

10:03 a.m.

Thursday, October 24, 1991

[Chairman: Mr. Ady]

MR. CHAIRMAN: I'd like to call our meeting to order this morning. We're pleased to have the Premier visit us this morning. We appreciate him taking time from his schedule to come and appear before our committee and provide information on our Heritage Savings Trust Fund. By way of information to the committee, historically when the Premier has appeared we've allowed some latitude on the questions that can go to the Premier. It's perhaps fair to direct questions to him on anything that may appear in the report, because he does have overall responsibility for the direction of the fund in conjunction with cabinet.

Mr. Premier, again we're pleased to have you here, and we would certainly welcome some introductory remarks if you have some. Then we'll move to the question period from the committee. Perhaps you would just introduce the officials you have with you.

MR. GETTY: Thank you, Mr. Chairman. It is good to be here with the committee. I recall that last year when I came, I was a little late. I had been ill, and at the time, it seemed to me, I wasn't right up to feeling good. This year I must say I feel terrific, and it's good to meet with the committee.

I have with me today two people: on my right, Dr. Barry Mellon, deputy minister of the Executive Council; and on my left, Dusty Vida, a research officer in the Premier's office.

The reason I like to meet with the committee is that I think you do such valuable work for the people of Alberta. I know your committee puts in a lot of hours, I know it travels, and I think you have provided with your reports valuable information, valuable input to the government.

I instruct the members of cabinet to give your committee meetings high priority in their minds. I believe they are reflecting those instructions, but if you, Mr. Chairman, should ever feel that that isn't happening, I would urge that you should contact me.

I don't intend to make a speech to your committee today. I think we're familiar with each other, and the most valuable thing I could do would be to try to answer any questions or hear comments that the committee members might want to make. In some cases, I suppose, we may not have answers, and if that's the case, we'll certainly get them to you as quickly as possible. I'm happy to be here. It's a good committee, doing good work, and I'll help in every way I can.

Thank you, Mr. Chairman.

MR. CHAIRMAN: Thank you, Mr. Premier.

We'll recognize the Member for Calgary-Mountain View, followed by the Member for Three Hills.

MR. HAWKESWORTH: Thank you, Mr. Chairman, and thank you, Mr. Premier, for your, I suppose, brief opening comments. That was certainly one of the things that were discussed early in our organizational meeting.

The area I'd like to discuss with you or question you about this morning has to do with the \$275 million subordinated debenture loan that the trust fund has made with the Al-Pac project. It's found on page 52 of the trust fund annual report. The note (j) is where this appears, Mr. Chairman. The note says that interest on this loan will be paid by the company "to the extent of the available cash flow." What that says to me: they don't have to pay any interest on the loan unless the company decides they've

made enough money to justify a payment. I'll just give you a moment to . . .

MR. GETTY: You're referring to a note, and I just want to make sure I have it.

MR. HAWKESWORTH: Yeah. It's on the bottom of page 52.

MR. GETTY: Oh, yes.

MR. HAWKESWORTH: Near the end of the note it says, "thereafter interest will be accrued and paid monthly to the extent of the available cash flow," which says to me that they don't have to pay interest unless the company decides they made enough money to justify it. In other words, if for some reason a company can avoid showing a profit, it won't have to repay the Heritage Savings Trust Fund.

So my question to start off, Mr. Premier, has to do with a recent news item regarding a claim made by Revenue Canada with Crestbrook Forest Industries Ltd. Apparently, Revenue Canada has presented Crestbrook, who is one of the partners in this deal, with a tax bill for \$4.8 million, claiming that the price at which Crestbrook transfers pulp to its foreign owners is effectively diverting profits out of Canada. I guess my question to you, given that this agreement says that if they can avoid showing a profit they don't have to repay the trust fund: were you aware of this claim made by Revenue Canada with Crestbrook Forest Industries at the time that this deal was signed?

MR. GETTY: Mr. Chairman, I wouldn't be involved in details of Crestbrook's relationships with the federal department of revenue, but I would assure the hon. member that in our negotiations with Al-Pac, and dealing with the very matter he's talking about here, the government develops very strict accounting manual procedures that the company must adhere to. Therefore, the company can't decide whether or not to take a profit; it will, in fact, be established by agreed upon accounting procedures. At that point, of course, then the cash will flow to the heritage fund.

MR. HAWKESWORTH: Well, Mr. Chairman, in terms of this specific claim by Revenue Canada, they were only able to launch that claim after the companies were persuaded to hand over some of their best kept business secrets. Given that the deal has already been inked, is the Premier willing to give an undertaking that the province is going to seek further information from Revenue Canada about the claim and be prepared at some point to renegotiate this deal with Al-Pac if it's clear that the safeguards are not in place to ensure that adequate records are being provided to public authorities?

MR. GETTY: Well, Mr. Chairman, I'm not sure if the hon. member is saying that something fraudulent is going on. I would caution him from expressing opinions along those lines. There are a great many things that are done between the taxpayers of Canada and the Department of National Revenue. Probably members of this committee have had disagreements with them and perhaps even challenged them and perhaps even in the long term proved that they were wrong and that the taxpayer was right. I believe that happens all the time in Canada.

In any event, Mr. Chairman, what we have structured here are very sound principles, accounting procedures that must be followed, and those accounting procedures give us full disclosure of Al-Pac's operations. If at some time in the future it appears

that they aren't meeting all of our needs, certainly consideration would be done to make sure that they do.

**MR. HAWKESWORTH:** Mr. Chairman, I'm certainly not alleging anything other than what I understand Revenue Canada has said in regards to this claim they've made against Crestbrook Forest Industries Ltd.

My last question this morning, Mr. Chairman, has to do with: not only does Al-Pac not have to pay interest on these loans if they can avoid showing a profit, but the interest rate is also below market. The note says the province is going to lend at the same rate as it costs them to borrow. Lenders don't ever lend money at the cost of borrowing, which is what the Heritage Savings Trust Fund is doing here. I'm just wondering why the Heritage Savings Trust Fund is not charging any kind of margin on our loan to Al-Pac to cover our financial risk and administrative costs.

10:13

**MR. GETTY:** Well, Mr. Chairman, the member is wrong in his comments about lending at your borrowing costs or less. We do that to Albertans constantly. We lent 2 and a half billion dollars at 9 percent to farmers for 20 years, and that money helps our farming community. We lend to some young farmers at 6 percent, and that helps them as well. In some cases to Albertans, young families trying to build new homes, funds are lent at no interest payments.

Mr. Chairman, what we have done here is lent at what we think will be the best conditions for the province of Alberta. We have this large project operating here in our province providing economic stimulation, providing the well-managed harvesting of forests, providing reforestation, providing jobs, helping our province to have the strongest economy in Canada, and the people of a certain part of our province who have always felt that they haven't participated in the strength and growth of the province of Alberta now have an opportunity to participate fully. I think it will be shown to be an excellent investment for the people of Alberta, and I hope that members of this committee continue to watch how this proposal develops in the future. I think they'll find it to be a very sound and good one for the people of Alberta.

**MR. CHAIRMAN:** Thank you.

The Member for Three Hills, followed by the Member for Edmonton-Meadowlark.

**MRS. OSTERMAN:** Thank you very much, Mr. Chairman, and good morning, Mr. Premier, Dr. Mellon, and Miss Vida. I just observe that yesterday the Minister of Energy commented on where I was sitting, noting I was far to the right of the rest of my colleagues. It's my chair in the Legislature, and that looks odd.

