

[Chairman: Mr. Kowalski]

[2 p.m.]

MR. CHAIRMAN: Good afternoon, ladies and gentlemen. Welcome to another meeting of the Standing Committee on the Alberta Heritage Savings Trust Fund Act. We have appearing before the committee today the Hon. Peter Lougheed, Premier of the province of Alberta.

Sir, may I welcome you on behalf of all the members of the committee. If you would like to make some opening comments, please proceed; if not, then we'll go to questions from committee members.

MR. LOUGHEED: No opening comments, Mr. Chairman.

MR. CHAIRMAN: Then we'll proceed in this order: Mr. Zip, Mr. Martin, Mr. Notley, Mr. Moore, Mr. Hyland, Mr. Nelson.

MR. ZIP: Thank you, Mr. Chairman. In my opening remark I'd like to state briefly my discovery, on coming on this committee, as to really how much the heritage trust fund does. I'm not only amazed but pleased at the accomplishments of the Alberta heritage trust fund in that short span of time.

The question that comes to my mind, though, is the extent to which, in view of the financial difficulties that governments across Canada are experiencing and the higher interest rates they're facing, the Alberta heritage trust fund helps to maintain our province's AA rating, thereby helping to reduce the cost of our government's financing.

MR. LOUGHEED: I'm not sure that I fully understand the question. We of course do have a triple-A rating for the government of Alberta, or have been in the position that if we had sought any external debt we would have received a rating of that nature, which is our assessment of the circumstances. Quite clearly — again I'd be speculating, Mr. Zip, but I believe the presence of the Alberta Heritage Savings Trust Fund, the income that's earned from it and the asset position of the fund, would contribute, I think it would be fair to say, in a significant way to the triple-A rating position, or potential triple-A rating position, of the government of Alberta.

MR. ZIP: Thank you, Mr. Premier. Another question that arises in my mind is the present conference taking place in Calgary and some of the predictions it has brought out on world oil demand and also a prediction of a generally weak outlook for oil prices over the next five to six years. What position does this put the future of Alberta and its heritage trust fund in over the near term of, say, the next four or five years?

MR. LOUGHEED: I suppose that brings me into trying to respond to some sort of forecast of world oil pricing. That's a very difficult matter, and there's a wide range of opinion. The advice that we receive from a number of sources indicates a probability of stability of world oil pricing. The assessment though is that in the short or intermediate term, the price of crude oil on the world market is not likely to grow with inflation, perhaps not until some three to four years have passed.

The offsetting factors are that non-OPEC supply is just about to peak, and as a result of that there will be a shift. The conference in Calgary, as I understand it in discussing it with the former minister yesterday, noted that the supply situation would shift, so that five countries, I believe, would be involved in controlling the basic surplus in the world, which of course increases the strength of those companies that are large producers, in either sustaining or increasing the price. If that happens, I would think that by the end of the decade there are reasonable prospects for increases, above the rate of inflation, in world oil price.

Just as a particular statistic, though, I noted from the Petroleum Intelligence Weekly of September 10 that far from slowing to a crawl that many expected, growth in oil demand in the world's six largest markets sustained its fast pace and rose in all by a full 1.2 million barrels per day in the second quarter.

But it's quite right that there's quite a wide range of view. Our view in the government of Alberta, with the advice we get from a number of sources, is that the probability is stability in world oil pricing over the course of the next few years, perhaps somewhat less than inflation. If that is correct, then to focus it in terms of the question of the Heritage Savings Trust Fund, it would seem we could look to about the same position of revenue flowing into the fund as we have in the year ended March 31, 1984.

MR. ZIP: That's fine. Thank you.

MR. MARTIN: Mr. Chairman, I would like to talk to the Premier about the philosophy, if you like, of the heritage trust fund. My understanding is that when it was brought in, there were sort of two main focusses, one being the big sock if you like — we'd save it; a savings account for a rainy day. The other of course was diversification. I think many people might say that the rainy day is here. In some cases it may be hailing. Today at least it's snowing. But I think Albertans are asking this question, and I'll ask it for them of the Premier.

With the small-business bankruptcies, farm bankruptcies, unemployment in this city over 14 percent, the home foreclosures — I'll come to that specifically — is there any change? When we discussed the role of the heritage trust fund in the past, it seemed we were swinging less from the diversification goal more to, if you like, the savings account. Because of the economic recession happening in the province, is there any change that the government may be looking at in terms of the role of the heritage trust fund? I guess what I'm driving at is: will there be more stress on diversification?

MR. LOUGHEED: Certainly that's been an ongoing debate in the province as to the role of the Heritage Savings Trust Fund. It's always been our view, as I believe I mentioned a year ago in appearance before this committee and as the preamble to the Act points out, that it's essentially a savings fund, a Heritage Savings Trust Fund, to set aside revenues from a depleting resource to be used — to use the expression I've used and which you used in your question — for a rainy day.

We certainly have responded to that in a number

of ways by using the fund in that way: one, by the Alberta economic resurgence program including the interest shielding programs, and secondly and more completely, by shifting by legislation the revenue of the fund to the general revenue account to avoid increases in taxes or significant reduction in services. So today there's no question that the fund is meeting the objective of being a rainy-day fund to move us through this period of economic adjustment.

The second and subsidiary purpose — and this was reflected in an amendment to the Heritage Savings Trust Fund Act to clarify the basic intent, where the Act referred to the amendment to strengthen or diversify the economy of the province, so that that was clear. There is a subsidiary or secondary role of the fund with regard to economic diversification. We see that showing up in a number of ways, but it is secondary. Some of the ways of course involve some of the capital projects division expenditures in such areas as irrigation, the Prince Rupert grain terminal, some of the programs involved with the Alberta Oil Sands Technology and Research Authority, certainly the medical research foundation, and in other ways. I think we've looked at the capital projects division objectives, not all the time but fairly consistently, as aiding economic diversification in the province. But as we noted in the white paper we released in July on an industrial and science strategy for the province, in most cases it isn't the expenditure of money that will create economic diversification. There's a broad range of other factors that are referred to in the white paper. We could indulge in a debate on the state of the Alberta economy, and no doubt we can do that in the fall session, although I'm quite prepared to respond to those questions if the hon. member wants to continue in that vein.

MR. MARTIN: Mr. Premier, just to go into the specific. I think we will hold that debate about the Alberta economy; I'm almost positive of it. But to try to keep it in terms of how the Alberta trust fund could help, I'd like to go specifically to one of the programs that I remember quite vividly. That had to do with interest shielding; the Premier went on television. I want to deal specifically with homeowners at this time.

I recall that recently, I believe at the end of July, there was a decision to continue interest shielding on a limited basis, for certain Albertans. It's my understanding that 70,000 people originally availed themselves of that program. They mention a little over 2,000 applications received by Monday. We seem to have predictions, even as recently as today by the vice-president of Strategics Ltd., who predicts that there will be 8,000 foreclosures this year, double the previous year and seven times the number in 1982. I put that in the context that many economists are predicting that after the American election, with the deficit in the United States there will be upward pressure again on interest rates. It's hypothetical of course, but there is a lot of speculation. I know the Premier is aware of that.

Tying it into this program, I would ask the Premier: if only 2,000 people have applied, are not the restrictions perhaps too great here, especially when we see what's happening with these predictions, with the number of foreclosures, and that perhaps the ceiling is too high at 35 percent? When you compare it to the Alberta housing subsidy program and to

CMHC, 35 percent is too high because it takes into account only principal and interest rather than the taxes, as the others did.

My specific question is: in view of the fact that so few people seem to be applying or are able to qualify, would the Premier reassess this program to see if in fact restrictions are too stringent?

MR. LOUGHEED: Mr. Chairman, on the question Mr. Martin raises, I think it's valid for us to watch that on an ongoing basis. I believe that member of the committee raised this with Mr. Shaben when he appeared before the committee. It would be our view to monitor it, to determine on an ongoing basis whether or not the provisions are adequate. At the moment we think they are, for a number of reasons.

First of all, at the time we brought in the interest shielding program we were of course talking about interest rates of 17.5 and up for home mortgages. Now, at least from the information I have, one year mortgages in the province of Alberta are between 12.75 and 13.5 percent in terms of mortgage financing. Secondly, when we look at the foreclosure question, although it's large and troubling and is one of the few statistics of concern — there are many on the other side — we're really talking about 2.7 percent foreclosures of the 300,000 mortgaged houses in the province.

We do have a law in this province — and I don't think Mr. Martin or others are suggesting we change it — with regard to the right of a lender to take action on a personal basis against a mortgage owner. I think that law has been sound in its conception. It's certainly not the view of the government that we change it. But we recognize that to a degree it is a factor in what has occurred. I think we're all aware that what has occurred is that the price and value of homes in a boom economy in this province escalated to the highest in Canada, and now they're adjusting. Many people think they have now settled to a particular level and that that level is more in accordance with what the value should be. But people have unfortunately been caught in this circumstance, and it's a circumstance that concerns us with regard to those individuals that are caught and are not simply walking away from an obligation because of the law of the province.

