

Standing Committee on Alberta Heritage Savings Trust Fund Act

Tuesday, September 14, 1982

Chairman: Dr. Reid

10 a.m.

MR. CHAIRMAN: Ladies and gentlemen, perhaps the committee can come to order to give us as much time as possible with the Premier, who I understand is available until about 11 a.m.

Without any further ado, Mr. Premier, if you have any initial remarks you wish to make, we'll then go to questions and answers.

MR. R. SPEAKER: Mr. Chairman and the Premier, once a year we get the opportunity to review not only the principles but some of the details of the Heritage Savings Trust Fund. In order to examine it in its right form, I think the best format has to be available to the members of the Legislature. In starting my questioning to the Premier today, I'd like to examine that specific area. In discussion with the Provincial Treasurer yesterday, we noted that the government has said some areas may be made available to the committee for discussion prior to decision-making occurring. As an opposition group, as the Social Credit Party in the Legislature, we have raised this since the inception of the Heritage Savings Trust Fund; that is, accountability of the government, the Premier, and cabinet ministers to the Legislature and accountability of members of the Legislature to the general public for the Heritage Savings Trust Fund.

I would like to point out what I think are some facts of the situation at this time. First of all, as a select committee of the Legislature we are eligible to study 11.9 per cent of the investments and make decisions on them or make some recommendations, but that's it. The second fact: we usually study those investments after the fact. In an incident yesterday where we raised the question with regard to advertising the Heritage Savings Trust Fund, the committee ruled that we can only discuss or examine the advertising of the past fiscal year. The present advertising and the advertising in the months ahead are not to be examined or questioned, and material cannot be presented to the committee at this point in time. We have to wait until the end of this fiscal year before we receive that kind of information.

The third fact: 88 per cent of the decisions of the investment committee are examined after the fact, after decisions are made. We do it sometimes in this committee, or somewhere, but there is no official place to examine 88 per cent of the investments. As legislative members, we become rubber stamps, this committee becomes somewhat of a joke, and that's it.

We look at the concept of the present announcements by the Premier, and we want to discuss those today. I'm sure all of us want to ask the Premier questions about the mortgage program that was announced, the interest subsidy programs that were announced. I'm not against those. I recall my remarks to the Premier a year ago in this Legislature when I pointed out that we were in changing times, there were abnormal circumstances. As I reviewed my remarks yesterday and today, I noted to the Premier that there were interest rates of 20 and 22 per cent, mortgage rates at the same level. I asked the Premier at that time if there would be a change in format or direction of the Heritage Savings Trust Fund. The Premier said that it wasn't time to discuss those, and felt that we couldn't discuss that new principle. For me and the committee there was a feeling that that wasn't an area of discussion. Well

all of a sudden last week, because it was right for the government, because the political needs were there, the announcement was made from the Heritage Savings Trust Fund without reference to the Legislature, without reference to the select committee that supposedly has some authority in this legislative process. Mr. Chairman, that is not the concept of open government which this government promised the people of Alberta in 1970, 1971, 1975, and 1979. It is a total abuse of that principle. We could class it as deceit and somewhat dishonest.

At this point in time the question I want to raise to the Premier is a very fundamental one. Where does the Premier see changes occurring, not only in the select committee but in the process of examining the Heritage Savings Trust Fund in a responsible way? After a number of years of seeing what has happened, of seeing the legislative process being neglected, is the Premier prepared [to say] at this time that changes can be made and more responsibility can be made to this Legislature? I think that's fundamental to what we're doing here today, and it's incumbent upon the Premier to answer that. If the process is to stay as it is, we should have the legislative session called as soon as possible so we can get on with that kind of discussion in the Legislature through special resolutions. Or if it is to become a public debate, the second question is: when is the election?

MR. LOUGHEED: Mr. Chairman, I would like to respond briefly to the Member for Little Bow. First of all, the main thrust of his questions or his comments had to do with possible amendments to the Heritage Savings Trust Fund, because it dealt with the matter of process. The only change we're considering at the present time is to respond to the Auditor General's report in the sense that with regard to investments by Crown corporations, we believe an amendment and modification can be made to the Act so those matters -- that is, the investments made by the Heritage Savings Trust Fund in Crown corporations -- should come to the Legislature before being enacted upon. That would then mean that the concept of the Legislative Assembly authorizing the investments of the Heritage Savings Trust Fund would be extended beyond the capital projects division to those investments made in Crown corporations of the government.

We hold the same view, though, with regard to the balance of investments that we held, discussed, and debated in 1976 and in later times relative to the Heritage Savings Trust Fund: that it was incumbent upon the duly elected government in its position as Executive Council to make these investments and to report and be accountable for the decisions it made in all other areas of investment. It seems to me the process is clear. Prior to the commencement of the fall session, the select standing committee, under Section 14, which is this committee, reviews not just the capital projects division but the total process of investments and makes recommendations. That report has to be tabled in the Legislative Assembly before the decision is made or before the Legislature acts upon subsequent transfer of funds. We believe that is the appropriate system, and we have no thoughts of changing it because that puts the select standing committee in the position of making recommendations to the Legislature on investment policy. If the Legislature is of the view that as a result of those recommendations it should not authorize further transfer of funds, that's for the Legislature to decide.

If I understood the second element of the comments and questions of the Member for Little Bow, it had to do with the new directions we announced on September 7 as the proposals of the government. It's quite clear that those new directions, which are dramatic changes in policy, will require a legislative amendment in order to be effected.

MR. R. SPEAKER: Mr. Chairman, to the Premier. I think the dramatic changes that have occurred in the Heritage Savings Trust Fund must be discussed in the Legislature. Has the Premier decided on a date for opening the Legislature? Are there some basic reasons why that date hasn't been announced? Normally it is at this time.

MR. LOUGHEED: We are having consultations, I think, with the Speaker and our House leader within a day, maybe even today, with regard to establishing a date for the fall session, and we are weighing that matter then.

