

10:04 a.m.

Tuesday, October 22, 1991

[Chairman: Mr. Ady]

MR. CHAIRMAN: I'd like to call our meeting to order. We'd like to welcome the Provincial Treasurer and his deputy Allister McPherson. We appreciate the minister and his deputy taking the time to meet with our committee on invitation.

Mr. Minister, to bring you a little bit up to date, we had our organizational meeting yesterday and discussed the method by which we hope to conduct our meetings. We certainly would welcome some opening remarks from you to the committee to give an overview of the Heritage Savings Trust Fund as you see it from the perspective of the Treasury Department, which has the responsibility for administering it. Then we would move to questions. There was a comment raised by the committee yesterday to encourage the ministers when they come before the committee, although they should give us worthwhile overviews at the beginning, to not make them excessively long, so as to give committee members an opportunity to ask their questions. Without any further delay, perhaps we could enter into that part of the process today and ask you for your comments.

MR. JOHNSTON: Mr. Chairman, it's always a pleasure to be before the Heritage Savings Trust Fund committee and to take an opportunity to explain and elaborate upon the major success of this government with respect to this important part of our fiscal story and, I guess, our culture now in Alberta, because it is a truly remarkable story. It's a story worth telling; in fact, I think it's something for which all Albertans should be proud. I think it's in that context that I will take a few minutes this morning to overview the fairly startling success story that is depicted in the financial statements dated March 31, '91.

Before I do that, Mr. Chairman, I think it would be appropriate to introduce my colleague and the person most responsible for operating the Heritage Savings Trust Fund through Treasury. That's Allister McPherson, one of the most outstanding people who contribute to the service of the province of Alberta. I'm pleased that he's here to help me certainly with the more difficult questions and to provide whatever other counsel or direction may be necessary and, of course, to hear the comments by those people who essentially set the policy for the way in which the fund is operated.

I accept your direction, Mr. Chairman, that you would encourage brief comments. As usual, I'm always brief and to the point. Very seldom do I take an opportunity to elaborate, and I deal mostly with the policy questions, as you well know. So I'll stick to that regime again today and not disappoint anyone when in fact I do take an odd moment to talk about the success of the heritage fund.

Let me begin by saying that it should be on the record that the governance of the fund is in fact spelled out in the document which we're dealing with, the so-called new report which was released sometime last week. In it, of course, we do set out the way in which the control of the fund is put forward. I want to remark specifically that there are a variety of ways in which this fund is reviewed, ways this fund has policy input, and there are, of course, evaluations and audit tests applied to the fund as well.

I don't think there's any reason for us to discuss in more detail the way in which the fund is managed and controlled except to say that it's provided on page 7 for all Albertans to review. It confirms what we have said before: the control of this fund essentially is in the hands of Albertans, and through a complex series of appropriations and processes it is this Legislative

Assembly which essentially provides the dollars for the operation of the fund. It is true that the day-to-day management is conducted by Treasury, but that is essentially following guidelines, which are detailed on the last page, set down by the Heritage Savings Trust Fund committee, this committee chaired by the Member for Cardston, and of course a variety of other inputs which allow us ways in which we can shape and change and reflect policy. So I'd put that on the record as the first point.

Secondly, Mr. Chairman, the total assets in the fund – and I'm reading directly from the balance sheet again – come to \$12.132 billion in financial assets and \$3.197 billion in deemed assets. The footnote to the balance sheet, of course, totals the amount of the fund, and I want to make it very clear that the total amount of the fund has not varied over the course of the past few years because, of course, the \$15,311,572,000 total amount of the fund including financial assets and deemed assets is essentially fixed by policy. So the fund has not changed in its value.

What has changed, of course, is the allocation of funds between the financial asset side and the fixed asset side or the deemed assets side. That is, of course, obvious and a tautology because you're transferring money from the financial assets to the deemed assets that must by natural course reduce the amount of assets on the financial side and increase the amount on the deemed side but at the same time maintain the total assets. So let's make it very clear: the total value of the fund has not changed. The total value of the deemed assets, of course, has gone down.

Let me also note that by way of policy it is the direction of this Legislative Assembly that the income stream from the heritage fund shall be transferred to the General Revenue Fund. Over the course of the past few years, as shown in the financial statements, in particular I believe on page 1, the total transfers from the fund up to March 31, '91, totaled \$12.2 billion. That's essentially the income stream or the profits earned within the fund which have been moved to the General Revenue Fund. As all members know, that's allowed us to escape a retail sales tax for example, allowed us to maintain high priority in the General Revenue Fund in such areas as health and education, and of course the transfers themselves have been about at the same value as the financial assets at the present time. So it's quite an amazing accomplishment to say that the value of the financial assets, about \$12.1 billion, has in fact been transferred in an equivalent amount to general revenue over a period of years.

There are of course some policy considerations that I'm sure will be raised, one of those being: why don't you protect the fund from inflation? We can get into that and what's happened to the valuation of other assets in the fund, I'm sure, during the question period. I'll leave any particular comments on those until we get into the general discussion.

Just a note about policy changes. I'm not going to detail the entire history of the transfers, but the transfers in terms of where you left the money – the economic rents from oil and gas for example, the remaining 15 percent in the heritage fund to protect it against inflation, and the other changes – were driven by the economy at the time, the kinds of economic situations which the province was facing. Certainly we had to accommodate, I think, in real terms what was happening in our economy, and that's why the heritage fund has in fact been used the way it has. Through the course of the past year, though, we have in terms of policy fulfilled a commitment to privatize certain assets. Despite your philosophical view, it is the view of the government, at least, that assets should be held in the private sector so that market forces can dictate and drive the decision. Right now around the world this is a common position, and if you look recently, for example,

at *Newsweek* magazine, you'll even see the long list of assets that have been privatized.

Certainly I would be remiss if I didn't remark, Mr. Chairman, about our trip to Prague, Czechoslovakia, where privatization of assets, once the overthrow of the socialist/communist regime is complete, will in fact allow for a major sale of assets into the private sector's hands. So we are following here, in the case of the heritage fund, an important policy, which is the sale of assets into the private sector's hands, where the market will drive decision-makers as opposed to the policy of government. The market forces will direct the marginal efficiencies of that firm, and obviously, in the case of the heritage fund, a value pickup will take place. We will convert assets from debentures, in the case of the one entity, into cash or shares, which are more easily measurable in the marketplace and, secondly, more easily converted into cash.

The one major policy issue which has impacted on the heritage fund over the course of this past year is in fact the sale of Alberta Government Telephones. Alberta Government Telephones essentially was held in the heritage fund through debentures, and those debentures were converted this year into cash and into shares. Some of those shares were converted into cash through disposition through an IPO, an initial public offering. So the major shift in terms of asset makeup this year has in fact been with respect to the disposition of the debentures of AGT, and now those are replaced on the balance sheet by holdings in Telus shares.

10:14

I can only say that it's the policy of the government, as outlined in the budget speech in the early part of this year, to continue to privatize assets of the heritage fund. I think the statement in the budget was that at least \$200 million of heritage fund assets would be transferred to the General Revenue Fund. Obviously, under the policy guidelines, that \$200 million has to be found in profits. As I have said before, the assets in the heritage fund have been very important assets, assets which have diversified the economy, which have allowed us to add value to the resources here so that we're not exporting simple, crude products but are exporting value-added items into the economic chain to allow us to generate jobs and economic wealth for our citizens.

In that sense, there's a continuing process that I've described, I think, in this House on several occasions, where you take cash, invest perhaps in assets, to some extent even riskier assets, convert those into income-generating potential, and then at some point dispose of that back into the marketplace. The heritage fund has provided us with that opportunity without having to go to the capital markets to borrow money for those kinds of purposes. So this is the important cyclical nature of the heritage fund at the present time.

I'll simply end there with respect to this overview, Mr. Chairman, by saying that perhaps one of the questions and to some extent guidance I would accept from this committee would be: what do we do when we end up with a full cash portfolio? You can see that at the end of this year we picked up about \$730 million in cash assets, cash and marketable securities, and presumably if you continue to convert fixed assets into cash, you're going to end up with more cash. Maybe we have to have some direction from this committee as to whether or not you may recommend to us to, for example, increase the commercial investment division or other kinds of investment opportunities which would allow us to both diversify the portfolio here and perhaps allow us to add additional return to the Heritage Savings Trust Fund itself.

Mr. Chairman, I'll be more than willing to listen to the exchange of ideas, to listen to the position offered by the committee, to answer questions wherever within my abilities I can provide reasonable answers. I will either provide them or seek assistance from my colleague Allister McPherson or still further provide information on a follow-up basis.

Let me conclude by saying that we will circulate to the members of the committee through your office the details of the commercial investment division - I think that's agreed to, Mr. Chairman, if I understand it - and by saying that this is a remarkable story for Albertans. It sure has provided Albertans with a major chance to diversify the economy, to protect the income flow from oil and gas royalties, which are nonrenewable, and to allow us to do other things which would certainly be described as unique and remarkable and distinctive when comparing Alberta's infrastructure investment, diversification, and general assistance to citizens to other provinces'.

So it's with real pleasure that I bring this information, this financial statement forward, and I look forward to discussion on it, Mr. Chairman. Thank you again.

MR. CHAIRMAN: Thank you. The Chair neglected to express appreciation to the Treasurer for the timely publishing of the annual report this year. The committee was pleased to have it a week ahead of time before we started our hearings. It certainly makes a more efficient process for us.

I'd also like to digress for just a moment and recognize a school class that has entered the gallery. Apparently, it's the grade 6 class from the Holy Redeemer school in Clover Bar. Perhaps they would just stand, and our committee would just give them some recognition and welcome. Thank you.

To the class, just so you're totally aware of what we're doing here, we're meeting in the annual meetings that are conducted by the Alberta Heritage Savings Trust Fund committee. All the ministers who have responsibility for expenditure from the Heritage Savings Trust Fund appear before this committee. So we're beginning that process today with the appearance of the Provincial Treasurer and his deputy.

We'd now like to proceed to the question part of our process today and recognize the Member for Calgary-Mountain View, followed by the Member for Calgary-Fish Creek.

MR. HAWKESWORTH: Thank you, Mr. Chairman. I certainly hope there's still a strong Heritage Savings Trust Fund by the time our students in the gallery are adults.