Anyway, Mr. Premier, I won't plough over all the ground that I raised last year, but going a little bit on that theme, last year you had talked about the objectives of the fund and I had mentioned the analysis between our fund and the various corporations that other provinces own, in particular the power companies that are obviously a very great asset to them and return to their provincial treasuries. Without the fund being strong and intact, we will lose that cushion that is assisting us a great deal right now with the revenues from the fund that flow into general revenue. I would ask the Premier: given the big discussion about the economy right now, notwithstanding that Alberta is in reasonably good shape relative, certainly, to the rest of the country and maybe the world, has he given any consideration to again seeing a mechanism suggested or recommended to be put in place to keep the fund intact at the dollar values of today now and into the future?

**MR. GETTY:** Well, Mr. Chairman, I guess that's a matter of judgment and balance always in meeting the priorities of the people of Alberta. Members will recall September 1982. I would say that the decision then to have the revenues of the trust fund flow into the General Revenue Fund of the province allowed Albertans to balance their budget and maintain the lowest taxes in Canada. The decision was taken then at a time when the economy of the province was very, very weak and the outlook dark indeed for the future opportunities to balance the budget. Those were days when there was a tendency, I think, to have very high-spending years as a province, where increases in the budget ranged somewhere — I think in 1982 an increase of some 33 percent year over year, and, on an average, increases in the order of 17 percent. We haven't had the luxury of anything like that since 1986, when we lost 3 and a half billion dollars of resource revenue, had a large deficit, and as I mentioned last year, we still are some \$2 billion short of resource revenues that the government was able to bring in in 1985.

So we made the decision and the move to no longer have resource revenues go into the fund while we were in a large deficit position. It didn't make sense — I don't believe it makes sense — to borrow money in order to put money into the fund or leave income in the fund. That does leave us, though, with the knowledge that unless the fund's assets are earning sufficiently on the capital side, the fund will face the problems of reduction by inflation. But that's a judgment, and on overall judgment it is our belief that this is the better choice for Albertans.

One thing we are encouraging this year in a new initiative, which is the Toward 2000 initiative, is urging Albertans to give us their input on the investment policies and other policies of the Alberta Heritage Savings Trust Fund in public meetings throughout the province. It may well be, Mrs. Osterman, that we will get some indication during those meetings and hearings about Albertans' views that may cause us to give serious consideration to changing what we are currently doing, which we believe, in a judgment decision, is the best thing to do. But I recognize the trade-offs that we have to make to continue with this current policy.

**MRS. OSTERMAN:** Thank you, Mr. Premier. I'm pleased that you mentioned Toward 2000. I was going to ask you in my supplementary about what the committee was doing to promote that part of the discussion in terms of the heritage fund.

I'll go on to a specific now, if I may, Mr. Chairman. It has to do with our investment in Nova Corporation. The heritage fund holds \$150 million in adjustable rate convertible subordinate debentures, which is a big handful in terms of describing our investment, and we have 2.8 million Nova common shares. Now, we've seen the publicity recently. Just yesterday they announced a sale of the rest of the percentage of Husky to the particular gentleman from offshore and, as well, a lot of discussions about Nova splitting into what would seem to some to be a natural split in terms of the pipelines and the petrochemical area. Mr. Premier, can you describe what, if any, is the role of the Alberta government in its role of holding, in particular, the common shares?

10:23

**MR. GETTY:** Well, Mr. Chairman, that was a decision by the investment committee of the Alberta Heritage Savings Trust Fund to invest in a large, Canadian-controlled conglomerate, and I believe that in the long run, as these investments are long-term investments, that will be a solid, good investment for the Heritage Savings Trust Fund. There's no question, though, that while I personally don't get involved nor would our government in the

operations of Nova, they are going through difficult times. As Mrs. Osterman has pointed out – and I'm not sure other members are familiar with it – they have divested themselves of most of their conglomerate-type holdings and now can be seen to be really two operations under the same umbrella: a pipeline company which would probably be considered one of the outstanding utility-type pipeline companies, natural gas transmission companies, that you could invest in, given their position in this province, where they are the designated corporation to transmit gas within the province of Alberta; the other side of the Nova company is basically a huge petrochemical operation, with holdings both in Alberta and in Samia and other parts of North America.

They are going through some pretty tough times in their petrochemical operations. I think it's the recession that North America has experienced, and they just have low prices for their product although they have probably the most efficient capital petrochemical producing assets. They are also faced with one other thing right now, and that is the dollars they need to expand and build the pipeline system in Alberta for two reasons: first, to reach supplies of natural gas that haven't been connected in the past; and secondly, since they really built their system somewhere between 1958 and the early '60s, there is a tremendous amount of rebuilding necessary in this province. Now, it's my understanding that that's going to be in the order of some \$900 million, close to a billion a year, for some years, and that's a large draw on the company's capital resources. Nevertheless, it's a huge investment, economic thrust, in our province to see those dollars flowing all over Alberta and jobs within our province.

Now, what Nova is faced with is that in order to raise funds most efficiently, should they split their corporation, actually split the companies apart and have shares for sale to investors as a petrochemical company, which everyone would understand is cyclical, perhaps riskier, and would command a certain price per share, and the outstanding utility operation of the company, which would also command a certain price per share. If the combination, in dollars per share, of those two operations split were substantially higher when you added them together than the current share value of Nova, it would be wise for the company and their shareholders and presumably would allow them to raise the funds they need under the utility company to do the utility company's expansion that I've discussed.

My understanding now is that while that is one of the company's plans, it is not proceeding for some time into next year because there is some pretty intricate share restructuring and financial restructuring that must go on with the corporate lenders, their debenture holders, and so on. Through our Minister of Energy and our Provincial Treasurer and officials of the Heritage Savings Trust Fund, the government of Alberta has kept in very close contact with Nova to make sure Alberta's investment is protected and that if additional shares are spun out in another corporation – after all, we now hold shares in an overall corporation – we make sure we get adequate replacement, I guess is the word, for the total investment that we now hold.

I consider the company to be an outstanding one, going through some of the ups and downs that corporations go through as our North American and world economy goes through a recession, but I don't believe these holdings are in any way at risk, and it will prove to be very good for the future.

MRS. OSTERMAN: Thank you, Mr. Chairman. To the Premier again, I'm pleased with those observations. I think most Albertans would agree that the corporation has been good to all of us in terms of the diversification they've offered. Obviously, they have

great faith in Alberta, because look at their incredible investment in the petrochemical and other areas.

Just my last supplementary. I'm looking at the pipeline in particular and the potential there and their big investment in Alberta. Given that, is there any danger of them being affected or us having to take a somewhat different view of one or other of the competing entities that are looking to expand pipeline capacity to California? When we're into an ownership position in any one company and you can see sort of the ripple effect, is this something that ever gets troublesome in terms of what our role could be in responding to the two competing entities who are looking to expand that pipeline space for the natural gas markets to California?

MR. GETTY: We keep an eye, obviously, on any pipeline expansions and any new pipelines proposed to carry Alberta resources to other parts of North America. One of the concerns has to be: is it good for our province and for the people who own the resources that will be transported? But I don't see how that impacts on our Nova investment as such, because while Nova may be called upon to carry gas to the edges of Alberta where they then go into any new pipelines, since Nova gets a certain rate of return, I don't see how they would be negatively impacted. I do see a potential if you have too great a pipeline expansion to carry our resources to another market such as California, such as Ontario, or to the U.S. northeast. You may find that we are pushing too much of a resource into a market and, therefore, have a deterioration in the price because you have an oversupply. We've discussed that, because we see the deterioration of natural gas prices right now, which is worrisome and causing us trouble in our own revenues and causing trouble to many of Alberta's producers who have cash flow based on natural gas production. With the falling prices, they're seeing their cash flows eroded.

So we will, through the Energy Resources Conservation Board, continue to keep on top of these pipelines and, in fact, will ask the board to give us advice as to whether they would recommend anything that we should do to make sure that moves involving Alberta's resources are not damaging to Alberta's return to the people. Other than that, I don't see how it would impact on this investment.

