

10:04 a.m.

Monday, December 5, 1994

[Chairman: Mr. Dunford]

MR. CHAIRMAN: Okay. I would like to call the meeting to order. It's 10:04, so we will proceed until 12:04 p.m. or whenever the questions cease, whichever first occurs.

The first item of business: is there any member who wishes to read a recommendation into the record? Seeing none, I'd like to make one quick announcement on a meeting for Wednesday, December 14, which is the Provincial Treasurer. The time is now moved to 8:30 a.m. to 10:30 a.m. instead of what appears on your schedule as 10 to noon.

I would now like to welcome the Premier and his guests. I would ask the Premier, when you begin, if you would introduce your guests. We would appreciate that. We're looking forward to your opening statements. At the conclusion of that statement, we will have questions beginning with the Liberal opposition and then the government members and will rotate back and forth. We have been providing each member with the opportunity for one main question and two supplementaries, but quite frankly I've been quite lenient in the chair in the sense that sometimes the supplementaries may not necessarily follow the main point. We just seek your co-operation. Of course, in chairing the meeting, if we stray too far afield, then I will use the prerogative of the chair to bring us back to the point, but we would certainly want to have your and your guests' co-operation as much as possible so that we can have a meaningful dialogue this morning. So with that, sir, if you would like to proceed, we'd welcome your remarks.

MR. KLEIN: Well, thank you very much, Mr. Chairman and members of the committee. I would like to introduce, first of all, Murray Smith, MLA and legislative secretary for economic development. He'll also be representing Butch Fischer here today, who is legislative secretary for tourism, also under Economic Development and Tourism. Next, of course, is Allister McPherson, Deputy Minister of Treasury. We have Peter Crerar, ADM, corporate and policy development, and Brian Williams, assistant deputy minister of business finance, both for Economic Development and Tourism.

I'll make a few opening remarks, Mr. Chairman and members of the committee. For some time now we've made a commitment to review the heritage savings trust fund and to consider major decisions about the future of the fund. Just before I get into my remarks, I would like to address the fund perhaps in a more general, global way at the beginning, and then perhaps we can get into the specifics relative to ED and T. Murray and our officials will probably be answering most of those questions. On a more general scale, as I've said, we've made a commitment to review the heritage savings trust fund and to consider major decisions about the future of the fund. At the outset I want to announce that today it's the proposal of the government to provide Albertans with the detail of the review which is to be set in January.

First I would like to take some time and remind us all about why the fund was established and what it has meant to our province over the years. The heritage fund has been part of Alberta's financial picture for the past 18 years. When it was set up in 1976, Alberta of course was booming largely because of oil prices, and that was shortly after a very dramatic change to the royalty revenue scheme, where a lot more money than ever before was coming into the province. As you know, during those heady days of the mid-70s our provincial revenues soared, and there was a strong feeling that we should not spend all that money, rather we

should save some of that wealth for future generations of Albertans.

The heritage savings trust fund at that time was set up with three goals in mind: one, to save for the future – a lot of people still refer to that fund as the rainy day fund – two, to strengthen and diversify Alberta's economy; and to improve generally the quality of life in Alberta. There's little doubt that the heritage fund has made a very positive contribution to those goals.

Since 1982 it has provided over \$15 billion of income to support spending on health, education, and other services that Albertans value. In the north, for instance, the heritage fund paid for research to support oil sands development, and we now know what is happening there, especially in the Fort McMurray area and in the Cold Lake area. More specifically with respect to Fort McMurray, we now see both plants, Suncor and Syncrude, contemplating major expansions. We just saw yesterday the opening of a \$12 million brand-new facility near the Alberta Research Council complex in southeast Edmonton relative to research into heavy oil by Syncrude. So we do see the advantages of the investment by the heritage savings trust fund into heavy oil development.

The fund has also paid for hopper cars. In the agricultural sector it's paid for agricultural research financing to the Agriculture Financial Services Corporation. It helped build the Prince Rupert grain terminal. That was deemed to be a very wise investment at the time because we were having some difficulty in moving grain through the west coast ports, and it was thought that we could secure our position much better by having an equity position in the Prince Rupert grain terminal.

Of course, there are numerous recreational programs that have been funded by the heritage savings trust fund. Assets – beautiful assets – have been set aside for all time for Albertans, such as Kananaskis Country. Across Alberta, in places like Airdrie, Calgary, Camrose, Edmonton, Fort McMurray, Fort Saskatchewan, Leduc, Spruce Grove, St. Albert, the county of Strathcona, and the city of Red Deer, people enjoy first-class urban parks thanks to the heritage fund.

With respect to the environment the fund has paid for land reclamation and reforestation projects. As we all know, over a half a billion dollars have been spent on the restoration and the rehabilitation of main canals and headworks throughout the irrigation systems in southern Alberta.

Of course, the fund has made Alberta a world-renowned centre for medical research. This fund without doubt is the envy of all other jurisdictions in this country, perhaps in North America. The Alberta Heritage Foundation for Medical Research was established in 1979, and it supports a long-term program of medical research in Alberta universities and other affiliated institutions. The beautiful thing about this fund is that about \$475 million has gone directly into the scientific community in Alberta as it relates to medical research. Moreover, for every dollar spent by that fund, medical researchers have been able to attract to our province at least two additional dollars in external funding from public and industry sources, and I don't believe that these dollars would have come to our province without the investment of the foundation. Right now there are 155 Alberta heritage medical researchers recruited from around the world and 370 students in training. So this is indeed a phenomenal accomplishment that perhaps from time to time doesn't receive the attention it deserves.

10:14

Of course, with respect to education, you know, a lot of people say, "Well, we should take the fund or a portion of the fund and provide it to education and health, particularly in these times of

reorganization.” Little is it known that we do take a lot from that fund for education. Albertans, for instance, benefit directly from scholarships in arts, sciences, and humanities as a result of the heritage fund. Since it was established, over 79,000 Albertans have received heritage fund scholarships. You know, the Alberta advantage includes our highly educated work force, which we believe is the highest in Canada, and this isn’t a coincidence. Part of it results from using some of our savings for education. All of that, of course, is on top of the fact that each year the heritage fund contributes funds to help pay for programs in health, education, and other essential areas of government. As I’ve said, over the years that contribution has amounted to over \$15 billion.

The heritage fund has served Albertans well, but a lot I guess has changed in the 18 years since the fund was established. So now, Mr. Chairman – and I alluded to this last year, and we talked about it last year – the time has come to ask Albertans what they think about the future of the fund. It’s a time perhaps to rethink our strategy with respect to how the fund is managed and indeed what is the long-term future of the fund itself.

Before we do that, we need to listen to Albertans. I would take you back to before the election campaign. There was a lot of talk about what should happen to the heritage savings trust fund. I said at that time that I certainly wouldn’t be part of any decision relative to the heritage savings trust fund without full and open consultation with Albertans, because, folks, as I said at that time, this fund doesn’t belong to us; it doesn’t belong to us in this Legislature. It belongs to each and every Albertan. Some of those people are now starting to ask whether we should keep our savings account when we owe so much on our credit card.

I think this is a very important decision for the future of Alberta. Is this the best time to make a long-term decision about the future of the fund? If we decide now to liquidate the fund, it is an irrevocable decision. The fund would be used up to pay the bills now. The money will be gone. On the other hand, given how volatile our financial situation is, is it better to make a short-term decision, make some changes in the fund, keep it secure, refocus its investment, and perhaps look at the way the fund is managed – are we getting the best bang for our buck – and then reconsider it after a few years when we’ve shown that we can keep the budget balanced and start attacking the debt? If we do decide to make a long-term decision now, which option is better: to sell it off or to keep it and redesign the fund? Those are the questions that I think Albertans are asking, and those are the questions to which they are entitled to provide their thoughts and eventually we are to provide the answers. Certainly Albertans want to address these issues.

There are no easy choices. What we decide now to do with the heritage savings trust fund could have an impact on how our creditors view our financial status overall. Conceivably it could mean fewer or more opportunities for Alberta youth. Frankly, I will not be the Premier who simply says, “I’m going to get rid of the fund” unless Albertans tell me loud and clear that that’s what they want us to do. So before we take any steps to change the fund, we’re going to listen to Albertans, and we’re going to give every Albertan the chance to have their say on the future of the fund.

With that in mind, I’m proposing to fulfill my commitment to an undertaking I made last year – you can go back to the *Hansard* and check it out – and that is to set up an all-party committee to oversee the review of the heritage fund. Mr. Chairman, I propose that the committee be chaired by yourself, as you are the chairman of this particular committee, and I would like to invite four additional people to work with you on this project. I would like to see Denis Herard, the hon. Member for Calgary-Egmont. I

would like to see Victor Doerksen, the hon. Member for Red Deer-South; right? I would like to see Michael Percy, the hon. Member for Edmonton-Strathcona . . .

