, and coal.

I stress that investments would only be made in new corporate debt instruments, not in the rolling over of old corporate debt. The investment committee would look at each investment opportunity on the basis of a case-by-case assessment. Loans of any term to maturity would be considered; we're not limiting ourselves to certain time lines with respect to the term of the loan.

The minimum investment would normally be \$1 million. Maximum investment would be up to 66.66 per cent of any single debt offering. So we wouldn't be taking the full amount of a new corporate debt offering, but no higher than two-thirds.

Each investment would of course have to meet the investment criteria of the Alberta investment division. We would anticipate dealing through financial intermediaries in most cases, although under certain circumstances direct negotiations with the borrower may be required, as is the case with respect to new corporate debt issues.

I thought the committee should be aware of that significant policy change, Mr. Chairman. I have some copies of the brief statement here which, if the committee wishes, could be passed around.

I notice in last year's committee deliberations, Mr. Chairman, that Mr. Leitch initiated a statement of the accounting procedure changes which were made pursuant to Recommendation 4 of the 1977 report. If the committee wishes, I can launch into those now. There has been one policy change and three presentation changes. Or, if the committee prefers, I can answer questions on those.

MR. CHAIRMAN: Any preference?

MR. R. CLARK: Perhaps the minister could launch forth.

MR. CHAIRMAN: I sense a consensus, Mr. Minister, that you should launch forth.

MR. HYNDMAN: Thanks, Mr. Chairman.

Under the area of accounting policy and presentation changes, there is one policy change and there are three changes in presentation or display of the information. The policy change is on page 51, Note 3, and it's the only one which impacts on any of the numbers. I'll describe the changes to the display and the presentation later on.

The one accounting policy change involves the reclassification of the AGT and AMFC debentures, under Section 9, from marketable securities to long-term investments. As I mentioned, that's disclosed in Note 3 on page 51. The impact on the heritage fund is that these debentures are now valued at amortized cost because they're long-term, whereas when they were classified as marketable securities they were valued at the lower of either amortized cost or market value. That's the reason for that policy change. That's the one that impacts on the numbers. The difference there is about \$49.9 million; the

reported income of the fund would have been that much lower if the change had not been made.

The three changes in presentation or display of the heritage fund report. The first is on page 51, Note 2(i), with respect to the capital projects division, the words "deemed" assets. Members will recall that the previous financial statements included amounts expended under the capital projects division as "assets". But as members of the committee know, they're not assets in the usual sense of the term because, for example, the moneys going to the Alberta Oil Sands Technology and Research Authority don't show an immediate and tangible return. Therefore the word "deemed" assets, which is the same word as in the Act and which is somewhat unusual, but in the legislation the assets of the capital projects division are called deemed assets. Therefore the change here recognizes that these assets are of a slightly different nature than normal assets.

The second change in the presentation is Statement B on page 48 of the annual report. That relates to the statement of income, expenditure, transfers, and the fund equity. Here there's a combining of the presentation of the transfer of the non-renewable resource revenue and the income statement. Those are combined; in previous years they were shown separately. There's no loss of detail, and they both relate to the operations and growth of the fund during the year.

The third and last presentational change is the one referred to as Statement C on page 49 of the annual report. That's the statement of changes in the financial position. The basic content of that statement remains unchanged. It shows the sources and the uses of the funds during the year. There are a few changes in terminology, a little extra detail, but those are the only changes.

As well, Mr. Chairman, a short comment on the question of Syncrude accounting might be useful, in the sense that the second column on page 38 notes that Syncrude is starting to come into the picture. For accounting purposes, Syncrude was deemed not to be in production prior to March 31, 1979. So all expenditures prior to March 31, 1979, were capitalized and reported as investment. Now the starting date of production, for heritage fund accounting purposes, is therefore April 1, 1979. There will be, as I think was mentioned by someone in Syncrude some weeks ago, a first-quarter operating loss for the heritage fund share. We don't know yet exactly what that will be, because that will be known probably during the second quarterly report of this year.

I should mention that there's a quirk as well with respect to the Alberta Energy Company. This is on page 51 of the annual report, Note 2(ii). The presentation there is an exception to the generally accepted accounting principles. It relates to the retained earnings. The general rules, as I understand them, of accepted accounting principles would suggest that the heritage fund include its 50 per cent share of retained earnings of AEC when you're calculating the value of this investment, because the province has the potential, under the legislation, to control AEC. We do not exercise control because we've chosen to appoint four directors rather than vote their shares. However, if you looked at the private sector, a company that can exercise control could arrange payment of dividends to take up the retained earnings. Therefore it could be said that general accounting practices would suggest that AEC and this document should show that as well. However, that arrangement is not applicable in a private sector/public sector partnership, which AEC is. I might note that if we used the generally accepted accounting principle approach, that would increase the investment by about \$27 million.

The last accounting notation to which I believe reference should be made is found basically on page 8 of the annual report. That relates to the provision to adjust the valuation of the marketable securities from cost to market value. About \$12 million is involved there. Again in accordance with generally accepted accounting principles, the marketable securities are valued at the lower of either cost or market value. That principle attempts to reflect the fact that if the portfolio were sold on the market, and market values were below the costs, then the entity selling would of course realize a loss. If the market value therefore declines over one year, or from one period to the next on a reporting basis, there's a loss. But it's an unrealized loss equal to the decline in market values, and that's charged against income.

That's why it's displayed that way. That's about \$12 million. That is displayed not on the basis of an actual loss, because the security has not been sold. But that's mentioned there as \$12 million.

Of course there's no way to get around that unless you invest totally in very short-term securities, because the market over a period of time, in a diversified portfolio such as this, is going to go up and down. And if we have a significant number of bonds, for example, as we have in this fund, as the interest rate goes up the bond value will go down. Therefore this will probably be a provision which will be found in reports of the heritage fund in the immediate future.

MR. CHAIRMAN: Thank you, Mr. Minister. I'd now like to open the balance of this afternoon's committee meeting to questioning of the minister by the members, as they see fit.

MR. SINDLINGER: Mr. Chairman, to the minister. With regard to some of the comments you've made, I'd first refer to the top of page 5, which indicates that the Heritage Savings Trust Fund stands in the amount of \$4.7 billion. I'd like to submit to you that this by itself can be misleading, inasmuch as it contains the deemed assets of \$255 million. Now, I appreciate the fact that capital investments are referred to or designated or defined as deemed assets in the Act. But in light of the comments you made with regard to Note 3 on page 51, where some marketable securities are now reclassified as long-term investments, I wonder if things such as deemed assets plus these long-term assets should not be reported in another fashion so as to make clear that the heritage fund doesn't in this case, for example, stand at \$4.7 billion, which is the impression given by the report. The heritage fund in fact is something less than \$4.7 billion; it's \$4.7 billion less the capital assets. And in this case it seems to me it might also be \$4.7 billion less the reclassification of the marketable securities to long-term assets.

MR. HYNDMAN: Well, that's an interesting point, Mr. Chairman. As I mentioned and as the committee members has confirmed, the deemed assets of the capital projects division are quite unique. I'd be pleased to look at any recommendation the committee might have with respect to that submission.

MR. R. CLARK: Gentlemen, do you want to continue the questioning in that area? Okay. Mr. Chairman, then to the minister. Mr. Minister, with regard to page 42 of the report, the last sentence under Investment Environment, "This resulted in a limited supply of high grade corporate debentures and at the same time caused interest rate . . . various categories of borrowers." My question, Mr. Minister: would it be possible to supply to the committee

members which are the corporations that the government presently has -- albeit a relatively small portion of the fund -- but that the province presently holds either bonds or debentures?

MR. HYNDMAN: Yes, I think I could do that. Is this under Section 9, the question of the corporate bonds?

MR. R. CLARK: Yes.

MR. HYNDMAN: I may have that, if I could just have half a moment here.

MR. R. CLARK: Mr. Chairman, just while the minister is looking for that. In the past -- and it's no reason why we should do it now -- in a situation where we wanted more detailed information, if the minister could make the information available to the chairman, then all members of the committee could have copies. If the chairman could get it to us as soon as he got it, it would give us a chance to prepare for the next meeting. Would that be reasonable?