There is one thing that I did neglect to mention, and that is that under our legislation with Nova the government appoints four members to their board, and if there is another board set up, which would be the board controlling their petrochemical operation, we would have to review both our legislation and Nova's intentions to make sure that we wouldn't just have the four members on the pipeline side. We'd have to see what the result would be in having some representation on the petrochemical side should they be split. I should have mentioned that earlier.

I hope, Mrs. Osterman, I've given you the kind of information you need, and I'd be happy to pursue it further.

10:33

MRS. OSTERMAN: Okay. Thank you, Mr. Premier. Thank you, Mr. Chairman.

MR. CHAIRMAN: Thank you.

Just prior to recognizing the next member, I would like to recognize some school classes we have in the gallery and advise them that they're watching the proceedings of the annual hearings of the Alberta Heritage Savings Trust Fund committee. They have appearing before them the Premier of the province, who will be with us for two hours this morning. We want to welcome you to

the Assembly, and we hope you've enjoyed the short time you've had to watch the proceedings.

The Member for Edmonton-Meadowlark.

MR. MITCHELL: Thank you, Mr. Chairman. My questions to the Premier are addressed to the issue of the Alberta-Pacific debenture. I'm interested in the Premier's response to an earlier question that there are clearly-defined accounting principles which would dictate when Alberta-Pacific would be deemed to have sufficient cash flow to pay the interest they're said to have to pay when they have sufficient cash flow. Would the Premier make the commitment here and now that those accounting principles and the agreement within which they are enshrined would be released to the public and to members of the Legislature so we could review them and have the certainty he has that this interest will be paid properly and appropriately?

MR. GETTY: Mr. Chairman, I'd certainly give the commitment to give very serious consideration to it or some portion of the documents. I'd only be concerned if there is some competitive disadvantage the company might face. I think all members of the Legislature over the years have respected and endorsed that concern on our part: that to do something that would actually damage a company that is trying to be profitable and build in your province would be foolish and unwise. I should draw to the attention of the hon. member that this is not something completely new. As you would guess, when the province derives its royalties from Syncrude based on profits, you must have very detailed accounting procedures in the manual because you've got to determine that there are profits in order to establish a royalty.

So we had that example to work on, and we based a lot of our drafting of the new agreement with Al-Pac in that regard on that knowledge, which has worked very well. You've got to make sure that companies aren't — what's the term? — gold-plating their operations so they aren't showing profits; therefore you have to have very strict accounting procedures. I'm not sure if the hon. members have reviewed those types of procedures with Syncrude before, but they are a good example.

MR. MITCHELL: I appreciate the Premier's commitment to release that review, that information.

My second question concerns note (j) on page 52, where it says that

interest will be accrued and capitalized at the Alberta 20 year Canadian dollar borrowing rate (subject to certain conditions) applicable.

I wonder whether the Premier could either define what those certain conditions are now or release whatever documentation has been established to define what those conditions are.

MR. GETTY: I don't have the conditions before me, Mr. Chairman, but I would certainly have the Provincial Treasurer provide the information to members of your committee.

MR. MITCHELL: Referring to the Premier's answer to my first question, that he will review the accounting procedures in the manual that undoubtedly have been established to define when Al-Pac would have sufficient cash flow, clearly with an issue of this nature, this controversial, this detailed, subject to different perspectives — that is, is this a good idea or isn't it a good idea? — having government define behind closed doors whether that information should be released is problematic. Would the Premier commit to establishing some kind of independent review mechanism as an appeal if he finds that in his opinion this information

shouldn't be released? That review mechanism could be the kind that is defined under access to information legislation, which, of course, is available in almost every other province, every other government in this country. Members of the opposition, members of the public could appeal a decision to hide behind closed doors information that would be seen by some to more appropriately be public information.

MR. GETTY: Well, Mr. Chairman, I've already made a commitment to the hon. member that we would give him everything possible that doesn't damage the competitive capacity of the company. I know it's a kind of catchword for opposition members to talk about "behind closed doors" or "hide" and so on, and having been in opposition once myself, I understand the role opposition plays. But I wonder if the hon. member is really listening to my answer when I tell him he'll be given every bit of information possible that doesn't damage the competitive ability of the corporation. Surely he's not suggesting that he wants to damage a major corporation hiring thousands of people in the province of Alberta, helping to build the economic strength of our province and bringing economic activity to a part of the province where people have never had the opportunity to participate in Alberta's growth and future. Is that the kind of thing he is suggesting? I hope not.

MR. MITCHELL: Mr. Chairman, I suppose I should get a chance to answer that.

MR. CHAIRMAN: You've had your supplementary. Thank you.

The hon. Member for Wainwright, followed by the Member for Edmonton-Beverly.

MR. FISCHER: Thank you, Mr. Chairman. Good morning, Mr. Premier and Mr. Mellon and Miss Vida.

My question is a little more in the policy direction of the fund itself. Recommendations from this committee over the last year have asked that more emphasis be placed on investments that yield a monetary return until the budget is balanced and the debt is erased. The intent of those recommendations was that we would not have to pay our billion dollars a year of interest on the accumulated debt we have in this province and it could quicken erasing that debt. I notice in our annual report that our deemed assets have changed just a little bit and are going in the opposite direction from that, because it was just over \$3 billion in 1990 and this year it is \$3.2 billion. A good example of doing that was to convert AGT back to something that would bring us some dollars. I would like you to comment and give us your feelings on that suggestion.

MR. GETTY: Well, there's no question, Mr. Chairman, that we want the fund to play a major role in keeping the debt of the province reduced and, in fact, in the future eliminating it, and we have to make sure we use our judgment as we manage the fund to see that it can do that. Also, as the hon. member knows, and I think as your committee is aware from the Provincial Treasurer's discussions, during our budget presented in the spring of '91 we said that we would be selling assets in the fund but only on very strict conditions that that does not reduce the size of the fund; only those assets would be sold that would allow us to take a profit, make sure the fund has all its investment returned and replaced, and then the profit goes to the General Revenue Fund.

10:43

One of the things I've found in public comment — some sources, the media and others, have said that the fund is being

raided. What a miscommunication. Perhaps it's our fault for not saying it over and over again, but the fund is not being reduced; it is not being raided. The fund would have all its investments protected. Only the profits from any of the fund's holdings would go into the General Revenue Fund in order to reduce the annual deficit or provide a balanced budget. There are investments in the fund that stand in that condition: they are now worth much more than they are carried in the fund; therefore, they could play a role in reducing our debt and our deficit.

In terms of the deemed assets, they are assets which we felt would build the future strength of this province whether it be AOSTRA or the magnificent Mackenzie health centre or the magnificent Kananaskis park or the Pine Ridge reforestation centre. At this point we are not talking about those deemed assets as subjects for sale.

MR. FISCHER: Okay. Thank you. That's all.

MR. CHAIRMAN: The Member for Edmonton-Beverly, followed by Calgary-Fish Creek.

MR. EWASIUK: Thank you, Mr. Chairman, and good morning, Mr. Premier.

MR. GETTY: Good morning.

MR. EWASIUK: I want to take a little different tack in my questions. I'd like to talk about the structure of the heritage trust fund. Since its inception in 1976 it has basically retained the same structure. There really haven't been too many changes made to it, and I suppose one could argue that if it ain't broke, don't fix it. However, there have been recommendations made by this committee from time to time that, indeed, some attempt be made to perhaps streamline it or get it more in focus with the current situation in the province. For example, there have been suggestions that some of the investments of the commercial investment division and the cash and marketable securities be lumped into one. Of course, this portion would be providing funding to the General Revenue Fund and so on while the other parts of the fund could be used for future generations. My question to the Premier would be: in light of these recommendations and suggestions over the past little while, is the government giving any consideration to some revamping of the fund to reflect some of the recommendations?

