

Standing Committee on The Alberta Heritage Savings Trust Fund Act

Wednesday, September 17, 1980

Chairman: Mr. Payne

10 a.m.

MR CHAIRMAN: Members of the committee: in view of the Premier's punctual arrival in the chambers, for which I am grateful, I would like to resume our deliberations today. On your behalf, I would like to express our appreciation to the Premier for making himself available on an otherwise crowded day. The Premier has indicated to me that he would be prepared to spend a full hour with this committee. In view of the suggestion from Mr. Clark that we ask Mr. Adair to return later in the day, would it be agreeable to you, Mr. Clark, and other members of the committee if I sent word to Mr. Adair that we might be able to resume our deliberations with him at 11 o'clock?

MR R CLARK: Mr. Chairman, that's on the assumption the Premier can't stay past 11.

MR CHAIRMAN: So, Karen, if you would be good enough to take of that for me, I would appreciate it.

The Premier has indicated that, rather than consume any of this valuable time with preliminary remarks, he was prepared to begin immediately to respond to any questions that might be directed to him by members of the committee.

MR R CLARK: Mr. Premier, last year when you were in the committee, you indicated that the government had done some forecasting of a range of time when the Heritage Savings Trust Fund revenues -- interest initially and then the fund itself -- may have to be used to come to grips with the normal operating expenditures of the government. What progress has been made on that work, and what are the prospects of that information being made available to this committee?

MR LOUGHEED: We've done some considerable work on that subject. Obviously there are a number of important variables. It's really clearly a range. It depends of course on forecasts of declining conventional crude oil. It depends on financial or commercial terms with regard to any possible oil sands plants. It depends upon taxation regimes by the federal government. As a result of recent developments relative to the federal government and threats with regard to a natural gas export tax, quite obviously the forecasts of the government have to be reworked. We are not commencing that reworking, obviously, until we see the federal budget and evaluate the circumstances contained within it.

MR R CLARK: Mr. Chairman, to the Premier. The second portion of the question dealt with the possibility of that information being available to this committee.

MR LOUGHEED: It's not really one that we thought would come to the committee: It is really a matter of the Legislature itself, in terms of the budget debate, as I would see it, and the question of the Provincial Treasurer's longer term forecasts based on the budgetary and financial position of the

government. Inasmuch as this committee is concerned, we are anticipating a continuation of the 30 per cent of natural resource revenue flowing into the trust fund and, for that reason, would not anticipate such information, in any precise way, flowing to the committee, although it's certainly a matter for appropriate budgetary debate.

MR R CLARK: Mr. Chairman, to the Premier. Does the government have at this time projections of the size and magnitude of the heritage fund, depending upon, I suppose one could say, three scenarios. One would be the scenario of Mr. Clark's budget; the Alberta proposal; and one of any of the many federal proposals.

MR LOUGHEED: I believe we have that information, but I do not have it. You should either in part refer that question to the Provincial Treasurer in his appearance before you on September 24, or ask him to obtain other portions of it from the Minister of Energy.

MR R CLARK: But the government does have that information basically?

MR LOUGHEED: Yes. There was a recent document that was issued by the Minister of Energy that related to that aspect, but it was not broken out in terms of its impact upon the Heritage Savings Trust Fund. But I think it may be possible for the Treasurer to provide that information. I have it in only general terms.

MR PAHL: A supplementary, Mr. Chairman. I wonder how the province of Alberta's July 25 energy proposal to Prime Minister Trudeau would relate to plans for investment in the new energy division of the fund. I'm thinking specifically, Mr. Chairman, of the offer to present equity and debt financing to the extension of the Q and M pipeline, eastern refinery conversions, and the western electric grid; things like this.

MR LOUGHEED: Mr. Chairman, it was the intention of the government of Alberta, when it presented for amendment to the spring session of the Legislature in 1980 the establishment of an energy division, that that energy division would include those aspects that were within the contemplation of the government and eventually found their way into the proposal I made to the Prime Minister on July 15, 1980. As you know, they are substantial. They involve a significant amount of funding with regard to the oil sands plant, as probably the largest single portion, up to \$7 billion in equity and debt. If I follow the hon. member's question, it would be our contemplation that, if in fact we made such an investment, it would find its way into the energy division of the Heritage Savings Trust Fund. Similarly, the commitments we have made with regard to equity and debt financing in a Quebec and Maritimes pipeline would find its way into the energy investment division; and, perhaps -- and they would be subject to specific determination -- the financing, upon the invitation of the federal government, involve provinces of other energy projects, such as eastern refinery conversions or a western electric grad would find its way into the energy investment division.

The Oil Sand Technology and Research Authority would -- I think I'm right; subject to checking -- remain within the capital projects division. I'd better defer that; I believe there is some consideration to re-assessment as to whether that should not appropriately flow to the energy investment division, the problem being that there is not a rate of return. The capital projects division, as you know, does not require the rate of return.