MR. R. SPEAKER: Mr. Chairman, to the hon. Premier. In terms of information from ministers -- and this is one of the terms of reference of this committee as it seems to have been established -- we can only discuss this report of the 1981-82 fiscal year. Even in terms of that kind of parameter, does the Premier see that expanded so ministers will provide current information or projected patterns or commitments? Yesterday we were talking about advertising. The Provincial Treasurer wouldn't provide us with the information of committed programs or advertising for the months of, say, October, November, January, February, and March. Why can't that be provided by government on a very open basis? Can the Premier give his ministers a directive to provide that information for the committee? Why shouldn't they?

MR. LOUGHEED: I think that's a matter for legislative debate. It's clear from Section 14 of the Act that a copy of the annual report is in fact provided to the select standing committee. There is nothing in the legislation that precludes the select standing committee of the Alberta Heritage Savings Trust Fund from making recommendations, as it has in the past, for future policy changes for the investment committee. That is clearly a purpose of the committee, and we always welcome and assess the report of the select standing committee.

MR. R. SPEAKER: Mr. Chairman, my question is: in terms of open government -- and I don't want to overuse that term -- in terms of making available to members of the Legislature all and as much information as possible, would the Premier support the concept of current information, or whatever information is required, being presented to us as members of this committee? I can quote the section of the Act, but if it needs a change -- this is a change in attitude of government.

MR. LOUGHEED: Mr. Chairman, it's really a debate about the nature of the legislation. Our view is that the legislation with regard to Section 14 is quite appropriate. The annual report should be provided. The ministers should be available to respond, as they have extensively over the last number of weeks, to questions from the committee. The committee itself is in a position, if it wants, to make any recommendations concerning those investments or any alternative investments. That's the specific wording of Section 14(3) of the Act.

MR. R. SPEAKER: Mr. Chairman, to the Premier. Is it the Premier's present position that all legislation stays as is or Section 14 stays as is? Is that the government's position?

MR. LOUGHEED: That's right, with the exception of the one matter that I raised earlier. That really doesn't relate to Section 14. It relates to other provisions of the Act dealing with the question of Crown corporations.

MR. R. SPEAKER: Mr. Chairman, I have three other topics I want to raise. Possibly other members would like to interject here, but I would like to be down three more times.

MR. CHAIRMAN: The Member for Spirit River-Fairview.

MR. SINDLINGER: Mr. Chairman, on a point of order. I have a supplementary on that last point, if I may.

Mr. Premier, with regard to the last point made by Mr. Speaker, asking for projected as well as current expenditures on a project, I recognize what the legislation is today with regard to our terms of reference; that is, looking at the last annual report of the Heritage Savings Trust Fund. On the other hand, the Auditor General has recommended that when projects come before the Legislature and this committee, projected costs to completion be given as well. As an observation, I might wonder aloud whether this committee would have considered the Kananaskis project a good project if at the time it was told it would be about \$40 million. They had projected costs which would indicate it could reach almost \$300 million. I think it is important that this committee and the Legislature have that type of information. It's not only my opinion and Mr. Speaker's opinion; it is also the opinion of the Auditor General. I would suggest that the government give consideration to implementing that recommendation of the Auditor General as well.

MR. LOUGHEED: Mr. Chairman, two comments. First of all, I think I would have been surprised if the select committee of the Heritage Savings Trust Fund had responded to the Kananaskis project in the way the hon. Member for Calgary Buffalo raises. That's certainly not my reading or my assessment of the view of the citizens. I know you have had extensive debate and discussion both in this committee and in the Legislature with regard to the original estimate and the present one, so I won't really go into that.

My understanding is that the Provincial Treasurer has taken the view that with regard to projected expenditures, if you like, or projected cash requirements of various projects within the capital project division, that is an appropriate matter for ministers to have available to them when the Legislature approves and authorizes those capital project investments during the fall session.

MR. NOTLEY: Mr. Chairman and Mr. Premier, just one quick comment on the series of questions Mr. Speaker posed. There is absolutely no doubt in my mind that if this committee is to be able to make useful recommendations to the Legislature for future investments from the trust fund, there has to be a good deal of latitude on the part of ministers, not only in answering questions in relation to the report itself but in answering questions about current government plans. I think it's fair to say that over the last number of years a number of ministers have done exactly that. The point Mr. Speaker makes and a point I'd like to reinforce is that this has been a response given at the discretion, the convenience, of the government. I think there's a difference between that and the obligation to answer frankly questions relating to government intentions as far as the trust fund is concerned, not only in a given fiscal year that we're reporting on but in terms of current plans where we as a committee have some obligation to evaluate and make recommendations to the House.

With that in mind, I would like to discuss for a moment the announcement on Tuesday of last week. First of all, the question with respect to the mortgage assistance program. I take it, Mr. Premier, that basically this program is very similar to the one announced by the Devine government in Saskatchewan. I would like to know precisely what the terms of consultation were with the

Saskatchewan government in evaluating that program, looking at its pitfalls, and what ministerial consultation, if any, took place with the government of Saskatchewan.

MR. LOUGHEED: I wouldn't have details on that, Mr. Chairman. You would have to direct those questions to the ministers, the Provincial Treasurer and others who had that consultation. I wasn't involved in it.

MR. NOTLEY: A supplementary question on the issue of the mortgage program. While this program will be of considerable interest to Albertans and, I think, of value to many, in my judgment it misses one serious objective. That is, to qualify for the assistance down to the 12.5 per cent subsidized rate, one has to have a mortgage. As I look over the situation in Alberta, and contacting various people subsequent to your announcement, Mr. Premier, even with mortgagors allowing people to qualify at one to two points less than the mortgage rate, we still have a situation where one has to have an income of about \$31,000 to qualify for a \$60,000 mortgage.

The point I would like to pose to you as the head of the government is: what specific steps is the government going to take to provide some assistance to the at least 50 per cent of the people of Alberta who cannot qualify for a mortgage now? What is going to be done for the renters in this province? If we are going to shield interest rates in a massive program for the 50 per cent of the population who can qualify for mortgages, what in fact are we going to be doing for the 50 per cent who can't?

