

[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, we'll turn the meeting over to members of the committee.

MR. LOUGHEED: Mr. Chairman, I don't believe I have any opening comments. I may want to make a concluding observation or so.

MR. CHAIRMAN: Then we'll go to questions from committee members and begin with Mr. Speaker, to be followed by Mr. Thompson, Mr. Martin, Mrs. Cripps, and Mr. Musgreave.

MR. R. SPEAKER: First of all, Mr. Chairman, I wish to congratulate the Premier for the decision he has made — that's a very difficult decision when things have gone so well during his term of office — and certainly wish him, along with his family, the best in future challenges and endeavours. I must say that I've enjoyed my term of office with the Premier. I often examine my own position, thinking that I've been in two former governments and am still here in time for the Premier of the province to retire. I'm not sure what that holds for the future, but we'll see.

Mr. Chairman, I'd like to ask some general questions about the Heritage Savings Trust Fund, not in terms of specifics, and I think it would be of assistance in terms of impressions from the Premier. The Heritage Savings Trust Fund had some basic objectives, which we established back in April 1976, with regard to its being a source of future revenue; it would be set aside to reduce any future debt load of the province; thirdly, to improve the quality of life of the province; and fourthly, to diversify and strengthen the economy.

I think it would be of interest at this time, as the Premier looks back over the period since 1976, to see just where we are with regard to those objectives. Some have been accomplished, I'm sure, with good success;

others, maybe not as well. Where we are short of our objectives, possibly there are some suggestions of where we could do better or improve or make further recommendations as a committee.

MR. LOUGHEED: First of all, Mr. Chairman, I appreciate the kind remarks of the Member for Little Bow. There is some poetic justice that in my last appearance in this Legislative Assembly I should be sitting in this seat and on this side of the Legislature. I did enjoy my 17 years in this Assembly very much. I recall that I was a new and very inexperienced MLA when I first met the MLA for Little Bow and the awesome group of members that were sitting with him on the other side of the Assembly.

To respond to the question with regard to the objectives of the Heritage Savings Trust Fund, I would make these observations. Perhaps we have to go to the germ of the idea that formulated the Alberta Heritage Savings Trust Fund. Revenues from oil and natural gas are revenues, primarily in the form of royalty, that come to the provincial government from the sale of a resource that is not a renewable resource. I've argued, and I think the hon. Member for Little Bow will remember that shortly after being elected Premier, we took issue, as did our predecessors in government, with equalization payments that took into consideration natural resource revenues. We made that argument on the basis that the equalization payment formula was related to revenue flows and should be income revenue flows, not capital revenue flows.

It's always been our view — and I think it's a consistently held one and is supported by those who look at these matters financially — that revenues that flow to the province from the sale of a nonrenewable resource should be treated in the nature of a capital revenue, such as if you sold a capital building or a capital asset. For that reason they should perhaps be treated somewhat differently. Out of that germinated the thought that in days of high revenues it would be appropriate, since we were looking at that time at declining reserves of our conventional crude oil and natural gas, to set aside a portion of these capital revenues for the next generation. That started as the fundamental concept of the Heritage Savings Trust Fund. This was followed by the view that

the objective of the fund, as stated in the preamble, should be a savings fund both for future generations and for the future.

Out of that comes the interesting question, though, that if a citizen looks at his own personal savings fund, he's looking at it to use it in the event of an unexpected emergency or difficulty but also, if he doesn't do that, to hold it over for the next generation. The challenge this Legislature has had over the last number of years is how to use this fund to cover the difficulties of our economic downturn of 1982 and 1983, combined with the circumstances of declining resource revenues in terms of their relative increases.

That leads to the second objective the hon. Member for Little Bow poses, and that is the use of the fund for the purpose of offsetting difficulties of our citizens in terms of economic circumstances, which otherwise would have to be made up either by the province going into significant debt or by significantly increasing taxes.