For that reason it's a matter of ongoing concern to us as to whether or not there is any unfairness or inequity in the circumstances, and we are therefore prepared to watch it on an ongoing basis, to monitor it, and if it is not adequate, to respond.

MR. MARTIN: Just a final supplementary question, trying to tie it together. While the numbers that you say are correct, I would say that if you go around, a lot of people who are keeping their mortgages are finding a great deal of difficulty now. My question had to do with what might happen with interest rates too. Also, people are walking away from mortgages and selling at very low prices. So the figure you gave doesn't tell the whole picture.

To come back to what we can do about it, I'm not particularly sympathetic to the banks, although I think there are things we could be doing there. But I'll leave that. You've said that the government will monitor the program you have, but is there any thought to use the heritage trust fund in a much more active way? We talk about diversification. I'm

talking now specifically about using it to stimulate the economy, to help Albertans to help themselves become successful by getting into low-interest loans, period. I'm talking specifically here, using the treasury branches as an example. If we could do this, if we have the money, I would see that this would stimulate the economy now, because it would help Albertans at this time, especially in view of the fact that interest rates could go up again. If they come down, perhaps all our problems are solved. But is there any thought about using the heritage trust fund in a much more active way, if you like, for low-interest loans in mortgages and other areas?

MR. LOUGHEED: We wouldn't consider it in terms of the Heritage Savings Trust Fund being used in terms of low-interest loans. We consider that that really is a part of our budget and also a part of the policy of the treasury branches, as well as other agencies. As you're aware, in a number of cases we already have circumstances in which we do in fact provide some significant saving on interest rates through Alberta government agencies, and we would continue watching and monitoring that situation.

If you're right with your forecasts — and I think we both hope you're wrong — that interest rates will rise dramatically post-United States election, obviously we have to reassess our position as to whether or not the current situation is adequate. It is our view that the primary situation in terms of developing jobs and economic activity in the province doesn't relate in terms of small business to the question of debt financing. It relates first of all to the markets. It relates to the question in the construction and real estate area that we have an excess capacity. It relates to the presence of equity capital, and it relates to the stability of government and the consistency of policy. These are the factors that are involved in our economic recovery.

We believe that all the signs we see are positive with the exception of the construction area, where we still have an excess inventory of apartments and office and commercial space that we have to absorb. Certainly it is our view that if the Heritage Savings Trust Fund could be used to create job activity, either immediate or in the future, that's an appropriate role for it to have. We have done that with a number of our capital projects division accounts. But essentially the policy direction you're referring to would seem to me to come out of our General Revenue Fund and our budget approach, because what we've done, as you're aware, Mr. Martin, is take the position that, for example, the agencies would finance from the Heritage Savings Trust Fund and then, if there are some interest incentives or low-interest provisions that are provided, they would be provided through the general revenue appropriations. We think that's the better way to go.

On the other hand, if your forecast came to bear — I don't think it will — and we saw a return of significantly higher interest rates, we'd have to reassess again whether or not we would have to go back to where we were in September [1982] with the interest shielding programs across the board.

MR. NOTLEY: Mr. Chairman, I'd just like to pursue this question of how we can make the fund effective in helping Albertans in this difficult time. Mr.

Premier, I note Recommendation 13 of last year:

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

As I recall, that was one of those rare recommendations that was made by everybody, both government and opposition members, a year ago.

I also note on page 15 of your white paper that you point out:

Consequently, real interest rates, the interest charged above a nation's rate of inflation, have remained at historically high levels.

There's no question that the interest rates are a little bit lower than they were in 1982, but then inflation was much higher in 1982 than it is today as well. You're quite right in your white paper when you say that the real interest rates are at an historically high point. So in my submission and in my colleague's submission, the problem that faces the Albertan is probably just as great today as it was in 1982. The real rate that they have to pay at chartered banks or lending institutions is at an historically high level, as you point out in your paper.

Bearing that in mind, I guess our question would be, first of all — you've decided to carry on the mortgage assistance program on a modified basis. However, you've dropped the small-business assistance and the farm assistance program. Given the plight of small business people and probably the very serious situation that even the agricultural statistics branch points out in terms of net farm income this year, why have we dropped those two programs?

MR. LOUGHEED: First of all, if I could respond specifically on the two programs, we've dropped them essentially because the need was no longer there in the sense that we had the small-business and interest shielding program working at an interest rate of 14.5 percent. At that particular rate, obviously we were in a different environment than we are today, when the prime rate is essentially 13 percent and, in most cases, loans to small business and to farmers are at a rate today on an average basis that wouldn't provide them any benefit under the structure of our September '82 small-business and farm interest shielding programs.

As I mentioned in my answer to Mr. Martin, we are also watching the future of interest rates. If they do increase — and I concur with your reference to the white paper that they're at historical highs. But having recognized that they are at historical highs, it's not our view that there is today a need for a small-business and interest shielding program. There may be in the future, depending on what happens with interest rates.

I have to take strong objection though, Mr. Notley, to the sort of implication in the early part of your question that the Heritage Savings Trust Fund is not directly — and I may be misconstruing the way you phrased the question — helping the citizens through this period of economic adjustment. The most important thing it's doing is that by putting \$1.5 billion into the General Revenue Fund from its income, it is permitting Albertans to continue to have the highest services with the lowest taxation. That's what the citizens want us to do.

MR. NOTLEY: Mr. Lougheed, we can argue that. Once we start talking about general revenue, we can look at all kinds of things, from trips to white sand to what have you. I think what is important is the basic question of the effective interest rate. I agree that the way in which the program was set up in 1982 had to be modified because of the downward interest rates. But the key point is that the difference between the effective inflation rate and interest rates is much too high, as your white paper points out. So why could we not have modified those two programs, given the almost desperate situation that small business people and farmers face? At least the people I've talked to in the agricultural community right across this province, whether it's in the south or the north, whether it's hog producers, ranchers, or grain farmers, are in real trouble. It seems to me that was a program that in fact could have been modified.

MR. LOUGHEED: Just a final comment on that. When we refer in the white paper to historical real interest rates, that's true. But when we look at the inflation rates we had in 1982 and the inflation rates we have today, that's part of our judgment of the individual's ability to cope. As you know, we now have our inflation rates down to well below the national average. The latest data has come in: Edmonton at 2.5 percent inflation rate. As you know, Mr. Notley, we were into inflation rates of approximately 9 to 10 percent at the time that program came into effect in 1982. So the individual small-business man and the individual farmer were faced not only with a situation of having to finance business and farm loans at 17, 18, sometimes even 19 percent but also with an inflation rate within the province at about 9 or 10 percent. Now we have a situation in the province of Alberta where we have inflation rates at 2.5 percent and interest or consumer loans at, say, 14 or 14.5 percent.

MR. NOTLEY: Mr. Lougheed, that may be true across the board. No one denies that there has been a very sharp drop in the rate of inflation, and we're all thankful for that. However, let me zero in, if I can, on the agricultural economy. I cite the statistics branch of the Department of Agriculture on farm receipts and expenses for this year. There's going to be a very tiny increase in income but a very sharp increase in operating expenses. Some of those operating expenses are due, sir — as a matter of fact, the other day the government made changes in the industrial assessment. In a couple of the improvement districts in my constituency, that will have the impact of increasing the mill rate by five mills on municipal expenditures alone. With an increase in operating costs, the fact of the matter is that this kind of program, the interest shielding program, is as needed today, in 1984, as it was a month before the last provincial election.

MR. LOUGHEED: That's debatable. I think we'll have good debate this session on the question of the machinery and industrial tax. If anybody is interested in jobs and plant location, they have to be very significantly positive to that decision. But I'm sure that will be a matter of debate in the fall session. It is not our view today that the response to the concerns in the agricultural community can be

resolved or can be best responded to by reinstating an interest shielding program. But as I said in answer to the previous question from Mr. Martin on the home foreclosure issue, we'll continue to monitor that situation. We'll bring a number of factors into play. One will be interest rates, two will be inflation rates, and three will be a general view as to where those input costs are increasing and whether or not there are other ways to meet the net farm income difficulties that are clearly there in the agricultural community. It may be the way to go, but there may be better ways to go.

MR. R. MOORE: Mr. Premier, I'm interested in the policy and the role of the heritage trust fund related to the agricultural sector of our business community. Mr. Chairman, I may refer a moment to the white paper, because it goes along with what my concern is. In that white paper, you say:

Future research should continue to focus on the applied needs of the agricultural industries.

MR. LOUGHEED: What page is that?

MR. R. MOORE: That's on page 20. It goes on to say:

Specific priorities related to maintaining and expanding soil and water conservation resources, to crop and livestock production and to agricultural processing . . .

and so on.

I'm very pleased to see that the white paper recognizes applied needs. This comes to the question of our research money and the direction we go with it, whether we should be utilizing and directing it into applied research or pure research or letting the chips fall the way the demand comes, especially in the agriculture sector.