MR. GETTY: Well, we certainly give consideration to every recommendation of this committee, and we also take time to do our own assessment to see whether something the committee hasn't recommended or something that might come from constituents or members of the public in some way would also allow it to be better structured and more effective. Then we have to make a decision based on our assessment. Yes, we do give consideration. There is no magic to the current arrangements of the fund. If we came to a judgment that structural changes would be in the best interests of Albertans, we certainly don't have a closed mind in any way in that regard.

MR. EWASIUK: Perhaps one of the suggestions that has been made in some of the discussions I've had and I think other members have had as well is that the fund should be in some way more removed or at arm's length from the government. When one looks at the structure, the way the investment and review process is handled, it certainly seems to have political implications. I

think a suggestion would be that perhaps we remove it from that arena.

Again, I'm going to ask the Premier: is there any consideration, at least one consideration, to in fact make the fund a sort of independent agency or department, whatever you would call it, so there aren't suggestions that there are political implications in the decision-making process?

MR. GETTY: Well, we certainly get input from everywhere. Obviously we get it from all members of the Legislature – all parties in our Legislature, this committee – and from the people of Alberta. We do get technical advice, financial advice from various sources all over the world. I know when I was meeting with investment and financial people in both London and New York – not so much in France, but in London and New York – people are very aware of the Heritage Savings Trust Fund, very aware of the major role it plays, and very supportive of the way it has been managed at this stage. As a matter of fact, I'm not sure if the Provincial Treasurer mentioned this or not, but it's one of the reasons the province of Alberta is able to borrow money at a better level than the rating of various rating organizations such as Moody's or Standard and Poor's would give us. We actually borrow at better than those ratings would justify, and the heritage fund is one of the reasons, as well as the strong fiscal management policies of the government in holding down spending.

While I understand your point about political input, in the end it is our responsibility as elected people; we can't shift it. It's our responsibility under our democratic system to invest these funds whether they are here in the heritage fund, whether they are General Revenue Fund dollars. That is the responsibility under our system that we have. We can't lay it off on somebody; it's ours, and we have to fulfill that responsibility. I've heard some comparisons made with the Alaska fund, but in the end it's still the state of Alaska that has to answer for that fund. One of the things I like about our fund is that we have the flexibility, endorsed by the Legislature, that we're able to do such things as massive medical research and the exciting breakthroughs they are obtaining. We're able to do things such as the William Watson Lodge, the AOSTRA research. When you think of the benefits those things are bringing to our province, members would not want us to be in the straitjacket of just driving for every last nickel but rather would want us to also be able to show the compassion Albertans have and want to see the government display.

MR. EWASIUK: Mr. Chairman, I think the Premier may have responded to my third question to some degree already. I was going to bring up the Alaska structure as perhaps something that may be looked at as an example for some changes. Members of this committee in fact were in Alaska. Unfortunately, I didn't get the opportunity, but in the report I received I was quite impressed with the way they function there. I think any attempt to establish an arm's-length structure of course would have to be under provisions that the policies of that department or agency would follow policies provided by the Legislature. I think we would still have to be responsible in the final analysis.

10:53

But I was going to ask about Alaska. I think you've indicated – perhaps not – but are you looking at the Alaska structure as a possible ways and means of looking at our fund and seeing whether we can take some good out of it, perhaps adding to the good we already have in ours?

MR. GETTY: Well, we don't have all the wisdom in our Legislature or in Alberta or Canada, so we would look at operations throughout the world, and the Alaska fund has some similarities. So we certainly do review it, and I'm pleased the committee has. If there are things we can learn that would allow us to do a better job here for Albertans, then we'd certainly make the changes.

MR. CHAIRMAN: Thank you.

The Member for Calgary-Fish Creek, followed by West Yellowhead.

MR. PAYNE: Thank you, Mr. Chairman. In response to a question from the Member for Edmonton-Belmont, the Premier mentioned getting advice from constituents and indeed groups and individuals from around the world. Following up on that response, I want to refer briefly to page 211 of last year's *Hansard* record wherein I asked the Premier if he saw any value in some formal involvement of an independent qualified body, not in a management role, as is the case in Alaska, but perhaps in an advisory role, and not on an ongoing basis but perhaps on a periodic basis. As a result of that exchange with the Premier and subsequent discussion with this committee, I submitted to the committee recommendation 18 last year:

That the Alberta Heritage Savings Trust Fund establish an independent advisory board comprising a cross section of qualified Albertans with relevant expertise to periodically advise the investment committee on heritage fund investment performance and policy.

I regret to report to the Premier that I was unsuccessful in persuading the majority of the members of this committee to support me, but I would like to try again. So in pursuit of this concept, I would like to ask the Premier: does he in fact see any merit at all in some kind of advisory mechanism like an independent advisory committee that would periodically be called upon by the investment committee to provide advice on investment strategy?

MR. GETTY: I remember the discussion we had last year, Mr. Chairman, and I was looking at it today before coming in to meet with the committee. I think it's not so much the structure that we adopt as the fact that we keep our minds open for advice from as many sources as possible. I don't think there's any magic in the "advisory board." The real magic is getting advice and input and making sure you don't have a closed mind to that input. Perhaps the member at least will be seeing us moving in some ways with our Toward 2000 initiative where we have specifically asked people of Alberta, as they participate in that initiative in meetings, round tables, and discussions across the whole province, for their thoughts on the policies of the Alberta Heritage Savings Trust Fund. We will get perhaps the broadest advisory committee one could structure, one made up of all the people of the province. But as I said last year, I still think there are some merits, yes, but it's perhaps just more structure he is referring to than anything else, because the number one thing is to keep your mind open to all the advice you can get.

MR. PAYNE: If I could, Mr. Chairman, I'd like to shift gears slightly to address the question of our cash and marketable securities. The Premier and members of the committee will be aware that something like nearly \$4 billion is so invested, and that represents one-third of the financial assets of the fund. One-third of the financial assets of the fund are in cash and marketable securities. Given the objective of the fund to strengthen and diversify the economy of Alberta, does the Premier feel that this

is an appropriate portion of the heritage fund to be tied up in marketable securities, or to put it in another way, is the flexibility benefit perhaps too dominant in our investment strategy?

MR. GETTY: Again, I can only say that it's a matter of judgment that we exercise in trying to have the greatest return possible from the interest or that kind of revenue or capital appreciation as well. As you know, on a long-term basis investing in common stocks has proven to be one of the better investments year over year over year. But you have to balance that off with the needs for security and all the things the hon. member is familiar with.

If he is suggesting that we should have less here in the cash and marketable securities, I'll certainly make a note of that as I do with all the suggestions from the committee, discuss it with my colleagues, and see whether an adjustment would be wise.

MR. PAYNE: I'd welcome such a discussion.

Finally, Mr. Chairman, I'd like to turn to page 31 of the annual report now under review and direct members' and the Premier's attention to the title on that page, Quality of Life. I'd like to suggest that it's a significant title. I think it aptly describes a number of investments from the heritage fund that aren't focused on the balance sheet; they're not focused on rate of return. Unlike the Alaska Permanent Fund, they are indeed focused on the quality of life enjoyed by Albertans throughout our province. These investments include, of course, a variety of investments in the recreational area including Fish Creek park, with which I am perhaps most familiar, a group of investments in the health care field, and a group of investments in the educational field.

Mr. Chairman, my question to the Premier is: given the current economic environment with the government's appropriate concern for expenditure restraint and balanced budgets and the integrity of the heritage fund itself, does the Premier foresee any difficulty in sustaining the fund's traditional concern for the quality of life in Alberta?