I feel very comfortable with the policy decision we made in this Legislature to use the income from the fund, now approximately \$1.5 billion and equal to about a 7 percent sales tax, for current needs of the government from a general revenue point of view, but secondly, to preserve the capital of the fund, albeit reducing the flow from 30 percent of natural resource revenues to 15 percent.

That brings us to a difficult question regarding the preservation of the capital. How rigid should we be with regard to the preservation of capital? I believe strongly, and I believe the citizens do, that the integrity of the capital should be maintained. But that means we must have a return to the fund or the fund must grow at least in accordance with the rate of inflation in order to sustain its position. That's been a challenge both in the past few years and for the future, but I do believe it was the right choice then and it's the right choice now to maintain the capital of the fund and use the income rather than either going into significant debt or increasing taxes significantly.

As I reviewed my notes for this briefing, I recollected that last year members, including the Member for Edmonton Norwood, asked me initial questions about the issue of diversification. My recollection of my answer at that time was that the fund had a secondary

purpose, after being a rainy day fund, to facilitate economic diversification where dollars were needed.

So on balance, I think it requires this committee and the Legislature to be flexible. I think that's the challenge of the select committee, but I do believe that, overall, the fund has served the citizens by meeting the objectives the Member for Little Bow outlined.

MR. R. SPEAKER: Mr. Chairman, in terms of the question of diversification, that's certainly a matter of debate back and forth. That's not the question I want to raise, but related to that is the question the Premier has been raising in the last few months with regard to free trade. Does the Premier see the possibility, in terms of diversification, that free trade would enhance that diversification and would possibly be a supplement to the objective of the Heritage Savings Trust Fund?

MR. LOUGHEED: Yes, I do. For a province such as Alberta, if we could negotiate a comprehensive free trade arrangement with the United States, the benefits are obvious and significant. They start by strengthening our primary producers on the livestock and red meats side by giving them an assured market in the United States for their product, on either a live cattle or hog basis or a processed basis. That would strengthen the primary producers. It would seem to me that if that occurred over time, we would have further upgrading of those products here in the province of Alberta, where we have the competitive advantage in North America. That should lead to a greater viability of our packing and food processing industries, particularly with regard to frozen red meats in processed form into the United States.

A second major area is the field of petrochemicals. We have state-of-the-art, world-scale plants with many jobs involved, but they depend upon our ability to access that United States market on an assured basis. I'm reasonably comfortable that our existing plants can sustain their positions competitively, subject to there not being either quotas or cutoffs in that American market, but we have the opportunity for further diversification by new plants that would be built in this province if we had that assured access to the American market.

I think that is also true in the area of forest products. I'm excited, as I know the committee is, at the prospect of being able to use Alberta hardwood, as distinguished from just our softwood, in an economic way. Not only do we have good resources of softwood but we have exceptionally interesting resources with regard to hardwood. If we can move into the United States market with our hardwood products over a number of years, that again provides an opportunity for economic diversification.

Those are three examples I'd use in answer to the Member for Little Bow where, if we had such an agreement, if we could negotiate such an agreement on a Canada-wide basis, economic diversification in this province would follow.

MR. R. SPEAKER: Mr. Chairman, one other supplementary, with regard to the management of the fund over the period of time it's been in existence. This has been a matter of debate in the Legislature as well. One of the concerns I'm sure I've raised during that period of time was accountability to the Legislature. The Legislature may be more involved in the allocation of funds now because of the economic conditions. I think that situation isn't as serious as it was a few years ago.

In terms of the Premier going through that management process or seeing what has happened to it, I wonder whether there is any portion or segment or responsibility of the fund that could be brought to the Legislature for decision-making, any changes that might be recommended in that area.

MR. LOUGHEED: Mr. Chairman, I reread my remarks in Hansard on April 23, 1976, when I dealt with the Bill as proposed, which provided that the investment committee, i.e., Executive Council, would make decisions for all the divisions of the fund other than the capital projects division. At that time I recall making the argument essentially that ratification of the report of this select committee and of the Legislative Assembly of Alberta was a condition precedent to future funds flowing to the investment committee. I believed then and believe now that that's an accurate position of legislative responsibility, because I believe in the premise that the Legislature always has to be residually responsible. Through that mechanism I believe it is residually responsible.

