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Standing Committee on The Alberta Heritage Savings Trust Fund Act

Thursday, September 13, 1979

Chairman: Mr. Payne

10:50 a.m.

MR. CHAIRMAN: Gentlemen, I would now like to call the committee back to order. On your behalf, I'd like to express appreciation to the Premier for carving time out of his busy day to give us this hour. The Premier has given an earlier indication that he would prefer not to make an opening statement; rather he would prefer to devote the entire hour to questions from the committee.

With that preliminary comment, then, I would like to invite a question from Mr. Clark, first.

MR. LOUGHEED: If I could interject, Mr. Chairman, I just want to say that my only preliminary comment is that this is a familiar seat to me.

MR. R. CLARK: Mr. Chairman, I think it's appropriate, then, that I ask the first question. Mr. Premier, this is rather a broad question, but it rather relates to the \$2.5 billion that really hasn't been allocated to any of the divisions of the fund to date. I want to start there, because those people from outside the province who tend to look at the fund with rather envious eyes tend to look at that portion as not being put to a specific use. Now, I think it's well recognized that that's invested in short term investments now. My question is, having regard to that feeling outside the province, what kind of a study or assessment has the Alberta government done on the impact of the heritage fund, especially with oil prices going to the world price -- the impact that a fund of this size, and growing, will have on the rest of Canada? Is any kind of assessment being done by the Alberta government from that point of view?

MR. LOUGHEED: First of all, I would say the impact upon both Alberta and Canada is very positive about the fund. Quite clearly, what is involved with the fund now, at the stage of March 31, 1979, really roughly two-thirds of it is circulating within the province of Alberta and one-third is circulating in the rest of Canada, which is not a bad basis for both now and the future. I think there is a constant misunderstanding about the portion of the fund that is in short-term securities. That is only 14 per cent, as I'm sure the hon. Leader of the Opposition is aware. That isn't a bad percentage, to keep at about that level of a total fund of this size. It does permit us, therefore, to be in a position, without any significant loss, to move into any project that might develop. At the same time, we're earning a very good return on that. At the same time, on that 14 per cent, 80 per cent of it is with the Canadian chartered banks in commercial paper and of course flows into the consumer stream within the country. There is a misapprehension across the country and I think it's partly -- perhaps that's related a little bit to your question -- to the extent that it is within a Section 9 identification. What

we're looking at is to try to improve our communication, because the implication, erroneously, is that Section 9 is sort of there because we don't know really what to do with it, which of course is not so. It's there because it has caught both the Alberta Government Telephones and the Alberta Municipal Financing Corporation, our shift into the longer term debentures of government securities, as well as the 14 per cent.

So it's a communication problem, I think. From an investment point of view, we feel quite comfortable with the position we're in. I do think we're going to have to reassess the nature of the Section 9 situation so the communication is there. Quite clearly, when you look at what we have in Alberta Government Telephones, 17 per cent of the total fund within that section, it seems to be clear to me that that's a sound thing for both Albertans and Canadians. If we weren't doing it there, if AGT were borrowing otherwise, say in New York, that wouldn't be in the best interests of either Canadians or Albertans. So it's really not an investment issue, as I see it; it's a communication one.

MR. R. CLARK: Mr. Chairman, a supplementary question. Mr. Premier, part of the question dealt with a rather ongoing assessment that the Alberta government, I'm sure, must make with regard to the impact of moving to world prices. Now, we've all seen projections of what the fund might be down the road, assuming we move to world prices by the middle or early part of the '80s -- an additional, let's say, \$16 billion or \$17 billion.

Mr. Premier, how does the government make an assessment of the impact of the fund in relation to the rest of Canada?

MR. LOUGHEED: I'm not sure I understand what you mean by relationship to the rest of Canada. First of all, our obligation to Albertans is to invest this fund in an appropriate way -- it's an investment fund, not an expenditure fund -- to satisfy the people of Alberta. We look on it in terms of getting a reasonable yield on the return that we have, leaving aside the capital projects division, which we've done -- 9.6 per cent is there now. We look at it, too, in terms of making sure that the circulation of the funds is there throughout the community, both within Alberta and Canada. I think what's involved here is the communication that it is in fact circulating in a very positive way throughout the community of Canada. If these funds were not available, the people who are on the receiving end of them would have to go elsewhere, sometimes to New York, sometimes to other sources of capital. But it's there. So from that point of view, even with the expansion of the fund, it is a very positive vehicle as a source of funding, not only for just Alberta but for all of Canada.

MR. R. CLARK: Mr. Chairman, just one further question to the Premier. Is the government still as firmly committed as it was previously to moving to the world price?

MR. LOUGHEED: I think really that's an issue that I don't quite find relevant to this discussion, except to say, yes, we've taken the view that we should move toward world prices as a general energy policy of our government. It has been our view since the time in which we moved in, instead of leaving, as had been the historical case, the question of the pricing of our resources to the international companies which it had been until 1973. When we moved with the Alberta Petroleum Marketing Commission, we moved with that as an integral part of our province's energy policy. Of course we are prepared to make some

adjustments, which we've shown to Canadians, relative to staging into world prices; some adjustments relative to being below a Chicago composite price.