SOME HON. MEMBERS: Whitemud.

MR. KLEIN: Whitemud; I’m sorry. Close.

. . . and the hon. Paul Langevin, the hon. Member for Lac La Biche-St. Paul, serving on this committee. That should spark some discussion.

We’re setting out a comprehensive process for the review, and I expect that to begin early in January. The first step is to get information out to every Albertan, because I don’t think Albertans generally understand completely – some do and some don’t – the total nature of the fund; in other words, what we have in short-term assets, what we have in long-term assets, what we have in deemed assets, the actual value of the fund, how the fund is managed, how we report on the fund. I think they really need to have a lot of information about the fund in order to make informed decisions and offer their advice.

So by the second week of January it’s proposed that every household in the province will have received a tabloid-styled information piece in the mailbox. It doesn’t need to be on glossy paper, an expensive piece of material, but nonetheless a very informative document that will give Albertans the latest information about the fund, including the assessment of its financial value. We expect to get that independent assessment within the next few days, and the Provincial Treasurer will make that information available to everyone. There won’t be much time involved in the preparation of this document because the information is there; it’s readily available. Nonetheless, this document will give some history about the fund and what it has been used for, and it will lay out some options for the future and the pros and cons of each option. Therefore, every Albertan will have the chance to review the document, to consider the options, and tell us what they think. It’s proposed that there be a questionnaire inside and a mail-back envelope to make it easy for people to respond.

Since the fund was established, Mr. Chairman, this is the first time we’ve taken this approach. I don’t believe Albertans have ever been asked before really, in a comprehensive way, what they would like to see done with this fund. They all know it’s there, and it’s there for the so-called rainy day. Whether that rainy day has come, Albertans have yet to tell us in a clear and concise way. We think the future of the heritage savings trust fund is so important that we want everyone in this province to understand the difficult choices we have to make and to have the direct opportunity to tell us what they think.

10:24

The next step, Mr. Chairman, would be a proposal to send all the committee members out on the road. That’s not to say that we don’t welcome your participation in the Legislature, but we do think it’s important that you get out from under the dome and really talk to the people. It’s proposed that we visit at least eight locations for public hearings on this issue, including Lethbridge, Medicine Hat, Calgary, Red Deer, Wainwright, Edmonton, Grande Prairie, and Fort McMurray, but certainly I’ll leave it up to you and your committee as to other locations you might want to visit.

I expect that you and your committee will be in a position to announce the exact dates and locations in the first week of January, and hopefully these hearings can take place throughout February and perhaps March. No doubt the committee will be expected to receive submissions from interested Albertans, those Albertans who won’t be able to get to the public hearings or who

perhaps might want to supplement the information they'll provide through the tabloid circular. It's expected that by March, by the end of March anyway, the committee will have completed their consultations, reviewed the summaries of Albertans' views, and prepared their report and recommendations. Following that, I expect we will have a full debate in the Legislative Assembly, and then we will hopefully make a decision.

I know that there's been a lot of comment from both the government side and the opposition side about the debt. In other words, what happens now after we eliminate the deficit? How do we put in place a schedule for the orderly paydown of the debt? Or indeed, as I said at the outset, do we take the heritage savings trust fund and pay down a good chunk of that debt? The consideration of whether the heritage fund has in fact a role to play in the debt, whether it's a partial payment or a full payment – well, I believe that's for Albertans to decide, but I do want to say that notwithstanding how we apply the heritage savings trust fund to the debt or whether we even apply it to the debt, we will be taking action on the debt during the upcoming session, because that is the next stage of the program. I think that's what Albertans want and expect. They know that we've still got a debt problem, and every time I ask people what they think, their answer is: "Get on with it. Don't just stop with the deficit. Carry on and address the debt."

So regardless of what happens with the heritage savings trust fund, we'll be moving ahead with a debt plan in the spring session. We are still working on that plan, but I can tell you that it will set out a clear process for paying down the debt and we will back it up with legislation just like we did with the Deficit Elimination Act. I'm just providing now the opposition members with the courtesy of some upcoming legislation, that we plan to back this up with legislation. If you have any thoughts, send them over.

Once we've done that, if Albertans think we should use the fund to help with the debt, that then will be on top. In other words, what I'm sharing with you today is that what we plan to do relative to the debt does not include at this time the use of the heritage savings trust fund, but if it is deemed by Albertans to be appropriate, then that is something we can consider. The plan we put in place will be a plan for the orderly paydown of the debt without use of the heritage savings trust fund at this particular time, but that's not to say that the fund could not be used in future years.

The fund is an Alberta legacy. It was set up for our children, and we can't take the importance of decisions about the fund lightly. These are not easy choices, Mr. Chairman. I want to stress what a big decision this is for Alberta not only for now but for the future and our children's future. We have to be sure that this is the best time to make this kind of long-term decision about the heritage savings trust fund.

We still have a ways to go before the budget is balanced, and we still have to be able to keep the budget balanced. We have a legal obligation to do that. A balanced budget, as you know, is not a one-year goal; it's an ongoing commitment. If we sell off the heritage savings trust fund now, that's, as I've said before, an irrevocable decision. It's like deciding to cash in your RRSPs, and once they're gone, they're very difficult if not impossible to replace. This is a one-time thing. If we do it, we do it practically for all time, and that's why it's so important that we give all Albertans the chance to have their say before any decisions are made on the future of the fund, and hopefully they're going to have that say starting in January.

Mr. Chairman and members of the committee, thank you for your time this morning. I turn the floor back to you and would be glad to answer any questions you might have.

MR. CHAIRMAN: Thank you, Mr. Premier, and of course thank you for your recommendation.

You mentioned children in your comments, and we have some youthful and quite enthusiastic visitors with us this morning, and I believe one of our members wishes to make an introduction. Lance.

MR. WHITE: Yes, Mr. Chairman. These students are from Inglewood school in our city, and they're in to do a customary tour. We generally don't do introductions in this committee, but I'd like the children to rise so that they can see the Premier. They're craning their necks to see him. This is Ralph the Premier. He waves. He's real. He's a real person. Thank you, students, and we'll see you in your class.

MR. CHAIRMAN: Thank you, Lance.

All right. We'll begin the questioning, then, with Michael Percy.

DR. PERCY: Thank you, Clint, Mr. Premier, Murray, and officials. Again, I guess it's two years today on your election, so congratulations from this side of the House.

I'd like to start off dealing with some of the issues in the annual report itself, specifically with reference to a report by Professor Glen Mumey of the University of Alberta, who annually reviews the value of the fund. His latest report, just issued about two weeks ago, estimated the market value of the fund at \$8.5 billion, which is about \$3.96 billion less than the face value in the annual report itself, and he says that it emerges from the face value attached to the three Crown corporations as well as loans made by the heritage fund to fund outstanding obligations. My first question really relates to the nature of this discrepancy and the difference between the book value and market values as put forward by Professor Mumey and those found in the fund. So my question to the Premier is: can the Premier explain how the market values for the AOC, AADC, and AMHC as presented on page 27 of the heritage fund annual report are determined?

MR. KLEIN: I guess I have to refer to the November 30, 1994, *Hansard* of this particular committee relative to the Acting Auditor General's remark where he says:

He's just selecting one portion of the investment in the province in the amount of \$2.1 billion, and I can't reconcile that figure, so I'd have to wait for the report.

Now, this is the Acting Auditor General, who's in a much better position than me as a financial expert to respond to this individual. He says:

Your basic question was: do I agree with his assessment? The answer is, no, I don't agree with his assessment. I think the fact that some of the heritage fund's investments are in provincial debt is quite acceptable. It has got that value. When you put the two together, which is what happens, of course, when you consolidate, then you net the two sides out.

I consider this province just as good a province to invest in as Newfoundland, Quebec, New Brunswick, or Nova Scotia. We have some investments in British Columbia, the Prince Rupert port. Why can we not invest in our own province? Notwithstanding what the professor says, that \$3 billion is still a marketable instrument. I take exception, as the Auditor General does, to his remarks, and if you want, I'll have Allister supplement.

10:34

DR. PERCY: Well, I'll rephrase that question, Mr. Premier. The in-house estimate of market value by Treasury is somewhere in the neighbourhood of \$2.6 billion for the three corporations: AOC,

AADC, AMHC. Professor Mumey's estimate is about \$1.1 billion. There's a substantial discrepancy in the perception of market value. I would be very curious, then, as to how the in-house estimate of market value arose, because that is a billion dollar difference.