MR SINDLINGER: Mr. Premier, in regard to the forecast of the requirements for the revenues, you've indicated that for several reasons you're unable at this time to come up with a precise definition of the point in time when the funds would be required. You've also indicated that you felt that this information would not be relevant to this committee. From time to time the committee has concerned itself with the criteria for investment. I would like to ask what criteria you use for investments that might go beyond the point in time when the fund is not required; that is -- I guess the way to put it is that it would appear to me that it would be relevant to this committee, in reviewing investments in the annual report, to know when those funds would be required. If there is an investment in the annual report which goes beyond that point in time, then it does become relevant to the committee.

MR LOUGHEED: I think that's true, if we could give any sort of precision to response, that it would be helpful to the committee, but only in a secondary way. The question obviously is that we will, at some stage, shift the investment income from the fund into the General Revenue Fund, as I explained a year ago. Then at a subsequent stage, not necessarily at one step, we would be -- our successors would be shifting the capital from the Heritage Savings Trust Fund into the General Revenue Fund, to permit us to have the transition which would offset the very serious problems this province is going to face when it goes through that transition period. What I think has to be left to the policy makers of the day is the determination of the timing in which that shift would occur.

In answer to Mr. Clark, I have mentioned the variables in terms of the revenue flow, but quite obviously -- and that's why I say it's really, to a larger degree, a matter of overall budgetary debate -- it's the variables that relate to general revenue forecasts and general expenditure forecasts over a period of time. Different expenditure forecasts can dramatically change that timetable. I don't think our government has made it a practice of being definitive about long-term forecasts of revenue and expenditure, for the obvious reasons that these are matters of annual budgetary debate.

Your point has validity in terms of the question of the degree in which we have any long-term investments, that a shift from the Heritage Savings Trust Fund to the General Revenue Fund would create any problems by way of shift. I can't see any on the present portfolio. It's simply a shift from the Heritage Savings Trust Fund to the General Revenue Fund would in fact create difficulties for the government in terms of deciding today, or over the course of the next period of time, what particular investments it might make.

MR SINDLINGER: A further supplementary, Mr. Chairman. I don't quite understand how you balance the need for long-term forecasts with long-term investments. If you don't undertake long-term forecasts, how can you balance that with the decision to make a long-term investment?

MR LOUGHEED: I'm not implying that we don't make long-term forecasts of what our revenue requirements will be; we do. But I'm saying that it's of the nature of forecast that I don't think, as I said a year ago, warrant public communication. I think it would tie the hand of legislators in future budgetary decision-making. We do have, and by way of parliamentary practice, an annual budget and an annual budget review.

The real key question that evolves with regard to the matter, I repeat, is that it's the long-term forecasts of surpluses or deficits of the government of Alberta that have to be established first. There seems to be -- and I wouldn't agree with any thrust of your question -- that investments that might be of a long-term nature and then involve a shift from the Heritage Savings

Trust Fund to the General Revenue Fund should cause either the Legislature or this committee any significant concern.

I think the appropriate matter would be for us to establish decisions that are based on the best investment criteria, with some logic relative to its length. If I could be more specific: simply making today a 25-year investment in a particular instrument doesn't, or should not, cause legislators of the day any difficulty if what we're doing is shifting the investments from the Heritage Savings Trust Fund to the General Revenue Fund, at whatever time that occurs.

MR SINDLINGER: I'd just like to make it clear that it's the investments in the annual report to which I've been referring. As such, I believe that it is a matter of concern to the committee and a matter for public communication. Granted, we do cover these other things in the annual budget, but this particular time the specific investments in this annual report are of concern to the committee and do in fact, in my opinion, warrant public communication.

MR LOUGHEED: Well, that's fine. But if you're going to suggest to us at the budgetary debate next year that we should give long-term forecasts of the revenue and expenditure of the government, we'll take that under consideration. But I doubt we'll do it.

MR KNAAK: Mr. Chairman, my question relates to the energy package offered, and specifically with respect to the potential investment of the fund in the two large projects, Esso Resources and Alsands. Recently the Treasurer is purported to have made a statement in Calgary concerning the priority the government of Alberta places on those investments. I wonder if the Premier could clarify what the priorities are with respect to those plants. The reason I ask that with respect to the fund is that it affects the income of the fund, because presumably the investments were to be on commercial terms. Perhaps the Premier could answer that question as well.

MR LOUGHEED: It's difficult to answer it today because of the circumstances involving the energy issues with the federal government. We've made a commitment, as I mentioned earlier, to put \$7 billion in equity and debt in projects in the oil sands that are being contemplated. That's a very major investment.

I'm not sure I can answer your question. I understand its thrust; that is, what priority we would give to the investment. We think it would be a good investment, provided the other circumstances connected with the development of these oil sands plants are to the benefit of Albertans. But that is a matter that is certainly unresolved and very much under a cloud today.

MR KNAAK: Can the Premier perhaps confirm that the federal government was offering considerably less for the oil of the sands than for Mexican oil?

MR LOUGHEED: That's true. That really goes to the heart of the question, and perhaps strays us away somewhat from the basic discussion here of the Heritage Savings Trust Fund. The matter, as you know, is unresolved, because the government of Alberta is not prepared to make those sorts of investments or establish commercial terms with regard to the oil sands until it is satisfied as to the pricing arrangements.

