

Standing Committee on The Alberta Heritage Savings Trust Fund Act

Thursday, August 21, 1980

Chairman: Mr. Payne

3 p.m.

MR CHAIRMAN: Perhaps we should resume our deliberations today. We're awaiting Mr. Speaker, and his office has indicated that he should be along soon. On behalf of the committee, I would like to welcome Mr. Planche. As is our custom, Mr. Planche, perhaps you could begin by acquainting us with, I believe, your new deputy. Then perhaps, if you see fit, you would care to make some opening comments, after which we'll invite questions from the members of the committee.

MR PLANCHE: Thank you very much, Mr. Chairman. I would like to introduce to the committee Herman Young, with my department, and Jeff Proudfoot, my executive assistant.

I welcome the opportunity to be here today. I guess the only direct involvement we have with the Heritage Savings Trust Fund is the hopper car purchase; nevertheless, the nature of this portfolio does tend to transcend line authorities in other departments. To the best of my ability, within my area of responsibility, I'll try to answer any questions you might have.

MR NOTLEY: Just a couple of initial questions of a more general nature. The press has reported that the Alberta government has denied making any offer with respect to de Havilland. Undoubtedly, if we were to get into that, that would quite possibly be a heritage trust fund investment. Is the minister in a position to give us any information on that?

MR PLANCHE: Mr. Chairman, I think the appropriate way to respond to that is that a lot of people have interest in coming to Alberta and a lot of conversations were held in privacy. I don't think it's appropriate to discuss any of them, by setting any kind of a precedent to start there. So I rather would decline to comment. I think I have answered the press in terms of -- they asked me, was de Havilland moving to Calgary and had de Havilland approached me, and several other questions, all of which we have denied.

MR NOTLEY: With respect to the heritage trust fund, there has been no offer made to any company with respect to moving to Alberta -- to de Havilland with respect to the Dash 7 operation?

MR PLANCHE: No, there has been no offer from the heritage fund to de Havilland to move to Alberta.

MR NOTLEY: Mr. Chairman, if I could just move on to another area that isn't directly related to what has been done but to what we hope will be done; that is, the question of Prince Rupert terminal. That will undoubtedly come under your purview. I gather there have been some problems with the Harbours Board. Are you in a position to advise what the stumbling block is at the moment?

MR PLANCHE: The Harbours Board lease hasn't been signed, to my knowledge, by the consortium partners. The letter of intent has been signed. I think we have tentatively agreed that our finances would be stretched to accommodate

perhaps the new prices that inflation may cost, indicating a determination to complete the terminal. The caveats that are still left include things like, I think, the agreement for the consortium to assume control of the old terminal may not be signed formally yet. The National Harbours Board issue is not completed yet. I'm not sure what the status is of the CP/CN freight rates into Prince Rupert from Saskatchewan as yet, but that is yet to be concluded. I think, from my perspective, Mr. Chairman, there aren't going to be any impediments that can't be overcome in time to build the terminal and get it done. But that stuff formally is not done yet.

MR NOTLEY: Do we have any idea when possible construction can begin?

MR PLANCHE: I think the consortium had hoped to be on Ridley Island doing some construction late this year. It may still happen, because my impression is that the rough work by the Cats and stuff is under way. That doesn't necessarily involve us; we're involved only with the grain elevator thing. But I think the rough work on the island has begun. I haven't been out there yet to see that, but I hope I will be in the next 10 days.

MR NOTLEY: And in terms of negotiations with the consortium vis-a-vis Alberta investment, are we far enough down the road to announce the exact terms of them?

MR PLANCHE: Not yet. I don't think the final numbers are in yet. There was the one more consideration also that was a stumbling block, that I neglected to mention. That was the penalty for their backing out if the final cost estimates were excessive for their economics and throughput. I think they are about to settle on that. I think there is one more issue between them and the National Harbours Board that needed to be settled. I think that's in hand, but not signed. So I think there are no more impediments, in intent at least, to the building of the elevators.

MR PAHL: Mr. Chairman, to the minister. Could the minister provide us with a bit of an update on the hopper car purchase. Have you settled on who is going to build them? What will the spin-offs be to, firstly, Alberta, and the rest of the country?

MR PLANCHE: Initially, we had hoped that somehow or other we could use the purchase of hopper cars as a leverage to perhaps some kind of a heavy industry involvement here. Unfortunately, it didn't turn out to be the case. But we felt that it was important that we exhaust that avenue before they were booked. We procrastinated a little because our information was that it was a soft car market and that delay wouldn't cost us anything. Subsequent to that investigation, we did book the cars, 800 of them, with National Steel Car in Hamilton, and 200 of them with Hawker Siddeley in Trenton, Nova Scotia. The total cost would be \$52 million, plus \$1 million in transportation charges to get them all here.

MR PAHL: Supplementary, Mr. Chairman. Is there a calculated multiplier effect for those two regions, in terms of that purchase of hopper cars, in terms of what this is doing to their economies in terms of benefits?

MR PLANCHE: I don't have one, but the output of those plants is fairly substantial. This would be considered an attractive order but not necessarily one that would be effective on the economy. So while they were glad to get it, it wasn't the biggest order they had had. The Wheat Board often orders a

great deal more than this. Certainly the 200 cars for Hawker Siddeley in Nova Scotia was interesting, but \$10.6 million to that kind of plant isn't big.