I'd like to welcome the Provincial Treasurer and deputy. Again I'd express my thanks that at least we got this report earlier than we did last year. That's certainly an improvement that I appreciate.

Mr. Chairman, last year the value of the fund's equity went down, yet the net investment income from the fund went up slightly. We can find that on page 44, note 4, where that's segmented to some degree. We see that that increase in the net investment income was due almost entirely to higher earnings in the cash and marketable securities division. I think you'd agree with that. That section increased by a little over \$150 million from 1990 to 1991. All the other divisions' income stagnated or declined. To get a little bit more detail on that, if you were to turn to page 20, we'd see in the narrative that that cash and marketable securities portfolio earned a rate of return of 13.6 percent largely "due to higher short-term interest rates" in that year. So I'd like to ask, given the Provincial Treasurer's opening comments in which he talked about the move to a higher cash portion of the overall trust fund, if he would be able to give us his

estimated rate of return for the current fiscal year for the cash and marketable securities division.

MR. JOHNSTON: Less than this year, Mr. Chairman, less than at March 31, '91.

MR. HAWKESWORTH: Okay. That's all the way from zero percent to 13.5 percent. I can't say that that answer is particularly helpful.

MR. JOHNSTON: If you want an explanation, you'd have to give me a forecast which would tell me what the current short-term interest rates are going to be between April 1, '91, and March 31, '92. It is obviously understood in the marketplace that interest rates have come off. This morning the short-term T-bills are running 8.03 percent. The spread between Canadian T-bills and U.S. T-bills is still about 290 basis points. There's no doubt, though, that on the short end of the money curve the rates of return on assets, including marketable securities such as T-bills, CDs, or other kinds of short-term investments, have come off from the high of May of this year when they traded around, I guess, 13 percent, down to about 8 percent. You wouldn't have to be a financial genius to conclude that the rate of return on the assets which are in liquid form would be less than they were last year. That's the only point I'm making. Who knows what's going to happen over the course of the next six months? If you knew that, I could give you a specific number.

MR. HAWKESWORTH: Thank you, Mr. Chairman. In the current fiscal year the Provincial Treasurer budgeted \$1.555 billion net investment income from the Heritage Savings Trust Fund, which is a higher amount even than was realized last year. Given that last year's increase was driven by the higher interest rates and that the steep interest rates dropped this year, and given that most of the cash and marketable securities are, as the Provincial Treasurer says, in short-term, I don't think it's likely – and I'm sure he would agree – that this increased income that he has budgeted for will come from the cash and marketable securities division, so income from this division will have to drop sharply. Presuming that the Provincial Treasurer does some forecasting when he suggests that \$1.555 billion of net investment income will flow to the General Revenue Fund this year, I wonder if he could, given these factors, give us some idea of where he anticipates that income figure to come from for this year's budget.

MR. JOHNSTON: Mr. Chairman, as I said both in the Budget Address and in my opening comments today, we expect to take an income stream from the heritage fund from privatized assets of at least \$200 million.

10:24

MR. HAWKESWORTH: If I take the Provincial Treasurer's comments, he's in essence, I guess, telling us that he intends to sell the remaining shares of Alberta Energy Company. I would expect that some or all of the Telus shares currently held by the trust fund are going to be sold as well. I don't see any way he could avoid that, and I think you're pretty well confirming it.

At least Telus and Alberta Energy assets are reasonably decent investments. Telus is bringing in a 7 percent – correct me if I'm wrong – dividend, and once those are sold, it's going to be converted to cash. Does the Provincial Treasurer have any ideas of what he's going to do with that cash, how that money will be reinvested? If we end up with a trust fund that's all cash, that's really not a very diversified portfolio. If we're getting rid of

relatively decent investments, what's going to be done to replace those investments with others of a similar quality or better?

MR. JOHNSTON: Well, Mr. Chairman, the Member for Calgary-Mountain View essentially has confirmed what I said again in my opening comments. One of the problems we have with respect to the management of the heritage fund is that as you continue to increase the cash portfolio, you have to continue to seek ways in which you can reinvest that cash portfolio so that you earn a reasonable rate of return because the General Revenue Fund is dependent upon it, as I've said.

Secondly, presumably you want to maximize the rate of return on the assets in the heritage fund, which certainly is the government's objective. So there are a variety of things that you have to contemplate, and that's where I'm seeking advice from the committee as to how we could move in that direction. For example, one of the recommendations may well be that if it is generally agreed that as interest rates go down, there seems to be a pickup in yields on the stock portfolio, then it may well be that you could suggest that we could take additional risks in terms of investing in a stock portfolio beyond that which is normally handled in section 10 investments or in the commercial investment division. Still further, we may even want to do some other kind of covariance work whereby you indicate that rather than simply invest in Canadian and North American markets, you may want to invest in other markets. We have explored that in this committee before, but I think the need for us to make decisions of that order is more pressing, and out of a normal management course of operations we'll start to pursue some of those ourselves.

Secondly, though, in terms of which assets are we going to sell, well, I'm not going to agree or disagree with the Member for Calgary-Mountain View when we say that Telus or AEC could be marketed, but I can certainly indicate to you that on Telus shares alone, if you were to look at today's market value in Telus compared to the cost, it would be a \$180 million pickup in value on the Telus shares alone. So you can see that there is a tremendous amount of value beyond what is reflected in the heritage fund.

That's why I take some objection to the Member for Calgary-Mountain View's comments that those fine young Albertans who were in the galleries a few minutes ago would not be able to enjoy the benefits of this fund. In fact, they will enjoy the benefits of this fund. I'll save the political rhetoric for just a minute, but they will be able to save the benefits of that fund because of course there is value building up inside the fund itself beyond the book or cost which is reflected in these audited statements. A classic example is Telus, for example.

Now, historically we have argued that the debentures to some extent have a different value than, in fact, the cost or book value here. We have done a quick calculation, for example, that shows that some of our investment portfolio in debentures alone, because they are investments at higher interest rates – and interest rates have gone down, as we've noted, and therefore your capital value has gone up – there could be perhaps another \$240 million in bond value increases alone. Because we have a fairly large exposure in bonds and, as I say, the inverse relationship between interest and capital takes place on a bond portfolio, we'll get a fairly substantial capital pickup.

I mean, I can show you within this portfolio of financial assets, not even getting to the medical research or the heritage Rutherford scholarship, that there are considerable assets which have value above the book, and those could be sold into the marketplace. The point I'm making is that we have options besides Telus and AEC for dispositions, which would simply be changing our portfolio

mix from debentures, bonds, into other kinds of assets, and we'd pick up an immediate profit, which would satisfy what we said in the financial statements of the government and the Budget Address, that at least \$200 million of additional income can be generated within the heritage fund itself to allow us a transfer of more than \$1.2 billion to \$1.3 billion this current year.

It's quite reasonably explained, I think, if you look inside the entity itself, the heritage fund itself, and if you understand that what is disclosed in these financial statements is book value and what is not disclosed, of course, is a market pickup. That's why I will be circulating to members of the committee the market value and the cost of the commercial investment division. That commercial investment division alone, which shows in the financial statements - well, I guess the costs have gone up, but the original cost was \$300 million. I think the market value pickup on the commercial investment division alone is another \$180 million.

You can see that there's a variety of pockets of profit within the Heritage Savings Trust Fund financial assets that with a very simple amount of effort could be turned into cash and profit. Then two things happen: the profit is stripped away into the General Revenue Fund, and the heritage fund maintains the capital value of the asset itself. So the heritage fund doesn't lose value; income goes to the General Revenue Fund and the money is available for the kinds of investment.

But I have to agree with the Member for Calgary-Mountain View that if interest rates go down, then you simply can't leave your assets sitting in T-bills or other kinds of short-term securities, because you can't expect the same kind of rate of return. But it ain't a poor, pure world. You have to give a bit and take a bit in this world, and that's what we're doing in terms of the management of this fund.

MR. CHAIRMAN: Thank you.

The Member for Calgary-Fish Creek, followed by the Member for Clover Bar.

MR. PAYNE: Mr. Chairman, if I were to lay the financial summary on pages 34 and 35 of the recently released annual report of the fund before some of my constituents, I suspect that after only a moment or two of reading the summary, the first question they'd direct to me is the one that I feel an obligation to direct to the Provincial Treasurer. That's to observe that over the past five years there has been a somewhat consistent and perhaps disconcerting downward trend in the financial assets of the fund, and over the most recent reported year the drop was something like \$154 million in financial assets. Consequently, I feel an obligation to ask the Treasurer through you, Mr. Chairman: can he account to our constituents for that trend? Can he explain that downward trending, and perhaps more importantly, is he contemplating now any measures to reverse that disconcerting trend?

MR. JOHNSTON: Mr. Chairman, the Member for Calgary-Fish Creek does raise an important question which is not always understood by Albertans because we have segregated the fund into two series of assets, one being the financial assets, one being the fixed assets. The financial assets are the source of liquidity for the fund. As members well know, each year we come with a capital investment division proposal from this Legislative Assembly which allows us to do some remarkable things in terms of investment in infrastructure in this province. Those are listed here in terms of the deemed assets, including irrigation, for example, which impacts on the southern part of the province; reforestation projects, for example; other kinds of unique investments which provide not only an additional quality of life for Albertans but allow us to

achieve unique investments which would not be possible in a normal budgetary sense.

So when the Legislative Assembly agrees to the capital investment division appropriation, which we all vote on and debate at some extent, three days in general debate with each minister defending the capital investment division of the heritage fund, then of course we have to find the money someplace. The source of the money, by policy, has been from the financial assets of the heritage fund. So you can expect that as long as the Legislative Assembly continues to vote capital dollars, we have a transfer of them between the financial assets to the capital assets, or deemed assets, and the amount of the transfer will be equal to essentially the expended capital appropriation on fixed asset accumulation, these major investments which I think uniquely describe the competitive advantage which Alberta has compared to other provinces. That's what has happened this past year.

So as long as we continue to invest in fixed assets or deemed assets for whatever reason, we'll have a concomitant reduction in the financial assets of the same amount.

10:34

MR. PAYNE: I'm not entirely sure I got an answer to the second part of my question, and I hate to waste a sup, Mr. Chairman, but can the Provincial Treasurer reassure this committee and those whom we represent that he is currently considering specific investment strategies and plans to reverse the downward trend of the past five years of the financial assets of the fund?