MR. LOUGHEED: I'd respond this way. I think what we're saying in the white paper at page 20 is that we should put more emphasis on applied research in agriculture. To date I think we have a very significant basic research program, and that's been supplemented by the Farming for the Future program which, as you know, has been extended. I'd welcome the committee assessing that question in terms of recommendations, as to whether or not there should be a shift in emphasis or even an expansion of agriculture research. But let's be clear that we are talking about a more intermediate-term benefit that would flow from such a change of policy direction. Up to now the government has primarily been involved in basic agriculture research, with some exceptions.

As I understand it, Mr. Moore, your suggestion is that there should perhaps be a greater shift, pursuant to page 20 of the white paper, to more applied research for agriculture. Obviously that has to work very closely with the private sector and private-sector organizations. It's a very worthwhile question of debate for both the committee and the Legislature, and we'd welcome the views of the committee on that matter.

MR. R. MOORE: Mr. Chairman, on page 21 of the white paper it also says that "Alberta faces a major

marketing challenge for its agricultural products". The marketing problems we face are a major challenge for the agriculture sector. I would like to know if there is a role for the heritage trust fund in addressing this marketing challenge. Is there a role we should expand into or utilize heritage trust fund moneys to address this challenge?

MR. LOUGHEED: I can give a personal opinion. I think that's a matter for the committee to consider in its deliberations. It's my view that the more appropriate role for the Heritage Savings Trust Fund is in the expansion of commitments to research, either basic or applied. When you move into the area of marketing, that is more effectively dealt with through the ministers, the departments, the General Revenue Fund, and the basic appropriations that are involved in international marketing. I would therefore think that the real thrust in marketing comes not from the Heritage Savings Trust Fund but from the General Revenue Fund.

MR. R. MOORE: Mr. Chairman, along the same lines in the agricultural area, we know we have the Leduc food processing centre, and it's playing a major role in that area. Looking at the food processing sector as a whole, we notice it's an area that has great potential for us in Alberta. I'm wondering if we shouldn't be developing a strategy in the area of food processing and utilizing our heritage fund research money toward the challenge in the processing area.

MR. LOUGHEED: I think we should. I think it's one of the important opportunities we have ahead of us. That's one of the thrusts and one of the strategies of the white paper. For example, to sort of anticipate a good debate this fall in the Legislature on the question of industrial and machinery tax, one of the factors that constrain plant location in this province is that particular matter. That's why that announcement is so significant. It's not just for oil and gas or other areas. The agriculture community can obviously benefit by more processing here in the province of Alberta, obviously in addition to the job opportunities of people who are connected with the agriculture industry or farm families. So I believe agriculture processing, as our white paper indicates, is a very important area of new opportunity.

One of the keys still in my mind is that we should make a more determined effort in this province to analyze the import of food products, from the United States in particular, and look at those food products and say, could we not be having an expansion of that processing here? That's part of a Canadian industrial strategy, not just Alberta. But as you recall, the western premiers noted this point. We note it in the white paper, and it has to come in Canada. We have to start. I won't say which particular place I was in, but I was somewhat disturbed to find I was having a breakfast at which the honey came from Switzerland. There it was, by a state-owned corporation -- it wasn't PetroCan. All I'm saying is that the real opportunity for Canada and Alberta is: let's process more of our food products here and sell them. If you look at economic diversification in Canada and Alberta, that's one of the most promising areas.

MR. HYLAND: If I ask my question on irrigation

upgrading and the funding for it, I guess it won't be a great surprise to any of the members of the committee or the Premier. The question I want to ask is related to the continuation of funding for the upgrading, firstly on the 86/14 formula that upgrades the smaller canals. In view of the economic impact study that was done, which all members received from the Irrigation Projects Association -- I forget the right name of the study, but I think the Premier knows the one I mean. It showed the very important effect that irrigation upgrading of the systems has on the economy, not only in southern Alberta but all over Canada. Just to illustrate one project, the Forty Mile siphon, the two twin concrete pipes reinforced with steel, 8 feet in diameter, couldn't be made here; they had to be made in Quebec. So it's something that affects all parts of Canada.

I wonder if the Premier can inform the committee when he expects that announcement to be made. Indeed, will the announcement be made toward continued upgrading of the system, firstly on the 86/14 formula?

MR. LOUGHEED: Mr. Chairman, the question of the expansion of our irrigation efforts, in terms of both headworks and downstream facilities, is certainly something that's on the immediate agenda of Executive Council. I want to word this properly: as a witness appearing before the committee, I don't believe I should try to unduly influence the committee -- not unduly; maybe a little bit. But I do think the public response in all parts of Alberta, because of the drought circumstances in southern Alberta, is most appropriate for an emphasis and expansion upon irrigation commitment right now. If there were a priority the committee was considering, I hope it would at least look at the question of irrigation expenditures. I think we can probably move with some of those projects fairly quickly, Mr. Hyland, as I gather you're suggesting. Not only has it a job creating element to it but it also clearly has diversification and assistance to agriculture.

MR. HYLAND: That's exactly what I was suggesting. The upgrading will be finished, and I've been approached by some of the irrigation districts with the need to announce as soon as possible our intention to continue it, so they can budget. Of course it wouldn't surprise you if I sought and will seek your assistance and the assistance of the committee in the earlier construction of the Forty Mile reservoir.

My second question relates more to water management, relating to the construction of a dam on the Oldman River. At this point in time, where would you as Premier see the funding for the Oldman River dam coming from? The trust fund, general revenue, or just where?

MR. LOUGHEED: We haven't resolved that decision yet. I guess we don't have to for a period of months. I would be inclined to think that it would probably come from the General Revenue Fund, but it could come from the Heritage Savings Trust Fund capital projects division.

I haven't any doubt that the project is needed and is very substantially approved by the majority of the citizens in the province. As you know, Mr. Hyland, I was at the opening of the Dickson dam. That was of

course one of the best tests of circumstances that I've been involved in for some time. When you get involved in the Legislature and hear the debate, it's important that you use your best judgment and don't relate your decision simply to the noise you hear with regard to a matter. The Dickson dam was an important water management decision. I think the Oldman River dam is just as important, if not more so. We're proceeding unequivocally with that project, and we will treat the landowners fairly, as we did at the Dickson dam site. I just don't know at the moment whether it should be a project funded by the Heritage Savings Trust Fund or by the General Revenue Fund.

MR. NELSON: Mr. Chairman, Mr. Premier, for the moment I'd like to digress from the agricultural area to Vencap and the Alberta Opportunity Company in particular. Over the last few weeks I and a couple of other members have discussed with ministers the activities of Vencap and the Alberta Opportunity Company. In developing Vencap Equities Alberta Ltd., it was to offer opportunities for investment in capital projects in the province, or at least projects that had some risk evident. Over the last year plus, it is felt by possibly some of us that Vencap has not been proceeding in a manner to make an effort to diversify or encourage development in a manner that is maybe a little faster than some of us think they are doing.

I'm just wondering what your thoughts are and what your position might be with regard to the actual development of Vencap at the present time. Through your discussions, if you've had any with them, is there some manner in which we can better evaluate and have Vencap proceed in a little quicker or better manner in developing some jobs within the province with some investments?

MR. LOUGHEED: Mr. Chairman, obviously Mr. Nelson raises a very important question. In my briefing for today, I recall that that matter was raised last October in my appearance before the committee. Perhaps I could just quote from page 361 and then elaborate. I was asked about Vencap, and I said:

With regard to Vencap Equities, I think the Minister of Economic Development has made it clear that we have set it up on an arm's length basis from government and wouldn't be directing them what to do. That wouldn't preclude us from making suggestions of course. In the process of our assessment of economic strategy — and I'll elaborate more in two weeks — we're looking at the area of high technology and at our science policy.

I think the operative two words there are "directing" and "suggestions". We're not in a position and we've purposely not structured Vencap Equities in a way that we can or should direct them. I think that would defeat the whole purpose of the way it's structured, the investment of citizens involved, and the need to have people with a private-sector background making the decisions.

On the other hand, I don't see anything wrong with this committee or other legislators making suggestions in various ways. Frankly, it would seem

to me a reasonable public debate. If it's made as a suggestion, the officials, officers, and directors of Vencap Equities can then respond to the suggestion. I think that's a healthy public debate for the province.

MR. NELSON: Just to follow up if I might, Mr. Chairman, to the Premier. In your comments you indicated that the purpose for Vencap was primarily to endeavour to develop or at least invest toward high tech and materials of that nature. Of course the small number of investments is, I believe, three at the present time. One was certainly not in the high tech area. I believe it was a project in Grande Prairie. Is that something that may be suggested as being outside the terms of reference that were originally thought that Vencap would place an endeavour to?