MR NOTLEY: Could I just ask a supplementary. In view of the fact that I gather Manitoba is getting into this, Saskatchewan is getting into this, the Wheat Board is, and Alberta is, while our individual commitment may not be enough to develop an industry, has there been any discussion among the three prairie provinces and the Wheat Board -- which, after all, is based in Manitoba -- to look at the total, which is a much larger investment, as well as projected requirements down the road?

MR PLANCHE: That's a good question, Mr. Chairman, and roughly the answer is like this. There was a plant in the lower mainland of B.C. that faltered. There are some car maintenance facilities in Alberta, one in Red Deer, for instance. The suppliers of this kind of material, like National Steel Car in Hamilton, supply the trucks, springs, and all the other stuff. It's my information that what goes on top of those only goes on top of those to develop sales for what is underneath them. We don't have the capacity in the three western provinces to build the springs, the trucks, the wheels, and the axles. As a result, we would be competing by having to buy those and add to. In view of that fact, plus the numbers, it looked like the kind of industry that people could build around, then it would falter; sort of that one-industry town thing where everybody is in, then it quits. Frankly, we got nervous about encouraging it. If the manufacturers on its own merit couldn't see it, we really got troubled with it for that reason.

MR R SPEAKER: A general question with regard to diversification. If you made some opening remarks on that and I missed them, I'm sorry. Maybe you could just bring us up to date on whether you have any strategy or plan or attitude toward diversification. That's a general question. The specific question, related to the first: a fellow from Lethbridge was talking to me a couple of days ago. His criticism of the government was that his industry at present has secured markets outside Canada and they could add at least another 400 job positions to their industry -- if they had the finance. But the criticism of this fellow was that they tried and by the time they get it the costs are higher, they are losing initiative in the market. They are saying that government just isn't responding to them. That was one thing. Two, he said it wasn't available.

Related to that, there was an announcement about a year ago about a million dollar debenture loan. Mr. Hyndman made this announcement. I wonder, have any industries -- has that million dollars been made available to any industries and is it being worked into the economy of Alberta in any way at the present time?

MR PLANCHE: If I could start with the last one first -- and it more properly belongs to Lou Hyndman, Mr. Chairman, but I'll go through it just quickly. I believe the initiative the Treasurer mentioned was designed to enlarge the capability of the heritage fund to invest; in other words, to widen the spectrum of investment possibilities by getting into the corporate bond sector. It wasn't designed as an economic development tool. I think the \$1 million was a minimum and the maximum is 65 per cent of an issue, and the caveat was that the bond issue had to go through an intermediary to establish a market place interest rate. So it wasn't designed, perhaps, in the way it was understood.

I think the second question had to do with export development assistance. It's a very difficult anomaly to have money in place and have a hard time delivering it philosophically to where you want it to go. My best instincts

tell me that delivery by funds by government officials when they're bound by regulations is not very swift to be able to respond to a commercial need. We are working at several concepts that may be able to fill that bill. The federal government does offer that kind of thing now. I think we should be fairly judicious about using heritage fund money to give an advantage to Alberta industry over other industry in other provinces, a marked departure from what is generally done across the country. We try to be careful about that.

MR R SPEAKER: Let's talk about existing industries in Alberta at the present time. The criticism of this person I think is pointed toward this as well. He said existing industries that have done well, are in a good financial position, are just overlooked by government at the present time. I said, how could you be helped? He said, well, look, we have a unique garbage disposal unit that could be marketed in the world. There are countries demanding it at the present time, but we haven't the financial capability of expanding our industry, putting it in place as quickly as it should be to meet that market. He said, if government would respond with us, we could do it. Maybe you know who I'm talking about when I state the example. I thought the logic of what he was saying was good and I said, when I come to the committee I'd like to raise the question of what the government, your department, or the Heritage Savings Trust Fund, is doing with existing industries. Are we really giving them all the help we can to expand and meet whatever capability.

MR PLANCHE: So far, Mr. Chairman, we have a minister of economic development for international trade who is leading missions, and we're co-funding explorations for new markets and that kind of thing, whether it's a new or existing business. If the question is, do we have a delivery mechanism to give venture funding under different parameters than normal banking, the answer is no, other than the Alberta Opportunity Company. And if the question is, are we working to change that, the answer is yes.

MR R SPEAKER: When do you see some type of announcement from whoever is changing that? Fairly quickly? Relating to my first general question, is that one part of a strategy of diversification for Alberta?

MR PLANCHE: Venture funding is definitely a priority of the department. But my colleagues have yet to be consulted and sold on the concept.

I just want to add one more thing. In terms of diversification of the industry, I guess that's a hard yardstick to measure. Surely there is a lot of activity here and clearly a lot of it is related to gas. I guess if you call petrochemicals a diversification, which I do, it's astonishing. But one interesting yardstick is that in over one year in Alberta, 11,000 new jobs were created in the financial sector. And financial sector jobs usually are an indication of the money peoples' forecasts of what's about to happen here. So in my view, looking at the kinds of people who are coming here, the new banks, the new institutions, who are industrially oriented as compared to raw-materially oriented, my judgment is that they too think our diversification thing is going along quite well.

MR SINDLINGER: Just on that point, 11,000 kind of intrigues me, Mr. Planche. How could there be 11,000 new jobs created -- 11,000 jobs in Alberta in the financial . . . Direct jobs?

MR NOTLEY: In a year?