MR. JOHNSTON: Mr. Chairman, that's really what I'm here for, because it is this Legislative Assembly that directs the Treasurer as to how to proceed. Each year appropriation takes place to spend money in the heritage fund for capital assets: the capital investment division. That Legislative Assembly directs us what to do. Now, some of my colleagues have their own priorities. They want to invest in irrigation in the case of Mr. Chairman and myself; some want to invest in forest products; some have environmental proposals in mind. There's a long list of projects. Some have other kinds of assets in mind, and of course, that long list of proposals is selectively reflected in the decision of the Legislature. But the reason the financial assets have declined is because that is equal to the capital investment division expansion. If you want to freeze the reduction in the financial assets, then we have to freeze the capital investment division.

Now, one thing has happened over the course of the past year that is interesting: a series of meetings has generated a decision with respect to irrigation, so we now have a five-year plan in irrigation as opposed to an open-ended plan. So at some point you may end the amount of money spent on irrigation because it's a five-year fixed commitment which may end at some point. That's how the fund is now managed, and unless there is some change, then of course we'd have to come back to the Legislative Assembly to see how we would invest or not invest in the capital investment division of the fund. That's essentially what's happened there, my colleague from Calgary-Fish Creek.

MR. PAYNE: Thanks, Mr. Chairman.

MR. CHAIRMAN: The Member for Clover Bar, followed by the Member for Edmonton-Beverly.

MR. GESELL: Thank you, Mr. Chairman. Good morning, Mr. Treasurer. I wanted to ask about a recommendation that has been made to you by this committee for the past two years. It relates to the environmental investment division, a recommendation that

I've put to the committee and the committee has agreed to unanimously. Your response, Mr. Treasurer, has been that such investments could possibly be undertaken under the Alberta investment division or the capital projects division. However, in reading through the Heritage Savings Trust Fund annual report, the recommendation that has been put forward is clearly in line with the third objective of the Heritage Savings Trust Fund, which is to improve the quality of life in Alberta, and I'm not so certain that the Alberta investment division or the capital projects division actually allows the investments that are perhaps contemplated.

I would refer you to page 9 of the annual report, which indicates what the Alberta investment division and the capital projects division must do, and I emphasize the word "must." In the first case, the Alberta investment division must "strengthen or diversify the economy of Alberta [and] yield a reasonable return or profit." The "and" is mine in there. Clearly, the contemplated division doesn't fit perhaps in that parameter that is established for that particular investment division. Similarly, the capital projects division must "provide long-term economic or social benefits." It may be argued that there are some benefits that could accrue under this particular proposal. My question to the Treasurer is: is it intended to change the Heritage Savings Trust Fund Act to perhaps allow for the creation of such a division?

MR. JOHNSTON: Well, Mr. Chairman, I listened very carefully to what the Member for Clover Bar said, and certainly it's my view that there's a lot of merit, substantial merit, in environmental objectives. What I don't understand, though, is why you would invest in something that (a) wasn't for a social or economic benefit to the province of Alberta or (b) didn't yield a rate of return. Presumably you wouldn't invest if it didn't satisfy at least those two very broad criteria. Secondly, if it doesn't yield a rate of return, then it would fall into the capital projects division, clearly provided for already, such as irrigation investment, by the way, which would fall into that category. If it did yield a rate of return, it would be up in the Alberta investment division.

You could create another division, but all you'd be doing is applying the same set of criteria: presumably, if it's in the financial assets, that it has to earn a rate of return. Now, we can do that, but it doesn't really do anything to expand the opportunities to invest, and that's the point we're making. There is full flexibility right now to pursue environmental projects, either ones that generate a rate of return or which would provide social and economic benefits, within the heritage fund legislative authority at this present point. But you can call it whatever you want.

MR. GESELL: I appreciate that comment, and it might be easier to actually initiate some project such as a waste management facility for the Edmonton metropolitan area under - I'm not quite sure whether it would really fall under the capital projects. I assume that's where it might have to go.

Mr. Chairman, the Treasurer in this discussion here indicated that we have some \$700 million-plus in cash and marketable securities, and he was inviting some suggestions of where some of that cash and marketable securities might be best utilized in meeting the objectives of this Heritage Savings Trust Fund. In my mind, environmental concerns and the environmental objectives of providing that quality of life are critical to Albertans, and I see this perhaps as a suggestion, a solution, in that particular area. I'm not sure whether some of the projects that I see that might fall under the environmental investment division could possibly be allowed with the parameters that exist under the other divisions. I have some difficulty. For instance, Mr. Treasurer, if we talk

about a waste management project for the Edmonton metropolitan area, would it be eligible under the capital projects division?

MR. JOHNSTON: Mr. Chairman, I think the answer would likely be yes, but as I said before, there is a competing list of projects always presented to us which demand an allocation of dollars. With any government, with any policy-making group, there is a set of choices that have to be made, and we are obviously subject to the choices made by the Legislative Assembly when it comes to investing in the capital projects division. If there is a large enough demand for other kinds of capital projects or refocusing of the priorities of the capital projects division, that of course can be achieved.

In my mind, the capital projects division would be suitable for the kinds of projects outlined by the member, and it would be suitable because they have a social and economic factor and of course do not generate at least a real rate of return. There may be an imputed rate of return but not a real rate of return, so they would satisfy the capital projects division.

Remember that the Member for Calgary-Fish Creek has just said that his constituents are worried about the decrease in financial assets, so now we're in between this conflict. The Calgary-Fish Creek people are saying, "Keep it in financial assets; don't put it in capital projects." You're saying, "Well, let's put more spending in the capital projects division." Those are the kinds of choices that I'm talking about. Policy is not easy these days for anyone. But the final point here is that if you want to expand the capital projects division, then you have to change the investment limit because the capital projects division or the deemed assets are controlled by a limit, and we're getting very close to bumping up against that limit. I'm not about to make a recommendation to change that, because it would simply allow you to end up with a big series of capital assets as opposed to deemed assets, and the option there is then obvious to everyone: the transfer to the General Revenue Fund from the heritage fund drops off because you have less assets earning a rate of return for you. These are the choices we're talking about.

That's why this discussion is in place here. That's why we have this give-and-take of ideas, and that's why it's a fairly healthy and exciting opportunity for us to discuss it.

MR. GESELL: Mr. Chairman, I'll forgo my last supplemental, but would you put me on the list? I want to pursue another line of questioning yet.

MR. CHAIRMAN: All right.

The Member for Edmonton-Beverly, followed by Ponoka-Rimbey.

10:44

MR. EWASIUK: Thank you, Mr. Chairman. One of the sort of peculiar accounting practices of the fund: it seems that most financial assets are listed at their original cost rather than the current market value. Therefore, for an asset that's sold at a price above the cost, the surplus is then transferred to the General Revenue Fund, and conversely, when an asset is sold at below the market value, it's covered by transfers from the General Revenue Fund or from the fund's investment income. I just wondered whether the Treasurer would enlighten us why it is that this particular accounting practice is being used and why not a more traditional practice that would list these assets at the market value.

MR. JOHNSTON: Mr. Chairman, I'll resist stating that the member just stepped into the abyss, because this is replete with all

kinds of opportunities. I can assure you that if the government accepts your recommendation, it would be a lot of fun, I'll tell you, to reflect assets at market value or some other value. We'd have a great deal of debate: "Why, you guys can't use that factor for market value calculations."

Fortunately, I'm not the one that sets those policies. There are postulates, believe it or not, which guide accountants, and in this case the Auditor General is guided by a set of postulates which are fairly clear and fairly concise and applied consistently and, I guess, stand the test. One of the major postulates is that you record all assets at cost. Well, I would love to be able to record it at market value or some other kind of value, because I could make this heritage fund grow in dramatic proportions mostly at whim. Now, if the member is suggesting we should do that, I would be glad to take that under advisement and see if we can't come back with a way in which we could show these assets at market value, because the financial assets of the heritage fund would be far above \$12 billion, far above \$12 billion. I'd love an opportunity to show that.

I appreciate the recommendation from the member. I'll remember it, Mr. Chairman. I'll use it whenever I can because I know my colleague from Calgary-Mountain View is always saying that there's no value there, no value there. I'd like to have the party in a conflict, and it should be on the record that the party is in conflict on most issues. They can't understand financial marketing, as I've said before, can't understand balance sheets, as we have confirmed, and certainly have an internal problem with respect to disclosure, and that's on the record right now.

MR. CHAIRMAN: Do you have a supplementary?

MR. EWASIUK: Well, yes, Mr. Chairman. The heritage trust fund currently has about \$4 billion in over assets and about \$1.1 billion in under assets. The government's fiscal policy for 1991-92 appears to be based on selling off the undervalued assets such as Telus and Alberta Energy Company and so on.

MR. JOHNSTON: Excuse me, but the member said . . . Just start again. I lost something about "undervalued" there. I want to be very clear I understand this.

MR. EWASIUK: Oh, I'm sorry. Well, it seems that the government's fiscal policy for 1991-92 appears to be based on selling undervalued assets such as Telus, Alberta Energy Company shares, and so on and transferring the surplus, of course, to the GRF while keeping overvalued assets in the fund, thereby postponing costs to the General Revenue Fund. Now, recently there was, Mr. Chairman, an economic analysis done on the fund, and the projection that was done suggested that the fund was valued at about \$9.1 million. Would the Treasurer tell us what he thinks the fund is worth at its fair market value?

MR. JOHNSTON: First of all, the member makes mistaken assumptions. First of all, the government is not selling undervalued assets. Now, where he got the idea from I'm not sure, but I can assure you that we're not selling undervalued assets. But I can say that if we were, for example, to sell Telus Corporation - since that's one that's been on the record - we would not sell it except at the market value. I can give you a long outline as to what some distinguished people from Markowitz through Miller have said about market valuation and the market in terms of establishing value for shares of an entity. If you know a better way to value an entity than what the market is doing, I wish I

could hear about it. It may well be that book value per share or some other capitalization of the share price could be reflected.