MR. KLEIN: Well, as I understand, there will be a full report on that situation. Allister, would you care to maybe mention where that is?

MR. McPHERSON: Yes. Thank you, Mr. Chairman. The Treasurer has asked for an independent assessment of the market value of the heritage fund assets, and that assessment is being done jointly by four of the major Canadian investment houses. I believe the Treasurer plans to make that report available when we receive it in the next few days.

DR. PERCY: My final supplemental is still in this general area. The reason I feel that I have some misgivings about whether it's appropriate or realistic for the government to record these investments at book value is that, if you look at the numbers, these three corporations received \$205 million from the general revenue fund to pay down their obligations to the heritage fund. They have accumulated deficits totaling \$329 million. They have assets of \$2.4 billion, which is roughly similar to the outstanding debt obligations of \$2.4 billion to the fund. So if you look at the assets and liabilities, if you look at the fact that they get their revenues to pay off the heritage savings trust fund from general revenues, I find putting a book value of 2 billion plus dollars doesn't make sense since they receive so much of their revenue from general revenues.

MR. KLEIN: All I can say is that they are still marketable assets, and they do have a value notwithstanding how they're funded. They can be sold.

DR. PERCY: Thank you, Mr. Premier.

MR. CHAIRMAN: Okay. Thank you.  
Denis Herard.

MR. HERARD: Thank you, Mr. Chairman. I wish to also add my congratulations to those of the Member for Edmonton-Whitemud, because it was in fact two years today that you were elected our leader. I think in two years your leadership has indeed turned this province around, and while some people on the front bench here today might not necessarily totally agree, I think the majority of Albertans believe we are now going in the right direction.

My question is with respect to one of the investments in the heritage savings trust fund, and that's the Al-Pac project. I wonder if you could give us the status of the Alberta Pacific Forest Industries pulp mill project.

MR. KLEIN: Well, you know there's been a lot said about – and rightfully so. I'll be the first to admit it. There have been some bad investments, and we all know about those investments, but you know, we don't hear much about the good investments. We hear a lot about the investments that have gone sour. Let's harken back to the early- to mid-1980s. There was a reasoned and deliberate political decision made to diversify this economy and to reduce our dependency on oil and gas and agriculture, because we saw what happened relative to the national energy policy and how fragile that industry was. We saw farm revenues drop dramatically. Basically, there was a revenue shock. It was the intention of the

government at that time to diversify our economy and reduce our dependency on those two main industries, understanding that those would be the industries that over the long term would generally be the main engines that would continue to drive the economy, but we couldn't constantly depend on them. So there was a decision to diversify, and the areas that were identified were forestry and high tech and value-added, especially with respect to agriculture. As we know, there were some failures and there were some winners.

One of the winners, by the way, was in the forestry industry, and one of the big winners is the Al-Pac project. This project was completed on time and within budget. The mill is fully operational and has achieved production levels equal to 95 percent of its capacity of 1,500 tonnes per day. At that time and as part of the diversification program, we agreed to provide a \$275 million loan, and that included a \$25 million cost overrun provision. Current estimates indicate a portion of this overrun facility may be utilized.

Again there is some risk. Absolutely there's some risk. Like oil prices pulp prices are not always up, but over the long term they average out. You know, we were a little nervous last year or about a year and a half ago when pulp prices were at an all-time low. Today they're practically at an all-time high, and the company is in good shape and servicing very adequately all of its obligations. So it's reasonable to conclude that on average and overall the Alberta heritage savings trust fund investment is more secure today than at any previous time and over the long term it will be a secure investment.

MR. HERARD: Thank you, Mr. Premier. You've taken care of my supplementals as well.

MR. WHITE: Mr. Premier, in the past year there's been the Alberta Energy Company. The shares the heritage trust fund is holding have been disposed of. There's some half a billion dollars there. Syncrude to Murphy Oil, there's another \$150 million there. There's \$150 million in Nova and some others. In January of this year you said that "it would be totally wrong at this time to commit ourselves . . . to become involved in the sale of assets . . . pending the review." You've just said here today that we have to hear the populous, the Albertans. We have to hear them loud and clear before we set a major direction in the plan for the disposal of these assets. Sir, it appears to me and to many others that you've already set off in this plan.

MR. KLEIN: I've also said that it's the intention of the government to get out of the business of being in business. Now, this is simply the taking of an asset that is a fixed asset and turning it into a liquid asset. [interjection] Well, that's right. The sale of AEC, those were in instruments. They were in stocks; right?

MR. McPHERSON: Common shares.

MR. KLEIN: Common shares. What's the problem with taking those common shares and converting those common shares to cash? It's the same thing. The only thing is it's better to have one in the hand than two in the bush. So we've got that cash bank in the bank. With respect to Murphy Oil, what is the difference? Having a \$150 million investment in Syncrude, or having that \$150 million out of Syncrude and in the bank? We still have 11 percent of Syncrude left. I've stated publicly and I'd state here again today if the television cameras were on, but I guess they aren't, that we have 11 percent of Syncrude. We'd like to sell that too. We still have it left. We would rather have the cash in the bank and get out of the business of being in business.

10:44

MR. WHITE: Getting out of the business of being in business, then, sir . . .

MR. KLEIN: The fact is we still have the asset. Whether it's a fixed asset or whether it's in cash shouldn't make any difference. I'd like the cash.

MR. WHITE: My turn? That being the case, then, why would one not say: well, there's the Alberta pulp and paper project assets; dispose of it. The Millar Western asset. Cash value or not, if it's all the same to you, get on with it. Novacorp still have some holdings. There's Ridley Grain. There's TransCanada PipeLines. There's Canadian Western Bank. Then you get into those debt instruments with the province of New Brunswick, the province of Newfoundland, the province of Nova Scotia, Nova Scotia municipal corporation. They all have a market value, sir. You can't just say that you can dispose of some without disposing of others, unless there is the plan. My contention and the reason for asking the first question is that you've started on this plan without hearing Albertans.

MR. KLEIN: Well, no. I take issue with that. First of all, there are some long-term obligations that we can't get out of. You know, a contract is an agreement between two parties, and if we have loans in place that are amortized over a certain period of time, we simply can't call in those loans. We have made agreements. There are contracts. But where we have a fixed asset, where we've paid for that asset, and where we can get our money out and if we can get our money out at a profit or at least break even or do a little bit better, why not do it?

Some of the situations to which you alluded are long-term situations. All we're doing in the case of Syncrude and AEC is we're simply collecting on our investment – there's nothing wrong with that – just as we have been collecting on our investment, by the way, with respect to some of those long-term loans that are out now to other jurisdictions. In some cases we're collecting very well, much to the chagrin of the governments of Newfoundland and Nova Scotia and New Brunswick and Quebec Hydro: you know, anywhere from 11 to 13 percent, which is not bad.

MR. WHITE: My turn?

MR. CHAIRMAN: Final supplemental.

MR. WHITE: With respect, sir, you're all wet. The fact is . . .

MR. CHAIRMAN: A little respect, Lance.

MR. WHITE: I said that at the outset.

With respect – and you should perhaps check with the Treasury – the bonds that are held are marketable. All of those assets are marketable, virtually all of them. So that aspect of the argument just doesn't hold. The facts are that there is obviously a plan of some sort here. If you can just explain to us the difference between those assets that you've chosen to dispose of in the last year versus the ones that are still in the books, and please don't confuse the marketability. We heard from the Auditor General, we heard from all the experts, in fact, that these assets are marketable. Some of them have to be discounted of course, but that's the nature of the work. Please, can you just tell us whether there's a

plan in place and, if so, how is it determined that these assets should be disposed of?

MR. KLEIN: The fact is – and I have to get back to this – that with respect to the sale of AEC, with respect to the sale of the 5 percent in Syncrude, the asset value did not change. It did not change at all. It was simply taking a fixed asset or an asset in the form of common shares and turning that into cash.

MR. WHITE: They're both liquid in accounting terms. They'll tell you that they're both liquid, as are their bonds.

MR. KLEIN: Yeah, they're very liquid now, because we've got it. We've got money.

MR. WHITE: Okay. The question was: what is the difference?

MR. KLEIN: What is your point?

MR. WHITE: Is there a plan? Is there no plan yet or what?

MR. KLEIN: Well, the plan is as I announced it. This is the review. In other words, are we managing it right, or should we do as you say, take it all, including our equity in loans? You know, there's a difference between equity in investments that can be converted from the investment to cash – there's a difference between that and equity in a loan.

MR. WHITE: Not much. Not a lot.