MR. LOUGHEED: Mr. Chairman, we're fortunate in this province that the government has developed the Alberta family home purchase program for incomes of up to \$38,000. That program will continue and is available for those citizens who do not now own a home, to make application and move into a home. I think the figure of \$38,000 will certainly catch a significant number of the citizens within the ambit of concern the Member for Spirit River-Fairview raises.

MR. NOTLEY: Mr. Chairman, to the Premier. We had the Minister of Housing and Public Works here the other day. He indicated the total number of people who qualified under the Alberta home mortgage program, as well as the Alberta family home purchase program. It's a very small fraction of the number of people who qualify under this program. Specifically, Mr. Premier, what is going to be done to provide some kind of assistance or programs for the 50 per cent plus people of this province beyond the family home purchase program?

As members of the Legislature, all of us have been dealing with constituents who have attempted to obtain -- sometimes successfully and sometimes not, Mr. Premier -- through the Alberta family home purchase program. We know the pluses and minuses and the ifs, ands, or buts of that program. There are lots of ifs, there are lots of ands, and there are lots of buts. People fall through the ifs, ands, and buts. In terms of a universal program, what are we going to be doing for the 50 per cent who can't qualify? We have a program right now for the 50 per cent who can qualify. What about the 50 per cent who can't?

MR. LOUGHEED: Mr. Chairman, that's a matter for debate. I think the program very adequately covers the vast number of citizens who are renters and want to move into their own homes. I'm sure the hon. Member for Spirit River-Fairview isn't suggesting that \$38,000 income is a figure the vast majority of Albertans exceed. It would be nice, but that isn't the fact. A very large number of those people who do not now have mortgages, who would like to move into a home, will in fact have the benefit of that program. I think that

program is an excellent supplement to what we're proposing by way of a mortgage interest subsidy or reduction plan.

MR. NOTLEY: I'll just follow that along, Mr. Chairman and Mr. Premier. As you're well aware, there are all kinds of rules with respect to the Alberta home purchase program. The other day one of your own caucus colleagues very effectively discussed one problem of one of those rules. The point I'm making is that we now have a universal program for the top half of the income brackets in this province. [interjection] Yes, for mortgages. That's correct. We have a selective program with all kinds of rules, which preclude many people, when it comes right down to the bottom line, if I can use that expression, of qualifying for assistance under the family home purchase program. Mr. Premier, at this stage does the government contemplate any additional initiative in the next few weeks to supplement the family home purchase program for low-income people or to provide any direct assistance for renters?

MR. LOUGHEED: Mr. Chairman, that sounds like an excellent subject for public debate, and I guess that's where it will be conducted.

MR. R. SPEAKER: Mr. Chairman, a supplementary question. I raised this yesterday with the Provincial Treasurer: a renter's assistance grant similar to the senior citizen's grant given at the present time. It's the same kind of question. Specifically, is the government examining that on a broader basis? The Provincial Treasurer said you were looking at it.

MR. LOUGHEED: Mr. Chairman, I can just say that we're considering a number of programs, as we always do, and assessing or monitoring them week by week or month by month. That's all I can usefully say to the committee today.

MR. SINDLINGER: Mr. Lougheed, coming back to the question of consultation, I would ask the more general question in regard to consultation with the federal government. The question I would put to you is whether there was any consultation with the federal government and whether assurances were received from them that benefits Albertans would receive under these interest programs would not be taxable benefits?

MR. LOUGHEED: We took the position that, as that matter had been established with the government of Saskatchewan and the federal government, that was an adequate position as far as we were concerned. We saw no likelihood they would treat the Alberta government or the people of Alberta differently from Saskatchewan. If there is any misunderstanding, I did want to correct that. That deals with the mortgage interest reduction program. That position is the case. We do not believe the benefits will be taxable.

In the case of the business interest shielding and farm operator interest shielding program, the grants themselves are not taxable, but obviously they reduce the interest expense for a given company. To the extent that it reduces the interest expense, clearly the benefit will be less if that company is in a tax position.

MR. KESLER: Just before I get into the questions, I would like to note and I'd like it on record that the chairmanship of this committee has been something less than desirable in its attempt at bias, I would suggest, and outright failure to recognize opposition members who would like to have input into debate.

MR. CHAIRMAN: For the benefit of the member, I think only opposition people have been involved so far, and we've gone through almost half an hour.

MR. KESLER: Several times, on attempts by different members to get your attention, you've ignored those attempts.

My question to the Premier is basically that I'm concerned as to whether a study was done to find out what the impact would be on the economy of Alberta if that 15 per cent heritage fund that goes back to General Revenue had been left in the industry, creating jobs and a more vigorous climate for employment in Alberta. What would that impact be versus the subsidy programs announced?

MR. LOUGHEED: Yes, we made an assessment of that and concluded that if we didn't do that, we'd have to substantially increase taxes of Albertans.

MR. KESLER: A second supplementary then. It deals with the advertisement and so forth. I realize it's not in the proper time frame for this committee now, but I'm concerned that we hear we're going to have six weeks to two months for the necessary forms to be put into place, so people can actually make application for these low-interest mortgage loans or subsidies. I wonder why there's now this time lag for the forms to hit the populace, when we've had an indication that this program has been worked on for some weeks or months, depending on who you talk to on which day. When we have an advertisement in place such as this that's already out, why weren't those forms considered in the planning long before the announcements were made?

MR. LOUGHEED: The forms were considered and prepared. Obviously we wanted to have a final review with the lenders who were involved in these forms before we finalized them. We did have some input, but for obvious reasons it had to be limited. Compared to most government programs anywhere, we believe the time frame will be considered by the citizens to be very expeditious. The mortgage interest reduction program is a very complex program. The application forms will be available September 27 which, in terms of performance of a government program involving 225,000 households, is a very expeditious time frame. With regard to the other program, it requires even more extensive discussion with those lending institutions because of the complexity of it. We will have those application forms available on October 12.