What we have said here is that we have in the heritage fund an asset which has a book value of approximately \$11.25 trading today in the market, for those of you who watch the market daily - I'm sure the Member for Edmonton-Beverly watches the market daily - at \$14.25, I think. We've got an immediate pickup of \$3. Now, if you're telling me we're selling that below value, then what value are you talking about? We would sell it at exactly what the market value was. That would be a major pickup in values for the heritage fund, close to - what? - \$180 million, give or take a few dollars. We would not sell an asset that was undervalued. So those assets that are in the heritage fund, as I've said publicly before, there's at least \$750 million in asset value in those financial assets above their book value.

I have to agree that there have been some reductions in potential asset value over the course of the last month. Let's put them on the table. Syncrude. Syncrude is one of those which has been essentially slow. There's been a small approach at establishing a market value for Syncrude. But I'll come back to that; that's not really the question. However, I can tell you for sure that the financial assets are worth more than \$12 billion. I've told you already that in terms of some of the bonds you could pick up \$300 million, in terms of Telus you could pick up \$180 million, and others and others and others and on we go. I can confirm, and my own view is, that there is at least \$750 million in additional value in the financial assets of the heritage fund than in fact disclosed there. I'd love to have an opportunity to mark this to market, as they do in the case of investment dealers, for example, who mark their portfolio to market every day. I'd love to mark this to market.

We have given you some examples with respect to the commercial investment division showing there's another \$180 million pickup in value there as well. Remember also that in the capital projects division, although there's some difficulty in disclosure, we have the medical research foundation. That was a \$300 million initial investment which is now worth over \$500 million, another pickup of a couple of hundred million dollars there. The Rutherford scholarship foundation, which started out as a hundred million dollars: there's probably another \$75 million pickup in the scholarship fund, still providing 4,000 scholarships a year to Albertans, the young people from Clover Bar who are above us, and increasing in value over that period. Well, that sounds to me to be good performance and certainly confirms what I've said, that the financial assets now disclosed in the heritage fund at 12 point something billion dollars have a value above the 12 point something billion dollars.

MR. CHAIRMAN: Does the member have a final supplementary?

MR. EWASIUK: Yeah. Well, Mr. Chairman, they've alluded on a number of occasions to something like Telus and to AEC, and the Treasurer has also mentioned Syncrude in his comments. The question really is quite direct: does the government intend to sell off the interests - your interests, the government interests - in Telus, AEC, or Syncrude before the end of the fiscal year?

MR. JOHNSTON: Well, Mr. Chairman, I'm not going to make a direct statement about disposing of assets which are market sensitive. Now, we understand that the market responds to what some people say. If I were to stand up and say, "We're going to sell Telus," boom, there'd be a mad rush on valuation of that stock. If I were to say AEC was for sale, there would be a mass valuation adjustment on AEC.

We're more responsible than that. We take the position that if we're going to sell an asset, we'll sell it on a reasonable basis so we can exact the highest rate of return for Albertans through the disposition of the asset and still satisfy the privatization objective. What I can say to you is that we will sell at least \$200 million worth of assets, that we will generate at least \$200 million worth of profits in the heritage fund. I've already noted for you that on the bond portfolio alone we could pick up \$300 million. So I'm not going to tell you what exactly we'll sell, because that's a very market sensitive point.

MR. CHAIRMAN: Thank you.

The Member for Ponoka-Rimbey, followed by the Member for Lloydminster.

MR. JONSON: Yes, Mr. Chairman.

MR. TAYLOR: Point of order, Mr. Chairman. That will be the fourth PC and three NDs. What the hell do I have to do, stand up and wiggle my ears?

MR. CHAIRMAN: What the Member for Westlock-Sturgeon has to do is come to the meeting on time so he can get his name on the list. If you come in 10 minutes late, you're going to get left out.

MR. TAYLOR: Let's remember that in the future then, Mr. Chairman.

MR. CHAIRMAN: We'll be glad to do that.

MR. TAYLOR: If I'm going to be put down at the bottom or left off the list because I'm in here two minutes late . . .

MR. CHAIRMAN: No, not two minutes.

MR. TAYLOR: . . . I think sometimes you should be too. In the Legislature the Speaker can see and put it in proportion to the parties that are here.

MR. CHAIRMAN: Hon. member, you're out of order.

MR. TAYLOR: You're doing a cover-up. You're doing a cover-up for the Treasurer. The Treasurer cannot answer my questions, and you know it.

MR. CHAIRMAN: Hon. member, you will get a turn at a question to the minister.

MR. TAYLOR: Mr. Chairman, you are trying to pay me back for the comment I made yesterday when I said that the Treasurer dodged my questions.

MR. CHAIRMAN: Hon. member, you're out of order.

The Member for Ponoka-Rimbey.

10:54

MR. JONSON: Mr. Chairman, in the Treasurer's opening remarks he referred to the success of the fund and it becoming part of the culture of Alberta, which I assume means that, in his opinion, it is well understood that the public of the province feel ownership of it and so forth. Later in his remarks, when referring to the governance of the fund, he referred to the complex series of transactions that are involved in its operation and also referred to

the fact that at least one aspect of the fund is not well understood by the public. I would like to ask the Treasurer a general question first of all, and that is: does he feel that the public of the province understand the nature and operations of the heritage fund sufficiently?

MR. JOHNSTON: I'm reminded of an article I read, which I keep on my desk as a matter of fact. It talks about the five fallacies of public opinion. One of the major fallacies is: don't think that the public doesn't understand complex issues just because they're couched in arcane words or accounting technology or financial jargon. So I think, on the basis of my belief that the public does understand a lot of complex issues and understands more fully than some politicians would like to think they do, that in fact they do understand the importance of the heritage fund. That's why I say that in my mind, despite the intricacies of accounting within the heritage fund, people of Alberta do understand the heritage fund, understand its major contribution to the quality of life, believe that it's a part of the future for them in terms of diversification investment in special kinds of projects and unique opportunities for the youth of our province. In fact, they do understand it. I never make the mistake of thinking that the public of Alberta does not understand complex issues. Even though they are complex in their nature, they can be reduced very quickly in the minds of most Albertans to operational understanding, and that's what I think has happened here. Because the heritage fund touches so many people in so many ways over such a long period of time with its unique description, it generates a sense of pride in the people of Alberta that we have this savings account working to their advantage.

MR. JONSON: A supplementary question then, Mr. Chairman. I would agree that the people of the province of Alberta certainly understand and appreciate the importance of the heritage fund, but I would question whether they are well informed of the changes and trends with respect to that fund, and consequently they may become quite worried about this very important fund. My supplementary question is: within the governance structure for the fund, what entity is responsible for assessing the effectiveness of quarter-to-quarter and year-to-year communication with the public?

MR. JOHNSTON: That's an important question, and I think in part this committee has a major responsibility to make recommendations as to how we can communicate it. I recall my colleague the Member for Calgary-Fish Creek, for example, at a different time had an opportunity to do a significant communication program for the heritage fund, and from time to time we've been called upon to enhance the communication of the heritage fund itself. I suppose we could outline for you either a policy or a program which would heighten the awareness of the understanding of the heritage fund or (b) designate or specify projects which are being assisted by the heritage fund.

You know, I think the heritage fund touches in a variety of different ways. As I drive from Edmonton to my home in Lethbridge, I notice that the grain cars, for example, now have a new, vivid colour to them. My colleague from Barrhead, next to Westlock-Sturgeon, has in fact added a nice little touch to it: welcome to Barrhead, welcome to Lethbridge, the home of great, exciting things. In doing that, I think this in itself identifies again for the people of Alberta how the heritage fund has worked. You know, this is a simple symbol, but people know that this is a heritage fund investment. The heritage fund logo isn't quite as visibly displayed on these tanker cars as perhaps I would like, but still, the emblazoned colours - I forget what colour they are. Oh, blue and orange; that's the colour. It shows up as you travel

across the railway crossings. The heritage fund logo was there before, and in fact it does signify to Albertans that this is the heritage fund at work for them getting grain to the marketplace, a very simple communication technique.

Now, whether or not we want to do an elaborate advertising campaign is another question. I'll accept advice and direction from my colleagues here on this committee as to that objective.

MR. JONSON: Well, a final supplementary then, Mr. Chairman. I think there is some difference in the challenge facing the committee between publicizing the deemed assets and the other involvements of the fund. As the Provincial Treasurer knows, a subcommittee of this committee visited Alaska over the summer. One of the things that I think impressed the visiting group was the attention paid to communication and the techniques that are used there. My supplementary question would be: is the Treasurer apprised of this approach, and what would be his evaluation of it?

MR. JOHNSTON: Mr. Chairman, I received a preliminary overview of the trip made by yourself and the Member for Ponoka-Rimbey. I think those were the two.

MR. CHAIRMAN: And West Yellowhead.

MR. JOHNSTON: And West Yellowhead; that's the third person. I have not had an opportunity to meet with that committee, who will probably give me some sort of briefing or update, but I have had a chance to discuss it with the chairman.

Let me say that in terms of communication, it is a fairly direct and certainly fairly vivid communication technique when you send somebody a cheque every year. It gets their attention, and it certainly is one way to emblazon in people's minds what the fund is doing for the citizens. That obviously is the major distinction between the way in which we transfer money out of the heritage fund to the General Revenue Fund and the Alaska fund transfers money to its citizens. I suppose that the Alaska fund has picked up on the Social Credit theory of some time back whereby everybody in Alberta was going to get a cheque from the General Revenue Fund. Well, that's a very direct way of communicating, and it certainly reinforces the importance of the fund to the citizens of Alaska. Whether or not it generates the best use of those dollars of course is open to debate.

I am aware of the distinctions between the Alaska fund and the heritage fund. I think that's a healthy distinction. I think it reflects a different genesis of the fund. I think it reflects a different use of the fund. To some extent it probably reflects a different risk equation in terms of the fund. By that I mean to a great extent the Alaska fund does not generate a diversification within the state of Alaska, not at least to the extent that I think it should. To another extent the major decision-making is removed from people such as this committee and taken to another independent investment group. Now, that raises some questions. I think there are some fundamental distinctions between the fund and this fund. I think it's unfair, in a similar fashion, to be symmetrical in the arguments that . . . If it's different in its foundation, there must be difference in evaluation. I think it's unfair, then, to apply symmetrical evaluations to the heritage fund based on what's happened with the Alaska fund. So that's where I would draw the distinction. I would not at all close off debate about how we can improve what we do with the heritage fund, I would not at all close off the honest disagreement between the objectives of the heritage fund and the Alaska fund, and I would continue to make significant distinctions by pointing out that I disagree to some extent with the way in which the Alaska fund is operated as

opposed to the way the heritage fund is operated here in the province of Alberta.