MR. KLEIN: Well, there is. The equity in the loan is, first of all, that you protect the principal – right? – and you have an ongoing opportunity over a period of time to collect the interest. We weren't getting any interest on our common shares. Right? That was an equity position. We weren't getting interest on our investment in Syncrude. That was an equity investment. But we are making money and earning very, very good money on a lot of our loans. As a matter of fact, we earn an average of a little over 10 percent.

MR. CHAIRMAN: Okay. Thank you.  
Ed Stelmach.

MR. STELMACH: Good morning, Mr. Chairman. Good morning, Mr. Premier, Murray, and staff. My questions this morning would be with respect to the Millar Western pulp mill. We've invested \$120 million, I believe, in the project. To date what are the prospects of a recovery of our investment in that project?

MR. KLEIN: Well, again, the prospects today are perhaps a lot better than they were a year, a year and a half ago because the price of pulp is up. There are some other aspects to this particular investment. Again, we go back to what I said previously relative to the reasons for the investments in the first place, and that was simply to diversify our economy and to stimulate a brand-new industry. It was highly risky at that time. You know, six or seven years ago who would have thought that you could have used poplar or aspen to make pulp? It was unheard of. Indeed there was tremendous risk on the part of these companies to go in and use poplar to make a very high-quality pulp. So I don't think that we expect to recover all of the investment, as is indicated by the fact that the carrying value of the investment has already been written down – it's been well recorded; the hon. Member for

Edmonton-Whitemud knows this because he raised it – to \$20.6 million.

Now I don't think that we see an additional problem. There was a time a year, a year and a half ago when that company was looking for an additional \$20 million on top of our investment in additional loans to sustain the company. Fortunately, the price of pulp went up, went up dramatically, and we didn't have to deal with that particular situation. Right now, as I understand it, the mill is back to profitable levels, and accordingly over a period of time we expect some recovery of our investment. I would point out that the company now employs 140 Albertans in its operations in Whitecourt alone, and that's on the pulp side alone. There's also a sawmill operation; that's excluding the sawmill. Additionally it has some 230 employees out working on the woodland projects and indirect jobs. So there has indeed been a tremendous economic benefit related to this mill.

MR. STELMACH: So, Mr. Premier, the restructuring of the loan that was done in the fall of 1993 has brought, then, additional benefits now that the cycle has improved?

MR. KLEIN: Well, I don't know if it's brought additional – yeah, it has sustained benefits. It basically has kept that mill alive at virtually no additional cost to the province. By restructuring, we saw it through a very difficult period of time. As I say, the company is now in a profit mode, and we expect some recovery of our investment.

MR. STELMACH: Thank you.

10:54

MR. CHAIRMAN: Okay. Thank you.  
Don Massey.

DR. MASSEY: Yes. Thanks, Mr. Chairman. If I could preface my remarks, Mr. Premier, it was great to see you in Edmonton-Mill Woods last Friday at the opening of the research park. Your presence there indicates how important that is to the government. It's been a long time being developed, and I think it's coming along now, and the 35 organizations there have really turned that truly into a research park. My constituents are delighted that the government sees it as being the important facility that it is.

I guess I'd like, though, in terms of my question to talk about the review you've just announced. I couldn't help, as you used the credit card analogy, thinking back to the last election, because it seems to me that that was the one the Liberals used at the time, when we argued that the fund should be disposed of. Frankly, Mr. Premier, when you speak about consultation, some Albertans wince. They think back to the roundtables and the consultation that went on around the province and what happened to kindergartens and what happened to local tax dollars. So my question is: would you consider truly consulting every Albertan by making the future of the fund a plebiscite question at the 1995 municipal elections?

MR. KLEIN: Well, let me put it this way. That's an interesting proposal. I'm not a member of the committee. I'm simply proposing a process to have Albertans become part of the decision-making process. It may very well be that the committee will come back to this committee and might very well say: "Lookit; we can't deal with this problem. This is so big, it is so diverse, there are so many variables that perhaps the only way we can solve this is put it to a plebiscite."

I'm not saying that I favour a plebiscite at this particular time. I'm saying: let the review take place and find out initially what Albertans think about the fund and what their thoughts are, and then have a good series of roundtable discussions or public hearings and then a good solid debate in the Legislature. After all is said and done, if this legislative body can't make that determination, it may very well be that the decision will be to put it to plebiscite. Then I would imagine there would be great debate on what the question is going to be. I would hate to be the person to draft the question to put the resolution to the people. Perhaps you can give me some suggestions. How would you word the plebiscite?

DR. MASSEY: Democracy's not always easy, Mr. Premier.

MR. KLEIN: No, I know. Right. What question would you ask?

DR. MASSEY: My question then is . . .

MR. CHAIRMAN: Excuse me; can I interrupt?

DR. MASSEY: Sure.

MR. CHAIRMAN: Just a quick second. Again we have a number of youthful and excited visitors in our members' gallery this morning, and I believe that Lance White can introduce them for us again.

MR. WHITE: Unaccustomed as I am to introducing students in the Legislature, this is another group from Inglewood. This is a committee of the House. We don't normally sit in these places. Usually the Premier sits over here; then we sit over there. Today the Premier is explaining the Alberta heritage trust fund to us. Perhaps, Mr. Chairman, if I could ask the students to rise and have a look at the Premier. He's right here. You can see him. There he is. He's actually real. Thank you kindly for coming, students.

MR. CHAIRMAN: Okay. Don, your first supplemental.

DR. MASSEY: Can I just have it clear, then, that the mandate of the committee will be to advise on process, the process of how Albertans should be consulted, as well as on the fund itself. Is that what I understand from your answer?

MR. KLEIN: No. First of all, it will be the fundamental role of the committee to get the views of Albertans as to how Albertans think about the fund, whether Albertans think that we should use all or a portion of the fund and apply that to the debt, whether Albertans think that all or a portion of the fund should go to various programs. Should it go to education? Should it go to health? Should it be used in a different way than it's being used now? Is it being managed right? Are we getting the best value out of our investments? All of these questions. Or should we simply take the asset value of the fund, as much as we possibly can at least – that is, the short-term investments, the amount of the fund that can be liquidated immediately – and apply it to the debt? Over a period of time as we deal with the long-term obligations, should we take that money and apply it to the debt? These are all the questions.

I don't have the answers to these questions, and I don't know if a plebiscite is the way to go at this particular time. I do know that we need to have a review of the fund. The best way to review the fund, in my mind, is first of all to get all the information we possibly can about the fund out to the people of this province so

that they can make informed decisions as they start to address this issue and, secondly, to further hear from Albertans through a series and a process of public hearings and open consultation, then bring it back and have a full debate in this Legislature.

As I've said before, I don't know whether a plebiscite is the right way to go. Perhaps the committee might say that some or perhaps all of the issues should be decided by plebiscite. I'm not going to make that decision right now, and I don't think that anyone in this room is ready to make that decision, because the moment we talk about a plebiscite, then we have to say: what question would we put to the people?

DR. MASSEY: Well, if I could respond. Part of the problem is accountability after the consultation has taken place. That's the root of the question. How are Albertans assured that, after they are consulted, the answers are really the answers based on those consultations?

I guess my final question is: is there a deadline? Is there some point where a decision has to be made, in your mind? Is it going to be after the legislative session, or is it sometime in the future?

MR. KLEIN: Well, I think that I would like – I don't know how the committee might feel about this, but certainly I think the process can be completed by the end of March and then brought to the Legislature for debate. Certainly by the end of the spring Legislative Assembly I think that we should have some clear direction as to where we're going to go relative to the fund.

DR. MASSEY: Thanks.

MR. CHAIRMAN: Thank you.

Now, finally, Jon Havelock.

MR. HAVELOCK: Thank you, Mr. Chairman. Good morning. So as not to make Mr. Smith's time here a complete waste, I'm going to ask him a couple of questions. Mr. Smith, since June of '93 you have stated on numerous occasions that government should not be in the business of business. In fact, we heard the Premier reiterate that this morning, that we should let the market decide and that we as government must focus on our core businesses. I agree entirely with those sentiments. Consequently, my question to you: what are your plans to wind up AOC and assist in the orderly transfer of any outstanding loans to the private sector?