As members of the committee are aware, we

responded to a change with regard to Crown corporations, at the suggestion of both committee members and others, that before decisions were made with regard to investment in the Heritage Savings Trust Fund by Crown corporations, they be presented to this House. We accepted that as an amendment. I think it was a good modification. At the same time, as you know, we changed the policy to have the financing of the Alberta Municipal Financing Corporation and Alberta Government Telephones done in the marketplace and not through the Heritage Savings Trust Fund. But that, of course, leaves the balance of the Alberta investment division, the Canada investment division to the extent we'd be using it, the commercial division, and the energy sector to the investment committee, i.e., Executive Council.

I believe that's the right position, but I added a very important caveat, obviously somewhat cautiously. On accountability, I believe it is important that the president of Executive Council appear before this committee. I think that's an element of accountability, over and above the Treasurer, that is required. I remember that the first request I got from the committee surprised me, because I wasn't expecting it. I remember the discussions as to whether I should or shouldn't accept that, because on a strict interpretation I believe it was not necessary for me to do so. That's based on the fact that I have no specific responsibilities that relate to the capital projects division. But I'm glad I did it, and I think it's right. With that position — that is, the appearance annually by the president of Executive Council, the Premier, before the select legislative committee of the Heritage Savings Trust Fund — I think that residual accountability is provided to the Legislature.

MR. CHAIRMAN: Mr. Thompson, to be followed by Mr. Martin, Mrs. Cripps, and four other members.

MR. THOMPSON: Thank you, Mr. Chairman. My question has been answered.

MR. MARTIN: Mr. Chairman, as this is probably the last time he will be in these hallowed halls, and I don't think I'll be invited to your evening at your convention, I would like to take this opportunity as Leader of the

Opposition to wish you the best — as I said before, not in retirement but in your future endeavours, whether it be golf or law or whatever it is. As I said before, the province is going to miss you in your present role. That's a sincere compliment from the opposition.

I would like to come back, if I may, to something the Member for Little Bow was talking about, the original goals. We've now had approximately a decade to see how the trust fund has operated in both, we might say, the good times, when money was flowing into the trust fund, and in tighter times. Knowing what's happened in the last decade, my question is: knowing the situation right now, are there any new directions you see the trust fund looking at in the future?

We've talked to other ministers. Some of the programs are now coming to an end in circumstances. Some of the other ministers are talking about going back to the priorities committee and these sorts of things. I guess I'm asking you to put on a crystal ball and see if there are some new directions in which you think the trust fund could be used, I suppose to consolidate the objectives the Member for Little Bow was talking about.

MR. LOUGHEED: Mr. Chairman, first of all, let me very sincerely thank the Leader of the Opposition for his comments. The nature of the parliamentary system is one that I hold very deeply in my mind. The fact that the Leader of the Opposition could make those observations are most appreciated. I want to say that it is kind of intriguing that he's sitting in my seat and I'm sitting over here. That is an interesting situation. We'll ignore the heckling from your left.

MR. MARTIN: I'm not used to ignoring it.

MR. LOUGHEED: You're used to ignoring it over here.

The question puts me in a difficult position, because obviously, under the circumstances, I don't want to make observations that would significantly limit the flexibility of my successor in the future. I'm very mindful of that. Perhaps the key is in that answer. There has to be flexibility. This process of the Heritage Savings Trust Fund cannot be crystallized. The changes in policy as required, and there have been a number, have taken place

by changing circumstances. With a province such as ours, Mr. Martin, you're well aware that on the revenue side we've got a wide fluctuation in terms of the prospects of what those revenues can be from natural resources. That in itself would seem to me to lead to a policy position that should not be rigid, because there can be, and we've already seen it, marked changes in the degree of the revenue flows.