MR. LOUGHEED: My recollection, subject to checking, is that we were purposely not that precise about the ambit of activity of Vencap Equities. We obviously expected them to be involved in circumstances where venture capital was needed both for diversification and broadening of the base of the province of Alberta and for opportunities, in a new and novel way, that would take advantage of some of the strengths we have in the province in terms of both resources and entrepreneurship. I do not recall that we were as specific to the area of activity they would be in as you refer to in your question. In the initial part of your question — I just want to clarify that what I was saying last year was that we would suggest to them that high technology is an area they should emphasize but not exclusively, nor would we direct them.

MR. NELSON: One further question, Mr. Chairman. A number of thoughts and suggestions have been going through my mind in the last number of weeks. Earlier on I know that Mr. Martin was dealing with housing and what have you. I've sent some suggestions to the minister, Mr. Shaben, with copies to you, hopefully to recommend areas where people can stay in their homes and also we look after the investment we have.

At the same time, with Vencap a thought came to my mind. I'm just wondering if the Premier could address the area of using the Heritage Savings Trust Fund moneys, for example, rather than using the \$200 million in an area such as Vencap, which is already committed — taking a similar amount of money and using it as an investment and a portfolio where revenues derived from that could be used as a tax incentive to attract businesses from outside or within the province to develop, and use it as tax holidays so that we might attract businesses without incurring high-risk capital from an area like Vencap or venture capital or even from using loan guarantees and what have you. Would that be an area we could consider using Heritage Savings Trust Fund moneys in, where the investment is there but there is a revenue situation used for that tax incentive?

MR. LOUGHEED: Mr. Chairman, Mr. Nelson's question really raises again the dilemma with regard to discussion and debate on the Heritage Savings Trust Fund. It seems to me that we must keep in mind that the basic purpose of the Heritage Savings Trust Fund is to provide a good income yield and,

with its transfer therefore to the General Revenue Fund, permit us to maintain our services without [increasing] taxes. You would not have to do too much calculation to consider what sort of increases in taxes would be required if we didn't have the Heritage Savings Trust Fund today.

The thrust of Mr. Nelson's questions, though, seems to me to be related not to the Heritage Savings Trust Fund but to a matter of the fiscal policy of the government. As we mentioned in the white paper, in the Tax and Fiscal section under The Proposals, there is merit for us — and I'm sure it's being discussed this very day in the forum here in Edmonton — to consider the question of corporate or personal income tax incentives that can help to create job activity in the province on a more permanent basis than can occur through public-sector funding.

MRS. CRIPPS: Mr. Chairman, my question is on the revenue aspect of the Heritage Savings Trust Fund. In natural gas exports to the United States, the freight is added on from here to Toronto, which makes it the Toronto city gate price. What is the government policy regarding making natural gas exports market sensitive?

MR. LOUGHEED: Our position — perhaps you did or did not get into it in the discussion with the Minister of Energy and Natural Resources, Mr. Zaozirny, in your committee deliberations. But perhaps I could review the natural gas export pricing situation.

On April 13, 1982, we announced in the oil and gas activity plan that we wanted to make a determined effort in consultation with the industry to develop a new pricing formula to sell our natural gas to the United States market. We then met with the industry over the summer of 1982. In September 1982, jointly with the industry, we presented an approach of market-sensitive pricing to replace the existing system, which arose when we were in a seller's rather than a buyer's market. Through 1983 and the first part of 1984, we worked very closely with the industry, not only with the associations but individual companies, and with the other gas exporting province, British Columbia, to develop a consensus position as to how that should take effect at the start of what is considered the natural gas year, if you like, which is November 1. Subsequent to when the Legislature was last in session, we were successful in gaining concurrence in that approach by the former federal government.

I believe it was about July 13 of this year that the natural gas export pricing policy of the federal government was presented. With only one exception, and that had to do with the Toronto city gate price, that policy followed the joint position and the consensus of the governments of Alberta and British Columbia and of the natural gas producing industry. I believe Mr. Zaozirny, in commenting on that, stated that he thought that was an illogical position taken. Perhaps it was in the federal election, but it was an illogical position that was taken by the federal government in that, clearly — if you can use an example in British Columbia. If you're selling your natural gas, you should be selling it on a pricing comparison between the two countries at the border in British Columbia and the border, say, in the state of Washington, and that shouldn't have any

relationship to the Toronto city gate.

It's not our judgment today that that's an urgent problem, because of the value of the Canadian dollar in relationship to the American dollar and other factors. But it could come to be one, and so we would hope that that illogical provision, the Toronto city gate limitation of the natural gas export pricing policy, would be removed. Once removed, we then have a policy that's fully in accord with what has been developed here in Alberta with the industry.

MRS. CRIPPS: Mr. Premier, you've made a couple of trips to U.S. centres to ensure long-term markets for Alberta natural gas. In view of the Heritage Savings Trust Fund's dependence and also the financial dependence of the province on sales, could you give us a comment on the medium- and long-term market outlook from your view?

MR. GOGO: And pricing.

MR. LOUGHEED: It's a very complicated subject. Let me try to respond in a summary way.

MRS. CRIPPS: John said, "and pricing".

MR. LOUGHEED: And pricing. I think the two come together.

We've gone through a difficult time during 1983 and 1984, but I think most of the difficulties are behind us. First of all, it does not appear that there will be legislation by the United States Congress that would be discriminatory towards import of Canadian natural gas. I think the prospects are very good on that. Secondly, although there are some qualifications to this, we don't see legislative action that would be aimed or directed at the import of Canadian natural gas by the legislative authorities in the United States. Thirdly, the response to the market pricing policy, that I just mentioned in the previous answer, in the United States has been generally positive. Obviously those on the buying side will say, as they have said publicly, that it hasn't gone far enough. But the information I have today is that it looks reasonably promising for the gas year starting November 1, 1984, that at the minimum we will sustain the markets we now have, with reasonable prospects to improve them in the year ahead.

If we look at the revenues flowing to the Heritage Savings Trust Fund by way of expansion of revenues, which I gather is the thrust of your question, the largest prospect for expansion of the revenues is in this area. We think that the United States' deliverability surplus, which is apparently there now, will dissipate within two to three years from now, and that the anticipation of that dissipation will lead to export contracts over the course of the next 24 months that will improve the position in terms of the sale of our natural gas. That also has to take into consideration the strength of the American economic recovery.

MRS. CRIPPS: My constituency is a diverse one and although I'd like to follow this up, my next question has to be in relation to your and Alan's discussion on irrigation. I agree with the continued support of the Heritage Savings Trust Fund in irrigation, but marketing, not production, is the problem. Aside

from the involvement of the Heritage Savings Trust Fund in the cars and Prince Rupert, which directly supports agriculture, have you any ideas for export marketing in which the Heritage Savings Trust Fund could be involved?

MR. LOUGHEED: That's really similar to Mr. Moore's third question. I believe there is considerable scope, as the white paper points out, for new initiatives and new strategies in marketing our agricultural products. But I do believe they flow not through the Heritage Savings Trust Fund but through the fiscal policies of the government and other actions of the government in relationship to appropriations under the General Revenue Fund.

MRS. CRIPPS: Thank you.

MR. CHAIRMAN: We've now come to that point on our agenda to hear from Mr. Alger, to be followed by Mr. Cook, Mr. Nelson, and four other members.

MR. ALGER: Thank you, Mr. Chairman. I thought you'd never get to me.

Mr. Premier, I can't help but think that we have — I was going to use the word "horrendous" again, but I won't — a fabulous amount of money invested in the Syncrude project, and I think we as a province are a participant. With the recent problem up there and so forth, we are losing a lot of production there. I suppose that's just part of the way things go, but eventually we should overcome that hurdle. I wonder at what time we quit investing in Syncrude and realize some profit, which would certainly be related to the earnings of the Heritage Savings Trust Fund.

MR. LOUGHEED: Mr. Alger, I'm puzzled by that. I don't have the figures at my fingertips, but my understanding is that in the calendar year 1983 there were very, very significant profits arising from the operation of Syncrude that flowed to the province of Alberta. You're quite right that the fire has been a very unfortunate circumstance. We don't have the final figures yet, because obviously we're not certain how many months the operation will be out of production. It will be significant. The only somewhat offsetting factor is that it happened to come at the very time when we were facing a unique circumstance of shut-in oil, which is not likely to recur. Here we were with a conventional shut-in oil problem in August. It was a very disturbing way to solve a problem, but that's what in fact happened. It's a rather unusual set of circumstances. By the shutting down of the Syncrude project, we didn't have shut-in conventional oil in the province, so the revenue flows continued to the province of Alberta.

I hope, though, that there's not a misconception with regard to the Syncrude project. Frankly, it has been a very profitable project in terms of our investment there, and will continue to be. I think what we have are very short-term, and hopefully not repetitive, circumstances of the fire in the cokers.

MR. ALGER: Thank you, Mr. Premier. With regard to shut-in oil and our availability to produce more oil, I can't help but wonder how long we plan on continuing to import oil into eastern Canada from various countries like Mexico and Argentina while we have it here in Alberta and could ship it there at, I'm

certain, a competitive price. I fail to realize why we continue with that program.

