

[Chairman: Mr. Oldring]

[10:04 a.m.]

MR. CHAIRMAN: Good morning, everyone. We'll call the meeting to order.

Yesterday we left off with the completion of discussions on recommendation 16, so we'll begin this morning with recommendation 17. The Chair would recognize the Member for Calgary-Buffalo.

17. That

- 1) the Alberta income fund should be created by pulling together the income-earning assets of the Alberta Heritage Savings Trust Fund;
- 2) the Alberta income fund would integrate the income-earning investments and assets currently part of the commercial investment division, the Canada investment division, the energy investment division, deposits and marketable securities, and the Alberta investment division;
- 3) an income fund investment board would be established whose role it would be to manage the Alberta income fund to maximize the return on investment;
- 4) the Alberta income fund should be managed by private firms within Alberta to encourage the development of management expertise in Alberta's investment management industry; and
- 5) private-sector investment firms would each be allocated a portion of the moneys included in the Alberta income fund and would manage their portfolios of funds on a competitive basis.

MR. CHUMIR: Thank you, Mr. Chairman. This is a recommendation that I've made for the last several years. It is a conceptual recommendation with respect to the overall role of the fund. Its purpose is to stimulate discussion with respect to moving the focus of the fund more specifically back to a savings concept that it was initially designed for, or at least was one of the initial designs. It's self-explanatory. I dealt with this matter last year, and I won't get into any great discussion on it unless there are questions, but one can see the focus is to set up some independent management for that portion of the fund which would be set aside as savings for future generations.

So those conclude my comments on this, Mr. Chairman.

MR. CHAIRMAN: Thank you.

I recognize the Member for Calgary-Forest Lawn.

MR. PASHAK: Again, I think this is an important issue, Mr. Chairman. I wonder what the implication of adopting this motion would be for the current report of the Alberta Heritage Savings Trust Fund in terms of what would be left in the fund if we produced this lumping together of these income-earning investments. My own just quick assessment of that would be that we would have about five and a half billion dollars of investments that would actually be earning income, and to me that represents the true value of the Heritage Savings Trust Fund. I wonder if that view is shared by the mover of this motion.

MR. CHUMIR: Well, I think we'd have somewhat more than that, because we would move in also the investments that would include the investments in the Crown corporations, whatever their value would be. And again I emphasize that these recommendations are of such magnitude that they're obviously presented, you know, for conceptual discussion alone. But I would envisage that there would be two segments: one, an economic diversification fund, and two, a savings portion designated the Alberta income fund. There would be jurisdiction

within the Legislative Assembly, of course, to divert any funds from the Alberta income fund, the savings portion, over to the economic diversification fund as decided from time to time based on the recommendations of the board administering the diversification fund.

So I would see that there would be that split, and those would be the two components thereafter of the fund.

MR. CHAIRMAN: The Member for Lethbridge-West.

MR. GOGO: Thank you, Mr. Chairman. As with so many of the ideas proposed by Mr. Chumir, there's a little bit of good in all of them. I would agree and have said before that I would be supportive of 20 percent of his idea; that's sub (5) in motion 17. I really think we should be -- and I've advocated this previously to the Treasurer -- working on a merit principle of using money managers and letting them manage portions of the commercial investment division or some portion of the fund, and we would reward them based on their performance. That way we would also assure -- or insure or ensure -- that Alberta investment companies would have an opportunity. And I understand, as a result of I think it was Mr. Heron a year ago saying that it's time the Alberta Stock Exchange members had an opportunity of doing business for the heritage fund . . . I don't know whether that's occurred or not. Mr. Heron may be aware of that.

But I cannot support motion 17 other than sub (5), where private managers would be given a portion of the fund and then assessed on their performance.

MR. HERON: It's just that I cannot support the resolution in all its parts. I think item (5) has some merit, and I've spoken to this before: that we utilize some of the expertise that's available in our own province to manage the heritage fund. I had said, I raise a flag of warning based on the popular literature and evidence that when you divide up your management too finely, you create a short-term horse race which may work to the disadvantage of your fund. Sufficient evidence has been documented in the popular literature to say that there is a danger to splitting up a fund too finely and creating a horse race. It pushes people into short-term performance as opposed to long-term investment strategies and goals and long-term performance.

That doesn't mean, however, that we can't look at hiring local expertise for a large portion of the common stock portfolio or another firm, which may or may not be local, to manage the bond portfolio. It's my belief that we could engage most of the professional advice locally for segments of the fund, but with other segments it's totally necessary that we get a worldwide perspective on the fund, and for that I think we have to go beyond Alberta's borders.

But I think what we have to do is take a darn good look at it, and for that reason I would like to see item (5) pulled out and held as a separate item if we were to approve this recommendation. But with all five components, Mr. Chairman, I just can't support it.

MR. PASHAK: I'd just like to go back to the previous question I raised with the Member for Calgary-Buffalo. It has to do with the Alberta investment division part of his proposal. I'd like him to be specific. Is he including in this proposal as an income-earning investment all of the provincial corporation debentures; that is, those debentures of the Alberta Agricultural Development Corporation, Alberta Government Telephones, Alberta Mortgage and Housing, Alberta Municipal Financing

Corporation, Alberta Opportunity Company? I raise this question because I don't think these really should be considered as part of the income-earning assets of the Alberta heritage trust fund. They're moneys that have been loaned out to other Albertans, and this is money that could not be recovered easily by the province for some other purpose because of the political waves that would be created if we made that attempt to do so. So I don't think it's an asset that's as tangible as our debentures that are being held that have to do with private corporations or other governments.

MR. CHUMIR: Well, my conception was with some mixed feelings, because I share some of the member's concerns with respect to these corporations. But at this stage my conception was to include these in there. I would imagine that an investment board would probably make some different decisions ultimately and perhaps might eventually wind these things down. And I would assume that one of the conceptions that might apply with respect to a fund that's in there having a savings purpose would be to avoid what would be a conflict of interest, getting the incestuous aspect of investing in this type of government paper, because I think it raises conflicts of interest. I mean, you've raised, in fact, the reality: that these moneys which were put into these Crown corporations are really risk moneys, they aren't savings moneys, and they're at odds with the basic trustee concept of this money there.