MR. HYNDMAN: I'll undertake, then, to get that to the chairman for distribution to the committee.

MR. R. CLARK: Good.

MR. NOTLEY: Mr. Chairman, I wonder if could just take a moment. I have several questions today on the minister's announcement, and I guess it's appropriate to raise them now. The minister announced the new program of purchasing debt instruments in companies. First of all, why was the general policy of a \$1 million base adopted? Is it that the Alberta Opportunity Company fulfils the function of providing funds for smaller operations, or what was the reason?

MR. HYNDMAN: That's partly the reason. At least in the starting up situation we're in unique territory here, and in order to be able to deal with and look at and handle and assess the new corporate debt issues, I guess with a frequency that we could still handle, we thought that something of \$1 million and above would be the right way to start. If it appeared down the road that something less than that -- that there was a gap perhaps not filled by one of the other government or quasi-government entities, then we might consider going below that.

MR. NOTLEY: In terms of deciding, Mr. Chairman, if I could follow that up, the suggestion is made that financial intermediaries will be used in most cases. Would the minister outline a bit as to where the government would be involved through the investment committee? Would this be on large projects, for example, where rather than going through a financial intermediary, the entire investment committee would consider a proposal?

MR. HYNDMAN: No, I think the term "financial intermediary" used there would suggest that in the event a company wanted to go into the market and find \$5 million or \$10 million or \$20 million or \$30 million, under most circumstances that would probably be through an investment dealer, and that because obviously more than one party would be involved we wouldn't be taking more than 66.66 per cent. So there would be two or three others as well as the

heritage fund involved. In most cases, I believe, these are handled through a financial intermediary such as an investment dealer. But on the odd occasion there would be a company which would simply make an individual approach to us. In that event, I guess it would be brought to the attention of the investment committee by me.

MR. NOTLEY: Just to pursue that, Mr. Chairman, I would take it that the larger proposals would almost invariably be dealt with separately by the investment committee. If you're talking about, say, \$50 million or \$100 million -- that kind of proposal -- the investment committee would sit down and decide whether that should be pursued?

MR. HYNDMAN: I think the investment committee would probably be -- to the extent practical in the sense of any time problem that might arise -- involved in all of them, and of course has to make the decision with respect to investments.

MR. NOTLEY: And what role would other government agencies play? For example, would there be any role for the Alberta Opportunity Company in evaluating these proposals?

MR. HYNDMAN: I wouldn't think a direct or formal role. I suppose the situation could arise where the Alberta Opportunity Company might have secured a significant degree of expertise by reason of its assessment of a number of businesses in a given area, and therefore might be called upon to offer an opinion. But I wouldn't think it would be on a direct or regular basis. But in coming to a conclusion, I would think the investment committee would want to draw on all sources of quality information available. And of course the Treasury assessment of the company's quality and that sort of thing would be a basic part of any assessment, whether it has a sound financial track record.

MR. R. CLARK: Mr. Chairman, just following along in the same area. Dealing with page 2 of the announcement, Mr. Minister: "Investments would be in both public and private offerings of bonds and debentures of private and public businesses which" -- and it's a) that I'm primarily interested in. Does the government see this as a vehicle by which we would be able to attract certain industries to the province of Alberta, whether an industry has been perhaps active in one other part of Canada, let's say central Canada -- manufacturing as an example?

MR. HYNDMAN: Well, that's a possibility that certainly, by that statement, would include an entity, a company, that isn't in Alberta now. It could be located in central Canada but intends to come out here, and it might say: we are going to put up a \$10 million or \$15 million plant; we need to borrow some money; will you lend it to us? Those rates with respect to the loans, though, would be commercial rates because they have to be under the statute and have to yield a reasonable return of profit. So if that were a rate attractive to the company and were such that they would make their decision to come to Alberta on that basis, then I could see that it could possibly happen.

MR. R. CLARK: Just following along, Mr. Chairman, to the minister. Mr. Minister, what about other government agencies making up the other one-third of any single offering? A variety of other government agencies could possibly pick up that other one-third. My question, then, would really be: is it the

intention of the government to have that kind of flexibility on purpose? Or in fact should this 66.66 per cent in the the announcement be seen as a maximum government pick-up, if I might use that term?

MR. HYNDMAN: I think it would be unlikely, certainly in the initial stages, that any other government agency or corporation would be getting involved in loaning the balance. I think one of the thoughts behind having that maximum investment of 66.66 per cent is that this would there would be others in the private sector who would be loaning money, spreading the risk and, in effect, going along with the government and saying, yes, this is a useful company to loan money to. So we might be one of two, three, four, five, or six other entities making the total loan, but certainly in the early stages it not be another government entity that would pick up the one-third.

MR. R. CLARK: Mr. Chairman, to the minister. Mr. Minister, with the broad terms of reference, I see the possibility of, let's say, a project at Cold Lake in the future, where the government would at least have the potential of going this route as far as some of the financing for a Cold Lake heavy oil plant is concerned. Has the government got to the point now where the minister can indicate to the committee whether that would fit within the scope of this committee, the picking up of a portion of the debt financing for either a heavy oil plant at Cold Lake or a plant north of Fort McMurray at some time in the future? I read the terms of reference to be broad enough for that to fit within. That's really what I want to ascertain.

MR. HYNDMAN: Well, no decision has been taken on that as yet. But, as mentioned in the statement, the area of heavy oil is one which we would certainly view as strengthening and diversifying the Alberta economy. So the potential would be there for a debt involvement under the parameters as set forth in this paper, on the basis of course that it would yield a reasonable return or profit as well.

MR. R. CLARK: And also to utility companies. It wouldn't be a matter of picking up some of their existing debts, but for a new venture -- let's say a new power generating facility -- that would be deemed as a new offering in the market, so that would fit within the terms of reference also?

MR. HYNDMAN: I think so, yes. I think the investor-owned utilities have a good track record, and maybe on the financing of debt of a utility company, which is mentioned in the statement, that would be a possible option as well.

MR. R. CLARK: What about a non-investor-owned utility company like the city of Edmonton?

MR. HYNDMAN: I think if the city of Edmonton came to us under this statement, we would probably refer them to the Alberta Municipal Financing Corporation.

MRS. FYFE: Just to carry this a little further. I think some of my questions have already been answered, but I would just like to have a little clarification as to the role of the finance committee and the intermediary. Would they have ultimate approval of each loan, or what would be the procedure? Is there also an appeal procedure?



MR. HYNDMAN: No, the investment committee would in effect be making the decision with respect to the various loans, and would be the entity, in accordance with the Act, which would have the responsibility to do that.

MRS. FYFE: And there's no appeal if a loan is turned down by the committee?

MR. HYNDMAN: No, I don't think there's any practical mechanism whereby there could be an appeal. These situations can arise over the course of a relatively short time, and a decision would have to be made. Of course if the appeal were going to be made by the company which wanted the money, they would simply go to somebody else, having been told that the Alberta investment division wouldn't be interested in this one. So that would be in effect an appeal mechanism, because it would be to the next person in the market who could offer the lowest interest rate on the loan, presumably.

MRS. FYFE: Thanks.

MR. KNAAK: Mr. Chairman, the fund would be used to make loans at competitive rates of return. The way I understand the availability of funds at the moment, by and large the financial institutions have sufficient funds to lend to most projects at this time. Is there a possibility that the rates would be lower than commercial bank rates for large projects? I guess my point is this: right now small businesses, including those that borrow \$1 million or over, have a very difficult time paying prime plus 1 or prime plus 2, and starting out new projects. My question is: if this is to stimulate investment, is there a chance that the rates charged would be so competitive that they'd be lower?

MR. HYNDMAN: Well, I don't think under this approach they would be, because in following the parameters in this particular section of the legislation, I think they would be definable as commercial rates. So there would have to be other approaches to fill in the gaps, as there are, for example, with the Agricultural Development Corporation and the Alberta Opportunity.