On the investment side, there are going to be circumstances — you will recall that I mentioned one last year — with regard to oil sands projects. I still believe, as our white paper on industrial and science strategy 1985-1990 stated, that if as a last resort it were necessary for the government of Alberta, on a minority basis, to invest in an oil sands project through the Heritage Savings Trust Fund, it should do so. That is a pragmatic view that I hold to.

So I think there has to be flexibility. Just as all of us, if we had been sitting here in 1979, would have had difficulties projecting the '82-83-84 scenario in which all of the income from the fund now flows into the General Revenue Fund, equally I don't think we can sit here today and be that assured that certain circumstances will pertain in the three or four years ahead.

So I would not want to be specific, for obvious reasons, but I want to say that fundamentally the Heritage Savings Trust Fund should not have overly rigid policy and it should be flexible to meet the circumstances of the time.

MR. MARTIN: Just a follow-up, Mr. Chairman, to look at the possibility of tar sands. The Premier may be aware that this committee was out to Syncrude on Thursday. I specifically asked of the vice-president that question about the economics of future projects in the oil sands area. Like everyone else, it's a very difficult one. His assessment was that the prediction was that in seven years it would be marginal, but then there are all these things that come into it: Canadian self-sufficiency; these sorts of things. It's a difficult decision to make.

I gather from the Premier — and I don't want to put words in your mouth; I know that you have to be very careful here because you are stepping down — that you would see at least the possibility of the trust fund being used in the future as a legitimate attempt to either diversify the economy, and we can debate what

diversification is, or look at some new megaprojects, perhaps, if the economics and other things could be worked out. You'd see that very much as a continued active role for the trust fund?

MR. LOUGHEED: Yes, I do, with the very important proviso that it should be essentially a last resort position to make something happen that in the judgment of the legislators of the province of Alberta should happen and makes economic sense to occur but there's an abundance of caution by the private developers. The more likely scenario is going to be pressure with regard to pricing, pressure with regard to fiscal terms, rather than a need for an equity investment by the province through the heritage fund. But as we showed on that difficult day in late April of 1982 relative to Alsands, I don't believe that a government in this province should be constrained from bold moves in that direction if necessary.

MR. MARTIN: Just to follow up one other aspect of the trust fund. I'm sure the Premier is aware of that certain people are talking about capping the trust fund for the time being. What would the Premier's assessment be? Is now the time to cap? We still have 15 percent coming in. If we capped it, I suppose we would still have what we have there, but obviously it's not going to grow unless our investments grow rapidly. Does the Premier have any analysis of that, if I can put it that way?

MR. LOUGHEED: I'm not sure what people mean when they refer to capping the fund. I just know that our mandate of November 2, 1982, was a mandate that came about that we would preserve the capital of the fund, and that is part of our mandate. If one were going to change that position, then one would have to have a mandate to do so.

MRS. CRIPPS: Mr. Premier, you know we'll all miss your leadership. The Opposition hasn't had much chance to criticize because you've done such a superb job over the years.

MR. LOUGHEED: That didn't stop them, Shirley.

MRS. CRIPPS: Well, maybe valid criticism.

I'd like to know what aspect of the Heritage Savings Trust Fund you're proudest of, and what is your estimation of its biggest achievement?

MR. LOUGHEED: I suppose the most important part is that there were a lot of people in 1975-76-77, Mr. Chairman, that didn't think we could sell the public on the concept of the Heritage Savings Trust Fund. It had never been done before, that you'd collectively save in a democratic situation. So I think our most important achievement collectively in this Legislature was that we convinced the citizens of the province of Alberta that the Heritage Savings Trust Fund in concept was a very good idea for them personally. You have to add the obvious caveats that having said that, many of the them say, "Yes, but I want a particular program that helps me," and "Yes, but I want to see a particular direction with regard to it," and even the "Yes, but I didn't know we got the money from the gasoline tax." All of those qualifications have to be brought into it.

Certainly, the reading that I received in my travels through this province from '76 to now has been that there is an acceptance of the Heritage Savings Trust Fund by the citizens. I suggest that those in the future who might want to alter that will be surprised at the reaction by the citizens.