MR PLANCHE: Yes. I'd be prepared to distribute that statement. I don't have it with me. That's a statistical number, that I get from Jim Horsman's department, of job increases by sector. So I'm leaning on that.

MR CHAIRMAN: Does the committee have an interest in that document?

MR NOTLEY: Yes.

MR OMAN: That would include things like trust companies, loan organizations, this type of thing, would it not?

MR PLANCHE: Well it includes the financial sector, which would be all those things.

MR OMAN: Yes, sure. That's not surprising in view of the activity.

MR PLANCHE: I thought it was startling. It's a very large number.

MR MUSGREAVE: It was 60,000 in Vancouver last year.

MR SINDLINGER: Financial jobs?

MR MUSGREAVE: No, total jobs.

MR PLANCHE: Our job creation rate is that high here and more. I don't have that number, but I do have the number 11,000 in mind. That was the financial sector increase in a year.

MR OMAN: To follow that up, Mr. Planche, would it not be true that, say, I'm thinking in particular of Calgary but I suppose it would be true of Edmonton to some extent, but when you get a kind of community that is almost a brain trust community of research and oil, energy, the financial community, the computer community, that tends to cement itself even though the energy activity may slow down in Alberta. It would still maintain a centre for western Canada. Would that be fair?

MR PLANCHE: When you talk about \$6 billion in the trust and a budget of \$6 billion, and you talk about that in a global concept or comparing it to a financial centre like the City of London, it's indeed very small. While I think there is some forward motion caused by the synergism of these things being together in Calgary or Edmonton, I'm not sure how it would sustain itself if there were a cessation of activity in oil and gas. I don't know that I'd be as optimistic as you are in that area. It might very well, but I don't think at this stage of our development it would.

MR OMAN: Except that it has worldwide implications. People are moving from Calgary to the North Sea, Indonesia, or whatever, and that expertise is being used worldwide. It's a closeknit community.

MR PLANCHE: Certainly the Royal Bank's move toward an international energy presence based out of Calgary would sustain that. But I think in terms of the total financial centre, I don't know that it would sustain its vitality without oil and gas, if that's what you ask me.

MR SINDLINGER: Still on that point, you're addressing the second part of Mr. Speaker's question in regard to diversification of the economy in Alberta. You have cited two examples. One was the petrochemical industry, which is, in

your opinion, a diversification, notwithstanding the fact it is based on a depleting, non-renewable material. The second example you gave was the 11,000 new jobs created in financial centres -- and I find that very startling too, especially in one year. But aside from those two examples, can you give us some other examples of economic diversification?

MR PLANCHE: Well, there has been enormous investment in electrical energy generation. There has been a very dramatic increase in the capability of the private sector to export replacement products, particularly in the oil and gas sector. One comes to mind that is now the biggest manufacturer of oil field mass in the world, out at Nisku. There is very real capability in heat transfer that wasn't here before. There is capability through Northern Telecom of R and D in communications. There is an exodus of head offices from around the country to Calgary and Edmonton, more coming. Mr. Young indicates that the document that I got the 11,000 number off, Tom, will give you increase by sectors of jobs, which might give you a better perspective in specifics.

MR SINDLINGER: I'd like to follow up on that. Again, the question was in regard to diversification. You've cited the increase in electrical energy generation, which is an energy-related subject; and increase in exports of replacement products in the oil and gas sector, which again is an energy subject; capacity in heat transfer, which is again an energy subject; and head office activity moved to Calgary, I would submit, is directly energy-related. The only one that isn't energy-related is the research and development in telecommunications.

MR PLANCHE: Well, it's actually related too, Tom, because people in the oil business are using phones.

MR SINDLINGER: That's my point. They are all energy-related. The question posed by Mr. Speaker is, what have you done in terms of diversification which isn't energy-related.

MR PLANCHE: I think it should be clear that the mandate of Economic Development isn't to walk around Alberta with a bag full of things that you place here and there. What we're trying to do is in the longer term get a sense of direction in other areas. The things that are happening are happening because of things that happened before this department was even in place, in most cases. I would guess that diversification in a physical way comes about mainly through plant siting, and the difficulties involved in trying to get plants where they have an economic advantage but still are away from the two major centres.

If you wander into where are we going in the longer term, almost every sector has a thrust that's being addressed. But we do have some natural constraints here, all of which you're familiar with. I think it's appropriate that we trade in on strengths and natural advantages, and that's where we intend to stay.

MR SINDLINGER: Rather than diversifying -- is that what you're saying?

MR PLANCHE: No. If there are natural strengths in a diversification, we'll do it. But we haven't done any granting of money. We've tried to establish an environment in a tax way, in an infrastructure way, and in a quality of life way, that might be attractive to people who would locate here rather than somewhere else.

MR SINDLINGER: Well okay. You're saying you want to develop our natural strengths; you're not wanting to wander about, and I appreciate that; and that you're searching for a sense of direction in other areas. Do you have a sense of that direction now, or do you have any other particular areas that you're considering?

MR PLANCHE: Not that I'd like comment on.

MR SINDLINGER: For what reason?

MR PLANCHE: Well, because everybody who comes through my office is treated in privacy. Until it gets to the point where it can be discussed publicly, we don't do it.