11:04

Let me conclude with this comment. Since 1987 when the price of oil sharply reduced, if not fell out of bed, we've had to essentially put the heritage fund into a status quo position because we really haven't got the flexibility in terms of policy to internally adjust the way in which we manage the fund and, in fact, enhance its assets. I'm always amazed when economists make some particularly prophetic statements that "If you hadn't taken the money out of the heritage fund, it would have been worth a whole lot more." I don't have to go and do a PhD study to come to that conclusion. Of course, we made an overt, clear policy distinction. We said we were going to take the income out of the heritage fund to support the General Revenue Fund, to maintain the programs and maintain low taxes. Obviously, if you'd left the money in the heritage fund, you would have had a significantly larger deficit and probably a significantly larger tax rate. So I like to chide my friends in the economics group who write these very distinct articles. I really like the new information they give me. Certainly it's been a profound impact on the way in which I think.

MR. CHAIRMAN: The Member for West Yellowhead.

MR. DOYLE: Thank you, Mr. Chairman.

MR. TAYLOR: Mr. Chairman, this is his second time around.

MR. DOYLE: I'm being interrupted, Mr. Chairman.

MR. CHAIRMAN: Would the hon. Member for Westlock-Sturgeon check the record and find out if the Member for West Yellowhead has spoken yet?

MR. DOYLE: No, I haven't, Mr. Chairman.

MR. CHAIRMAN: Thank you.  
The Member for West Yellowhead.

MR. DOYLE: Mr. Chairman, would you indicate to the Member for Westlock-Sturgeon where he is on the speaking list so we're not interrupted again so abruptly?

MR. TAYLOR: How come they put their hands up and holler order?

MR. CHAIRMAN: Hon. member, maybe I'll just take a moment and explain to you the process. When the chairman looks up and sees all the members with their hands in the air, it's very difficult. So giving the Official Opposition the lead and then alternating is the effort I try to put forward. Now, when you come in late, I have no way of knowing you're even going to come, and you're expecting me to have someone else move to give you a turn. I will see that you get a turn, hon. member.

Member for West Yellowhead, would you proceed?

MR. TAYLOR: Why doesn't the chairman take his notes before the submission is finished? That's when you're supposed to, not as soon as you come in the door. Got your favourites down on the list.

MR. CHAIRMAN: Hon. member, order. Order.

MR. TAYLOR: I'm quite annoyed. You're doing a job on the Liberal opposition here.

MR. CHAIRMAN: You're out of order.  
The Member for West Yellowhead.

MR. DOYLE: Thank you, Mr. Chairman. I believe I can proceed now, with your permission.

I'd like to refer the minister to page 52 of the 1991 annual report. It states that the heritage trust fund will invest \$275 million in the Alberta Pacific pulp mill project in the form of subordinate debentures. Note (j) indicates that Al-Pac will only be charged interest on the debenture at Alberta's 20-year borrowing rate and will only make interest payments on the debentures as it makes money. I'd like to ask the Treasurer how he could justify such a sweetheart deal to a foreign-owned pulp company at the expense of Albertans.

MR. JOHNSTON: I'm sure my colleague from Athabasca-Lac La Biche will listen carefully to the question. In fact, I could probably quote him, because I listen to him as well when he speaks to the Legislative Assembly on behalf of his constituents who are benefiting from a significant number of new jobs in their constituency, complementing that with a significant manpower training program, complementing that with a major diversification of our province, complementing that with value added to the natural forest products in this province, complementing that with a tremendous opportunity for export growth and development from our province. Wrap that all together, the single common denominator in terms of the government's response to that is essentially assisting by a debenture in that Al-Pac project through the Heritage Savings Trust Fund, which satisfies the tests; that is to say, diversification, earns a rate of return, ensures the project gets on stream here in the province of Alberta, and allows a significant number of new jobs to be created.

I mean, I wouldn't have thought that the Member for West Yellowhead would open the door so widely for us to describe how successful that diversification strategy has been, how it confirms what the Heritage Savings Trust Fund has been intended to do from the outset - that is, to diversify the economy - and how it allows a reasonable rate of return for the people of Alberta through the Heritage Savings Trust Fund to be reflected over the long-term investment in a very strongly financed company backed by some of the largest rural companies there are and ensuring by way of our policies that we maintain normal constraints on that operation through the forest management agreement and through an agreement which ensures that this project, which is a pulp and paper mill project, is completed on time for the people of Alberta, developing resource and earning value added to our economy.

MR. DOYLE: Mr. Chairman, the note refers to a \$275 million subordinated debenture. This type of debenture ranks below other securities and obligations of the company and therefore has a lesser claim to repayment in the event of bankruptcy. I would refer to the *Dictionary of Canadian Economics* by David Crane. It explains a subordinated debenture.

A debenture that is ranked below other securities or obligations of the company, and hence has a lesser claim to repayment in the event of bankruptcy.

Given the facts that the debenture was a sweetheart deal in the first place and thousands of Albertans did not agree with this development, why did the Treasurer not at least secure a first claim on Al-Pac's assets? What amount of security ranks in priority to the heritage fund's claim?

MR. JOHNSTON: Well, I'm glad the member (a) knows how to access the dictionary - it's an alphabetical system; I guess he's confirmed he knows that - and (b) the fact that he's looking at an economic dictionary is even more significant, because it's the first time I've heard of anyone looking at an economic dictionary on behalf of that party.

Let me say, though, that subordinated debentures is a common vehicle, a vehicle which allows everybody else's investment to get in there to secure the assets, take charge against the assets. From the province's point of view this allows a package to be put together, a package which, as I said, has allowed an expansion of our economy; it's allowed the diversification of the economy; it allows a rate of return for the heritage fund.

You don't have to go to a dictionary, because most people who have any understanding of business will tell you a subordinated debenture is subordinated to something, isn't it? That is sub, meaning below, and subordinated in this case to other debt which ranks ahead of it. That other debt is, in fact, the banking syndicate, and that banking syndicate has put their money in as well, ahead of ours.

Now, the only time that subordinated debentures become difficult is if there's no equity into play. You see, the member doesn't understand at all that there has to be equity in these investments before the province of Alberta will venture into this investment. There is significant equity backstopping not only the project but in the project itself. If it had not been for the mix of equity and debt, the province would not have participated. So we ensure that the risk-takers - that is to say the investors in the project - have to take their risk, and at the end of the day there's a considerable amount of equity in this project that if something does go wrong with the project, we are protected by the equity in that investment. Secondly, these companies, frankly, do not default. It's not like the traditional kind of investment. Investments of this order do not default. If something goes wrong, they see it in advance, they restructure the financing, they put more equity in, but they simply do not default on these kinds of investments.

So I'm not as pessimistic as the Member for West Yellowhead, who comes from a forestry-based area, as I recall, who seems to not like investment in forest products, I guess, and does not want to generate jobs, I suppose, for Albertans. We want to take some risk. We agree it's subordinated. We will get the interest on it; it's not a question of deferring forever the interest. There is a possibility that the interest could be deferred in the first few years, but it accumulates and will be repaid. Because of our risk, as I've said, we have diversified the economy, and that's what this heritage fund is about. That's why it is such an amazing vehicle. That's why it has touched so many Albertans. That's why it has allowed us to add value and to generate a strong economy, which, by the way, is one of the strongest provincial economies in Canada right now, growing faster than those provinces such as Ontario, for example, where in fact our real economic growth is above that. So that's why the heritage fund has been so important, and that's why we're willing to take that risk, modest as it is, in investing in this forest product, which in fact is adding real economic rent to a product which otherwise is standing in the field, in some cases deteriorating, and not being maximized for the benefit of Albertans in terms of economic opportunity, jobs, and export trade.

11:14

MR. DOYLE: Mr. Chairman, I would have preferred an answer. I'm sure thousands of Alberta companies would love to get such a deal as Al-Pac did, but they can't.

Given that there will be no financial return to the heritage trust fund for several years after the money is advanced under the \$270 million Al-Pac debenture, Albertans have a right to know at what rate moneys are being advanced to Al-Pac.

MR. JOHNSTON: Mr. Chairman, could the member read a little slower, please?

MR. DOYLE: I first wanted to point out to the Treasurer that thousands of Alberta companies would love to get the same deal that Al-Pac got but simply can't.

Given that there will be no financial return to the heritage trust fund for several years after the money is advanced under the \$270 million Al-Pac debenture, Albertans have a right to know at what rate moneys are being advanced to Al-Pac. My questions to the Treasurer: as of today's date what amount of funds have been advanced under this debenture, and how much do you estimate will be advanced by March 31, 1992?

MR. JOHNSTON: Well, Mr. Chairman, it is true that, like all investments of this order, in fact during the construction period it is common to capitalize the interest. That's commonly done in most construction projects, and that's essentially what's happened here. The only way in which the interest is not paid on this debenture is through the construction period or the run-up period, which is only the construction time. The plant is now under construction.

I can tell you that if it's capitalized, then of course we earn a rate of return on that investment as well. The interest will be paid. There's no question that it's not a single shot. If you don't pay the interest because of a profit test, that interest is not lost; it accumulates. In the case of over the construction period, the interest accumulates as well. So it's not a sweetheart deal, and we have provided these kinds of opportunities to other entities in Alberta. I'm not sure whether the member is saying we should or should not do it. He seems to have a mixed message. I can say that we will advance our money, I think, on an equal rate with the other debt holders, and I would expect that by March 31, '92, about \$80 million will be advanced of the total commitment of subordinated ventures.

MR. CHAIRMAN: Thank you.

The Member for Lloydminster, followed by the Member for Westlock-Sturgeon.

MR. MOORE: Ahead of me? Mr. Chairman, point of order. He came after me.

MRS. BLACK: And me.

MR. CARDINAL: And me.

MR. MOORE: And me. Favouritism to the Liberals.

MR. TAYLOR: You always come after me. You should know that by now.

MR. CHAIRMAN: Order.

MR. CHERRY: Thank you, Mr. Chairman. I hope that we can get people quietened down here this morning.

MRS. BLACK: Don't count on it.

MR. CHERRY: Okay.