So my instincts would be that in the long haul you would not maintain or continue investments of that kind. But in the short haul I would like to see those funds go into some pot so that whatever can be derived from them ultimately, whatever is paid on them, goes into that savings portion, so that we have those two pots in the fund. Otherwise, if you don't put them in there, then you say, "Well, where do you put them?" and you've got a whole new designation and a whole new area to deal with.

MR. CHAIRMAN: Any further discussion, then, on recommendation 17?

If not, then we'll move on to recommendation 18, and we'll also discuss recommendation 22 at the same time. So I would recognize the Member for Calgary-Buffalo.

18. That the Auditor General should have his mandate extended so that value-for-money issues relating to the Alberta Heritage Savings Trust Fund can be investigated by the Auditor General.
22. That the mandate of the Auditor General be expanded to include the evaluation of the effectiveness, economy, and efficiency of the Alberta Heritage Savings Trust Fund investments and expenditures.

MR. CHUMIR: Thank you. I'm a great advocate of having external input and criticism of the way in which we do things in the governmental sphere. The federal legislation relating to their Auditor General provides for a much broader scope of review and criticism, and it's my view that we could benefit from giving to our Auditor General a bit more of the watchdog responsibility to comment on numbers of value-for-money issues in doing his audit. So that is the conceptual basis for this recommendation, Mr. Chairman.

MR. PASHAK: I submitted an almost identical motion myself, which just includes within it the more specific language of the Comprehensive Auditing Foundation, which refers to the

characteristics of the evaluation. In their view the evaluation should include some statement with respect to effectiveness, economy, and efficiency. I think that should be applied not only to the Alberta Heritage Savings Trust Fund, by the way, but it should be applied to all government expenditures.

MR. CHAIRMAN: Any further discussion on recommendation 18? Member for Stony Plain.

MR. HERON: Yes, Mr. Chairman. I can't support this recommendation because I firmly believe it mixes up the role of the professions. I will illustrate my point by hideous analogy.

To me the financial decision-maker or businessman is one who takes the marbles of life and scatters them. The accountant is the one who picks them up, sorts them, and accounts for them.

So with that said, I would like to more formally say that the Auditor General is an expert in accounting, not financial investment, social policy, job creation, and economic diversification. These issues should be investigated, debated, and reported on by the investment committee, the standing committee, and the Legislature. It's not the role of the Auditor General to pass subjective judgment, or his judgment, upon those decisions and the time that those decisions were taken. This issue should be debated by the elected officials with declared political viewpoints as opposed to officially neutral civil servants.

MR. CHAIRMAN: The Member for Calgary-Mountain View, followed by the Member for Vermilion-Viking.

MR. HAWKESWORTH: Mr. Chairman, thank you. To take the analogy one step further, I guess it's probably the politicians that lose their marbles.

Mr. Chairman, the Auditor General reports to the Legislature and not to an individual minister, and therefore I don't think it's correct to narrow the definition of his job as being simply a civil servant in the traditional sense, as reporting to the Legislature through a minister. He reports directly to the Legislature. I think, therefore, it's incumbent, as the federal Auditor General has responsibilities to look further than simply to make sure the books balance, to advise the Legislature as a whole whether government is pursuing the mandate that's been given to it in administering this political fund and to evaluate it from his professional point of view.

It's not mixing up the role of the profession. In fact, the auditing profession has been in the forefront in Canada in advocating for this very sort of role for their profession: the idea of comprehensive auditing or value-for-money auditing to evaluate how well funds are being administered, not whether at the end of the day or the end of the year the figures in the columns add up correctly.

I know that I've been frustrated as a member of the Legislature in this committee from time to time, asking for information from the Auditor General in terms of telling us how certain components are being administered or how effective they've been and for him to say: "Well, I can't provide that information to you. Those are part of our working papers, but you're going to have to get that from the Provincial Treasurer." I think that limits the ability of this committee and of the public to see beyond just the figures in the columns on the financial report. There is a man and a staff here with technical expertise that could be very valuable to us in terms of providing an evaluation of the effectiveness of these expenditures and investments.

As well, the economy and the efficiency: how well and how

efficiently are they being administered are questions I think this committee needs to answer to the public, and there's a valuable resource that we should be able to go to in order to get those professional — not determinations, but those professional reviews of the fund. I think it would make just an awful lot of sense and would make our job more effective in this committee.

MR. CHAIRMAN: The Member for Vermilion-Viking.

DR. WEST: Yes, Mr. Chairman. I can't support this motion. I don't know why we would turn over the responsibility of the elected members who make political and economic decisions to somebody else. It would be abrogating our responsibility.

The Member for Calgary-Buffalo used the example of the federal government. If I was representing a government that had evolved from one that had a deficit buildup of \$250 billion, I would certainly want to convolute the process and have somebody else come in and try to justify or pick holes in why I was going so far in debt. If you saw the cost overruns in the federal government of the Auditor General's department for doing this type of thing, you would shake your head and wonder if it wasn't just an addition to the deficit spending that had been created before. As a representative of the people of Alberta, I think more of our province and our budget balancing plan than to go into this type of a convoluted process, and I just can't support this motion on some of the recommendations made by the individual from Calgary-Buffalo.

MR. CHAIRMAN: Any further discussion on recommendations 18 and 22?

If not, then we'll move on to recommendation 26. I'd recognize the Member for Calgary-Mountain View.

MR. PASHAK: Mr. Chairman, before you go into that, I believe that last day I indicated that my motion 20 was substantially different from the motion that had been presented by the Member for Calgary-Buffalo, and I don't know if we've discussed that.

MR. CHAIRMAN: Is there any debate, then, on recommendation 20?