MR R SPEAKER: This was partly answered before. From your department, there is no -- we have a number of existing industries in Alberta at the present time. There is no part of your strategy for diversification to really put a priority on these existing industries, to expand them, to give them better ability, to give them the focus of attention by government? They're on their own, and they're out in the market to use the infrastructure as such. If they make it, good; if they don't, they're on their own.

MR PLANCHE: Can you give me an example, so I understand what you're saying.

MR R SPEAKER: I guess that Lethbridge example would be my best example. There was a chance if, say, in the last six months we would have infused some capital. They've gone out on the market and got the capital, but it took longer to do it. They have a capability of not only exporting -- and I think in terms of export, but they could also be selling the product to Canada or Alberta -- but a unique type of product. Not only South America but other places in the world are demanding it. Capital was the problem.

MR PLANCHE: Capital is a problem.

MR R SPEAKER: Are you focusing your attention on that? I'm sure there are other industries that could expand, could create more jobs, but they can't have quick access to capital.

MR PLANCHE: Venture capital funding in Canada has always been a difficulty through our branch banking system. But we are developing a concept to try to cure that.

MR KNAAK: Mr. Chairman, I just want to have a little comment on the matter of diversification. This is about the third time I've spoken on it. Everyone is entitled to their own point of view. As far as I can understand, the Progressive Conservative party stands for a platform of free enterprise. And I thought Social Credit did the same. Nevertheless, this government, and I as a member, doesn't support, as the minister has said, walking around, trying to buy industries for Alberta. We have to base our strength on what we call our comparative or absolute advantages in Canada, and they happen to be energy-related. That's just the fact of it. We can't go around buying industries that won't be viable when the underlying strength is gone.

The other problem about government financing private enterprise is that the government begins to get involved in the actual decision-making process of the business, unless they lend funds. The Alberta Opportunity Fund is there as a lender of last resort. I don't think this government is going -- hopefully,

is not going to move in the direction of replacing the private banking system. I wouldn't like to see that.

Then there's the question of venture funding out of the Heritage Savings Trust Fund. That one gives me a great deal of difficulty because the trust fund is ultimately there to provide a heritage for the future of Albertans. If it becomes venture capital, by nature there have to be losses there. It wouldn't be a venture if you're just going to take safe bets. The banks are doing an adequate job in having safe investments.

The other problem is the control of government in private enterprise. Yes, there are difficulties in private enterprise; some make it, and some go broke. That has worked for a long time. I think that's the way the system should continue to work. I would really hate to see a government get directly involved into venture funding, especially out of the Heritage Savings Trust Fund. But other policies are available. The committee that has been set up to look into the corporate tax structure is one way of determining whether venture funding can occur through accelerated tax write-offs. That's an area the government is looking at, hopefully, can do something.

Although business expansion could have been facilitated by government loans at some point in time, I think the long-run implications of government involvement in business are so negative that the short-run advantages would be far outweighed.

MR NOTLEY: One could get into the philosophical questions, and no doubt we will when we get to the discussion of the findings. What troubles me about your answer, Mr. Minister, is a rather gloomy outlook on the long term. There is no question about the short term being extremely rosy. We're going to have -- you mentioned 11,000 additional jobs in the financial community. But obviously, if I read between the lines, you are convinced that the major reason is because of the buoyancy right now, a buoyancy, as Mr. Sindlinger points out, based on a non-renewable resource. We're looking at the mega-projects, and that obviously is going to have a good deal of impact.

But what troubles me is that beyond the energy-related questions, there does not, at this point in time -- and this is some years now since we first started having a substantial surplus of oil and gas revenue, and we began talking about either the heritage trust fund or some form of fund to diversify the economy. It was really back in 1972 when we first started talking about this in the Legislative Assembly. Yet in 1980 we see, seven years after oil prices began to rise substantially, seven years after we began to really talk about this, a very gloomy picture over the long run, over the next 30 or 40 years, that ties our prosperity so closely to non-renewable resources. I guess the point is -- where I would differ is that it seems to me there is a much greater opportunity, and we may have to look at a more activist role. We'll get into the philosophical discussion on that down the road. But at this point in time, it seems to me there is a greater opportunity in a broader area, rather than linking it as much as we appear to be to the extraction of non-renewable resources.

MR PLANCHE: I guess I would respond by saying that the most difficult part of diversification, both in terms of sectors and in terms of geography, is the non-energy area. If it wasn't difficult, it would already have been here. It isn't a particularly big feat, in my view, to build another plant that consumes gas or something else, because it's an attractive place to be. That perhaps would explain why there is a time line. But if you really analyse an alternate sector, pick any one you like, and you start backtracking through it, you always find the same difficulties now as we had earlier that need correcting. And they're basic. To correct them requires a lot of dialogue

with the senior government, a lot of imaginative new proposals to the transportation companies.

