

[Chairman: Mr. Kowalski]

[2 p.m.]

MR. CHAIRMAN: Good afternoon ladies and gentlemen, and welcome to another meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund Act. This afternoon we have the Hon. Lou Hyndman, Provincial Treasurer, appearing before us as a witness. At the outset I must apologize to all committee members for the nasal sound of my voice, but a combination of a shortage of hair, wind and rain, and all that snow on Mount Allan last Thursday when we visited Kananaskis Country has given me a touch of a cold and perhaps a touch of pneumonia. [interjections] By all means.

On September 21 I circulated to all members of the committee a written document titled the Provincial Treasurer's Response to the Report of the Select Standing Committee on the Alberta Heritage Savings Trust Fund Act, 1982-83. This is a document Mr. Hyndman provided in response to the recommendations that were contained in this committee's report that was tabled in the Legislature on October 28, 1983. Perhaps it would be most effective if Mr. Hyndman were to proceed this afternoon with some comments on his report as a result of the recommendations that were contained in our report last October.

Is there a committee member who does not have this particular document with him? It was circulated to you. There are only two who don't. Perhaps you might just join with a colleague to your right or left.

Mr. Hyndman, welcome.

MR. HYNDMAN: Thank you, Mr. Chairman. I think that's a useful exercise. I'd like to briefly highlight the responses of the government to the considered recommendations of the committee of last year. I will not deal with the general administrative resolutions, because those are matters within the purview of the committee, Nos. 1 and 5 for example.

Firstly, moving to the information contained in the annual report, Recommendation No. 2 on page 1 is that the annual report contain more information about what the fund has done and is doing with respect to economic diversification. I think we have done that, if members will — as I'm sure they have — review again the annual report of the Heritage Savings Trust Fund. As well, the information brochure prepared last fall by my colleague Mr. Payne, which was distributed in newspapers around the province, had that as an objective in a communication way. In the annual report, we try to keep descriptions of activity reasonably brief, realizing that if anyone wants further detail that can be obtained in many cases from annual reports of the various entities in the fund. For example, the Farming for the Future program is referred to in relatively short form, but the four to five to six dozen programs that are carried out individually under that program can be ascertained through the Department of Agriculture.

I think the response to Recommendation No. 3 on page 2 is self-evident. There is more information contained this year about that, and I understand the committee recently had a good discussion with respect to the medical research foundation. I've responded to item 4 with respect to the recommendation of carrying current market value of

marketable assets segregated from deemed assets. We can discuss that further if you wish.

Recommendation 5 on page 3 deals with witnesses, so that's the committee's jurisdiction. I hope we have at least begun to respond to Nos. 6 and 7 on page 3, in terms of simplified public communication. There are two or three different groups of people who read the heritage fund. There are those in the financial community who want a great deal of detailed financial background in a formally audited way, and then of course there are 2.5 million Albertans whose fund it is, who want to know about it in more straightforward terms. So we try to make information available in both those ways, and again my colleague Mr. Payne has been active in those areas.

No. 7 — I hope we've made it clear for the first time in this year's annual report that the heritage fund does not receive revenues from either a tax on gasoline — there isn't any gasoline tax in Alberta — or from lotteries. Essentially revenues for the fund still come from resource revenues, mainly oil and gas. Recommendation 8, page 4, deals with the question of reaffirming the goals of the fund. I think the answer is self-evident there. No. 9 deals with economic diversification, particularly relating to two renewable base industries, agriculture and forestry. I think members will note that the annual reports of this and previous years emphasize a large number of investments that have been made through various divisions directly and indirectly relating to those two industries. I'm sure there will be more. Page 5 deals specifically with the Farming for the Future program. I believe the Minister of Agriculture made an announcement with regard to the recent extension of that program for three years.

High technology research is dealt with in Recommendation No. 11, and that of course leads into the discussions in the white paper on the topic of research in high technology and broadening the economic base of the province. This comment is in the way of a response on page 6.

Historic sites have traditionally been a funding area within the General Revenue Fund and would probably continue to be that way for the foreseeable future. No. 13 — no response is required to that two-year program.

Lastly, Recommendation 14 on page 7: we note that provincial Crown corporations receiving money or being funded by the heritage fund is a principle based on the long term, so we're not considering the sale of existing assets of that kind at this time. But if they're required some time in the future, we're not closing the door. It could be one of a number of options, depending on demands and on what could be recovered from those sales.

I'd be happy to elaborate or expand on any of those responses or any other matters brought forward in the '83-84 annual report.

MR. CHAIRMAN: Thank you, Mr. Hyndman. Then we'll proceed in this order: Mr. Martin to be followed by Mr. Moore, Mr. Alger, and Mr. Notley.

MR. MARTIN: Thank you, Mr. Chairman. I want to look at what is part of the balance sheet, March 31, 1984, and specifically the deemed assets. I'm sure the Treasurer is aware that the Auditor General has

been recommending for some time, I understand, that deemed assets create a

potential for misunderstanding the underlying substance of the recorded assets of the Heritage Fund.

I think he has been recommending that the Act be changed to enable this accounting practice to be discontinued. It's my understanding that so far the government has not seen fit to do this. My question to the Treasurer is, why is this the case?