MR. PASHAK: Yes, please, if I may.

MR. CHAIRMAN: The Chair would recognize the Member for Calgary-Forest Lawn on recommendation 20.

20. That the government of Alberta submit to the Legislative Assembly for its approval the annual financial plan for the Alberta Heritage Savings Trust Fund.

MR. PASHAK: Well, the motion submitted by the Member for Calgary-Buffalo had to do with reviewing the expenditures and revenues of the heritage trust fund over the previous financial year. This motion calls for the government to submit to the Legislative Assembly its financial plan for the generation of future revenues and the allocation of those revenues as expenditures. I think one of the . . .

MR. HERON: Point of order.

MR. CHAIRMAN: The Member for Stony Plain.

MR. HERON: A point of procedure, Mr. Chairman. I just cau-

tion about the procedure we're taking, with all due respect to the Member for Calgary-Forest Lawn. We agreed yesterday on those recommendations that would be grouped. We also agreed on those that would be withdrawn. Those agreements brought the unanimous consent of this committee. And because we may want to extend debate on our topics and now we go back and ask the committee for agreement to broaden that, to double the debate . . . We agreed that we were going to discuss, if I recall, number 7 and number 20 together, and now we're backing up on that. So having had the little procedural wrangle yesterday, I would ask now to solicit perhaps even the opinion of the committee on this: if we're going to start splitting them up at this late date.

MR. CHAIRMAN: Again, in fairness to the Member for Calgary-Forest Lawn, he drew to our attention at the time that perhaps 14 and 20 shouldn't have been debated together, and he pointed out the discrepancies. I think it's only fair to give him the opportunity to speak to it at this point. But I'm at the discretion of the committee. I don't think it's a major issue, and it shouldn't take too long. I appreciate the concern expressed by the Member for Stony Plain, and I would assume that this is by no means setting any precedents for any of the other recommendations. So I think that point is well taken, but perhaps just to assure that all members have a full opportunity of debating these recommendations, if we can spend a few moments on recommendation 20.

I would recognize the Member for Calgary-Forest Lawn.

MR. PASHAK: Thank you very much, Mr. Chairman. The Heritage Savings Trust Fund and its financial plan or lack of plan, whatever, its revenues and its expenditures, are different from other government revenues and expenditures in that they do not come before the Legislative Assembly. It's my view that it's the fundamental basis of our form of government that all revenues and all expenditures that have to do with the public purse must be considered by all of their elected representatives. This is a fundamental principle of the whole British parliamentary tradition, and I think we go against it in the way in which we deal with the Alberta Heritage Savings Trust Fund, at some peril to our whole democratic process and tradition, the whole foundation of our democratic attitudes and beliefs which are vested in the parliamentary tradition. So I think it's absolutely essential that we bring control of all revenues that are generated through government activities back to the Legislative Assembly and that the Legislature itself have final authority for determining exactly how those revenues are to be spent.

MR. CHAIRMAN: Thank you.
Member for Stony Plain.

MR. HERON: I'll be very brief, Mr. Chairman. I note that the hon. Member for Calgary-Forest Lawn calls into question the parliamentary procedure on this one, and I quote: "some peril to the . . . democratic process." Balderdash. The Legislature has an opportunity to debate the Alberta Heritage Savings Trust Fund appropriation Act. In effect we devote 10 days to that, which compares to the 15 days in Committee of Supply, so I really don't see how our democratic process is in peril with this one, and I can't support the recommendation.

MR. HAWKESWORTH: Mr. Chairman, what we debate in the Legislature essentially is the capital projects division. We're

talking about the fund in all of its divisions, not just the capital projects division: that that financial plan for the fund as a whole, not just one portion of it, be debated by the members of the Legislature.

MR. GOGO: Mr. Chairman, I oppose this for reasons given last meeting day. The sponsor mentions parliamentary tradition. That's exactly what we follow around here. There's a law enacted, which is the statute, the Heritage Savings Trust Fund. If any member of this House wants to change the law, he has the freedom of moving a Bill to change it. The way it is now the investment committee makes those decisions. This committee sits in judgment after the annual report. It's not up to this committee to be changing that law; it's up to the Legislative Assembly. So I don't think it's in order, even in this committee, to be moving a motion like this. I think it's a matter for the entire Legislative Assembly of Alberta. If and when a member opposes the view that governments are elected to govern and make laws, then that will be, I guess, a new dawning in this province. In the interim I don't see how any member of this committee could say, "We want to change the statute," and expect this committee to adopt it.

MR. CHAIRMAN: Thank you.

Maybe before I recognize the Member for Calgary-Forest Lawn I can take a moment to welcome some visitors to both the members' gallery and the public gallery.

Meeting this morning is the Standing Committee on the Alberta Heritage Savings Trust Fund Act. We have just gone through a process of reviewing the 1987-1988 annual report of the Alberta Heritage Savings Trust Fund. Now the committee is meeting and discussing approximately 40 recommendations that we will be bringing forward to the Legislative Assembly next spring. The committee itself is a 15-member committee consisting of members from all parties in the Legislative Assembly.

On behalf of the committee, we welcome you here this morning.

I would recognize the Member for Calgary-Forest Lawn.

MR. PASHAK: Thank you very much, Mr. Chairman.

With all due respect to the Member for Lethbridge-West, I think he missed the point that I was trying to make, which is that it's true that in our Legislative Assembly we do pass laws, but underlying the legislative activities that we participate in, the basis of this whole British parliamentary tradition, again, is the fact that people rose up in rebellion and protest against the unjust tyranny of kings who attempted to collect moneys from commoners in ways that they had no control over and then spent those moneys for their own aggrandizement. The basis, again, of our parliamentary tradition is that our legislative members should have authority and control over the raising and the expenditure of public funds.

MR. CHAIRMAN: Any further discussion, then, on recommendation 20?

If not, then we can move on to recommendation 26, and I would recognize the Member for Calgary-Mountain View.

