

Standing Committee on The Alberta Heritage Savings Trust Fund Act

Tuesday, October 7, 1980

Chairman: Mr. Payne

1 p.m.

MR CHAIRMAN: Order please. Turning now to section IV of the recommendations. Recommendation no. 1, relating to the Alberta Opportunity Company. Mr. Pahl.

MR PAHL: Thank you, Mr. Chairman. As the committee knows, at present the Alberta Opportunity Company's lending preference to outside of Edmonton and Calgary has caused me some concern. I can see the justification for this initial emphasis, because in rural areas a diversity of financial institutions does not exist. I can also fairly say that the AOC represents a positive success story, as outlined in the report, with its \$19.5 million net investments in 1979-80 and the fact that approximately 80 to 85 per cent of those are being made in rural Alberta.

My point, Mr. Chairman, is that I feel the opportunity for diversification and general growth in our Alberta economy is probably greatest in the cities. That's where the people are, and that's where the markets exist for more specialized services and businesses that cannot be sustained in more sparsely populated areas. I'd also make the point, Mr. Chairman, that although numbers of financial institutions, in Edmonton for example, may be considerably greater than those in Hanna or Edson, the access to those lending institutions for small, particularly the new businessman, is probably worse.

Mr. Chairman, I say this because there are a lot of factors about city life and the more mobile situation of the city that would tend to make the traditional financial institutions such as banks, more cautious than would be the case in a smaller centre where personal acquaintances and references are more easily available, and in fact probably more reliable. I think you can also recognize that this problem is compounded if the prospective borrower is a new Albertan or a recent Canadian wanting to enter the business world here in Alberta.

So in summary, Mr. Chairman, I would suggest to you that the need for lender of last resort facilities such as the Alberta Opportunity Company is increasing in need in the city, because of the wider diversity of opportunities presented by our growing population and industrial diversity. At the same time, there is a corresponding access barrier to lending every bit as real as in the rural areas, although for different reasons. I therefore urge support of this recommendation by the committee.

MR CHAIRMAN: Thank you.

MR NOTLEY: Mr. Chairman, I have some real difficulty with the recommendation. What we're talking about is a totally different approach to the Alberta Opportunity Company than the approach that was offered to the Legislature when the company was created in 1972. The company was one of the first moves that you might, for want of a better expression, suggest was an affirmative action program for rural areas. There's no question about that. Dr. Horner and others were very eloquent in making the case in this House in very emphatic and unequivocal terms that there would be a preference for rural areas, for a number of reasons. The major reason was a deliberate view, in 1972, that we

had to provide some encouragement to develop business opportunities in rural Alberta. There was just no question about that.

Quite apart from the access to other financial institutions -- and one could quarrel with some of the observations Mr. Pahl has made about the ability now of businessmen to get capital in smaller centres. Even though we had the treasury branches, the position -- and I remember it well put in this House -- was that we had to go that extra mile through a deliberate policy of encouraging business in smaller communities, which would include a preferential rate. I think that if we move away from this, to what appears at first glance to be reasonable, we are nevertheless altering one of the major points in the decentralization position of this government in the early 70s. I for one would have real concern about doing that. There are all sorts of advantages now to locating businesses in the urban centres. Available labor is certainly a major one. But the fact of the matter is that if we simply say we're no longer going to have this rural preference, I think we're saying something about the government's commitment to decentralization, which, frankly, I shared as a laudable goal, and saw the policy of the Alberta Opportunity Company as very directly part and parcel of achieving that goal. Now if the government has subsequently changed its mind and we have a different approach, I would be interested in hearing that. But I've not heard it expressed formally in the Legislature by any of the ministers.

MR BRADLEY: Mr. Chairman, I'm going to be probably a little bit repetitive of what I said in earlier debate on III. 7. It may be worth while to have a debate in the Legislature about expanding the role of AOC or continuing it in its present fashion, performing the functions it does. But again, I feel that the proper forum for that debate is in the estimates during the budget in the spring session.

I am becoming increasingly concerned that we are discussing matters that are more appropriately debated there, in terms of existing programs under the budget of a department. We're discussing the expansion of those programs in this committee, when it really should be done in the budgetary process in the spring session. As worth while as the notion may be to expand or keep it at its present level, as Mr. Notley has described, I think that debate should take place elsewhere than here.

MR KNAAK: Mr. Chairman, I just wanted to echo the words of Mr. Bradley. I think last year we took a general proposition that where there is block funding for any government agency or semi-government agency, we as a committee would restrain from examining the programs of that government agency, as opposed to, for instance, the direct capital investments of the trust fund. The Alberta Opportunity Company, just like Alberta Home Mortgage and Alberta Housing, is block funded on a commercial term basis by the fund. Even though I agree with the spirit of what Mr. Pahl is suggesting, I'm afraid that I would have to suggest that the most appropriate time to suggest this is when we are reviewing the estimates of the department responsible for the Alberta Opportunity Company. By way of analogy, I would say that simply because the trust fund holds shares in the Alberta Energy Company doesn't allow us to recommend or make suggestions for the operation of that company.

MR BORSTAD: Mr. Chairman, I believe that the Alberta Opportunity Company, as we know it, was set up to help decentralize the government and to aid those smaller areas throughout the province by financing where financing wasn't available as it is in the cities. I would hate to get away from that approach. I think if Mr. Pahl's motion were debated in the House when those

estimates are before the House, we'd be a lot better off than trying to decide that here in this committee.

MR CHAIRMAN: Are you ready for the question? Mr. Oman.

MR OMAN: The question to put the thing out?

MR PAHL: I would appreciate whatever help I can get.

MR OMAN: I recall that we quizzed the minister on this. I have some real concerns in line with Mr. Pahl, because I think there in fact is a policy of -- not deliberately; I don't have the word here that I want -- discriminating against the urban people, if you will, or certainly to centre in on the rural situation. I think that AOC does need to modify its policy. We were talking about government estimates. I can't see that the principle involved in this motion isn't part of this committee. In fact, I'm prepared to make an amendment to the motion, Mr. Chairman. Instead of that first paragraph, I would say "that the government consider modifying the role of AOC to expand its services to Albertans in urban centres". The rest follows. That's not to say that it isn't serving the rural ones now, or that it should cut back; simply that it expand its areas of service to the urban centres.

MR CHAIRMAN: Mr. Oman, I wonder if I could read back to you my hastily written amendment: "that the government consider modifying the role of the Alberta Opportunity Company to expand its services to Albertans in urban centres". Comment on the amendment?

MR NOTLEY: Mr. Chairman, I think we have to be very clear what we're saying here. Mr. Pahl's motion makes a point. I don't agree with the point, but it makes a point. Mr. Pahl's motion is simply saying that, rather than an affirmative action, a positive form of discrimination, a preference -- call it what you will -- for rural areas, we're now going to be looking at individual cases; there will no longer be a geographic preference. All right. I don't happen to agree with that point, but I think that's the central point in the original motion.

As I see it, in the amendment -- unless we address that point -- what we're really doing is passing an absolute motherhood proposal here. Of course we're in favor of encouraging more use of it in the cities, but that doesn't speak to the central point. The central point is: are we going to recommend to continue to have the preference or not? I, for one, think that we have to have the preference. I think that the policy announced in 1972 was valid. I supported it then; I support it now. What we have before us is a proposal to change that preference. I think that's the thing that has to be fairly debated, not just some sort of general expression of policy that really doesn't deal with the central issue.

MR CHAIRMAN: Further comment on the amendment?

MR PAHL: Mr. Chairman, I can accept the amendment, because, if you will, the second sentence of my first recommendation really says, in responding to Mr. Notley's earlier point, that it's not a matter of denying a much needed service to the rural area. The point is made within the recommendation that the service be expanded to serve the needs, and I'm saying there is a need in the cities as well as the urban areas. AOC has set up an infrastructure to respond to the need in the rural areas, and I would not want, nor did I intend in my motion, to deny or reduce the availability of lender of last resort

facilities in the rural area to meet a growing need in the city. So the motion, as proposed by Mr. Oman, would expand the services in urban centres. The original intent would be, not at the expense of rural areas.

MR R CLARK: Mr. Chairman, I find myself in the position of saying most simply: are we going to continue to give priority or an advantage to small business in rural Alberta, or are we not? If we pass Mr. Oman's amendment . . . I can readily appreciate how small business people in the city would like to say, we should have the same kind of advantages from AOC as people in the country get. But there are other advantages: closer to market, manpower, close to educational institutions, and all those things. I suggest, gentlemen, that by passing this amendment, really we are saying, in a backhanded way, that we are going to stop giving priority to rural areas through AOC. I'm going to vote against it.

MR OMAN: Mr. Chairman, surely part of the purpose of our Heritage Savings Trust Fund is to diversify and strengthen the Alberta economy. This motion in no way says that we are going to take away funds that are already directed toward the rural Alberta economy. It is a fact of life that the opportunities of diversification and expansion in industry and so on, are greater in our cities. Therefore, I think it's only natural that the fund would want to direct itself there as well. I cannot understand that we wouldn't accept this type of idea.