MR. HYNDMAN: Mr. Chairman, members will recall that when the heritage fund was set up in 1976 the Act was set up specifically, as you've noted, Mr. Martin, with the capital projects division investments being deemed assets. I think there might be a misunderstanding if there was not a very clear difference set forth in terms of the display of the assets and deemed assets in the heritage fund report. But I suggest that's not the case. They are very carefully segmented from the point of view of anyone reading the financial documents as, for example, on page 31, to which you're referring. Certainly the Auditor General is within his jurisdiction in making that comment.

However, the heritage fund is unique. Therefore I think that uniqueness allows, maybe even demands, that there be displays of some of the financial information in a way that is clearly understood by typical Albertans. We've talked about communication. I think it is important that the deemed assets should be displayed the way they are now because that indicates very clearly to Albertans that \$1.9 billion worth of projects — such as in the health area, hospitals, parks, all the various aspects of the capital projects division — are direct and visible returns to the people of the province from the heritage fund. It's a matter I think we'll probably debate annually, but at the moment there are valuable reasons for maintaining the distinction between deemed assets and assets.

MR. MARTIN: Just to follow up on that, Mr. Chairman. I would suggest to the Treasurer that there is some confusion as a result of it. When people talk about the balance sheet — you hear people discuss it, and it was reported in the press — they believe there is over \$13 billion in the trust fund. I think they think of that in terms of liquid assets. One of the problems I've heard the Treasurer and the Premier discuss from time to time is that there is too much demand on the heritage trust fund. As I think you've pointed out, the fact is that it's just a little over a year's general revenues out of that trust fund. It seems to me that if deemed assets, as the Auditor General, were taken out and put in another aspect of it, under capital projects but as part of the balance sheet, where we said there really is roughly \$11.75 billion there ... I would point out that it looks like there's a \$700 million increase in the trust fund but over \$300 million of that was from the deemed assets. I think the potential is there for it to be slightly misleading the way it is under the balance sheet, and I'd like the Treasurer to comment on it.

MR. HYNDMAN: Mr. Chairman, if over the past eight years there had been significant real evidence of confusion, then I think that argument might be

very useful. However, I have not been the recipient of indications from the Alberta public generally that they are confused. We took considerable pains in both the annual report and even the news release that went with it, on page 3, to separate into two separate topics, two separate sentences, the fact that the financial assets of the fund were \$11.8 billion, capital projects at \$1.9 billion. So bearing in mind the history of eight years of experience, I think there's not that risk of confusion at this stage.

MR. MARTIN: Just to follow up with the Treasurer. I tend to agree with the Auditor General that it is confusing for some people. They think we really have \$11.75 billion; that's what it comes down to. We're not going to sell Kananaskis park. The balance sheet should reflect the finance in the fund. But saying that it doesn't, could the Treasurer sort of tell us how the deemed assets — I know you can't go through each one, but roughly how do we come to \$1.9 billion? Do people in his department sit down and try to determine the worth of a park? I would think this is extremely difficult.

MR. HYNDMAN: That figure is very simply the total of the moneys that have been voted in the Assembly by the hon. member and others over the years for the construction of these entities. It's the final capital construction cost, which does not carry with it the social benefits. In future years we could maybe add those in as well.

MR. MARTIN: So it's expenditures?

MR. HYNDMAN: It's expenditures as voted by the Assembly.

MR. R. MOORE: Mr. Chairman, to the Provincial Treasurer. The recent fire at Syncrude did considerable damage and cut their output. What effect has that had on revenue to the heritage trust fund?

MR. HYNDMAN: Mr. Chairman, I understand the recent fire at Syncrude shut down both of the cokers. My information is that one of the cokers is back in operation, or was hoped to be, right about now and that the coker that was burned in the fire is expected to be operating and on stream again about December 1, 1984. That means that production at Syncrude is forecast at 31.5 million barrels for 1984 and considerably higher, I believe, for 1985. The forecast we have at the moment — and no one can be certain — is that the 1984-85 profits for Syncrude won't be that much less by reason of the fire, because there had been incorporated in the budget forecast a planned shutdown of those cokers for maintenance during the fourth quarter of 1984-85; that is, January, February, and March 1985. That had been planned, and the budgeting took into account the fact that the plant would not have been operating at full capacity and that there would not be those revenues in the last quarter of the fiscal year. The fire means the cokers were down earlier than that, but it also means that the regular maintenance scheduled for the first three months of next year won't be necessary. So all in all, there is not too large a reduction in profits from Syncrude by reason of that fire.

MR. R. MOORE: Mr. Chairman, the main focus of the white paper is on building on our strengths — oil and gas, agriculture, small business, and so on. Should we be more aggressively targeting those sectors of the economy for heritage trust fund assistance, or should we continue going through AOC to assist them?

MR. HYNDMAN: It's an interesting question, Mr. Chairman, because one of the key policy options on page 57 of that white paper is the question of whether the provincial government should take even bolder action in developing, with the private sector, large scale projects such as oil sands. If it is an option that is endorsed, bearing in mind the original involvement of the heritage fund in oil sands, that would be one of the things the heritage fund could be involved in; similarly, the Prince Rupert terminal in agricultural processing. I guess the short answer is: yes, I think there could well be a role for the heritage fund, depending on the amount of income that would be flowing in, for involvement in implementing a number of parts of the white paper, if those are endorsed over the weeks ahead.

MR. R. MOORE: Thank you.