So, although it's really directly an energy rather than a heritage question, yes. There's no alteration at all, or lack of determination in the view that we should be getting a commodity price. If I could extend, since we're into that subject, it's becoming even clearer now that it's a commodity price and not a cartel price. What really happened to the world from an energy point of view between, say, '45 and '73: we had a cartel of the international oil companies, and that cartel created a price well below the value of a very crucial commodity. We've seen, from '73 to '79, somewhat of a cartel, a pretty loose one, called OPEC, in a position of catch-up on the '45 to '73 time frame, when there was under value for a very basic commodity. Now that commodity is beginning to come forward as a value. That's really what we're saying: it's a commodity value, and that's what we, the owner of the resource, should get.

MR. KNAAK: Mr. Premier, there have been some discussions and proposals of the various types of energy banks, primarily with the involvement of the federal government. Would the province of Alberta be prepared in principle to fund, partly or totally, a national energy bank at less than market interest rates? If so on principle, would such lending be dependent on conditions; for instance, the federal government's agreeing to a rapid rise to world prices or to the greater export of Alberta natural gas, or perhaps other conditions?

MR. LOUGHEED: I've read about those speculative proposals, and at this stage of the game that is all they are to us. We certainly have shown with the concept of the Canada investment division of the Heritage Savings Trust Fund our recognition -- and it's there by concept -- that the fund, through commercial terms, can lend money to other entities in Canada. We've restricted that, to this stage, to entities that are guaranteed or directly with another provincial government or the federal government. For example, in the past year one of our loans was to the Nova Scotia Power Corporation, guaranteed by the government of Nova Scotia. That's an energy project.

We're prepared to go beyond that. For example, I had discussions with the Premier of Prince Edward Island on a wood burning plant, a different sort of energy situation, that would seem to make sense from the heritage fund point of view, as well as from their point of view. However, we're not prepared to enter into programs where we're subsidizing projects in other parts of Canada through the Heritage Savings Trust Fund. I think that would be unacceptable to Albertans, for us to be subsidizing projects in other parts of Canada when within this province we are determining we want a reasonable rate of return. That's not to say that we don't have some scope within the limits of commercial terms and negotiation of commercial terms, and within the limits of the nature of a particular project, to be adjusting our interest rates relative to who the borrower might be. I think there is some fair scope and fair margin there, but it would have to be predicated within that environment of negotiation and not within a concept of subsidization.

MR. NOTLEY: Mr. Chairman, I have a question in a slightly different area, but I'd like to ask a couple of supplementary questions, if I could Mr. Premier, on this question of the energy bank that Mr. Knaak raised. As I understand your answer, basically you are saying we would look at investments on a project by project basis, as opposed to making money available on a loan basis

to a national energy bank which would then be invested some other way. We would be looking at each project individually, would we?

MR. LOUGHEED: No, if I gave that impression, I didn't mean to. We would be open to proposals in this area. In my view, the proposals would be merely an extension of the legislative approval concept of the Canada investment division. The proposals may be by way of a funding concept or a project concept. We'd look at that. We haven't got the proposals yet, so we don't know what they have in mind. But we would look at it and look at it in a positive way. It would be good for Canada, in terms of perhaps reaching self-sufficiency targets. It would be good for Canada in terms of the nature of the investment, the cycling of petrodollars within the nation. And it should be good for Alberta in terms of good, solid, commercial investments.

MR. NOTLEY: Mr. Chairman, if I could just follow that along so it's clear in my own mind. Would we be prepared -- and I took the Premier's initial answer to Mr. Knaak to indicate that we would look at this through the Canada investment division, which at the present time is a relatively small percentage of the heritage trust fund. Assuming that we begin the move to world price and there is considerable additional revenue to the heritage trust fund, my question would be, Mr. Premier: would the investment committee at this stage look at enlarging considerably -- and changing the statute -- the Canada investment division, so that substantial investments -- and I underline investments, as opposed to the Bill Davis formula which is just taking the surplus -- could be made in energy self-sufficiency, possibly in Alberta, for that matter off the shores of Newfoundland or other other potential sites?

MR. LOUGHEED: Yes, we're affirmative to that, based on the fact that they be good commercial investments. I think we'd make a caveat with regard to projects within Alberta, because we might look at that in a different way, particularly if they involved Alberta-owned resources. I don't want to give the impression that it would necessarily be an expansion of the Canada investment division. I just used that to show that the concept of that sort of borrowing was implicit when we established the fund. It may be an entirely different approach. I'm not today able to go further than that, because we think appropriately those who are interested in those matters should be making proposals to us, which I presume they will in due course. Then we should have a chance to evaluate them and respond. I'm merely saying to this committee of the Alberta Legislature that in concept we're prepared to go beyond a Canada investment division, either by funding or by project outside Alberta for the rest of Canada that makes good commercial sense to the people of Alberta, but also provides a good source of funding in terms of energy projects elsewhere in the country.

MR. NOTLEY: If I could just add a further supplementary, Mr. Chairman. Mr. Premier, the fate of Petro-Canada is still uncertain. Some of us may quarrel with that over the next few weeks and months. However, it does appear that the federal minister of energy has indicated that, notwithstanding the profitable aspects of Petro-Canada, one of the areas of Petro-Canada he would be concerned about is the more difficult assignment of new areas of production, frontier finds, and possibly oil sands. Mr. Premier, would the comments you've made apply as well to investment in Petro-Canada on a debt basis?