MR NOTLEY: Mr. Premier, with respect to the package of proposals that you presented to the Prime Minister which contained some of the investments we've been discussing, such as the Q and M pipeline, investments in oil sands, but

also some important investments in transportation, the bottom line of your position was basically that if we can get agreement on the energy question, the Alberta government would be prepared to proceed. I can understand that as it relates to the energy-related questions, but what consideration has been given by the investment committee to the investment in the transportation aspects of the package regardless of what happens to the energy negotiations? I raise that because at the recent constitutional conference, collectively the premiers fought back and, I think, changed to a certain extent public opinion in Canada on this whole question of the constitutional role of the federal and provincial governments. It seems to me that moving on the transportation aspect of the package would be good not only for Alberta, because it's important for us, and good for western Canada, but I think good for the overall debate that is taking place not only on the energy question but on the constitution as well.

MR LOUGHEED: I suppose I could take that question and defer it, because it has not been contemplated that the \$2 billion that was contained in that proposal would flow from the Heritage Savings Trust Fund; on the other hand, neither has it been contemplated that it would not. I think you have to sit back and say, first of all, that the responsibility for transportation is not that of the province. It is the federal government responsibility. It has been the continual failure of the federal government to meet its jurisdictional and other obligations with regard to transportation that, as a matter of sheer desperation, has brought provinces into this picture, some of them very reluctantly.

As you know, Alberta has taken a leadership role, as a catalyst and as a principal financial participant, in the Prince Rupert terminal. We've also taken the role, with Saskatchewan and to a lesser extent Manitoba, relative to financing hopper cars. We've considered those as perhaps the highest priority items. My proposal of July 25 to the Prime Minister contained reference to a number of other projects. All of those projects should properly be -- not properly; are the responsibility of the federal government. In our view, we would feel that for us to assume responsibilities that the federal government should be doing should only occur when the federal government itself is responding in fairness and equity to the position of the western provinces. I guess we will not see that until we see the federal budget.

MR NOTLEY: To follow that up, the position with respect to the transportation elements of the package would be related simply to the energy discussions and not to other constitutional items?

MR LOUGHEED: I think that's a fair point of putting it. When I meant the federal budget, I meant it in relationship to the energy issue. If I understood the thrust of your question, Mr. Notley, yes; it was not related to other constitutional questions. It was part of the energy package, but it's constitutional in the sense that the responsibility to do those things which in our judgment are overdue, are responsibilities of the federal government.

It's constitutional, too, if we look at the issue of equalization, where we in Alberta and British Columbia have been paying equalization and accepting that principle. But surely as part of that, we can expect from the federal government in their fiscal planning and their fiscal decision-making some degree of equity across Canada. So if there are needs in western Canada that have a high priority -- and I think most western Canadians would consider that transportation needs have a high priority for the west -- we would see that in the forthcoming budget as being a high priority expenditure.

MR PAHL: I guess I feel a little disappointed that members of our committee don't feel we're taking some transportation initiatives now, with the purchase of hopper cars and such. It would seem to me that the package, the proposal, was in large measure contingent upon an agreement, because without an agreement funds would not be flowing to Alberta that would put us in a position to take those transportation initiatives. Is that not correct, Mr. Premier?

MR LOUGHEED: That's right, Mr. Pahl. The issue Mr. Notley raised is of course the question which, it seems to me, is more whether or not Alberta should make this commitment unconditional. I think our judgment is that if we receive equity and fairness in return, we'll respond positively. We've taken the view that if you look carefully at that proposal, the federal government has raised the question that it has to be the federal government that determines decisions of the nature of transportation. I believe that was Mr. Trudeau's negative reaction to the proposal. However, the proposal is subject to expenditure -- by way of grant, by the way -- only upon the approval of the federal government, and all the western premiers do is sit down and determine what the priorities are. I've had a very good reaction to the proposal.

I guess what we're talking about and the issue of debate here is the question whether or not the proposal of \$2 billion of that nature, of what is essentially federal responsibility, should be made in any event by Alberta, regardless of the point of view of the federal government toward the province of Alberta on the other issues. And that's a matter of debate. My judgement is that if we're treated fairly and equitably, we're prepared to make that sort of commitment. But if we're not, I think we should continue to look on these matters project by project, as we have done in Prince Rupert and the hopper cars, and there may be a third one coming up.

MR PAHL: A supplemental. My point was: do we have the funds to make that unilateral commitment of \$2 billion without an agreement?

MR LOUGHEED: If we face a natural gas export tax and if we face continuing natural gas pricing as we have seen in the last period of time, the financial position forecasted by the Alberta government will change dramatically.

MR BORSTAD: Mr. Chairman, to the Premier. I applaud the government for the building of Kananaskis Country. As a northern Albertan, I would be anxious to know if there are any plans for a second Kananaskis project in the province and, if so, where and what the criteria for determining that location may be. As a northerner, I might even suggest a site. I was thinking about the Kakwa Falls area in northern Alberta.