MR KNAAK: Mr. Chairman, I think the two opposition members are drawing a red herring across this resolution. There's no suggestion at all that the preference in the rural community wouldn't be continued. We're saying that more funding should be made available so that all businesses in need have the opportunity to get funding from the Alberta Opportunity Company as a lender of last resort. That's the way I interpret the motion. I support the principle of that motion, but I think we as a trust fund committee cannot get into the programs of the various departments, where there is a block funding by the trust fund. The time to do that is when the estimates of the department, as a matter of program, start coming up. I would ask that the mover consider withdrawing this motion and bring a similar . . .

MR CHAIRMAN: The amended motion?

MR KNAAK: No, the whole thing. Withdraw this motion at this time, and bring it forward during the estimates in more or less the same form, when the minister responsible for this department comes up for his estimates.

MR CHAIRMAN: Mr. Pahl, did you wish to respond to that suggestion from Mr. Knaak?

MR PAHL: I wouldn't agree to remove the recommendation, but I will commit to bringing it up again.

MR NOTLEY: Anyway, we're going to continue to have a debate on it. Mr. Chairman, I think that there are some rather significant distinctions here. You see, as I understand the AOC, the policy was not just that everybody should have the same kick at the cat, but that there would be a positive preference for rural Alberta, so that if Joe Blow wanted to set up a small business in a small community of 2,500 people or less, the fact that it was a new business in a small community would give him a preferential interest rate over the same Joe Blow in need setting up a small business in the city of

Edmonton or Calgary, or a centre more than 2,500. We've addressed the rationale behind that in different ways. There are other advantages for businesses in the cities. But the bottom-line rationale for this whole thing was that that was the only way we could encourage the decentralization of business opportunity in the province -- I shouldn't say the only way, but was an important way to encourage decentralization. It wasn't just a case of being fair, one businessman against another. It was the case of a deliberate policy to encourage people to do these things in rural Alberta, to give life back to some of the smaller centres.

With great respect, what we're doing now with the amendment -- because only so much money is going to be available to the Alberta opportunity fund; it's not a first-come institution, nor an unlimited supply of money. We'll have problem with the allocation of funds. I remember in 1973, Mr. Peacock's proudly standing up in the Legislature and telling us how well the AOC was doing. Part of the argument, Mr. Chairman, was the fact that the vast majority of the loans -- I forget the figures now -- was outside of Edmonton and Calgary. This was the argument that brought applause, desk thumping on both sides of the House, because there was a very strong feeling at the time on both sides of the House that we had to make this an agency that had a preferential policy. I don't think there's any point in trying to play games: it was a preferential policy for rural Alberta.

I would simply say that I don't think things have changed that much. I wouldn't agree with Mr. Pahl that things have changed so much that we can throw that policy out the window. I think that inadvertently, by passing either the proposal or the amendment, we're going to be making it less an agency of affirmative action for small business in rural Alberta. I think that is a very important policy departure. I agree that it should be discussed in the Legislature in total, and probably will. I suspect that in discussion in the Legislature in total, the Legislature wouldn't accept it. That's speculative and probably not relevant now, but I think it is relevant whether this committee is going to make a recommendation that undermines an important principle that was established eight years ago.

MR PAHL: Mr. Chairman, I have a great deal of problem with what I would interpret to be a dog in the manger attitude: if we're getting something as rural business people, therefore it shouldn't be made available to urban business people. I really feel that that concern is a pretty strong misrepresentation of the intention. There is nothing suggesting that the opportunities be mutually exclusive, that one will deny the other. I feel that there's a wrong tone being put on the recommendation. The recommendation is to expand the service. You're not really dealing with the same types of opportunities in rural Alberta as you are in urban Alberta, but there is a demonstrated need in the urban areas for a lender of last resort. Serving a need in rural Alberta should not deny us the opportunity or responsibility to satisfy a similar need in an urban area.

MR BRADLEY: Mr. Chairman, I don't want to belabor the point, but I want again to follow up on the reasoning I put forward earlier, and also what Mr. Knaak said. AOC is funded by the heritage fund on a debenture basis. We have other investments under the Alberta investment division. In the commercial investment division, I think there is a debenture, a loan to Calgary Power. I really don't see how, after having made that loan to Calgary Power, we could recommend how they should spend those funds, or in fact how we could direct some of our other loans to other governments in Canada, how we should direct them to allocate their programs or funding for moneys they are borrowing from the Alberta Heritage Savings Trust Fund.

To get back to this point: if we're going to make changes in AOC, I think we should do it under The Alberta Opportunity Company Act, or if we wanted to discuss programs under AOC, we should do it during the debate on the estimates of Small Business and Tourism, not in this committee. We have a number of recommendations here that seem to be delving into programs of agencies that are really dealt with in the estimates. So when I vote against this recommendation, it's for that reason, that in my mind we're leading ourselves into an area where we shouldn't be making recommendations in this committee.

MR CHAIRMAN: Are you ready for the question on Mr. Oman's amendment? By way of reminder, it reads: "that the government consider modifying the role of the Alberta Opportunity Company to expand its services to Albertans in urban centres". I assume, Mr. Oman, that your amendment doesn't alter the second sentence.

MR OMAN: That's right.

MR CHAIRMAN: Those in favor of the amendment? Mr. Oman, Mr. Pahl, and Mr. Musgreave. Those opposed? The remaining five members in the House. The amendment is defeated.

Are you ready for the question then on the original recommendation by Mr. Pahl? Those in favor of recommendation IV. 1 as originally submitted by Mr. Pahl, please indicate. Mr. Oman, Mr. Pahl, and Mr. Musgreave. Those opposed? The remaining five members in the House. The recommendation is defeated.

Recommendation IV. 2: Mr. Clark.

MR R CLARK: Mr. Chairman, I fear that some of the same comments that have just been made, may be made with regard to this next proposition. But basically what it attempts to do is, in the cases of both the Alberta Opportunity Company and ADC -- we've had considerable experience with these operations now. When the legislation came in, there was legislative scope for both AOC and ADC to become involved in equity financing. They have not done that to date. I'm making a recommendation toward the end of the recommendations that deals with this question of the basic two functions of the fund. As I see it, one is diversification and the other is saving. It seems to me that if we're really going to get involved in this diversification, we have to decide if the Alberta Opportunity Company and ADC are to become the government's two major instruments of diversification -- and this motion was put forward on that basis -- then what we're talking about here is that we would expand the Alberta Opportunity Company to the full scope of the Act that's already been approved by the Assembly, and also the Agricultural Development Corporation, so that in both cases those boards would be directed to consider going as far as the legislation allows them, which is equity participation. Quite frankly, I say that's a change in my own position from some years ago, when I didn't feel these organizations should go to that extent. But one of the major recommendations from the consultants our office has engaged deals with this question of the two functions of the fund. If one looks at the availability of capital in the province today, simply, there isn't the kind of opportunity that's needed for small business and agriculture. From what seems to be happening in a variety of places, this appears to be one of the routes we should be looking at. So that's why the recommendation has been put forward. I see those two agencies, then, would be able to play a far more significant role, as far as actual diversification of the economy in the province.

MR CHAIRMAN: Thank you, Mr. Clark. Just a request from the Chairman to the committee. Because of the slight similarity between the principle involved in

the recommendation under discussion now and the one just defeated, there is a likelihood, of course, that we will get quite repetitive arguments. Therefore, I'd like to ask members if they wish to remake a point of principle on this separate matter, that they do so as succinctly as possible.

MR BRADLEY: In terms of this recommendation, obviously I would make the same arguments I've made before. But I do believe there is some merit to this. So I would propose an amendment that we put a period after "enterprises" and delete "through" and i) and ii).

MR CHAIRMAN: Okay. We have an amending motion from Mr. Bradley that we delete all after the word "enterprises" when it first appears. Comments on the amendment?

MR R CLARK: From my point of view, that simply defeats the basis of what we're trying to do here.

MR OMAN: Mr. Chairman, they say that charity begins at home. While I didn't get very much charity on the last one, just to show that I'm not prejudiced against the small enterprises agriculturally, I'll support this. But I would like reciprocal treatment when it comes back.

MR CHAIRMAN: Any further comment?

MR MUSGREAVE: Mr. Chairman, it doesn't even mention agriculture if we put a period there.

MR R CLARK: That's what I said. It defeats the intent here.

MR MUSGREAVE: I don't know if Mr. Oman was aware of that.

MR OMAN: No. I'm saying I'm supporting the whole motion.

MR MUSGREAVE: I see.

MR CHAIRMAN: Any more comment on either the amendment or the motion itself? Mr. Notley and then Mr. Pahl.

MR NOTLEY: I should hope that we've reached a consensus on the amendment, because that would really reduce it to being meaningless, if the amendment is passed. I think the proposal itself is straightforward and sets out roles both for the AOC and the ADC, which are consistent with the previously stated policy, so I would support it.