Mr. Treasurer, I have a question for you, and I think it's doubly important this morning because of the results of what happened yesterday in the province of Saskatchewan. I think it was less than a year ago that we saw eastern Europe turn from socialist communism to a free enterprise type of system. Now we're seeing it at our own back door. One of the questions I have this morning is: how safe is our investment in Saskatchewan now? Are they going to nationalize the whole thing? What's your perception, sir?

MR. JOHNSTON: Mr. Chairman, I have to be careful. I don't want my words to be sent to my old friend Romanow. He may want to use them against me at some point.

I think the member makes an important point that this project, I guess, was conceived as an Alberta project but built on the Saskatchewan side of the border to satisfy the objective of regional co-operation. Mr. Devine certainly has shared that objective, and I know from personal experience that Mr. Romanow also shares a view that regional co-operation is important, particularly between Saskatchewan and Alberta. So I will step back a bit from the real point made by my colleague. I will only indicate that I doubt very much that this project would be nationalized. I think the view is that it's better to have it operated by the private sector wherever possible; it brings a kind of discipline to the project that's expected. I think this project will do very well for the private sector. In fact it's forecasted, if the spreads between sweet and heavy oil continue, to probably be a better project than we ever contemplated. I do recognize there are some overruns, but I think the project itself is sound. I think it reflects a regional co-operative view. As I understand the numbers - but I'm sure my colleague the Minister of Energy will have more details on this - most of the oil comes out of the Alberta side so that the producers in Alberta get the value, and western Canada certainly gets the opportunity for export.

In terms of numbers, you're right. The sale of the product doesn't show up in Alberta economic accounts; it shows up in Saskatchewan economic accounts. There are some distortions on that side of the border.

MR. CHERRY: Supplementary. I understand there is possibly a shortfall there as a direct result of, as I was told, 1988 dollars and also the strong union demands within the project itself. Of course, the partners were asked to throw in more dollars. Is this \$40 million, which I understand is our share of it, going to be the last that we see, that we have to dub in? I guess the question is: how much is how much?

MR. JOHNSTON: Mr. Chairman, it's a matter of record that the heritage fund will commit, I think, an additional \$42.3 million, which is part of a \$175 million sort of overrun safety net, which brings the cost of the project from about \$1.267 billion up to a potential of \$1.442 billion. The \$175 million which has been agreed to by the participants, which includes the three governments and the company, has a cushion implicit in the \$175 million to allow for still further overruns.

The major problem with this, of course, is simply that this is new technology. I think to a great extent it's a design-and-build kind of project. Of course, in part because of GST and other problems of this order there has been a price impact on this project that wasn't forecast at the time it was conceived, and that simply is the problem we're facing right now. Simply to confirm our position, it's \$42.29 million, which is our additional commitment, on top of \$306 million, and that maintains the equity of Alberta at 24.16, which is constant before and after the \$175 million overrun.

MR. CHAIRMAN: Final supplementary? Does that complete your questions?

The Member for Westlock-Sturgeon.

MR. TAYLOR: Thank you, Mr. Chairman. You've worked it out so that I'm not going to get a second crack at him anyhow. You must be in training for the job of Speaker. Okay, that's the last dirty one I'll throw at you.

I want to pursue the line of questioning the Member for Edmonton-Beverly took, which I thought was a very good one. It was an evaluation of the assets. We have things like Alberta Mortgage and Housing, which should have been written down more than it has. That was realized. Also, the debentures of the Alberta Agricultural Development Corporation you carry on the books at nearly a billion dollars, about \$900 million. It would probably be better around \$500 million. I was just wondering why the minister, who answered the Member for Edmonton-Beverly with great flights of rhetoric about the good investments in his portfolio - Telus was up a few pennies and whatever it was, and all the great things and what it would do to the assets of the fund - does not do like most mutual fund assets or most statements of funds that hold a number of shares, and that is the two lists, the cost to the assets as you now report it but also current pricing, what your evaluation would be. Then the public can see whether the asset has increased or decreased, and also you can defend in a much better place, which is on a piece of paper, than in this House as to what the pricing is you have. Why don't we carry both items? Why is it necessary just to put the one item on and end up with things in there like parks and research and medical centres, which are very debatable as to what current values are? We could see both lists. Why don't you do both?

11:24

MR. JOHNSTON: Mr. Chairman, we do both. If you look at pages 53 and 48, those assets which we can mark to market are marked to market. So we don't disagree.

MR. TAYLOR: There's no market value . . . I'm sorry, that's not . . .

MR. CHAIRMAN: Hon. member, is this your supplementary?

MR. TAYLOR: Okay, I'll go on to the second one, but that's not an answer, Mr. Chairman. He does not list the current value of many of the assets on there. That's just incorrect.

MR. CHAIRMAN: Hon. member, could you move to your supplementary?

MR. TAYLOR: I'm just saying the minister has been incorrect in the first thing.

Let's try the second one then. Maybe he will get a star for this one. Maybe he'll be able to pass on this one, because the first one was a flop.

The subordinated debenture was also brought out by the Member for West Yellowhead; he touched on a good point there. You and the Member for West Yellowhead are both correct in that it is probably the last form of debt you can have outside of the guy that owns the shares, probably the worst position you can have. But quite often subordinated debentures have a little kicker somehow or other. One is: could you tell the House the retiring procedure for the debentures? Is it by lot per year, is it only when they make a profit, or is it a fixed term, 20 years or that? Also, is there is any convertibility feature; in other words, a retiring

procedure and a convertibility feature? Is there a convertibility feature to stop the banks foreclosing if he wanted to move into the number one position, or is there a convertibility feature, if indeed the project does well, that you can convert the subordinated debenture to equity? There are two parts to that same question.

MR. JOHNSTON: Actually three parts, because you made some statement that I didn't answer the first part right, and obviously I object to that. I again draw the member's attention to market value disclosure on pages 48 and 53. I mean, we're doing that wherever possible. All their assets are marked to market value. Mostly the market value is close to cost. In the case of debentures, which you mentioned, in fact the cost is your market value because they're guaranteed by the General Revenue Fund. So let's not have that nonsense about not telling the truth. I object to that, Mr. Chairman.

Secondly, with respect to the debenture, again the Member for Edmonton-Beverly outlined on point (j) to the notes to the financial statements the details of debentures. Now, what isn't disclosed there . . . There's nothing hidden. Obviously, if it was a convertible debenture, it would have been disclosed in note (j), but the amortization terms are disclosed in note (j), and I can't provide more details than that. But there is (a) no convertibility, and (b), if the project did get into trouble, you wouldn't end up dealing with a receiver. I mean, this project you would know immediately . . . These are very smart managers; they would understand the problem they're in and would have a plan to restructure if it came to that point. I don't ever anticipate that, and I don't think, as I've said before, the major players in this project would allow it to happen. They would simply inject more equity to keep the project sound.

MR. CHAIRMAN: Supplementary.

MR. TAYLOR: Mr. Chairman, a most unusual answer in view of the number of investments that have gone haywire: that you haven't made some backdoor recovery method so the taxpayer won't be left hanging on the breeze if the managers are not as smart as you say they should be.

MR. CHAIRMAN: Is there a question?

MR. TAYLOR: It goes on to the next one. It's nice to see you taking an interest in the procedure, Mr. Chairman.

Anyhow, the supplementary has to do with the government guarantees. The asset value of ADC and Alberta Mortgage and Housing is largely, in the minister's own arguments, due to the guarantees the government makes. Therefore the minister says he is quite justified in listing the assets as they are in the heritage trust fund, at a rather exorbitantly high figure, because the government has guaranteed them. Well, if the government guarantees liability in these areas, why doesn't it appear as a debit on the government's books someplace?

MR. JOHNSTON: It does appear as a debit somewhere in the government's books, Mr. Chairman.

MR. TAYLOR: No. I've looked for it, Mr. Chairman. As a point of order, no less a man than Mr. Mumey - M-u-m-e-y, an economist; I'm sure you know him - couldn't find it either. He lists that as one of the faults in the system.

MR. JOHNSTON: Well, as I say, I have a great deal of respect for academics. I was . . . No, I won't diverge from that point.

Academics have a useful purpose in that they generate and spark debate. In this case, they provide an opportunity or forum for debating public policy questions. They raise items which deserve attention, some civil disagreement about how processes operate or how policies emerge. But I'm not sure you're quoting the distinguished gentleman accurately. What I can tell you as to the facts, which I think is important, is that the debentures in the heritage fund, whether they're Alberta Mortgage and Housing Corporation, whether they're Ag Development Corporation, whether they're Alberta Municipal Financing Corporation, in fact have a value at least equal to the cost of the investment. We have debated this on many occasions before, Mr. Chairman, and I think the people of Alberta agree that if we are going to have the objective of housing or agricultural diversification or small business diversification, we should have some vehicle for doing that. That's why, as an objective of this government, we set up those institutions to ensure that adequate capital was provided.

Of course, as I've said in this committee before, policy reflects the times. We set up a policy to initiate Alberta Mortgage and Housing Corporation at a time when our economy was growing rapidly and the private sector was not responding in terms of mortgage loans for Albertans. You've seen the history of that coming full circle, wherein we set up AMHC, provided funding from the heritage fund to AMHC, and now we're selling off that portfolio and privatizing the portfolio and the money's going back into the heritage fund, reducing the debentures there at book value. So of course we will continue to redeem them over time, and those assets will be washed aside at book value; there will be no losses and probably no profit. In the case of AMFC, I think in fact there's a profit on the books, because they have a very high coupon and could be secure ties, as I've said many times before, to the marketplace.

Finally, the Auditor General agrees that we have disclosed these values properly and accurately on a consistent basis, so if you want to take up disclosure with respect to valuation, take it up with the Auditor. I am assuring that they are disclosed properly and accurately, that they are guaranteed by the government and therefore always have a par value equal to 100. More importantly, I think Albertans believe that if you're going to borrow money to support these economic or social objectives – and I guess they're shared by the Member for Westlock-Sturgeon; certainly, I think agriculture is one of his interests. He doesn't always seem to be sharing the view the government has that it's important economic diversification needed to protect those people; he takes a different view on that side. But we think we should protect the agricultural community and have done a lot on that side. The Ag Development Corporation in particular has done that. Therefore, the interest paid on that debenture – whether it's Ag Development Corporation, AMHC, or AMFC – goes back to Albertans as opposed to going to Zurich, New York, London, or the Saudi Arabian investor. It compounds the advantage here in Alberta, and to some extent it can be taxed back, I suppose, once the interest is there. So it does satisfy a very major point in our diversification program, satisfies the use of resources to achieve on an economic business cycle the objectives of the time, and allows us to review policy from time to time to accommodate new changes. I think that's what this fund is about and what government is about. That's how this particular government, the Conservative government, has responded since 1971. It will continue to respond on this sort of planned management basis to the needs of Albertans on a time-to-time basis.