MR. KNAAK: Is it possible, then, that the security required -- I guess the point I'm trying to make is: what advantage would business have in borrowing from this fund rather than from a financial institution? Would the security required perhaps be more moderate?

MR. HYNDMAN: I don't think the security would be any less stringent than that normally required to protect the investment of the people of Alberta. I guess one of the advantages of a business borrowing in the market would be that there would be another lender in the market. So with someone else in the market with money to lend, generally I suppose in the laws of supply and demand, that is going to make normally for a slightly better rate for the person who's doing some borrowing.

But on the question of what you're suggesting indirectly, I guess, as a kind of subsidy, I think that would not be part of this approach. The subsidy approach is of course one used in the funding of the Alberta Home Mortgage Corporation, whereby the debentures are held by the heritage fund in the Home Mortgage Corporation up to a total of two-thirds of a billion dollars at a commercial rate. But there are, of course, programs where a new-home buyer can get a very significant break on interest. But that money and the subsidy

difference come from the general revenue account, debited against the operating account, of Housing and Public Works.

MR. KNAAK: Well, my point was -- I wasn't suggesting a subsidy. I guess what I'm saying is that the federal government and the Bank of Canada are now setting an interest rate which is not determined by the market. There are a lot of funds available. The interest rates would drop if it weren't for the Bank of Canada following an American policy. I guess my question was -- and I think the interest rate is hurting Canada; it's hurting expansion and it's hurting small business. My question was not so much about a subsidy, but is it possible in some way, or is it the intention to really disregard the advice of the Bank of Canada to the commercial banks in terms of the lending rate? Maybe it does turn out that in the short run a large corporation would have a slight edge on the interest rate, but in the long run you'd probably end up the same. Is that a possibility, or is the answer simply: no, the rates charged would be the same as the commercial banks?

MR. HYNDMAN: Well, I think we have to realize that although the province does from time to time have difficulties with the federal government in the matter of jurisdiction, the question of monetary policy and the setting of the bank rate by the Bank of Canada is one that is not going to be challenged.

But I guess the second question, though, is slightly different in the sense that it relates to the philosophical question of whether or not you're trying to get a commercial yield for the fund. In this case, that is the objective. That, I think, is the requirement and that is our obligation as trustees of the fund. So I think it would be other programs, not this one, that would have to fill the gap there.

MR. KNAAK: Thank you.

MR. SINDLINGER: Supplementary. I'm still not clear on your answer to Mr. Knaak's question. His question was, why would an entity find it advantageous to borrow from the fund. Your response was something like: you acknowledge that there are now other sources for money in the market, but that the fund would provide another source of moneys for lending. But it seems to me that a role like that leads to an intrusion on the private sector; you're competing with private sources of funds. Would you agree with that?

MR. HYNDMAN: Well, one of our constant concerns in managing the fund is that we are not injecting or making available into the Alberta private sector economy moneys in such a way or in such amounts that they distort the normal supply/demand. In considering and deciding on this policy, it was felt that by going in this direction we would not adversely affect those growing and successful financial institutions in Alberta and western Canada which can offer moneys for loan, but by the same token do have competition. It was felt that the competition, if you want to put it that way, of the heritage fund would not adversely impact on them in a major way. You've touched upon something, though, that is a major concern of how the fund is used and invested at any time: that it will, if not carefully and thoughtfully invested, skew the financial supply and demand in the province.

MR. SINDLINGER: Then, Mr. Minister, I find an incongruity in your statement on page 2, item b). One of the criteria you list is that an investment would "have a sound financial track record and whose securities represent good

investment quality." I would submit that if the security did represent a good investment quality, there would be others in the private sector who would like to be in that area and not competing with funds from a government source.

MR. HYNDMAN: Well, there could be; yet I think opportunities will be available for the fund investment and also by having someone else in the market place -- where there is a large market place, too. If the fund were the only one doing this, with perhaps one other person, that would be one thing. But in this case, I guess it's like the situation when a Treasury branch comes into a smaller centre where there are three other institutions: it's the customer who benefits, because there's a little more competition.

But it will have to be watched very carefully, and the rate and pace at which the new debt offerings are taken up will be something we'll have to measure to ensure there is not that danger or damage done to the private sector.

MR. STEWART: Supplementary, Mr. Chairman. Is it not the practice today that in assembling financing for large projects, most lending institutions look on it more favorably if it's spread among more than one lending institution, and for this reason it wouldn't be in direct competition with the private trade if the heritage fund money were made available? I'm asking this more as a question; I don't know the facts. But I assume that on large projects, most lending institutions do not want to be the sole lender.

MR. HYNDMAN: I think the competition is certainly more indirect and, properly managed, would not cause a problem.

MR. PAHL: I might have missed it, but it seems to me that the strength of this thing is not only in strengthening and diversifying the Alberta economy, but I assume it will provide an opportunity to reduce the amount of funds in short-term investments at the present time. In other words, I think you might have mentioned the uptake by this new program, but I assume it would at the expense of other short-term investments in the Alberta investment division. Not expense, but a trade-off in terms of . . .

MR. HYNDMAN: It certainly will have the effect of providing a larger, certainly, corporate investment aspect of the total fund. At the moment, the amounts of money in the fund in marketable securities are about 14 per cent. You have to remember that most of the Section 9 investments are in the debentures of Alberta Government Telephones and the Alberta Municipal Financing Corporation. But certainly moneys would be available from the shorter term, going into the longer term, with respect to this new program, depending on how fast and how frequently there are these new corporate debt issues. It's really impossible to predict how many there will be down the road and in what amount.

MR. PAHL: Mr. Chairman, do you have a sort of upper limit on what might be taken in this in the first year, as opposed to -- last year the Alberta investment division was \$559 million. Would you say you'd be prepared to dedicate either half of that or a third of that to debt issues?

MR. HYNDMAN: Well, it's difficult to set a figure in advance, but I would suppose over the ensuing year or 18 months, as a very upper figure, it could

be something over \$100 million as a total. But it would be hard to assess what that would be.

MR. PLANCHE: Mr. Chairman, just one supplementary. Milt has pretty well covered the points I want to make. But as I understand this, it's a departure only in terms that the heritage fund will now be going to investment dealers like Ames and others to pick up a portion of what they've already presented to the market on new issues. You're just allowing us to expand our area of investment interest rather than just having it bottled up into stuff that's presently listed under the Alberta investment division. Is that the essence of it?

MR. HYNDMAN: Yes, in the past the primary focus in the loaning of moneys has been to Alberta government Crown corporations. There's been very little activity, and certainly no major emphasis at all, on corporate debt. So the loaning to businesses here is a significant departure in the sense that it is a major new priority, which we haven't had before, to move from loaning to government and government Crown corporations as well as to -- because we certainly won't be dropping the first -- businesses in new corporate debt issues.

MR. PLANCHE: So if the intermediary had set the price, the value of the debenture to be placed, we're simply a bidder on that debenture or value that's been placed by an intermediary, and not affecting the market place in that sense.

MR. HYNDMAN: Yes, we may succeed or not; we'd be like others in the competitive market.

MR. APPLEBY: Mr. Chairman, the question I have for the minister is: under the Alberta Opportunity Company, and to some extent under the Agricultural Development Corporation, loans are sometimes made on the basis that the person applying for the loan has been turned down by other lending institutions. Then the AOC or ADC becomes a lender of last resort. We're getting into loans here of considerable magnitude, of course, and I wonder if encouragement will be given to people who come along and say: we've got a really good proposal here; we can't get financing; would you consider it?

MR. HYNDMAN: No, this would not be a sort of lender of last resort program. It would be to companies that have a proven track record. I think there again, as you mentioned, the Alberta Agricultural Development Corporation and the Alberta Opportunity Company play a major role, and they're part of the heritage fund in the more risky area you suggest.

What is perhaps being alluded to is the question of the provision of venture funding. But venture funding is of course an equity funding approach, and there's no suggestion of that in this document. For example, this program would not include the convertible debenture, because it has the potential of equity. This is purely a loaning situation, a debt situation.