MR. ALGER: Mr. Chairman, I wonder if the minister would describe to the committee the amount of revenue that is still coming into the Alberta Heritage Savings Trust Fund through the actual sale of Crown exploratory leases. I realize that at one point in time, in the late '70s and even sooner than that, we used to get horrendous amounts of money for the fund from that source. I wonder if it's still keeping up.

MR. HYNDMAN: I would never describe revenues as "horrendous", unless they're very low. It's a good question. I don't have the detailed breakdown of that amount of money from the sale of Crown leases as it pertains to the 15 percent flowing into the heritage fund. That would be essentially an extrapolation from the budget speech indicating general revenues to the province. But they have been firming up and strengthening, reflecting the increased activity and strength, particularly of the oil industry in the province over the last year, year and a half. I'll undertake to get that information for the hon. member.

MR. ALGER: I can wait. Thanks.

MR. NOTLEY: Mr. Chairman, I'd like to pursue a question that was raised by Mr. Moore; that is, what the government proposes with respect to the white paper as it relates to the trust fund. As I recollect the minister's answer, it was that perhaps some of the proposals could be financed. I'm looking at pages 42 and 43 of the white paper: Policy Options Facing the Provincial Government. I was wondering if the minister could identify for the members of the committee what priority the government would be placing on these options in terms of heritage trust fund investments.

MR. HYNDMAN: Mr. Chairman, I don't think I'd be able to place a priority on them. The seven options here, or the others, are not yet decided in

government and with caucus. But I could indicate the areas where there might be heritage fund involvement. I guess that could be through any of the existing divisions or even a new division, I suppose, if one wanted to follow that direction. I think item No. 1 on page 42 would be one where there could very well be heritage fund involvement, because there has been in the past. For example, the involvement mentioned there in the Alberta Energy Company: that is heritage fund involvement in the past. The Prince Rupert terminal, which will be finished next spring, is of course financed significantly through the heritage fund. The Alberta Opportunity Company, the Agricultural Development Corporation, and the Alberta Home Mortgage Corporation have been fully funded by the heritage fund. So I think one could say that paragraph No. 1 would be an area where the heritage fund could be one of the key vehicles.

With respect to item 2, that indirectly relates to the heritage fund as well, because if there is to be a policy that in order to get major oil sands and other projects going the royalties are deferred until the cost of the plant is paid off, as we have seen, then that means there'll be less revenue to the government and less revenue to the fund today. So if No. 2 was a course of action that was agreed to, that would mean fewer dollars available from the fund for investments today.

I don't think No. 3 directly relates to the heritage fund. It talks about special tax measures, and those don't relate to the heritage fund. Neither does item No. 4. I suppose item No. 5 is a conceivable area. There's talk in this paper about part of an export thrust which could involve a special entity, maybe in some advanced education area, which would be part of and in addition to the existing talents available in the advanced education system. Frankly I haven't thought of that but, because there's already been involvement of two heritage fund projects in the advanced education area, that could be another area. I don't think No. 5 relates to the heritage fund. As I mentioned, No. 6 could possibly relate there. I don't think No. 7, with regard to preferences provincially, relates to the heritage fund.

MR. NOTLEY: Just to follow along a bit, Mr. Chairman, I think the question of general taxation policy of the government indirectly relates to the trust fund. We have an example today, Mr. Minister, of the government's decision to make changes in assessment procedures for industrial assessment that will impact municipalities. That will be a matter we'll deal with later on in the fall session, but it seems to me that some of these proposals here do have a very definite potential to impact the revenue, if not directly at least indirectly. If the revenue isn't there for the government, then is it not conceivable that in the next few years the government may change the amount that is put into the trust fund, and all nonrenewable revenue, for example, may in fact go directly to general revenue?

MR. HYNDMAN: I guess that question relates to the options, of which there must be at least half a dozen every year, facing the government from the point of view of the 15 percent, at present, transfer of nonrenewable resource revenue. That is the amount which has been traditionally in the fund and is in the fund in this fiscal year. Members will recall that we

passed an amendment in the Legislature stating that a percentage would be transferred every year, and that that has to be a figure decided on by the Assembly after the recommended figure brought forward by the government. That is something which will have to come forward when the Legislature sits, in terms of a Bill available for debate as to how much would be available to the fund each year. As pointed out in this annual report for 1983-84, with a transfer of 15 percent we're essentially maintaining the level and existence of the capital of the fund after inflation. It's at the same level as it has been in previous years, without any growth. I recall in this committee a number of years in the past all sorts of questions and indications that the growth might be very, very fast. At the moment it's holding its own; the integrity of it is maintained. Basically, though, it's not growing after inflation. So we'll have to consider the various options as we move towards the Legislature sittings.

MR. NOTLEY: One of the options might conceivably be to reduce it from 15 percent to 5 percent, or whatever the figure may be. It's interesting, though, Mr. Chairman and Mr. Minister, that I think it was just three years ago, in '81, that we were talking about increasing the amount being transferred to the trust fund. I believe some time was spent in the committee in '80-81 arguing whether 30 percent was really too low a figure and, if we were going to be concerned about future generations, perhaps we should be transferring more. However, be that as it may.

Let me move on to Recommendation 14 last year. You indicated in your response, Mr. Minister, that AGT has been able to raise some money on the private market as opposed to drawing on the trust fund. Several other corporations are also listed there: AGT and the Alberta Municipal Financing Corporation. However, should the government get into a situation where it wanted to backstop a major project, to what extent is the option available to trade the AGT debentures, Municipal Financing Corporation debentures, et cetera, that are already in place?

