

[Chairman: Mr. Kowalski]

[2 p.m.]

MR. CHAIRMAN: Good afternoon, ladies and gentlemen. Welcome to the meeting of the standing committee on the Alberta Heritage Savings Fund. This afternoon we have with us the Hon. Hugh Planche, Minister of Economic Development. Welcome, Mr. Planche. After welcoming the person who is attending, it's customary that we give an opportunity to provide some overview comments and, as well, to introduce the individual or individuals he has accompanying him. Sir, if you'd like to proceed with overview comments, please do so.

MR. PLANCHE: Thank you, Chairman, ladies and gentlemen. I'd like to introduce Terry Eliuk from the department, who will be my mentor and advisor as I progress through this afternoon's session.

I often think that there may be one of these occasions when I should make some opening remarks and try to remind members of sort of the breadth and width of the activities that go on in the department. But in the strictest sense, in the heritage fund we really are involved in only four: the Prince Rupert terminal, Vencap, the hopper cars, and the electronics products test centre. So rather than make opening remarks, Chairman, I thought I'd just spend the time with the committee, if it's acceptable to them, answering questions and entering into a dialogue about Economic Development activities.

MR. CHAIRMAN: Okay. We'll proceed in this order: Mr. Martin, Mr. Gogo, Mr. Musgreave, Mrs. Cripps, Mr. Nelson.

MR. MARTIN: Thank you, Mr. Chairman. In trying to figure a way around this and into the heritage committee — and I'm sure the minister would like this — I'll ask my question this way. Apparently there's been an announcement about an inland container port. It's my understanding that it's strictly through the private sector, but maybe we're wrong here. To get this into perspective, my question is: is the government playing any role in the announcement of this inland container port through, say, the heritage trust fund?

MR. PLANCHE: No we aren't, Mr. Chairman.

MR. MARTIN: We'll follow up on that. There was another announcement by the minister about the possibility of an inland container port. I believe it was last May or June. Will this container port still be going forward, or will it be put in abeyance if this one in the private sector is announced? Was there any heritage trust fund money involved in that one?

MR. PLANCHE: To answer the last question first, Mr. Chairman, we hadn't isolated the source of funds that would be required, if required, for the inland container port proposal we were bringing forward, and I haven't had an opportunity to have the benefit of the proposal that will be made by the private sector. If it addresses the issues of the punitive freight rates for container traffic and of equal opportunity across the province for access to new and improved rates so as not to be an anomaly in site location, then we'd be happy to monitor its progress,

stand back, and hope it's a success. We are greatly encouraged that the private sector thinks this is a matter of the urgency that we think it is. We're grateful the private sector has taken the position it has.

It's well to remember that the presumption that no one would attack the rate issue the way we were was based on the fact that there will be fairly substantial losses for the first two or three years while we meet the responsibility given to the railroad to assume these new rates. It's not clear to me whether or not the rate issue is going to be addressed by this new Edmonton concept. It'll be interesting to see tomorrow.

MR. MARTIN: Just one question to follow up. I suppose it might deal with the future in this whole area. Does the minister see any role for heritage trust fund money in the inland container port, in any form, in the next three or four years?

MR. PLANCHE: Of all the developed nations, Canada has the highest percentage of its gross national product in foreign trade and, within Canada Alberta has the highest percentage of its gross provincial product. So the movement of commodities and materials outside this province is absolutely essential to us. Because we are 700 miles and three mountain ranges from tidewater, transportation becomes key to our competitive success in both the Asian and Atlantic basins. I could think of no better thing to do with Alberta Heritage Savings Trust Fund money than to make our commodities competitive at tidewater. Should the opportunity arise, I'd have no hesitation in requesting my colleagues' approval for that kind of use.

MR. GOGO: Minister, with regard to the 50-odd million dollars the Alberta government spent through the heritage fund on the hopper cars, could you give a judgment whether the number of cars is sufficient? Have you had requests for additional cars?

MR. PLANCHE: I have not had a request for additional cars. Frankly there were two other ways it could have been handled. If the movement of grain had been compensatory in terms of railroad economics, I'm sure the turnaround time would have been a great deal less than the average 21 days. If your turnaround became 10 or 11 days, or even 6 days as it is for coal, that effectively increases your car fleet by double or triple. So once grain is handled appropriately, we hope that the number of cars required for the same number of tonnes of grain per year will fall.

The second thing is that if we had had a capital cost allowance available to business and people for the supply of grain cars, we might have had the private sector make very sound investments in rolling stock and railroads, which in my judgment would have been a very appropriate thing to have done.

MR. GOGO: Thank you, Minister. I do want to commend you on devising a system whereby you won't lose your glasses. I note your appearance, and I'm going to get a set of those myself.

MR. PLANCHE: Can I comment on that, Mr.

Chairman? Actually I thought a little professorial touch would lend some credibility to some of my comments. I leave it like this or like this, depending on the impact I'm trying to make.

MR. GOGO: Well, Minister, with the reputation professorials are getting in Alberta, I'm not so sure you're on the right track.

I want a question on the policy of the Alberta government enunciated or certainly espoused by you in the area of attracting industry to this province. It's long been the policy of this government, notwithstanding the white paper, that industry should locate here on the basis of the opportunities and not rely on grants and subsidies. Certain other provinces have those today. I think they have proven to be awkward with government in that they continue to defend that industry should be able to locate here without those. Is it still the policy of this government not to grant, per se, grants and subsidies to relocate or locate industry in Alberta?

MR. PLANCHE: I think there has to be an awareness that there is interjurisdictional competition to attract industry, which includes grants and other forms of soft financing. I've always been of the view that the kind of people we want developing industries around which people can build their futures should be here because of the natural advantage and that we should try to create an environment where people can profit and make their own business decisions. I think it's unfortunate in the extreme if a man invests 100-cent dollars in an industry here and then at some subsequent date a government brings in a competitor at 50-cent dollars. I don't think that's a good way to attract industry. It's addressed in the white paper because I think it's an issue that needs to be discussed by the people of Alberta, understanding the choices that need to be made. As long as you have these attractions offered by other competitive jurisdictions that we don't offer, we're going to lose some industry. You can cite winners and losers that have happened because of grants. My personal preference would be to remain on the basis of natural advantage and an environment conducive to profits.