MRS. CRIPPS: That leads to a second question. Certainly, the concept has been sold as an excellent idea, and I think Albertans are all proud of it. Is there a danger of lowering the value of the integrity of the fund unless we're very careful to continue to put moneys into the fund, since we've had to take the earnings and flow them into the provincial budget?

MR. LOUGHEED: That's the very difficult question I was trying to respond to to the Member for Little Bow and the Leader of the Opposition. I believe you can't really say that you've maintained the integrity of the fund if you allow it to diminish relative to inflation. I believe the fund has to grow to the extent that it is at least sustaining the position of the capital of the fund relative to inflation.

MRS. CRIPPS: Since Albertans have accepted the concept and are so very proud of it, if an Alberta citizen asked you what you are doing

with their share of the fund, what would your answer be?

MR. LOUGHEED: I'd use the one that I've used frequently in the last year. I'd say, "We're giving you a choice: a 7 percent sales tax, a doubling of the personal income tax, a significant debt that your children would have to pay for, or the Heritage Savings Trust Fund. Have I made my case?" And you usually make it.

MR. MUSGREAVE: Mr. Premier, you've already touched on what I wanted to raise in today's discussion. In the Alberta investment division portion of the fund there is a substantial investment of approximately \$8 billion, and over half of that is in Alberta Mortgage and Housing and the Agricultural Development Corporation, which has helped the construction industry, housed people, helped farmers, and all the rest of it.

I want to get your opinion on another kind of investment that maybe should be looked at in that part of the fund. I appreciate the very successful Alberta small business equity corporation and how it's worked. But there has been some suggestion that rather than having so much money in such things as Syncrude projects or those kinds of very large projects, perhaps there should be a vehicle within the heritage fund whereby money of a long-term nature could be made available to those small companies which have 20 or fewer employees and are supposed to generate over half the employment in our community.

Can you see an expansion of the small business equity corporation within the fund, or do you think a vehicle should be in the fund itself, within the Alberta investment division?

MR. LOUGHEED: That's a very important policy question, and I'd like to respond as clearly as I can. To me, the important role of the Heritage Savings Trust Fund is that it provides us with capital funds that are not available to citizens in other provinces. I believe it's important to follow what we've done in the past and establish entities such as the Alberta Opportunity Company as lenders of last resort and the small business equity corporation, to assure that there are funds available for small business on either an equity or a capital basis.

But when we talk about interest rates, that's clearly a matter not for the Heritage Savings Trust Fund but for the general revenue of the province and the budget. If we ever get into a situation with the Heritage Savings Trust Fund where we're looking at the fund's investment as being less than market interest, we're going to destroy the concept of the yield of the fund and the income that's provided. If the legislators of the day want to make a decision that for whatever reasons there should be a lower interest rate, less than the market, for a particular financing, that's a decision to be taken as part of the budget process, as part of the general revenue funding, not through the Heritage Savings Trust Fund.

So my feeling is that in the past we've responded as fully as necessary through the Alberta Opportunity Company to the needs of small business on a debt basis. If there were a need to exceed the amounts that are now provided, the legislators of the day would have to make a decision. But based on past history, we've always responded positively to that request.

MR. MUSGREAVE: A supplementary, Mr. Chairman, just to clarify. In effect, you'd have no quarrel with some kind of fund in there, but the going rate earned by that portion of the fund would have to be whatever the market rate was at that time.

MR. LOUGHEED: That's my strong view. Then, because it needs to be a separate decision, if the General Revenue Fund, through the provincial budget or through a program emanating plan, develops an interest reduction program, that should flow through the general revenue funding and through the provincial budget, not as part of the funding of the Heritage Savings Trust Fund or the investments of it.

MR. MUSGREAVE: Thank you.

MR. GURNETT: Mr. Chairman, many of the things I was interested in have already been responded to by the Premier. I'm particularly interested in the directions that the fund may take in the future, and I can understand the Premier's desire maybe not to say a whole lot about that. I wonder particularly if you'd be willing to comment a little on the relative

balance of the fund. In a sense, the intention of a great deal of it now seems to be used to give stability — for example, through the loan programs — so that the province can continue much as we are now and therefore, I guess, be in better shape to cope with the future.