MR. LOUGHEED: I don't know that we've really gone that far in our thinking, to determine whether there are any parameters or restrictions in who might be the funding agency that would be involved. It could be the government of Newfoundland, for example, if they set up an agency. We would have to look at that. Again, I think that really gets me into the realm of speculating even further on what proposals we might receive. It's not our intention to give gratuitous advice to the federal government on what they should do with PetroCan. We have enough issues with them without getting into ones that don't affect us. That's for them to resolve. But when they've resolved that issue, certainly the degree of involvement by governments with projects, particularly if they're large projects, we've shown we haven't rejected in any way involvement, as I say, of the government of Newfoundland in a project that they might be involved in. I took it from Premier MacLean's discussion with me on the wood burning plant in P.E.I. that that would have provincial government involvement.

So certainly we have an issue or create a parameter relative to government funding in these projects. We would hope they would follow our basic philosophy of having these projects done by the private sector, where we believe the technological capacity is greater. But we wouldn't put a parameter on it.

MR. NOTLEY: I have one further supplementary question. Then I have a question, but I'll defer that.

MR. CHAIRMAN: I do have three supplementaries hanging, so may we accept this as a fourth and final on this line of questioning.

MR. NOTLEY: Okay. Mr. Premier, in terms of the concept -- and I realize the government is just in the process of developing a position, and we now have the federal Conservative caucus proposing an energy bank. I think that has a good deal of merit. The concern I would express -- and it seems to me we have to evaluate this as a province and as a committee -- is that if we are making substantial investments in Canadian self-sufficiency, there be enough controls exercised by however this energy bank is established, so that in fact companies are not using our heritage money instead of a reasonable share of their own retained earnings.

MR. LOUGHEED: Oh, I think that's important. But I think there is no question that what we're faced with in Canada, with the magnitude of our energy funding requirements, we need the reinvestment of the private sector's retained earnings and in addition need funding from other sources, including the heritage fund. We will need both. I think the desirable mix for Canada will be both.

MR. KNAAK: Mr. Premier, I have two questions in addition, and I'm not sure whether you answered them; I don't think you did. The question is: if lending in principle were done to the federal government in a type of energy bank, would such lending depend on agreement on a formula to world prices and exports of Alberta gas to the United States; in other words, would it have to be a package, as opposed to just a single, separate item?

MR. LOUGHEED: Any proposal in this area would have to be part of a package that was satisfactory to us relative to oil pricing and natural gas markets. We would not enter into any new, major thrust with regard to the heritage

fund, beyond the normal expansion of the Canada investment division, without being satisfied we were into an energy situation that was beneficial not only to Albertans but to all Canadians -- a national energy package that was making the utmost benefit of the strengths we have in Canada relative to energy potential.

MR. SINDLINGER: Mr. Chairman, to the Premier. In your response to Mr. Notley, you indicated that consideration would be given to investments outside the province. Would consideration also be given to investments outside Canada?

MR. LOUGHEED: At the moment, I'd say no, if you're talking about energy projects. If we're into an area which I think is quite unrelated to the thrust of those questions, which is whether or not the fund should be investing as a matter of commercial return outside Canada in the spreading of the risk in terms of investment relative to the economy of one country, we've made no final conclusion on that. But obviously it is an area that is optionally being looked at. I wouldn't anticipate any immediate decisions on that, perhaps for a year or two. But it is a factor that we've been assessing. Again, it would be probably not a significant portion of the fund.

But I would hasten to say that this is really unrelated to the energy funding we were referring to, merely from the standpoint of spreading our total investment package.

MR. SINDLINGER: Would you care to elaborate on the circumstances which would pertain to an investment outside Canada which would be appealing?

MR. LOUGHEED: I can't, because our thinking hasn't reached the stage of sufficient maturity to respond further. I'm just pointing out to the committee that it's not necessarily rejected out of hand by the investment committee at this stage of the game, but there is no present intention to move in that direction in the immediate future.

MR. BORSTAD: This is a little different line of questioning. Given the amount of primary and secondary road systems in the province, has consideration been given to future allocation from the Alberta heritage trust fund toward primary and secondary road construction, and improvement or resurfacing? It seems to me this would be an investment made today for future generations.

MR. LOUGHEED: Well, Mr. Borstad, I recognize the thrust of that question. It goes back to the nature and difficulty with the capital projects division concept. Our thinking was that some portion of the Heritage Savings Trust Fund, 20 per cent maximum, should be a capital projects division which does not provide an immediate return. Your irrigation project is probably your best example of what classically fits within that. We recognize that we're extending it by the nature of the capital projects into areas that are gray, such as applied research for heart or cancer. But in terms of the public having a sense of immediate benefit to the Heritage Savings Trust Fund, we felt there was merit in that, keeping in mind our overall criteria that there should be projects within the capital projects division that could not otherwise be done, because of the nature of our budgetary or fiscal policies, or by the very nature didn't fit the usual budgetary approaches of the provinces.

Now I think roads are the classic case. In our judgement at the moment, we do not think roads should be in the capital projects division. There is a

surplus within the General Revenue Fund. The debate in this Legislature should be with regard to the surplus funds in the general revenue account, whether or not they should be expanded or extended, but as a budgetary debate on the capital side of our budget. We believe we would lose the difficult differentiation -- and it's difficult in any event -- between the capital projects division and the budget if we moved roads into the capital projects division.

So that there won't be any grayness in that area, the view of the investment committee is that there should not be roads within the capital projects division of the Heritage Savings Trust Fund. But I'm sure you, as an MLA from northwestern Alberta, will make the case in budget debate for an extension of funding relative to roads from the budgetary surplus of the province.