MR. HYNDMAN: That option is certainly available. When these investments were made, as I mentioned earlier, they were made basically on the long term by investing dollars from the heritage fund in Alberta for Alberta projects. So down the road, it would depend on the options of securing other financing and their cost, and the pros and cons of doing that as opposed to sales of existing debentures shorter and earlier than had originally been anticipated. I wouldn't close the door on that, although at the moment I'd say there's no planning going on at this time with that goal in mind, because they were and are designed for the long term.

MR. NELSON: Mr. Chairman, originally I was going to deal with the deemed assets area, but that has been substantially dealt with. Another area I'd like to deal with briefly is the area of the value of the assets of the fund. I'm just wondering if the minister could help me. In two different areas of the report of the Alberta Heritage Savings Trust Fund, 1983-84, the market value and the actual cost value that is interpreted in the book are of course of significant

difference. I was wondering why we wouldn't use the actual value of the fund, whether it be in a negative or a positive situation, so that we could tell the people what the value of that fund really is.

MR. HYNDMAN: Yes. If I have a difference of opinion with the Auditor General on the matter of the display of deemed assets and other assets, in this case it's the other way around. I would be delighted to be able to show that the Alberta Energy Company shares are worth something over \$400 million rather than the \$76 million, the way they're displayed, being the actual cost. But I understand this is the generally accepted accounting practice recommended strongly by the Auditor General with respect to the way in which the value of assets which can go up or down, as we've seen in the stock market in recent months, should be displayed. So it may be that they could be displayed both ways, as we did with respect to the earnings of the fund some years ago. I think there's indirect reference in the fund to the cost of each of those assets plus the market value. But it's a very fair comment because, in terms of the Alberta Energy Company, it is significantly undervalued. In other words, the value of that asset today is six times what's displayed in this annual report. If in future years other situations occur, the other side follows.

MR. NELSON: I guess the question that arises from that is, at the time many of these assets mature and considering the fact that they may be of a lower value than what is entered in our bookkeeping system, do we take a paper loss or, at that time of either reinvesting or collecting our money, do we take a considerable bath, so to speak, from what the actual cost was originally?

MR. HYNDMAN: It's very hard to predict. I guess those options are always possible, irrespective of whether one chooses the market value route or the actual cost route. If assets drop to below their original cost, then the converse of what we have here would occur. So there are probably four or five ways in which these figures could be displayed from an accounting point of view, but the one that's preferred as a generally accepted accounting practice is the way we're doing it. Hopefully we explain that clearly enough in the annual report. A point well taken.

MR. NELSON: Mr. Chairman, I'd like to ask just one question initially with regard to the Alberta Opportunity Company. As is the case with investment to Vencap, I'm not really sure in my own mind that either is fulfilling its mandate to the extent that it could or should. I'm just wondering if it would be prudent to take the mandate of the AOC, give it to the treasury branches, and expand the mandate of the treasury branches to really allow them to go out after and do banking business in the province of Alberta in total competition to the major banks and also as a lender of last resort, using the AOC mandate, and putting everything under one roof.

MR. HYNDMAN: One has to remember that the Alberta Opportunity Company does not operate on market principles in conjunction with and in competition with the other financial institutes of the province. It provides a subsidy to those businesses that borrow, a subsidy which could not and would not

normally be available in any commercial- or private-sector financial area. As we know, that subsidy is provided for in the General Revenue Fund, which means that the investments of the heritage fund and the Ag. Development Corporation provide a market rate of return.

During the estimates of the Treasury Department in the spring, I outlined seven areas, by way of questions, where I thought we could usefully look at an expansion or modification of the treasury branch mandate, some of which may relate to what the question referred to. I would see some difficulties, though, in trying to blend together what are really two different entities with two different missions in life. In other words, the treasury branch operates out there in the private sector on the basis in the past of usually making a small profit for the government; it didn't last year. It operates competitively in the marketplace with the other western banks, the chartered banks, trust companies, and the like. No other financial entity in the private sector does or could operate like the Development Corporation. So if they were merged together, although there would be pros and cons, I think we'd have some difficulty and would probably confuse the minds of the public as to the goal of both of them. I will explore that in future, though, when we come to moving in areas following the white paper that would see an expansion or modification of the role of the treasury branches in other but perhaps related ways.

MR. R. SPEAKER: Mr. Chairman, my questions are under two categories: firstly, for clarification and, secondly, to determine the intent of the use of the heritage fund. In the 1984 Budget Address, the minister indicates that the government does not want to encourage a return to the peak levels of 1979-81, because such extreme peaks invariably trade off against subsequent downturns. In the annual report of the Heritage Savings Trust Fund, the minister indicates — and I paraphrase this — that the government has made economic adjustments to adopt to our transition from a boom economy to one of more normal and sustainable growth. I am wondering if the minister could reconcile those two attitudes. In the minister's mind, are we in a normal and sustainable growth period at the present time or in a period where there is an extreme downturn? I ask the question in relationship to the future use of the Heritage Savings Trust Fund.

MR. HYNDMAN: We're now in a period of recovery. Looking at the budget speech — and I think it's still current — the statements that we were on the way back, that we have gone through the economic downturn, and that the economy in most sectors is at a stage of recovery, are still sound. As mentioned in the budget speech, there's no question that we still have an adjustment and transition to make in the construction industry, which was very significantly overheated. But in any number of areas — the number of oil wells drilled, at a record high; the forestry industry is sound — we're certainly in a recovery stage at the moment. When the figures are available for this fiscal year, I think that will be seen to be the case. So the heritage fund was referring to that.