11:04

MR. SMITH: Well, thank you, Mr. Havelock. It's always a pleasure to respond to your questions. The discussion of the Alberta Opportunity Company, that has been around since 1972 and through different accounting principles has taken on different visions of what its net cost is or what its net contribution has been to Albertans, both in terms of what it's been able to create in terms of jobs in rural Alberta and how it's been able to facilitate the transfer of rural property within the Warners and the Bassanos and the Milk Rivers of Alberta, has had its point. The area of economic development throughout Canada and the 50 states indicates that there is a facilitating agency in just about every jurisdiction that in fact, as a fiscal hawk would say, hands out government money and extends artificial privilege to specific businesses, or, as somebody who's involved in long-term economic development says, is a facility that allows for the orderly development of an economy in smaller areas that schedule A banks and credit unions won't touch.

So the question that has to be asked specific to the Alberta Opportunity Company in today's market is: does it still offer a

viable service? Is it still coincidental with the aims of this government in terms of delivering an environment that allows the private sector to create 110,000 jobs? Does the Alberta Opportunity Company provide a system providing an environment that will allow us to meet a goal of \$24 billion in export sales? In fact, I would look to government caucus, to standing policy committee, to thoroughly examine the Alberta Opportunity Company to determine whether in its present state it meets government objectives. Secondly, if it has a role in being a lender of last resort at a premium interest rate and can either become self-sustaining or at least reduce its annual request from the general revenue fund, that has to be addressed. If in fact it is there to provide strength in the small business infrastructure of Alberta, can it be stronger? Should it do things other than just lend out money? Should it be there in terms of education? Should it be there in terms of investment? Should it be there in terms of business counseling? Should it be able to work in partnership with the universities and the technical institutes? Should it work with the private sector in being able to bring resources and focus them on small business? Or in fact is there something in this government that can do that and not lend any money?

As a government member I've been pleased to comment on the Alberta Opportunity Company as well as other associated companies like the Agricultural Development Corporation. Is there a real need for those lending bodies in today's marketplace given what the Alberta advantage is in trying to create more job opportunities, a better export infrastructure, and allow the private sector to meet the two goals that Seizing Opportunity put forth in June of '93, that being an environment that allows for the creation of 110,000 jobs and a growth in exports to \$24 billion?

So, in a very short answer to your question, I would see in the final quarter of this fiscal year that we will be having that Alberta Opportunity Company review, and hopefully the standing policy committee and government caucus as well as those the private sector interfaces with, the Alberta Opportunity Company, would be able to give us a direction to embark upon in the next fiscal year.

MR. CHAIRMAN: We may have just set a new record here.

MR. HAVELOCK: Well, that certainly brings back memories of question period, Mr. Chairman, when you've been obviously spending an inordinate amount of time with one minister in particular.

Nevertheless, Mr. Smith, I think what I'm hearing is that there will be a review shortly. I guess, though, where I want to put the discussion is a philosophical discussion, and that is of this government getting out of the business of being in business. I recognize the benefits, in particular in rural Alberta, that AOC has provided. Nevertheless, if the marketplace rejects a lender, is it the government's role to basically fill that void? I would have to say no, and I'm going on the basis of a number of comments that you have made publicly. I am going to hold you to those, and I would like you to give me your perspective, your opinion briefly on the original question.

MR. SMITH: In answer to your first question, yes, there will be a review.

It's my personal opinion that the ability for banks, credit unions, and other private-sector lending institutions to lend money to businesses is in effect a market test for that business's ultimate success or failure. Generally, banks have an acceptable level of failure at somewhere between 2 to 3 percent nonperforming loans. Last year the Alberta Opportunity Company's nonperforming loan portfolio was in the neighbourhood of 11 percent.



So in effect it's my personal perspective – and I look forward to the review from the standing policy committee as well as other private-sector inputs that come up – that government has to (a) address its core businesses, determine what its core businesses really are, and (b) realize that the taxpayers' resources are, indeed, a very scarce resource. In effect, we cannot allocate them on a subjective basis.

MR. HAVELOCK: In your view, is AOC a core business?

MR. SMITH: Parts of AOC can be a core business. I wouldn't want to prejudge, Mr. Havelock, the input from the standing policy committee or the other sources. In fact, to do that would negate their input, and I don't think that's my role at this point.

MR. CHAIRMAN: Thank you.  
Ken Nicol.

DR. NICOL: Thank you, Mr. Chairman. Mr. Premier, you mentioned early on in your presentation when you addressed us at the beginning that we were looking at the heritage fund as kind of an investment in the future. You talked about it as a rainy day fund. To me those take kind of opposing views of an investment. We look at the role that the public plays in generating a future, and we see Alberta has done a great job through the Research Council, through things like Farming for the Future, through the medical research that's going on. I see this as the kind of way to utilize a heritage fund to build a future for Alberta, yet when we look at it from the perspective of just using it as a savings account – when you run short of money, you draw it down – it creates a different perspective.

I'd like to know, when you look at evaluating the future – you've announced this morning that you've put basically five people onto a committee to review this – if you have questioned each of the individuals about how they individually perceive the future of the heritage fund so that you'll know what kind of balance is on your committee in terms of the filter that any one of these kinds of normal processes goes through when people listen to the public.

MR. KLEIN: No, I haven't. I tend to think that all of these people are good-thinking people. If they weren't, they wouldn't be here in the Legislature, and you know, I have a lot of faith and a lot of confidence in the ability of all Members of the Legislative Assembly. Good minds; people who are good listeners. I mean, they wouldn't be here, they wouldn't have been elected if they weren't. So I don't see it as my duty to set up an interview process with my colleagues in the Legislature, Ken.

I certainly wouldn't presume to estimate your intelligence and your ability to listen to people and cut the wheat from the chaff. You know, I think that you're a good-thinking person, a very intelligent human being, and it wouldn't be for me to make that determination at all. I mean, the people have made that determination, and obviously they think, as I do as well, that you're a good-thinking person and perfectly capable of undertaking any chore that might be handed to you.

11:14

DR. NICOL: Mr. Premier, I wasn't trying to cast any question as to the integrity or the ability of the people who were nominated for this committee. What I was dealing with, though, is the perception that – and I've participated in a number of roundtables and these kinds of discussions. After you walk out of the room, you always end up with people saying, "Well, this was the general

focus that came out of that meeting," and somebody else says, "No, this was the general focus." What you end up with is that if you've got a broader perspective of people listening, they tend to filter what they're hearing differently, and that's the question I was getting at.

You also in your preliminary discussions mentioned that you plan to introduce in the next session a Bill which would deal with the debt elimination. Would it be reasonable to expect that this would be released to the public before they give input to this committee?

MR. KLEIN: Yes. It will come out in the normal course of Bills to the legislative list, the general tone and nature of the Bill. I haven't given any thought yet as to whether we would put this Bill out as we did the Freedom of Information and Protection of Privacy Act or the Environmental Protection and Enhancement Act. You know, there are some Bills that deserve more public input than others. We didn't put out for public debate or discussion the Deficit Elimination Act, for instance. I think the tone and the intention of this Bill will be quite clear, and that is that notwithstanding the outcome of the heritage savings trust fund deliberations, the review, there will be put in place a process to pay down the debt. I think the intention would be to dedicate a certain amount of operating each and every year to amortize that debt, much as any household would amortize a mortgage.

We're working on the legislation now, and I thought I'd be fair to you today and to indicate to you that that's coming. If you have any thoughts, send them over.

DR. NICOL: Thank you, Mr. Premier. I would suggest that when people are going to start looking at what to do with the heritage fund, if they think of it as an investment in the future as opposed to a savings account, it would be very helpful in their making decisions about how we should handle that pool of dollars if they could see how they were going to be asked to contribute to the paydown of our debt through an orderly process such as your debt elimination Bill would probably propose. I would just encourage you very strongly to make sure that that is part of the information that people have before they start making their presentation to this committee.

MR. KLEIN: Well, we can make sure that is included in the circular that will go out to the public, that notwithstanding what they might consider to be an appropriate use of the fund relative to the debt, we will be putting in a program to pay down the debt. Okay? I think we can include that and make it very simple and understandable.

The interesting point you raise I think gets to the core of the question, and that is: is it in fact an investment or is it a savings account? Is it for a rainy day or is it for the long term, or is it a combination of the two? That is fundamental to the question. That's basically what the public will be asked.

DR. NICOL: Your information that you're going to put out in this little flyer will cover the definition and the advantages of looking at it in all three of those ways that you talked about?

MR. KLEIN: Yes, absolutely.

MR. CHAIRMAN: Okay. Before we proceed, Lance, is this some more of your . . .

MR. WHITE: No, I don't think so.



MR. CHAIRMAN: Okay. I'd like to welcome, then, some young visitors to the members' gallery this morning. What you're witnessing are the proceedings of the standing committee on the heritage savings trust fund, and this morning we have in front of us the Premier of the province, Mr. Ralph Klein. If you'd like to stand up and make sure you get a good look at him, he's there.