MR LOUGHEED: Mr. Chairman, in answer to Mr. Borstad: we are of course in only the third of five years with the Kananaskis Country project. We think it's going to be a great success in terms of its objective. We are assessing where we go from here in terms of the utilization of our mountain recreational opportunities for our citizens. I think the government has reached the stage of concluding that the project and concept of Kananaskis are sound for Albertans and that there should be a second Kananaskis project, if you like. The reason for that is that it is becoming readily apparent to Albertans that the national parks are simply overcrowded in a very significant way, both because of our population growth and from a tourism point of view, and that there should be family recreation opportunities in a mountain setting available to Albertans, and that there are other alternative opportunities, Kananaskis being the first one.

Your question is important. I would have to say frankly that the criteria would be these: the alternate recreational opportunities available to Albertans and the extent of Albertans who would have ready access to a second Kananaskis project. Those would be the criteria. I'm not suggesting, and please don't read that, that that answer strikes out the submission you have made, and, I'm sure, will make again.

MR MUSGREAVE: Mr. Premier, I'd like to go back to the energy division investments again for just a minute, on sort of a general question. I'd like to know if you saw the investments in the energy division as more in the nature of expanding the industrial base of Canada by this increased investment rather than the federal government's position, which seems to be to acquire a 50 per cent interest in the oil and gas industry, which is going to be achieved by retiring debt, I assume, and purchasing equity. I wonder if the heritage investment committee's approach was more that we expand the base rather than just try to drive it out.

MR LOUGHEED: That's a crucial question. If that isn't clear, then it should be made clear at this time. The energy investment division, from the contemplation of the government of Alberta and the investment committee, does not have as its policy the question of increased Canadianization of the industry. That may happen, simply by the very fact of the fund being a Canadian fund investing. But its basic purpose is a response to Canada's challenge economically to be energy self-sufficient, and for Alberta as the energy province to play a leadership role across the country in reaching that position, one that will be beneficial to all parts of Canada but, obviously, it will be beneficial to Alberta as well.

So the objective of the energy division is an objective both by way of investment income return, but also an objective to strengthen the economy of Canada generally and hence, by that very nature, of Alberta as well.

MR MUSGREAVE: So, Mr. Premier, this could see investments going into both private and public companies across the nation, effectively?

MR LOUGHEED: It's hard to answer that question the way you've put it. For example, let's use the Quebec and Maritimes pipeline project as an example. That's likely to be a mix of private/public sector investment. To the degree that these investments create a higher degree, in a positive way, of Canadian ownership of the petroleum industry or the pipeline transmission industry, I think that's a positive objective and one that we would want to work toward, as long as it's done in a positive rather than a negative fashion.

MR R CLARK: Mr. Chairman, to the Premier. The area I want to question really deals with the performance of the fund and the rate of return last year. I suspect that will be referred to the Provincial Treasurer, pretty obviously. But what I would like to know, Mr. Premier, from the standpoint of Chairman of Executive Council how does the government go about looking at investment opportunities and what is happening in the investment atmosphere inside Canada? I am aware of the trip you made to Switzerland last January, February, or whenever it was. I would be interested in also knowing specifically any observations you may have gleaned as a result of discussions with people in the international investment community there.

MR LOUGHEED: I should perhaps make clear from the outset that the purpose of the trip wasn't in terms of considering investments outside of Canada. We were there to try to get the best possible information and establish contacts

from an advisory point of view that would help us, because of the fact that investments being made in Canada are very much predicated on a number of international factors, as we're all well aware. Included in that of course is the recycling of petrodollars from the major oil producing nations, and how that will affect the international financial scene over the course of the next few years. I think we're aware that in 1973 there was a great deal of concern that the international financial community and international monetary authorities felt that there could be some pretty serious disruptions with regard to the magnitude of funds that would flow from the oil producing nations, and perhaps be disruptive and not be able to be absorbed. That didn't happen. However, it didn't happen, primarily because there was a high degree of lending to developing nations. Hence, those developing nations, in the period '74 to '79, have reached the position of a high degree of debt. The advice we're now receiving is that the oil producing nations, in reinvesting petroleum dollars, are not likely to be prepared to take the risk of anywhere near the same degree of reinvestment in the developing nations. For that reason, most people who are involved in international financial questions expect some pressures to occur that will be perhaps disruptive in terms of international finance. That has a bearing upon our investment decisions here. That's on the negative side.

On the positive side, although they might lose it within weeks, the feeling in international financial circles that we talked to is that Canada has a much better opportunity for energy self-sufficiency than the United States and, hence, over the course of the '80s has an opportunity to be much more economically strong than the United States, in comparative terms, and that if it moves toward energy self-sufficiency, investments in Canada would be very attractive.

Our conclusions, therefore, are that we do have, given sensible federal policies, good opportunities over the course of the next few years for investment in Canada from an economic point of view. If of course those policies are not shown to develop in the forthcoming federal budget, we'll have to re-assess our position.

Just one footnote on that important matter. I was satisfied from the advice we got that we moved with our foreign ownership of recreational and agricultural land bill at about the right time.

MR R CLARK: I'll resist the temptation to become involved in that debate. Mr. Chairman, to the Premier. What formalized mechanism does the Alberta government have to keep on top of the international investment atmosphere? I would appreciate the kind of exchange that the Premier would have, possibly the sessions like that. What kind of formalized arrangements are there?