MR. R. SPEAKER: Mr. Chairman, to the minister.

In terms of the indicators and the fact that we're in an upturn of the economy at the present time, does the minister consider a continuation of bankruptcies, the continuation of foreclosures of mortgages, the present foreclosures on farms across the province indicators of an upturn in the economy? I'm not trying to be difficult in raising that question. In the statistics of the Treasury Department or the people who deal with the Heritage Savings Trust Fund, does the minister have indicators that those bankruptcies, those mortgage failures, those losses of farms are also receding at the present time? Is that correct, or is there a continuation of those kinds of things?

MR. HYNDMAN: Certainly those are there, and we're all concerned and very sympathetic to those situations. I think the original discussion related to the overall average real gross provincial product or gross provincial growth, which as I think I indicated, even though it's uneven, overall will come out in a positive way. But it's a question of balance. As we mentioned in the budget speech and will be reflected in a difficult employment situation for some time, without question I think there are still going to be adjustments taking place in the construction industry and in areas where there was construction, particularly home building or commercial and apartment building. By the same token, the reality is that Alberta, with less than 10 percent of the population of Canada, this year has over 20 percent of all the construction expenditure in the country.

MR. R. SPEAKER: So the definition of more normal and sustainable growth is a bit of a fragile definition at this time. It is not what the minister would consider the ideal type of sustainable and normal growth for our province. Would that be correct?

MR. HYNDMAN: As I indicated, I think we're back in the recovery/moving-to-growth stage. We would like to see that growth being a more sustained continuous increase every year but not to the kinds of peaks of 1981, which causes problems. A number of forecasting entities have indicated that Alberta will be on the stage of steady growth, quarter-by-quarter, in the next two or three years.

MR. R. SPEAKER: Mr. Chairman, to the minister. In terms of the role of the Heritage Savings Trust Fund, can this normal and sustainable growth proceed without any kind of intervention of the Heritage Savings Trust Fund? Is the government considering any kinds of steps that could be given to the committee at this time?

MR. HYNDMAN: Of course the Legislature has a large amount of decision-making power with respect to where the heritage fund goes every year. I guess the question is best answered by the government white paper. This indicates that there are certain ideas and suggestions here which we asked the people of Alberta to respond to and talk about, whether the government is to be in a posture that is essentially passive as an onlooker or whether it is to be a more active catalyst or facilitator, bearing in mind the geographical and other problems we face. So I guess the answer to the hon. member's question relates to the response the government will have to these proposals as they come forward, as they are this

week and last week, in the forums around the province.

MRS. CRIPPS: The kinds of misunderstandings that I'm confronted with from the average citizen are the basis for the questions I want to ask. Firstly, it's a common misconception that the Heritage Savings Trust Fund is stacked in somebody's sock someplace, namely yours, and isn't being utilized. Could you please explain what portion of the fund might be called liquid assets?

MR. HYNDMAN: Of course back to it's beginning, the genesis of the fund was that there be a series of long-term investments which would generate income for the rainy day. Over the last 18 months that has proven to have been a reasonable example of foresight. The moneys are invested, though, essentially in the middle and long terms. So the section 10 aspect of the fund, which is the moneys that have come in and have not yet been invested, is really the short-term deposits and marketable securities section. That would be the relatively liquid part of the fund.

MRS. CRIPPS: Secondly, you talked about long-term investments. Could you explain the nature of them? What percentage is committed, say, for five years and 10 years and 20 years? Will the fund begin to roll over, or is it presently rolling over, in its capacity to provide funding?

MR. HYNDMAN: I don't have the exact detail on the average of each of the subareas of investment, but I could undertake to get that. Certainly the average length of time of investing has slowly been coming down, but I can get further information on that.

MRS. CRIPPS: One often hears that the Canadian investment division of the fund will ultimately lose money; i.e., that other provincial governments will not honour their commitments. The third question: are all the loans from the other provinces current in their repayments at the present time?

MR. HYNDMAN: They are. We received some quarter of a billion dollars from provinces this year, including 18.1 percent interest from one. That's one of the safest investments the heritage fund has because, firstly, investments of those kinds, that are backed by a province, are backed by the capacity of all the future and existing residents of that province to pay their provincial government, which is a pretty solid investment. Secondly, no provincial or state government would default on any kind of entity like this, because the result would be that they'd never be able to borrow any more money. So they're extremely safe investments, quite apart from the fact that I think they show, as they originally did, an outlook towards the Canadian partnership that is also relevant.

MR. COOK: Mr. Chairman, I have three questions for the minister. The first one is, could the Provincial Treasurer outline the continuing long-term commitment of funds and whether or not it might be that some of those long-term commitments are being wound down, making funding available for new projects. For example, I'm thinking of the Walter C.

Mackenzie Centre and Kananaskis Country.

MR. HYNDMAN: The hon. member is correct that the largest dollars in the capital projects division, which are required for Kananaskis Country and for the Walter Mackenzie Centre, have now been invested and will be approaching a drop-off in a year or two. There are a number of other investments which will have to be paid for as well. So what has happened is that the capital projects division may require fewer dollars in the future, depending on what the committee recommends and what the Legislature feels may be useful areas for extra investment.