MR. LOUGHEED: That's an important question of Canadian energy policy. By the way, I was just able to pick up the fact that in '83-'84 the province of Alberta's 16.74 percent participation in Syncrude produced a profit of \$61.4 million compared to \$68.7 million in '82-'83, but still a very, very significant amount of revenue flowing to us from that investment. I know because I think there are companies that would very much like to buy an interest in Syncrude, even with the fire.

The point that you present has to do with the geography of North America, Mr. Alger. It's my view that what we need to have in terms of new Canadian national energy policy is to recognize the geography that's involved, and instead of force-feeding our oil into the Atlantic provinces at high transportation costs — and I believe we're importing into the Atlantic provinces and Montreal some 25 percent of our total Canadian needs. That figure varies depending upon demand, but in that neighborhood. And as you know, during '83 and quite a bit during '84, we've now been exporting oil from Alberta to the United States, not just the heavy oil but also some light and medium crude oil.

It's my view that we need to establish a relationship with the refiners and the government and the Congress of the United States, that looks again upon Canada as a potentially very significant supplier of crude oil to their country. They're still importing a considerable amount of oil into the United States from less secure parts of the world. If we can put such a policy in place bilaterally between Canada and the United States, I believe it would significantly improve the prospects not only for upgraders of heavy oil like the Husky project but also expansion of Syncrude and new oil sands plants.

One of the weaknesses in the present system is that the National Energy Board has an unworkable nomination system that precludes the effective marketing of our crude oil by way of export. I think all of that can change. Here we have a product from this province and from western Canada where there's really not a major marketing problem. If you're talking about the future of the country and the strengths of Canada, I can't think of a better strength than expanding our crude oil production in a significant way, because not only are we not meeting all of Canadian needs but we have a potentially very significant export market next door.

MR. ALGER: Thank you, Mr. Premier. Going by your very explicit answer, I've actually learned a little bit about the Husky oil upgrader but not really enough. I think it relates to my first question. How much money will we have in it, and what do we hope to get out of it? The Husky oil upgrader seems to me to be a little different project in that we're going more on the guaranteed idea of a loan. Will we actually be involved with the production, and will the heritage trust fund receive any moneys therefrom?

MR. LOUGHEED: I'm going from memory with regard to the project. Our position is a loan guarantee. I would therefore presume that because it's a loan guarantee, it's unlikely to involve the Heritage Savings Trust Fund but would involve the

general credit of the province. The project is very significant in terms of activity in our conventional area, because the project is not just the upgrader, Mr. Alger. It is the development of the heavy oil fields within the province of Alberta.

The estimates that we saw and discussed at the time of the announcement in early June were very significant in terms of activity in areas of the province such as Nisku and other areas which have really had difficulty in this economic period. The benefits will flow at least equally to Alberta as compared to Saskatchewan, even though the project is physically a few miles within the Saskatchewan border. It is truly a biprovincial project, one that I think has not yet been fully read in terms of its impact upon the province, because there's a time factor here. The activity should really be very significant next year.

MR. COOK: I'd like to focus my three questions on research policy, Mr. Premier. I'd like to ask my first question on agriculture. Current literature is now suggesting that major breakthroughs in production will take place largely from pure research, that while applied research may provide small incremental increases, any major gains will come from things like cell biology, the creation of new products, new strains of plants. I also noted a little while ago that there was an article in the New York Times that Dow Chemical has a \$250 million annual research budget in biotechnology. It's a quarter of their annual budget.

Is it possible for the heritage fund to try to focus on biotechnology and this area of pure and applied research that would create new opportunities for Albertans and perhaps solve some of Alberta's problems? There is some reference to genetic engineering and biotechnology in the white paper. Is it timely for us to target research moneys at basic agricultural research on a long-term basis?

MR. LOUGHEED: In my opinion it definitely is. There is a major question on the "how". Of course in this area we always have a problem of terminology. Mr. Moore made his case earlier, if I understand it, by the same reference to genetic engineering and biotechnology on page 20 of the white paper. He was making it on the basis of applied research. If I understand your thrust, Mr. Cook, you're saying it's really basic research. The difficulty here is — I think that's where the analysis is required, because you have to come down to the "how". Who is going to do the research, to what extent are you going to tie it to the private sector, to what extent is it in the orbit of basic research and to what extent is it applied, or can there be a mix of both?

I can't think of many subjects more important than the one we're on for an agricultural province like ours. I think this committee and others, including the scientific community in the province, should focus more on the "how". If the will was there to make the commitment — and maybe that's what the committee should consider in terms of its recommendations — maybe the task ahead of us for the province is to design a plan or a strategy as to how the funds should be expended, with whom, and under what terms of reference.

MR. COOK: Mr. Chairman, my second question

follows on the point the Premier was making. We had Mr. Eric Geddes and Dr. McLeod before the committee earlier, discussing the very exciting activities of the medical research foundation in the province over the last few years. I asked them a question as to the "how" — was that a suitable model for us to use for new projects? I wonder if you would share the view of Mr. Geddes and Dr. McLeod that the medical research foundation has been an enormous success in both bringing bright new minds to the province and taking existing researchers and magnetizing and energizing them to develop new products and ideas. Is that the kind of "how" you're looking for?

MR. LOUGHEED: Well, it's — let me choose my words carefully. There is no question that that approach seems to have worked well with the medical research foundation by way of an endowment fund. The question I think this committee has to wrestle with is, so to speak, what should be the next endowment fund of that nature that involves the scientific community? Maybe it should be in the area you're suggesting, Mr. Cook. But the question then is, where's the source of funding for an endowment fund that is sufficient to do the job you want to do? You have \$300 million in the medical research fund, and that's obviously working well. But where does the money come from? I suppose one source is: as the current capital projects begin to decline, there will be some scope. But we have to look at other requests that have been made to call upon the fund and say, where is the priority?

We have to look at the question Mrs. Cripps raised in terms of what is likely to be the level at 15 percent of funds for the capital projects division over the period of the next three to four years. I don't know. Maybe a good answer is to consider a second endowment fund in the way the medical research foundation has been established. I think the Legislature would welcome the committee's recommendations, even if phrased in a way that doesn't sort of create a time frame that precludes other projects that may have a more immediate impact.

MR. COOK: Mr. Premier, Mr. Chairman, I had an interesting conversation a couple of weeks ago with a youngster who is entering first-year university. He's excited about the medical research area, and he told me that with his 95 percent average coming out of high school, he thought there was a bright future in biomedical engineering. It points out that the research activities of that program are starting to challenge the very bright young minds that are coming up in the province.

I had a conversation with Dr. McLeod a little while ago, and he was suggesting to me that we need not only a research program modelled on the very successful medical research program but a development program. He was suggesting that there is a funding gap between the development of an idea in the lab — and he gave as an example the NMR scheme, the nuclear magnetic resonance equipment that's being developed. It's an imaging system that is much more sophisticated than anything currently available, and he cites that as an example of a tremendous success. But he argues that funding is not available to give a research team or a company

the potential of taking that idea out of the lab and marketing that new idea, that new product, worldwide.

I guess I'd ask as my third question: is there some scope for us in the science activities of the white paper and in the research activities of the Heritage Savings Trust Fund to provide those young engineers that are coming out of universities, people in the research labs, with scope to sell and develop their ideas to the point where a company like Vencap might want to pick them up?

MR. LOUGHEED: Mr. Chairman, I'm not sure if I am being asked a question or receiving a representation. I refer Mr. Cook to page 66 of the white paper. Wouldn't that be what an Alberta Innovation Centre would do? It says:

The Centre would provide assistance in product and process development; patent, copyright and licensing support; contracts; incubation facilities; industrial engineering; and commercialization of new products and processes.

Isn't that the role for the province? If it is the role, wouldn't such a concept warrant public funding? Now I'm making the representation.

MR. COOK: Mr. Chairman, with your indulgence, could I ask a supplementary question? I've asked three, but it leads directly to this.

MR. CHAIRMAN: I appreciate the fact that you've now grayed to the point in time where you referred to others as youngsters. But it won't be my indulgence; it will be the committee's indulgence, if they're prepared to let you go with a supplementary. [interjection] Then we'll go to Mr. Nelson, to be followed by Mr. Notley, Mr. Martin, Mr. Zip, and Mr. Musgreave.

MR. NELSON: He could have asked it, Mr. Chairman, but thank you.

I guess I would like to get into a couple of separate areas for this round, Mr. Premier, if I might. Alberta Opportunity Company is an operation through the Heritage Savings Trust Fund. We've had some discussion here with various ministers with regard to its mandate. Over the number of years it has been operational, it's actually loaned out over \$300 million and, of course, received much of that back through repayments of those loans. Of course now the amount available equates to approximately \$300 [million], but the amount actually loaned out today is something in the order of \$150-some million, which is a similar circumstance I guess as we put Vencap in and whether or not they're achieving their mandate.