By various communications, and this communication will continue, in every case we have assured that no person who is going to benefit from the program need be concerned about the situation in terms of the timing of their application, because the funds will flow back to the household, small business, or farm operator retroactively on the mortgage interest reduction program until September 1 and, with regard to the small business and farm operator program, retroactively for six months prior to September 1.

MR. KESLER: Could the Premier indicate the degree of detail involved in these forms? Are they two pages, three pages, four pages? Can a farmer or a domestic handle these, or do they have to go to legal advice in order to fill out these forms?

MR. LOUGHEED: That's difficult to say. If somebody is involved in a very straightforward situation, I don't think they're particularly complicated. But they cover such a wide variety of circumstances, particularly for small business or farm operators, that it will require some work to do it. We've tried to bring in as broadly based a program as possible, so we involve a vast number -- we estimate we have 40,000 of 58,000 farms eligible. We have 73,000, or almost 95 per cent, of incorporated businesses, not including all

the partnerships or proprietorships. Across the scope of a province like Alberta, there has to be a wide variety of different situations. So quite clearly, although we're aiming to have a program that covers the widest number of people to give the greatest degree of benefit, there will have to be circumstances for some of them where they'll be into unique situations. We'll even have some cases where we'll have to have a review procedure to determine whether or not an individual firm or farm operator qualifies and is eligible, and the degree of support that small business or farm operator would receive.

MR. KESLER: Could the Premier indicate if there's been any indication from the law society as to whether they find the program enticing?

MR. LOUGHEED: I haven't had any indication from them. They're eligible to participate as well.

MR. SINDLINGER: Mr. Chairman, Mr. Lougheed, in regard to the question asked by Mr. Kesler -- that is, the assessment of the change in policy directing 30 per cent of natural resource revenue into the heritage fund to 15 per cent -- your response was something along the lines that it was better to reduce the inflow from 30 per cent to 15 per cent to avoid increasing taxes for Albertans. The question I put to you is: would that change in inflow totally cover the programs announced last week, or would there be a surplus resulting from that change?

MR. LOUGHEED: Two points. If I understood the Member for Olds-Didsbury, he wasn't talking about the diversion of funds to the General Revenue Fund; he was referring to it not being received by the taxpayers of Alberta in terms of reducing royalty rates. Therefore I suggested that as the overall revenues declined, it wasn't a matter of what account those revenues ended up in; they wouldn't be received at all. That's why I said that that sort of approach of reducing royalty rates beyond the \$5.4 million in the April oil and gas activity program would dramatically reduce the revenues of our province, and we would be in a position of requiring very huge borrowings. To avoid the very, very large borrowings that would then be required, we would have the choice of reducing services or increasing taxes, if we followed the view put forward by the Member for Olds-Didsbury. That's what I was getting involved with.

I think you're on a different point though. If I follow you, you're on the question of what is involved in terms of the 15 per cent. Perhaps the hon. Member for Calgary Buffalo could clarify as to the thrust of his question.

MR. SINDLINGER: Yes, Mr. Chairman. For clarification purposes, will the reduction in inflow from 30 per cent of natural resource revenue to 15 per cent cover the total cost of the interest shielding programs announced last week?

MR. LOUGHEED: I'm sorry if I haven't communicated to the hon. Member for Calgary Buffalo, but I thought we made it clear that the two programs, the mortgage interest reduction program and the small business and farm operator interest shielding program, were financed from the income of the Alberta Heritage Savings Trust Fund for the two-year period involved, starting from April 1, 1983, in terms of cash flow. So that's where the funds come from to finance the program; that is, from the income of the Heritage Savings Trust Fund, not the capital transfer. What we propose, and will be proposing to the Legislature in due course, is to amend the Act to dramatically change the situation to allow for a short-term period, that we don't reinvest the income

from the Heritage Savings Trust Fund but apply it to programs that are allotted in relationship to the Alberta economic resurgence plan.

MR. SINDLINGER: For greater certainty then, if I might, Mr. Chairman, will there be a need to borrow money to finance the mortgage scheme, the small business interest shielding program, or the farm operating shielding program?

MR. LOUGHEED: No, Mr. Chairman. Let me just review. The two heritage fund interest programs will be financed from the income over the two-year period from the Heritage Savings Trust Fund. The reduction from 30 per cent to 15 per cent, which we will propose to the Legislature in due course, will reduce the deficit in the General Revenue Fund in order to sustain services. It will still be necessary for the government of Alberta and its corporations to in fact borrow on the open market.

MR. SINDLINGER: A final question please, Mr. Chairman, in regard to some proposals Mr. Notley was alluding to earlier. In the event that you were to accept his suggestion that perhaps this other 50 per cent of home-owners or prospective home-owners qualify, or that there be assistance for renters, is there any room within the financial situation or circumstances today to allow for the announcement of additional programs within the next few months, or would some extraordinary financial arrangements be needed for the government to carry those out?

MR. LOUGHEED: We'd have to assess that as we look at the programs. It would depend on their magnitude.

MR. SINDLINGER: Is there any slack right now in the financial program, the cash flow forecasting, to introduce supplementary or complementary programs to those already announced?

MR. LOUGHEED: There is some. It's a matter of assessment as to the magnitude, if we allot the income from the Alberta Heritage Savings Trust Fund for two years to the Alberta economic resurgence plan of the government, as we said we'd do on September 7 and which we would propose to the Legislature.

MR. SINDLINGER: Mr. Chairman, a final supplementary. Mr. Lougheed, when you talk about magnitude, it's a question. Could you give us a sort of ballpark order of magnitude? Are you talking about \$100 billion, \$1 billion, or \$10 billion? Could you give us some indication of the range you are talking about?

MR. LOUGHEED: I couldn't do that, except to say that our estimates of income from the Heritage Savings Trust Fund, as I said on September 7, would exceed \$1 billion in each of the two years.