MR LOUGHEED: A very important point. I believe though, because of the circumstances in establishing those relationships being the direct responsibility of the Provincial Treasurer, I'd prefer to defer that question and alert him that you'd like to ask him about it.

MR R CLARK: Mr. Chairman, just following that answer. Mr. Premier, I appreciate that once you make that comment, that's where the question goes. But I pose the question to you, sir, because you're the gentleman who is the Chairman of Executive Council. I put the question to you as Premier and Chairman of Executive Council: do you get that information directly to you? Or is it a matter of going to the Treasury Department and then Treasury Department advising the Premier of the information that is essential. What I'm really trying to establish here is, is that directly something that is funnelled to the Premier, the Premier is advised once a week as to what's

happening in the international situation? I raise the question in that in the next couple of weeks the International Monetary Fund is meeting, and I would be interested to know if Alberta has had some input in the federal position at that meeting.

MR LOUGHEED: The only answer I can give you is that the information certainly flows directly to me from the Treasurer, but the Treasurer is charged with the responsibility for correlating that advice -- and I think what we're talking about here is advice -- from international financial people in a multitude of ways in a very complex field. I believe that I would have to say again that he is the one who should answer, because the thrust of your question as I understood it, Mr. Clark, was: to what extent are we formalizing this input of information? That's a very valid question, and one I'm sure the Treasurer would be pleased to respond to because we've considered it carefully. We know the complexities, the magnitude of our fund. We know it is a fund by its very nature that is unique, and that it is in our interest to have advice. We may or may not act on that advice, but it's in our interest to have advice from people who have a perception both internationally and nationally. That's what he has been working on. I have been, so to speak, the advance man. Mr. Hyndman has been following up on that and, I'm sure, would answer your questions when he appears on September 24.

MR R CLARK: Might I just ask, Mr. Premier: have you discussed with the Prime Minister Alberta's involvement in the upcoming International Monetary Fund meetings in the next couple of weeks?

MR LOUGHEED: I haven't been personally involved with that. Again, I'd have to refer that to the Treasurer. We would perhaps, from time to time, be involved. I know there is a finance meeting, provincial finance ministers and the federal Minister of Finance, this Friday, I believe. I'm sure that that subject will be discussed, directly if not indirectly. I'll take note of it for the Treasurer.

MR STEWART: Mr. Chairman, my question to the Premier is relative to the suggestion that an additional provincial park be developed on the Eastern Slopes, recognizing that, as you said, you have several alternatives for location. I wonder if in the consideration of the location, accessibility to the park from the major urban areas or the central part of the province -- that existing highways and the loads on these highways be a consideration for the development of the next provincial park, assuming that in the future there will be additional parks. The heavy load on the Yellowhead route at the present time would make a park that had that route as access -- would be creating a problem that we haven't resolved yet in our transportation system.

The second part of my question would be that, with our Capital City Park and our Fish Creek Park, in Calgary, if some consideration or discussion has been going on with the other cities within our province to develop something of that nature that would be funded for the people who live in those cities.

MR LOUGHEED: Those are certainly two significant points. On the first matter: yes, that has to be, on the one hand, a factor of determination of a second Kananaskis -- the road costs. We all know, in terms of the cost of Kananaskis, the impact of roads upon the total budget. So that has to be a very major question. But you have to balance that with the accessibility to such an area for the maximum number of Albertans. That question is going to be one that we will have to grapple with. Without getting into alternative locations, I don't think I can go further at this time.

On the question of urban parks, which is part of the capital projects division, Heritage Savings Trust Fund, we've been considering that and have made no final decision.

MR NOTLEY: I have a question in the area of hydro-electric energy, but I do have a supplementary on this question of Kananaskis. Mr. Premier, between 1967 and 1971, looking over some of the old comments, there were all sorts of, it's fair to say, unflattering observations made about the ARR and the massive increase in cost, at least part of which was because of expanding the concept. When Mr. Trynchy was here with respect to Kananaskis, the major argument that he presented to this committee for the increase in cost was the expansion of the concept over the announcement that, I think, you and Mr. Adair had made in 1977.

Because of this very substantial increase in cost, and \$120 million for roads, which is just \$20 million short of the entire primary highway budget this year, my question is: what assessment was made on an ongoing basis by the investment committee itself on this project?

MR LOUGHEED: Yes, I'm delighted to respond to that question, because I think it's a very important one. As you know, in 1977 the original estimate was \$40,520,000 for the project; \$10.6 million of that was for roads. The present estimates are somewhat in the neighborhood of \$210 million.

There are three major factors for the increase. The first one is the fact that what we decided, as an investment committee, was that the original concept of the roads was that the majority of the road budget would be through the General Revenue Fund. We decided -- I can't precisely say when; I think it was about a year and a half ago, but I'm not sure when -- that in this particular case, we should put all the road costs, not just a small portion of them, into the Kananaskis Country, by way of accessibility.