MR. NOTLEY: Mr. Premier, pages 12 and 13 of the government's review of our recommendations last year -- I certainly admit that the recommendation of the committee was for a 10-year road program, to be considered as part of the investments from the heritage trust fund. However, I think there were really two elements to that recommendation, Mr. Premier. The first was the one you alluded to. I think you can make the argument, as you did, that that should be financed from the normal capital budget of the province.

But the other, more crucial, point -- and just to reiterate the arguments of Mr. Taylor, the former highways minister: it would be far wiser if we had a system of block funding. We mentioned in our recommendation a 10-year program, so the money is there and the private sector, the contracting business, can gear up for it. We can get better bids, because more people will have a certainty. The highway engineers will know where they're going. That was at least half of the discussion that led to that recommendation. I see that basically the government's response is that we'll do as we have been doing. I say with great respect, Mr. Premier, that at least half the basic argument was the long-range commitment of block funding.

MR. LOUGHEED: Mr. Chairman, I think that's a valid budgetary debate. It has been discussed. In fact, sitting in this very seat in the opposition I believe I raised the point of the need for certainty and longer term funding relative to capital projects on a multiyear basis, as distinguished from the annual appropriation which is traditional to the Legislative Assembly. With the surplus situation of the province today, it seems to me it's well worth continuing that debate on a different budgetary approach. It may be that a portion of the surplus of the General Revenue Fund could be set aside and allotted for block funding on a multiyear basis for roads for the province. But that's aside from the heritage fund and aside from the capital projects division. I think it's a valid one and is certainly in accordance with arguments I've made in this Legislature before. As our surplus is increasing, the capacity to provide that block, multiyear funding for highways is there. I think it's an interesting one for us to consider, to debate, and to develop.

I would take some issue with the thrust of some of your remarks, because I think it's been pretty clear that we have had a very steady base position in highway construction capital commitments from '72 on. They have been very significant. In fact, because of the imagination of ministers of highways and of the pressures within our caucus, in my judgement -- I don't have the figures right here -- they have been a pretty steadily rising amount. I don't think contractors are leaving Alberta on the basis that they don't think there's going to be work next year. I don't think highway engineers aren't

planning; in fact, some of the plans they have are rather extensive on a multiyear basis.

So I don't think the merit of it is related to those concerns. But I do still think that there would be some merit in a multiyear fund for road construction out of the surplus of the General Revenue Fund.

MR. BRADLEY: Mr. Premier, I have some questions with regard to the Canada investment division, particularly with that portion that has been taken up by the provinces. I believe four provinces have negotiated loans with us. There seems to be a general lack of -- there aren't a lot of provinces lined up at the door, and approximately 10 per cent of the fund that's allocated to the Canada investment division hasn't been invested with other parts of Canada. Perhaps you could share with us some of your thoughts as to why the other provinces have been showing this lack of interest.

The second question: with regard to that 10 per cent, and there have been discussions on the energy bank, would consideration be given at some future date to extend the policy announced here last week on the Alberta investment division with regard to new corporate instruments -- would consideration be given to extending that same policy of investment to the Canada investment division?

MR. LOUGHEED: I'm not sure if I understand the latter part of it, Mr. Bradley. I doubt it would. If you're talking about the investment in debentures, the corporate debt thrust that Mr. Hyndman announced last week, it wouldn't be intended that that would go beyond the basic thrust of Alberta operations. At least that's the present intention.

As far as the Canada investment division is concerned, though, let me say this. During the course of the year in which this report was prepared, we expanded from New Brunswick and Newfoundland to Manitoba and Nova Scotia. I've mentioned my discussions with the Premier of Prince Edward Island. I get the feeling that he's interested in the Heritage Savings Trust Fund and has an awareness of it. Although there are no ongoing discussions other than the one that had to do with the energy project, it may be possible that we would be involved in a Canada investment division loan with Prince Edward Island, if they're interested.

As far as British Columbia and Saskatchewan are concerned, as you're well aware, they don't have needs in that particular direction -- which then leaves us with the two provinces of Ontario and Quebec. As far as Ontario is concerned, they borrow for their general needs from the Canada Pension Plan. Apparently, till now, it has continued to be adequate for their needs, at least for the foreseeable two or three years. I'm not sure I'm quite accurate in that time frame; there may be a time when it won't be. Ontario Hydro has borrowed in New York rather consistently. And as you know, Quebec Hydro and the Quebec government have borrowed all over the world.

I think one of the difficulties we're into, and have been in the last six months, is that there is a general feeling that the Canadian dollar is undervalued and that they can borrow in New York at the price at which the Canadian dollar is today, and the Canadian dollar will rise perhaps toward 90 cents and \$1. That's a very debatable position, but that's the view of some money managers. It's for that reason, therefore -- because they think the Canadian dollar will appreciate -- that they're making these borrowings at this time in New York.

On the other hand, I think Canadians, and the federal government, could make the very valid argument of encouraging borrowings by provinces and by basic

entities of provinces within Canada. As we make the loans from sources outside Canada, we just exacerbate our balance of payments problem in this country. Probably if you added the many serious economic problems Canada faces, our balance of payment problems, if it isn't number one is number two, but it's probably number one.

So we will continue to encourage other provinces and the federal government to get involved with the Heritage Savings Trust Fund through the Canada investment division. Perhaps over the course of the next number of months, when the evaluation may or may not alter relative to the future of the Canadian dollar, we'll see more approaches with regard to the fund. On the other hand, we may not.