MR PAHL: Mr. Chairman, I don't quite see it as clear as that. Obviously, point i) is saying that the Alberta Opportunity Company, although it has been vigorously defended when it comes to improving access to urban centres, is now obviously being defined as saying it hasn't done its job. The second part,

An expanded Agricultural Development Corporation which acts in all areas of Agriculture where private capital is not sufficient or is unnecessarily expensive

says nothing. I think the vehicles are in place, and unless the recommendations could be a little more explicit and the ramifications of those implications, I think Mr. Bradley's says as much as the other, which is

nothing. So I can't see support for criticizing the Alberta Opportunity Company and being very vague about how you'd expand the Alberta development corporation. I don't think the recommendation should be supported, either as amended or as it stands.

MR CHAIRMAN: Any further comment either on Mr. Bradley's amendment or the original motion? Then, Mr. Bradley, I'll have you close debate on the amendment.

MR BRADLEY: I was just trying to make the point that if we're going to make changes in the Alberta Opportunity Company or discuss the program roles of either the AOC or ADC, it should be done, as I've said before, in the spring during the estimates of the two departments under which those two corporations fall.

MR CHAIRMAN: I'm going to call for the question on the amendment. Those in favor? Mr. Bradley and Mr. Pahl. Those opposed? The remaining members in the chambers. So the amendment is defeated.

Did you wish to close debate on your original motion then, Mr. Clark?

MR R CLARK: Yes, Mr. Chairman. In responding to the comment made by the Member for Pincher Creek-Crowsnest and also by Mr. Pahl, I simply say that what the resolution says is, expand the Alberta Opportunity, which will fulfil the purpose set out in The Alberta Opportunity Fund Act. The Act permits the fund to get involved in taking an equity position in projects that are deemed within the scope of the Alberta Opportunity Company. To date, the company has not done that. The same thing is true for the Agricultural Development Corporation. If we are to use these two agencies as the major arm of the government for the diversification of the province, then we have to use those two funds, which are financed by the Alberta Heritage Savings Trust Fund, to the fullest extent of the Act.

MR PAHL: I wonder whether, for clarification, Mr. Clark would consider an amendment that says that; equity participation by those two companies. I think that's a little more precise.

MR NOTLEY: We already have it.

MR R CLARK: Mr. Chairman, the amendment to the legislation . . .

MR PAHL: With respect, I'm sure there's a lot more in the legislation. I guess I have to admit to lack of familiarity with the legislation, but that's a little too broad for me. If you want to say, let's get involved in equity, then I would be much more supportive.

MR R CLARK: But, Mr. Chairman, if I could respond to my hon. colleague, the legislative mandate for the companies to do that is there now. They're not doing that. This is a means of the committee saying to the Legislature that we should go the full extent of the Act that's already been approved by this Assembly.

MR PAHL: Speaking to that, to the extent that I . . .

MR CHAIRMAN: Mr. Pahl, are you speaking to the ambiguity of the recommendation, that it does not specify what is intended by expansion?

MR PAHL: I'm speaking to the ambiguity that says . . . If I've understood Mr. Clark's comments properly, he's in effect saying that the Alberta Opportunity Company and the Agricultural Development Corporation should get involved in equity investment to further their objectives. If that's the recommendation and was so stated, I could support it.

MR CHAIRMAN: I don't believe that was the exclusive nature of his recommendation, only by way of illustration as a possibility.

MR R CLARK: And likely the major vehicle that's available, Mr. Chairman.

MR CHAIRMAN: I think we're ready for the question, eh? Those in favor of recommendation IV. 2, as originally proposed by Mr. Clark? Mr. Clark, Mr. Notley, and Mr. Oman. Those opposed? The remaining members in the House. The motion is defeated.

Recommendation IV. 3, Higher Priority to Diversification: Mr. Notley.

MR NOTLEY: I know it's difficult when you're transcribing everybody's proposals and trying to put them in a group of proposals, but there are really about three or four that are related. At the risk of breaking them up, I will move it. But under General, for example, I raise the question of diversification being the primary objective of the heritage trust fund, and that's under section V. However, the point in Recommendation IV. 3 is that while we have some investments -- I suppose one could argue that the Syncrude investment could be diversification. I'm not sure if you could, but that argument has been made in this House before. I am suggesting that we emphasize as a priority objective, investments in manufacturing, renewable resource development, and processing sectors. We have had some of this done, Mr. Chairman, through the Agricultural Development Corporation, for example. Some of the agricultural processing ventures in this province have been funded by the ADC. I think that's a good thing. I think it is the kind of investment that in the long run is important for the province. The whole business of value-added is, in my judgment, very crucial to the upgrading of agricultural products. Similarly, I think we have to look at other types of manufacturing. We have CCIL, an implement company based in Winnipeg. But I think there are areas -- perhaps not in the manufacture of tractors and such, but smaller implements. We have Noble Cultivator from southern Alberta, a company which has been business for many years now. I think that that kind of agricultural implement manufacturing on a small scale is something we should be looking at.

In this proposal, without nailing it down or attempting to be over-precise -- because if we do that, we then look at what agency has to do it, whether there has to be a new agency -- what I'm saying is that we as a committee recommend that a higher priority be given to investments that relate to diversification, as opposed to investments that are essentially energy related.

MR CHAIRMAN: Thank you, Mr. Notley. Perhaps I could just respond to your initial comment that there were certainly similarities between this recommendation and Recommendation V. 2. I simply split them up because I felt the clarification of heritage fund objectives would relate to quite different principles, and probably quite different debate from the recommendation to simply increase the priority on diversification. That's the reasoning.

Any discussion on Mr. Notley's recommendation?

MR KNAAK: I guess I have a question. The recommendation is that "greater priority be given to Alberta investments in manufacturing". Are we talking about the Alberta investment division, the capital projects division, the commercial division, or what? As part of that answer, perhaps, Mr. Notley, you could explain how the trust fund would do it. Would the government be taking control of firms in these industries, or would it be sort of a handout approach? What exactly do you have in mind when you talk about the trust fund investing in manufacturing and resource development to foster diversification?

MR NOTLEY: I assure you, Mr. Knaak, it won't be a handout approach. I would see the Alberta investment division as the primary area. Secondly, with respect to the question of the agencies that would do it, we already have two agencies that we discussed in the resolution just before, the ADC and the AOC. I would see a greater emphasis being given, through a recommendation like this, to the type of processing operation. ADC is a very good example. I think some of the work ADC has done in the area of agricultural processing had been effective -- not all of it. But some of it has been effective. I know in the long term, despite the deficiencies of some of the ADC programs, we have to move in the area of agricultural processing, and the best vehicle to do it is the one we have in place at the moment.

So I don't see a whole series of other agencies being established to fulfil this recommendation. It is a change in emphasis, if you like, that is important, as opposed to a new agency *per se*.

MR CHAIRMAN: Is that clarification, Mr. Knaak? Do you wish to comment?

MR KNAAK: Just to observe that the two examples Mr. Notley used were both debt-related agencies. Are you suggesting that the trust fund, through some agency, have equity participation in firms in some of these diversified industries? That's really the question I had. Are you suggesting that the trust fund take an equity position in new industries?

MR NOTLEY: Mr. Knaak, I would certainly, as an individual, think we should be open to do that. That's not contained in this recommendation. But we should know that the AOC already has that option, and the ADC ended up with a good number of equity positions, usually by accident. Nevertheless, we had equity positions, and I think we cannot close the door on equity. But if you're saying: am I recommending that the Agricultural Development Corporation go out and spend public money to develop 50 Crown corporations; no. If I wanted to do that, I would say that.

I am saying that the emphasis should be on diversification. In most cases, we'd be looking at loaning money that would eventually be paid back. In some cases, it might well mean that there would be an equity position, and in some cases, as we've discussed in Public Accounts in past years, we will end up having equity. Not because we planned it that way, but because it happened. It's the sort of thing that's going to happen. If we're going to get this province moving, there are going to be . . . You know, I couldn't agree more with some of the statements Dr. Horner made in this House. There are going to be times when things don't go right. I think if you're going to diversify the economy, you can't have a 100 per cent guarantee that everything is going to be a success. Some will turn out sour. It may well be that you're going to have accidental equities developing. So I'm not saying, Mr. Knaak, that it should be exclusively one or the other.

MR CHAIRMAN: Do you have a comment after that second clarification, Mr. Knaak?

MR KNAAK: Just one more. The two examples you used in industry seem to me to be strengthening an already fairly strong industry. Although I think we all support the idea of strengthening and diversifying, I wonder if you could give some illustrations of how we could use the fund, through debt lending, in diversifying the economy. In fact, I suppose you're suggesting stimulating new industries, and I wonder if you have some in mind.

MR NOTLEY: I don't think we want to get into a shopping list of new industries. We could be here in that kind of discussion for a long time. But some of the other proposals I make -- for example, the computer industry is an area, and I'd relate that to agriculture too, except I've made a specific recommendation in that area.

You know, you raise the question about agricultural processing being an established industry. We have some very serious problems in agricultural processing in this province at the moment; some very serious problems. I, for one, have come to the conclusion that we're going to have to make some investments that will keep even our existing packing industry operating. I think that that is not just a case of branching out into a new industry, but an existing industry that is perhaps our oldest manufacturing industry in the province. We're in danger of losing it if we don't watch what is happening. I think in the area of the expansion of our forest industry, the processing of forest products and beyond that; for example, a quality paper mill. I've had a proposition brought to my attention that I think one has to look at. It's this kind of thing. But again, Mr. Chairman, I don't want to get into a shopping list, because then we start talking about whether A, B, or C is feasible. I don't think that we as a committee are qualified to do that. But I do think we can say that if we are concerned about value added . . .