MR. GETTY: I think, Mr. Chairman, that while we are striving to reduce deficits and reduce debts, there will be greater pressure on the government and tendencies by the government to make sure that any additional quality of life investments are scrutinized very, very carefully, because I think these are outstanding selections and have made a major contribution to quality of life in Alberta. But many of them were commenced when the province had lots of surplus funds and was operating in what was referred to as the boom years with boom-year spending. We don't have that luxury now, and therefore I think the scrutiny must be much tighter.

MR. PAYNE: Thank you, Mr. Chairman.

MR. CHAIRMAN: The Member for West Yellowhead, followed by the Member for Athabasca-Lac La Biche.

MR. DOYLE: Thank you, Mr. Chairman. I certainly want to welcome the Premier and his staff and, of course, Dr. Mellon, who was very compassionate in regards to the injured workers at the Hinton Husky service station. I hope now they don't have to settle their claim in Hong Kong.

11:03

Mr. Chairman, my question would be in regard to the Family Life and Substance Abuse Foundation, the foundation that is to receive some \$200 million. This year it will receive \$6 million. It's actually a substitute for AADAC. I can't for the world of me figure out how we could take this money out of the heritage trust



fund and at the same time buy shares in John Labatt in the amount of \$1.7 million; Molson class A shares, \$1.774 million; Molson B shares in the amount of \$601,000; and Seagram, \$3.664 million. I do understand investment, and these have a good rate of return, but how can you on one hand fight drug and alcohol abuse, or pretend to, but at the same time prop up the investment in these very companies that destroy families and family life in Alberta?

MR. GETTY: Mr. Chairman, I guess it's a matter of judgment. The investments that are made to bring in as great a revenue as possible on the fund's assets that are earning income are spread among a variety of corporations that are strong, healthy Canadian companies, not large amounts of any one of them, and a balanced investment portfolio as per advice from the best financial experts in the world.

The hon. member's argument could be made with opening an Alberta Liquor Control Board store in his communities of Edson or Hinton or any other one in his constituency. I suppose that if you put any dollars into it and at the same time are struggling to fight against the breakdown of family life in our province or the increase of substance abuse, there is some conflict. These things are a matter of making judgments, and we do that. That's one of the responsibilities you have as a government.

I want to correct him, though, on one of his statements, which is completely wrong. I'm sure it must be our problem of communicating with him, because he is a member of the Legislature and he was here when the legislation was passed. The Family Life and Substance Abuse Foundation is not — emphasis not — a substitute for AADAC. It is a complementary responsibility to AADAC. It will have a group of Albertans who will advise the government, who will look at opportunities for research into this frustrating scourge of substance abuse that hits our communities and families, and will always have as one of its key responsibilities to be a supplementary aiding AADAC, not in any way substituting for them or replacing them.

MR. DOYLE: Mr. Chairman, I certainly do hope that they do aid AADAC, because AADAC is empowered to do virtually everything that the new foundation is empowered to do.

Strangely enough, after raising it last year, this year investment in Seagram has increased by \$1.2 million in shares.

MR. CHAIRMAN: Hon. member, could you come with your supplementary, please?

MR. DOYLE: It's not the companies, Mr. Chairman, that destroy family life; it's in fact the product. I would ask the Premier if he would stop investing in these liquor companies and really get out there and help people to stop the abuse of alcohol and drugs and not help these companies. There are lots of good companies in Canada and Alberta we could invest in rather than liquor companies, although it is perhaps a good return.

MR. GETTY: Well, Mr. Chairman, I listen to every member's comments and make notes of them and will consider them. Perhaps your committee will consider the matter as a total committee as well.

We are in fact fighting alcohol and drug abuse. We are not just fighting it as a status quo with AADAC. We are stepping up the fight with a new foundation, the Family Life and Substance Abuse Foundation, that is unmatched anywhere in North America. Why the hon. member doesn't strongly support that and recognize that, I'm puzzled.

MR. DOYLE: Mr. Chairman, I do support it. It's the investment that I do not support.

My final question would be on page 52, the note that refers to the subordinated debentures to Al-Pac. 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. In the *Dictionary of Canadian Economics*, by David Crane, a subordinated debenture is

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.

Many companies in Alberta would have liked, I'm sure, to have this same amount of investment. Given the fact the debenture is really a sweetheart deal in the first place, why did you not at least secure a first claim on Al-Pac's assets, and what amount of security ranks in priority to the heritage trust fund's claim?

MR. GETTY: Well, Mr. Chairman, the hon. member is quoting a dictionary definition. I would urge him to raise the details, as I've already told the committee, with the Provincial Treasurer and the minister of forestry. I think they would be able to provide him with those kinds of details. I'll make sure in discussions with them that they do get him those kinds of details.

I'd draw his attention to the fact that this is a \$1.3 billion project. It's a large project that has strong financial backers, which is going to make a significant contribution to the future strength and growth of our province. I think that the hon. member, having experienced forestry developments in his own area, might well be in a position of encouraging us to do this and wanting to see these kinds of projects go. Alberta is benefiting right now from two major projects supported by the Heritage Savings Trust Fund. One is the huge biprovincial upgrader in the Lloydminster area, and the other is this project. They are providing jobs and growth in our province. I would think the hon. member, whatever his philosophical bent, would want to see Albertans working and building a strong future.

MR. CHAIRMAN: Thank you.

The Member for Athabasca-Lac La Biche, followed by Ponoka-Rimbey.

MR. CARDINAL: Thank you, Mr. Chairman. Good morning, Mr. Premier and staff. My question is on diversification of the investment of the fund beyond Alberta. I believe we sometimes underestimate how important this fund is, and listening to some of the people this morning, I can see that. We in Alberta right now have over \$20 billion of economic initiatives either under construction or planned. This means thousands of jobs for Albertans, the end of poverty and welfare for a lot of our northern Albertans, which includes a lot of native people I and other colleagues represent. Of course, I know both the Official Opposition and the Liberals continually try to discredit our government with these initiatives and discredit projects like Alberta-Pacific. Just this morning alone the members for Calgary-Mountain View, West Yellowhead, and Edmonton-Meadowlark are questioning the Al-Pac investments. Of course, their questions shouldn't be taken too seriously because they have been proven to be very ill informed.

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

MR. CARDINAL: They're worried about cash flow; they're worried about repayment. The only cash flow we have up north right now is . . .

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

MR. CARDINAL: This fund is working.

My question to the Premier is: do you feel that the investment of the fund should be diversified beyond Alberta in order to provide greater stability to the fund and increase its investment income possibly?

11:13

MR. GETTY: Mr. Chairman, one of the decisions that we have taken since I've been Premier is that other than in the liquid assets, the \$3.8 billion which are invested, and the investment division, which is invested in stocks and bonds – we have taken a decision to invest in this province, as they are paid out, investments that are in other provinces in Canada. There was a period of time when dollars from the Alberta Heritage Savings Trust Fund were being invested in Hydro-Québec, in New Brunswick and Nova Scotia, other provinces, but since 1986, when our province suffered the terrific downturn and it became obvious that we needed to diversify and rebuild on a broader foundation the economy in Alberta, we have no longer been sending heritage funds to other provinces. We are determined that they be used in Alberta to build the future strength of this province. That's a policy that we will continue to follow while I'm Premier.

MR. CARDINAL: Thank you very much.

I don't have a supplement, Mr. Chairman.

MR. CHAIRMAN: The Member for Lloydminster, please.

MR. CHERRY: Thanks, Mr. Chairman. Mr. Premier and staff. I guess one of the things that I wanted to touch on, first of all, is the biprovincial upgrader. When I look at the structure that's there today, the employment of over 3,200 workers, I don't think that any other province can equal what we're doing as a partner out there. One of the things that I guess concerns me is the cost factor involved in it, Mr. Premier. I see that the government has put in an additional \$42 million, I think it is. I'm just wondering, as the people in the constituency that I represent are wondering, why additional funding is having to go in there when the project itself was pretty well set up with the funding that was available to it then. I was just wondering if you had any comments on the additional dollars.