MR. GOGO: My third question to the minister is almost the flip side of the previous question. I as MLA, and I'm sure other MLAs, have had the complaint by business, certainly small business, on the question of provincial preference. We're not far from the B.C. border, and for them to tender or bid they're faced with that problem of provincial preference. It's become difficult, as I'm sure the minister's aware. Is the minister in a position to state whether he's made a recommendation to the government of Alberta that, again notwithstanding the white paper, we should review our policy of having a provincial preference?

MR. PLANCHE: We did a study to be certain we were speaking from some conclusions drawn by other than ourselves. It turns out that of all the provinces in Canada, I think this is the only one that allows the access for goods and services to other members of the Canadian Confederation as freely as we do. I think it's unfortunate in the extreme that particularly British Columbia has taken the position it has taken. There's no question that provinces that have a sales

tax have an axe to grind in terms of access by Alberta products, where there's no sales tax payable.

In my discussions with the B.C. government, I said I thought it would be fair that sales tax would be applicable on the material portion of the tender as a preference in B.C. purchasing by their government, but that it shouldn't be allowed on the manpower or freight portions. They've taken the view that that's not acceptable to them. I pointed out to them that there are a lot of things down the road that are larger issues; for instance, we have breweries that were designed on the basis that if you don't brew here, you can't sell here, and they don't have the economies of scale of the giant export breweries south of the border. The same thing applies in a lot of other activities that are geared to provincial consumption. If they are small enough, Alberta will never be able to export from them as a base.

So I think we are right. The problem is that if we continue to be right and all alone, a lot of our people are going to pay the price. If we attack the issue, the people that live on our borders who currently have access to B.C. and Saskatchewan, B.C. in particular, may get hurt by retribution. That's something we have to consider. We also have some industries that are seasonal. They require fleets of trucks that aren't available here, need additional trucks during a peak season; for instance, lumbering in the north country. So we need access to other trucks.

I think it's just a shame that other provinces have taken the position they have, and in the long term I think it's going to be bad not only for their economics without protection but for the country as a whole. As you know, we have indicated our displeasure to B.C. in terms of the last hospital steel contract. I have asked the people who have complained to me to kindly talk to their own minister and have him acknowledge the fact that this is futile and not acceptable and change it, and then we're happy to come off it. It's something that still has to be addressed. We've lost orders to Sask. Power. We continually lose orders to B.C. government and their agencies, and we are in a position where we can supply and, as Canadians, should be able to. But the decision needs to be made in a public forum, and will be, I hope, through the white paper.

MR. GOGO: Thank you, Chairman.

MR. MUSGREAVE: Mr. Chairman, I'd like to ask the minister a question about Vencap Equities Alberta Ltd. I know the difficulties, the struggle, the minister had in establishing this company, and I commend him for his efforts. I am now hearing from people in our community who are saying that Vencap is a very difficult organization to do business with. In their opinion it's not a lender of last resort but rather a bank of first resort. I appreciate the comments in the heritage trust fund report that it's an arm's length operation, and I also appreciate the fact that \$44 million was raised in the private sector from interested investors. I do want the minister to comment, though. As stewards of the Heritage Savings Trust Fund, we have put a substantial amount of money into this company. Is there any way, in his opinion, that we can get Vencap to be more venturesome?

MR. PLANCHE: First of all I guess it's important to start back to why. There is no question that this was a debate that raged in our caucus, and all members were not in agreement as it progressed. My view is that there is an extremely large need for equity capital in Alberta and that you can't operate businesses on demand loans with the debt/equity ratio as severe as it is, nor can you get new businesses off the ground with conventional banking. We have an experience here in small business with the Alberta Opportunity Company, and it's saddled with a great book of regulations about how it can react to situations. In venture capital it's hard to react to situations unless you react intuitively. To be constrained by regulations of government, in my judgment, would have just been fallacy in the extreme in order to solve the problem I perceived.

So it was developed that we would be a funder with soft terms so that a group of people in the private sector could assess and respond to the requirements of Alberta industry for venture capital. In order to make that attractive to people of quality to serve not only on its management but on its board of directors, the Alberta government took a hands-off position. So you're right; I can't respond on behalf of them.

You know, it is not a lender but more of an investor, and in that sense it's a new vehicle in Alberta. I too share your concern about the comments on the street about its conservative posture. I can only hope that the two investments they made will be followed quickly by several more and that they will, in very short order, develop a strategy and style that will address the reason for their being there.

MRS. CRIPPS: Mr. Chairman, I want to go back to transportation. Given the essential and crucial nature of transportation to the health and well-being of the province, do you believe that the present transportation system is capable of providing efficient and economical service, or do we have to look at new, innovative transportation modes in order to best serve our province?

MR. PLANCHE: We have an excellent trucking industry and we have two of the finest large railroads in the world. They're well run and well engineered through some difficult terrain, and although they're saddled with some uneconomic routes that have to be a blend of their income, I think we are doing very well. We're very well served by airlines, not only intra- but extra-provincially. The problem really comes down to one of alternate modes, as I see it. The 1967 National Transportation Act presumed that alternate modes would control rates. That's fine if you live along the St. Lawrence Seaway, but it isn't very good if you don't. To that extent we have spent hundreds of hours trying to develop pressure points that would cause the railways to respond to alternatives that we could present to them. One of them of course is this inland port. The deregulation of U.S. rail could very well become an Achilles' heel to the maintenance of user-pay freight rates for the railroads, and we will exploit that opportunity if it presents itself. If necessary we will ship through Coutts to Seattle.

When I say that transportation is essential, I mean that in the very real sense of the word. In 1983, for

the first time, more goods flowed to the Pacific than to the Atlantic. That means that we are now in a pre-eminent position as suppliers of commodities. We are competing with Australia, New Zealand, and the United States, all of whom, for a variety of reasons, have an advantage over us in economics at the c.i.f. port. One of the ways we can be competitive is to land our stuff at tidewater effectively and cheaply, and we are determined to do whatever it takes to do that.