I'm just wondering, and it was suggested by me a couple of times, whether we were to take the mandate of the Alberta Opportunity Company and offer it, for example, to the Alberta treasury branches and use that as a corporate umbrella to expand the mandate of AOC and also expand in particular the mandate of the Alberta treasury branches including AOC as part of that, so we would have a more wide-reaching opportunity to offer citizens of Alberta the opportunity to borrow money in a high-risk fashion.

I guess an additional part of that question is the

area of interest rates also charged through AOC, where they may charge a lower interest rate in a very light financial type centre in a rural area, whereas in the urban centres they might charge a higher interest rate — whether these could be balanced off with the risk of the particular loan.

MR. LOUGHEED: It seems to me, Mr. Chairman and Mr. Nelson, that that's really about three or four questions in one. If I understand it, the first question is: should the Alberta Opportunity Company continue as a lender of last resort? That's been our policy since the Opportunity Company was established. We frankly don't see any reason to change that. We think it's fulfilled its mandate well. Its mandate is certainly of a limited parameter for the province. But in what it has been asked to do, we think it's done well in terms of supporting those businesses in the province that were unable to secure financing from the traditional lending sources. Since it's been successful, I believe it would be a mistake to alter its mandate in any significant way and that if there are some perceived needs that are not being met, they be looked at, as has been mentioned I believe on page 68 of the white paper, with other agencies or other entities.

I suppose you do raise in the second part of your question the issue of whether or not the Alberta Opportunity Company should change its policy, which has been to direct its efforts more outside of the metropolitan areas. As an MLA from a metropolitan area, I can understand that submission. On the other hand, I think those who have been involved — and I'm sure you yourself — would agree that historically the people in the rural parts of the province have felt that their access to financial lenders by way of decision-making has certainly been less than that of those in the metropolitan areas. That was the reason we originally developed the mandate for the Alberta Opportunity Company, to emphasize its efforts outside of the metropolitan centres. I don't have the figures in front of me, but I do believe, and I know you know, that that has in fact happened, but not to the exclusion of loans within the metropolitan centres.

I suppose it's an open question and would be one that's fairly within the ambit of this committee, Mr. Chairman, if the committee wants to consider that the mandate of the Alberta Opportunity Company should change so that their lending efforts are equal as between the metropolitan/rural areas. I'd have to look around quickly to see whether you'd win that split vote or not. My quick reaction — I agree with Mr. Notley — is that he probably wouldn't.

The third part of your question had to do with the treasury branches. We mention in the white paper, again at page 68, "expanding the role of the Treasury Branches". As you know, Mr. Nelson, that hasn't met with uniform support across the province in the forums we've had. The expansion, which is interesting, is:

- attracting savings, possibly by increased deposits from major urban centres as well as rural Alberta;
- export financing [which is a very interesting new approach for the treasury branches] to support the marketing of Alberta products worldwide;

- merchant banking;
- loan syndication arrangements with other Alberta based financial institutions to accommodate larger loan opportunities.

So we're already presenting a series of moves for the treasury branches for public debate.

From the nature of your question, I gather you would endorse that new thrust of the treasury branches. I just have to say that those who've reported to me in the forums would say that others have taken a different position.

MR. NELSON: Yes, Mr. Premier, I'm sure they have in some respects, and I'm sure that will be an extremely interesting discussion in the future.

I would like to diversify my question to an outside area, regarding the policies of the fund. Is there a policy we might recommend that the Heritage Savings Trust Fund develop projects that might compete with other similar activities in a community or community-type project in any particular region of the province? For example, where we might place funding into an area to develop an urban park, would that park be developed or would a golf course be developed in a particular area that might have 11 golf courses in it in the rural setting? Would we recommend developing another golf course to either possibly enhance the community or create just a disturbance in competition with other similar activities in the community?

MR. LOUGHEED: My understanding is that the urban parks which have been supported by the Heritage Savings Trust Fund and by previous committees of the Heritage Savings Trust Fund have all been developed in close co-operation with the urban municipalities involved, and have been very well received. This summer I was at Red Deer when they opened their urban park with a tremendous amount of not only municipal but community support. So I'm having difficulty with the question, Mr. Nelson. That's been our approach. Certainly the two original parks, the Capital City Park in Edmonton and the Fish Creek Park in Calgary — and Kananaskis as well — couldn't have been done without our having the Heritage Savings Trust Fund capital projects division.

The urban parks were done at the behest of the larger urban metropolitan centres. They looked at it and said: here you have the two metropolitan areas with their parks financed by the heritage fund, you've had the ongoing provincial park program in rural Alberta, and we should have these urban parks. I think it was first presented to us at a cabinet tour in Medicine Hat.

So I'm a little puzzled by the question. I think it's pretty well always evolved with the municipalities.

MR. NELSON: I guess I asked the question based on a general policy because of a revenue situation that may have a concern in a particular region or number of communities, for example with a golf course situation. I'm not talking Kananaskis, because I think Kananaskis Country is probably one of the most beautiful things the government could have done. This sand argument that we get is such a red herring. It's unbelievable that anybody argues with that, because I think it's... However, I would like to possibly pursue that other area and the policy area

with you at another time.

MR. NOTLEY: Mr. Chairman, we'll stay away from the white sand at Kananaskis and move back to a question Mr. Alger raised about the Husky project, making reference to the Syncrude investment and the fact that this year we'll be earning \$61 million and last year \$68 million, a good part of which was a convertible debenture. Several years ago there was some discussion in this committee about when we should have converted that debenture. I won't get into that.

I guess my question to you, Mr. Premier, is simply this: in view of the fact that the investment has been a success as far as the fund is concerned, was there any consideration by either your government or the Devine government in Saskatchewan of a convertible debenture as opposed to guaranteeing loans? I raise that because by guaranteeing a loan, we encounter the risk but don't share in the ultimate profit in the way the people of Alberta do now through the Syncrude equity investment.

MR. LOUGHEED: That's an important question. My recollection of what occurred is that the Husky organization was of the view that from their point of view they were moving into relatively untried technology. They did not want, though, risk or equity investment by the governments.

To sort of respond to the nature of your question, we looked at it with a view to saying: if we are going to involve ourselves, should we insist on an equity investment in that project? We came to the view that we should not, for the reason that we felt that the available equity to us should perhaps be reserved for other projects; in short, that there was adequate equity for this project to proceed. If we used up our limited source of equity funding available to us, we might not have equity available to us in some other project where it would not go ahead unless we put equity into the project. That was the judgment decision we made.

As you know, Mr. Notley, we've mentioned in the white paper that, because of our experience in Syncrude, we should be prepared to get involved in an equity investment right at the start of a project if necessary to make a project go. I think you recall the history. That wasn't really what happened in Syncrude. We got involved in the equity in two segments, but they weren't right at the start of the project. So we made a judgment decision on Husky that it was going to go, could go through a guarantee, without tying up our limited equity sources, and that we should save, if you like, the capacity of the province to use equity in another project which would help in terms of job creation.

MR. NOTLEY: Given the comment on page 63, the Alberta Government should be prepared to use the Alberta Heritage Savings Trust Fund or other sources for direct equity participation in oil sands and other major energy projects, if necessary...

what specific consideration has the investment committee given to Recommendation 14 of the committee last year; that is, that consideration be given to selling debentures by Crown corporations? You indicated that there was a limit to the extent of

the funds available. That would be true, when one looks at the portfolio as it stands. On the other hand, one of the discussions we had a year ago in this committee was that perhaps more funds could be freed up for investment in job creation enterprises by selling on the market debentures in Crown corporations — not all of them, but some of the debentures which are now held by the Heritage Savings Trust Fund.

MR. LOUGHEED: My recollection of my briefing is that you raised a similar question with the Provincial Treasurer yesterday. It is true that the option is available for the investment committee of the fund to refinance some of the current investments of the fund in the Crown corporations, and then free up some funds for equity investments. That has to be balanced, though, with the fact that these equity investments are not going to provide, for a significant period of time, a return to the fund. In the case of Syncrude the investments were made through a period 1975 to 1979 approximately, and it's only recently that the fund has received the return such as the \$61 million which we were referring to.

So the judgment we have to make is this: if necessary to make a project go, then we have to find the equity funds to play the appropriate role that's mentioned in the white paper — where are the sources of the funds? Number one would be the development of our natural gas markets in a way that improves our financial position dramatically enough to permit us to put aside, either in the heritage fund or in other ways, sufficient funds to involve ourselves in such a substantial project. That would seem to me the best approach, if we find it working out.

The other alternative is to follow along the lines, which you're suggesting, of refinancing the Crown corporation investments we have. The difficulty with that is that we would then see a marked reduction in the amount of investment income that would flow to the General Revenue Fund. We would therefore face three alternatives: debt financing for the deficit of the province, increased taxation, reduced services, or some combination thereof.

MR. NOTLEY: Mr. Chairman, perhaps we can discuss this in the fall session. It would seem to me that one of the advantages — I think the Syncrude equity investment has shown that over the long run we can perhaps do slightly better. I think that is one of the things that could be underscored.