We want to thank you for joining us this morning. You're a fine looking group, and we hope that you find this of some interest.

Okay. Carol Haley.

MS HALEY: Thank you, Mr. Chairman. Mr. Premier, you pretty much answered my questions in your opening comments, but it did raise something else in my mind. That was when you started talking about the circular that you were going to send out to Alberta householders regarding the heritage savings trust fund. I guess I want to caution the committee on how they present this information, because I want to make sure that it really does show all that the heritage savings trust fund has done for this province in the last 15, 20 years.

I'm one of those Albertans who happen to think that the heritage savings trust fund is doing a great job for us, and I don't want it liquidated then. It concerns me even talking about it because I believe so strongly in how much it's done for this province. Whether it's Alexander Rutherford scholarships or medical research or land reclamation, it's done so much. I don't think a lot of Albertans realize how the heritage savings trust fund has impacted their lives over the years.

I guess my hope is that when the information is being presented, it clearly indicates the things that the heritage savings trust fund has been invested in in this province over those years so we don't get caught up in the rhetoric that there isn't a fund, that it's not real, that there really isn't any money. There are a lot of people in Alberta that don't know anymore. They're very confused over whether there really is a heritage savings trust fund or not. So I think the consultation process is great. Let's just make sure that they have the information that they need.

MR. KLEIN: I couldn't agree with you more. The facts have to be there, you know, and they can be there on one or two pages, clear and concise: where the fund is now, where it has been, what it's done, the value in short-term disposable assets, what the long-term commitments are, what the deemed assets are. That's basically what you're talking about: this huge amount of money that has been poured into things like medical research and irrigation and parks, urban and rural and mountain parks, just what the fund has done, what our earnings are, how it's managed, everything, and do it as objectively and in as unbiased a manner as we possibly can.

MR. CHAIRMAN: Okay. Howard Sapers.

MR. SAPERS: Thank you, Mr. Chairman. Mr. Premier, earlier today you talked about this review, and of course we've all been waiting a long time for this review. Also, earlier this year you've thought out loud about forgiving certain interest payments on loans provided through the Canada investment division, interest payments to the government of Newfoundland, Newfoundland and Labrador Hydro, the Municipal Financing Corporation. Given your earlier thinking out loud and now the mandate of this committee, will the review in any way be constrained by your musings in these regards? Could you update prospects for full repayment of these loans, which come due between March of 1998 and January of the year 2001? I'm particularly curious about this

because those interest payments represent almost a quarter – I believe it's 23 percent – of the total income earned by the Canada investment division. That's a sizable chunk of change that you've been thinking about.

MR. KLEIN: Well, I've had this discussion since with the Premier of Newfoundland, and he understands the situation that, first of all, it's very difficult to single out one province. When we mentioned Newfoundland, of course Nova Scotia said "me too," and I think some other provinces as well. He understands the political situations. He also understands and appreciates this province's tremendous concern for the situation in Newfoundland, because if you think we're badly off here, you only have to look at what is happening in Newfoundland and to see the devastation that has taken place there relative to the economy. We're talking about double-digit, over 20 percent, unemployment. We're talking about the complete devastation of the codfish stocks. In other words, that would be like losing our agricultural base and our energy base at the same time. Their economy is in terrible shape, and it was an indication to the Premier to look at some way that we may be able to assist. We're having ongoing discussions with the Premier perhaps of assisting in other areas; that is, the development of their energy business, not off-shore because Hibernia seems to be in pretty good shape – that platform is now going into deep water to have the underpinnings fitted and soon will be out and productive – but there is some potential for on-shore energy development in Newfoundland. We have great expertise in this province, tremendous research capabilities, educational opportunities to provide Newfoundland, and perhaps we can look at that. No, I don't think that anything I have said or done in the past would jeopardize the ability of the committee to undertake its review.

11:24

MR. SAPERS: Those loan repayments are happening on schedule?

MR. KLEIN: They are; right. Despite the financial hardship that province is facing, they're maintaining their payments; right.

MR. SAPERS: Thank you. During the year you've talked, of course, about other provinces, and particularly you speculated on reviewing the \$305 million loan to Quebec Hydro in the event of a victory by the PQ in Quebec. Can you tell us now whether in fact you had such a review undertaken and what the results of that review were?

MR. KLEIN: Well, again, you know, I would suggest, Mr. Chairman, that the hon. member is getting a lot of his research from one newspaper in particular. I was asked the question relative to the status of that loan. I said that perhaps that would be one of the things we would have to look at in case of a referendum that resulted in a decision to achieve sovereignty association. In the interim, relative to that issue we're saying nothing. What we're saying as a government and, I hope, as a Legislative Assembly is: let's cross that bridge when we get to it; in the meantime, let's concentrate on having Quebec stay in Canada so we won't have to deal with any of those issues.

MR. SAPERS: Well, if we don't have to deal with any of the issues, Mr. Premier, I wonder why you would make comments like that in public, whether it be picked up by one newspaper or several newspapers. But my question . . .

MR. KLEIN: Well, Mr. Sapers, perhaps you could have been there. I mean, you have hall monitors out all the time. We were missing the hall monitor this time. Had you seen how the question was posed, you would have seen the context in which the answer was given.

MR. SAPERS: What I'm aware of is that your speculation created a certain amount of uncertainty and insecurity.

MR. KLEIN: I don't think it did.

MR. SAPERS: I want to ask you specifically: were you aware that an early call on those particular loans and placing the proceeds within cash and marketable securities would have led to a loss of some \$15 million in income?

MR. KLEIN: I didn't get lots of cards and letters or phone calls on that particular issue.

MR. SAPERS: Well, Mr. Premier, I'm not asking you about your mail. I'm asking about the heritage trust funds assets: a \$15 million loss.

MR. KLEIN: No, but you said it created a lot of concern. You're creating the impression that there was widespread concern and outrage and so on. There was nothing of the sort.

MR. SAPERS: So you weren't aware of the \$15 million loss. I would like to know why you would make such a statement when the Quebec Hydro loans earn over \$34 million in income, another 25 percent of the total. Your musings over the last year put in jeopardy over 50 percent of the revenue of the Canada investment division.

MR. KLEIN: I made the terrible mistake of providing a hypothetical answer to a hypothetical question. That was a big "if," and the big "if" is: if Quebec separates. If Quebec separates. I mean, that is so far down the road, if it ever happens at all. If it ever happens at all, then of course we would have to take whatever measures are necessary to protect our investment. That basically was the essence of that particular answer. It had nothing to do with today or tomorrow. As a matter of fact, I said that I'm not going to get into any more of those "if" questions. From now on the stance of this government is going to be: we're not even going to talk about Quebec separation or the referendum. We're going to talk about the value of Quebec being in Canada. We're going to talk about the strengths of Canada as a united country rather than the separation of Quebec and all of the what-ifs, and I'm not going to be drawn into it today.

MR. CHAIRMAN: Thank you.  
Victor Doerksen.

MR. DOERKSEN: Thank you, Mr. Chairman. I'd like to return the discussion to the economic development sector and Mr. Smith. Mr. Havelock asked my questions on AOC, but I just wanted to point out that the deficit for AOC I understand currently stands at \$29 million. With the cost of funds from the Alberta heritage savings trust fund it's unlikely that AOC will ever generate a return to this province. So I welcome your comments that we will have a review of AOC to determine whether it's something this government should continue to utilize as a core business.

So I want to now direct my question to another quasi-financial type body: Vencap. Last year in the heritage savings trust fund

committee it was moved and recommended by this committee that the Treasurer negotiate early repayment of Vencap Equities Alberta Ltd., of its outstanding loans, being \$200 million. Can you tell us whether there have been any discussions toward the repayment?

MR. SMITH: Thank you, Vic. Yes, in fact discussions are ongoing. The Treasurer has taken the lead from this committee from last year. It would be difficult to comment on specifics, because Vencap is indeed a publicly traded company, and to presuppose any conclusion at the committee level could affect the publicly traded stock. Yes, we are continuing discussions. It fits into that discussion of: does that loan fit into the core business perspective of this government? It's my opinion that in fact that loan to Vencap may inhibit its activities to act as a true venture capitalist and serve to diminish the return on investment not only for the common shareholders as opposed to those who have specific, direct loans. As you know, Vencap has announced its intention to redeem all its outstanding 12 percent convertible debentures, and they are asking them, if they don't wish to redeem them to the company, to revert them to common shares. We are in a position where discussions are ongoing.

MR. CHAIRMAN: Okay.  
Mike Percy.