You know, I look back to the Premier's speech to the chamber of commerce in Calgary in 1974. The major component in that speech was this very point, that we're going to have to strive for value added and diversification. It seems to me that that just underlines an important point that has to be made.

MR R CLARK: Mr. Chairman, I plan to support the proposition, because basically it says to me that we're saying to the Legislature that after having reviewed the investments of the fund for the year and looking at where we are after three or four years, that greater priority has to be placed in these areas. From my point of view, it's quite simple. I think we have an over-reliance on non-renewable resources. We've made a number of investments in industries related to non-renewable resources, and that a greater priority in those areas outlined, albeit very broad, would be in the best interests of long-term diversification for Alberta.

MR CHAIRMAN: Any further comment on the diversification recommendation?

MR PAHL: Thank you, Mr. Chairman. I have some of the same problems Mr. Knaak has. Without being more specific, it seems to me that implicit in the recommendation is that a greater priority be given to Alberta investments in the manufacturing, renewable resource development, and processing sectors. What is being said here implicitly, I guess, is a lower than reasonable rate of return should be considered or encouraged, either subsidy or handouts, because really, you make something happen that wouldn't otherwise happen by bribing people with money. That suggests to me the old third-world syndrome of, everybody needs a steel plant, an automobile manufacturing plant, or a . . .

MR R CLARK: Sheep plant.

MR PAHL: A sheep plant? We have that, unfortunately. I think the Leader of the Opposition makes an excellent point. If you want to get into sheep processing, you have to be prepared to get sheared, if it's not an economic venture.

MR CHAIRMAN: I'd say that's some woolly thinking. May I assume that we're ready for the question?

AN HON MEMBER: Yes.

MR CHAIRMAN: Those in favor of Recommendation IV. 3? Mr. Notley and Mr. Clark. Those opposed? The remaining members in the chambers. The motion is defeated.

Recommendation IV. 4, Accountability: Mr. Notley.

MR NOTLEY: Mr. Chairman, I really think that IV. 4 should be held over. I intend to move V. 1 and that. So I'll just hold that over, and as a matter of fact, not move it, because V. 1 is the crucial one, in my judgment.

MR CHAIRMAN: All right. Discussion on IV. 4 will be deferred or combined with subsequent discussion on Recommendation V. 1, both dealing with the subject of legislative accountability.

Recommendation IV. 5, New Pioneer Program: Mr. Notley.

MR NOTLEY: Mr. Chairman, this recommendation has been passed by past committees; again, 1978 and 1979. I would recommend that it be passed again. I realize that various programs are in place, but the net result is, I think it's fairly safe to say, a modest pace of developing our new agricultural land. I think this is extremely important, because we do have a lot of young people who would make good farmers. We have people who are going through our agricultural colleges, who are qualifying for ADC lending programs, but quite frankly, aren't able to get money to farm in most areas of the province, because of the absolutely inflationary land prices that have swept the province and made it virtually impossible for younger people to get started.

There's another aspect of this proposal this year, Mr. Chairman. It comes from the kind of practical experience of having to deal, as an MLA for northern Alberta, in an area with potential agricultural development. We get so far behind in our inspections, in road and access roads, it's just a matter of continuing embarrassment, because we just don't have the funds. We have local ID committees that make recommendations on roads, but we aren't able even to begin to do the road work because the funds aren't available. What is very important is that as we open up areas that have agricultural potential, we have to provide some of the basic services, including decent roads so the school bus can run on it. It's rather scandalous. We have cases now where people have to wait a year to get a school bus road in northern Alberta. It's not the department's fault. It's just that we haven't made the funds available. I'm not blaming anyone in particular. I'm saying that we have to bring our act together as a province: the department of lands, the department of highways, the local authorities involved. And bring our act together because we are convinced that there is (a), land that we can get people started on that won't force them to go broke, and (b), because an integrated approach is the only way to make modern homesteading fair for the people involved or the communities affected. While I realize that Mr. Miller has done some reasonably good work, the fact of the matter is that I think we have to do a little more. This recommendation is just a restatement of a sense of priority that needs to be given to this issue generally.

MR BORSTAD: I agree totally with the recommendation, except that there seems to be an inference that nothing is being done at present. I think a program is in place now, although I'll agree that it should be expanded. So I would like to move an amendment, and put in, after "'New Pioneer' program" "for the expanded provision of the infrastructure".

MR CHAIRMAN: The insertion of the word "expanded" before the first use of "provision".

MR BRADLEY: Mr. Chairman, I'm going to be very brief, but just put forward the same arguments I have on other recommendations, that . . . To be consistent, in terms of this committee and its approach to matters that are under the normal budgetary process of the province and, in this particular case, the estimates of Public Lands and Wildlife, we shouldn't be discussing this kind of recommendation in the heritage fund committee, when they are already covered in the budget in the spring.

MR CHAIRMAN: Without at all wishing to influence debate on that point, I would just like to remind members that last year, when faced with the dilemma in writing the report, I treated the non-heritage fund recommendations under a separate category. If that were the case again this year, I would probably handle it the same way.

Any further debate, either of the one-word amendment or the motion itself? Why don't I just call for the question then, on the motion as amended by Mr. Borstad. Those in favor? Opposed? Three dissenting votes: Mr. Bradley, Mr. Knaak, and Mr. Musgreave. The motion as amended by Mr. Borstad, carries.

Recommendation IV. 6, Equity Fund for Native Business: Mr. Notley.

MR NOTLEY: Mr. Chairman, Recommendation 6 has been made in past years as well, although in a somewhat different form. My understanding in taking a look at the way the Provincial Treasurer responded, is that there is to be a program under way, but frankly, we haven't found it. We've contacted the department. If anyone can advise us just what that program is . . . I've discussed it with a number of native leaders as well, and there seems to be some uncertainty over just what the program is. Last year, page 9, we passed the recommendation:

Establish a fund within the Alberta Opportunity Company to provide financing for business ventures by native and Metis people.

The minister's response:

recently announced . . . venture funding programme which has the potential to significantly assist Native and Metis people.

I'm sorry. The minister gave us this information here. Subsequent to that, I contacted the department and was not able to find out what that program is. If someone can give us the information, if you have it -- the minister's office didn't seem to have it. I leave that in the form of a question. I would be prepared not to move 6, if I can be assured that the program is there. If it isn't, I want to move it.

MR R. CLARK: I wouldn't want to interfere with Mr. Notley's winning streak here, but frankly, I can support the amendment if we take out "and other target groups", so that it's for native people. I have no problems supporting the proposition put that way, but when we talk about "other target groups",

frankly, I think that's the kind of thing one should deal with specifically. So I would move that we delete "and other target groups", Mr. Chairman.

MR CHAIRMAN: All right. We have an amendment proposed by Mr. Clark to delete the four words, "and other target groups". Comments on either Mr. Clark's amendment or the recommendation itself?

MR KNAAK: Mr. Chairman, I was also under the impression that the minister is developing or has developed a program somewhat in line with the recommendations made last year, and I would also prefer some clarification on that. Perhaps we could table this until next Tuesday.

MR CHAIRMAN: In conjunction with the tabling recommendation, could I also have someone volunteering to obtain that clarification for us? Mr. Knaak, would you be prepared to contact Mr. McCrimmon's office for us?

MR KNAAK: I'd be happy to do that, Mr. Chairman.

MR CHAIRMAN: With that enthusiastic response to the Chairman's request, I would suggest that it then be tabled until we meet next Tuesday. Agreed?

HON MEMBERS: Agreed.

MR CHAIRMAN: Recommendation IV. 7, Provincially Owned Utility: Mr. Notley.

MR NOTLEY: Mr. Chairman, Mr. Clark indicated that I'm on a winning streak. I'm sure that'll be confirmed by the response to this particular recommendation.

MR R CLARK: You might even be on a loaning streak.

MR NOTLEY: I'm not sure it'll be winning here or winning outside. Mr. Chairman, I think that as a province we have to begin to debate the question of an investment in publicly owned utilities. I recall last June, at a meeting of the Alberta association of rural electrification associations, that the Minister of Utilities and Telephones outlined a number of options that the government is apparently examining, one of which is public ownership. But there are all sorts of other options as well. I think it's going to be important, Mr. Chairman, that Albertans realize that one way or other, there will be substantial public investment in our utility industry. I think, for example, of the dam that is being proposed for about two or three miles away from where I live; a project that is going to cost at least \$2 billion and perhaps substantially more. Obviously, we're going to be involved in that in some major way. It's not likely that the utility companies would want to build it themselves or that they would not come to us either with a request for debt financing. So we're going to be involved.