I think there are a goodly number of projects on the shelf, which have been recommended and which are very, very interesting. So it really depends on the extent to which revenues come from energy to build up the fund and, to a large extent today, that depends on natural gas sales, particularly export sales. They're bringing in very significant dollars now, and if those continue to rise that will be another picture.

MR. COOK: The second question, Mr. Chairman, relates to some of the ideas that have been presented to take up some of the slack from the previous commitments, to the new Kananaskis-type Country north that is suggested in the white paper. Another suggestion that has been made by some is a biotech research organization modelled on the medical research foundation. Are those kinds of projects practical in this next fiscal year and over the next few years, given the winding down of other continuing commitments of funds?

MR. HYNDMAN: I think it's probably too early to tell. One has to monitor, almost on a monthly basis, the revenues coming in from energy sources, and the expenditure side as well. For the next year or so, it would probably be prudent to operate on the basis of the same principles applied over the last 18 months. But more will be known for the next fiscal year, beginning April 1, 1985, as we move into the budget and the spring session.

MR. COOK: A final question. The Official Opposition recommendations to the standing committee, that we'll be considering a little later, have as their lead an item called legislative accountability. Could the Provincial Treasurer tell us if in his view it's practical to hamstring the investment committee in making investment decisions, much as the heritage savings trust fund in Saskatchewan is run? I wonder if the minister could comment on the size and scope of the Saskatchewan program and whether it might be just a little bit impractical for us to operate in the same limited fashion that our colleagues to the east operate in.

MR. HYNDMAN: Firstly, we have to remember that by far the largest percentage of the heritage fund of Alberta is under the control of the Legislature. The amendment last spring brought under the purview of the Legislature the requirement that there had to be a motion approving any and all dollars that might be made available to Crown corporations, which I think raises to over 80 percent the extent to which there's very direct accountability apart from the seven or

eight other indirect accountability approaches. I think there would be very serious problems. In fact a loss of income and not very sound investment practices would be the results of having to have every single investment decision endorsed by the Legislature.

I'll have to pass on a detailed assessment of the Saskatchewan Heritage Fund, except to say that it is not the same as our heritage fund. It does not generate over a billion dollars in income every year for the government of Saskatchewan. It has a different basis, different original goals, I'm sure, which may be modified from time to time. But I don't really know whether the two are comparable.

MR. ALGER: Mr. Chairman, I have some awful habits, among which are smoking and sometimes drinking, and I've discovered that I think we're sometimes taxed too high in this province, particularly for tobacco, liquor, beer, and wine. We pay an awful lot of income tax, we're suffering through capital gains tax, and I'm sure we've got a succession duty tax, although I haven't enjoyed that yet because I haven't been there. What I want to get at with the minister is to ask him — I still feel we're in a sort of enviable position as opposed to the rest of Canadians, particularly here in Alberta with regard to other provinces. I wonder if he would describe to this committee in particular and to the public in general how we benefit from the Heritage Savings Trust Fund with regard to our actual taxation situation. How much more would we normally have to pay on income tax, which is our heaviest load, and what would other commodities do? For instance, would we have a sales tax, things like that?

MR. HYNDMAN: It's a very pertinent question. I think what's being asked is: what would the tax regime be in Alberta if we didn't have all the income from the heritage fund going into the General Revenue Fund, being about a billion and a half dollars? I think the short answer, as mentioned in the heritage fund report, is that we would probably have a sales tax of at least 5 or 6 percent, income taxes, as well as taxes on business, would probably have to be much higher than they are now, and we would also have to cut services significantly in education and health. The reality is that for the 60 days in September and October of this fiscal year, all the services in the province — recreation services, justice, hospitals, advanced education, and health — are paid for by heritage fund income. If we didn't have that, the other option of course would be that we'd face deficits of way over a billion dollars, and that wouldn't be conducive to jobs or investment. So that's the reality of the heritage fund today.

MR. ALGER: Thank you, Mr. Minister.

MR. NELSON: Mr. Chairman, I'd like to return to the area of the Alberta Opportunity Company and the treasury branches. The Provincial Treasurer is of course correct in suggesting that they are two separate entities as far as their mandates are concerned. But if we were to examine this from the point of view of operating the business of both corporations in the private sector as one corporation and also operating as a separate entity within that corporation, why would it not be prudent to take

those management skills under one umbrella and expand the treasury branches' mandate to include the AOC, to enhance both the community in the rural area as well as the urban communities which I would suggest are in many cases being discriminated against through AOC due to their particular mandate of lending primarily in the rural area for this decentralization of activity in the province?

MR. HYNDMAN: I guess the latter issue has probably been explored by the committee with Mr. Adair. I think the reality is that if folks came in for an Alberta Opportunity Company loan to a private-sector entity, there's no basis on which any of them would be given because those are loans made on the basis of not having commercial viability. Therefore I believe it's their procedure that the person or company applying has to have been turned down by a regular financial institution beforehand. I guess the discussion is an interesting one, because it really brings to the fore the question of where we want to go with respect to the provision of capital, both equity and debt, to our companies in the province and, having reached that conclusion, how we want to deliver that.

This is indirectly related to the white paper. I think Mr. Nelson's question has been discussed at a number of forums and will probably be very topical over the next six months. At the moment, though, I have yet to be convinced that the two should be merged.

MR. NELSON: I'm sure it's going to be topical, because I'll be included in those discussions.