MR. ZAOZIRNY: Mr. Chairman, to the Premier. On the subject of the reduction of the flow of resource revenue dollars into the heritage fund from 30 per cent to 15 per cent, of course that will impact on the rate of growth of the fund. It seems to me that the other determinant of that rate of growth of the fund is the amount of resource revenue we as a province are going to receive in the next number of years. Mr. Premier, as the leader of the government, could you offer your own prognosis as to expectations for the flow of resource revenue into the province, and therefore into the heritage fund, in the years to come from both petroleum and natural gas sources?

MR. LOUGHEED: On the oil side, I think it's clear that there's not a marketing problem, in that we're quite optimistic that the situation with regard to shut-in oil production has been resolved to a fairly significant degree. So I think we can forecast our oil production and hence our revenue from oil -- in that case, it's all sold within Canada -- fairly well in terms of what the production would be and the pricing arrangement arising from the energy agreement.

But the major variable is in natural gas. There is some difficulty in forecasting natural gas sales in the domestic market in Canada. For example, we have seen a situation of delays on the Quebec pipeline and delays in the distribution system in Quebec which would be using Alberta natural gas. But even with the most optimistic forecasts, that's not a significantly large market potential for increase for us. There'll be some, but not a great deal.

The biggest and by far the largest variable is the degree to which we can expand our sales of Alberta natural gas into the United States. As the hon. member probably will recall, when we announced the Alberta oil and gas activity plan on April 13, we attached as an appendix a suggestion for a strategy for marketing natural gas. Since that time, we have been working steadily with senior industry representatives to develop that strategy in a more concrete way. Of course we are aware -- and the forecast that the Provincial Treasurer presented in the budget in March reflected it -- that the revenue flows to the province will increase for natural gas starting on September 1, because the eastern leg of the pre-build pipeline came into force and a considerable volume is flowing.

But the real key I think the essence of the question of the Hon. Member for Calgary Forest Lawn is attempting to forecast, which is very difficult to do, what we think are the prospects for selling more Alberta natural gas into the United States market in the next three- to five-year period. There are a lot of variables in that. It will depend on a good marketing strategy. It will depend on economic conditions in the United States. It will depend upon the response of American authorities to efforts by Mexico to move into that market, because we are competing with Mexico. There are a lot of variables. But that is the real potential for our province in terms of revenue increases from resources.

MR. NOTLEY: If we could deal with the 30 per cent for a moment. On a number of occasions, we have discussed the amount of money that goes into the trust fund. There has even been some discussion about whether that 30 per cent should be increased. On Tuesday we had a dramatic turnaround, cutting it from 30 per cent to 15 per cent.

I refer you to page 111 of your transcript last year, in which you indicate that 55 per cent of the total revenue of the province now comes from non-renewable resources. By cutting back dramatically on the trust fund, from 30 per cent to 15 per cent, can you supply any figures as to what the actual dependency now is of the province of Alberta for its budgetary revenues from non-renewable resource income?

MR. LOUGHEED: Mr. Chairman, I can't provide the hon. member with data on that except to say that by reducing -- and, by the way, it isn't a matter that would happen as a result of my statement on September 7; it has to take a legislative amendment. It is a proposal by the government to the Legislature in due course. Quite clearly our view is that that is required for this period of time in order to ensure that we can sustain services and not have to increase taxes or get ourselves into a borrowing situation that, although it will become significant, doesn't become too extreme. So it is a matter of what we believe is good financial management to make that adjustment for a short two-year period.

We considered a number of options: having no transfer, having the same 30 per cent, or some other factor. But it was our judgment, for proposal to the Legislature, that the Heritage Savings Trust Fund should continue to grow but not as quickly as it has in the past, and 15 per cent would be needed to reduce the deficit. We felt that after the 15 per cent transfer, after the reduction went from 30 to 15 per cent, the deficit would be reduced and we would still have some borrowing for our capital projects within our provincial budget but that that would be a manageable financial package for us over a two-year period.

MR. NOTLEY: Just a supplementary question on that, Mr. Chairman. If I take your comments on page 111 of last year, and taking the reduction from 30 to 15 per cent which is in fact now going into general revenue, I presume it would be generally correct that about 65 per cent to two-thirds of our revenue would now be non-renewable resource revenue, which really raises the premise of the trust fund in the first place. One of the reasons was of course the rainy day. The other reason was diversification and broadening the tax base of the province. Is it not a very dangerous situation that should concern us all that two-thirds of our income is now from non-renewable resources?

MR. LOUGHEED: Yes it is. I wouldn't be specific about the two-thirds, but you're certainly quite right that the 55 per cent has to increase as a result; in other words, that we would have more than 55 per cent in our General Revenue Fund financed from natural resources. It's some figure. It's quite clear that that is a position of concern, and we treat it with concern.

As we develop our diversification -- and I think we've made considerable success over the decade of the '70s and will make more in the '80s -- we will be in a position to broaden the base of the province of Alberta and find more of our revenue coming from taxation in the normal way. But for the present period, with an economic downturn and an economic recovery period, it's our judgment that we would still take that position of concern of a high percentage of revenue coming from natural resources than the other alternatives. The other alternatives are to borrow externally to an even larger extent than we would have to, to reduce services dramatically, or to increase taxes significantly at this particular time.

MR. NOTLEY: However, Mr. Lougheed, the problem is that as you look over the last decade, the dependence on non-renewable resource revenue is greater this year than it was in 1971. The question that all of us as Albertans have to ask ourselves is what happens 10 or 15 years down the road when some of the more profitable conventional oil begins to wind down. That's where we're making most of our royalty money. If 65 per cent of our revenue is from non-renewable resources or we have to shift over to much more expensive non-renewable resources where the income to the province is much lower, then the party is going to be over and taxes are going to increase rather dramatically unless we can make this shift.

I refer you to your comments in 1974 to the Calgary Chamber of Commerce: we have perhaps another decade left to diversify our economy. The fact of the matter is that in the last eight or nine years we have not been able to move quickly enough to broaden that tax base, so that today we are still unduly dependent upon non-renewable natural resource income.