Maybe I can walk you through one, to give you an idea. Again, it's energy, but it is a diversification of energy -- in terms of coal. We have what might be regarded as a serious coal reserve here, but it isn't a serious coal reserve if the use of coal beyond what we are present using escalates dramatically. We look at some coal and decide, well, maybe it would be better to convert that coal into electricity and cause that to have something happen that wouldn't be just to ship coal out. So you look around to see what you might do and you see on the Pacific Rim there are some very big consumers of energy-intensive material. What are they and what will the dislocations be in the next 15 years? One of the obvious ones is aluminium. The question now is how you would refine aluminium in Alberta, and this is far from tidewater. It may very well be that you could bring it on a backhaul on the Kaiser coal cars that are going in units to the coast. So now you have the bauxite coming in, or whatever the enriched bauxite is, and you have a place in the southwest corner of the province where there is a good solid work force. You have water and you, presumably, can have cheap electric power. It isn't too terribly attractive visually, but environmentally it's a long way from being devastating. It has a good future, and perhaps a good export future. So you work your way all through it, and you find out that you can't get it to the coast at a competitive price. I guess that stems back to the issue, well, if the best mode for moving commodities -- and we're in a commodity-oriented sector of the country; we haven't got a competitive mode. Then the best way to compete is to have a competition within the mode. And that may well involve the ownership of the rail beds, because if you don't own the rail beds, then you've got the only mode that's being expected to service the debt for its total infrastructure: it's not happening in roads, water, or in the air. Whether or not that's something that I could bounce in here and announce in a year that we've already done and everything is under way, I frankly am sceptical. But we will be directing our efforts toward introducing competition within that mode, within our ability to so do.

So that's an example of where you always end up when you begin something. It doesn't mean it's impossible. We would like to ship red meat out of here. We have some constraints to shipping red meat out of here. The MTNs that we just concluded got 10,000 tons a year of good red meat from the U.S. into the Common Market and nothing from Canada. Okay? Now that needs redressing, but I can't do that in an hour either. We will do that. But the secondary agricultural industry here is also at the mercy of the distortions of the Crowsnest Pass statutory rate agreement. It also suffers from the MTN thing, and from a lack of bilateral consideration in the U.S. In addition to that, we have australasian beef that's being ground continually at almost nothing, depending on what the crop and water conditions are. So there isn't any sense putting in a packing plant just to slaughter animals that you can't sell anywhere. You have to come back one step from there.

We have an advantage here of having money, and that should cause a very high-technology R and D presence. It isn't any very big trick to go down and buy from the Silicon Valley some kind of presence in silicon chips. Then you are in a me-too technology. Maybe it's better, because we're fully employed now, to stand back and say, what kind of thing would we do here to keep our PhDs here and to attract people who might attract PhDs here? Then we'll have them here gainfully employed in a meaningful way, in an environment that is suitable to attract and keep them. From that will come something like a Silicon Valley, hopefully on stream at the same time the rest of our stuff is going in a decline. That doesn't happen in a year; it happens because there are only really a couple or three ways you can do it, and everyone of them requires some forethought. That's one of the reasons we're heavily involved

in the Alberta Research Council now, why we want it to have a higher presence and interface with industry and the university system, and why Eric Musgreave is spending all his time trying to do just that. That's an ingredient in the longer range of high technology R and D jobs that aren't dependant on freight or the anomalies we presently have.

So when you start talking about diversification, I only can conclude, Mr. Chairman, by saying again that the reason it is slow coming is that all of it is difficult.

MR NOTLEY: Mr. Chairman, just as a supplementary, no one would argue that it isn't difficult; no question about that. The issue of the rail beds, for example -- Fred Peacock presented that as a very good idea in 1973 at the western economic conference. The point that I make is that we have this time. All the problems you cite are real; no question about that. But while we have the strength, which is a temporary thing, no matter how frustrating, vexing, and difficult, we're going to have to solve these long-term problems. We sure as heck aren't going to solve them afterwards, and we're not going to get the federal government to come in and help us solve them either. We'll be left like New Brunswick. I think that's the sense of urgency which is there.

The other supplementary question I had, Mr. Chairman, really relates to one element of diversifying the energy industry which this committee had made, when you were a member, Mr. Minister; that is, with respect to the heavy machinery involvement in mega-projects -- in 1978. Have we made any specific progress there, realizing the two major projects are on hold at the moment. But there obviously is going to be a considerable potential market, billions of dollars. While I could see the hopper car question, of -- what? -- \$200 million being too small to facilitate major expansion, it strikes me that we're looking at \$7 billion or \$8 billion in the Alsands, and another \$7 billion or \$8 billion and god knows what in Cold Lake. There has to be real potential there.

MR PLANCHE: The potential in that area, Mr. Chairman, is recognized, and the negotiations are ongoing. With the energy thing like it is, they're not likely to come to fruition until that is solved. But the people who are involved in the first plants in the heavy equipment area are actively engaged in trying to develop a presence here.

MR OMAN: This falls right into and in fact runs parallel to my question I want to bring up, to do with research and development. I think it's indicated that historically those nations or companies which have put a relative high percentage into R and D have, in the long run, profited. Canada's R and D budget, I think, is pretty sad. Both Calgary and Edmonton are talking and acting (inaudible) what they call research parks. I wonder if they are working with your department in this. Do they expect private industry? Do they expect provincial money to get into there? Or are we going to channel all our money through the Research Council?

MR PLANCHE: There is research park activity, and that question properly belongs to Tom Chambers, not me. But there is some private-sector research park activity also. I think the Edmonton research park is now ready for tenancy. The plans to have the Alberta Research Council adjacent to but not on that park are in place also. I don't know if that answers it. But the answer is yes to research parks. The logistics and funding of them properly belongs to Tom Chambers.

MR OMAN: I was really wanting to get a little further into whether or not -- how much government and private enterprise are going to get into bed together in the idea of research.

MR MUSGREAVE: As much as we can.