26. That the detailed listing of individual investments under schedule 5, commercial investment division, for each of the four most recent quarterly reports be made available to the members of the standing committee on the Alberta Heritage Savings Trust Fund and, further, that this information be made available prior to the appearance

of the Auditor General or the Provincial Treasurer.

MR. HAWKESWORTH: Thank you, Mr. Chairman. Now, the analogy I'd like to use is that in essence the commercial investment division has securities, essentially in equities, in the form of various stocks and some short-term money market securities. The analogy would be similar to that of an equity mutual fund, and it's that portion of the Heritage Savings Trust Fund specifically in equities. All that we get in the annual report is a listing of the common shares by category of industrial group, whether it be communications, consumer products, oil and gas, and so on. In the quarterly reports, unaudited, we get even less. All we have is, generally speaking, a summation of what's held in common and preferred shares and what's held in the short-term money market securities, and we don't even get the listing that we get in the annual report.

What this recommendation would propose is that on a quarterly basis the individual equities held by the fund be listed and made available to the committee and that each year prior to the Auditor General and the Provincial Treasurer coming to speak to this committee, we get this information ahead of their appearing in front of this committee. If you use the analogy of a mutual fund, I'm not aware of securities legislation in any province in Canada that would allow for that lack of disclosure. It would insist that in order to circulate a prospectus, a mutual fund give you much more information than we have provided to us as members of this committee. If we're reviewing our portfolio on behalf of the shareholders of this fund, being the people of Alberta, surely we should have at least as much information as we would demand the private sector provide to their unit holders, or shareholders, in that mutual fund. It just seems to me to be so patently obvious that this is the right direction to be taking to bring the public sector into some conformity with the requirements we make of the private sector that all members of the committee would want to endorse this recommendation.

MR. CHAIRMAN: Thank you.

Any further discussion on recommendation 26? If not, then, we'll move on to recommendation 30, and again I would recognize the Member for Calgary-Mountain View.

30. That the Heritage Savings Trust Fund Investment Committee take the steps necessary to effect the return of \$150 million of the \$200 million loaned to Vencap Equities Ltd.

MR. HAWKESWORTH: Thank you, Mr. Chairman. Recommendation 30 has to do with the investment provided through the trust fund to Vencap Equities. At the initial capitalization of Vencap \$200 million was provided to that company. It's being paid back at the rate of about \$1,000 a year, and that will increase sometime at the turn of the century.

I think the evidence, Mr. Chairman, is quite clear that that amount of money has been too much for Vencap to invest in venture capital projects, and the vast amount of it has been placed into treasury bills and short-term debt instruments. It's not been used for venture capital, and in fact I'm not aware of any venture capital company anywhere in Canada that has capitalization of this amount. In fact, all the evidence would indicate that if the board of directors of your venture capital company are really going to perform the nurturing and supervisory function they're expected to perform, there's only a limited number of companies at any one time that a venture capital company can finance. And it's not simply a matter of financing

them; it's a matter of helping them develop from the start-up stage to the point at which they take off. That's where the management and expertise of the board and management of the venture capital company needs to sit on the boards of those companies they're financing and give them that expertise and help them take off if they're going to be successful.

So the evidence that I've seen indicates that there's only a very limited number of companies that a venture capital company can really assist in any meaningful way. Now, I suppose it's going to be an equity financing project for established companies, then of course that's a different role all together. In fact, that's what my other concern with Vencap is: that it's really not a venture capital company at all and it's not really pursuing the mandate it was given. I think part of the problem was and has been that it's had too much money, too much of a good thing.

Given all those conditions or situations, Mr. Chairman, I think they could probably put to good use \$50 million. That's a very large venture capital company by Canadian standards, and it's also a very manageable one by any standards. In asking for the return of that \$150 million, I believe there are other areas that could use that sort of capital for development and for the diversification of the Alberta economy. I just think too much money is tied up in Vencap, and they're not using that money effectively. It can be better used and more effectively used throughout the Heritage Savings Trust Fund portfolio.

MR. CHAIRMAN: The Member for Stony Plain.

MR. HERON: Thank you, Mr. Chairman. I can't agree stronger against this recommendation. I can't agree on principle. First we make a deal with a government-inspired corporation and we make a deal with the Alberta public and say, "If we put this much money up, will the Alberta public, in the form of shares and debentures, put up the rest of the money?" Now the hon. member is advocating that we back out of that deal, that we go and take the money back. He said that they have too much to invest. What does he suggest we do? Just throw it around to get the money out the door? No. The company had a mandate to carefully look at investment alternatives and respond to initiatives. He admits there are only so many, and I quote him, ventures there, but what he then suggests is that we should put more people on the boards to make more investments.

I think Vencap has done an excellent job of responding to the initiatives that have been shown to it. I think they've done an excellent job in fulfilling their total mandate; that is, not only do they put up high risk investment capital, but they put up management expertise to help them through those early stages, which are, generally speaking, the highest risk period that a business can go through. I would invite him to look at the statements of Vencap, to look at the people involved with Vencap, the 23 businesses that are already employing some 3,000 people. I would also invite him to look at the excellent video that Vencap has put out for people wanting to know more about what they are doing and the kinds of companies they're involved in.

To ask for this money to come back at this stage totally ignores the concept of endowing something. It would suggest that unless you get rid of this money fast, we've got to have it back. That's false. Every endowment is based on the assumption that it will be self-sustaining, that you'll create something with a large enough endowment that it will be self-sustaining into the future. Vencap is doing that. Vencap is using the cheap government money that was put up under the direction of an outstanding blue-chip group of Alberta citizens to promote and

diversify Alberta's economy. They're doing that, Mr. Chairman. You know, we just have to be responsible enough to look at the operation of this very fine company and see what they're doing.

Now, that said, it would be my desire that they would have 10 times as many businesses. But I think it's important that they're there, they're willing to respond, they're willing to show initiative in seizing opportunities, and for that reason I just cannot support the breaking of a deal and asking for the money now to come back.