MR. LOUGHEED: Just to respond to the hon. member, the situation in terms of diversification has to be looked at in terms of other than just the question of government revenues. It is clear to us that the diversification potential that is available to this government in the areas of research and development, petrochemicals and forestry, and in other areas, will not develop revenues for

the government in the shorter term. It is clear that the process of development of diversification will take time to develop. Over the course of the '70s, we had a significant improvement in diversification relative to the employment of people and to job opportunities for our citizens. But that won't show up, and we never forecasted it would show up. That's why we have the Heritage Savings Trust Fund. We didn't forecast that that would show up in terms of revenues to the provincial government until well down the road.

MR. NOTLEY: Mr. Lougheed, are you in a position to give the committee some indication as to when in fact it will show up? That is obviously something that must concern Albertans. The other question I would like you to answer along with that is: in determining the reduction from 30 per cent to 15 per cent, what consideration was given by the investment committee or, more appropriately, the government itself in terms of increasing that pie in two areas? One is sulphur royalties, which are very low. The price of sulphur has gone from \$10 a tonne up to something over \$100 a tonne. The other is freehold.

MR. LOUGHEED: You would have to ask the Minister of Energy and Natural Resources those specific questions on sulphur. With regard to freehold, that's always a matter of ongoing review. We must look at the fact, though, that when we're dealing with Crown-owned resources, we have an ownership interest and we establish royalty rates based on that ownership interest. When you're involved with freehold, it's a taxation situation as distinguished from royalty. Some people forget that distinction; I'm sure the hon. member doesn't.

As far as the first part of his question, forecasting, I don't think it's possible to forecast the area of economic diversification, because it will depend to such a large degree upon international economic conditions. I think we've started and put in place in this province an excellent base for petrochemicals, which is a major diversification strategy that's worked well for us. We believe there's considerable potential on the agricultural side. But that will depend on the improvement of our transportation system. It will depend as well on matters of trade relationships with the United States. For obvious reasons we find it difficult to forecast that, because we have to work on a presumption that there are good relationships for trade between Canada and our major trading partner, the United States. We're all aware that as a result of our foreign investment policy, there's been a major setback in that.

With regard to the area of research and development, when we presented the medical research foundation to the Legislature we said that the results would take a considerable period of time. We're now spreading that research and development activity into a number of areas. In the intermediate term, I think it's very sound prospects for our province. We've worked very hard on diversification there. I think we've made some important strides in diversification, relative to the finance situation. This province is now the financial centre of western Canada.

It's hard to sort of assess these things in terms of an economic downturn, but when we come to the recovery phase in 1983 I think we'll find ourselves in a position in which there'll again be a significant degree of employment and, in due course, revenue flow -- and forest products as well. So I think the issue of economic diversification is a good matter for public debate, but you have to assess it on two phases. Phase one is the diversification of job opportunity, and the second phase is government revenue.

MR. NOTLEY: Mr. Chairman, one final supplementary to the Premier on this question of the 30 per cent down to 15 per cent and the pie that builds the 30 per cent. Where are we now in terms of providing provincial investment in,

assistance for, co-operation with, any private-sector firm -- Husky in particular, but any other private-sector firm -- on a heavy oil upgrader? With the recoverable oil we have in the heavy oil fields of Lloydminster-Wainwright, it seems to me that has to be our number one oil industry priority at this stage, or at least very high on the list. Is the Premier in a position to announce any initiative? Is the government at this stage considering any investment in a heavy oil upgrader?

MR. LOUGHEED: Well, I certainly agree that it's a high priority matter, provided the project is one that has significant economic spinoffs for the province of Alberta. We've had discussion, only of a preliminary nature at this stage, with the developers. They're proceeding. Over the months ahead, I think it will become more concrete. But there's nothing I can particularly provide the committee today by way of useful information.

MR. KNAAK: Mr. Premier, I guess one of the observations I'd like to make is that if it weren't for the trust fund, if that revenue hadn't been put aside -- and people tend to forget this -- the only way of raising the revenue for the interest subsidy program for businessmen and the mortgage subsidy for home-owners would have been to tax one group of Albertans to pay another group of Albertans. There is no question that the trust fund is now demonstrating its own logic, that existed some time ago. That gives rise to my question.

I believe the Premier indicated that in terms of the revenue shift, it's a two-year program for the length of the interest-shielding programs, but also that the proposed reduction of non-renewable resource revenue, from 30 per cent to 15 per cent, is also a two-year program. If the Premier can confirm those two, I'm not too concerned.

I suppose the only point I'd like to make is that we know that Albertans subject to this economic recession have the lowest taxes and the best government services. I'm concerned about the future generation, in particular my own children. When the non-renewable resource revenue declines or is eroded, our children will be in a very serious position unless that trust fund is of a considerable size. It's now just slightly larger than one year's budget. In my view, that's not large enough. I really would like to make the point, Mr. Premier, that it's fine. It's a rainy time; that's what the trust fund is for. But when the rainy time is over, we put at least 30 per cent back into the trust fund and retain its revenue.

MR. LOUGHEED: Mr. Chairman, the thrust of that position taken by the Member for Edmonton Whitemud is really why we came to the conclusion on sustaining 15 per cent flow into the fund. We wanted to sustain the capital of the fund, and even have it grow, for just the concerns expressed by the Member for Edmonton Whitemud. That's why we reached that 15 per cent.

Just to avoid confusion on the timing: the Alberta economic resurgence plan in relationship to these interest programs flows from a September 1 date for two years. But obviously, as the Legislature in the fall of last year approved the 30 per cent transfer down to March 31, 1983, the change we would be proposing to the Legislature for transfer of only 15 rather than 30 per cent would be for a two-year period commencing April 1, 1983, and two years only.