MR PLANCHE: The fact that the Alberta Research Council is next to the park down here is a signal by the government of support for that park location. In Calgary, the siting of a major research park is still being discussed. While there is land on the University of Calgary campus, I believe the tenancy of some of the major companies is taking place in that property now. An extensive research park facility in Calgary, though, is still in the concept stage.

MR OMAN: Just one further question. It's a rumor question. The Seimens-Duwag group from Germany has been rumored to looking to Alberta as a possible plant site. Is there any truth to the rumor?

MR PLANCHE: I would respond by saying that there is difficulty there in that any U.S. federally-funded mass transit program, which would be a natural market for that kind of plant here, has a buy-America clause that precludes it from being too terribly attractive. Some of the transit authorities in the U.S. are being funded with other than federal funds, which opens a market. There is some indication in a bilateral negotiating way that there are some trade-offs that might be accomplished to solve that problem. Certainly Siemens-Duwag were involved in both the Calgary and Edmonton LRT systems. Certainly there is an area of interest.

MR OMAN: Bombardier apparently has gotten into the U.S. market.

MR PLANCHE: With great respect, Bombardier is representing a Belgian LRT firm, where they have the proprietary engineering under licence. I think they have some transit cars sold, but I'm not sure they're the kind of transit cars that are being used in Calgary and Edmonton. As a matter of fact, the success story of these two cars is unique in North America. I'm not sure that the Bombardier capability can match what we have.

MR CHAIRMAN: Mr. Speaker, with what I believe is a supplementary to the diversification question, as opposed to a supplementary to the verification of rumor.

MR R SPEAKER: Two comments from the August 23 edition of *The Financial Post* about Alberta and diversification. You have made some comments on the first one, but the article says that Alberta still exports three-quarters of its agricultural produce in raw form. You have made some comment on that. The second comment, and I'd like you to comment on this too. This comment is attributed to one of the senior officials in the Department of Economic Development: Alberta still only produces about 5 per cent of Canada's manufactured goods versus Ontario's 50 per cent.

The comment I'd like you to make with regard to that second statement is, how do you see Alberta's economy developing at the present time? Do we want this large industrial base so that we produce 50 per cent, just as Ontario does? Are we aiming at any goals, like Ontario? Or do we want to keep Alberta free from pollution of industries? Is there any kind of general attitude the government has with regard to that at the present time? I see, with diversification into areas outside the petrochemical industry, we have to

move toward the same goals as Ontario has partly fulfilled at the present time.

MR PLANCHE: There is no way we would ever achieve in my lifetime the manufacturing numbers that Ontario has. I don't think it's likely we will ever have a car industry. It isn't likely we'll ever have 12 million or 15 million tons a year of basic steel. So the answer would be, in my view, no. We don't strive to have a percentage of Ontario's anything. Interestingly enough, the one thing that makes your question difficult to answer is that I don't have a good feeling in my mind as to what escalating energy costs are going to do in terms of moving away from large economy of scale plants which export long distances to making our market more attractive, even with the smaller market, for manufacturing. You know, if you make brooms in Orillia to supply all of Canada when it was \$3 a barrel; when it's \$50 or \$60 a barrel, it may be economically possible to make brooms in Innisfail and supply Alberta and Saskatchewan, and compete with Orillia. It's that equation that is difficult. But to achieve a percentage of Ontario's as a goal, it isn't.

MR R SPEAKER: But our goal is to industrialize and diversify.

MR PLANCHE: Our goal is to create an environment where people who invest and risk can earn money. We are encouraging those we deem to have a long-term natural advantage.

MR CHAIRMAN: Mr. Sindlinger, it has been some time since you indicated an interest in a supplementary. Is it still relevant and pertinent?

MR SINDLINGER: Sure, it's always relevant and pertinent. I was just wondering if the minister could comment on some of the recommendations the committee made to him last year in regard to diversification.

MR PLANCHE: I wasn't before the committee last year.

MR SINDLINGER: The committee last year made three recommendations which I think might fall under the purview of your department. I'll just list them off. The first one you've already made some comments about, and there may be a program already in place for this. The first recommendation was that "funds be allocated to establish a program for providing funds to diversify and/or strengthen the Alberta economy . . .". The second one was that "consideration be given to establishing a fund within the Alberta Opportunity Company to provide financing for business ventures established by native and Metis people . . .". The third one was in regard to use of funds for the "development of Hydro-Electric energy in the Province of Alberta".

MR PLANCHE: Mr. Chairman, I had to ask Mr. Young the question as to whether or not what I'm going to comment on is -- where it is in terms of whether it's public. The minister of native affairs has an initiative under way to respond to the second part of this, and he will appropriately answer those questions. "That the Heritage Savings Trust Fund be utilized for development of Hydro-Electric energy in the Province of Alberta": I think Larry Shaben would comment on that more appropriately than I. I think his long plan for participating in a western grid system and the Dunvegan dam would be the two hydro-electric projects. They are at the concept stage, and I don't think he has identified a funding source. That's the only way I'd know how to answer that.

MR KNAAK: Mr. Chairman, still supplementary to the question of economic diversification. The question I have of the minister is, to what extent is the present overheating of the economy -- and it has been overheated, in my view, over the last couple of years -- in some way frustrating or impeding the spontaneous diversification of industries outside the energy and construction related sector? My impression has been that smaller business has had difficulty attracting skilled employees, and that they in fact have also difficulty, given the wage structure in Alberta, to compete with industries in Quebec, say, and some other provinces where there now is a recession. My question is, is the economic buoyancy resulting from the energy sector in fact, to some extent, impeding diversification in manufacturing that could otherwise possibly happen spontaneously?