I wonder, though, about the other side, of creating a strong Alberta down the road, and that is the support for research, the possibilities of providing significant funding to explore and develop new areas that could be sources of strength in the future. Would you be willing to share a few thoughts about whether there is a bigger role for the fund in that particular area? Obviously, there are some important programs in that area that are now supported by the fund, but is that a direction that circumstances and what's happening make it necessary for us to look at with perhaps a higher priority than it's had in years past?

MR. LOUGHEED: Mr. Chairman, that's another important policy question. In my judgment, the fund now has the appropriate balance, because one has to give very heavy weighting to the \$300 million endowment fund for medical research, which is so unusual and so significant. That endowment fund is a very significant injection of the Heritage Savings Trust Fund in research. In addition to that, you really have to look at the capital projects division's Alberta Oil Sands Technology and Research Authority as research funding, because to the extent they can find new approaches in terms of surface mining or in situ mining, that improves the economic position of the province and our resources become more valuable.

If you go through a number of the agricultural areas, such as Farming for the Future and others, there really is a very, very large component of the fund now that's involved with research, and I think it's a proper balance. I haven't seen recent figures, but my memory serves me that somebody assessed that if you took the Heritage Savings Trust Fund together with the general revenue of this province, the provincial funding for research in Alberta is far ahead of the rest of the country on a per capita basis. I think it's there.

If you go too far, you then reduce the capacity to move in some other direction, because research funding has to be multiyear. Research funding cannot be one or two or three

years; it's got to be multiyear. So if you go too far, or farther than we are now, I'd be concerned that we would just simply not have the capacity in the fund to make a move, perhaps in an oil sands plant, that the Leader of the Opposition and I were exchanging, or perhaps in some other field that some of the other members would be interested in. I think it's the right balance now.

I accept very strongly the view that the Heritage Savings Trust Fund should have a major research component by way of investment, and I suggest, with respect, that we're at the right balance level now.

MR. GURNETT: Just to follow up very briefly with one particular area. Since the fund is based on nonrenewable energy resources, I wonder what your feelings are about the support for research specifically directed to renewable energy, because the fund is evidence of our admission that nonrenewable energy has a limited life.

MR. LOUGHEED: Mr. Chairman, I believe we're doing a great deal in terms of the agricultural side. There always can be arguments, and it's for this committee, in its deliberations and recommendations, to consider whether there should be more and make those recommendations. That's the purpose of the committee.

We've responded in the forest products area and in a number of other ways, as the hon. member is aware, certainly in terms of research. We should watch carefully the forest products area, because there may be an opportunity to move further in terms of the hardwood lumber potential. As you know, the provincial government has supported the operation in Edson, which has started and become very successful.

I think we should keep — I'm talking of the future, so I should probably do it this way. I suggest that the legislators should monitor very carefully the developments in the forest products industry, because it may be that an infusion of applied research funding in that field would pay major dividends in the future.

MR. GURNETT: Thank you.

MR. GOGO: Mr. Chairman, my primary question was asked by Mr. Musgrave, on small

business being the major generator of jobs. I have two other points, however. I don't entirely share the Premier's view with regard to sales tax. British Columbia realizes almost all its education revenue by sales tax. I think it's how it's applied. I, along with others I'm sure, get a little uptight when I travel in other jurisdictions and pay it, and yet anybody coming to this province doesn't pay it. I recognize the implication to tourism. But one of the things that attracts me to this government is that there is room for tolerance in terms of views, and I happen to have a different view.

Premier, I recall in years past, as you attended various premiers' and first ministers' meetings, that we've seen Saskatchewan, Montana, and other jurisdictions establish a fund using Alberta as a precedent. I can also recall that when you returned from those various trips, there appeared to be some degree of resentment by other jurisdictions about Alberta with that huge seven weeks of federal spending called the heritage fund. Now that we've been through this difficult period and are coming out of it — this is a kind of more personal question, I guess, now that you're leaving elected office — did you sense this same kind of attitude at the recent premiers' conference you attended: that Alberta is still the wealthy province with that huge heritage fund, or is there, in your view, now an understanding of some of the difficulties we're facing and that's why we needed the fund?