MR. R. SPEAKER: Mr. Chairman, when Vencap Equities Alberta Ltd. was set up in 1983, I read a number of articles and also some analyses done by various venture capital specialists. There was a common feeling at that time that Alberta, through the Heritage Savings Trust Fund, putting \$200 million into the venture capital market was more money than was required; there weren't that many ventures out there that could use the funds. That analysis and those assessments at that time have lingered in my mind ever since 1983, and I've always been watching this particular program and wondering whether they were right or whether they were wrong. I would think in terms of what has happened, most likely they had some validity to their observations at that point.

The Member for Stony Plain lauds the importance of maintaining a contract that we have had with Venture Equities Alberta Ltd., and I think we want to honour contracts. That's number one. Number two, they have made some good investments in terms of small and early venture projects. I'm sure that's true as well. And as a Canadian I don't think the member moving this particular motion was being critical of that, as I understand it, but was saying, "Look, if the capital isn't being used, maybe we should reassess that particular item."

The third point I want to make: it would be very unfair of us as a committee to give any impression, either, to the board of Vencap Equities that we want them to spend more or get rid of the money or get that \$200 million of venture capital out into the marketplace. That would be very foolish. We shouldn't even criticize them that they haven't gone any further than they have, because I don't know of any examples of where they have missed opportunity. If we could say to them, "Look, you missed an opportunity here and here and here," then we'd be fair. But I don't know of any, and none has been cited in this committee.

Saying those three things, though, I think that as a government -- and certainly as a Heritage Savings Trust Fund committee and in light of the information we know today, that maybe the marketplace can't handle this much venture funding -- we should look at the returns. If we note on page 13 of the report, for the year 1987-88 the return to the Heritage Savings Trust Fund -- that is, to us as an investment -- is \$7.2 million on the \$200 million, which is about 3.6 percent. Now, it also says they have made commitments to \$88 million. Maybe if we talked with the group, maybe \$100 million at this time would be satisfactory; maybe there are other investments -- you know, we talk about the heavy oil, we talk about the OSLO, we talk about some other things -- that could bring a better return on that money back into the fund.

So the intent of the motion, I'm not sure -- the \$150 million here. I would see that if we placed a resolution before the government, the investment committee of cabinet, of our intent that they should reassess this program at this point in time, have discussions with Vencap Equities Alberta, possibly reduce it so that we can get the greatest amount of return and, as well, meet

the commitments of venture capital, that would be a positive move and not a negative one. I hope the motion before us isn't with intent to destroy rather than to build.

MR. CHAIRMAN: The Member for Calgary-Mountain View. [Interjection]

MR. HAWKESWORTH: I'm at your disposal, Mr. Chairman. I was quite happy to kind of summarize and complete the discussion before we move on to the next item. So if other people want to get in, then I'll just sort of make some final comments.

MR. CHAIRMAN: Member for Athabasca-Lac La Biche.

MR. PIQUETTE: Yes. I'd like to support this motion advanced by the member from Calgary.

One of the things we were talking about yesterday is where we're going to be getting the funding, for example, for the endowment funds that we as a party advocated to create for furthering research in terms of the sciences and technology and humanities and social sciences area, which we argued quite forcefully yesterday would be an area that we can diversify and have long-term payoff.

There's no doubt that the \$150 million we're recommending here to be withdrawn from Vencap, which, by the way, would still leave Vencap -- it has \$233 million, I believe, at the present time -- with approximately \$83 million in their portfolios to carry out whatever mandate they were originally given but really have failed so far to provide, that kind of diversification its mandate was originally intended for. Even the former Premier was unhappy about the performance of it, and I know quite a few members of the Conservative caucus have also indicated in the past that they have not been at all happy with the performance of Vencap.

So I think that if we're going to be looking at the whole diversification aspect of the fund in terms of moneys that could be reallocated to meet new objectives that we have failed perhaps to emphasize in the past, this money of \$150 million for sure would be a lot better invested in the endowment grants that we've recommended or in the Alberta North development concept or in upcoming motion 32 to provide money for small business or a co-operative to set up new ventures in the province of Alberta -- at least something which is performing much more long term or much more short term in terms of its investment capability.

MR. CHAIRMAN: Any other comments on recommendation 26? If not, I'd recognize the Member for Calgary-Mountain View.

MR. HAWKESWORTH: Thank you, Mr. Chairman. I appreciate the comments from the members this morning. I'd like to especially single out the comments from the Member for Little Bow. I appreciated his intervention here this morning and his comments about this particular motion.

I've looked at the annual report for Vencap, and I think it needs to be repeated: the majority of the capital under the control of the Vencap board is not in venture capital enterprises. The large majority of that money is sitting in the bank or in government of Canada T-bills or in the form of guaranteed investment certificates or something like that. It's sitting there, bearing interest. It's not in the form of equity investments. So if there's any indication that there's more money than they know

what to do with in terms of venture capital investments, I can't think of a better place to point people to look than at that fact itself.

Now, my understanding of the whole concept of venture capital is that you don't put money into some venture and let it sit there forever. The idea is to give it the seed capital at the start. It's a risk investment at a time when some companies perhaps don't have the track record and are finding it very difficult to get that kind of investment through traditional sources. So you put risk investment in the form of venture capital into that firm, you put your managers on their board of directors to help them through the initial start-up stages, and you get the company rolling. Then, at a point where it's established itself, you get out. You take your money out, and you go back and start the process all over again. You don't let that sit in that company and go on forever and ever. That's not my idea of what the purpose of venture capital is. So you take it out, you find another venture and another company, and you start the process all over again.

Now, that puts some limits on what you can do as a venture capital company. Because you've got only a limited size of your own management and only a limited number of people on your board, you can't do a whole bunch of companies effectively at the same time as far as bringing them through that start-up process.