I see some of the cost estimates down the road for the provision of electrical generation in this province, and I see that as a general rule, the Public Utilities Board has to provide the owners of the firm with a guaranteed rate of return of 15 per cent on their equity capital; while we have had debt rates going even higher than 15 per cent in the last year, that's an unusual situation, and has been the first time that's occurred in 30 years or more. I would argue that one thing we have to examine in the management of our funds is whether it would be a good investment for the heritage trust fund to own the utilities, rather than pay a 15 per cent guaranteed rate of return as consumers to privately owned utilities. Why not pay that 15 per cent to

ourselves? Or conversely, if we want to have an interest rate that would be more comparable to the yield of the heritage trust fund to maturity, which is 11 per cent, then that would be a saving to consumers. When you're talking about billions of dollars, which is what we're really talking about in this province in the next 25 years, that can really be a lot of money.

I would argue that, quite apart from all the traditional arguments -- public ownership versus private ownership and which is most efficient and what have you; all those arguments -- that when it comes to the management of what will be billions of dollars of funds in major utilities and when it comes to agreements we're going to have to make with other provinces that in fact own their utilities -- for example, our power grid is going to be with Saskatchewan and Manitoba, both of which own their utilities -- when it comes to the need to have integrated planning of electrical generation development in the province, the argument, in my mind, Mr. Chairman, for a provincial utility, becomes pretty compelling, quite apart from any of the ideological arguments we've had in the past.

At one time, in 1948, there was a plebiscite on this matter. It was rather interesting reviewing the figures. Several hundred votes separated the pro and anti public power forces, out of over 250,000 cast. It was as close to fifty-fifty as could be. I don't know what the result of a referendum would be, and of course, I'm not suggesting that. I am saying that we should be considering a move in this direction. While I realize, with respect both for the government members and the members of the official opposition, that this is not something that has traditionally been part of one's policy, it seems to me that we are entering a stage where it clearly has to be examined as an option, and I present it on that basis.

MR PAHL: Mr. Chairman, three questions for Mr. Notley. First of all, I would be curious as to what that outstanding equity might cost. Is there any figure on that?

MR NOTLEY: The approximate figure would be about \$1.1 billion. I have that information in my office and would be glad to get it. That would be my recollection of the ballpark figure.

MR PAHL: I would be hesitant in getting too interested in it at the moment.

MR NOTLEY: By comparison, just remember, we're going to build one dam that, in all likelihood, is going to cost us over two.

MR PAHL: The second question sort of moves back a little bit, Mr. Chairman, but I think it's worth while reading the recommendation. It says "That funds be provided adequate to purchase outstanding equity". If those funds were provided, I'd be somewhat curious how they'd be held. In short-term securities? And what would be an acceptable rate of return on those securities in the interim, would be an interesting question. That's only an aside. What I would really like to have Mr. Notley respond to is, how would this motion reconcile with Edmonton Power, a publicly owned utility? I think some of the citizens of Edmonton may feel a little hard pressed in getting swallowed up by a larger entity, and I don't think it's necessarily been demonstrated that size would lead to all that many efficiencies with respect to the taxpayers of Edmonton.

MR NOTLEY: Mr. Chairman, just to answer the question specifically, we're talking about the private utilities here, not the public systems, which would include the systems of the city of Edmonton, the city of Medicine Hat, and the

distribution system in Calgary. Mr. Pahl, I would see any move toward a provincial utility restricted to the private companies at the starting point. Over the long haul, we may very well purchase municipal utilities. This is the route they took in Saskatchewan. For many years after the Saskatchewan Power Corporation was established, Regina, Moose Jaw, and several other cities had their own city-owned systems. Eventually, the city councils decided that they wanted to sell -- a situation exactly parallel to Alberta Government Telephones and Edmonton Telephones. I think you can have the two systems working side by side. If at some point, the city of Edmonton chooses to sell to Alberta Government Telephones, I'm sure, as members of the Legislature, we're not going to say no. On the other hand, we aren't going to force that either. I would see the same situation being the basis of the arrangement between publicly city-owned and publicly provincially owned.

MR BRADLEY: Mr. Chairman, I'd have to oppose this particular resolution on philosophical grounds. I appreciate the intent of Mr. Notley's recommendation, but I don't believe that we would be better off as a province if the people of Alberta, if the government owned the electrical utilities in this province. You are talking about electric utilities, not natural gas distribution also? Because it could lead one into that. I oppose it on philosophical grounds, although there may be merit, if the continuing negative taxation policies in Ottawa, which do not return to the utility companies a share of the corporate tax revenue, continue. We may have to explore some other option as to how we handle the electrical utilities in the province. But I do not support this recommendation.

MR BORSTAD: I couldn't support the recommendation, but I think there are opportunities for the province to become involved in the power dams. I think that recommendation was made last year. I would totally support that, but I couldn't support publicly owned utilities in total.

MR OMAN: Mr. Chairman, Mr. Bradley brought up a point I was going to mention: the effect of federal taxation policies on utilities, as introduced two or three years ago. That propels the provinces to look at getting into the utility aspect. One thing I would be interested in pursuing, although on the surface it doesn't look like it would work; whether the province might want to set up some kind of corporation to purchase power from private companies and then become a distribution centre, and whether that might circumnavigate the federal taxation aspects. I suspect it would still come back on the private utility company, so it would be worth investigating.

MR CHAIRMAN: Any further comment on Mr. Notley's recommendation?

MR R. CLARK: Mr. Chairman, I just have three quick comments. Frankly, I have yet to be totally convinced of the idea of a single, provincially owned utility. If the Public Utilities Board is doing its job -- and it had better be, because we don't only rely on it in this area for regulation, but a whole wide variety of other areas. I think that point has to be made. Secondly, I recently talked to some people in Saskatchewan from the Saskatchewan Power Corporation and asked them this very question: will there be problems from their point of view -- albeit I didn't speak to the president or someone at that level, but people at the working level; and that's with great respect. Certainly, it was their feeling that there wouldn't be a difficulty working out an arrangement with Alberta if Alberta, Saskatchewan, and Manitoba felt it was in their best interests to work out a western grid; that there wouldn't be a problem getting that power into Alberta. I'd just make one third comment --

somewhat facetiously, but not totally -- to the Member for Calgary North Hill, who's been very kind to me today in supporting one of my ideas. But I would caution the government members not to cry wolf too often on the things the federal government is going to do, because the end result of the story is, when the real attack came, they'd cried wolf so often before that nobody would listen at that time.

MR OMAN: I'm not crying "wolf", Mr. Chairman; I'm crying "ouch".

MR CHAIRMAN: With the wolf/ouch clarification, is the committee ready for the question? Those in favor of Recommendation IV. 7, Provincially Owned Utility? Mr. Notley. Those opposed? The remaining members in the chambers. The motion is defeated.

Recommendation IV. 8, Heritage Gas Bank: Mr. Notley.

MR NOTLEY: I really haven't been discussing this with Mr. Nick Taylor. One correction should be made. "That gas reserves"; "a portion of reserves owned by Canadian . . ." I don't think we're talking about buying up all the reserves. Mr. Chairman, I would say that one thing we have at the moment is the problem of cash flow for smaller oil companies. I suppose there are several options. One is increasing our export of gas to the United States, but that leads us to export, I think, a very valuable non-renewable resource. It also leads us into a situation where, with the finds in the U.S. -- I don't pretend to be an expert in the energy field, but all one has to do is follow closely what's going on. There are substantial new finds of natural gas in the United States. The Mexicans have substantial natural gas to export. So I've had expressed to me by some people in industry a real concern about the long-term viability of export to the United States now. I think our bargaining position, if you like, is much weaker vis-a-vis the United States. One of the real problems and concerns about a natural gas export tax that we all have is that if an export tax comes in, it's going to come right off the top, because we just can't push the price in the American market up beyond what it is. As a matter of fact, there's been some suggestion that in fact it may have to come down; but certainly not go up. So if it's a 50 cent or a dollar per mcf gas tax, that's going to come right out of Alberta and company pockets.

Now, what can be done? I think we have to examine alternatives. One is a system of prorationing for natural gas. It worked for oil 20 years ago. Changes were made in the legislation at the request of the industry in the 50s for prorationing when we had a surplus of oil. It seems to me that that is one option we have to look at. Another option is the development of a gas bank, where either a portion of our royalties or money that is now in short-term securities could be used to buy natural gas in the ground and market it later, but in the process, it would return to the companies involved that are having cash flow problems, the funds that they need to carry on their operation.

Mr. Chairman, I suspect that in most of these cases, one has to bring together a number of different ideas. I don't think, for example, that the prorationing would be inconsistent with the idea of a gas bank, but I do think it is one area we have to look at. In the short term, I would have to express a few frank doubts about the return on the gas bank. I remember several years back that people like Mr. Taylor and others were saying, leave it in the ground; it's appreciating faster in the ground than it would be in 30-day and 60-day notes. He was right two or three years ago, but would not be correct to say that now. But I think over the long run -- and I guess it's a value judgment at best -- even though we face a soft gas market in the United

States, the Canadian needs for natural gas will probably make it not a bad investment over a period of time. I'd have to honestly say that for several years, it seems to me, we're going to see a fairly soft market for natural gas. To encourage other Canadians to use natural gas, we're going to have to back away from the 85 per cent btu content as a pricing formula. So it's not just correct to say that it's going to appreciate faster in the ground than it would be turning it into cash and sticking it in the bank. On the other hand, when you put together, (a), the long-term conservation needs of Canadians and the need of Canadians to be assured of a supply of clean energy; (b), the need to get cash flow in the industry, particularly to the smaller companies that are experiencing cash-flow problems; and (c), the fact that over the long haul there's a reasonable case to be made for at least a reasonable return. I suggest that the concept has merit.