MR. R. SPEAKER: Mr. Chairman, my questions are on the mortgage and interest shielding program. First of all, in relation to my earlier remarks with regard to the consistency of this committee, on August 26, 1981, I raised with the Premier the question of interest subsidies to farmers and small business men. In our debate at that point, this very question we are debating and discussing with the Premier today was ruled out of order. In the Premier's

own remarks, and I quote page [111]: ". . . this is not the place for that issue", to be discussed under the Heritage Savings Trust Fund. Here we are today spending our total one hour with the Premier discussing the issue, because the Premier raised it on the agenda. Mr. Chairman, I'm saying that this committee's rules and guidelines must be broadened.

MR. PAHL: You raised it.

MR. R. SPEAKER: Definitely I raised it at that time for discussion. But if you follow the matter here, the discussion was ruled out of order.

MR. PAHL: But you raised it today.

MR. R. SPEAKER: It was not allowed for thorough discussion.

MR. CHAIRMAN: It was raised today by the Member for Spirit River-Fairview.

MR. R. SPEAKER: It was not allowed for discussion a year ago. Now today we're doing it because the Premier made an announcement last Tuesday.

My questions to the Premier, though, with regard to the announcement. The financial institutions of this province will make the decisions as to whether people can purchase new homes or get mortgages. They will determine the qualifying rate of interest. Will that be a going rate of interest or will people qualify at the 12.5 per cent subsidized mortgage rate? As well, has the Premier met with a representative group of the financial institutions of this province?

MR. LOUGHEED: Mr. Chairman, the detail of that question would have to be asked of the Minister of Housing and Public Works. Last Thursday we met at Government House with over 100 representatives of the lending institutions. We've made it absolutely clear that our government is not going to interject itself between the lender and the borrower. We don't think that's the appropriate role of government. They will take a position and establish, having regard to our program, what they believe should be the appropriate borrowing circumstances for individuals seeking new mortgages.

I want to take some slight exception to the preamble of the hon. Leader of the Opposition, because I reread my remarks of last year too. I did not raise the question of the interest subsidies here. I did not make an opening statement, and I didn't raise it last year. I was asked about it. This year I have been responding to the questions, because they relate to the announcement we made on September 7 that the income from the Heritage Savings Trust Fund would be allocated to programs of this nature, including subsidies. That's a major change in direction for our government. Last year programs of that nature, and there are many of them, were all covered within the estimates and were part of the budgetary process.

MR. R. SPEAKER: Mr. Chairman, a further question, and comment first. My responsibility in this committee is to make some recommendations for capital expenditures or other things. To determine whether the recommendations would be valid or within some government term of reference, we have to discuss the question when the Premier or ministers are here. That's why it disturbs me when I review historically that the question of interest subsidies didn't get a thorough discussion a year ago. Now we're in a place where it's a foregone conclusion the people of Alberta will get interest subsidies. The legislative process was destroyed because of this rigid term of reference we work under in discussion in this committee.

My second question to the Premier is with regard to a direction to the financial institutions. Is any assistance going to the financial institutions in terms of staffing or increasing their capability of handling this load of applications which will be before them in the next couple of months?

MR. LOUGHEED: The purpose of the meeting last Thursday -- and I know the Member for Little Bow does not suggest that we increase our public service to provide staff for lending institutions. I wouldn't presume that's implicit in his question. But we have told them that there could be a situation of a rush for applications in these programs and that they should try to develop a contingency plan. If the applications come over a constrained period of time, in a rush if you like, there's no question that they will be hard pressed to meet the applications. But I think most citizens are aware that that's a natural administrative problem. As long as they're assured, as they will be continually assured, that when they do receive the funds, it will be retroactive to September 1, I think the vast majority of the citizens will accept that administrative reality.

MR. R. SPEAKER: Mr. Chairman, on the question with regard to staffing within the government, is it the intention of the government to hire a number of people, specifically in the Department of Housing and Public Works, to administer, review, and examine the program? Is a new directorship being established to administer this mortgage subsidy program?

MR. LOUGHEED: Mr. Chairman, I thought the Minister of Housing and Public Works did appear here. He'd be the appropriate one to answer those sorts of questions.

MR. R. SPEAKER: He hasn't been here since last Tuesday.

MR. CHAIRMAN: He was here on Friday.

MR. R. SPEAKER: I'm sorry. I wasn't able to be here on Friday. I ask the question of the Premier. The Premier raised the question with regard to staffing. The Premier should be aware of it in his government. Are extra people being hired or not?

MR. LOUGHEED: Mr. Chairman, I think questions and administrative procedures of that nature should go the Minister of Housing and Public Works.

MR. R. SPEAKER: Doesn't the Premier know what's going on? Are you saying that you don't know whether they're hiring a number of staff? The question is very serious, in that there's another portion of that department in terms of senior citizens' assistance in this program that is now winding down. There is a director who hasn't a lot of work to do who could carry on this program. But I understand the government is hiring a whole group of civil servants to administer this mortgage assistance program, ignoring capability within the department. If I were the Premier I would want to know about that, and I would take some action to cut back on the bureaucracy. How impressive that would be to the public before an election.

MR. CHAIRMAN: By my memory, both the ministers of Tourism and Small Business, and Housing and Public Works were asked questions of that nature on Friday, and answered them with some details as to numbers, I think.

MR. R. SPEAKER: They're not the leader of the government, Mr. Chairman. I recall my remarks from last year's Hansard. If the chairman is protecting the Premier again, fine; but that's not his role.

MR. CHAIRMAN: I think my remark last year was that the Premier didn't need the protection.

Mr. Premier, I have three further supplementaries, and we're now already past the time limit. Do you have time for three brief ones?

MR. LOUGHEED: Fine.

MR. PAHL: Mr. Chairman, my question to the Premier is on diversification of the economy. I think the small business and farm interest subsidy program will provide some stability and certainty to existing businesses in Alberta and perhaps even have some addition.

My supplementary is with respect to diversification. Although we have job saving, if you will, in the present program, when we move -- and I think we are -- to a road to recovery, certainly the interest in diversification and job creation in new areas will require some new venture capital and risk money, if you will. My question follows up on my question last year about the possibility of supporting, through Heritage Savings Trust Fund moneys, a venture capital mechanism that would provide this patient or risk money to stimulate further recovery and further the diversification objectives of the fund.