Just one further little comment and a question. First of all, governments tend to talk about how great small businesses are, all the jobs they create, and what have you. I've made comment previously that it's mostly lip service, because we tend to let these poor little guys hang out on a branch and protect those great big giants like Dome, who have virtually no assets. The federal government had an interest reduction program that assisted small business, although now it's not worth a darn because you've got to be broke to get it, where you could borrow money for small-business entities at half the prime plus anywhere from 1.5 to 3 percent. Why could we not do a similar-type job through AOC, incorporating it into the treasury branch and using the Heritage Savings Trust Fund to allow that to happen through an enlarged mandate for that treasury branch?

MR. HYNDMAN: There are three entities involved there. At the moment the heritage fund provides all the dollars for the Alberta Opportunity Company, and they lend at preferred rates. The treasury branches operate in the private sector on a completely different mandate.

I would quarrel with the suggestion that the small businesses in the province don't have access to a pretty wide number of programs. I believe it's now billions of dollars that have been made available to small business through the Alberta Opportunity Company — more than any other province. Of course in previous months as well, we had the heritage fund interest shielding program for small businesses and farms.

But the questioning is certainly pertinent in terms

of the changing needs of business and maybe the fact that a number of businesses, having gone through a situation of very great difficulty by reason of having too much debt, are now looking in the area of equity. The small-business venture capital corporations fund of Mr. Adair will hopefully be of assistance there. I guess we're in somewhat of a state of flux. Again, that's where the white paper comes into focus, looking ahead to the next five or eight years.

MR. NELSON: I'll leave my other question alone.

MR. ZIP: Mr. Chairman, I notice that the debentures of other provinces held by the Alberta heritage trust fund show a par value and cost value but not a market value. Is there any significant difference between the market value of these debentures and their cost to the Alberta heritage trust fund?

MR. HYNDMAN: I would have to get further information on that. That would depend basically on interest rates from day to day, so I'll have to get further information on that.

MR. ZIP: A further question. I notice these debentures range very widely in interest from 9.5 to 17.75 percent. What percentage of these debentures is at the low end and which is at the high end of this range? In other words, what is the percentage distribution of these debentures at the various levels of interest rate?

MR. HYNDMAN: I'd have to work that out with respect to the whole 30 or so of them. They all reflect the fact that interest rates in the Canadian and world markets during the times in which these investments were made — that is, from March 1977 to March 1982 — moved up and down. I think the average would be in the range of 12 to 13 percent, but I'd have to do some calculating because I'd want to be accurate in the number. I'll undertake to get the information.

MR. ZIP: I have one more question. There was a very interesting article in The Globe and Mail this morning which indicated that Canada as a whole is now much more dependent on the United States than it was in 1958 and that 25 percent of Canada's gross national product is now derived from trade with the United States. Is Alberta more dependent on U.S. trade today than it was in 1958, and to what extent?

MR. HYNDMAN: I don't have the information on that ...

MR. NOTLEY: What about 1932?

MR. HYNDMAN: ... or to 1932. That would be an interesting calculation, taking oil, natural gas particularly, and then grain, livestock, and all the other exports. I'm not sure. The other side of that of course is that if there is a productive and efficient Canadian economy, we can expand our markets and jobs here in Alberta by selling more and more to other countries. The Americans, living on this same continent with us, have been our best customers, with 73 percent of our exports. It would be an interesting figure to work out. I guess it's a question of whether

I do the research or the hon. member does.

MR. CHAIRMAN: That exhausts my list of committee members who have indicated a desire to raise a question with Mr. Hyndman. Would there be additional questions forthcoming? If there are none, Mr. Hyndman, I have one, and it deals with the commercial investment division. Page 42 of your annual report indicates that the cost — the equity is basically common shares — is about \$179 million or \$180 million, and the market value today is about \$250 million. So the first point is essentially one of a compliment. Your investors have done a heck of a lot better with that portfolio than I've been able to do with mine over the last year. In previous years you have come to this committee and, when asked about this, have had information that listed the types of shares we would hold. Page 42 of the report simply identifies the areas in which these shares are held. Do you have any documentation today that would be available to all committee members with respect to the specific shares?

MR. HYNDMAN: Yes I do, Mr. Chairman, because that's been asked for in previous years. The information that's normally made available is with respect to the dozen or so basic areas, as noted in the annual report. But I have 20 copies here of the detailed share holdings and could elaborate on them if that might be helpful.

MR. CHAIRMAN: I think it would be, Mr. Hyndman. We don't have the benefit of having that, so perhaps you would proceed with whatever comments there are.

MR. HYNDMAN: While that's being reviewed, it's important to remember that the commercial investment division was set up and approved by the Legislature for the purpose of earning the highest possible return and diversifying the heritage fund portfolio by investing in equities. It is correct that the market value of the portfolio is significantly higher than the original purchase cost, the market value being approximately \$248 million versus \$199 million in cost.

As I explained to the committee previously, the division was set up on an indexed basis — that is, choosing a balanced portfolio — following many of the basic principles of investment that have been followed with large pools of money in the private, commercial, government, and quasi-government area in North America, using the Toronto Stock Exchange index and others to achieve an overall approach of investment. Inevitably some of these shareholdings will go up and some will go down because they are purchased on an indexed basis over the long term. Again, this is a long-term portfolio, so in one future year they may have a market value of less than their cost. But that is because of the nature of their long-term holding.