So of the increase, some \$103.6 million is due to roads. That is due to that decision we made to put the road costs, in total, with regard to the Kananaskis, in the Kananaskis account rather than the General Revenue Fund. I'm sure you can argue the pros and cons of that, but it was our view that we should be identifying them. It was our view that the increase in the primary, secondary, and other road budgets that we had as a province should not be set back or be affected in their budgetary consideration by what we were doing in Kananaskis. That was the major decision there. That's the first reason.

The second reason has to do with additions and expansion that we have made to the project since that period of time. Perhaps the better place to go into detail on that is when Mr. Trynchy brings his estimates before the House in Committee of the Whole during the fall session.

What happened was that we became, subsequent to the announcement in November '77, aware of two factors. The first factor was that we saw that the national parks were becoming even more and more crowded, and that an alternative mountain opportunity for Albertans was required and would be more extensively utilized. We felt there was going to be a much higher degree of utilization at the same time we were having a rapid increase in population.

Then, as part of that, in our assessment as to the nature of facilities, we felt we should have a basic concept of family involved. As we got into debate of the nature of what we mean by family recreation, it became apparent that everybody doesn't have the same recreation interests, even within a family. So it was important for us to broaden the scope of recreation facilities that would be made available within Kananaskis Country, to meet the total concept of family needs. I think that's what will be the most exciting part about it when it's through, that a family will go and will camp, as I did in mid-August, and the members of the family will then take off in a multitude of

different directions and a multitude of different experiences. I won't go into the details of them; I think they're apparent.

The third element of increased costs was of course the fact that the figures were in 1977 dollars and obviously have an inflationary factor.

So the difference is primarily in roads, with the decision I've mentioned of \$103.6 million, by putting it not in General Revenue Fund but in the capital projects division; secondly, with regard to expansion and addition because of a reassessment of the utilization factor anticipated in the family recreation concept; and, thirdly, by way of inflation.

MR NOTLEY: Mr. Chairman, just a supplementary question to that. We're looking at about \$170 million total cost increase; almost \$104 million is with respect to roads. So that's \$66 million that would be in these other two categories. Mr. Premier, what information have we received to date with respect to contracts on what has already been done? I've been given to understand that some of the work has been fairly expensive because of the competition in an active city like Calgary at the moment, and that the costs are coming in somewhat higher than what was budgeted. Would that be a major part of the \$66 million?

MR LOUGHEED: I don't think it is, because we were looking, as I said, at the third element, 1977 dollars. So you do have the normal inflationary aspects. A significant portion of that difference of \$66 million is in the expansion and additions I've mentioned. There could be some element of that. I'd have to defer to Mr. Trynchy at the time he appears before the Committee of the Whole in the fall session.

MR SINDLINGER: Mr. Premier, I'm not quite clear on this. The \$103.6 million increase due to roads, is that from the heritage fund?

MR LOUGHEED: I'm sorry if I didn't make that clear, Mr. Sindlinger. When we originally established the project, at a \$40 million figure, we had only \$10 million in it for roads, because we thought the bulk of the road expenditure should be covered from the General Revenue Fund. There were some roads of a specific nature that were involved. We then reached the decision that all of it, in the whole area that served it by way of access, should come within the Kananaskis Country and not be part of the General Revenue Fund charge.

The reason for that was, first of all, because we thought it was more adequate identification; secondly, because we did not want to reduce our budgetary commitment on secondary and primary road construction through the province as a whole as a result of our commitment to Kananaskis. That was the reason for that decision.

MR SINDLINGER: Mr. Premier, would you mind refreshing my memory for me, please? Inasmuch as funds from the capital projects division are appropriated annually from the Legislature, was that \$103.6 million included in the most recent appropriations?

MR LOUGHEED: The appropriations go through the Legislature each fall. As to the nature of the debate that occurred, I wasn't present in the House at that time. I'm talking about the decision to make the transfer, to have all the roads charged. If you recall from the capital projects division of last year, you were dealing in the estimates here in the House with some \$41 million, if I remember, for the investments during the forthcoming fiscal year. That was an allocation of funding that in part included roads and in part included other funding. The question of whether it arose in the debate or did not

arise in the debate I can't tell you. You'd have to check *Hansard* or ask the minister.

MR SINDLINGER: Sir, I'm not asking whether or not it was included in debate. I'm asking whether or not it was in fact included in the appropriations. It has been said quite often in regard to the capital projects division that decisions for investments are made in the Legislature. I just wanted to have my memory refreshed in regard to the \$104 million. Was that included in the appropriations?

MR LOUGHEED: All that's included in the appropriations in the present arrangement is the matter of appropriations for that fiscal year coming up. But of course that doesn't preclude the Legislature from asking the minister what the long-term forecasts are with regard to a particular project and the extent to which road construction costs are involved.

MR SINDLINGER: The last question in this regard -- what I'm trying to do is nail down the decision-making process. It was my understanding that for items or investments in the capital projects division, the decision-making process was through the Legislature. If the \$104 million wasn't included in that, my question would be: what decision-making process was followed to come to the conscious decision to make that extra investment from the heritage fund?