MR. GETTY: Some comments may be helpful, Mr. Chairman. I want to respond, though, to the overall first comments of the member. It's a policy of this government to upgrade our resources to the greatest extent possible here within the province or in a location such as Lloydminster that has a huge impact on our province. Our heavy oil resources just cannot command the markets that are available for them unless they are upgraded. I can recall how many people, back when we as a government were driving to see this type of investment, driving to see an upgrader developed, were saying, "That's a mistake." Now, as the plant is being built, to see the huge economic benefits that are flowing under construction but also the way in which upgraded oil is so much more valuable than selling the heavy oil in the nonupgraded state, which doesn't allow it to command many markets – as a matter of fact, one of the corporations that was least supportive publicly of the upgrader going ahead, had a chance to invest in it when it was having trouble, Esso Resources, is now talking about building an upgrader. It's interesting to see the conversion in their

thinking to the wisdom of the kind of investment that the heritage fund and the government and people of Alberta are making here.

Remember, when the first cost estimate came out, the company had still to define the total engineering, and they still had to experience building the project there in the Lloydminster area. On a huge \$1.2 billion or \$1.4 billion project, to have additional investment – in our case, some \$42 million – is not unusual and is completely within predictable engineering capabilities.

I would also draw to the attention of the whole committee and to the member that this is not an expenditure of the heritage fund's assets. This is an investment into a project which is being seen more and more throughout our energy industry and in financial worlds as a very lucrative, profit-making project. Those dollars will pour into the heritage fund and strengthen it as well as our province. So I think the additional funds could have been expected as you move further and further through the construction of a major project like this, but they are also funds that are being invested with a full outlook of a very strong return.

MR. CHERRY: One further question, Mr. Premier. I want to switch now to agriculture, and I want to just talk for a moment about the Agricultural Development Corporation and the restructuring that happened there since 1986, or really since you became Premier, sir. They have been good changes within the corporation itself. In my view, it's on its feet and doing a tremendous job out there in rural Alberta.

At the same time, I was wondering, and I asked Minister Isley yesterday regarding his thoughts on it. I was reading not too long ago that another province, Manitoba, has knocked the interest rate down to 3 percent on their beginner farmer loans. I was wondering what your thoughts are, sir, on the way agriculture is right now, the low prices and that, whether we may have anything in that line to say to our beginner farmers in the future also.

MR. GETTY: Mr. Chairman, there's no question that certain sectors of the agriculture industry are undergoing severe stress, and that is the grains and oilseeds sector. Other sectors are strong, and I'm pleased that the agricultural industry in Alberta is so diversified that we are not being devastated the way other parts of Canada, such as our neighbouring province of Saskatchewan, are being devastated by the low grain prices.

I met on Friday last week with all the leaders – I believe there were some 90 – from the agriculture industry in Alberta, and there were many comments, suggestions in a very positive nature made to me, members of our cabinet and caucus, and my Agriculture minister and associate minister. Those suggestions are all being looked at.

I think it's fair to categorize the meeting as being one in which the industry represented by those leaders could not come to a consensus. That's understandable, I think. They could not agree on one move that the government could do to help. There were those who said: "Do not touch the industry at this time. The market forces have to work." Others said: "We've lost revenue. We're hurting badly. Sometime between now and seeding time in the spring we've just got to get some type of a cash injection." A lot of emphasis was made on the problems facing young farmers who had reached out, increased their basic herd, increased their land base, bought large equipment, that now, since they were losing cash flow from their grains operations, were hurting and had problems with their debts.

We are assessing all of the input from the leaders and from other sources of information across the province. Meetings are being held with farmers and ranchers all over Alberta. Recom-



mendations will be coming to our cabinet and caucus as to whether there is any area in which we can move to help. One of the things that I guess there was consensus on: if there is going to be any help, it needs to be fairly quickly, and one of the things we can do is help the federal government quickly deliver the \$700 million to \$800 million that they have committed.

11:23

Alberta has massive agricultural programs now both in our General Revenue Fund and, as members know, here in the Heritage Savings Trust Fund. We have that major commitment because we are committed to rural Alberta, we are committed to the family farm, and we are committed to the agriculture industry in this province. We will not allow it to be damaged while we can help. We are keeping an open mind and looking at every possible way.

The people who came to the meeting last week and other farmers and ranchers whom I meet in my constituency and as I travel all over Alberta are also aware of the financial strains that our province and all governments in Canada face right now; therefore, they know that we just can't manufacture money out of the air. It would have to be borrowed if you were going to make some tangible increase in dollars.

We can look at doing different things with the dollars we are expending. We can look at perhaps shifting some of these funds to put them where they can help more. We can look at our regulatory process. We can look at ADC's operations and make sure they're doing everything possible.

MR. CHERRY: Thank you.

MR. DEPUTY CHAIRMAN: The Member for Ponoka-Rimbey.

MR. JONSON: Thank you, Mr. Chairman. Good morning, Mr. Premier.

MR. GETTY: Good morning.

MR. JONSON: I'd like to pose a question with respect to Vencap. Earlier in our hearings this fall we had a brief discussion with the Provincial Treasurer, and some concern was expressed about certain write-downs that had occurred during the past year. However, I think that was very well explained: it's part of the cycle that we're going through. However, Mr. Premier, the corporation has existed now for seven or eight years with the mandate of diversifying the Alberta economy, and I wonder if you would comment on your evaluation or judgment as to how well they've fulfilled their mandate to date.

MR. GETTY: Well, I would say that during the early years it was my judgment that Vencap was being too cautious, not aggressive enough in their efforts with such a large sum of money in investing in venture opportunities in Alberta. I think both from government's and people's expressions of concern and as they became more experienced and sensed a better grasp of the responsibility that they had, Vencap have stepped up their operations, have become bolder, and have started to make very significant investments which will be to the benefit of our province. I don't think they're perfect in any way; they're a group of people who are trying to do the job. I think all of us, if we were there, might have different feelings about some of their investments, but they were created by the Legislature and put at arm's length. Therefore, they operate that way within the mandate given to them by the Legislature. Reviewing the thinking at the

time, it was that if they were going to make these kinds of risky venture capital investments, they didn't want to be directed politically. That was the thinking of the Legislature at the time, and therefore the structure provides for that. Vencap operates outside of any political interference or management.

I only draw one other thing to the hon. member's attention, and that is the Legislature of the day also had shares sold to the public, and by that move they built a certain conflict into the Vencap board of directors' mandate in that they must try, to the greatest extent possible, to balance their venture capital investments with having dividends and capital appreciation for their shareholders, who are mainly Albertans. So there is that conflict in their mandate that I'm sure they're keeping front and centre in their decision-making as well.

MR. JONSON: Thank you. I certainly agree that there has to be that balance because of the way it was set up, the structure that was developed. However, Mr. Premier, I think there may be some concern in certain areas with respect to whether or not the money is in its entirety best placed with Vencap. Maybe this is kind of a meaningless statement, but at the current rate it would take another 15 to 20 years for them to utilize the funds that were set aside by the government initially for this particular company. Let us say that there were \$100 million available. Instead of it being with Vencap, it would be with some other venture capital initiative. Do you, Mr. Premier, see any other models that might be better utilizing this kind of funding in terms of diversifying our economy?