11:34

The last point, of course, is that we did that by investing in the 9 percent farm credit stability program, which as much as anything

has seen the farming community through that difficult period. I'll have to end there, but there's so much the government has done and so much that can be accomplished within the heritage fund and so much the people of Alberta have a sense of pride in that I could go on for some considerable period. I'm not from the negative school. As you know, Mr. Chairman, I'm from the positive, let's-get-it-done school, unlike the opposition parties.

MR. CHAIRMAN: Thank you.  
The Member for Wainwright.

MR. FISCHER: Thank you, Mr. Chairman, and good morning to the Treasurer and Mr. McPherson. My question relates to the fund's investment in Syncrude, and we all know what a tremendous investment that project was for the people of Alberta. It relates to the announcement of a proposed sale of Petro-Can's 5 percent interest to the Mitsubishi oil company. I'd like to have your opinion on how that is going to affect our position in the investment.

MR. JOHNSTON: Mr. Chairman, there's a matter also of public record, including last week's *Toronto Globe and Mail*, I think last week's *Calgary Herald*, and last week's *Edmonton Journal*, that has described and outlined the number of owners of Syncrude investments that are trying to market them. The most recent one was the Mitsubishi sale wherein part of the Petro-Canada ownership of Syncrude was sold to Mitsubishi. I can assure members that the province also is attempting to put into the private sector its Syncrude investment. As my colleague the Minister of Energy said yesterday in the *Edmonton Journal*, however, we will not sell our Syncrude investment unless we make a reasonable rate of return on that investment above our cost, which is shown in the books at \$513 million. If you were to apply the Mitsubishi price to the Syncrude price, we'd be about awash right now on that one measurement of the market value of the Syncrude investment.

MR. FISCHER: My supplementary. The government has been obtaining some consultants to evaluate and help with the sale of our portion of Syncrude. Could you elaborate on that a little, please?

MR. JOHNSTON: Mr. Chairman, we have in fact talked to a variety of investment bankers over the past while, and we now have an investment banker in place who is assisting us in marketing the Syncrude equity worldwide. It's a troublesome asset to sell because of the oil price, the makeup of the ownership, the ownership structure, and the fact that others are trying to market their position as well. So we are in the process of seeking an opportunity to sell our position, as we declared publicly before, and we do have an adviser in place who is assisting us with that disposition.

MR. FISCHER: Well, as you said, there are a number of companies that are interested in selling out their position, and I'm wondering if this may delay our chance to sell.

MR. JOHNSTON: Truthfully, I think the fact that a lot of people are shopping their investment will have an impact on the value of Syncrude. I mean, Syncrude is a very complex beast. The technology was fairly new when the project was put in place. The application of new technology has made the Syncrude project a very valuable asset, and in fact last year in our fiscal plan it generated a considerable amount of money for the province

because the price of oil was higher than the plateau and therefore generated significant profits back to us.

It's viewed by some as an unusual investment. If you're a mining expert, for example, you may understand the Syncrude investment much more than if you're a traditional oil and gas player. So it's hard to find somebody who is looking for this kind of investment. In particular, when the price of oil has been as volatile as it has over the past year, you can appreciate that forecasting the present value of cash flow is even as difficult again. But remember, this is a very major asset that continues to work. You can dig oil for as long as you and I can believe. There's a vast resource pool sitting there. We continue to dig and refine it, and it is in fact part of the replacement of the traditional oil which is decreasing in the province of Alberta, being replaced by synthetics and heavy oil as we talked about already. So it's an interesting asset.

As I've said, we would not sell it unless we picked up considerable value above our book cost, and if we have to hold it, we have to hold it. I mean, that's the kind of evaluation process that's in place. I don't think the people of Alberta have any concern about us selling this asset at a discounted value or a sacrifice price. If we simply can't sell it at a reasonable rate of return, we won't sell it; we'll hold it until another time.

MR. CHAIRMAN: The Member for Calgary-Foothills.

MRS. BLACK: Thank you, Mr. Chairman. I thought it would be advantageous if I came in 20 minutes late for the meeting and I might get up on the list.

Welcome, Mr. Treasurer. It's nice to have you here today. My question relates to Vencap. I guess I have some concerns. From what I understand, the repayment of the debenture in Vencap is based on pretaxed income. According to the report, there's been a substantial decrease this last year from \$5.6 million in '89-90 to \$700,000 in '90-91. This is on page 18 in the summary of pretaxed income. First of all, I'm wondering what happened. How did we get into such a major drop in income in this entity?

MR. JOHNSTON: If my memory is accurate, Vencap has been in place seven or eight years. If you'll forgive me, I forget which way it is, but it's of that order. I could spend a lot of time on Vencap discussing it on policy implications, but the specific question raised was: why is the repayment schedule down this year?

The Member for Calgary-Foothills understands and has a very thorough knowledge of the way in which the capital markets and investment decisions are made. Obviously, in this case the repayment of the \$200 million initial investment by the heritage fund in Vencap was on a scheduled basis conditional upon the venture capital company earning profits. I think many people consider that to be reasonable, because of course venture capital operations are long-term investments. They are very risky, otherwise you wouldn't call them "venture," and they have an uncertain payback matrix. Just as uncertain as the payback is the certainty that there are going to be losses, and in this current financial year Vencap had a write-down of certain assets and therefore its operating profits were written down or accordingly were down as well. That is simply reflected in that schedule; \$4.7 million in capital losses, for example, reflected in venture capital operations this past year.

MR. CHAIRMAN: Supplementary.

MRS. BLACK: Well, further on the same topic of Vencap, I guess one of the concerns is that as we're into the '90s, when we

get into the repayment schedule, if the performance level is not increased in Vencap, we've got commitments for instalments of \$15 million coming in the years 2003 through 2013. I'm wondering if the Treasurer is aware of some plans within Vencap to be able to ensure that that repayment of the fixed repayment portion that's not just pretax income is under way. I think we could be vulnerable on that basis.

11:44

MR. JOHNSTON: Well, there's no question there's risk involved. I'm just going from memory here, Mr. Chairman, but I think that if you look at the financial statements of Vencap for the most recent fiscal year-end, you'll find that the venture capital company of Vencap Equities – and again I'm guessing here – is \$187 million to \$190 million in marketable securities on the balance sheet itself, separate from its venture capital investments. As a consequence, I don't think there's any doubt that there is an amount of liquid assets equal to the outstanding \$200 million liability to the heritage fund.

Now, while that may give you some comfort, Mr. Chairman, I think it also raises questions about: why do we have \$200 million in Vencap Equities? Presumably it doesn't need it. I don't want to anticipate the next question; nonetheless, it does raise that in my mind.

MRS. BLACK: Actually, Mr. Chairman, that's the lead-in to my final supplementary. With the fact that Vencap is a publicly trading company and private enterprise has entered into it and we have this \$200 million investment, as we see the benefits arising from the investments of Vencap, is there a potential on the conversion of the debenture to go and have that taken over by the private sector? Is that a potential of that type of debenture, that it could roll over to the private sector?

MR. JOHNSTON: Well, I'm sure that the company can do whatever it wants if it gets shareholder approval and the debenture holders' approval, but as I recall, at some point in '91 the conversion factor for those debentures moves from \$2.50 to \$4 a share. Therefore, the share is now trading about \$2.65, \$2.70, so I don't think too many people are going to be converting. It's going to be a charge against the income statement as opposed to a dividend on these debentures. Now, what the company has to do, obviously, is get the price up to some conversion level that's attractive to the investor to take the choice to switch to shares.

I guess it's also a matter of record, Mr. Chairman, that Vencap Equities has in fact been reducing its debentures outstanding by a common course offering to buy back some of these debentures. The financial statements for the last year-end reflect the current buy-back. Whether or not it's continuing, I don't know, but I'm sure that you could find out if you wanted to. The minister of economic development is responsible for Vencap, and I'm sure you could inquire of him, when he shows up here, how he sees its future and what's happened to the company.

I've given you as candidly as possible some of my views on it, but I can tell you that in terms of its security here in the heritage fund assets, it's secure. The company itself, Vencap Equities, has more than \$185 million, I think, in liquid assets apart from its venture capital assets, and to a great extent that investment income has provided the earnings per share for the company over the past seven or eight years and still is very important to its earnings portfolio. I think it's a reasonable question for this committee to suggest that maybe \$200 million is too much for that venture capital fund to be using, because it simply hasn't employed it and

it may well not be able to employ it over the course of the term ahead.

MR. CHAIRMAN: Thank you.  
The Member for Athabasca-Lac La Biche.

MR. CARDINAL: Thank you, Mr. Chairman. I have a bit of a concern here, you know. Traveling your time, I came right on time at 10 o'clock, like I always do, and the Member for Westlock-Sturgeon coming in about 20 minutes late and traveling my time gets to speak before me.

MR. TAYLOR: I was three minutes late.

MR. CHAIRMAN: Hon. member.

MR. CARDINAL: Anyway, I'll get to the Heritage Savings Trust Fund. There were a couple of issues that were brought up here today in relation to the fund, and they're tied in with my question of course: to try and look at spending more dollars towards the environment. I feel the fund is doing very, very well, and I commend the people in charge of it. The worst, worst environmental problem we have in this country is poverty, and if you look at the fund, the way the fund is outlined as to the areas the fund deals with, it definitely deals with poverty in this country. I'll tell you that that is the worst environmental problem we have right now, and we need to deal with it. I think we're doing the right thing. It deals with recreation; it deals with social housing, health care.

MR. CHAIRMAN: Hon. member, you really need to move to your question.

MR. CARDINAL: Yes. My question, of course, is again in relation to the developments. The Member for West Yellowhead indicated that the fund is not invested in the right direction, such as a project like Al-Pac. Maybe he doesn't realize that types of projects like that will create thousands of jobs for Albertans.