MR LOUGHEED: If I recall, the capital projects division merely has listed in it the amount to be expended on a given item for that given year. The decision of the investment committee of cabinet was that we should include that \$41 million that was approved last year, total road costs being constructed that year, and the government, although the Legislature would be ratifying it as it's presented -- by the very nature of The Heritage Savings Trust Fund Act, these estimates are laid on the table. The Legislature is quite free to alter or to adjust them. The final decision on the capital projects division is made by the Legislature. So if the Legislature, for example, at its forthcoming year, wants to reverse that decision and to charge road costs not to the Kananaskis project and hence to the Heritage Savings Trust Fund, but to take them out and to have them charged to the General Revenue Fund, the Legislature is quite free to make that decision this fall.

MR SINDLINGER: Just for clarification, if I may, Mr. Chairman. You're saying that the Legislature may make ex post facto approvals on this?

MR LOUGHEED: The \$41 million that was approved last year was approved on the basis of the decision relative to the costs of the roads. Whether or not the discussion with the minister indicated that that was the full cost of the roads, I don't have the debate, *Hansard*, in front of me. But if the Legislature wishes to change that decision this fall, they can do so. They can move the funding for Kananaskis on total roads out of the Heritage Savings Trust Fund, refuse to approve it, and then we'll have to pick it up in the General Revenue Fund.

MR NOTLEY: Mr. Premier, of the \$104 million increase we're now talking about -- I think we'll certainly have a breakdown this fall in the House from the minister -- was there any change in the conception of the project from the announcement in 1977? In other words, would we have seen a highway expenditure from normal operating revenues somewhere in the neighborhood of \$104 million, less the 1977 figures? Or in fact was there a conceptual change in the amount of highway infrastructure required? In particular, what is the

situation with respect to this loop down from Canmore? Is that now going to be added?

MR LOUGHEED: No, that's a very good question. I think the \$104 million clearly covers both: it covers the original concept of roads that was to come from the General Revenue Fund, and it covers decisions that were made and recommended to the House in the annual appropriation that dealt with an expansion of road costs as a result of anticipating a higher degree of use. I can't give you the detailed breakdown. You'll have to ask the minister as to what portion of the \$104 million is tied to the decision to transfer the full funding to the capital projects division and what portion of the \$104 million involves expansion of a facility that wasn't there. I'm pretty sure, but I'd have to check and you'll have to ask the minister, that -- if I'm following what you're referring to -- the loop down from Canmore, on the Spray Lakes side, is not contemplated in the present five-year program. That's subject to checking; I don't have that clear. The portion on the Smith-Dorrien that moves up from the park and through the park is within the \$104 million.

MR NOTLEY: Mr. Chairman, just one further supplementary question, so there is no misunderstanding, in my mind at least. What we have, then, is an advisory committee that advises the Minister of Recreation and Parks. The minister then makes representation to the investment committee. Is that the process by which this was originally envisaged and grew?

MR LOUGHEED: There's an intervening step there, just to make sure the record is accurate. There is a Kananaskis Country cabinet committee. The minister would take it to the Kananaskis Country cabinet committee, which would consider the question and, for example, whether or not we should be developing the Smith-Dorrien road in the degree in which we are developing it beyond the original plan. That recommendation would be made by the cabinet committee, which would recommend it to the investment committee of the Heritage Savings Trust Fund, which would then put it in the estimates as a recommendation to the Legislative Assembly.

MR NOTLEY: Mr. Premier, has there been any assessment of the planning process as a result of the obvious view of the cabinet committee and the government that we have to substantially expand Kananaskis Country? It seems to me that a lot of that preparation work would have been done before the announcement in 1977. Yet we see that there has been very substantial increases to the whole concept. I guess the question, Mr. Premier, is: what review has the investment committee made of our planning apparatus, that after we get started on something we suddenly find that the concept has to be dramatically increased? This is important if we're talking about one in the north. What are we looking at in actual dollars here too? Is it going to be \$200 million, \$300 million, whatever the case may be?

MR LOUGHEED: I think the question really is one for debate. In our judgment, it's an entirely new concept that has never really been approached before in Canada: the idea of a provincial park, surrounded by a recreation area and tied to a mountain setting. So it was very new for Alberta. As we got into it, we made a decision that -- we could have deferred the decision date from 1977 to 1979, to further refine the project. The judgment we made was: let's not do that. Let's get going with this project; we're satisfied the concept is sound. The concept has not changed; it has merely been expanded. I'm glad we made that decision.

If we had gone into the more typical approach of saying, let's get a planning process of '77 to '79 involved, in terms of what the ultimate project might be, not in concept but in extent, we would have deferred for two years the pressures that we have building and building for family recreation. So I'm glad we did it the way we did, because we could have done it the other way. What we did do in 1977 was establish a concept. That concept is still in place. I think it's perhaps one of the most exciting ones in Canada from a recreational point of view. All that has altered is an assessment of the magnitude that is required in the park in order to service people. I guess that's a matter for debate, which you and I will both welcome.