MR PLANCHE: I guess the best yardstick I would have to answer that is that people who come from outside the country to try to assess what the potential for their area of endeavor would be here are troubled with FIRA first and manpower second. To answer the second question, I don't have a handle on it precisely, except to say that I think it would depend on the size of the manufacturing facility as to how badly it's affected. Some manufacturing facilities in Alberta sell only to Alberta, so they're all trading in overheated dollars, and those wouldn't be affected. As soon as you try to get economies of scale, where shipping out of the province is a major factor in your economics, then I would judge that they are in more jeopardy. There is a certain amount of momentum that goes with an overheated economy that it is nervous to cause to sputter, because you can't tell when it will recover. The nucleus of tradespeople, particularly highly trained professionals, is a very valuable asset to us. It's important that we have a direction for them to go, even in the short term, to sustain them, because they will quickly dissipate.

One of the things I guess the two proposed mega-projects have caused is a coming together of teams of excellence in technology. The loss of that would really trouble me, because the assembly time is so long. I don't have a precise number, Mr. Chairman, but it seems to me that if those two plants -- it sticks in my mind that if those two plants were to go concurrently, stage by stage, there wouldn't be enough properly trained engineers in all of Canada to satisfy the demand.

I don't know if that answers your question, but it's just a feeling I have. We have the statistics, but the statistics don't give you the feeling. It's troubling.

MR KNAAK: The reason I raised the point -- both Mr. Notley and Mr. Speaker raised the problem of diversification now. I guess what I wanted to identify, and I personally feel that diversification is more difficult now that we have a tight labor market and a high wage structure than it would have been if we didn't have such an overheating economy. That's a real dilemma. It's not easy to solve.

MR PLANCHE: I guess that was the first part of my answer, where if the economies of the facility require an export, then, yes, it's difficult.

MR KNAAK: That's sort of what diversification in a way is intended, so we have strength after we get outside the market.

MR BRADLEY: Mr. Chairman, I apologize for coming in late; perhaps the minister has already commented on this. This is also a supplementary with regard to economic diversification. I appreciate the thrust some members have been suggesting in terms of getting away from petroleum or petrochemical related diversification. We do have areas like agricultural processing and

irrigation. I think we should be building on our natural strengths; it's very important. But to come back to the energy thing, the question I have is, in the longer term, when our petroleum reserves start to decline, are we developing a strategy to replace the present petroleum feedstocks into our petrochemical plants with a liquefied coal or coal gasification? It seems to me that Alberta has over 50 per cent of Canada's coal reserves, and that coal makes up, I believe, about 27 per cent of Canada's total energy reserves. There is an area where we have a great possibility to continue to build on a natural strength in the energy area, by replacing petroleum feedstock with a coal feedstock, either in a liquefied or gaseous form. We should be looking at technology and research and development in that area, to provide the technology which will provide that alternative feedstock down the road.

MR PLANCHE: Candidly, I would judge that the people who are big natural gas users as a petroleum feedstock are comfortable with our 25-year rolling inventory, that that will fulfil the amortization of their capital costs, and haven't looked that far, after the 25 years, at a conversion. But that's just a feeling I have.

But if you're talking about how we are doing in the coal liquefaction and gasification area, the incentive to do that is to get to market price for your oil and gas. In the areas around the world where they either don't have any indigenous oil and gas or they have an import requirement, they are well down the road in that technology, most predominantly South Africa and Germany. For us to begin grass roots research and reinvent the wheel seems to be kind of frivolous. And for us to get involved at this stage of technology in a major thrust, when our oil is at \$16.75, is frivolous because you can't do this at \$16.75. So I guess what we would suggest we do is, through the Alberta Research Council and others who might have this as a reason for being, to have a watching brief, keep abreast of it, and spring from stuff that's in place where there's a particular application in Alberta that makes sense. If you say we should start right now and export methanol from coal rather than coal, I guess the question in my mind would be, do we want to divert our limited financial and labor resources into that area when we have other things in place.

MR BRADLEY: I'm thinking more in terms of the long term, when the petroleum reserves decline. Will be in a position to utilize the infrastructure we have, which is in the petrochemical processing area, upgrading of those resources which create the ethylene, which does create another diversification -- that we would be in a position, from a strategy point of view, to look at coal as a replacement for that present petroleum feedstock, either in a liquefied form. The technology for it would perhaps have already been created in some other part of the world, but we would be in a very advantageous position, with our coal reserves here, to replace that petroleum feedstock. Sure, it's a question of what the coal replacement conversion factor to the price of oil is, but I think if we look down the road that will be there.

MR PLANCHE: I think the proprietary engineering is available, certainly from South Africa. One of the tragedies of this whole oil and gas pricing scenario is the fact that we're going to be badly left behind in R and D on liquefaction and gasification, simply because it's not an urgent deployment of our resources right now. But when oil comes to whatever number it finally comes to rest at -- the technology for converting coals to methanols and coals as an ethane base are available. We will do it, but it will be me-too engineering, I think. And that would be a shame.

MR BRADLEY: My concern would be that we have a strategy and that whatever diversification takes place in Alberta in terms of petrochemical developments or upgrading our petroleum resources here to get secondary byproducts out, which is a diversification, we can replace that feedstock at a later date with coal and the economic benefits from this diversification will go on.