So as far as I can tell, Vencap should be at a point in this process of evolution where the initial companies that they started up some time ago are now on their feet and can begin looking at divesting some of their investment in some of those companies, taking it out, and starting the process with new Alberta companies. I don't see Vencap or any venture capital company looking to grow from 27 companies, which is what they've supported to this point, and expanding it 10 times; 270 companies would be unmanageable. In fact, I doubt that it would be effective for them to get into many more than the 27 that they're in now. If they want to get into new ones, they should drop some that they've already established. I mean there's just a limit both in manpower and capital that Vencap has at its disposal in order to do its job effectively. As far as I can tell, they've reached their capacity, or are about to in terms of their management, and given the kinds of investment they've made to this point, they've probably reached their maximum capacity in terms of investment capital as well.

I'm saying: "You've got too much. You're overcapitalized from the funding you've received from the Alberta Heritage Savings Trust Fund." It's not going to hurt anybody, as far as I can see, to negotiate some changes to return a significant portion of that capital back from Vencap, back into the Heritage Savings Trust Fund. I just think it's an acknowledgment of reality, and if we're expecting them to do anything more than what they're doing, it's an unrealistic expectation, and as far as I can see, they would be destined for failure. We'd be setting them up for failure to expect them to do anything more than what they've already got on their platter.

I just think, Mr. Chairman, that we can quibble about whether it's \$150 million, more or less. I think it would be subject to some negotiation. Obviously, this committee is not in the position to be the negotiator for that return, but I think the principle is there: that as long as we leave \$200 million, that full \$200 million is not going to be put to effective use by Vencap Equities Ltd. I don't want that to be interpreted as saying that some of the money has not been used effectively. I'm not saying that at all; just that they're overcapitalized and overextended

if they expect to invest all \$200 million in venture capital investment.

MR. CHAIRMAN: Thank you. Any further discussion, then, on recommendation 30? If not, then we'll move on to recommendation 31, and again I'd recognize the Member for Calgary-Mountain View.

31. That the Legislative Assembly take the steps necessary to make the Minister of Economic Development and Trade responsible to the Legislative Assembly for Vencap Equities Alberta Ltd. and redefine its purpose as originally intended; i.e., to diversify the Alberta economy and create jobs.

MR. HAWKESWORTH: Well, Mr. Chairman, I guess my main arguments probably would come back, in principle, to comments made about motion 17 and that the suggestion in that motion, item sub (5), had to do with providing investment to private-sector investment management firms. There were some comments made earlier this morning objecting to that particular proposal.

What we have, in effect, Mr. Chairman, by providing money to Vencap is: we've given \$200 million of the Heritage Savings Trust Fund to a private-sector group of individuals to manage. Now, where is the accountability? When the Minister of Economic Development and Trade comes before the committee, he says it's at arm's length, this Vencap Equities, so he doesn't have any responsibility for it other than maybe in a very, very general and vague way. But in terms of ensuring that that \$200 million is applied for the purposes in which it was set up, there's no mechanism that's established to ensure accountability for that.

All I'm proposing in recommendation 31, Mr. Chairman, is that we make somebody in government accountable to the Legislature and to this committee for that \$200 million. It's just an elementary and fundamental principle of administration of public funds that somebody, somewhere, is accountable to the Legislature on behalf of the people of Alberta. Until the minister takes it on voluntarily, then I think it's incumbent upon the Legislature to make sure that that's formalized and ensure that there is some reporting to the Legislature through that minister. In that way there's a monitoring and accountability mechanism put in place.

MR. CHAIRMAN: The Member for Lethbridge-West.

MR. GOGO: Thank you, Mr. Chairman. I can't support 31 for two reasons. I want to speak -- not with a forked tongue, but I want to speak from two positions. One, I'm a shareholder of Vencap, and I strenuously object to somebody in the political sphere stepping in now and wanting to change the rules in the middle of the game. What protection do I have as a shareholder who purchased shares and debentures from Vencap on the understanding that government stay out of my life? I was prepared, on the basis of the board of directors formed by Vencap, who caused this share offering, to buy their shares. Now here we're saying in midstream: "Let's change the rules. Let's let politicians into the game, and make changes." I object to that. If they want to go to an annual meeting of Vencap and put it to the shareholders, fine. I would abide by the majority ruling of the shareholders.

The second point. To my knowledge -- I think I'd have to look to Mr. Heron or others who are experts in these areas -- a

deal was made, and to my knowledge Vencap is honouring that deal. I don't know if they've defaulted in any area. Now people are wanting to change those rules. I don't think that we can maintain the principle of the board of directors, regardless of how they were appointed, carrying out the mandate of Vencap if they're going to have to report to the Legislature through the minister. Now we're introducing, if we do that, the political element in the direction of Vencap, and there may be those who say: "Hey, what else is new? That goes on all the time." I don't know that it goes on at all. So I would oppose the change to bring more government into what I think is essentially a good concept.

Now, I'm as aware as most and as critical as most of the slowness with which Vencap has taken action in providing venture capital. However, I am persuaded that their board consists of good people, that they're making the right decisions. It may appear to be taking longer than normal in order to make their investments. So be it. But I don't think it would be right and I don't think it would be appropriate that we recommend to the Assembly that Vencap, in effect, be politicized by being put under the responsibility of the Minister of Economic Development and Trade.

Thank you, Mr. Chairman.

MR. CHAIRMAN: Thank you.
The Member for Calgary-Forest Lawn.

MR. PASHAK: Well, my understanding is that the shareholders of Vencap may not have realized any net economic benefit from buying shares in Vencap. But there is something about the way Vencap is organized that creates the possibility that individuals who have invested in Vencap could benefit in some sort of direct way from the public Treasury, and I'm not sure that this is accurate. Perhaps it's a question I should have asked the minister when he was before us, but I would feel happier about this recommendation if I knew if the shareholders, as part of their possibility of earning a return on their investment -- that that would be in part formed or shaped by the \$150 million of government money that's invested. I can understand a shareholder earning a return on the money from that fund that's invested in other corporations, but I can't in any way understand how there could be justification for a shareholder to earn money on the \$150 million they have otherwise that's being invested in government securities.