DR. PERCY: Thank you. I hate to beat a dead horse, but it's the issue of book value versus market value with respect to the AOC, AMHC, and AADC. Here's the problem that I have, Mr. Premier. In the absence of any transfers from the general revenue fund to any of these three corporations, they would not be able to meet their debenture payments. That is a fact. I know that in the case of Millar Western, because of the failure of Millar Western to meet their interest payments, the debenture was written down. How, then, since there is this large flow from the taxpayer, general revenue, to there, can you still have a market value? I'll just go to the Agriculture Financial Services Corporation. The book value is \$949 million. There is a market value here of \$986 million provided by Treasury. How could that be the market value? I know – and I'm willing to put money on it – that if you cut off the transfer from the general revenue fund, nobody would pay \$986 million for that.

MR. KLEIN: Well, I think we still stand by the fact that these are marketable commodities and can be sold at fair market value. Relative to the intricacies to which you allude, I'm going to have Allister explain.

11:34

MR. McPHERSON: Thank you. I would suggest that on this issue there is a report coming that's going to talk about market values, and rather than try and prejudge what it's going to say, it'll be laid out on an independent basis. The Treasurer is here next Wednesday, and it seems to me that with the independent assessment, that would be a good time to pursue that further. Suffice to say that these market values shown in the report are on the basis that the debts are either guaranteed or are issued by agents of the Crown, and therefore to third parties – and third parties would obviously be the market for these debentures – they have a market value as we have estimated here.

DR. PERCY: So the basis of the market value is that the taxpayer is on the hook through these guarantees. That is why it is marketable at that level. That's a fair statement?

MR. McPHERSON: Yes, the value has been on that basis.

MR. SMITH: Could I just supplement?

MR. KLEIN: Go ahead.

MR. SMITH: Mike, I think as a businessperson you look at and you try to define market value. Market value really doesn't occur until in fact a sale has been initiated that determines what that market value is. The true determination of the market value is an auction. The bunker that was just recently sold was built for tens of millions of dollars. When that quarter section and that bunker were sold, they were sold at a particular point . . .

MR. KLEIN: I'm sorry?

MR. SMITH: This is the bunker, just as an example.

MR. KLEIN: Oh, at Penhold. Okay.

MR. SMITH: That particular transaction had the market value at that particular point in time. This I think, Mike, is something that any normal business would do: carry that at the market value. But in fact the true market value doesn't occur until a sale has determined market value.

I just wanted to add that. I felt it was important, because we get away from the marketplace.

DR. PERCY: Well, that may be true, but, you know, on page 27 they have the market values, and in fact they increase for these four elements of these provincial Crown corporations when I think no prudent investor would touch them with a 10-foot pole in the absence of the guarantee and the flow of revenues from general revenues to these entities.

The final question would just be with regards to Millar Western. The Premier in his reply to an hon. member mentioned that the restructuring of the Millar Western loan was in everybody's best interest. It certainly was in the interest of the owners of Millar Western. The issue I would just bring up is the fact that \$30 million of that now lies behind loans to chartered banks, and given the cycles in the industry I would think that there has in fact been a real cost to that restructuring. The cost is the precedence at which this debenture now lies, lying behind the chartered banks' claims on various resources. Is there any estimate of what the potential risk there is? That's a sizable chunk of change.

MR. KLEIN: Well, that's an interesting word: potential risk. I mean, there's a potential risk in everything that we do. I simply have to point out that the decision to invest in Millar Western was approved in 1987, and that was a deliberate decision made to achieve a form of diversification in our economy. Yes, there was a risk, and the manifestation of that risk was in 1992 when the price of pulp hit rock bottom. The manifestation of that risk on the upside is today when the price of pulp is at an all-time high. So, yes, there was risk. You know as well as I know, Mike, that there is risk. As I say, it was the decision of the government at that time to take these risks, to risk some of the trust fund to diversify the economy and help to reduce our dependency on the oil and gas industry and to some degree the primary components of agriculture, which are also susceptible to great risks and also to some degree are subsidized through either royalty regimes or various farm subsidy programs. There's always a risk, I guess, in any economy when governments are charged ultimately with making sure that the economic climate in any jurisdiction is

sustained. There are risks. I mean, it would be a lie to say that there are no risks. I just hope the risks are few.

MR. CHAIRMAN: Okay. Thank you, sir.  
Bonnie Laing.

MRS. LAING: Thank you, Mr. Chairman, and welcome, Mr. Premier and Mr. Smith and staff. Again, congratulations on your election as Premier.

My questions have to do with Vencap Equities. Does the government of Alberta receive any interest payments on its loan to Vencap?

MR. KLEIN: The payments due from Vencap are composed of annual principal payments against the loan, and because of the way this was structured, not as a Crown corporation but certainly under the auspices of the Crown, a participation payment, which at present is approximately 50 percent of pretax profits – so there is a return, absolutely, but it's not in the normal sense of conventional interest payments as we would know interest payments; i.e., through AOC or the Treasury Branches or a bank, for that matter. So these participation payments over the past 11 years have amounted to about \$63 million or \$64 million.

Could you supplement, Peter?

MR. CRERAR: Well, I think, Mr. Premier, that you hit the nail on the head that it is not an interest payment. It is a participation payment, and as indicated, it is approximately 50 percent of the pretax profits. It does fluctuate, obviously.

MRS. LAING: What is the status of the government of Alberta's guarantee on the convertible debentures?

MR. KLEIN: Well, as Murray pointed out, the company announced its intention to redeem all outstanding 12 percent convertible debentures effective June 30 of this year, and debenture holders were given until June 29 of this year to exercise the right to convert to common shares. As of March 31 there were \$32.3 million of convertible debentures outstanding. Of these, approximately one-third were redeemed, and the remaining two-thirds were converted into equity and exchanged for common shares, thereby increasing Vencap's outstanding shares to \$8.8 million. The result of this activity is simply that the government's guarantee of the debentures now has been removed, and Alberta's involvement with this company is limited to the \$200 million that we now have as an Alberta heritage savings trust fund investment. I had a very brief, informal, off-the-record discussion at a social function with the chairman of Vencap, and he assures me that some great progress is being made relative to the investment we have through the Alberta heritage savings trust fund in Vencap and expects that there will be an amicable resolution to that problem very soon.

11:44

MRS. LAING: My last question. Over the 11 years Vencap has made investments in 73 different companies. Some people regard some of these as questionable. Does the government of Alberta have any input into the investments that are made by Vencap?

MR. KLEIN: No. You know, the one thing that I think really has to be – and again we stand to be criticized for this, first of all, because of our participation role. We do actually gain from this company, but on the other hand we have invested in this company through the Alberta heritage savings trust fund. There has been

some suggestion that we should have hands on, but this is a public company. The shares are traded on the Alberta Stock Exchange. We are not a shareholder; we're an equity investor through the heritage savings trust fund. We say that this business should be allowed to operate like any other business in a free market and should not be subjected to undue government influence or any government influence for that matter.

Some investments have been good, and a few have been bad, but that happens with any venture capital company. That's what venture capital is all about: to look at a business and say, "What are the opportunities for this company to grow?"

Now, if you want a good example of an investment by Vencap – and I think it was a tremendous risk investment at that particular time – here's a company that saw a niche for a very special kind of clothing. Right? And that is rugged outdoor clothing, work clothing. That company made an investment – didn't prop up, didn't bail out, but made an investment – in Mark's Work Wearhouse, for instance, which now is probably one of the most successful retail clothing outlets of its kind not only in Canada but I would say in North America, with literally hundreds of stores now throughout Canada. There was an idea. There was a fellow, Mark Blumes, who worked for the Hudson's Bay Company who saw an opportunity for a niche market and said: I need some venture capital. That's what venture capital is all about. There is a tremendous success story that probably wouldn't have come about without the participation of Vencap.

MR. CHAIRMAN: Okay. Thank you.

MR. WHITE: Returning to the disposal of these assets in the past year, in March of this past year there was some \$470 million recovered in the sale of Alberta Energy Company. Of those proceeds \$188 million was returned to the fund and \$273 million was applied to the debt. With Syncrude, Novacorp, and a number of others the same thing: all were applied to the deficit. Now, if the heritage savings trust fund, in your words, was a savings account, then one would think that the investments made in that savings account, the earnings on that, would accrue to the savings account. If in fact this was a disposal of a capital asset, then one would apply all the proceeds to paying the debt. What this government seems to be doing is enhancing the deficit figures by, in your terms, paying down the interest on your credit card but not paying off the capital on the credit card. Why is that?