MR PLANCHE: One of the horrors of exporting coal right now is that the best, easiest accessed, is going first. That is something that is troubling us in the longer range, but we don't have a good handle on that position.

MR NOTLEY: I just have three questions, Mr. Chairman. You make a good point, Mr. Minister, about the potential for developing industries to fill local market needs in western Canada. As energy prices go up, it seems to me that that is one very clear option. What is the department doing about that? Have we commissioned any studies to look at possible energy scenarios and the opportunities? That would be one question.

The second question: several years ago we had made a recommendation as a committee concerning rail links in northwestern Alberta. We did again last year. Subsequent to our recommendation, the government has announced the purchase of the NAR by the CN; the CN's purchase of the CP's share in that operation. Was there any specific follow-up to our recommendation that we look at all the possible links in northwestern Alberta, including the link with the BCR?

The third question, Mr. Chairman, is with respect to the proposals the Premier made when he met with the Prime Minister, all of which I think are quite excellent, in terms of transportation out to the west coast, as well as Churchill. What study went into these proposals directly by the Department of Economic Development?

MR. PLANCHE: I didn't catch the last question. Is that part of the \$2 million . . .

MR NOTLEY: That's right. The sixth proposal on page 5 of the Premier's statement.

MR PLANCHE: If I could answer that one first, that was developed by this department.

The answer to the second one, on the rail link study: we were involved in trying to rationalize that system in the north, and still are -- not that that was a deterrent to the study, but it really needs to be in place first so we know where we're at. The Dunvegan dam question for a Fairview-Rycroft bridge is in place. We feel there is a very real potential, as the Prince Rupert thing develops, for a straight-across line from Peace River, tying in with the B.C. thing, and that will be on the agenda for the B.C./Alberta joint cabinet meeting coming up in Alberta. When I was sitting on the other side of the table on these things, I hated to have the minister say, we're studying this and we're studying that, and I resolved I wouldn't say it. But in this case: we're studying it.

MR NOTLEY: Well keep on studying it; it's a good idea.

MR PLANCHE: Yes, it is.

MR NOTLEY: In terms of getting closer to tidewater, the distance saved to transport grain to the west coast by the BCR is just incredible.

MR PLANCHE: With one proviso: that you presume that a shorter distance is going to lower the rate. That isn't always the case. But it will reduce the turnaround time on cars, which is going to increase our capacity; no question.

In terms of studying what will happen as energy costs increase and what effect that will have on manufacturing locally: no, we aren't, because I don't know that that is something you can do a lot about. As people gather around here to fabricate for energy-related industries, that capability can be transferred to other things as opportunities present themselves. I don't think the disparity in rates is all that obvious yet, particularly because our oil prices are still sheltered so badly. But it will be very clear if there were a significant, dramatic leap at one time; there would be a great reassessment of that. I guess one of the things we'll watch very carefully for is to be sure there is, wherever possible, a joint venture, particularly if a foreign company comes in here, to fill that vacuum. We'll watch if it's of any magnitude, to be sure we have local involvement. We try to do that without affecting the economics of the thing.

MR NOTLEY: Just as a follow-up supplementary. That is one of the areas where in fact higher energy prices could help in the west.

MR PLANCHE: Yes. Only, though, in terms of what Mr. Knaak said, there is an economy of scale thing where you have to get out. But sheltered below whatever that is, for sure. Then if we have some ingenious or proprietary engineering involved in the thing -- and I guess that will revolve around energy and cold weather and hostile territory -- and communications, which is traditionally a strength and a comfort to us in terms of our experience. We'd probably do well there.

MR NOTLEY: Just one other question, which might appropriately go to the Premier. With respect to these six proposals, are they not in fact recommendations that we should be proceeding with because they are so clearly in the public interests of Alberta, regardless of the energy question? In other words, rather than making the link -- we're really talking about proposals that are so obviously beneficial to the province. Why don't we just say to Canada, we'll get on with the job anyway.

MR PLANCHE: I think it does appropriately belong to the Premier, but my judgment is that they will surface again on their own merits. I don't think it's a question of "if"; it's a question of "when". But surely if the Alberta government is going to put part of a capital fund into solving the obligations that properly belong to someone else, there should be some quid pro quo. If it isn't going to be rates, it has to be capacity. There isn't any sense talking to a railroad about guarantee of performance, because no one knows what that means. So it's in that area. But you're right; I think they all have to be done.

MR CHAIRMAN: Any other questions of Mr. Planche? Well, Mr. Planche, on behalf of the committee, I'd like to thank you and Mr. Young for joining us today. I think you're safe in assuming from the rapt attention that has been given in the past hour by the committee members that your responses have been most stimulating.

MR PLANCHE: Thanks very much for your attention.

MR CHAIRMAN: Before we adjourn, I wonder if I could remind members that we meet again at 9 o'clock, Thursday, September 4. We'll be meeting that day with Mr. Chambers, Mr. Trynchy, Mr. Horsman, and Mr. Leitch. A further

reminder that we will be discussing, sometime during the day, the interim report you now have from Western Management Consultants. I would appreciate your views as to our relationship with the consultant and the nature of his reporting relationship to us; also your views on the specific question of the solar research proposal, and the broader question that flows from it.

With that, this committee stands adjourned.

The meeting adjourned at 4:05 p.m.