MR. APPLEBY: An additional question. The investment committee might consider a certain type of investment as a good type of project to diversify the economy of the province. Would there be some consideration of seeking out the type of people who might come into the province, or who are within the

province, and develop that type of industry or enterprise and encourage them that financing might be available?

MR. HYNDMAN: Well, I have no doubt that if the Minister of Economic Development is talking to companies in other parts of Canada that would be interested in coming to Alberta, he would have in his folder, in his documentation, some background information on this new program, because it could well fill a need there, under the right circumstances.

MR. NOTLEY: Mr. Chairman, I just want to pick up on the question Mr. Appleby raised. As I understand it, then, the normal approach would be to let the private sector take the initiative, or to act through intermediaries, but there will be from time to time occasions where the government will, for example, have a co-ordinated approach in one area of economic development. It might be something to do with the grain industry or the petrochemical industry, where this becomes part of the package.

MR. HYNDMAN: I could see that developing as the program matures. I think that approach is not excluded by the terms of reference. Provided it comes within the legislative parameters of the Alberta investment division, I could see that kind of approach being a useful device, a useful tool perhaps.

MR. NOTLEY: Mr. Minister, I think you mentioned a figure of upwards of \$100 million. Is the government considering, as part of this program, adding funds to the heritage trust fund from the general surplus of the province? In fact, would we be looking at considerably more than \$100 million -- \$500 million, \$1 billion? Are we looking in fact -- you didn't rule out Mr. Clark's question about substantial investment at Cold Lake. But to get some sort of handle on the dimensions of this project, and following the point Mr. Stewart raised, when people put together a package of borrowing money, it's easier to get money if you have a number of people investing. So we're looking at some pretty large projects. Would we, through this program, be making it easier for some of these enterprises to raise private capital, because we're looking at such large amounts of money that will be needed?

MR. HYNDMAN: I don't know whether we'd be making it easier. I guess that would be a subjective judgment of the borrowing company. But to answer the main thrust of the question, I wouldn't want to close the door or suggest any fixed, stated upper limit. I think we'd have to see what would come forward, what kinds of proposals would be made over the months ahead, to see how much we'd have involved here. I think we'd want to have, certainly, a number of new corporate debt debentures held, not simply one. But we might want to see the opportunity for diversification of the portfolio down the road, and I wouldn't want to set an upper limit, so that there could be flexibility to see what might be available.

MR. NOTLEY: And in that flexibility -- it would seem to me that a program like this, just from reading it over very quickly, we've got a minimum of \$1 million. So in actual fact we're saying to the corner grocer, you go to the Alberta Opportunity Company. Some of them think the AOC is doing the job, and some don't. So we're saying, this program won't be available to you. We all know that the three or four major industrial projects of substantial size, and undoubtedly several major utility projects just around the corner -- I guess what I want to get at is: are we really moving rather strongly in the

direction of picking up debt capital, debt instruments, in these projects? And is the possibility of these projects' going ahead one of the reasons the investment committee has decided to move and establish this program?

MR. HYNDMAN: Well, it's certainly not the basic reason. I think the availability of moneys under this program could be something that might assist in the pace of development. But the main thrust of the program is in fact to make available and loan moneys to businesses in the country and in the province that can result in strengthening and diversifying the Alberta economy. It's not solely for, and wasn't designed or tailor-made for, the entities of which you speak. Certainly they would not be excluded, but the other private sector areas, in the areas of, say, manufacturing and transportation and forest products, would be equally as important in terms of the thrust of the program.

MR. R. CLARK: Just following along on the minister's last answer, when he alluded to transportation projects. Mr. Chairman, I realize this may be somewhat hypothetical, but we're trying to get a glimpse of the government's vision here -- at least, I think that's the term. Let's assume for a moment that the pipeline comes down from the north. I think all of us on this committee would hope that happens. I assume, Mr. Minister, from what the announcement says -- albeit reading it very briefly -- and from the reaction and exchange this afternoon, that the government would have the kind of flexibility under this new program to pick up a significant portion of the debt instruments of that project. Is that an accurate assessment, Mr. Minister?

MR. HYNDMAN: Yes, I think we would be able to look at any proposal that might be presented on a debt basis with respect to the northern pipeline if, as, and when that moves along.

MR. R. CLARK: Also taking the comment the minister made just a moment ago, Mr. Chairman, with regard to forest projects -- the hearings recently held in the Whitecourt-Grande Prairie area. Would that project also fit within the terms of reference of this announcement?

MR. HYNDMAN: Yes, if there were a new corporate debt issue that fitted within the parameters here, I would think there would be no exclusion of an entity there coming on a competitive basis looking for the heritage fund and others to pick up part of the loan.

MR. R. CLARK: Mr. Minister, the grain terminal project in northern British Columbia . . .

MR. HYNDMAN: Prince Rupert?

MR. R. CLARK: Yes. Would that also fit within the terms of this project? That's assuming there's a debt offering. But that would fit within the agricultural processing and the transportation portions of the terms of reference?

MR. HYNDMAN: Well, the negotiations are ongoing with respect to the finalized financial package from and involving Prince Rupert. We don't know yet what that will be, so we don't know what kind of financing arrangement will come

out of that. But negotiations are ongoing with the consortium and with the federal government right now to try to bring that to a conclusion.

MR. R. CLARK: But my question, Mr. Minister, is: let's assume there is a need for debt financing. If there's a need for debt financing, the people who are placing that would be able to come to the Alberta government, the investment committee, because it would fit within the terms of this general announcement today. Whether the investment committee would say yes or no is a decision the committee would make at that time. What I'm really trying to ascertain, Mr. Minister: is there one sizable project on the horizon in Alberta today that the minister could think of that really wouldn't be able to come to government to get debt financing for? I'm thinking in terms of the forestry one, the pipeline, the oil sands plants, the grain terminal. I can't think of any project that would be excluded. That's why I share the feeling of one or two of the other members who say or imply that this is really aimed at those kinds of, if I might use the rather "in" term, megaprojects of the province.

MR. HYNDMAN: Well, I think it would have to be made clear by the company or entity that wants to borrow the money that there would yield a reasonable return or profit. That is one of the criteria. Now there may be projects where that couldn't be demonstrated.

MR. R. CLARK: But, Mr. Minister, that then becomes a decision of the investment committee, doesn't it -- whether it's a good investment or not? And then one which we debate in this Assembly, and outside when elections come along -- that becomes a matter of judgment.

MR. HYNDMAN: Well, that's to comply with the statute.

MR. R. CLARK: Yes.

MR. HYNDMAN: But this program doesn't contemplate individual companies with brand-new projects coming directly to the heritage fund for moneys to be loaned. They would be out in the market place, and presumably would have something where -- well, in the first place they'd have to get somebody else to do it, because the heritage fund can only take up to 66.66 per cent. But there would be a wider scope there.

MR. R. CLARK: But, Mr. Minister, if the government were to go as far as to pick up two-thirds of the debt of the next tar sands plant, for example, it would make it far easier for the companies going ahead to pick up the other one-third. Let's not kid the folks.

MR. HYNDMAN: Well, no decision has been taken in that area yet.

MR. R. CLARK: But it would make it much easier, wouldn't it?

MR. HYNDMAN: Well, I don't know. I suppose the realities of the market place are something that would always be faced. But these investments would have to be ones which we'd be able to clearly demonstrate would have a good return, and would have to stand up and be measured against regular commercial investments.

MR. R. CLARK: In the minds of the cabinet who are making the decision at that time.

MR. HYNDMAN: Well, within what the statute says.

MR. R. CLARK: And that decision is made by the cabinet.

MR. HYNDMAN: Well, as you know, decisions with respect to two sections of the Act are made by the investment committee, which has been approved by the Legislature.

MR. R. CLARK: Yes, by the investment committee, I'm sorry, not the cabinet.