MRS. CRIPPS: I probably agree with you except that I can't see how a railway can be efficient with transportation vehicles heading both ways on the same track. I presume that double-tracking will solve that problem.

Do you have a recommendation on some sort of co-operative association we could develop with the transportation system in order to achieve the end you've just talked about, or do you think that will happen of itself?

MR. PLANCHE: WESTAC is a forum that has now developed that is just absolutely superb in terms of a frank, nondecision-making dialogue on issues that affect transportation economics in all modes for western Canada. We are not only a major funder of it but an active participant in it. It's a very useful tool to better understand how to live effectively within the network of transportation available to us. Frankly speaking, I have never seen the railroads take on a philanthropic posture. So I would judge that if we're going to drive them to effective rates, we'll drive them to them. Market forces or alternate modes will be the thing that will cause them to respond.

MRS. CRIPPS: My last question doesn't deal directly with the railways or transportation. Recently I was in Vancouver, and there were six ships waiting offshore for, I think, 186,000 tonnes of barley. If hopper cars are not the problem, and I understand from an earlier answer you gave that they aren't, what initiative can we take to ensure that these counterproductive — i.e., demurrage and our reliability as a supplier — situations don't recur?

MR. PLANCHE: The Canadian Wheat Board is responsible for the placement of transportation vehicles for the transport of grain. Perhaps one solution would be to get rid of the Canadian Wheat Board. It isn't just a question of vessels. As I remember, last year there were an average of 13 vessels for 13 days in demurrage. As late as this spring there were 11 trains of grain sitting on sidings between here and Vancouver waiting for vessels. There are a great many problems involved. It's a problem in our cleaning requirements. It's a problem in our grading of grain. It's a problem in a group of people selling from a board who don't give market signals to the growers. There are a lot of things involved in it. But the railways are four-tracking, and we are attempting to convince Vancouver that it's not a yacht basin, that in fact it is a commercial port, through which Alberta ships more than B.C. does. Of course we've been very active in Rupert for the same reason.

MRS. CRIPPS: Mr. Chairman, could I ask a

supplementary on his answer?

MR. CHAIRMAN: Only with the agreement of committee members.

HON. MEMBERS: Agreed.

MRS. CRIPPS: I recognize the market forces that you're talking about in the selling of grain. But the fact of the matter is that they didn't have grain in port, and surely to heavens — two of those boats had been sitting there for six weeks. Somebody must have known that they were coming for barley. My major concern is that if you sell a product, surely to heavens you know when the ship is coming and can have our product there at port. I guess that's my dilemma.

MR. PLANCHE: If you were financially at risk, I guess you would move a great deal faster. The way it works, the board is not financially at risk; the farmers are. So hustle doesn't seem to be pre-eminent in their minds.

MR. NELSON: Mr. Chairman, a couple of questions to the minister regarding Vencap. I wish to mention that the position they now take is a rather conservative posture. Maybe we should change that to becoming a little more progressive.

I understand that in the last two or three weeks they released a statement, which I haven't seen. It is my understanding that Vencap does not appear to be getting its obligation — if I want to use that word "obligation" — out to the number of companies or people who wish to utilize this manner of financing. In fact only two loans have been given since the inception of Vencap. I am just wondering what type of pressure — and maybe the government may have to put hands on — we can put to get these people out into the marketplace to get this activity moving along; I know it's high-risk money.

MR. PLANCHE: The board of directors is a published list, and I would encourage you as an elected member to make your representations to them, because I intend to as an elected member.

MR. NELSON: Mr. Chairman, is it the minister's suggestion that the members deal directly with Vencap rather than through his office, as his office is responsible for the financing of this venture capital company?

MR. PLANCHE: Just to clear the air on that issue, we as a government are lenders; we are not owners. We don't have any voting stock as a government, and we have no members on the board. We have no way of attacking the management of it short of exercising a stock option, which would be fairly draconian in terms of the structure of Vencap as the shareholders bought it. So as in any other company's activities where you are a shareholder or you have a serious interest for one reason or another, you would approach their management and their directors. I would encourage you to do that.

MR. NELSON: Mr. Chairman, I have no difficulty there. I just don't want to bend anybody out of shape. I am just concerned with the comment that

we should — and certainly I don't disagree with the private sector continuing to operate the company. However, the Alberta people have a considerable investment, whether it be by loan or otherwise, in this corporation. As I understand it, when the statement is released it will show a profit, if you want to call it a profit, and that's based on revenue derived from the millions of dollars either raised or given to that company by the taxpayer of Alberta. That being the case, should we as government or the people of Alberta not be able to oversee to protect our investment? If they are making money on that \$200 million and showing that as the equity or the profit of that corporation, should we not have some concern about the ultimate goals of that corporation?

MR. PLANCHE: Those remarks are entirely appropriate, but I don't think there's any indication that the Alberta government's money is at risk. There is no indication that the company is mismanaging the money we've lent it. The only indication is that it isn't being placed the way we had hoped it would be placed, at the speed we had hoped it would happen. It may be just a little bit early to assess whether or not, over time, they are going to do what we hoped they would do.

It's interesting to notice also that the way the company was structured they have early obligations to pay interest on their debentures. It was presumed that they would have an interest income to balance that, because a lot of the money they will be placing won't yield for some years. It was purposely structured like that, and you should anticipate that their earnings from their investments will be fairly high in the first few years. It was also presumed that that would fall as they place the money. Of course a lot of the money they place won't yield for some time. So there was a balance purposely struck.

The real question is, are they moving fast enough? I don't think anybody has suggested — certainly not to me — that they are in any way irresponsible in the management of the funds they have.

MR. R. MOORE: Mr. Chairman, some of my concerns have already been addressed, but there are a few others that have come to mind. To carry on from Mrs. Cripps' questions on Prince Rupert and the grain transportation area, do you think there is a role to be played in that consortium of the grain handlers and the government to look at inland terminals — we have the export facility out there on the coast — to look at the whole grain-gathering system on the prairies, to promote efficient movement of grain?