MR. R. SPEAKER: Mr. Chairman, I'd like to ask the Premier a rather open question. In my review of the Heritage Savings Trust Fund investments over the summer, I thought it would be best to go back to the basic framework from which we started. In your comments in 1975, you indicated that the purpose was to diversify the economy and to make it less reliant on finite resources. I was wondering if the Premier could bring us up to date on that position, how he feels about it at the present time. Are we -- I'm sure we're moving in the right direction. Are we moving fast enough? What types of things did we not do that we should have done? Possibly just comment on it at this point.

MR. LOUGHEED: We discussed that matter when I met with the committee a year ago. That wasn't of course the only purpose of the Heritage Savings Trust Fund. In fact, it was the secondary one. The prime purpose was to develop a fund where we would put aside a portion of our non-renewable resource revenue, invest it in a way so that we would receive income from that investment that was higher than the depreciation, if you like, of what one could legitimately call, I suppose, the inflation rate within the country. Then that fund, therefore, would be available for our successors here in government, to take the place of the decline, as it will come -- and we can argue about when -- of the revenues from conventional crude oil production. Just as an aside there, I think we should be clear that the very nature of the circumstances is that the provincial government's revenues from the conventional crude oil are obviously going to be significantly greater than they are from the non-conventional production. So the time is going to come, here in this Legislative Assembly, when we won't see budgets presented where 55 per cent of revenues are coming from the non-renewable resource base. The basic purpose and thrust of the Heritage Savings Trust Fund is to set up a fund for that day. At some stage of the game, I would imagine, future members of Executive Council would shift the income from the fund into the General Revenue Fund to make up for the decline which will occur in terms of non-renewable resource revenue. Then in due course, no doubt, the capital of the fund would move in.

This will provide perhaps the next generation the opportunity to adjust over a time frame to the reality of being in a position that provincial finances will be quite different from what they are today, and that taxation would have to be increased, and that an increase in the normal taxation levels can flow through a lengthy period of time, without a very serious adjustment to the citizens of Alberta or to its economy. That's the basic purpose of the fund.

An ancillary purpose of the fund is, if necessary and as required, to enter into financial support in those areas involving diversification. As you know, there are a number of those aspects there. That's what we're intending to do. That's why, for example, in the past year we brought the Agricultural

Development Corporation and the Alberta Opportunity Company within the fund. That's why we're talking about the project in Prince Rupert.

If I understand you, Mr. Speaker, really your question goes to the thrust of the debate we had in the fall session last year, the degree of diversification within the province. What has happened is because of the dynamic nature of the Alberta economy, funding from other sources for projects is a lot easier to come by today than it was a decade ago. The very nature of that -- in other words, the financial community's positive reaction to Alberta -- has been that there have been a number of projects. Let's use petrochemicals as a good example, where funding has been there without the need to call upon the fund. I think that's a good thing.

So, because of the strength of the Alberta economy, we're getting that funding support from the normal, traditional financial areas. If there are occasions -- I could use Prince Rupert, I suppose, as an example -- when we can use the leverage of the fund to make something happen that wouldn't otherwise happen, then we should do that. But if the normal financial institutions are prepared to make the commitments, I think we should let them.

MR. R. SPEAKER: Mr. Chairman, supplementary to the Premier. The financial institutions have accepted responsibility in the non-renewable resource area. Is the Premier satisfied that the financial institutions are coming out and meeting the needs in other areas of our economy? If so, I would accept that as being all right. If not, will we see some different types of programs or changes within the Heritage Savings Trust Fund to meet needs?

MR. LOUGHEED: There have been some areas where they haven't been giving the support we felt was necessary. I think the classic example is in the agriculture processing section of the Agricultural Development Corporation, where as a lender of last resort the Agricultural Development Corporation has been making some loans. They're high risk ones, and there are some losses. We accept that. That's the area that I think is an important thrust in diversification of this province. There's a case where where they would not have been able to get the funding for, say, the rapeseed plants and things of that nature. We felt, well, we'll take that risk, and we'll put the fund to work. The Agricultural Development Corporation is within the heritage fund at the moment, and that's what I think is an important thrust. That's the best example I can think of.

In other areas, such as longer term research -- and the farming for the future program is a good example. We're putting funding in on a research basis through the capital projects division there. The dividends might not come for 10 or 15 years, but down the road they will come and that will be helpful, hopefully, in the whole area of diversification.

So when we see a situation where diversification is not occurring for a funding reason, we're prepared to step in, particularly in the areas of renewable resources.

MR. NOTLEY: Mr. Premier, just following that with a supplementary question, how would you relate the announcement made the first day of our hearings with respect to the loans to businesses? As I understand your answer to Mr. Speaker, basically you were arguing that the financial community is doing the job. Yet we seem to be moving in quite a substantial way, in Mr. Hyndman's announcement to us, to substantial purchase of debt instruments -- specifically here, to strengthen and diversify the Alberta economy.

MR. LOUGHEED: I think we're talking about two entirely different matters. Mr. Speaker was referring to: when something won't happen, will the fund move in to try to make it happen, when it's involved in diversification. My answer to that is clearly yes, that's what we should be doing.

On the other hand, when there's a market out there -- that we're competing with the firemen's pension of New York -- I think that's not a bad place for us to be if we can get a good return. If an Alberta company is floating a debt issue out there and it's going to be picked up by the firemen's fund of New York in part and it's a good return to the people of Alberta, I think the government of Alberta, through the heritage fund, ought to get a piece of the action. You know, in that area, we're talking about long-term debt instruments; we're not talking about being involved with chartered banks in any competitive way in terms of interest or financing. We're talking about the financial institutions that normally pick up corporate debt instruments throughout North America.