MR. KNAAK: Mr. Chairman, just to change the direction slightly, back to the report. I note that a considerable quantity of the investment is in what one might call money holdings -- short-term debt, long-term debt, and debt. Even the new policy statement talks about the purchase of debt. There have been the 'gloomers and doomers' writing recently, and major depressions have come in cycles -- there's a name for those but it just escapes me at the moment -- and some people are forecasting a major depression followed by hyperinflation and then a collapse of the economy to some extent. Whether we believe that or not, it seems to me it's worth while to spread the risk, so to speak, on this major investment. The way I understand the Heritage Savings Trust Fund, it is to be used to develop Alberta for the future of Albertans, but maintain an asset base for future generations as well. If a sizable proportion is in money holdings or paper holdings, debt holdings, it is possible, should a major economic catastrophe happen, that there would be significant losses. My question is: has any consideration been given to putting a small amount of those assets into what we might call hard assets or real assets like gold, and possibly equities outside the country -- for instance, in order to preserve the assets they have, I know some governments have bought into Mercedes-Benz; some governments buy gold -- without distorting the economy internally? As we know, if you inject too great . . .

MR. NOTLEY: Don't buy Chrysler.

MR. KNAAK: If you inject too great a quantity of funds, you can cause an inflationary spiral detrimental even to the Alberta economy. So my question is: has the possibility been considered of investing in equities outside Alberta, and outside Canada possibly, so we don't distort the private enterprise system? And has the possibility of investing a small amount in gold been considered?

MR. HYNDMAN: To deal with the second question first, no, there has been no consideration to investing in gold. I think we have confidence in the middle and long term in the Canadian dollar. As Albertans and Canadians, I think we should be making such investments as will improve, and increase even further, confidence in the Canadian dollar. Purchase of gold would certainly not do that. So we're not contemplating purchases of gold.

The matter of equities is a subject of constant discussion, on which we get advice from all quarters at all times. Certainly there is a very real concern within the province of Alberta with respect to the danger or imbalance that equities purchased by the fund might create, as against the existing Alberta private sector. Outside Alberta, I suppose other arguments could be advanced.



But at the moment, although ideas have been put forward and debated, there is no intention of moving into equities either inside or outside Alberta.

MR. PAHL: Supplementary to that, Mr. Chairman. It would seem that the market place is a good arbiter of risk and responsibility for a large portion of the fund, but when it comes to the Canada investment division, we have a less perfect market functioning. With the very real possibility -- I guess prospect is more likely -- of a dramatic increase in the amount of money in the Heritage Savings Trust Fund, it would seem that the fund in itself will be a mechanism for, if you will, national fiscal policy, or monetary policy almost, as well as a provincial one.

Apropos of that point, has any consideration been given to setting some guidelines regarding the amount of money that will be loaned to any one government in Canada, either the provincial governments that are now using the fund or the federal government, based on the amount of deficit financing they are undertaking? In other words, can we exercise some faith in the Canadian dollar by asking other people to exercise it through our lending policies?

MR. HYNDMAN: At the moment, the moneys are made available at a market rate to other provinces, or entities like Nova Scotia hydro, without strings attached, in the sense that we feel it's proper that those governments and Crown corporations make the decisions as to how the money would be spent. I suppose if the total amount of money available in the Canada investment division were taken up, the total 15 per cent -- it's now something over 5 per cent -- that situation might arise. On the other hand, in the kind of Confederation family we have, probably the most mature approach is to let each province as well as the federal government, irrespective of the ways in which it raises its money or from where it borrows its money, make the decision as to how it wishes to spend it and on what basis.

MR. PAHL: Mr. Chairman, may I follow up on that. The point is that as the Heritage Savings Trust Fund becomes larger, its impact on the value of the Canadian dollar will become more significant. I guess I'm suggesting that in this family of Confederation, we have an opportunity to encourage others to exercise fiscal responsibility, even with respect to the federal government, at some point in time.

MR. HYNDMAN: I think what you're suggesting and the area you're exploring is probably better commented upon by the Premier, who I understand is going to appear before the committee, because it could possibly relate to some of his discussions at the recent premiers' conference.

MR. NOTLEY: I have a couple of questions along that line, too. But just going back to your announcement today, Mr. Minister, I had asked you whether or not we were going to look at the surplus of the province beyond the heritage trust fund for this program. I don't recall your answering that question. Or are we confining it just to the heritage trust fund at this time?

MR. HYNDMAN: It's confined to the Alberta investment division of the heritage trust fund.

MR. NOTLEY: At this stage, have we handled most of the debt requirements of the provincial agencies? Or do you see a continuing increase in the public agencies such as Alberta Government Telephones, the Municipal Financing

Corporation, et cetera? Or in fact will the bulk of the increase -- the money coming in every month to the heritage trust fund -- be available for this type of corporate investment?

MR. HYNDMAN: No, I see continuing significant increases in the amounts of capital needed by Alberta Crown corporations. The basic reason for that is of course that we have such a fast-growing province that vast amounts of capital are needed. The municipalities want to borrow them, and I'm sure will continue to want to borrow them, from AMFC. The maintenance of a telephone and telecommunications system to the growing parts of the province requires millions of new dollars. So all the various government and quasi-government agencies that are funded and backed by the heritage fund will, I'm sure, continue to take an ever-increasing amount. It's hard to predict, and maybe each of the ministers appearing before the committee can give a slightly better idea of how much that's going to be.

MR. NOTLEY: But as Provincial Treasurer you'd be in a position to have a sort of handle on where things are generally going over the next year. At this stage we have about -- as I look at page 43 of the report it's obvious that the \$611 million in short-term investments would be the easiest place to start if somebody comes along with a suggestion for a \$100 million loan that meets the other criteria set out by the government. Beyond that, are we looking at a substantial increase this year in money that would not be committed to Alberta Government Telephones or the Municipal Financing Corporation? There was not a large increase between last year and this year in the short-term securities. The bulk of the increase went into longer term investments.

So I really would like to get some indication from you, Mr. Minister, as to what you see being available. We can talk about projects which may or may not come knocking on our door, but what in fact are we looking at as funds that could realistically be available?

MR. HYNDMAN: I guess it's difficult to predict. One reason is that we don't know what the arrangements will be with respect to crude oil prices and the revenues to be obtained from non-renewable resources, which form the fund. But it's difficult to predict the various dimensions and the size of each of the various aspects of the fund, even months ahead. Mention was made of the northern pipeline. If something did happen to come up there, the whole picture would be changed. As well, if there were a favorable look at or some form of investment in the Alsands situation or in Cold Lake or in one or two or three of those projects, then the picture would change again. So there is a need in terms of the page 43 statement to maintain some short-term moneys available; that's why we have short-term moneys, even though we've been gradually and continually lengthening the term, and successfully increasing the yield.

MR. NOTLEY: So we're looking at \$600 million this year, but presuming the increase in the size of the fund that could be substantially greater. There's been a deliberate move, has there not, Mr. Minister, to shift to longer term securities in the last year? That's what the Provincial Treasurer told us last year.

MR. HYNDMAN: Yes.

MR. NOTLEY: If that move were not continued, you would have an automatic build-up of substantial sums of marketable securities, which would then be available for longer term investment under this proposal.

MR. HYNDMAN: Well, if the yields look favorable -- and I think the general plan is to continue to move into longer term securities. The situation over the last year, of course, has been that in some cases the shorter term investments have been the ones with the higher returns.

But over the long term the interest rate has been higher than the inflation rate, of course, so the movement into longer term will continue.

MR. NOTLEY: The question I suppose I would put to you is -- one can look at it from the interest rate, but one can also look at it from how the cabinet or the investment committee perceives the tendency to diversify the economy of Alberta. If it's the view of the investment committee that three, four, five, or six of these major project -- including several utility projects -- would diversify the province, then what I'm getting at is that you would keep back substantial sums in short-term securities which could be easily converted into funds for this program.

MR. HYNDMAN: Yes, the difficult balance that has to be made every day: investing in a term short enough that one can liquidate the funds to put into another investment. But when you do that you sometimes have to take a lower interest rate. By the same token, you want to keep the term as long as possible if the yield is higher. Then you have the moneys coming in as well. So we try to maintain that kind of balance all the time. That's the reason we have varying degrees of maturity of the investments, and a wide range of investments.