MR. PLANCHE: First of all, it really boils down to how you want to pay the Crow benefit. If the Crow benefit is paid to the growers, then the presumption is that the rail rates would come to a compensatory rate. If you take that scenario, that tends quickly to get you grain elevators that are centralized and you get into unit trains to reduce your freight. You negotiate off a fairly substantial freight base, and you negotiate discounts for unit trains, for centralized gathering. It also gives you an opportunity to truck at about the same cost as rail. It does a variety of things that make transportation economic-sensible and market responsive.

On the other hand, if you elect to pay the

railroads, then the rate remains very low and there is not the opportunity to discount it, nor is there the opportunity to use trucks versus rail as an alternate mode, nor is there any incentive to close down our 1900 — and I mean the year 1900 — grain-elevating collecting system.

We are in a very competitive world in the grains business, particularly from the subsidies in Europe. If we intend to stay over time, we're going to have to gather and ship in a much more efficient manner than we presently are. So it will depend on whether or not the rail rates reach a compensatory level. If they do reach a compensatory level, the only way that can happen is if the Crow benefit is paid to the grower.

MR. R. MOORE: Mr. Chairman, I hope our federal counterparts are listening to that last statement; 1986 rolls around pretty quickly.

The white paper sets out certain goals, and one of them is to continue diversification, balanced growth, and so on, throughout the province. Should the heritage trust fund be used in this role of aggressively promoting balanced growth across the province? Do you see a role for the heritage trust fund in that area?

MR. PLANCHE: I guess I'd have to turn the question around and say that if there were an opportunity that made sense and the source of funds were required from the heritage fund, I'd have no hesitation recommending the use of them. The only thing that I can see the heritage fund being of use for in terms of economic development without spending it, if you like, is in the financial sector, as an attraction to the financial sector not only from the way they trade their securities but from a variety of other ways. I think it's timely that the provincial government review the cost/benefit of its whole money handling business in terms of local financial institutions. But I can't support using the heritage fund just to take money out and create some kind of activity with it for the purpose of diversifying. First there has to be a reason established that makes some sense, and then the decision taken as to whether it should come from general revenue or the heritage fund; then whatever the Assembly decides is okay with me on that basis. But without spending it, in my judgment, it could have a considerable impact on the growth of the financial sector, and we're working at that now.

MR. R. MOORE: Thank you.

MR. COOK: Mr. Chairman, I have the same problem Mr. Martin had in trying to relate the topic to the heritage fund, but I'll give it my best shot. I want to talk about petrochemicals. The new plant at Scotsford is about to kick off. I'm intrigued by the major opportunities with petrochemicals that we have in North America and the Pacific Rim. I wonder if the minister can somehow relate the heritage fund to this. I wonder if we could talk about some of the opportunities we have and also the challenges, with a bilateral treaty perhaps needed to gain access to U.S. markets in particular, with union construction — perhaps we have a window there now — with feedstock costs. I understand that some companies are paying border price and others are not.

Is there some way we can provide a gesture to the petrochemical industry so that in the next round of

worldwide expansion, Alberta is seen to be a good place to site some new plants, for example, based on propane. It's a freewheeling, open-ended invitation to the minister to work in the heritage fund in any way he sees fit.

MR. CHAIRMAN: In all fairness to the minister, perhaps it would be more useful and more imaginative on your part if you would phrase the question in such a way that the minister could respond to it rather than inviting him to do your work for you. Perhaps we could give you a couple of minutes to rephrase it, and move on to Mr. Zip, to be followed by Mr. Alexander and Mr. Musgreave.

MR. ZIP: Thank you, Mr. Chairman. I'm very intrigued by the remarks the hon. minister made on transportation and the necessity for improved transportation in order to increase and enhance our competitiveness, particularly with the rapidly growing importance of the Pacific Rim and export to the Pacific Ocean. In this light, since there are serious constraints on the amount of money available for improving our highway system and our whole road system, what does the minister think of using heritage trust money, for example, to go south to Coutts to link up with Interstate 15, bringing that highway up to four-lane standards to improve the efficiency of trucking going south and linking up with the U.S. rail system, and also thinking about somehow working an agreement with British Columbia to have Highway No. 1 improved to four-lane standards from the national park to Vancouver. These of course would greatly improve the movement of goods to tidewater.

MR. PLANCHE: Two comments. First of all we'd have a great deal of difficulty trying to elbow B.C. into four-laning when we're not four-laned from Calgary to the Saskatchewan border on Highway 1. Secondly, the whole transportation question as it relates to roads properly belongs to my colleague the Minister of Transportation; it's in his jurisdiction. It's interesting to notice, however, that the railroad mode is the only one that's required to return both its fixed and variable costs from its rate base and that we recover very little from highways. When you think about it, that's something that very much changes the way you might want to deploy your funds in terms of evacuating products. I don't know that I could comment any more than that. It really is not within my jurisdiction to comment.

MR. ZIP: Thank you.

MR. ALEXANDER: Chairman, I just have a brief question arising from a previous answer given by the minister. I am wondering if he would enlighten me on what mechanism or by what authority an MLA as such would address himself to the board of Vencap. Would you not more properly address yourself to the board of directors or the management of Vencap only if you're a shareholder? You did clearly establish the arm's length aspect. You are a lender. It seemed to me that a few moments ago you were advising one of the members to address his concerns, whatever they may be, to the Vencap board as a member. I just wonder whether the member shouldn't also be a shareholder before he does that, because if he's a

member perhaps he should refrain from doing that.

MR. PLANCHE: Thank you. Mr. Chairman, as soon as I answered the question I saw some motion over there in terms of bolt upright sitting. I had presumed that all members had availed themselves of this marvelous opportunity to invest in Vencap and that they therefore would be shareholders. You certainly are correct; as a shareholder you should direct the question to a director either in writing or at the annual meeting.

MR. MUSGREAVE: Mr. Chairman, I don't have a question. I just want to sort of reassure the minister that in raising questions about Vencap, what I was concerned about was that they're perceived, in my mind and in the community, not to be in tune with the Alberta way of doing things; they are ultraconservative, and let's get them off that kick. That was the thrust of my message to the minister.