MR CHAIRMAN: Thank you Mr. Notley.

MR KNAAK: I just have a question of Mr. Notley, Mr. Chairman. With respect to the trust fund, which portion of the trust fund is envisaged to be used to acquire the portion of the gas reserves?

MR NOTLEY: Mr. Knaak, I think it could be done two ways. One would be to take the Alberta investment division and use some of the money that is now in short-term securities. But I think that in any proposal like this, a good part of it would not be money taken out of the fund, but the forgoing of royalties; in other words, our royalties would be taken by gas in the ground. So it could well affect the income of the total fund. Those are the two options, it seems to me.

As well, I want to make it clear that I am not talking about buying up all the reserves. That's why I wanted that clarification made in my wording. I think if we bought up all the reserves, we'd be talking about more money than I'd want to see invested in a gas bank. But we are talking about buying up sufficient reserves, together with a prorationing system, that we can get cash flow to the smaller companies that need it, that are taking that money and turning around and reinvesting it to search for more oil and gas in the province.

MR KNAAK: Mr. Chairman, just as a matter of clarification, I suppose. If we're addressing our minds to the companies that have shut-in gas, we don't earn any royalties on shut-in gas. I'm not sure I understand your comment that we'd leave some royalty gas in the ground, because presumably, they're not paying any royalty. Their gas is shut in.

The second question for clarification: what order of magnitude are we talking about? One hundred million dollars, \$200 million, \$500 million? What value of gas would we be talking about, and how would we price it, given that there are different production costs involved in extracting different kinds of gas from different gas reservoirs.

MR NOTLEY: Yes. First of all, in terms of the first question, frankly, I would see it only working well, Mr. Knaak, in conjunction with a system of prorationing. So you'd just be taking the procedure that we used with oil 10 years ago and apply that accross the board. That's the only way you can make the thing work well, in my judgment. Now the amount would probably vary, because it would be based on what the reasonable market is, and some percentage of that being cushioned. So if we can encourage the market in central Canada and the Atlantic region, the amount would not necessarily have to be very great. On the other hand, if we can't or we have a very serious

slowdown in our export to the United States -- and there's been a slowdown -- the amount could be several hundred million dollars. But it's not something we'd be losing, because we'd then be taking the gas in the ground, as opposed to the money.

You've put your finger on one of the real problems, but I don't think it's an insurmountable problem, in my discussions with people in the industry. No question that there are different costs of taking it out. But even so, the fact that there are different costs does not alter the fact that the concept has merit or that we can develop a formula that would take account of those different costs. We have in the Energy Resources Conservation Board expertise, which incidentally was in large part built up, as members are well aware, as a result of the need to apportion oil among the oil companies, the allowables, and the whole system of prorationing, which was policed, if you like, by the old oil and gas conservation board. If any group of people can do this with any degree of competence, it would be our own Energy Resources Conservation Board.

MR PAHL: Mr. Chairman, I am pleased to see recognition of the importance and of the contribution the smaller independent producers are making to the Alberta economy and the need to accommodate them. Although I'm intrigued by the idea and see some merit in it, I think Mr. Notley has quite properly pointed out some problems with it; for example, our exploration and development incentives programs have really been so successful that the net present value of some of the up around 35-year deliverability forecasts on gas with the present pricing regime, is negative. So you'd have a very difficult time establishing a value for that gas, given present prospects. So there has to be some accommodation in terms of the price and quantity relationships. The other point I would wonder, notwithstanding the knowledge and competence of the Energy Resources Conservation Board, is that it's very difficult to buy part of a gas field, if other people are producing at one end and you're shut in at the other end. The science is not quite as precise as some people would think. So I would support some study of this prospect, but I think this committee would be ill advised to recommend proceeding along this line without just a little more understanding of the implications and the feasibility of it.

MR R CLARK: Mr. Chairman, I'd just make three comments. Number one, I have great sympathy for the problems small Alberta and Canadian companies are having with cash flow. Whether it's this suggestion or some other, to enable those companies to come to grips with those cash-flow problems over the next few months -- some have already gone down the tube and many more will if there's not a resolution of things between the province and the federal government. I'm very sympathetic to that objective.

Number two, an advantage that I would see here is that this, by storing gas in the ground . . . I would just make this aside. In discussions I've had with ERCB people, they're reasonably satisfied that the technology is available and that their people could handle this kind of situation, recognizing that they are pretty well regarded as likely some of the best people in the world in that area. I suspect our Chairman could likely comment better than any of us on this area.

The third comment I wanted to make, and the only new thing I'm adding to the discussion, is that when all of us look at the visibility of the Heritage Savings Trust Fund, this kind of proposal has some very attractive features. Whether it's a matter to save Canadian and Alberta companies or it's taking a royalty in kind and having that gas in the ground, it's the kind of investment that no one can touch. And it isn't visible either. To me, that's a very

attractive feature of this suggestion, from the standpoint of the visibility of the fund. Whether it's technically possible, perhaps you might be best equipped of all of us to make any comment in this area, Mr. Chairman, if that's not putting you on the spot. But from my point of view, from the standpoint of the small companies, from the standpoint of making the Heritage Savings Trust Fund not visible or attackable from Ottawa.

MR CHAIRMAN: Further comment?

MR KNAAK: If I could reflect the spirit of the intent and the difficulty in acquiring enough information to see whether it would in fact be workable, maybe I could suggest an amendment to the motion: "That we recommend a study of the implications and feasibility that a portion of the gas reserves . . ." and then go on with the exact same thing. Instead of making the recommendation to do it, basically recommending, as a preliminary step, a study of the implications and feasibility of doing that, so that we would in fact have additional information on which to base any possible future recommendation.

MR CHAIRMAN: Discussion on Mr. Knaak's amendment, which . . .

MR NOTLEY: I'd certainly agree with the amendment, Mr. Chairman, to keep the ball rolling. That's the important thing.

MR CHAIRMAN: We have Mr. Notley's agreement with the proposed amendment. Any other comment?

MR BRADLEY: Mr. Chairman, I certainly have a great deal of sympathy for the position some of our smaller companies find themselves in with regard to shut-in gas. There certainly is a problem there. Whether this approach is the best one to solve it, I'm not too sure. I believe prorationing is one area we should take a serious look at, in terms of a solution to that problem. One fact of the matter is that we already do own that natural gas in the ground. It belongs to the people of Alberta. Whether we produce it or not is another question we have to look at.

The other point is, down the road, when do you make the decision to market that gas? We may require revenues down the road, and we may not be able to market that gas, due to some technological change in the energy field. The other point would be that looking at marketing that gas down the road, we'd be in a competitive situation with the other producers in the province at that time. It could create some difficulties down the road in terms of marketing that gas. So I appreciate the problems the smaller companies have, but I'm not sure I can support this motion at this time. I'd like other options explored.

MR R CLARK: Mr. Chairman, could I respond to Mr. Bradley and say that your concern about the government being in competition with the private sector is valid about when the government would sell. But, Mr. Bradley, we have that now with the Alberta Energy Company.

MR CHAIRMAN: Mr. Knaak, I've just been wrestling somewhat with the wording of your amendment. Perhaps I could suggest: "That a study be undertaken to clarify the implications and feasibility . . ."

MR PAHL: Clarify or explore?

MR KNAAK: "To explore the implications and feasibility . . ."

MR CHAIRMAN: All right. "That a study be undertaken to explore the implications and feasibility of purchasing . . ." Would you take it from there?

MR KNAAK: ". . . purchasing a portion of the gas reserves . . ."

MR CHAIRMAN: And then the remainder of your amended motion is as contained in the original?

MR KNAAK: Yes.

MR CHAIRMAN: Any further comment on Mr. Knaak's amendment? Those in favor? Mr. Notley, Mr. Clark, Mr. Borstad, Mr. Oman, Mr. Pahl, Mr. Stewart, and Mr. Knaak. Opposed? Mr. Bradley. Any further discussion, then, on the motion as amended?

MR PAHL: I think we might be a little more careful with the wording. I think perhaps we have to delete "be purchased", in the second-last line.

MR CHAIRMAN: Perhaps I could ask Mr. Knaak to take care of that.

MR KNAAK: "That a study be undertaken to explore the implications and feasibility of purchasing a portion of the gas reserves owned by Canadian controlled independent oil companies suffering cash-flow problems."

AN HON MEMBER: Period.

MR KNAAK: Period. It would have to be "independent oil and gas companies".

MR PAHL: Mr. Chairman, it would appear that we're only going to reward the poor managers. That's why I was . . .

MR KNAAK: I see. We should also eliminate the "suffering cash-flow problems". That's really not a criterion.