MR. LOUGHEED: I'm sorry. I didn't want to give the impression that I didn't agree with that. It was the question of the timing of the investment in terms of our overall cash requirement position.

MR. NOTLEY: Mr. Chairman, the final supplementary I'd like to direct to the Premier really relates to the kind of time frame Albertans can expect to this document and as it relates to our committee in particular. I gather we now have a task force of the government that is holding public hearings. We have MLAs who are holding meetings. We have the Official Opposition working on a counterproposal. We have the leader of the Independents going to hold public hearings. So we have quite a few people talking about industrial and scientific strategy for Albertans.

I'd like to know from you, as head of the government, what timetable you see in terms of putting specifics to this document, particularly as it relates to many of the proposals which will have implications for this committee.

MR. LOUGHEED: That's difficult to answer now, because we have put out a white paper as proposals and we have to assess the responses of the citizens, many of whom are, as you mention, either individuals approaching MLAs or organizations with the forums, or in other ways. There'll be quite a process of time that will have to occur here to distill the input we've received. We did it as a white paper for the very reason — which was unique, I think, among provinces — of giving input on industrial and science strategy to the public at large. So I have difficulty in answering a very appropriate question of timing.

It would be my guess that, as you note, we're not intending to sort of respond to the white paper with one overall document. We think the overall document is this one and that we would have a series of position papers of the government in areas such as international marketing. What we're not sure of yet is the number of those position papers, the sequence of them, and because of that, obviously the time. We realize that in most cases, not in all, there are three steps here: one, the white paper; two, the position paper; and three, the actual implementation of what's involved. The actual implementation of the centre I was just referring to in my exchange with Mr. Cook is obviously a third step. But I just can't answer that question right now.

MR. MARTIN: Mr. Chairman, just to follow up on our first exchange and try to tie it into the future with the white paper. As I understood the Premier, he indicated — and he will correct me if my interpretation is wrong — that use of the heritage trust fund in the future, for example in the next five years, will basically follow the same lines as before, that being primarily a savings account, if you like. With the white paper, Proposals for an Industrial and Science Strategy for Albertans, obviously the government saw a need, as it says at the start of it, to relook at what was happening in the province.

My question is: does not the white paper indicate that perhaps the primary goal of the trust fund might have to switch to one used in a more active way for diversification, for lack of a better term?

MR. LOUGHEED: I guess the difficulty I have with the question is the word "primary" goal. If the financial position of the province improves significantly, so that we no longer need to allocate the investment income from the fund to the General Revenue Fund to avoid either tax increases or service cutbacks, then it is possible that we can shift to the rainy-day concept, the umbrella of savings, if you like, to a more direct investment. But when we reach that stage, some will no doubt argue that the fund still should retain a position of protection by way of the umbrella for the future if something else happens, such as occurred in 1982, '83, and '84.

On the other hand — I'm struggling with the word "primary" — it is true that if we are in the position with regard to the fund, either by improved natural gas revenues or for other reasons, that we can have funds available for certain directions, we should try

to do that. In the course of this hour and a half, Mr. Martin, I think we've identified four or five of them. Mr. Notley mentioned the reference in the white paper to an equity investment in oil sands. Mr. Cook mentioned an endowment fund that may become involved like the medical research foundation. Mr. Hyland, as we expected, has suggested developments and expenditure under the capital projects division with regard to irrigation.

So I suppose it's a matter of degree. At the moment we're constrained. But it is anticipated by the white paper that if we can control our expenditures reasonably, the fiscal position will improve enough so that the secondary activity of the Heritage Savings Trust Fund, in terms of economic thrust, such as through the capital projects division, may be able to be expanded, but not at the expense of maintaining the umbrella of financial security that we need.

MR. MARTIN: Just to follow up. Again, with our resources dependent on the world market and specifically what's happening with OPEC, I recognize it's hard to judge. But I guess the argument some might make is that basically we have \$11.75 billion if you take the deemed assets away, which we can't use. If we don't use it as a diversification tool . . . I go back I believe to one of your speeches in 1974, when you said we had approximately a decade to turn it around or we would be facing serious difficulties if we didn't do something to diversify the economy on a more renewable basis — something along that line. If we're not using it primarily to diversify the economy, to create employment, jobs, industries for the future, is there not a point where the heritage trust fund will actually start to lose money and be of less benefit?

Even last year, the last year that we have reported, the actual gain into the trust fund was only \$400 million. It was \$700 million, but \$300 million were expenditures of deemed assets. I think that's the problem that people are having, trying to determine how best to use the trust fund for the future. I guess the point I'm at least questioning is that if the primary goal, if I could use that, shouldn't be diversification, we may not have anything left in the 1990s.

MR. LOUGHEED: Two or three responses to that question. First of all, when I made those remarks in 1974, the advice we were getting with regard to our oil and natural gas reserves was very pessimistic, but two things have occurred. First of all, with regard to the crude oil position and also the technologically proven position of the oil sands since 1974 — and I refer you to the white paper on the positive developments since 1971; this is mentioned. For example in 1983, to my surprise frankly, we found that we improved our reserve position of conventional oil rather than had a decline. So since I've been in office, we are warned every year about the decline in the conventional oil reserves, but surprisingly — here we are in 1984 — they're not coming down in the same degree we thought they would.

The other area of natural gas is even more dramatic. I recall from briefing that Mr. Notley and I had an exchange last year on some report that he was involved in and referring us to that had completely missed, as the white paper noted, the

startling position we have with regard to natural gas discoveries and improved reserves. So that's the first change that has occurred since 1974. We're in a much stronger reserve position of oil and natural gas.

The second matter is much more complex, and that is the view that in almost all cases throwing public money at a particular situation is going to be the answer or the solution to new economic activity. In some cases it will be. To a degree that's what the capital projects division is structured for, but not in all cases. If you look at some of the suggestions and ideas in the white paper, some of them will require funding. I think a fair question, that I'm sure you and others will debate with us as we move through this process, is: what are our priorities going to be on the industrial strategy if there's a limited amount of funding of public money available? That's going to be a tough question for us to deal with.

MR. MARTIN: To come back to a specific point about the oil sands, you point out that technology has certainly been enhanced to where that makes it more feasible. But even at this stage — witness what happened with Alsands — I think we still depend to a large degree on what happens with OPEC. Of course nobody can predict that precisely; it could go either way. I guess that's my point. I think it's going to stimulate — I've always said this; it won't be any surprise to the Premier. There will be a mixture of public and private.

It comes back to one of the things Mr. Notley was talking about, which — I guess I'm trying to read how much we'd go into it — has to do with equity participation in oil sands, page 63, where the government says they are prepared to do that. I certainly have no quarrel with that, coming back to what we've been talking about. But we hear some of the right-wingers baying at the committees as they're going around; how much of a socialist this government is going to be. In other words, when we talk about equity, it can be between going ahead with zero percent, which I'm sure the government would like with the private companies, up to the other range of 100 percent equity. In the case of Syncrude it's 16.74 percent. My question to the Premier is . . .

MR. NOTLEY: How much of a socialist is he?

MR. MARTIN: Yes. How far are we prepared to go on this route towards equity in terms of, say, percentages? I know it might be hard to make an example of every project, because I understand you'd have to look at each project individually. I guess I'm looking at the upper limit.

MR. LOUGHEED: That's a good question. I feel the one reason I can stay in reasonably good condition in this province today is that I'm being buffeted on one side and on the other side as a pragmatist, and I find that challenging. I'll probably end up in two or three days, or maybe later today, being buffeted on the other side. In my view, Mr. Martin, it is a matter of pragmatic decision-making, project by project. I don't think one can be abstract about it. In a certain particular set of circumstances, we would move dramatically.

With regard to the Alsands project, I still feel that we were certainly taking a very bold position at the

time. I still harbor the view that if the private-sector developers had gone along with it, they would have found themselves completing a project under much different cost and inflation factors than they anticipated, and they might have completed the project at a time in which the world oil price was still very promising if you think about a plant that's going to go for 25 years. So I sat — in that seat, I think — and committed the government to a major undertaking of risk. But I also believe that we should only be in these projects if it's necessary for us to be in it to make it go. I think it's going to be a judgment decision in each case. In one like Husky, we might not have to put any equity in. In another project it may be 16 percent, and in another project it may be larger.

MR. ZIP: Mr. Premier, taking the long view of recent world history and our involvement in it, the record of the 20th century of government intervention in the economies of their respective countries has been generally less than successful, and in many cases has been downright disastrous. High interest rates, which we hear so many complaints about, are the result of the high degree to which governments across the world, both communist and noncommunist, have resorted to borrowing from the major western money markets in order to carry out their policies of economic intervention. The level of this government indebtedness worldwide is now so high that a long-term shortage of world capital supply has been created, and the ability of governments to carry out their programs has been effectively curtailed.