By way of information, over the year there were sales of two of the entities. In other words, if members look at last year's list they'll find that there were two companies in which sales were made of the shares, and there were a number of acquisitions as well. Pacific Western Airlines was one, of course. The ownership of Pacific Western Airlines as an asset of the government of Alberta dropped from some 99

percent to slightly under 4 percent. That 4 percent investment was made purely on an investment return basis. So that was one of the purchases during the year.

I'd be happy to answer questions on that.

MR. CHAIRMAN: Would that be the only major change? I guess at this point in time, without having an opportunity for further study of this, one can only ask a general question.

MR. HYNDMAN: The acquisitions and sales will be evident if you go through this report, which I have just made available, and last year's. But as in any portfolio there has to be a periodic rebalancing of the portfolio, so sales were made of Canada Cement Lafarge Ltd. and a company called Ivaco Inc. As I mentioned, there were acquisitions of Pacific Western Airlines, Dylex Ltd., Laidlaw Transportation, Norcen Energy Resources, BP Canada Limited, International Thomson Organisation, Carling O'Keefe Ltd., and Echo Bay Mines. Those purchases fitted within all the various dozen or so categories noted in the annual report, which are common to all large investment reporting of that kind.

MR. GOGO: Mr. Hyndman, with regard to public communications, which was referred to at the opening of the meeting, I have some concern that there doesn't appear to be a consolidated method of signing around Alberta. There are literally dozens and dozens of projects being funded out of the capital projects division, that fall within the realm of various portfolios. I think of the urban parks policy, where Recreation and Parks has a responsibility. There are other areas. What I don't know is whether there's any consistency with regard to the signing.

I guess the first question would be: would it be your view that that question should be put directly to Mr. Payne, who will be before this committee shortly, or would you be prepared to answer a question on that?

MR. HYNDMAN: I think probably Mr. Payne is the better person to ask. You're right, Mr. Gogo, that the ways in which the heritage fund is displayed as being involved in projects can vary a great deal, whether it's in one of their hospital projects or — in some cases it's more visible than others. But I think that would probably be a question to pose to him.

I agree that we could probably do more to make it clear that the heritage fund is, for example, the funding entity of the Walter Mackenzie sciences centre here in Edmonton, the Calgary children's hospital, or the urban parks around the province. I think maybe the runways of the heritage fund airports should have a huge heritage fund logo set in cement, and perhaps the lawn-mowing on the provincial parks could be done in the form of the heritage fund logo. Someone sent that to me as a suggestion, which is a little out of the ordinary.

MR. GOGO: I'll raise that directly with Mr. Payne, Treasurer. I just want to make a comment with regard to the document you've put out. Some people may find heartening the great appreciation in the value of the booze company shares that were purchased. I hope the great decrease as a result of the success of certain agencies in this government

doesn't come as any shock. The next annual report won't look nearly so comforting with regard to those booze company profits.

MR. HYNDMAN: We'll bear that in mind.

MR. CHAIRMAN: Would there be additional questions forthcoming from committee members? Mr. Zip.

MR. ZIP: I find it curious that hopper cars, Schedule 6, under Economic Development, are considered a deemed asset. They're very visible. They definitely have a market value. Why are they included with deemed assets?

MR. HYNDMAN: It's possible, I suppose, that in future those could be sold and recover a return. But the basic direction in terms of that purchase was to purchase an asset that did not have an immediate return in a direct way in terms of dollars. Certainly it is beneficial to our farming industry and to those who ship grain. They provide a host of indirect benefits, but there isn't the direct calculable annual rate of return to the heritage fund from those very modestly advertised rail cars.

MR. ZIP: Thank you.

MR. R. SPEAKER: Mr. Chairman, with regard to the convertible bonds to the various banks — this is in this handout the minister just gave us. In terms of the purchase of bonds, is it the attempt of the investors, or the government of Alberta, to buy bonds from the various banks? There is a list of other possibilities that could be here. What is the policy in handling that? Or is the policy to buy bonds where the best interest can be secured? Is that the approach? Are there bids? What happens in the process?

MR. HYNDMAN: The objective within the division is simply to have a balanced diversified portfolio covering all the relevant areas of the economy, such that the greatest possible return would be earned. So to accomplish that objective, in addition to the equities which are there, an involvement in some millions of dollars of convertible bonds and short-term money market securities would be the prudent and wise way to make that investment.

MR. R. SPEAKER: Mr. Chairman, to the minister. Are there set criteria in securing the bonds from the various banking agencies? Are there bonds secured, say, from the Bank of Commerce?

MR. HYNDMAN: These are mainly sold on the private market, so it would be a question of an assessment as to which would probably earn the highest level of return. So those would be purchased appropriately, with arrangements, as with any purchaser of investments.

MR. CHAIRMAN: Mr. Hyndman, thank you very much again for your frankness, openness, and quick response to the questions. If all goes well, we'll look forward to seeing you again one year hence. Thank you.

Committee members, we will meet again

tomorrow at 2 o'clock, with the hon. Premier Peter Lougheed as the witness before the committee. We have a meeting scheduled at 2 o'clock again on Wednesday for a second review of recommendations. We'll also have an appearance before us by the Hon. Mary LeMessurier speaking on behalf of a particular recommendation. On Thursday morning we have as a witness the Hon. Bill Payne.

There being no further business, we shall now adjourn and reconvene tomorrow at 2 o'clock.

[The committee adjourned at 3:10 p.m.]