MR CHAIRMAN: It might be useful for you to read it once more then, Mr. Knaak. And once again, the Chairman regrets that he brought only a pen and not a pencil.

MR KNAAK: Thank you, Mr. Chairman. "That a study be undertaken to explore the implications and feasibility of the government purchasing a portion of the gas reserves shut in and owned by Canadian controlled independent oil and gas companies."

MR CHAIRMAN: What did you say after "independent"?

MR KNAAK: "Oil and gas companies".

SECRETARY: Period?

MR KNAAK: Yes, a period after that. I added the "shut in" over the last time I read that.

MR CHAIRMAN: To be sure that I have it correct for the purpose of the minutes, that would read: "That a study be undertaken to explore the implications and feasibility of the government purchasing a portion of the gas reserves shut in and owned by Canadian controlled independent oil and gas companies."

MR KNAAK: Yes.

MR CHAIRMAN: Are you ready for the question? Those in favor of the motion as amended? Those opposed? The motion is carried with one dissenting vote from Mr. Bradley.

MR NOTLEY: Mr. Chairman, as far as our timetable for the afternoon, what will our approach be, and do we have time for a recess?

MR CHAIRMAN: Certain members have expressed an interest in getting away earlier this afternoon than I had originally planned. We have made good progress, and I hope that if we could perhaps meet for at least another 30 minutes, we'd be in good shape for our deliberations Tuesday. Shall we just carry right on then?

HON MEMBERS: Agreed.

MR CHAIRMAN: Recommendation IV. 9, National Energy Investment: Mr. Notley.

MR NOTLEY: Mr. Chairman, I think the principle in Recommendation 9 is fairly straightforward. I'm suggesting we should be prepared to undertake, not only debt participation but equity participation, where that is feasible, in energy projects -- and we're not just talking about oil and gas projects; other types of projects as well -- being undertaken by Petro-Canada or other Canadian provincial public agencies. Essentially, this is an effort to go a little beyond the energy bank concept that Mr. Clark was talking about last fall. I think that was a good concept, but in addition to that, it may well be in our interest to get into equity projects -- not necessarily, but from time to time. For example, I think of future heavy oil or oil development projects in the oil sands. There could be a good deal of merit in equity participation in conjunction with an agency like Petro-Canada. I know that that may be like waving a bit of a red flag to people, but I'm convinced that the more the federal government, through Petro-Canada, becomes actively involved in particularly some of the major projects and the enormous costs involved in the major projects, the more that they begin to recognize the problems of a producing province. So I see that as the kind of thing that is worthy of at least consideration in the years ahead.

MR OMAN: Mr. Chairman, I'm wondering how this really differs from the new policy we've brought in on the Heritage Savings Trust Fund. It seems to me that we are now able to invest and probably are investing in equity projects without Alberta. I don't have any objection to this motion, except that I think I would prefer . . . Maybe just take out "expanded" and put a period after "Alberta". I don't see that we should necessarily limit it to PetroCan or Canadian provincial public agencies. I don't think that as it now stands, the fund is limited in any way, and I don't see why we should put a limit on it. If it were to read that way, I would be quite prepared to go along.

MR CHAIRMAN: Were you in fact recommending an amendment there, Mr. Oman?

MR OMAN: Yes.

MR CHAIRMAN: I'm sorry. I was in some discussion with the recording secretary and missed the wording of your amendment.

MR OMAN: I would simply let it read: "That consideration be given to equity participation in energy projects outside Alberta."

MR CHAIRMAN: "That consideration be given to equity participation in energy projects outside Alberta."

MR KNAAK: Mr. Chairman, the amendments that were passed by the Legislature last fall of course permit, through the commercial investment division, the purchase of equity in various projects. I guess I have a question to Mr. Notley. When he talks about equity participation in energy projects outside Alberta, does he have some upper limit in mind, in terms of percentage participation: 5 per cent, 10 per cent, or less? And does he put a limit on the question of whether this investment has to be on commercial terms? In other words, to get a reasonable return for the fund.

MR NOTLEY: In answer to the second question: yes, I think we would want to do that. To answer the first question on a limit on the amount, I wouldn't want to venture a comment on that, Mr. Knaak, because I think it's conceivable we could get into quite attractive propositions that would be all the way from a nominal equity investment to quite a substantial equity investment. Therefore, I would not want to see us limited to 5 per cent or 10 per cent of some project. It seems to me that this proposal says that we're going to recycle a portion of that trust fund into Canadian energy development, on an equity basis, so that we are going to earn a good rate of return for the people of Alberta, but we are going to recycle that.

The other point is that while I don't think the amendment would completely destroy the intent, I did want to underline the fact that there are going to be a number of possible energy developments in the country, Mr. Chairman, where there would be a lot of merit in participating directly with PetroCan or other agencies. I think, for example, of the major Gulf project in Saskatchewan where you have one-third owned by Gulf, one-third by Saskoil, and one-third by Petro-Canada. I don't think it's mutually exclusive; that is, that we should only be prepared to invest in equity projects with other provincial or public agencies, but there are public agencies now established in other provinces. For example, I think of British Columbia and the BCRIC organization that will be doing substantial investing in energy-related projects. It could very well be that the Alberta Energy Company, through the heritage trust fund, would want to co-operate in major coal developments in northeastern British Columbia and northwestern Alberta, in conjunction with the B.C. resources development corporation.

That's the point I wanted to make. While I don't think Mr. Oman's amendment destroys it, I think it's important enough and valid to make because almost every province now has some kind of provincial agency that's involved in energy development, whether it's Saskoil in Saskatchewan, BCRIC in B.C., and that there are going to be opportunities where we can work together with them very closely.

MR OMAN: Mr. Chairman, I think that my amendment in fact achieves the end Mr. Notley is after, because it doesn't put any limits on investment in any project, or exclude any. It seems to me that the motion put forward did limit the energy investments particularly to things like PetroCan or Canadian provincial public agencies. Now it's not my intent to exclude them; rather, it is to broaden.

The second thing I would comment on with regard to Mr. Knaak's question, I think. He asked what percentage of equity we might be getting into. I would assume, I think it can be taken as a fact, that we are not recommending here a change in policy as far as the amount of equity, as indicated by this motion. I would therefore assume that this motion first in with whatever investment policy now exists. In other words, at the moment, the policy is not to go above 5 per cent. Again, if there were extenuating circumstances where we were going into another project such as Alberta Energy, where we maybe had 50 per cent with some other province, that that doesn't discourage that either.

So I think that the way the motion is worded, it leaves it open-ended. It doesn't say it has to be either this way or that way, but it urges us to look into the possibilities.

MR KNAAK: I'd like to suggest another amendment to the amendment: "That consideration be given to some equity participation on a commercial term basis, pursuant to the present terms of The Heritage Savings Trust Fund Act, in energy projects outside Alberta". What we are then doing is . . .

MR CHAIRMAN: Excuse me, Mr. Knaak. You read it so quickly. Could you just read it again?

MR KNAAK: Sorry, Mr. Chairman. "That consideration be given to some equity participation on a commercial term basis, pursuant to the terms of The Heritage Savings Trust Fund Act, in energy projects outside Alberta".

MR CHAIRMAN: Any comment on Mr. Knaak's amendment, or the earlier amendment advocated by Mr. Oman?

MR KNAAK: I think it more specifically outlines what we've all talked about.

MR OMAN: Mr. Chairman, maybe it specifically outlines more than it should. The second amendment appears to close off certain areas that could be attractive under certain situations. If we are going into a private commercial enterprise, that's one thing I think I would agree on, with regard to the terms of Mr. Knaak's amendment. But if the possibility exists of a joint project, say, with BCRIC, we might want to consider a different equity position from the 5 per cent. So I'm not persuaded that that's an improvement.

MR NOTLEY: Mr. Chairman, that's basically the concern I have too. I think that we're being just a little too restrictive. This doesn't necessarily mean that you're going to run out and try to buy, compete in the market in B.C. for BCRIC shares, or anything like that. It does mean that on certain joint ventures, it could well be that a somewhat higher percentage would be reasonable. I think we want to have some latitude, without committing ourselves to . . . We're not saying "majority equity ownership" here, or anything of that nature. On the other hand, I think that by restricting it to the 5 per cent, we reduce the potential value of working with other provincial governments. I think that's an area that has a good deal of potential, if we're going to meet the energy self-sufficiency argument.

MR CHAIRMAN: Any further comment?

MR KNAAK: I guess what I'm saying, Mr. Chairman, is that as far as I'm concerned, I'm not prepared to support additional amendments to the Act. I am

prepared to suggest that we make a recommendation that some steps be taken to move forward on the recommendation.

MR CHAIRMAN: Are you ready for the question on the Knaak amendment? Mr. Knaak's amendment reads: "That consideration be given to some equity participation on a commercial term basis, pursuant to the terms of The Alberta Heritage Savings Trust Fund Act, in energy projects outside Alberta". Those in favor? Mr. Knaak, Mr. Pahl, Mr. Bradley, Mr. Stewart, Mr. Borstad. Those opposed? Mr. Notley, Mr. Clark, Mr. Oman. The amendment passes.