As far as looking after the \$44 million and investing the \$200 million, I don't think anybody has any quarrel with that. I just want them to be out there in the marketplace helping these companies get going.

MR. COOK: Mr. Minister, we'll attack petrochemicals in a different way. The white paper contemplates the creation of an international business institute. I presume it would be used both to study and research market opportunities for us and to teach young people about market opportunities. Could the heritage fund fund such an institute? Also could such an institute look at things like bilateral treaties on petrochemicals, to try to open up new opportunities for a growing and exciting part of our economy?

MR. PLANCHE: That's an interesting idea. As I perceive it, the international business institute would give our people in commerce an opportunity to have an immersion course in the brand-new horizons of markets in Asia. The countries in Asia all operate differently. Some are as far towards the free-market side as it's possible to be, and others are entirely state economies. They don't have a background in Roman contract law. They have a much longer history than we do. They do business in a different combination of labour, management, banking, and government than we're accustomed to. Their folkways and mores are very much different. Their expectations are very much different. I think we are positioned to have a tremendous advantage in marketing in Asia but for the fact that I don't think we know how to do it well. I envisioned this school not as a degree-granting school, because of the ramifications of that, but rather as a meeting place between representatives of our customers and representatives of Alberta business who could meet and be lectured by experts in the field of international commerce in Asia, a basic course in linguistics and, I guess, primarily to establish solid relationships with people in Asia on whom they might rely to give assistance when they arrive there, not unlike the Banff School of Advanced Management, which creates that kind of environment. I had never considered it as being a focal point for specific activities like bilaterals. But when you think about it, it makes very good sense, although I think that

kind of activity could now take place, under a different flag, without the auspices of this kind of school. But I have no hang-up about that issue.

The whole idea of a total immersion course for our upwardly mobile trading private sector really appeals to me, because if we don't do it I think we're going to miss an opportunity. The Americans have a very strong edge over us because they have a military presence in Asia, and a lot of their children who are now adults served in military service there. They have a fairly good awareness of the marketplace. The New Zealanders and Australians, who produce very much of the same things we do, are totally dedicated to that market. We are not. We are still perceived as an Atlantic nation. We are still perceived as highly protectionist, particularly in the value-added goods that we must import if we are indeed going to export, and we don't yet have a national will to belong to the Asian community. Because of that, I think it's essential that Alberta take an initiative that will propel our young, upwardly mobile business people into a position of advantage.

MR. COOK: Supplementary question, Mr. Chairman. Do you think the school would act as a repository for information for trade missions, gathering information ideas and sharing them with other business people so that in an organized way we learn about trade opportunities, bring back ideas, and share them with people who can take advantage of them?

MR. PLANCHE: That's certainly an excellent idea. It would be very important that the people who were doing the instruction were contemporary in that regard and well versed. I presume that business people would also be lecturers, but it's an excellent idea.

MR. COOK: I'm still going to try to work in petrochemicals here. I think we have a tremendous opportunity in the next round of expansion of petrochemicals because of the position we have in the Pacific Rim area and our competitiveness, as I understand, even down in Chicago now. Is there a way for us to try to make a gesture to the petrochemical industry so they appreciate that we're interested in participating in the next round of expansion?

MR. PLANCHE: Let me put it to you this way. You have to break the petrochemical thing into two sectors: one is ethylene based and the other is nonethylene based. The nonethylene-based petrochemical sector in Alberta includes fertilizers and methanol. The fertilizer industry has done very well since the PIK program in the United States was abandoned. Because the cheap gas contracts in the U.S. are almost at an end, the cost of nitrogen is escalating very quickly in the U.S. Except for nitrogen that comes from Russia and Trinidad up the Mississippi, which is now the basing point for fertilizers, we're very competitive in the midwest. I think the outlook is certainly better than it's been in a good long while. Methanol is a world glut, and not much can be done about that.

On the ethylene side, the players are all signatories to private-sector contracts that we would

be forced to break. We wouldn't break those unless we had the acknowledgment from the natural gas industry, who are the suppliers and who would bear the brunt of a cost disadvantage by the breaking of those, that it was essential to do it. We've been working diligently trying to get those two to come to an accommodation on the long-term benefits of doing that.

The really serious impediment we look at right now is that the natural gas industry is the only industry in Canada that's faced with feedstock taxes. The taxes are on the front end, not on the profit end. That includes all those alphabet soup things of the federal government. If there was an acknowledgment that value added could come because we had cheap, available, market-responsive feedstocks, then the federal government would accrue the benefits of higher tax at the corporate end. That has to be the first move. There should be a market-responsive, nontax-loaded front-end feedstock. That's the environment we were in when construction started on these. When that returns, I think it makes sense to continually monitor whether or not additional feedstock considerations need to be made. But first of all, the Canadian ownership charge, the PGRT tax, and the petroleum compensation charge need to be taken off feedstocks for industry — and that's all industry in Canada.

MR. NELSON: Mr. Chairman, I was going to deal with a different issue until Vencap was raised again. The minister has identified, and it's alluded to in the Heritage Savings Trust Fund annual report, that the government is a hands-off operator as far as Vencap is concerned and that the money that has been turned over to them is on a loan basis. He's indicated that I should direct my inquiries directly to them. I may have misunderstood that he suggested to the Member for Edmonton Whitemud that not being a shareholder — which I am not, other than the fact that I'm a taxpayer and, as that taxpayer, I have loaned the money to that outfit — maybe I should stay away. I'm getting a little confused considering that as the political mouthpiece, I guess you could say, for 75,000 to 80,000 constituents, from whom I have had inquiries and I take the heat, should I not have the opportunity to either re-place that heat to the directors of this corporation and direct my constituents to that, or should I be disappointing my constituents and do nothing as their MLA? Or should I have the opportunity, either through the graces of the minister's department or directly through the board of directors, to offer suggestions or complaints, whatever the case may be, to get some action for those constituents?