This of course works to the benefit of our Alberta heritage trust fund since, with its large equity base, it works to very significantly enhance the earning capacity of the fund far beyond what was envisaged when the fund was created. In retrospect, wouldn't it have been better if the initial contribution to the fund had been higher than 30 percent, say to 40, during the recent economic boom? The province would today be enjoying higher revenues from the fund to better sustain our present provincial economy. Shouldn't the province's contribution to the fund be raised from its present 15 percent as soon as higher levels of economic growth return to the province?

MR. LOUGHEED: Well, I knew I was going to hear the other side of the point of view very quickly, and in one sense I have. Yes, Mr. Zip. Whether or not we should have done that is a valid debate. I don't mean to be facetious with the answer, but let's remember a couple of things we did in those periods of surpluses. The first thing we did was in part strengthen our position to meet our pension liabilities, with a significant response to that. As the municipalities are meeting in a day or so, I guess — today? If we'd followed your practice, I could say that we would not have been able to provide the \$1 billion municipal debt reduction plan. Yes, we could have put more into the fund, 40 percent, and that was debated in this Legislature. But if we had done so, we would not have been able to do a number of other things we did.

MR. MUSGREAVE: Mr. Chairman, I just want to make a couple of points going back to Vencap. As a result of the media attention that was given to

statements by me and other MLAs on this committee, I was fortunate enough to meet with the president of Vencap. He pointed out to me that they're not primarily interested in high technology. They are interested in companies that are going to generate new jobs and new opportunities for the province. They've gone through several hundred applications. They have several on the agenda that will soon be put in place. They've also opened an office in Calgary. I think we will see more progress than we have in the past. I was critical of them because I felt they were too slow or too conservative. [interjections]

I have a question, though, which has to do with the foundations, of which I've been a strong supporter. I particularly think of the scholarship one. I was startled to hear Mr. Geddes, I think, mention that he anticipated being short of funds in the medical foundation in the not too distant future, and wondered if we would be able to have a further injection of funds into the foundation. When we make recommendations to the Legislature, I can see that perhaps we should also incorporate what we think should be the need for additional funds or how we anticipate what the costs may be in this regard. I just want to know what your reaction is to this sort of thought. I know it ties into much of what we've been talking about here today. I was concerned when I heard that request.

MR. LOUGHEED: Let me first start with a preamble by way of an addendum to the Vencap matter. I've been thinking about the answer I gave Mr. Nelson. I didn't want to put across the point of view with regard to Vencap Equities that we were suggesting that although high technology was important, it should be emphasized to the degree that would divert them from equity venture capital decisions that would create jobs here and now.

On the question you raise, it strikes me that that's a very appropriate point for the committee. I wasn't here when Mr. Geddes and Dr. McLeod came. If you as a committee feel that their submission is valid in terms, first of all, that their performance has been adequate, and you feel that they are going to run out of funds and that that would reduce the impact of the foundation, then I think, with respect, that it's incumbent upon the committee to say so in the recommendations. The whole reason we structured the foundation in the way we have is that they would appear before a legislative committee and not before the government. When I got involved in the appointment of Mr. Geddes — and I was not involved in the appointment of Dr. McLeod — I said that I didn't expect to see him with regard to the foundation for five years, and I have not. But under the Act, he has had to appear here before you, as he should. In that appearance, if you feel some assessment should be made along the lines of your question, Mr. Musgreave, I think that's the committee's challenge.

MR. MUSGREAVE: Mr. Chairman, the other question I have is a quick one. I think many of us were shocked to find out that the people of Alberta didn't know where the money for the fund came from. They thought it was from a gasoline tax, which we don't have. We haven't met yet with Mr. Payne, but in your travels around the province I just wonder if you find that the people are understanding the nature of

the heritage fund — where the money comes from, how it's being spent, and how it's been invested. Do you see any improvement?

MR. LOUGHEED: No, I'm still not satisfied that we're communicating effectively. I do think there has been an appreciation that the fund has been effective as a rainy-day fund for the citizens and that it has minimized any need for tax increases. I think that's fairly there. I think the rainy-day concept is out there with the citizens pretty generally. But no, I don't think — I just don't know, but my instincts tell me we haven't done all that well in explaining to citizens where the money for the fund is coming from. I gather you still have Mr. Payne to meet. That's a fair question to direct to him.

MR. COOK: Mr. Chairman, I wonder if the Premier could help us in framing our resolutions at the conclusion of this program. We have a number of suggestions to use the capital division of the fund for things like the construction of the Three Rivers dam, development of irrigation, a possible Kananaskis Country north, possibility of research in agriculture and biotech, equity in oil sands. How should we try to wrestle with those and set some priorities, or should we set priorities at all? Should we simply make recommendations on those points and let the chips fall where they may?

MR. LOUGHEED: I don't think it would be appropriate for me to respond to that. I think I've been as responsive as I could on the credibility of some of the ideas put forward. But surely it's for the committee to resolve whether they wish to do it by way of priorities or not. No, I wouldn't want to respond to that, Mr. Cook. It's a legislative committee.

MR. GOGO: I've sat and listened with a great deal of interest. I am constantly surprised at the wide variations of questions this committee has come up with for the Premier. Mr. Premier, members of Executive Council have been paraded before us over the past few weeks, and they've given their testimony on their area of responsibility, the majority of it very satisfactory. Based on their testimony, this committee will come forward with recommendations on ways to improve the Heritage Savings Trust Fund, and of course that's the whole reason for the select committee being in existence. I happen to take some issue with some of the comments, but I think they will come back in the form of recommendations, specifically on Mrs. Cripps questions about transportation as a result of increasing irrigation. However, I've been very impressed with your answers as president of Executive Council, and I want to commend either you for doing your homework or your research staff for doing a good job on briefing you, because I have an idea of what your schedule has been this past month.

Premier, I want to pose a question specifically with regard to the philosophy of the fund. We are trustees of the people's money; we have no money of our own. With the fund we're unique in the world, so we can't begin to compare ourselves to other jurisdictions. These are givens. I'm sure you share my concern, and perhaps that of others on the

committee, when you look at this year's estimates of expenditures approaching \$10 billion and the revenue through taxation, the traditional source of revenue for any government, of around \$2 billion. That means we're extremely vulnerable. Obviously we're at the receiving end of worldwide decisions, not decisions of our own making.

I want to ask you specifically, Premier — I think you've answered it, but I'd like to put the question again. The whole purpose of the Heritage Savings Trust Fund — the operative word being "savings" — is to provide to that fund earnings to maintain the programs we have established, such as education, health, and so on, as opposed to expenditures from the fund. Do you share my concern as to our vulnerability with, on the one hand, the built-in programs of expenditures we have approaching \$10 billion, and the almost total reliance we have, I think about 60 percent, on revenue coming in from nonrenewable resource revenue?

MR. LOUGHEED: I think it's true, Mr. Gogo, that in their budgets successive Treasurers have noted what you've noted, that compared to other provinces, Alberta has by far the largest expenditure per capita in our traditional budget and that we also have by far the lowest tax system. The difficulty in assessing that vulnerability is to look at the options one faces if one wants to minimize the vulnerability.

It strikes me that the course we're on now is probably the best course. First of all, I believe the high level of services pays dividends in the longer term. They pay dividends clearly in the field of education and manpower training. They pay dividends in terms of transportation systems and in terms of economic development programming, and I believe they pay dividends in the health care field as well. One thing they've done, which has always been a matter of interesting debate, is that the smaller hospitals have maintained the viability of many communities. We have a multitude of additional programs that other provinces don't have, in particular programs for our senior citizens. But again, I think the dividend of that is a strength of the province. In social terms it transmits into a strength in economic terms, because we have our senior citizens very much a part of the community. So I think all those commitments to that budget base, as long as it can be contained in terms of escalation, is a solid approach.

On the tax or fiscal side, it is right that over time, obviously not in a short term, we could increase our tax rates to the average of other provinces. That of course involves the dramatic imposition of a sales tax, which we don't think we should be doing, or other taxes as well. But if you look at the impact on our province, I still think that the plus of having low taxation shows up economically in a multitude of ways.

So one comes down to a final judgment decision that even though it is risky to have such a large proportion of our revenues coming from natural resources, having a Heritage Savings Trust Fund, such as we have now, to go through a difficult economic time, providing that rainy-day fund hopefully for not too many years, is perhaps the best policy for a government in our position. But I say that by saying: accept the vulnerability, but by looking at the options I still think we're on the right course.

MR. GOGO: The reason I put the question, Premier, is that I learned something as a boy which is as true today as it was then and is best capsulized in saying that when your outgo exceeds your income, your upkeep becomes your downfall. I just hope both your successor and my successor in this Assembly remember that.

Thank you very much.

MR. CHAIRMAN: Would there be additional questions forthcoming from members of the committee? If not then, Premier, you've responded to some 38 different questions and some subquestions within them. We thank you very much, and we look forward to seeing you one year hence.

Committee members, we'll adjourn now and reconvene tomorrow afternoon at 2 o'clock. Thank you.

[The committee adjourned at 4:02 p.m.]