I don't know whether I've made that question clear or not, but...

MR. R. MOORE: Utterly confusing, Barry.

MR. PASHAK: Well, I've confused some. Apparently, Mr. Chairman, other people understand the question I'm putting. To put the question very simply: does a shareholder who invests in Vencap expect a return that would be in part based on the government money that's been put into Vencap, or does he get his return entirely on investments that are made possible through Vencap?

MR. CHAIRMAN: Any further discussion, then, on recommendation 31? The Member for Calgary-Mountain View.

MR. HAWKESWORTH: Well, Mr. Chairman, in retrospect, looking back at the way this corporation was established, \$40 million of capital was raised from the private sector and \$200

million of capital was raised from the public sector. Five times the amount of money came from the public sector as came from the private sector. Yet an arrangement was made whereby the profit, the rate of return each year, is shared 50-50, which gives an effective rate of return for the private-sector investors of something far, far, far in excess of what the public sector receives on its investment. Previously the Member for Little Bow pointed out that it was something like a 3.6 percent rate of return for the public sector's investment. The rate of return on the private sector capital investment was probably something in the order of four or five times that amount.

The point of recommendation 31, Mr. Chairman, was to ensure that the Vencap Equities mandate was pursued by Vencap Equities Ltd. It was set up to do certain things, and there's no mechanism to ensure that the Legislative Assembly can hold that company accountable for pursuing that original mandate. I don't know what jobs are created and what diversification of the Alberta economy takes place by investing in government of Canada treasury bills. Somebody should be in a position to explain that to the Legislative Assembly. If it's not the Minister of Economic Development and Trade, then perhaps the Provincial Treasurer, perhaps some other minister of government, but there has to be, in my view, some mechanism put in place to make Vencap accountable in some form or another to the Legislature, which provided that capital at extremely favourable rates in an extremely favourable financial arrangement in order to achieve certain public objectives. It wasn't solely set up to increase the wealth of a small number of people in Alberta. At least my understanding was that the public objectives were to diversify the Alberta economy and create jobs. So I want to know how that's being done, and there has to be some accountability to ensure that that's taking place.

Thank you.

MR. CHAIRMAN: Any further discussion, then, on recommendation 31? If not, we'll move on to recommendation 32, and I would recognize the Member for Calgary-Mountain View.

32. That an Alberta co-operative development fund be set up under the Alberta investment division of the Alberta Heritage Savings Trust Fund. This fund of \$100 million would provide a source of capital to help establish new co-operative ventures and to help strengthen the existing co-operative sector.

MR. HAWKESWORTH: Mr. Chairman, I know there are some 50th anniversary celebrations taking place throughout Alberta this year by members of the co-operative and credit union sector in our province. I think it would be appropriate, given that special milestone they've achieved in Alberta, to state that it's a priority and important function they perform, that the government of Alberta acknowledges and strengthens that sector by establishing a \$100 million fund to be available as a source of financing for new co-operative ventures, as a source of management expertise, as a source of education, as a source of resource materials that would be available to help that co-operative sector strengthen and grow throughout Alberta.

I know there are many important institutions in this province, whether it be the Wheat Pool or the Calgary co-operative stores, that have a major impact on both the regional and the local economies of our province. Certainly the co-operative sector throughout the west has made a major impact in economic growth and development. They ensure that profits are circulated back into the local economy and back into the pockets of Al-

bertans. It seems to me that it is an important component in the equation of economic diversification for Alberta to ensure that Albertans who know how to co-operate and have built in some instances very strong co-operative institutions -- that we build on those foundations and those building blocks and support that development throughout our province.

MR. JONSON: Mr. Chairman, with respect to recommendation 32. If, as I suspect, the one purpose in putting forth this recommendation is to bring to our attention that there may be certain requirements for eligibility to some of the small business programs currently available which inhibit their utilization by co-operatives, then I think that's a valid point, something that should be reviewed. Certainly small co-operative enterprises should be eligible for the assistance provided to other small businesses in the province. However, I do not see, for instance, any need for a special investment division of the Alberta Heritage Savings Trust Fund for the Alberta Wheat Pool, which may soon become the western Canadian wheat pool or part thereof. Therefore, I really think the topic that is being dealt with -- at least the first part, which I have some sympathy for if in fact it is correct that there's some discrimination -- could be dealt with in a Bill or a motion in this Assembly. But I see no real justification for a separate fund of \$100 million for co-operatives per se.

We have a wide range of programs for small business in this province, and provided the eligibility matters are dealt with fairly, I don't see a particular kind of business venture of this type warranting in any way a special division of the Alberta Heritage Savings Trust Fund.

MR. CHAIRMAN: Thank you.
Member for Lacombe.

MR. R. MOORE: Thanks, Mr. Chairman.

It's very interesting to see a motion such as this. To me it demonstrates that the mover doesn't have an understanding of what a co-operative is or what actual intent was there. Having firsthand knowledge of co-operatives -- I've managed various co-operatives; I was director of co-operatives for the province, and I've worked with every co-operative in this province basically -- I find it interesting that such a motion would come up. First of all, co-operatives have access, like any other business, to Vencap, OAC, and ADC. A lot of co-operatives are in rural, agricultural areas. In fact, the majority of them are probably there. They have access to that funding the same as any other business.

You would think, looking at this, Mr. Chairman, that a co-operative is a different type of business than others. That is incorrect. They may allocate their dividends a little differently, but that's the prerogative of the co-operative membership. They can allocate them any way they want if they want to, the same as the shareholders of a company can direct their dividends to be given out.