MR. PLANCHE: I don't know how you would get action for constituents. First of all, in order for Vencap to respond to an initiative, it must make sense to them. After all, they are going to take an equity position. A lot of people are unwilling to give up a share of their business in exchange for the financing. But happily, your recourse is that I am a shareholder of Vencap, and I will be reporting not only your comments but the Hansard transcript of this meeting.

MR. NELSON: I appreciate it very, very much. I may have to write to them, but that may be another

matter.

On a positive note, Mr. Chairman, I guess we haven't discussed too much about the Prince Rupert grain terminal. Being that that's a very large investment by the Alberta government, the Heritage Savings Trust Fund, possibly the minister could update us as to how this project is coming along, what the positive results are, and when we may start producing some activity in the grain end there.

MR. PLANCHE: I was last in Rupert at the end of July, and I walked it from one end to the other. It's on schedule and has the opportunity to be on budget, depending on how a \$5 million dispute over who is going to pay for the rail trackage — whether it's the CN or Prince Rupert Grain — is settled. If it's settled in favour of Prince Rupert Grain, we will be on budget at some 280-odd million. If it is not, we will be over budget by about 2 percent. It's expected that there will be some sample grain in there late this fall to test the computer equipment, and that we would be shipping out of there in the first quarter of '85.

The terminal is very sophisticated. It is of course brand new and well considered by people who know their business. I think it will be a welcome alternative to Vancouver and, particularly now that the preponderance of commodities are going into the Pacific, will be sorely needed.

MR. NELSON: I'd like to thank the minister for that information, because I think that's just a super piece of participation by the government.

This leads me to one further question, Mr. Chairman. We talked about transportation, getting product to tidewater, as a major development issue for the province of Alberta. Discussions have gone on with regard to container terminals, utilizing the American railways, and developing some other mode of transportation within Canada. I'm just wondering how the government, and maybe the minister, could address this issue of transportation by utilizing either Heritage Savings Trust Fund moneys or general revenues — of course we're dealing with Heritage Savings Trust Fund moneys here now — in developing a transportation mode that would be competitive, or have the ability to become competitive, or have the railways become more market oriented in delivering their produce than the case is now, so that we can remain or become more competitive within the Pacific Rim or other areas of the world.

MR. PLANCHE: If I understood, Chairman, the question was: can truck be made the alternate mode to ameliorate rail rates to Vancouver?

MR. NELSON: If I might just add, Mr. Chairman, there may be other manners; for example, push grain to the coast by using a pipeline — airflow, water, or whatever the case may be. There are all kinds of different alternatives.

MR. PLANCHE: Okay. The first one, of course — if you're competing truck and rail, as I indicated before, right now truck almost travels on a free highway. I think the return on a highway is something like 18 percent over its life. So you almost have the best you could have in terms of infrastructure for truck. That may be improved a little by grades and turns

and stuff, but essentially it's so high relative to rail for long distance heavy tonnage hauls that I don't think it has much potential.

The Alberta Research Council has done extensive work over the years on transportation of grain through pipeline, but again, as long as a rate published is below compensatory, you can't have market economics on alternate modes for grain.

In terms of coal we have done extensive work and have pledged considerable money to the development of a coal slurry pipeline. Indeed we are jealous of our freshwater and are not prepared to use water as a carrier without cleaning it at Vancouver and shipping it back. But there are alternates, like methanol. We now have considerable data collected on coal/methanol slurry. Unfortunately the slurry is not now competitive with the present world price of oil, but it's very close. We think there is a future for coal pipelining with the medium methanol.

MR. MARTIN: Mr. Chairman, I just want to follow up on the purpose of our committee and reports that come out of it. I'm referring to the report of the standing committee that was released to the Legislature on November 1, 1983. Of course most of the ones I brought up were turned down, but 14 recommendations came from the committee. I guess I'm curious, Mr. Minister, and we have you here. There are two I would expect to sort of fall into your department. One is 9, Economic Diversification. It basically says that we should participate and diversify "the province's two renewable base industries — agriculture and forestry." That's rather broad, and I'm sure that's ongoing.

But the one I would ask some comments on, to see if our committee has any influence at all, is High Tech Research, where it says

That funding from the Fund continue to be used to further Alberta's efforts in the areas of research and development. Research and development should focus on electronics, computers, science and space technology. As a province we should endeavour to attract the finest scientists and companies into Alberta with the creation of high technology jobs as the objective.

My question is twofold. When these reports come out, does the minister take this back to his department? If so, what has happened as a result of that recommendation?

MR. PLANCHE: The answer to the question as to whether or not those go to the department is yes. On that specific one, I can't relate the status of the electronics industry or the high-technology industry with the anniversary of the report, but I'm happy to give you a perception of it as I see it.

In conjunction with Bell-Northern we have worked on a prioritized list of activities that clearly make no sense for the private sector to become involved in but are necessary as infrastructure for the electronics industry to catch up around here, remembering that we have no defence presence from which they can draw competitively, nor do we have any foundation money. We have a high-technology electronics test centre — it's not in place, but the funding has been approved and it is now under construction — which will permit electronic devices

to be tested for certification for insurance and use, and tested to destruction in hostile environments in a lab setting, so that we never again will have to send stuff out of the province in that sector.

We are working on an electronic information centre that would make available to anyone in Alberta a full library through the telephone network. We are involved in funding, through the Alberta Heritage Savings Trust Fund medical research, a lot of the equipment necessary to further that kind of activity within our universities. Indeed, at last count I think there were 19 world-class scientists and about 1,000 people working on R and D at the U of A, and slightly fewer working on it but more world-class scientists at the U of C, primarily in the medical range. If my memory serves me correctly, it was in the area of 40.

We have attempted to reverse the Alberta Research Council from a basic research more to an applied research. If you read the white paper carefully, you will see the direction we think the Alberta Research Council should take in this activity.

The remaining difficulties are primarily ones of how to distribute finance if it's required, who will sit in judgment on the quality of the initiative, how the response time can be shortened, how we can interface with the university and the business community so that technology can be transferred without damaging the integrity of those who must publish or perish, because in no way do we want to work an injustice or a deterrent to attracting world-class scientists, and finally, the issue of technology transfer in its very real sense and how to accomplish it. That, to the best of my information, is a world problem.