MR KNAAK: Mr. Chairman, the government and others have been concerned about the rate of return to the Heritage Savings Trust Fund, and for that reason the commercial investment division and the energy division were created, with a view of investing some portion of the fund in equities. The other decision that relates to the rate of return is the decision by the government to equalize interest rates for all provinces. I understand that, more or less, the Canada investment division is lent out, or borrowed out, and in fact other provinces have taken up the loans in that division. Could the Premier advise whether or not investments have been made under the commercial investment division, and guidelines if there are, and what the logic is behind the equalization of the rate of return with the other provinces, in view that the commercial sector perhaps sets different borrowing rates for those different provinces?

MR LOUGHEED: Mr. Chairman, that was a very difficult decision that we made. I suppose some could argue that to some extent there is a subsidization of those provinces in Canada, in the sense that if they had to borrow in, say, New York, they would have to pay a higher rate of return. In the aggregate, in terms of the investment income of the fund, it's not a significant amount of money.

Our feeling was, when we looked at the policy of the Canada Pension Plan and how it loaned money to various provincial governments, that it reached a conclusion that there should be equality in the rate. We felt that we would be adding to tensions within Canada if we followed the strict commercial decision-making process; for example, lending to Quebec Hydro at a lower interest rate than we would lend to the province of Newfoundland. It was our decision, the investment committee, that that was not the right thing to do with the Canada investment division. I'm satisfied with that decision. It has been well received by all the provincial governments in Canada.

Mr. Bradley, for example, asked me a year ago about the take-up of the Canada investment division and some concern with regard to that which I had at that time. But since we made the decision to have an equalization in terms of return -- and it still provides a very good investment return, obviously, to the people of Alberta -- we've had a much more significant take-up of that portion of the fund. That is why we had to bring to the legislature an amendment this spring to increase the size of the Canada investment division from 15 percent to 20 per cent.

MR R CLARK: Mr. Chairman, to the Premier. Mr. Premier, I want to go back to the Kananaskis question for a moment and ask when the officials of the Department of Transportation were advised that there would not be a call on the Transportation budget for the \$120 million. I raise the question very specifically, Mr. Premier, because in meetings in central Alberta as late as July of this year, officials of the Department of Transportation have been

advising municipalities that, because of the large call on Transportation funds, some projects could not go ahead.

MR LOUGHEED: Well, they may have done that, and I wouldn't have the facts. You'd have to ask the Minister of Transportation. I don't know how that relates to the Kananaskis. If they used the Kananaskis as an example, they were mistaken.

MR R CLARK: If I didn't make the point, I'm sorry. What I want to know, Mr. Premier, is when the Transportation Department was advised that there wouldn't be the call for the many millions of dollars out of their budget.

MR LOUGHEED: For the Kananaskis?

MR R CLARK: That's right.

MR LOUGHEED: I couldn't give you a date. It was some time ago.

MR R CLARK: Some months ago, Mr. Premier?

MR LOUGHEED: Yes. So if any officials of the department made comments like that, they certainly -- there has been the problem, as you know, with regard to priorities of primary construction on budget of Transportation, of demands of projects that, for example, have been referred to, relative to resource development. That is true. That does exist as a budgetary problem for the government. But nothing related to the Kananaskis.

MR R CLARK: Mr. Chairman, to the Premier. The Transportation Department was advised, it would be safe to say, some months ago? Was this decision made and translated to Transportation before the Heritage Savings Trust Fund estimates came before the House last fall?

MR LOUGHEED: I couldn't answer that question. You would have to ask the Minister of Transportation.

MR CHAIRMAN: I would remind Mr. Clark that Mr. Kroeger will be with us at 11:30. Perhaps the Premier's suggestion is well taken.

MR R CLARK: Then could I ask one more question of the Premier. Mr. Premier, you being the only individual who is in the same position now as when the announcement was made in 1977, what was the government's estimate at that time of the Transportation cost of Kananaskis park, Kananaskis Country, and the related road infrastructure which would be added?

MR LOUGHEED: I don't think we had a specific estimate. We had some \$10 million that was within the original estimate, but we knew there would be a substantial additional amount that would be charged to the General Revenue Fund. We also knew that as we got into the project, we would have to make decisions as to whether that amount would be expended. I couldn't welcome an item of debate more than the question of Kananaskis.

MR CHAIRMAN: On that note, and I know, Mr. Premier, we all look forward to the fall sittings -- yes, Mr. Clark?

MR R CLARK: One other, different, question. It relates to the reference the Premier made at the tail end of an answer to an earlier question I asked about

the investment atmosphere. Very specifically, is the Alberta government considering investing in gold at this time? It would call for a change in legislation; I appreciate that. But what is the present advice the government is receiving in that area?

MR LOUGHEED: The answer is one of my shorter ones: no, we're not considering it at this time.

MR CHAIRMAN: On that note of brevity, which is also welcome, Mr. Premier, on behalf of the members of the committee I would like to thank you for participating with us today. I feel sure I can speak for all the members here today that your comments will be very useful to us as we move soon into the phase of our hearings in which we develop our recommendations. Thank you.

I'd like to ask hon. members to remain in the chambers. I believe Mr. Adair is waiting to join us to resume discussions which were interrupted earlier today.

The meeting with the Premier concluded at 11:05 a.m.