MR. LOUGHEED: Mr. Chairman, again an important question. First of all, Mr. Gogo, I never have been of the view that the resentment towards the Heritage Savings Trust Fund was anywhere near as significant as certain commentators made it out to be or even some Albertans felt, even in some of those particular years that were involved.

In a country such as ours, there is a wide divergence of public opinion between the regions of Canada. For example, the people in Atlantic Canada always felt very good about the fact that we had a Heritage Savings Trust Fund and the Canada investment division — granted, it was at market rates — where they could come and borrow from our province rather than go to New York and have to borrow there. Surprisingly, in Atlantic Canada I don't think there was ever resentment of it.

In the province of Quebec, it was my opinion

that there was a great deal of respect for the fact that we were recognizing the principle behind the fund, which is that we're dealing with a depleting resource. The attitude was different in Ontario but, again, not nearly as different as people made out. There was a certain sense that they'd been the strong kingpin province in this country, and here was coming this new kid on the block bit. There was a certain amount of envy, but in my judgment it was never very deep, even at its peak. It certainly isn't there now. They've seen that although the Heritage Savings Trust Fund has been very helpful to us, as we all know, in going through this difficult period we've had, they know we can and have gone through that difficult period. So that resentment isn't there now at all.

It would be incumbent upon us in the future, if conditions change again, to make sure that we're explaining to the citizens what that Heritage Savings Trust Fund really is and what its purpose is. The better job of communicating we do to our own citizens, then we can send out 2.3 million salesmen to the rest of the country.

MR. GOGO: Just one final supplementary, Premier. Did you have any requests from Premier Peterson to borrow from the fund?

MR. LOUGHEED: Our differences were significant, but they weren't related to that area.

MR. ZIP: Mr. Chairman, coming from a lowly backbencher, I just wish to praise the wisdom of our Premier. The concept of the fund has been something without precedent and has been worked into a very vital and effective instrument of economic strength to this province that, amazingly, reaches into virtually every aspect of life within Alberta. Being on this committee has certainly vastly broadened my appreciation of the impact of the fund and its far-reaching effects on the strength, wealth, and well-being of this province. It is certainly a lasting monument to you, Mr. Premier, to your unique decision at the time to bring this whole thing into fruition and into a very workable instrument that's going to be with us for a long, long time.

The question about the negative impact reactions from other provinces has been asked by the hon. Member for Lethbridge West, and

you've answered that very well. There is another question that I'd like to ask which is not directly related to this question but sort of lying alongside of it. There is a fear among Albertans at the present time that this fund is here but some future government will squander it and we won't have it anymore. Do you feel we have to protect this thing from happening?

MR. LOUGHEED: Mr. Zip, first of all, you won't mind on this final appearance if I correct you about the comment "backbencher", and I hope you will remember it. You're sitting in the front row now, and I never have and never will accept that phrase.

Secondly, with regard to the observation of the idea of the Heritage Savings Trust Fund, it always comes to me whenever I analyze a good idea. I can look at the opposition members, because I was in that position a number of times. I remember suggesting a number of very good ideas over here, and then in an entirely different uniform they appeared as government policy about six months later. I shouted as best I could and said, "You know, that was my idea." It never works that way, as Mr. Speaker knows.

What really happens with a good idea is that it's a collective decision. It usually always becomes one. You can't just pinpoint it and say it is somebody's idea. It's a collective idea, because it made sense. I really feel that it has. But there isn't and there shouldn't be any way, in a legislative sense, in which the Heritage Savings Trust Fund can be tied up so that future governments can't do what they want to do with it. The whole principle of the Legislature is that it is supreme, and the electorate is supreme in an election. As long as it's clear in an election that a party is campaigning in a particular way and they receive a mandate for a significant change in the fund, either by changing the capital of the fund or by capping the fund or by altering it in a significant way, then that's the mandate of the people. I believe it's incumbent upon those who believe in the integrity of the capital of the fund that they had better campaign hard on that. They had better campaign very hard on that so there is no misunderstanding where they are. That's the only thing. It has got to be in the democratic process. That's the only way it can be done.