MR. KLEIN: As you know, over a period of some time now we've been using earnings from the heritage savings trust fund. Earnings from the heritage savings trust fund. We've applied those earnings to the general revenue account to bring down the debt. Indeed, that's what we have done with respect to the sale of our 5 percent equity position in Syncrude. The book value, what it was booked at, is returned to the heritage savings trust fund. The profits are used as profits are from other investments: applied to the debt/deficit situation. The same can be said for AEC. [interjection] No, really. What that was booked at originally went back into the heritage savings trust fund. But it's no secret that we're using profits or earnings from the heritage savings trust fund at this particular time to apply to the general revenues and to ultimately be applied to the debt. That's no secret.

MR. WHITE: It's not a secret, but why would one apply these earnings to the deficit as opposed to the debt? It appears that it makes the short-term figures look much, much better if you say, "Yes, we have brought down the deficit," when in fact you're disposing of a capital asset.

MR. KLEIN: Well, it's six of one or half a dozen of the other, I guess. Ultimately, it is applied to the debt. The larger we let the deficit get, the more we add to the debt, the more the debt accumulates; right? Whether you apply it directly to the mortgage or directly to reducing spending, it's six of one and half a dozen of the other, I would suggest.

MR. WHITE: Optics as much as anything else.

MR. KLEIN: Well, yeah. Okay.

MR. CHAIRMAN: You're in that business. What is your second supplemental?

MR. WHITE: Yes. The second supplemental is with regards to specifically the investment that's in Syncrude. Now, as we understand it, two different firms have been retained in order to market the investment in Syncrude, but the difficulty is that Syncrude is currently in the position of a major expansion and all the owners will be required to concur that expansion and capital investment is required. You're on record as saying that the capital investment will not be made, yet as late as last week you were saying how wonderful it is that this investment should be made. You have to either divest yourself of the asset or invest in it, and the time is coming, like right now. What's the decision going to be?

MR. KLEIN: I'm sorry. You said that I said that what capital investment would not be made?

MR. WHITE: You said that there would not be further moneys of the heritage savings trust fund put into Syncrude.

MR. KLEIN: That's correct.

MR. WHITE: But the facts are that capital investment is required. I mean asset, not debt but asset, for Syncrude must be put in from a shareholder in order to get on with the expansion. You can't have it both ways. This is a partnership.

MR. KLEIN: This creates a problem for us, and that's why we want to sell those shares before the capital expansion alluded to in the press, well publicized, about \$2 billion, takes place. I don't think that we as a province want to be a part of that capital expansion. We want to get out of this thing, and that's why I would stress once again that for those in the private sector who want to have a good security of supply of petroleum product worldwide over the next 100 years domestically – probably for the next 500 years, if any business is going to be around that long, but a long-term investment – now's the time to get in. I don't think it's this government's intention, nor it is our policy, to be involved anymore in business, especially businesses that are expanding at the rate of Syncrude. We want to get out of that, and if we can't before the expansion takes place, I guess that's going to result in some pretty tough negotiations relative to our role in participating in that capital expansion project.

Lance, all I can say is that we want to get out of it. If you know of anyone who wants to buy – I mean, it was good for Murphy Oil. You know, we've been telling the people, for instance, in Taiwan. We know that there are going to be energy shortages in southeast Asia. We know how secure the supply is out of the Mid East; it's a very volatile situation. This is probably the most secure supply of crude anywhere in the world. I think it's just a darn good investment for business.

11:54

MR. CHAIRMAN: Okay. Thank you.

MR. STELMACH: Mr. Premier, the heritage trust fund has invested a number of dollars in research, both medical and agricultural, and over the years has attracted scientists from around the world to do research in the province of Alberta. In talking about the Alberta heritage research trust fund, we use the word "children." You said that it was for the children's future. Many times we tie dollar figures to it, but there are other, I guess, attributes there, and that's the quality of life for children, both in research for better nutritious food for our children and medical research in terms of vaccines, et cetera. We also know that for every dollar invested, especially in agricultural research, we benefit from at least \$60 in spin-off benefits. If we were to change the present funding of research in the province or at least take it away from the Alberta heritage savings trust fund, what vehicle or instrument do you suppose we could use to maintain the intense research that is presently going on in the province of Alberta?

MR. KLEIN: What you're talking about perhaps is a component of the fund that definitely should be explained to the public. Without prejudging what the review committee might say about the fund, I can offer this. There is one component of the fund that ought not to be touched under any circumstances. I don't think that we can; I really don't think that we can. That is the component that involves the deemed assets, because it would be impossible in my mind to liquidate Kananaskis park. Well, it wouldn't be impossible, but politically it would be impossible. I wouldn't like to do it. It would be, I think, impossible. Maybe Ken – I don't know – or Clint would know something about this. But if we were to, say, take the main canal in the headworks in the irrigation and say, "Okay; this is all for sale," I would say that there would be such an uproar. I mean, this is an asset. This is for all Albertans and for all time. If we were take the initial investment in the Alberta heritage medical research trust and sell that, there would be – you just couldn't do it. Again I can't tell you what to review and what not to review, but I would suggest that that component, the component of deemed assets, would be pretty well sacred.

MR. STELMACH: I had the pleasure of filling in for the hon. Murray Smith at the opening of a new, very high-tech company that located here in Alberta for two reasons – one, because of the large volume of research that's being done in the province, and secondly, because the government is getting out of the business of being in business – and that is Aqua-tech, which is a company that's high-tech water reclamation and water purification. They're here because of the increase in the number of businesses that are being attracted to the province, especially in the areas of petrochemical, food and beverage, and forestry. If we were to move away from investing in research in this province, I'd feel that we would definitely lose the step we have right now over other provinces in terms of attracting these businesses to the province of Alberta.

MR. KLEIN: I'm sorry; the question again. I've got the prelude.

MR. STELMACH: We right now have, as I've mentioned before, attracted researchers to this province because of the dollars we have invested in research, but also some of the spin-off benefits are attracting companies who are solely doing research, let's say, in water reclamation and water purification. One of the companies

was Aqua-tech, and they're here simply because Alberta is a recognized leader in research and they want to be part of the circle. They're here also because they can apply their technology to the food and beverage, petrochemical, and forestry industries, where they can actually reclaim water, purify and put it back in the system, which really improves the environment.

MR. KLEIN: I agree.

MR. STELMACH: I'm really struggling to get us past the 4 minutes after 12.

MR. SMITH: He wants the time for Farming for the Future, Mr. Premier, because he's involved with it at the Agricultural Research Institute.

MR. KLEIN: Right. It is part of one of the programs of Farming for the Future. Again it's the kind of asset that I would consider to be somewhat sacred.

I will add this to it. As you know, we're trying to get the biggest bang for the buck that we possibly can, and there are a number of research activities that are indeed funded by the Alberta heritage savings trust fund. Some of them are doing very well on their own. Some of them can perhaps be put into the kind of fund, or there could be a consolidation of funds, that would allow better participation by the private sector, much like the medical research fund has attracted private-sector dollars, as I mentioned, about \$2 for \$1. As we move on the new Science and Research Authority, this is exactly what this authority intends to do, to really look at all the research dollars that are there sponsored either through general revenues or through the Alberta heritage savings trust fund and determine how through the private sector we can get even more involvement and how we can get the private sector to contribute and start to really build those funds the same as the medical research fund.

MR. CHAIRMAN: Okay. Thank you.

DR. MASSEY: Just a short question, if I may, Mr. Chairman. Does the government have polling information indicating how Albertans feel about saving or retaining the heritage fund?

MR. KLEIN: If there is any information, I don't know about it. I wouldn't be surprised if from time to time surveys were undertaken. I don't know of any recent polling relative to the heritage savings trust fund, but I think this will be as accurate a poll as we could possibly expect, going out to Albertans and finding out through the circular, first of all, and then through public hearings how they feel. I think we'll be able to get some very good feedback. But I don't know of any. Do you, Allister, know of any recent polling relative to the fund?

MR. McPHERSON: Certainly the Treasury Department hasn't done the polling. I think there may be some, and maybe that's a question that could come to the Treasurer next week.

MR. KLEIN: There's been none out of my office. I know that for sure. Our party hasn't done any. Has yours? If it has, maybe you could share it with us.

12:04

DR. MASSEY: Last week there was a telephone poll.

MR. KLEIN: Right.

MR. CHAIRMAN: Thank you.

We've reached our allotted time. Just quickly, is there any member who wishes to read a recommendation? [interjection] Well, it's 12:04 and we started at 10:04. Any member wish to read a recommendation into the record? Okay.

Thank you very much, Mr. Premier and Murray Smith and your staff.

A motion for adjournment?

MS HALEY: You got it.

MR. CHAIRMAN: Carried.

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