MR. GETTY: I think you know that in recent years the government has given venture capital responsibilities to the Alberta Opportunity Company as well as Vencap in a sort of seed-funding responsibility that they have, so obviously we are considering other alternatives, not necessarily taking back the funds that Vencap has, because that's provided by legislation. While we might from time to time review the legislation and review Vencap's operation, we certainly haven't come to the conclusion of moving, through the legislation, to reacquire the funds. We certainly do constantly look at other ways in which we can encourage venture investments within the province. It's something that the economic planning committee of our cabinet looks at constantly, as does our priorities committee. I guess the answer: we haven't considered at this time restructuring Vencap and taking back dollars from them, but we certainly are looking all the time at encouraging venture capital ideas in this province.

MR. JONSON: My final supplementary, Mr. Chairman, is that you, Mr. Premier, have I think very correctly identified the need for a structural change in the agricultural industry: more diversification both in terms of the types of crops that we produce in this province and value-added production. Under this theme of diversification would you see any way in which either the emphasis of Vencap or some other move or policy change on the part of the government might push this ahead a little bit faster?

MR. GETTY: Well, the government has taken initiatives, as the member knows, because we want to have both a strong primary agricultural industry and an agricultural products processing industry building in this province.

11:33

Last year for the first time the processing sector's gross revenues were greater than the primary agricultural sector's, and that's a real achievement. There aren't other provinces that have

been able to make that breakthrough, and it has allowed our agriculture industry to be more diversified. For instance, if we are supporting canola processing from the grain, canola oil producers; if we are having the opportunity to process sheep and lamb, Lambco; if we're keeping the packinghouse industry strong in our province: if we're able to process our products here, we're definitely strengthening our agricultural economy. An example is the investment by the government in the malt plant in Alix. These investments don't have to come through the Agricultural Development Corporation or something like Vencap. They can come through direct initiatives of the government in certain areas.

Now, there are a lot of people who will tell you not to do it, who are timid, and who, if anything goes wrong in any of these areas, throw their hands up and say: "Isn't that terrible, terrible? Something has gone wrong." But the vast majority of government initiatives in this area have been successful and have allowed us to keep our agriculture industry strong - it's our commitment to them - and have allowed us to keep our province strong when others are suffering so badly. So I'd encourage members in this committee to continue to make the case: don't be timid; be bold. Realize there are going to be failures from time to time, but don't concentrate on the failures. I mean, that seems to be the preoccupation of the opposition parties. The preoccupation of the government is of a positive building, strengthening, not dwelling on failures.

When you see the large picture of the strength of our agricultural industry compared to others, the strength of the Alberta economy compared to others, you can see that you have to be bold. You must take risks or just accept having things go as they did 20, 30, or even 10 years ago. I think the people of Alberta want a government that is bold, risk-taking, building, and thinking positively for the future. We've got enough people who are negative throughout this country.

MR. CHAIRMAN: Thank you.

The Member for Calgary-Foothills.

MRS. BLACK: Thank you, Mr. Chairman. I didn't think I'd get on today. I'd like to welcome our Premier and Dr. Mellon and Miss Vida. It's a pleasure to have you with us today, and you're quite right, Mr. Premier, about negative people. You can see two rows of them right here.

Last evening, Mr. Premier, I had a meeting in my constituency, and one of the topics was the Heritage Savings Trust Fund report that we had sent out to the people. They were asking questions on the heritage trust fund and were surprised, with the reporting that has come in of the fund depleting, how much undervalued a number of our marketable securities are; in fact, listed at book value and not market rate. They were surprised. Some of them were sitting there with a little calculator adding those investments up and were a little surprised. I think their numbers came anywhere from \$700 million to a billion dollars under value. So I think there's a good-news story from the heritage trust fund: it's something that certainly has met its original objectives.

One of the questions that came out which I think is a good question is: now that we've met the mandate and have secured the mandate of saving for the future and diversifying our economy and certainly providing for a quality of life - as we have done that with the fund, are we looking at a new direction that would be compatible with Toward 2000 for the fund, leaving the secured pattern but then looking at a more market-intensive investment structure for the future?

MR. GETTY: We're certainly considering it, Mr. Chairman. We have not come to the conclusion - I don't think your committee has either - to change the objectives of the fund. We have taken direction from the committee, and we've taken direction from the Legislature to make changes in emphasis, but we have not changed those three objectives. Perhaps in our consultative process of Toward 2000, where we are asking Albertans for a greater, greater input into how the Alberta economy will develop into the future and also specifically asking them about the investment policy of the fund, we will come to a conclusion. But as of right now I wouldn't prejudge that. We try to assess it ourselves, and I know the Legislature in its debates and approvals of the heritage trust fund funding now and then has certain ideas expressed, but they haven't carried the day in the Legislature. We keep an open mind on that. There is no special magic about the three objectives being the only ones, and if from consulting with Albertans or listening to the recommendations of this committee there is something that we're missing or some changes we can make, we'll certainly consider them.

MRS. BLACK: Okay. The supplementary question goes in a different direction and is with regard to the OSLO project. We are at the near completion of the engineering studies on OSLO. We had the Minister of Energy here yesterday, and he gave us a brief update on the engineering study. A concern has been expressed as to if the federal body does not come back into the overall scheme of the OSLO project, where do we go as a province? Do we have to backstop the federal portion of the deal as a province, or do we have to go out and find new private-sector investors to come in to replace those dollars? Their portion was more in the frame of tax credits and incentives, et cetera, for the deal. It looks like they're not jumping to the opportunity at this point.

MR. GETTY: I have to agree with the hon. member, Mr. Chairman, and I think it is shortsightedness in the extreme by the federal government not to support the OSLO project. I guess these projects that require looking out into the future always are a problem for governments who may tend to have a shorter term horizon. I can recall when the Syncrude project was faltering how tough it was to get people to look out into the future at the potential that was there in the Alberta oil sands. The same thing with the Husky upgrader: how tough it was. It almost failed, it was on the verge of failing, and now it's being hailed as just right for the times and great for the future.

There's no doubt in my mind that Canada is going to require oil sands development in the nature of OSLO in the future. The fact, though, is that if you don't have it go ahead now, you won't have the supply in 1997 or '98, which would be the earliest that production will come on. It's a frustration to me and will be a disappointment if the federal government doesn't reverse their thinking. I know that they were caught up in their financial problems, but this is not an expenditure by the federal government. This is an investment that will bring them back dollars, a rate of return far greater than their Canada savings bonds or anything like that. It would also do one other thing: it would allow Canada to have a secure supply of oil. Everyone knows that in the future we are going to have once again the problems of energy supplies depending on the existence of a fragile part of the world in the Middle East: the Persian Gulf. We've gone through that just within months, and obviously the potential's there for that to happen again and again.

I just hope that the federal government realizes how important the oil sands development is to the future self-sufficiency, the future strength that Canada can have, so we won't be on our knees

begging for supplies of oil but rather will have had the foresight to develop our supplies from within Canada. We have the model of Syncrude, we know it works, we know it's profitable – one of the most profitable energy projects in the history of Alberta – and I just hope we can work our way through seeing OSLO developed. Now, there is a certain shelf life, if you like, of the engineering that has been conducted. It doesn't lose its value over several years, but if it's delayed dramatically, then I guess that engineering will have to be updated and renewed. I just hope we can pull together the determination of Canadians to see that the project goes ahead.

11:43

MRS. BLACK: As a final supplementary, Mr. Chairman, Mr. Premier, it seems that when you think back to the '70s, when the federal body was yelling for energy self-sufficiency and screaming its head off in Ontario, and Ottawa in particular, they developed a company called Petro-Canada to provide for Canadian content, et cetera. It seems that all the way along we've had to go down and basically drag these fellows kicking and screaming to the realization that self-sufficiency is attainable within our own backyard. I'm wondering that with this project being so vital to that self-sufficiency down the road, are we actually going to have to go down and drag these boys down here kicking and screaming and try to get their attention? Are we prepared to do that as a government and the stewards of this resource for the country?