MR. NOTLEY: Mr. Chairman, if I may, I just want to pursue a question that Mr. Pahl raised concerning the Canada investment division. When the question of the west coast terminal arose, that could also be considered an investment under the Canada investment division, could it not?

MR. HYNDMAN: Well, the investments there have been such that we require a reasonable commercial yield. So everything would depend, I think, on the negotiations and the extent to which there is a return or profit and, if so, at what time and in what amounts. The capital projects division, of course, is the only one in the fund where there is no return at all, it being deemed that that's required.

So it's really difficult to assess where and how the final funding will appear. But the Premier has made a public commitment of \$100 million towards the terminal, and that certainly stands. We'd like to see action soon and get the thing going, because it will result in a major diversification for Alberta agriculture.

MR. NOTLEY: Just to follow Mr. Pahl's question directly concerning the use of the Canada investment division of the heritage fund. I can see that as the fund grows there could well be some legitimate arguments -- I'm not talking about the arguments of the Premier of Ontario -- that we should be investing in other parts of the country on a loan basis, so that instead of provinces having to go to the money markets, then when they pay out the interest and dividends that affects our balance of payments, that in fact they should be

borrowing within the country. It was one of the recommendations last year that more emphasis be placed on that.

With that in mind, my question really is: I know that the 15 per cent has not been taken up, but has any consideration been given at this stage to increasing the percentage that could be made available to other parts of Canada so that we wouldn't have this business of other provinces having to go elsewhere in the world, with the impact on the dollar and on the balance of payments when the interest and dividends are paid, wherever they may be paid, when the money could be made available right in the country. Have we considered any renewal of the sales job, if I might put it that way, among all provinces in the country?

MR. HYNDMAN: Well, we haven't been buying billboards across the country to advertise the fact that the Canada investment division has excess money to lend. But I think it can fairly be said that it is well known in the provincial financial community that we would look as favorably as we possibly could on a proposal by another government to increase its existing loan or to have a Crown corporation borrow moneys backed by the government, or to be a new province with a loan, because some have not yet borrowed.

MR. NOTLEY: Have we considered at any time any sheltering of interest rates?

MR. HYNDMAN: No consideration has been given to that.

MR. BORSTAD: My question is along the same line. I wonder what interest other provinces have in the Canada investment division. It seems to me that rather than going abroad to borrow, it would be a lot more logical to borrow within Canada, as Mr. Notley mentioned. I wonder if there is any interest and, if there isn't any, why not.

MR. HYNDMAN: Well, three new investments under that division have been reflected in the report. But you're correct, there haven't been in recent months. I suppose it depends on the particular borrowing situation and the needs of the governments at various times. One of the situations that I guess would encourage other provinces to borrow in the United States now might be the difference between the Canadian and the U.S. dollar. Some may well be assuming the Canadian dollar is now undervalued, so they're borrowing deliberately in the United States because they think when they have to pay the money back it will be in much cheaper dollars. That's one factor.

All things being equal, I think there would be a good reason to borrow moneys in Canada. But the situation changes vis-a-vis the exchange rate and the strength of the Canadian dollar.

MR. R. CLARK: Mr. Chairman, my question is in a little different area. It really deals with the market performance of the fund, especially the marketable securities. It would really be helpful if we could get, say, a list of the transactions which have taken place. Perhaps I should stop, Mr. Minister, and say to you, Mr. Chairman, and to the committee that what I'm really trying to get is some sort of breakdown, say of a specific day in 1977, one in 1978, and one in 1979. On that day, what marketable securities did we have?

One of the real difficulties I find with a large number of citizens is their difficulty in understanding where that money is. In my recollection, no members of the committee -- I'd better rephrase that. I haven't been able to

acquire a breakdown of the securities the government has on a specific day, so that one could really check, Mr. Minister, the report given to the members of the Assembly from the the standpoint of having some people in the investment community -- albeit it would take some time -- but a judgment could then be made as to how well our people in Treasury did in investing for us on that particular day.

So what I'd like to ask the minister, Mr. Chairman, is: what information can he give us so that we can take it and, through whatever sources we may have, get some kind of judgment outside the Treasury Department. Now, Mr. Minister, your office and mine have had correspondence with regard to the possibility of getting a breakdown of marketable securities -- the transactions, dates, values, and so on. To start the discussion, I'd like to ask in what form is that information so that it could be made available to whichever members want it, so that we could have that kind of, let's say, outside-Treasury judgment as to whether the investments on a certain day were good, bad, or indifferent.

MR. HYNDMAN: Let me say at the outset that I have total confidence that excellent investment ability is being applied to the investments. With respect to the observation, I would undertake to provide the committee with a list of specific investments held by the heritage fund, say in Section 9, for any particular day during the fiscal year, if you'd like to pick one. But I would resist any suggestion that the details of all the transactions in the buy/sell of the various securities be made public. What that would do is work very much against the public interest, in the sense that an analysis would show the province's tactical game plan on an hour-by-hour, day-by-day, week-by-week basis -- because it is in a competitive money market -- in working out its approach to get the best yield on those investments. So the detailed buy/sell transactions, I would have to say, could I think very well jeopardize the yields which the public of Alberta is now getting.

But if the committee would like to pick a particular day for which they'd like a list of specific investments, it would be a long one but I think I could provide that, showing every single investment on a given day in the last year under review.

MR. R. CLARK: Very good. Mr. Chairman, to the minister. Would it also be possible, Mr. Minister, to give us that for a year previous. It would be interesting to see the comparison.

MR. HYNDMAN: Sure.

MR. R. CLARK: How meaningful it would be, I suppose we'll all make our judgments then. I'm quite prepared to pick a day, or if the Chairman or someone wants to pick a day, I'm not bound to any one day that might be convenient. But I think that kind of comparison would be helpful not only from the standpoint of judgment, but the more information one can get out there so that people can see, I think that is of benefit to all of us.

MR. HYNDMAN: Well, I think I could undertake to do that. I'd have only two caveats: (a) I don't know whether the information is kept and is available for the year previous, but if it is we'll certainly provide it. The only other caveat would be that you're not asking for March 31, 1977, and April 1, 1978, because they're in two fiscal years, but that they would show the transactional nature of the game plan. So in other words, a year apart in mid-year or something.

MR. R. CLARK: Could we take a year back and two years back from today?

MR. HYNDMAN: I would think that would be reasonable. I could undertake to see if we could do that. If there's a more convenient date a week back or so, I'd advise the committee. So that's September 4, 1979, and September 4, 1978.

MR. CHAIRMAN: And 1977.

MR. HYNDMAN: I'm sorry, we're within this fiscal year, so it's 1978 and 1977, September 4.

MR. PLANCHE: Mr. Chairman, I was just going to say that I thought we had done that. In the last session, certainly, a day of transactions was asked for and provided. If my memory serves me correctly, we went around this barn before.

MR. R. CLARK: (Inaudible) difficult to go around it a second time. And if that is the case, Mr. Planche, my memory hasn't served me well.

MR. PAHL: The question, Mr. Chairman, was -- and I just refer to the block diagram on page 5 -- are we wanting to take a slice of that whole thing, or are we really talking only about deposits, marketable securities, and portfolio investments? It seems a lot of that is pretty obvious.

MR. CHAIRMAN: Mr. Pahl, if I may, I don't really construe that as a supplementary to the previous discussion. So could I accept a supplementary from Mr. Appleby, then return to your question, which appears to be at least tangential.

MR. APPLEBY: To follow up Mr. Planche's comment, Mr. Chairman, it runs in my mind that we did have this before. But if we did, I would think that would be a suitable date to make a comparison: when the information was provided last year as compared to this year.

SOME HON. MEMBERS: Agreed.

MR. CHAIRMAN: An entirely reasonable suggestion.

MR. HYNDMAN: If it was provided in 1977, it was probably about this time and they won't have to provide it, because we already have it -- if it has been provided; I don't know.

MR. PAHL: I'll pass, because apparently we're already decided to take this course.

MR. SINDLINGER: Mr. Chairman, to the minister. Could you please tell me why the Lethbridge and Grande Prairie terminals were removed from the heritage fund investments, compared to other terminals like Grande Cache, Edson, Pincher Creek, which were retained?