We are also now requesting from the federal government some kind of prior position on our access to the activities with the F-18 at Cold Lake as they would affect our businessmen and scientists, rather than that activity automatically being done in Ontario. In other words, we see that as a possible focal point for spin-off activity.

We are becoming world-class people in mobile communications, as you know. We are still fighting the Patent Act, so that we can open up an opportunity for the pharmaceutical industry to progress and grow here, and have made representations to the federal government in that regard on many occasions, including a representation to the task force that's now sitting in judgment on the merits of change.

I think I've wandered off the point.

MR. MARTIN: I realize the question is rather broad. Let me just go back, following up, though. One of the comments you made is that in terms of economic development in the province we have to look to our own natural advantages and do what we do well. I tend to agree with that. But I guess that high tech has become a sort of code word for many different things. My question to the minister is: is this an area generally where we would have these natural advantages we talk about, or is what we can really do in this area — because of our geography, money, population, and all the rest of it — overemphasized?

MR. PLANCHE: We've always had detractors because of the statistics in terms of the value of oil

and gas as compared to everything else. As the value of oil and gas increased, it continually represented a higher percentage of our gross provincial product. While that was happening there was a real, amazing growth in electronics activity in this province and in some high technology. It really is an indigenous industry, because when we were resource hunting in the Arctic we were driven to ingenuity in terms of transportation, communication, portable housing, and metallurgy. Our sour gas problems have caused really dramatic breakthroughs in the handling of metallurgy and the sour gas problem.

I think it would be fair to say that we are becoming world leaders or are world leaders in oil sands technology. As a matter of fact, AOSTRA's record of expenses in R and D in Canada is second only to the CANDU reactor, and is showing considerably more results in technology transfer and activity in foreign countries.

So you're right when you say that the catchword tends to cause people to envision the whole spectrum of activity. I think we're zeroed in on enhanced recovery, oil sands, metallurgy in terms of source gas, communications, hostile environment transportation, clothing, and housing. More lately we are becoming internationally renowned for our computer software technology and a lot of other computer-related activities out of the U of C, and medical-related activities and some laser activity out of the U of A.

I think that basically covers the subsections within what you would call high tech, where there seems to be maximum activity.

MR. MARTIN: Just to follow up, Mr. Minister. Instead of a "high-tech" industry as such, you would see that our movement should be towards high technology to help our own basic industries and develop the best possible technology in that area. That's where we could be competitive in this whole area.

MR. PLANCHE: That's right, and that's essentially what's happening. The people have come from the basic industries. I missed agriculture, biotechnology and plant genetics, which is a very active part of both Alberta and Calgary universities. But there is no question; they spring from our basic roots, which are agriculture and oil and gas, and the necessity of developing ways of exploring for and developing those two basic industries. I think we'll stay with that. It makes sense.

MR. COOK: Mr. Chairman, I wonder if I could get in for a second round. The white paper calls for increased activity in biotechnology and in research activities in those areas relating to our agricultural base. Could the minister comment on whether or not it would be desirable to have heritage fund money set aside as an endowment fund, much like the medical research foundation has been set aside to do research in the pure and applied sciences, particularly in areas where we're interested, as you outlined in the previous question?

MR. PLANCHE: I guess there's a lot of crossover in biotechnology between medical and agricultural. My own judgment would be that there comes a time when you've had enough research in terms of the benefits

to Alberta and you now need to transfer that technologically, in some way, to where it has a commercial benefit and an employing spin-off. I think we should be wrestling with those issues in terms of what we're doing now before we do another foundation-style investment, although I don't have the wisdom to comment on whether or not that's really valid. But I do know that we're still struggling with the technology transfer issue. Until we solve that and have a very real feeling that research in itself is not the be-all and end-all for Alberta and can demonstrate the practicality of the investment in commercial terms, I'd be a little hesitant about doing one more.

MR. COOK: Mr. Chairman, at the back of the white paper, the science paper, it refers to a gap between the development of research ideas and transferring them to the marketplace. There is a funding gap and a time-period gap, I gather. Is there some mechanism for us to develop that would assist in developing ideas current at the university and running them through the mill to the point where maybe a vehicle like Vencap would be attracted to pick them up?

MR. PLANCHE: There is a split in the issue. First of all, on the commercial side, companies like Global Thermo, that we're involved in, have a fairly short time between conception and a marketable product. As soon as they have something that fills a market demand, it isn't too terribly difficult to find people to invest in it. It's the early term, when they are responding to their failures in the market, correcting them, and adjusting them, until finally they have a marketable product. But that's not a long term in that kind of activity.

The medical side, though, is very different. In the medical side you can be 10, 12, 15 years between conception and commercial application because of the regulatory bodies, like the Pure Food and Drug Administration in the U.S. and others. That area, if we're going to technologically transfer it to commercial application, is going to require help from the taxpayer simply because it doesn't have a present worth. The alternative is that it would be taken over by a foreign company at a bargain price and moved out of here for its exploitation, which is happening now. We are losing a great many interesting conceptual plans from our universities to foreign countries simply because we don't have the horsepower or the staying power to develop them over the extended period of time that's required. So if you're going to have an indigenous development of those products locally, you're going to have to have some financial support that isn't available now in the private sector, as I see. That's just a general comment. But there's a difference between industrial and medical in terms of the time frame required for technological transfer.

MR. COOK: Thank you.

MR. CHAIRMAN: Would there be additional questions forthcoming from committee members? If not, I have a couple I'd like to raise with you, Mr. Minister. A year ago this committee passed a recommendation with respect to the question of interest rates, and I wish to quote it:

That the Standing Committee endorse the use of monies from the Alberta Heritage Savings Trust Fund for interest rate shielding programs.