MR. GETTY: Well, we certainly have been doing it, Mr. Chairman, and we have got the commitment of the federal government, expressed through their energy minister and through other members of the federal cabinet, that they will rethink their OSLO decision, but the timing of that rethinking is crucial so that the whole operation doesn't unwind. So we are pushing; we will keep trying to drag them to the decision. If we're successful – and I guess I'm using hypothetical situations here – I believe it will be one of the wisest moves we do. Every projection of Canada's future oil needs shows that we will depend on imports if we don't develop the oil sands. As a matter of fact, most projections into meeting Canada's future energy needs project two oil sands plants, two additional oil sands plants going ahead. Yet the one we had going ahead is being stalled, and they take seven or eight years to develop. It's a failure in our planning process, I believe, and while Albertans recognize it and our government recognizes it, we're just going to have to keep pushing to get a greater awareness across the country and in the minds of the federal government.

MR. CHAIRMAN: Thank you, Mr. Premier.

The Member for Clover Bar, followed by the Member for Lacombe, and perhaps we could keep the preambles tight so that both members can get in and everyone can have an opportunity for at least one question.

MR. GESELL: Thank you, Mr. Chairman. I'll limit myself to two questions to facilitate that.

Good morning, Mr. Premier, Dr. Mellon, Miss Vida.

MR. GETTY: Good morning.

MR. GESELL: A recurring issue, Mr. Premier, is whether or not the \$3.2 billion in deemed assets should be included on the balance sheet, and I'm sure we're going to get into that discussion this afternoon with the Auditor General. The argument, of course, against including them is that the deemed assets are considered to

be money spent and not investments and that they perhaps cannot, or cannot easily, be liquidated. The Auditor General in his report has repeated the opinion that they should be included. The argument in favour of including those deemed assets is that they do pay off in thousands of benefits and spin-off jobs and tourism dollars, which are very difficult to estimate. To me, they're not money down the drain but investments that actually pay off. I'm not concerned with the academic niceties of accounting principles or practices.

MR. CHAIRMAN: Hon. member, please move to the question. We really need you to move to it.

MR. GESELL: Certainly.

I would ask, Mr. Premier: might it be worth while to conduct an independent assessment of each one of those deemed investments – and I want to call them investments – to estimate how much that investment is actually paying off to Albertans so that Albertans understand the benefit of those deemed assets?

MR. GETTY: That's not a bad suggestion at all.

I just wanted to say, on the overall question about the deemed assets being in the Heritage Savings Trust Fund, that if this report or if the fund's accounting in any way tried to fool people or not display clearly the difference between the financial assets and the deemed assets, then I could see some concern. But because of recommendations of this committee and because of recommendations of the Provincial Auditor and the government's desires, this document clearly displays the Heritage Savings Trust Fund in all its parts and shows those that are deemed and those that are financial. It doesn't in any way fool anyone. So I think it should be the way it is.

Now, following up on your suggestion that we assess each one and its value to the people of Alberta, I'll certainly discuss it with my colleagues, yes.

MR. GESELL: I appreciate that very much.

My second question, Mr. Premier, is on a recommendation that was made last year and the year before and actually has been discussed with the Treasurer as well. It's on the establishment of an environmental investment division under the parameters of the fund. In discussions last year on that particular aspect, you indicated to the Member for Ponoka-Rimbey that you wondered about the need. Maybe it was just an educational type of situation, but I wanted to elaborate on that and ask for your comments on that again, particularly in light of the question by the Member for Calgary-Fish Creek about sustaining the quality of life. You indicated that we needed to have tighter scrutiny of all of the investments that we make, but you also mentioned a change in the emphasis. If I might quote from previous discussion: I think the real success in the art of management of this fund is to balance off a series of objectives; we in fact balanced the impact in a variety of areas. To me, there may be a need to rebalance some of the emphasis within the fund. The environmental concern is important, because I believe Albertans feel that the quality of life for their children and their children's children may not be better in the future. In that sense, would it be appropriate to re-evaluate the emphasis of those divisions within the fund and perhaps look at the environmental investment division?

MR. GETTY: Well, the comment that I previously made is the one I still feel, and that is that we can do it under the current structure of the fund. We can do the environmental investments. You would only be changing a heading in order to draw attention

to it, but in terms of emphasis one way or another, we will always reassess that and make sure that we are meeting the full needs of Albertans. I enjoy your raising the matter because it just makes sure that we carry out that reassessment, and we will do it.

11:53

MR. CHAIRMAN: The Member for Lacombe.

MR. MOORE: Thanks, Mr. Chairman. Good morning, Mr. Premier and staff. It's been a very informative morning; we've enjoyed it.

However, I'd like to take a look at page 1, the first paragraph there. It's a fact that so many of the public do not realize that the heritage trust fund has contributed back to the citizens of Alberta \$12.2 billion in revenue. That's pretty well equal to the fund itself. That's a tremendous contribution to Albertans that this fund has done. I find it very difficult to accept, coming from many quarters, that we liquidate this fund. We especially have it from the Liberal Party. That is one of their major planks, that we liquidate this fund. Could you let us know the impact it would have on Albertans from a project area and from a revenue area so that we can clearly know what would happen if we did liquidate this important fund?

MR. GETTY: I think, Mr. Chairman, within the time that's allowed, the one thing it would do to Albertans for sure is be an automatic move by the Liberal Party to increase Albertans' taxes. That would be the automatic thing that would happen if you followed their flawed philosophy.

MR. MOORE: Supplemental, Mr. Chairman. As there's a lot of pressure to privatize various areas that are funded by the heritage trust fund, can we have an assurance that as we do these things – and I'm all in favour of taking that money and bringing it back in – we won't jeopardize the future of the fund and the revenue it generates to Albertans, that we keep that in mind in the privatization, that we reinvest so that it carries on? Can we get your views on that?

MR. GETTY: Yes, Mr. Chairman. The clear direction as contained in our budget message in the spring was that while there are investments within the fund that can be and should be privatized and placed directly in the hands of the public – Telus was a perfect example, where 140,000 Albertans participated and have had a very successful appreciation, as has the fund – there will be absolutely no privatization actions taken by the government which lower the value of the fund. It's just a terrible distortion to say that privatizing an investment in the fund is raiding the fund and reducing or lowering it. We make sure that the fund's capital is fully restored in the privatization, and only the dollars that are clearly capital appreciation and profit flow into the General Revenue Fund. The fund is not in any way damaged or reduced. It is not raided. The fund is protected, and the fund will continue to be able to make sure that Albertans enjoy the quality of life that it helps to provide for and have the lowest taxes in Canada and no sales tax: completely opposite from what the Liberal Party would recommend.

MR. MOORE: Mr. Chairman, I had another question that would require quite a lengthy answer, but the time is running out, and I know the Premier's door is always open to everybody, that any MLA can access his office at any time. I could perhaps, rather than get into this, move we adjourn.

MR. CHAIRMAN: I'll call for the motion for adjournment in a moment.

I'd just like to take a moment and conclude the meeting by expressing appreciation again to the Premier for coming before us and for the forthright answers that he gave. Certainly we've put the committee in a much better position to bring forth some worthwhile recommendations this year. Hopefully, he'll be looking forward to seeing what the committee will produce. Thank you again, Mr. Premier.

MR. GETTY: Thanks, Mr. Chairman, and to every member who participated here, thank you for your participation, and thank you for making this visit so enjoyable. I've enjoyed the discussion back and forth, and so helpful to us as well.

MR. CHAIRMAN: The Member for Clover Bar.

MR. GESELL: I move we adjourn.

MR. CHAIRMAN: Thank you. All those in favour? Thank you. We stand adjourned until 2 o'clock this afternoon, when we'll meet with the Auditor General.

[The committee adjourned at 11:58 a.m.]