MR. HYNDMAN: I think it would be a good idea to ask Mr. Kroeger that question. Generally speaking the heritage fund, through the capital projects division, funds the airport terminals; whereas the General Revenue Fund is involved in the moneys for maintenance and for runway construction. Beyond that, I would have to defer to the Minister of Transportation.

MR. NOTLEY: MoT has taken them over.

MR. HYNDMAN: And of course we've been doing some temporary financing by reason of the impecuniosity of the federal Department of Transport. They'll pay us back for some of these things.

MR. BRADLEY: With the increase in the General Revenue Fund of the province, is there there any thought or movement afoot to increase the 30 per cent from non-renewable resources which goes into the heritage fund to a higher figure, and put more of the surplus of the General Revenue Fund into the heritage fund?

MR. HYNDMAN: Well, that would be a decision to be made by the Assembly. I believe a resolution on the matter was introduced last year by Mr. Cookson, and I don't believe it reached a vote. But at the moment there is no intention by the government to recommend a change in that percentage.

MR. PAHL: I'd like to know from the minister whether there has been a projection, or any range of projections, on the amount of the Heritage Savings Trust Fund over the next two years.

MR. HYNDMAN: No, as I mentioned, it's very difficult to project what the fund will be at. There's an estimate in this report, as I recall, a figure of about \$6 billion as at March 31, 1980. But that's about as far as one could really estimate, when you look at the revenue sources in the fund. Of course, the amount of the fund at the moment is only about the same as one operating year's expenses. So it's like leaving a job and having your salary for one year. So this fund is not really as large as it appears.

MR. NOTLEY: Mr. Chairman, Mr. Pahl had raised this question -- no, I guess it was another member -- of the 30 per cent. The government has no intention of changing that, or proposing a resolution to the Assembly that it be changed. I would really question why that would be the case. We do have a large amount of money in the surplus of the province, less \$1 billion which has been transferred to municipalities. But it is building up now, too. I would think that at this stage, Mr. Minister, you'd be looking at transferring a larger percentage into the trust fund than simply 30 per cent.

MR. HYNDMAN: Well, I think any percentage has to wear well over a large number of years, as this one has from 1975. But I would think that observations on that question could perhaps be elicited from the Premier when he appears before the committee.

MR. NOTLEY: With respect to the surplus of the province, I take it that the bulk of that would be in relatively short-term securities, would it? I know that question is slightly *ultra vires* of this meeting; nevertheless it's of some interest when looking at the investments of the trust fund itself.

MR. HYNDMAN: Well, frankly, I haven't got information on that here, because I've been confining myself to the time line of this annual report. I'm not sure whether it is properly within the ambit of the committee; perhaps it's something which should be asked by the hon. member on the opening day of the session.

MR. NOTLEY: We can always do that.

MR. CHAIRMAN: That strikes me as a more appropriate place for that question.

MR. R. CLARK: At least the second day.

MR. NOTLEY: Yes. We might not be down that low in the question file so early.

MR. BRADLEY: A question, I suppose nusing into the future. Depending on the success of this new Alberta investment division policy which you announced today, could we perhaps see in the future a similar policy adopted for the Canada investment division? In particular, I'm thinking of energy-related projects -- either pipelines in other parts of the country, or Churchill Falls -- which would by their nature be projects which may not be guaranteed by a provincial government.

MR. HYNDMAN: I haven't given consideration to that. This policy has been evolved on the basis of its being Alberta-oriented. What you're suggesting is that new corporate debt issues beyond the province, which don't necessarily relate to anything in Alberta, should be considered. We haven't given consideration to that. If the committee has thoughts or suggestions, I'd be very pleased to have a look at them.

MR. BRADLEY: I was thinking particularly, perhaps after this policy has been in place for a year, of reviewing it at to see if it would be appropriate to extend it to other parts of Canada rather than just Alberta, after looking at the success here.

MR. HYNDMAN: Well, I have no doubt that after the experience of a year or so, there might well be modifications to it. But at the moment it would be speculative to suggest that there are plans to move in that direction, because there aren't at this time.

MR. SINDLINGER: Mr. Chairman, to the minister. Regarding the convertible debentures the government has for Gulf Canada Limited and Canada-Cities Service, could you please tell me how much equity is involved in that? Is the government giving consideration to exercising that option, to convert the debentures to equity?

MR. HYNDMAN: If memory serves me, I believe it's a 10 per cent equity. I may be corrected on that. In any event, we would not be making a decision as to whether or not to exercise the convertibility feature until much closer to the date in, I guess, the early 1980s when we can legally do so.

Of course the big advantage of the convertible debenture is that one can watch the performance of the Syncrude plant, in this case, and invest after you've seen their record of performance rather than investing earlier. So the decision would be taken much closer to the five-year anniversary in the early 1980s. It's certainly a valuable asset of the division.

MR. SINDLINGER: I'd like to make a supplementary comment -- it's been made before, but just to emphasize the point. When we start talking about convertibility of debentures, it again raises the issue of government interference in the private sector. I have a statement here made by the Premier some time ago in regard to the fund. The statement includes the



purpose, goals, objectives, source of the funds, things of that nature. It concludes with guidelines or parameters. Three guidelines or parameters are given; one is of course that which you alluded to, the adequate return to Albertans and the investments of long-term social and economic benefit. But the other two are points that have been mentioned here today, and I just reiterate them because I think they're important.

The first is that the investment of the fund should have a minimum of interference with private-sector activity. When we start talking about convertible debentures and your policy statement today, it's not too much further to go from a point where we invest in corporate debt to a point where we get involved in equity and more interference in the private sector. The second guideline or parameter deals with the existing financial institutions, and that point was brought up earlier. It says that the fund should be invested in such a way as not to unduly disrupt existing financial institutions.

You've already pointed out that your policy would be implemented in such a way that these wouldn't happen. But I wanted to repeat them because I felt they bore emphasis.

MR. HYNDMAN: Well, I think they're worth repeating, and it may well be that the committee will want to discuss the statement further with its author.

MR. R. CLARK: Mr. Chairman, to the minister. Mr. Minister, when the legislation first came in, one of the concerns raised by not only members sitting where the minister is today but members on this side of the House was the question of decisions made by the investment committee and not by the cabinet. The discussion went on and on about day-to-day investment decisions, and I think there was agreement that the Legislature simply couldn't function in a reasonable manner in that area.

But with the announcement today, and with at least the possibility that much of the debt money that would be picked up by the announcement today would be in very sizable projects -- be they tar sands, a pipeline, a forest project northwest of Edmonton -- has the government considered at all the idea that on those major decisions an approach would be made to get legislative approval prior to the government's making that investment? We're now talking in terms of very major projects here in the province.

MR. HYNDMAN: Again, the thrust of the policy is not designed to be part of, or its major reason is not, the energy projects which are suggested. It's for corporate expansion of every possible kind in the manufacturing and diversification areas. In any event, it is felt that the way in which the Act is now working with respect to investment, and with respect to the review of those sections of the fund, is adequate for what has occurred to date and for what we would see in the near future.

MR. R. CLARK: There's been no consideration of a change in government attitude with regard to prior legislative approval, then, of any portion of this announcement that might be seen to go towards very huge projects.

MR. HYNDMAN: We don't see any change. I think it's operated adequately and appropriately, and we would see continuing it on the same basis.

MR. PLANCHE: Mr. Minister, from the time a prospectus is issued on a major bond issue until it's subscribed, would there be time for the Legislature to sit?

MR. HYNDMAN: Very unlikely.

MR. R. CLARK: Mr. Chairman, might I suggest to the Member for Calgary Glenmore that it would be good for his edification to go back and read the comments of the Member for Calgary Buffalo during that debate on second reading. The Member for Calgary Buffalo pointed out then how that problem could be overcome.

MR. SINDLINGER: Just for the record, might I point out that we have a new Member for Calgary Buffalo.

MR. R. CLARK: Did I say the present member? I should have said the former member -- although once in a while I see signs of the present member living up to that standard.