Of course, such has occurred. In that intervening time frame we've also had a white paper established, and the white paper has a number of comments. It says, again, that we should be pressing for a made-in-Canada monetary policy so that real interest rates do not choke economic recovery in this province. The white paper has a very, very interesting statement, and I want to quote it for you:

... new programs need to be considered to further assist Alberta's primary producers in obtaining necessary credit at reasonable rates to maintain and expand their operations.

As the Minister of Economic Development and as one who has drawn money out of the Heritage Savings Trust Fund, could you please share with the committee what your interpretation of the phrase "reasonable rates" is? Are we talking 4 percent interest rates, 6 percent, 8, 10, 12, 14, or what? What do we need in Alberta to sustain this growth and negate further impacts on the Heritage Savings Trust Fund?

MR. PLANCHE: First of all, they can't be in excess of what their international competitors are paying. You simply can't expect to overcome the disincentive of interest rates if you're facing the European Economic Community at subsidized rates or the equivalent of foreign EDCs. We've been in that kind of conflict trying to sell drilling equipment overseas, where there are attractive rates that we can't match. So we have to have a federal program of matching export rates to make it competitive.

The second thing is that in my judgment we have to be sure that industries that are either leveraging beyond a normal ratio because of financing that's available or venturing into something that's in the public interest are at least afforded an opportunity to have banking rates that don't take them into second, third, and fourth mortgages, and all the rest of that, that don't make them competitive because of interest rate pressures. I don't really know how you do that. We have got involved in bank guarantees that cause people to have the best rate available from commercial banks. Maybe that's the right way to do it, but we will be interested in some comment.

One thing for sure is that banking decisions are going to have to be made closer to the consumer than they've been made in the past.

MR. CHAIRMAN: The second area deals with commitments in the past of the Heritage Savings Trust Fund. We of course know the commitment we made to the Prince Rupert grain terminal and the purchase of 1,000 grain hopper cars. The white paper makes a very, very definitive statement, and I want to quote it:

Alberta must be willing to undertake major additional provincial initiatives to improve agricultural transportation efficiencies in the years ahead.

We've talked about that, and several members have already raised this whole question of transportation. I want to relate that to the meat packing industry in the province of Alberta today. We have used

Heritage Savings Trust Fund moneys in the past in such innovative concepts as the terminal and the hopper cars. Have you undertaken any studies to look at the need in this province today to build a world-class meat processing facility, perhaps along the manner and mechanism that was used in terms of financing the Prince Rupert grain terminal, where a group of competitors got together and formed a consortium, with seed money from the Heritage Savings Trust Fund to put it forward? Has the possibility of a world-class meat packing facility to be located in this province been looked at on that basis?

MR. PLANCHE: That's an initiative I've never been asked to respond to. I presume we would look at that as we do at others. But as I understand it, the issue of whether or not the meat packing industry has contemporary world-class facilities is only a very small part of the whole issue. The meat packing industry, both old and new plants, is in difficulty across the country and in the U.S. for a variety of reasons that aren't necessarily those of a physical facility. For that reason, we probably haven't had a group presentation to us on the issue. It may very well be seen, too, to be a countervailing issue in terms of export. We have long pressed to have bilaterals on beef into the U.S. If beneficial financing were offered to such an operation, it might be an impediment to access to the U.S. for our processed beef products.

The real issue in meat packing as I perceive it — and I can hardly tell you how little I know about it — is that, first of all, the demand for beef has fallen from 118 or 120 pounds to some 80-odd pounds per year. There's been a change in diet habits. There has been a very real difficulty in having the number of animals you need at the time you want to kill them. Finally, there have been work rules that have been negotiated and agreed to that don't lend themselves well to the killing of animals. There are also some freight anomalies and government subsidies, other jurisdiction subsidies, that have caused anomalies in the natural marketplace. And it may not be done yet.

MR. CHAIRMAN: Okay, sir. Thank you very much. Once again on behalf of all committee members, thank you for attending with us this fall. Hopefully we'll look forward to seeing you one year hence if all goes well. Take care.

MR. PLANCHE: Thank you.

MR. CHAIRMAN: Committee members, that will just about bring us to the end of this week's hearings. Just a couple of minor administrative items before you all depart for places of more interest. Just to remind you, next Wednesday afternoon we're meeting with Mr. Rogers, the Auditor General, and Thursday morning we're meeting with the Alberta Heritage Foundation for Medical Research.

There have been a number of members who have approached me with an interest — certainly the idea was contained in our organizational meeting — in having a one-day field trip to Kananaskis Country. I'm going to ask our committee secretary to contact all members in the next several days and come back

with a confirmation of interest. Perhaps the dates we might want to look at would be Wednesday evening, September 19; we gather in Calgary, and on September 20, which is a Thursday, we would embark from whatever hotel we're staying at and spend the day in Kananaskis Country, and then return on the evening of Thursday, September 20. Should additional members want to stay over to the morning for additional overviews of the infrastructure in Kananaskis Country, that could be provided on an optional basis. Perhaps in the next several days you might indicate your interest to Miss Conroy, whether or not you can attend at that time. If it's not a suitable time, we'll simply have to make another alternative.

In this morning's meeting, one member indicated there might be some interest for members to whip down to southern Alberta and overview the irrigation system. Perhaps that is one we would take under advisement and get back to all members at a later time. As well, the time frame for perhaps looking at Prince Rupert would be at the conclusion of the fall Legislative Assembly, perhaps the last week of November or the first week of December — but again, depending on your interest.

MR. NELSON: Mr. Chairman, don't forget Paddle River.

MR. CHAIRMAN: Paddle River, yes. I'd be delighted to welcome you out.

MR. NELSON: I would certainly like to recommend that we visit before that project is concluded, to examine all the exciting things and talk to some of the engineers on site.

MR. CHAIRMAN: We'll add that to the list as well. Thank you very much. An administrative detail with your own transportation to and from Edmonton and your overview here. Kindly come up and Miss Conroy will provide you with . . .

MR. ALEXANDER: Mr. Chairman, do we need [inaudible] to overview the infrastructure of the dam?

MR. CHAIRMAN: That would depend entirely, Mr. Alexander, on whether or not there's any interest in that venture.

[The committee adjourned at 3:15 p.m.]

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