You'll have to excuse the Chairman. I'm not sure how to deal with the earlier amendment. What happens to Mr. Oman's amendment now that we've passed the Knaak amendment? I presume that by implication the second amendment overrides the first. Is that a correct assumption? Thank you.

Those in favor then, of the recommendation as amended, please signify.

We have unanimity on that. Thank you. The recommendation passes, as amended by Mr. Knaak.

Recommendation IV. 10, Q & M Pipeline: Mr. Notley.

MR NOTLEY: Mr. Chairman, straightforward, with one difference; that is, that the question of whether we should make the investment . . . I think the investment should be considered on the merits of the investment, not whether an agreement is reached with the federal government on oil pricing. I don't think it should be a bargaining tool. I think we should be looking at the investment in the project on the basis of its merits as a project. In terms of opening up a market in Quebec and Atlantic Canada for energy resources from this province, it seems to me that's a step in the right direction. It should be looked upon as a long-term investment that would be useful, (a) to the country, but very importantly, (b) to Alberta and Alberta producers. I don't think it should be caught up, if you like, in the bargaining over the oil pricing question.

MR CHAIRMAN: Thank you.

MR PAHL: Mr. Chairman, as noble as that sentiment is, I think it drives a pretty serious wedge in the province's position with respect to our, I think, demonstrated willingness to come to a reasonable agreement and share our resources with the rest of Canada. I say that because it's really very difficult to consider meaningfully equity and debt financing of the Q & M pipeline system and its component parts, both the Quebec and maritime portions, without coming to grips with the question of natural gas pricing and the fact that our offer of July 25, 1980, offered to extend the Toronto city gate price to Quebec city, for 65 per cent of the btu equivalent, including the Syncrude levy, for each additional volume of gas for five years.

I'm not sure whether Mr. Notley has had the opportunity either to think this through or consider it in the full context. It really drives a very serious wedge into the total package, and I don't think it could be meaningfully considered, without consideration of the gas pricing issue, and in fact the impact a possible gas export tax would have on the return for all producers. As you know, Mr. Chairman, the export tax will hurt the net back of all producers of natural gas, whether it goes to Canadian markets, either in Alberta or east, based on what that tax is. So laudable as it is, I think it just doesn't make sense in view of all the other issues.

MR CHAIRMAN: Mr. Notley, did you wish to respond to Mr. Pahl's comments?

MR NOTLEY: I think that really a number of issues come to my mind. First of all, we have the question of how people perceive the heritage trust fund. Mr. Sindlinger made this point very well, I thought, a week ago when he talked about the heritage trust fund in the context of Canadian national unity. It seems to me that one thing we have to do is to look at investments in projects that are clearly of a national interest. I have not been convinced that the Q and M system is totally contingent on Alberta getting everything Alberta would like, in terms of energy discussions. Obviously that would be nice, but I think you can make arguments, Mr. Pahl and Mr. Chairman, for the Q and M pipeline with a somewhat different permutation of prices than the position advanced by the government of Alberta. What you can't argue, however, is that a commitment to the Q and M pipeline would be a major force in showing all Canadians that Alberta is not just concerned about maximizing its return to the heritage trust fund, that we are willing to invest in projects that (a) have a reasonable return, but (b) are going to be of immense benefit to Canadians as a whole. The Q and M pipeline is going to be of immense benefit to Canadians as a whole, including gas producers in this province who are looking for a market. That being the case, Mr. Chairman, I think it's too narrow an approach to get the thing tied up into agreement on the government's pricing proposal.

I thought that the position the Premier advanced in saying we're prepared to make this investment, was really a first-rate position to take to the Prime Minister. Obviously, if the federal government is not prepared to consider price increases at all . . . But surely that is not the case. We may quarrel over the pace of price increases, but I don't think anybody seriously thinks we are going to keep \$16.75 oil forever, but whether it should go up next year by \$3 or \$4 is a subject of debate. In my view, what is not subject for debate is how Albertans and the Alberta Heritage Savings Trust Fund is perceived in Canada. I would say that not only would be creating good will -- and that's important, because I think as Albertans we should be concerned about how other Canadians perceive us -- but we would be making a sound investment in our own markets as well. I just think that we get caught up in taking too legalistic an approach, saying, we have to have our pricing formula. There are times when it isn't correct to say that the bottom line is, we must have it going our way or else. There are times, it seems to me, when we have to show a little more flexibility. The battle for Canadian public opinion on this question of oil and gas pricing is what, in the final analysis, will decide Alberta's position. I can't think of a better move, in terms of influencing public opinion, than moving on this particular project, both as it applies to public opinion in the province of Quebec, which can be crucially important, as well as in the Atlantic provinces, which can be crucial allies of Alberta on the energy pricing question.

MR KNAAK: Thank you, Mr. Chairman. I'd like to address myself to the recommendation, but also to the point of view that Alberta and the government of Alberta should increasingly show more good will toward central Canada, in terms of financing the pipeline. We have just seen the federal Liberal government propose unilateral action that would in fact change the federal system. We would become much more of a unitary state. The amending formula, the Victoria Charter, which would come in two years if no agreement had been reached before. . . Of course, the option is for the federal government not to agree, just as it did several weeks ago, and we'd have the Victoria Charter formula, which could in fact be used to threaten our resource ownership position. We have seen a constitutional conference where the federal government in fact had a scheme to make the provinces look like feuding, irresponsible leaders of the community; a memo testifies to that. The

documentation that we've seen now was already prepared, I submit, even before the constitutional conference got under way in Ottawa, because it takes much longer than a few weeks to prepare such documentation.

Mr. Notley is asking us to give some more. We're not talking about energy pricing when we're talking about whether we should do this now. We're talking about how Canada is going to be structured. Are we going to be a federal state, with the provinces all being equal between themselves, with a strong central government and strong provinces, or are we going to have a unitary state dominated by Ontario? The federal government is now proposing a constitutional package, and, I submit, an energy package which demonstrates the direction they're going. I, for one . . . Yes, we didn't increase the energy price on October 1, to show good will. But now I think it's time for the rest of Canada, particularly Premier Davis and the Prime Minister, to show some good will, before Alberta should be asked to show any more.

MR CHAIRMAN: Are you ready for the question?

MR PAHL: Perhaps I could just, if I may, simply reiterate what I said. I think Mr. Knaak has said it quite well: how many times do we have to make the commitment and create good will? The fundamental fact is that as well meaning as Mr. Notley's olive branch -- and it is a considerable one -- you still have to know the prices before you can put the package together. That's something that's not known. So to propose going ahead without knowing what the price is, would imply total equity and debt financing, I guess, by the provincial government. That flies in the face of a realistic proposition. I just have to come back to my point, which was either misunderstood or ignored, that you have to know the prices before you can enter into a project that is supposed to at least pay for itself.

MR NOTLEY: Mr. Chairman, just to conclude for the second time. There are very few projects that can know the exact price. We can know ranges of prices, and I would agree to ranges of prices, but I don't think that we can talk about prices. Good heavens, if we talked about "the price", holy cow, there'd be a lot of projects that would never have gotten off the ground.

Mr. Chairman, for the very reason Mr. Knaak raises, it seems to me that what Canada is going through now is a very important process. That process will be influenced in a very measurable degree, not by our retreating behind our tough rhetoric in any part of the country, but by showing through our actions that we are willing to go the second mile to win support, not only on reasonable projects . . . Well, maybe the third and fourth mile. But reasonable projects that will in fact be good for Canada and will show that we can work together as Canadians through our provincial governments as well as the federal government. It doesn't always have to be the federal government. But by provincial governments working together, we can do some very good things. I frankly can't think of a better symbol of doing that than an investment in a pipeline that is going to be of immense value to the people of Quebec and Atlantic Canada. I just say, with great respect to government members, don't close the door on it. It has probably more value in terms of the next two years and the constitution than it even does in the energy package, but it does have very significant value.

MR CHAIRMAN: I'll accept those as debate-closing comments then, if I may. Those in favor of the recommendation? Mr. Notley and Mr. Clark. Those opposed? The remaining members in the chambers. The recommendation is defeated.

Would the members care to try to dispense with no. 11? No. Okay. Then we'll resume our deliberations at 9 o'clock next Tuesday, the 14th, at which time we'll try to do IV. 11, the eight recommendations in part V, and four or five deferred matters, as well as distribute the consultant's report.

MR R CLARK: Mr. Chairman, you did indicate about Mr. Trynchy.

MR CHAIRMAN: I have it in my notes. It was an oversight. We have extended an invitation to Mr. Trynchy. I should advise members that Mr. Trynchy had indicated that materials would be made available to us. They are now available, but his office has quite appropriately asked that he sign those, and of course he's away on the cabinet tour. Tomorrow, you'll be receiving the materials from his department. Then some members of the committee have indicated an interest in discussing those materials with Mr. Trynchy, and we're attempting to arrange that for the forenoon of Tuesday, the 14th. So we'll have a busy day Tuesday. Please try to avoid scheduling other matters next Tuesday. Thank you.

The meeting adjourned at 3:05 p.m.