MR. CHAIRMAN: Mr. Pahl, please.

MR. PAHL: I was just waiting for the present Member for Calgary Buffalo to accept the compliment.

Mr. Chairman, I wonder if at the same time that we receive the list of transactions, a bit of an explanation could be provided to this committee on the actual logistical constraints to not having a certain amount of money tied up in highly liquid short-term assets, or even in cash -- what would be known as a cash deposit. What I'm thinking of here is that over the course of the year, I would think that the money would come in on a fairly consistent basis with respect to royalty payments, and there would be rather sizable increments based on land sales. Would it be possible to get some understanding or some explanation of how -- for example, given a land sale where \$100 million is available -- there are certain constraints to placing that immediately on the first day? You just can't put all the money on the market right now, or you can't actually secure the appropriate investment at the right time. Now, I'm not asking for strategy; I'm just asking for the physical transactions or flow of funds that would tend to inhibit placement of all funds at one time. Is there some sort of explanation of that? I think it's worth commenting on.

MR. HYNDMAN: Well, certainly. I think to the extent that that doesn't reveal the game plan, I'd see if we could provide some more information on that.

MR. CHAIRMAN: Are there any more questions that can be directed to the minister?

MR. SINDLINGER: In my experience, a lot of legislation is more *ex post facto* than anticipation of the future. I wonder if you might care to share with us some specific examples of debt financing, as per your policy statement today. I know you've mentioned some general areas -- I can't find the paper right now -- transportation, et cetera. But is there any one project imminent?

MR. HYNDMAN: No, there is not. I don't think you can get into listing what they would be until the actual companies come forth -- companies with some financial track records -- to say that they want to borrow money. So it's

very difficult, because it's the private sector we're dealing with, to try to predict and say what areas of manufacturing this is going to go into. You just can't predict whether or not at the end of the year there may be interest only in, say, three of the seven areas I mentioned, and none in others, or a heavy interest in borrowing by one or two. It's going to be very experimental for the first year.

MR. SINDLINGER: That is to say that no companies have expressed an interest at this time?

MR. HYNDMAN: Not so far, but I would hope that over the days and weeks ahead there may be some. There have been companies in the past year or two, because my predecessor mentioned in this committee last year that the investment committee was considering corporate debt because inquiries had been received from, I think, both investment dealers and private companies, which said: well, can't you work out some arrangement whereby you can be available to loan us some money? At that time the answer was: no, the policy decision has been taken; we will not do so. These doors are now open. It's very difficult, though, to predict how many potential customers will be arriving.

MR. APPLEBY: Will the minister have some sort of traffic control on the doors as they come in now?

MR. HYNDMAN: Well, each one is going to have to meet the criteria in the Act, and the criteria at the top of page 2. Then there will be appropriate reporting to the Assembly.

MR. NOTLEY: But, Mr. Minister, this could now become part of the financial discussions in some of these major projects, now that we have this door open.

MR. HYNDMAN: Well, if you're talking about projects that . . .

MR. NOTLEY: Providing they meet those conditions, they now can become part of the financial terms.

MR. HYNDMAN: I suppose there could be proposals put forward which could relate to this new policy. When you talk about major new projects, though, I'd caution that they have to have this sound financial track record, and yield a reasonable return of profit, to be within the ambit.

MR. NOTLEY: Presumably they would have to have a sound track record, though, for the ERCB and the provincial government and the various agencies involved to say, go ahead.

But I want to raise a question relating to utilities, Mr. Minister. Utilities are specifically mentioned here. You indicated there had been no formal requests. I'm just wondering, however, are we looking at utility investment that would be based on several of the projects, or are we looking at possible utility expansion for the province as a whole? And are we any closer to any decision on several of the major utility proposals in the province?

MR. HYNDMAN: Well, the latter point would perhaps best be answered by Mr. Shaben as the Minister of Utilities and Telephones, who I think is appearing

before you. But on the former, I think there wouldn't be any restriction on any of the investor-owned utilities coming forward with a proposal, with others of course through financial intermediaries, and saying: we need \$X million to continue to supply electricity or natural gas or whatever -- of which vast sums are going to be needed -- to the province. That would be the kind of thing we would have a look at, as well as XY manufacturing company or agricultural processing, heavy oil, coal, forest products.

MR. STEWART: Mr. Chairman, you mentioned earlier that the decision has been made not to fund more than 66.66 per cent of any one project. With the federal government's concern about self-sufficiency in oil by 1990, and the possibility that they will be putting on pressure for the development of future oil sands projects, and the fact that the Canada investment division is not completely used up, is it feasible that we would get ourselves into a position where we would be funding 66.66 per cent of a project under the Alberta investment division, and the federal government would be borrowing from us through the Canada investment division and funding the balance -- a position where the companies carrying on the project would actually be funded almost totally from the provincial government through two different divisions of our investment?

MR. R. CLARK: Joe would never allow that to happen, Charlie.

MR. HYNDMAN: I guess we'd have to be cautious and get good legal advice on whatever type of agreement was drawn up with respect to each of those loans, and tie up the "i"s and the "t"s.

MR. R. CLARK: Mr. Chairman, to the minister. Mr. Minister, one of the difficulties I have in looking at the report is sorting out what fits within the ambit of the Heritage Savings Trust Fund commitments and which things we do with general revenue. I'd like to start by asking: Mr. Minister, is that a question that you can elaborate on to us. I use the example of the announcement last year of special funding for university libraries -- we're now funding that out of the heritage fund -- or the refurbishing of the old courthouse in Calgary, Government House South. Yet the money being used to refurbish the grounds around the Legislature Building in Edmonton is coming out of the General Revenue Fund. Mr. Chairman, I'm not sure whether the question should go to the Provincial Treasurer or to the Premier when he comes before the committee. But how is this line drawn? It seems to me that now, after being rather firm to start with, it's becoming a bit of a pick-and-choose situation as to what fits within the ambit of the fund and what is financed out of the general revenue of the province.

MR. HYNDMAN: Mr. Chairman, looking at the basic philosophy of this unique Act when it was first passed, and the three divisions in it, it's pretty clear, for example, that the capital projects division is for long-term economic or social benefits, and relates to projects which, but for the heritage fund, would probably never have been constructed. In other words, it is something extra and special that Albertans can enjoy as a long-term economic or social benefit, such as Kananaskis park or the cancer centre or the children's hospital, which under normal budgeting, without a heritage fund, probably would not have been possible. So I think that's pretty clear.

There is of course, I would concede, an area of judgment, a grey area which is very difficult with respect to the area of cancer and medical research: the

difference between pure research and patient care. That's been discussed in the past, and that will always be a difficult one to slice the line on. But with the Canada investment division, I think the parameters are very clear. In fact the loans made to other governments are only through the heritage fund. The Alberta investment division has to have two criteria met: strengthen and diversify, and return a reasonable profit.

So it seems to me pretty clear, with the entities that are in and form part of the very diversified portfolio of the fund, that the line is pretty clear as to which comes from general revenue and which from the heritage fund.

MR. R. CLARK: Mr. Chairman, to the minister. If the line is so clear, I'd be interested in hearing from someone how the line is drawn on the question of university libraries. We've had libraries at the University of Alberta virtually since the university started.

MR. HYNDMAN: Well, the ongoing funding of libraries is one thing, from a university budget, but perhaps either Mr. Horsman or the Premier, if you want to get into the depths of this question, would more likely be able to offer a comment that the committee may want to explore further.

MR. R. CLARK: Perhaps the Premier's man in the gallery can make note of that, and we'll follow that up.

MR. NOTLEY: Smiling man.

Just one quick question to the minister. How many meetings were there, Mr. Minister, of the investment committee last year?

MR. HYNDMAN: Five.

MR. R. CLARK: I move we adjourn.

MR. CHAIRMAN: On your behalf, then, in light of Mr. Clark's adjournment motion, I'd like to thank Mr. Hyndman for his participation with this committee today. I'd remind members that we reconvene tomorrow morning at 9 o'clock for the purpose of meeting with the Minister of Housing and Public Works.

*The meeting adjourned at 2:50 p.m.*