MR. LOUGHEED: The only thing I can say is that we've made considerable progress over the past year in developing a vehicle for venture capital funding. The issue we're now considering is whether it is an appropriate time to launch the vehicle, because it will require a degree of private sector encouragement and support. That's the decision before us right now. We've made no final decision as to whether we can launch such a vehicle under the present economic environment or have to defer it.

MR. PAHL: You're not necessarily saying that the initiative has to come from the private sector, but it has to be supported by the private sector.

MR. LOUGHEED: Right.

MR. PAHL: Thank you.

MR. SINDLINGER: Mr. Chairman, I'd like to make an observation in regard to economic diversification. Often I've heard the comment that the diversification plan and the results of that plan in this province have been invisible: an invisible diversification plan. To support that observation, I'd like to cite some statistics from the Alberta economic accounts, one T-14 and the other T-12. The first one shows gross domestic product by industry, and it shows that from 1972 to 1980, the oil and gas sector has risen from 17 per cent to over 24 per cent. On the other hand, there have been decreases in agriculture from 6.5 in 1972 to 4.9 in 1980, in manufacturing from 9 to 7.3, and in services from 17.5 to 13.1.

The same sort of trend is shown in another table in the Alberta economic accounts. It shows the industry percentage of wages and salaries. Whereas for manufacturing, finance, agriculture, and services, the percentages have, if not decreased, remained stable, those for the oil and gas sector have increased.

The problem I've always had with the term diversification is that perhaps I thought it was a misnomer, and it would be more appropriate to use the term

economic development rather than economic diversification. For if it's the government's policy to enhance the upstream processing of hydrocarbons -- that's in fact what is incurring -- it's not correct to say that we have diversified the economy by building petrochemical plants, because petrochemicals plants are dependent upon oil and natural gas. It is essentially those things that we do not want to be dependent upon over the long term.

My final question to Mr. Lougheed is this: what will be the government policy in regard to government MLAs receiving benefits under the mortgage interest scheme and the small business farm operating interest shielding programs?

MR. LOUGHEED: I have some difficulty connecting the preamble with the question. On the preamble, I think it's a matter of public debate. I welcome it on the issue of diversification, because there's a major difference between the question of markets and job opportunities and gross revenues of a particular sector of the economy.

On the other one, the view of the government is that under the Legislative Assembly Act MLAs are entitled to participate in programs in which there is general application to the citizens of the province. If clarification of the Legislative Assembly Act is deemed to be required, such clarification will be sought from the Legislature.

MR. CHAIRMAN: I think the Member for Olds-Didsbury is indicating I missed him on the list for supplementaries.

MR. KESLER: We went to a supplementary, so I guess my question was dropped.

MR. CHAIRMAN: The thing is that members have various ways of getting their questions in as supplementaries, and I have to deal with that situation.

MR. KESLER: I appreciate the difficulty, and I realize that some of the preamble is 20 minutes at a crack.

Mr. Premier, I'm concerned. I think that as we've reviewed the different ministers' programs and so forth in this committee, it is somewhat like a granary full of holes. I think the grain is just gradually sifting and pouring away. There seems to be no attempt to build a new granary. All we get is gunny sack plugging. I'm concerned that maybe the time has come to review the heritage trust fund.

I'd like to make two specific points. Investments in breweries and distilleries: \$6 million and some odd thousand. At the same time, we spend \$13.5 million on alcohol and drug abuse. Certainly we have an investment conflict there, if nothing else; perhaps a greater conflict than that. We see the daily newspaper issues shrinking in size, becoming like skeletons as they reduce their print. At the same time, we see hordes of government advertisements in those newspapers -- heritage trust fund, open government, and the ads go on and on -- to the tune of some \$2.4 million last year. Investments and ads would add up to more than that, but investment in Maclean Hunter, Southam, Thompson, television. It appears that through these programs we have more squandering, waste, and more inability of this government to realize what the heritage trust fund was set up for.

My question to the Premier: is it not time to review the Heritage Savings Trust Fund Act and come up with a better way to deal with those dollars that belong to Albertans?

MR. LOUGHEED: Mr. Chairman, I think it is very timely to extend public debate on the issue. The matters raised by the Member for Olds-Didsbury seem to be

matters of public debate. When the time comes, I'll welcome that public debate.

MR. LITTLE: Mr. Premier, as the economic health of this country is dependent to a significant degree upon interest rates, what does the Premier see as the course of interest rates over the next several years?

MR. LOUGHEED: The most fundamental two factors for us are decisions made by the United States Congress in terms of how they resolve the budgetary deficit in the United States in relationship to the demands for social programs there and their defence expenditure requirements. There has to be a resolution of that in the United States, if it is resolved. Certainly it was encouraging to see the response by Congress back in August, in an election year. If they continue with that approach, then I think it's promising that they will reduce their budgetary deficits and leave room for the private-sector financial borrowing which will permit the Federal Reserve Board in the United States to continue to reduce interest rates even further.

As far as Canada is concerned, our fundamental problem here is that we have inflation rates that are exaggerated by our consumer price index. We have inflation rates that are higher in 1982 than they should have been -- that's increases in cost of living -- because the federal government did not accept our view of moving to international prices for energy when other countries did. We also have a monetary policy by the federal government that has artificially higher interest rates than necessary in order to bolster, again artificially, the Canadian dollar value.

MR. CHAIRMAN: Thank you very much, Mr. Premier. I'm afraid we've run a little over the projected time, but I think the discussion was worth while. Thank you very much.

I have a very brief announcement to the members of the committee. Because of changes in the Legislative Assembly itself, we're going to use the Carillon Room on Monday, the 27th, and Tuesday, September 28, for the discussion of recommendations. I suggest we meet Monday from 2 to 5 in the afternoon, and Tuesday from 10 to 12 and from 2 to 5 in the afternoon, which have been more or less our standard hours.

The committee now stands adjourned until Monday, the 27th, at 2 p.m.

*The meeting adjourned at 11:16 a.m.*