MR. CHAIRMAN: Hon. member, you'll have to move to your question. [interjections]

MR. CARDINAL: I know they're not happy. That's okay. That's their policy.

I wish I had more time like some of the other people, but it seems like not only do I get to speak last, but my time is very, very limited.

MR. CHAIRMAN: Hon. member, your question, please.

MR. CARDINAL: Anyway, I had a lot, lot more to say about investments in northern Albertan in relation to the forestry industry, poverty, and the environment.

MR. CHAIRMAN: Hon. member, you'll lose your question.

MR. CARDINAL: I'll ask my question. The Heritage Savings Trust Fund income from Vencap Equities Alberta Ltd. totaled only \$700,000 in 1990-91 compared to \$5.6 million the previous year. The declined income is possibly due to difficulties with investment in three venture companies over the past year. Can the Provincial Treasurer elaborate on the facts that contributed to the failure associated with these three companies?

MR. JOHNSTON: Mr. Chairman, this is similar to the question preceding.

MR. CHAIRMAN: The Chair has a little difficulty with the question in that it probably should be directed to the Minister of Economic Development and Trade. He has responsibility for Vencap. The Chair did allow the question to come from Calgary-Foothills. If the Treasurer wishes to respond to it in some manner, the Chair would hear it.

MR. JOHNSTON: Well, I'll be very brief, Mr. Chairman. We can say that the financial results of Vencap for the year ended March 31, '91, showed a \$4.7 million capital loss in the disposition of three venture investments - those are disclosed in the Vencap financial statements - and an additional \$10.5 million write-down of the investment on assets which are not sold, but there's a realization that there will be an impairment of the value. So there's been about a \$15.2 million adjustment. The largest, \$7.3 million, I should put on the public record, was from Myrias Research Corporation, and as you well know, the province had part of that loss as well through other sides.

Those are, I think, some of the aspects. Myrias was the largest single item. As the chairman has pointed out, I'm sure the minister of economic development, on the broad policy question, would be a more appropriate person to deal with this issue.

MR. CARDINAL: Thank you.

I don't have a supplement, Mr. Chairman, other than that we need in the future to deal with the speaking order, I believe, and establish it early on, like when we come in at 10 o'clock, because it is not fair the way it's set up.

MR. CHAIRMAN: Thank you.

The Member for Lacombe is on the list; however, I'm not sure if he's indicating something. Has your question been asked, or do you want to remain on the list?

MR. MOORE: My question has been asked, but I have a comment. I just feel, Mr. Chairman, that this committee should get an award for good parents because we looked after the baby that cried the most.

MR. CHAIRMAN: Thank you, hon. member.

If we could move to Calgary-Mountain View.

MR. HAWKESWORTH: Thank you, Mr. Chairman. One question that I'd like to ask the Provincial Treasurer if he would turn to page . . .

MR. CHAIRMAN: Could the member move as quickly as possible? Our time is drawing to a close for the meeting.

MR. HAWKESWORTH: Page 42, Mr. Chairman, statement of income, retained earnings, transfers, amounts expended, and fund equity. There's an item there, write-down of investments, \$4 and a half million. Would the Provincial Treasurer indicate to us what investments were represented by that write-down of \$4 and a half million?

11:54

MR. JOHNSTON: Mr. Chairman, the commercial investment division of the fund, as you well know, is an opportunity for us to take a different kind of risk in terms of investment, and it was set up to allow the heritage fund to be more driven by equity

investments as opposed to other kinds of debentures, which had been the characterization of investments previously. So the commercial investment division was set up, as I've indicated. It has a \$180 million profit overall since its inception, and it has generated dividend income back to the heritage fund.

As you can expect, from time to time there are some investments on equity which generate losses. That's what investment is about. You take the upside, but you have to realize the downside. So in the commercial investment division there were some write-downs or permanent impairment of the investment in certain stock.

Does the member want me to read the stock into the public record? I'd be glad to do that. Number one is Stelco, number two is Dylex, number three is Federal Industries, and number four is Onex. The total of those is whatever you see in the statements.

MR. CHAIRMAN: Supplementary.

MR. HAWKESWORTH: Thank you, Mr. Chairman. I presume that the Provincial Treasurer will provide to us, as he indicated, a summary of the commercial investment division investments as he has in the past. I would say that it would be more helpful to us if we had it ahead of our meeting with the Provincial Treasurer than after he's left.

MR. CHAIRMAN: If I could just interrupt, the Chair has been given copies of the commercial investment division investments and will be tabling them at the conclusion of the meeting for members who are interested to pick up.

MR. HAWKESWORTH: Mr. Chairman, in the annual report of the trust fund, again when it comes to the commercial investment division, the Provincial Treasurer does provide some information about the market value of that particular division, which happens to accord nicely with the market analysis done by Professor Mumey from the University of Alberta, who wrote for the Western Centre for Economic Research, information bulletin 4, April 1991. He took an assessment of the overall fund itself and each of the investments and tried to assign a market value to it. Certainly in that commercial investment division it corresponded almost exactly to what the Provincial Treasurer has provided to us.

The bottom line is that Professor Mumey has indicated that the financial assets of the trust fund are only \$9.1 billion. To arrive at that figure, he discounted significantly AMHC housing mortgages and related items and venture loans, including loans to Ridley Grain, Millar Western Pulp, Vencap, and as well agricultural loans and related items to Alberta Agricultural Development Corporation. I wonder where in this assessment analysis - I'm sure the Provincial Treasurer has had a look at it - he would disagree with anything that was provided by Professor Mumey. Where would he part company with the assessment or the analysis of the market value of the fund provided by Professor Mumey?

MR. JOHNSTON: Well, on the fundamental statement that there's a \$3 billion loss in the financial assets, that just is not right. As I've said already - we've discussed this pretty thoroughly - there is a pickup in value of the financial assets above the \$12.1 billion amount. I've detailed in my comments earlier added valuations. I've mentioned the commercial investment division. I've mentioned investments in certain debentures. I've mentioned investment in publicly traded corporations. I've mentioned investments in other assets which add more value.

The second point that I made was that there's no write-down on the major debentures in Crown agencies of the government, and

that generally is the one area where there's a considerable disagreement. But remember that if any agency had issued a bond and provided the guarantee, it would be worth essentially what it is. That's why the bonds are guaranteed, to ensure the market value is equal to the cost, in this case \$100 per bond.

So there's not at all any logical or clear reason why you would challenge the valuation of this, and the Auditor himself has said the same thing. The Auditor's only disagreement was with respect to deemed assets, and I've talked about that before as well.

Finally, let me say that there may well be some other assets that could be subject to a valuation adjustment. There may well be a valuation adjustment of Ridley Grain, but at this point the valuation is sound. I mean, you'd have to write off all of these other investments to get any kind of an adjustment at all, and that just isn't contemplated. There just is no doubt that the valuation of these assets is at more than \$12 billion, and the income stream is there to prove it. I've already verified that other assets have value above the book value as reflected in the financial statements. Finally, the Auditor, a servant of this Legislature, as expressed in his March 31, '91, professional opinion, has verified that very point.

MR. CHAIRMAN: Final supplementary.

MR. HAWKESWORTH: Thank you, Mr. Chairman. The picture emerging here is of a declining market value of the trust fund. It's also of a government selling relatively high-quality Alberta Energy shares and Telus shares, converting them to cash so they can lend it to pulp mills on loans that they would only have to pay back if that company decides it has enough money to pay it back. So the trust fund is taking on the downside risks of equity ownership without any of the upside benefits and security that would come from lending money. I wonder if the Provincial Treasurer would hazard a guess on what he thinks the ramifications might be if a rating agency such as Moody's sees the quality of investment of the Heritage Savings Trust Fund portfolio deteriorating like that.

MR. JOHNSTON: First of all, Mr. Chairman, the quality of the assets in the heritage fund is just not deteriorating. The value of the heritage fund has never been in a better, more perfect shape than it is today. The valuation is increasing. We now can establish market values for many of our debentures; for example, Alberta Government Telephones. I'm not at all committed to what the member has said; that is to say that we're going to sell off those assets. In fact, in the case of a share you would get more income if you were in a debenture form than you would in a dividend form. I don't think the member understands that difference between dividends and interest earned. In fact, Telus Corporation is getting a dividend as opposed to an interest return at this point.

The fund is performing well. The general rate of return on the assets, as disclosed here, was well over 11 percent. The transfer of money to the General Revenue Fund has been consistent. It has diversified the economy, and it's served as a major part of the fiscal plan of this province. In fact, the rating agencies look to this example and wish that other governments had followed the same plan: in a time of fiscal surpluses you save money, and in a time of deficits you draw against your savings account in some fashion. They consider this to be the classic model of fiscal responsibility, good management, and long-term security of the position of a government and its fiscal relationship with other governments.

That's why, Mr. Chairman, as recently as last week the province of Alberta was able to borrow in the London capital markets far

cheaper than the NDP government of Ontario, which has adopted an absolutely different view. They want to run deficits. The Liberal Party did not save during the period of good times, in fact spent and taxed more unwisely, and now it's being compounded by an NDP government in Ontario that has essentially blown away any responsibility at all in terms of its fiscal style. That's why the province of Alberta can save and borrow in the financial markets around the world at a rate below any province in Canada, and we'll continue to maintain that. Since the member mentioned rating agencies, I can confirm that in fact the last bond issue was confirmed at a level above the Ontario level, and that has allowed us to access those markets to secure financing, to roll over assets, and to expand other opportunities for Albertans.

I appreciate the question. It's a great thing to see the difference of views between the negative position of the two opposition parties and the strong, aggressive view held by the Conservative Party of this country.

MR. CHAIRMAN: Thank you.

That concludes our time for this session. We appreciate the Treasurer coming before our committee, and we appreciate the attendance of the deputy minister. I would remind the members that there is material made available to you on the commercial investment division that you can pick up.

The Chair would entertain a motion from the Member for Calgary-Foothills.

MRS. BLACK: I move adjournment, Mr. Chairman.

MR. CHAIRMAN: Thank you. We have a motion for adjournment. All those in favour?

HON. MEMBERS: Agreed.

MR. CHAIRMAN: Motion carried. We stand adjourned until 2 p.m. this afternoon.

[The committee adjourned at 12:04 p.m.]