MR. NOTLEY: Mr. Premier, on page 2 of Mr. Hyndman's announcement, he talks about the financial intermediaries in most cases. Then he goes on to say that in "certain circumstances direct negotiations with the borrower may be required". That would lead me to the conclusion that this particular program could in fact be used to encourage, directly encourage from the fund, a particular type of enterprise. If we can pick up two-thirds of the debt instruments from the heritage trust fund, it would make it much, much easier for that particular promoter to raise the additional debt capital required.

MR. LOUGHEED: Your use of the word "promoter" in that sense is puzzling. We're interested in jobs and job creation activities within Alberta.

Certainly that's not the basic thrust or intent of the new approach. It's to participate in the long-term corporate debt instruments that are coming through Alberta entities, and to be policed in an effective way by the market community itself, in the sense that the other one-third -- in many cases, it would be more than one-third -- would be picked up by the normal market buyers in that area. It's not intended to be, other than in an exceptional case -- and it's only keeping a sort of safety valve, if there were a circumstance that we would be involved directly. I think Mr. Hyndman said that the vast, vast majority, and the full intention and thrust of this new approach, is going to be through the normal financial market. When a corporate debt instrument is placed before the financial community of North America from an Alberta base, we want to be in a position to have part of the action.

MR. KNAAK: Mr. Premier, this relates to your point on the income of the Heritage Savings Trust Fund being available to cover a current expenditure. At the moment, the Alberta current budget is probably the highest per capita expenditure in Canada. At the same time, much less than 50 per cent of this budget is financed by taxation of Alberta citizens. That means that at some point in time the royalties from the depleting resource will no longer be able to subsidize this level of expenditure. For that reason we have the Heritage Savings Trust Fund.

Do you have a study or information about when these two lines will intersect? In other words, at what point in time is the estimated time -- 1985, 1990? -- when the decline in depleting resource revenues will necessitate a transfer of income from the Heritage Savings Trust Fund, to finance current operating expenditures of the government?

MR. LOUGHEED: We can't do that with any degree of precision, because the basic assumptions built into such an evaluation are so widely diverse and judgemental. They involve of course the very crucial question of the rapidity in which our conventional crude oil is depleting. As you know, the producibility of the conventional crude in this province is straining in capacity now. The latest report of the Energy Resources Conservation Board indicates, again, the further decline in our crude oil reserves.

So the real basic assumption that would give you the answer to that question, Mr. Knaak, is to forecast the decline in the crude oil production level for the province of Alberta. I think it's a serious one, but I think there is a fair difference of view to make it meaningful, in terms of when that would occur.

But I think what's important with the heritage fund, as legislators, is to say the real importance of this fund will allow this province, in terms of its provincial finances, to go through the inevitable transition, where from a 55 per cent of the total budget coming from natural resource revenues we will see us down to a much less significant percentage. Where's the additional revenue coming from? Now if that adjustment can be made over a period of 10 to 12 years, this province is going to continue to be in a strong financial position. Without the fund, it could be made so abruptly that the dislocations and disruptions in terms of provincial financing, and the negative impact on taxation would be such as to seriously jeopardize the economy of the province at that time. I think historians will look back and say: that's where the fund did its key job; it permitted the transition to occur over a relatively significant number of years, rather than compressed into a difficult short term.

MR. KNAAK: Supplementary, Mr. Chairman. Mr. Premier, I guess you can feel by my comment that I hope the position of the government will be to thwart any attempt to spend more of the fund on current expenditure. The question I have is has any thought been given to increasing the proportion from 30 per cent to a higher level?

MR. LOUGHEED: The first part of your question goes to the thrust of the capital projects division at 20 per cent. I think it's fundamental to the credibility of the fund that that 20 per cent not be increased. I really think that's important and would hope the committee might consider it as a recommendation. If you go beyond the 20 per cent in the capital projects division, you're going to start to affect the credibility of the fund. I think that's the maximum portion that should be put into a current, non-investment category.

As far as increasing the 30 per cent is concerned, I think the Treasurer told you in answer to that question that we had no present intention of doing so. We have been listening with interest to the debate. With regard to the surplus funds we've been assessing approaches in a different way from the General Revenue Fund. I've already mentioned one, relative to roads, today. There are others we're considering. But I'm not at liberty to develop that. The short answer, therefore, is no. We're not intending to increase the 30 per cent at this time.

MR. PLANCHE: Mr. Premier, there are some enterprises out there that are larger than traditionally go to AOC for funding. I'm wondering if any consideration is being given to venture funding these larger enterprises from the heritage

fund, in either equity or debt. In addition, I'm wondering if AOC is considering blending equity and debt in any of their loans.

MR. LOUGHEED: Well, AOC is not going to be going into the equity area. But you raise what I think is the real gap in the financial structure of the province; that is, shortage of venture capital. There's no doubt about that. It's not just an Alberta situation; it's a Canadian one. We simply don't have enough sources of venture capital. So we can identify it, by venture capital I mean sources of funding that can provide support to medium and to some extent small businesses that have good ideas, good management potential, and simply don't have their own equity or can't put it together. Those are the projects that need support. As I mentioned in my appearance a year ago, you can get to the position where you can really cause the end of a good project by putting too much debt load on that project. There have been times when the AOC has turned down what have been good proposals, not because they haven't been good in both their concept and management and the very nature of what's in mind, but because the developers simply don't have sufficient equity. We have a serious shortage in Canada of venture capital funding.