The co-operatives, I'm sure, are not asking. I think this is a political ploy to bring things in. It's not coming from co-operatives, asking for a separate fund to be set up. One that was mentioned was the Alberta Wheat Pool. Well, let's look at some of the others. Let's look at Federated Co-ops. Let's look at Calgary Co-op or Edmonton Co-op. Or let's look at Central Alberta Dairy Pool and the Alpha Milk Company, which they have under their wing. Those are major businesses. They all started out small like any other business, and they grew through the supply/demand in the marketplace. They didn't need any

assistance to get where they are, and no other co-operative wants to have any preferential treatment.

I would think this motion indicates that some people think co-operatives haven't got the business knowledge or the ability. I think it is an insult to every co-op member in the province to bring out a motion such as this. It shows they haven't got the ability to go out there; they've got to have special treatment to grow in this economic climate of Alberta. That isn't ever demonstrated in fact; absolutely not. Co-operatives have grown just as well as anybody else in this province. I pointed out a few of them. Many, many more are successful. Just because the credit unions got into trouble, that's not a reflection on all co-operatives. It was a situation at the time in the real estate market that did that. There were other businesses out there in the real estate market that got in that same trouble.

So, Mr. Chairman, I oppose this because it's degrading to every co-op member across Alberta, and there are many of them: very, very successful, very proud people, and very good businessmen. They don't need such a thing out of the heritage trust fund. They don't want it, they aren't asking for it, and I just feel people shouldn't make political hay on our co-operative people out there.

MR. CHAIRMAN: Any further discussion on recommendation 32? The Member for Calgary-Mountain View.

MR. HAWKESWORTH: Thank you, Mr. Chairman. It would be interesting to take the last member's comments and wherever he used the word "co-operative" substitute the words "Nova Corporation," for example. I mean, it is under the Alberta investment division that this government provided \$150 million to Nova Corporation. Was that degrading to them? Was that an indication that they couldn't make it or weren't making it or didn't want special treatment? I mean, there was presumably some public purpose in extending \$150 million to Nova just recently. Ridley Grain Ltd., \$134 million: what if we substituted their name every time we mentioned the word "co-op" and said they don't want to have special treatment? Or Alberta Energy Company or the Bank of Alberta. These are all companies that have received funding under the Alberta investment division, capital investments.

The point is that it's not necessarily, in my view, degrading to receive some capital investments under the Heritage Savings Trust Fund. It's just that there's a sector in this province that, in my view, this government has never really encouraged and has never established any component within AOC or any of these other programs to encourage co-operative business to be established. Yes, they are businesses, and they have to operate like any other business. But they also have some special needs and considerations that private-sector businesses don't always have.

My comments earlier, Mr. Chairman, were simply to indicate that there have been some very successful co-operative ventures in Alberta, and I commend all those who have been a part of those and built those businesses over many, many years of hard work. I think it's about time the government recognized them as being as significant to the economy of Alberta as Millar Western, Nova, or Alberta Energy might be. These are all important actors in the Alberta economy, and we should recognize them and support them. I would like to see the Calgary Co-op and the Edmonton Co-op and the Central Alberta Dairy Pool and the grain growers and wheat pools expand. They have every right to expand the same as any of these other companies that have received investments from the Heritage Savings Trust

Fund under the Alberta investment division. So I don't think it's preferential treatment. I don't think it is in any way degrading. In my view, it's simply a commitment from the Alberta government and the Legislature of Alberta that they play an important and significant role throughout our provincial economy, and we want to see more of these homegrown, Alberta-based ventures established with financing from the Alberta Heritage Savings Trust Fund.

MR. CHAIRMAN: Just before I recognize the Member for Lacombe, I'm wondering if I can take a moment to introduce some guests we now have seated in the public gallery. Sitting this morning is the Alberta Heritage Savings Trust Fund standing committee. It's an all-party committee composed of 15 MLAs from across the province. We are meeting this morning to discuss a number of recommendations pertaining to the 1987-88 Alberta Heritage Savings Trust Fund annual report. On behalf of the committee, I would welcome you here this morning.

The Chair would now recognize the Member for Lacombe.

MR. R. MOORE: Thank you, Mr. Chairman. The previous speaker has only underlined what I said originally, that he doesn't have his facts or doesn't understand what he talks about. I think there isn't anyone who wouldn't say that we like to see local, homegrown, small businesses grow and the bigger ones expand. That's why we have all these programs to help small business grow. To point out what I said, it's degrading to say to co-operatives that they need a special fund just for them when all the other ones that are accessible by Nova and all these companies are there for those co-operatives too. It's not special treatment of the bigger companies that go there. Co-operatives can go through those same avenues, and they want to go through them. They can handle themselves out there without having special treatment. That's why I say that it's degrading when you say that they can't do it on their own, that they must have a special setup.

To say that co-operatives have never been promoted by this province shows a total lack of understanding. Has he ever looked at the rural gas program across this province, at REAs? Doesn't he realize those are co-operatives that right across this province, supported by this government, brought in the gas, gasified Alberta. It's just unfortunate that the hon. Member for Calgary-Mountain View hasn't been around the province and doesn't understand what co-operatives are. It's unfortunate, and he should do that. It defies my imagination that people would come out and say that co-operatives aren't supported in Alberta. They are. They're supported like every other small businessman. They can start small and they can grow.

Let's just take a look at starting small, homegrown businesses. Let's look at the Alpha Milk Company, Mr. Chairman. It started in my constituency in the little town of Alix when 10 farmers started delivering cream to a little creamery they built in Alix. Today they just about control 70 percent of the industry across Alberta. I'll let the case sit there. They don't need government help. They didn't. They went out and did it just like every other small businessman here. They didn't need any socialist government help to get up there. I'm telling you that they're proud people out there, and they don't need this so-called development fund to help them. They can start, they can grow, they can expand, and also in the free enterprise system, fortunately, they have the right to succeed and the right to fail. Some of them do fail, but that doesn't dictate that we need

special financing for them.

MR. CHAIRMAN: Thank you. Any further discussion on recommendation 32? If not, perhaps it's an appropriate time to

adjourn. When we reconvene at 2 o'clock, we'll begin with recommendation 35.

[The committee recessed at 11:24 a.m.]