What we're struggling with within our discussions -- and we had just an excellent discussion with the young presidents organization a week or so ago -- is a way in which the fund might be supportive of venture capital. There are five or six alternatives being considered, but we haven't really come to grips with the best way. We know that the government as such can't make the decision; that is, where to put the money in terms of a venture capital project. And that's our dilemma. On the one hand, we have the funding; on the other, we have the need: how do we put them together to a place where there is a sound venture capital approach in the province, that meets that need but is not dominated by government?

MR. PLANCHE: Just two final supplementaries, if I may, or one with two questions in it. Would you consider that funding as eventually becoming available from the heritage fund? Secondly, you are closing the door on AOC being other than a lender? MR. LOUGHEED: Yes, in answer to your second question. The first question: yes, through the heritage fund, because it really follows what Mr. Speaker raised with me, in terms of the need for diversification. If there is a need to be filled, the fund has an appropriate role to play. Venture capital is a need that is there to be filled within this province. There's no question that to a large extent, I'm sure, it would involve a diversification element. So, again, it follows the concept of the fund. Our difficulty is how.

MR. R. CLARK: Following along Mr. Planche, looking at the minutes of the meeting last year, Mr. Planche -- I admire him for his tenacity -- followed the very same area. At that time, when the question of equity versus debt was raised by Mr. Planche, the Premier indicated that the government was -- page 11, I believe -- making an assessment of the need for the government to become involved in venture capital -- over on the top of page 12. I take it, Mr. Premier, from what you've told the committee today, that the government has come to a decision that in fact there is a need to diversify the province and that now it's simply a matter of working out the mechanism. I was extremely pleased to hear the Premier's comment that in all likely it isn't the government that can make that judgement as to what kind of projects it's going to get into. I take it from what the Premier has said that it's a matter of: in principle the use of some heritage money for venture capital has the

blessing of the investment committee. It's now a question of working out some mechanism, so that some agency or group at arm's length from the government, or from the investment committee, is charged with that responsibility of how best we go about making decisions as to which projects are in the best interests of Alberta from the standpoint of diversification and how in fact we go from there.

MR. LOUGHEED: Yes, that's right. But the difficulty is determining the decision-makers, and what obligations they have. We are talking about public funds; they rest as the responsibility of this Legislature. So how do you go about doing that? If you go about it in a multitude of ways that have been suggested -- some of them involve in partnership with the people who put up their own money. That's certainly part of it. Another way of doing it is to establish some sort of entity that is credible, that involves people who have experience in this particular area, and that the funding from the government is not the sole funding but funding is coming from other sources. I'm only mentioning two of about six or seven alternatives.

But none of them is easy and none seems to be so automatically the answer that, well, what are we worrying about the others for; this is the way to do it. We're still struggling with it, and we're open to views and suggestions from any members of the committee.

MR. SINDLINGER: Mr. Chairman, I'd like to make a comment, then ask a question, please. The comment is in regard to the issue Mr. Knaak has brought up. It's in regard to the transition point; that is, where is the point in time when the declining revenues from non-renewable resources reach the increasing demand for government services. Your response was along the line that it would be very difficult to do, inasmuch as the assumptions one would have to make are quite nebulous. However, I'd like to submit that there are reasonable assumptions that could be made in such an analysis, different scenarios given the present prices and the trend toward world prices; such that that transition point could be identified within a particular range. I believe the importance of identifying that particular range is inherent in long-term planning the government does. If that transition point comes in 1985 or 1995 or 2025, I think it might have an influence on the placement of the funds at the present time. So my comment would be, in support of Mr. Knaak, that I would urge the government to identify that transition point whenever it could, given various assumptions and scenarios.

The question I have now is more in response to a question asked by Mr. Bradley earlier on, and you touched on it. But for greater certainty in my mind, I'd like to ask you a more specific question. Have there been any negotiations with Quebec for loans or placement of funds with that province for specific projects? Secondly, does the government of Alberta have any special positive policies in regard to placement of funds with Quebec, in light of their position on Confederation?

MR. LOUGHEED: First of all, let me make an observation on your comment, Mr. Sindlinger. For planning purposes, what you say is in fact being done. But you shifted back and forth with respect to a point, to a range, to a point, to a range. Clearly it has to be a range of years; it can't be a point. The range, frankly, is pretty broad in our planning, because of the nebulous nature of the assumptions that go into the determination. It's there. It's not particularly helpful in public communication, because to some people it might seem to be too far away to involve immediate concern. But it's very,

very important, as you point out, in terms of our planning, both in fiscal budgetary commitment on the operating side of our budget and in terms of how much can we continue to be the highest spending province in Canada, and what are the implications of that. You know, you can double the heritage fund, then dissipate it in two years. I mean that's what the reality is. If we look at the fact that the last time I sat in this chair, the budget of the province of Alberta was only \$1 billion; now it's going to be about \$5 billion. So you can see how quickly things can change.

The heritage fund, in the eyes of Canadians, seems like an awful lot of money. I have a new way of responding to that, by the way. The federal deficit is about \$11 billion to \$12 billion a year. If they took our whole fund, they'd have it wiped out in six months of federal deficit spending. So I think it's a useful way to show the magnitude of the fund to the rest of Canada.

The question on Quebec is a difficult one. Our initial response was that with regard to the election of a government that appeared committed to the separation of Canada, we wouldn't involve ourselves in loans from the Canada investment division to the province of Quebec. We've reassessed that. We've been urged to reassess that by a number of prominent Canadians. We've come to the view that yes, we would be prepared to make loans under certain circumstances, provided again they were on commercial terms, provided perhaps they were tied to a particular project, perhaps even a project that might involve resources of the province of Alberta. So the rather firm line on that of two years ago is not nearly as firm today, because the advice we've received is that rather than being in a position of appearing to be supportive of a separatist government, in fact the reverse could occur. Our loaning under certain circumstances and certain conditions to a duly elected provincial government of Quebec could clearly be a strengthening factor in terms of Canadian unity, and not the other way around.

MR. SINDLINGER: Mr. Premier, would those certain circumstances be outside those you've already indicated in regard to energy projects outside the province?

MR. LOUGHEED: No, I think they would fit within that area. Of course, I don't want to give anybody the impression that we're dealing with something that is already in the discussion stage; it's not. We're just trying to contemplate a policy, which is what I gather you and the members of the committee are asking me to respond here to today. There is no specific project; it could or could not involve energy.

MR. SINDLINGER: Excuse me, what I meant was -- my question was more: what certain circumstances would pertain to loans to Quebec?

MR. LOUGHEED: I think the circumstances that it be clearly a sound commercial investment from our point of view, at a going interest rate; secondly, that it would be perhaps easier to make in terms of its public communication if it were tied to the sale of an Alberta resource; thirdly, if it were involved with an entity that was clearly of a commercial nature in itself, that would strengthen it as well. We're not ruling out others, but we're saying that our preference would be in that area.

MR. CHAIRMAN: Before acknowledging Mr. Notley's question, I'd like to point out to the committee that I did give an undertaking to the Premier that, in

recognition of his busy schedule today, we would try to limit ourselves to one hour. That one hour is about to expire. With that word of caution, Mr. Notley.

MR. NOTLEY: Thank you, Mr. Chairman, for your gentle suggestion of restraint in asking questions. I might just make the comment that I certainly appreciate the government's position in terms of changing the policy on loaning to the province of Quebec. I think it would be a real tragedy for this country if the separatists in Quebec could suggest somehow to the people of Quebec that we will only lend money to them if we like the complexion of their government. I think we have to recognize that the people will make their own choices there.

MR. LOUGHEED: We might go into Saskatchewan, too, under certain circumstances.

MR. NOTLEY: That's why I was asking about your investment in public enterprises, Mr. Premier.

I wonder if I could move from there to raise the question of grain handling. The recommendation last year was that we make debt capital available for Prince Rupert; I applaud that. But the second recommendation really dealt with the question of rail links. Mr. Premier, the response of the government was essentially to say that we made recommendations to the Hall commission report in 1976, and that's that. I ask the question relating to these rail links, specifically bearing in mind your former minister of industry's position, Mr. Peacock, at the western economic conference in Calgary, where he suggested that one thing we should look at is public ownership of road beds. Now we're examining the question of grain handling. If one is going to move grain rapidly from the Peace block, one of the things we really have to consider is the links that would make it possible to reduce the distance. The whole concept of Prince Rupert makes sense, but it makes even more sense if we look at the rail system backing up into the northwestern part of Alberta.

My question to the Premier, Mr. Chairman, is: where does the question of public ownership of rail beds now stand? Would the government assess this recommendation in that light?

MR. LOUGHEED: Mr. Chairman, with regard to the first part of the question, it was presented at the Western Economic Opportunities Conference by Mr. Peacock in July 1973 really as a sort of last resort measure. It's not our preference obviously. We're much more convinced that what we need to do, clearly, is to get the railways accepting their national obligations and to get the federal government accepting their national obligations, and to restructure the freight rate system in the country. That's our priority. We have a new federal government with a new federal minister of transportation, who has been responding. We've made some progress over the course of the period from '73 to '79, in particular Dr. Horner's important breakthrough which was announced in the latter months of 1978, in terms of the (inaudible) grouping situation. So we've made some progress, and I think there are some signs that we might make more.

So that was a last resort but backup position of the government of the province of Alberta, if there were simply a continued do-nothing position by the railways or by the federal government.

With regard to the rail linkage in northern Alberta, our government took the initiative in presenting these ideas to the Hall commission report. We still think they have merit. But we think they, of course, are a project that has a

great deal more work to do in terms of their economic viability. I think there are some who would dispute the allegation the hon. member makes with regard to the transportation in an immediate way. We felt that priority should be given to the inland terminal approach and to the ports in Vancouver. They should be the priorities that we're working on now.

We don't mean to imply, by the status report, that there's a rejection out of hand of the idea. I think it has to be well co-ordinated with the governments of Canada and British Columbia, if we get into that particular approach. We think there is more work to be done from the economic side, as I mentioned. Down the road it may be something we can look at in a more active way.

MR. NOTLEY: A feasibility study, Mr. Premier, is something that would be reasonable?

MR. LOUGHEED: I think it would be. But, again, I want to say that we think there are other areas in transportation that have a higher element of urgency for us at the moment, and that has been why we've been moving in things such as the ports and the inland terminals. If we were giving the impression that it was a rejection out of hand of the idea in the status report, it wasn't intended to do so.

MR. CHAIRMAN: On that note, then, Mr. Premier, on behalf of the members of this committee I'd like to thank you for your participation with us today.

MR. LOUGHEED: Thank you.

MR. CHAIRMAN: I now would accept an adjournment motion, until 2 o'clock this afternoon. Mr. Pahl? Thank you.

The meeting adjourned at 11:55 a.m.