MR. ZIP: Thank you, Mr. Premier.

MR. HYLAND: Mr. Chairman, my question to the Premier is related to the \$300 million endowment to the medical research foundation. It comes partly out of their appearance before us last year and again this year. I believe it was not much less than six years ago, on November 9, 1979, when the Premier moved second reading of Bill 62 and put that endowment fund on the way. Last year was their triennial report to the Legislature, and the board saw fit to appear before us again this year and make some comments. I understand that as of March '86 their International Board of Review will be taking place.

My question is related to some of the comments they made and partly from my memory at that time, which may be a little vague, of where the fund was to provide research. I think you alluded to it. Research has to be an ongoing thing; it can't be totally a thing where it's dependent on budget and the movement of moneys from budget, but rather something that's constant so it can be planned.

One of the things the group has done is to get into a position where they would fund approximately \$60 million in facilities to universities so that proper facilities will be there and their research can be better carried out. The foundation seems to think that in about 10 years they will be about \$150 million short of funding in the endowment fund.

My question is: was there provision or legislation, when the Premier talked to Mr. Geddes and the foundation when they started, where any funding for capital that would be considered would be put back in from general revenue or from other sources, so it didn't write down the effectiveness of the research that could be carried on?

MR. LOUGHEED: Mr. Chairman, I gather the question from Mr. Hyland relates to the proposed or planned use by the Alberta Heritage Foundation for Medical Research to expend funds for capital facilities and what the reaction of the Legislature would be in terms of preserving the \$300 million capital.

Not to make it easy on the committee, I might say that this is really a classic case of the committee's recommendation as distinguished from the government's, because

we established the foundation as far apart as we could from government and, in fact, from the Legislature. I recall the recommendation this select committee made last year to the effect that

the government examine the long term future of the \$300 million endowment fund for the Alberta Heritage Foundation for Medical Research. The purpose is to consider raising the capital based on future expenditures of the investment revenue to ensure no reduction of the initial capital of the endowment fund.

My understanding is that the Treasurer has responded to this by way of tossing the ball back to you. The provision is that

In 1986, the second Triennial Report of the Foundation will incorporate the report by the International Board of Review on the Foundation's first six years . . .

It strikes me that that's the key time for the select committee. The International Board of Review will look at the foundation's performance for six years and make an assessment. That assessment will then go to the foundation and, in due course, as I understand it, become a public document and be laid before you a year from now. That would seem to be the time for this select committee to decide whether they wish to recommend an expansion of funding.

I make that observation aside from the capital question, if I understand the Member for Cypress. I believe that we made an undertaking at the time of the legislative debate in 1979 that if it were essential that the foundation require capital facilities in order to do what they had to, we at least gave an implied undertaking, obviously within some reasonable parameters, that we would not have them dissipate the endowment fund in order to meet their capital requirements. If that's what they're embarking on, I think there are two questions facing the select committee: one, a strong recommendation to that effect, if that's what the committee feels relative to capital facilities; and secondly, do a very careful review of the matter next year relative to overall funding, having regard to the report of the International Board of Review.

MR. HYLAND: Thank you.

MR. NELSON: Mr. Premier, over the number of

years that the Heritage Savings Trust Fund has been in place, I think most of us believe that the assistance to Albertans and, indeed, to many other parts of Canada has been quite tremendous. However, for one reason or another, there are those who still feel they have to criticize either the fund or the manner in which it's managed.

As one of the last questions you might have in your participation in the Legislature and to maybe assist in allaying the fears of some people as to the benefits that accrue to Albertans from the fund, both in the past and especially during the period in which we've had the economic difficulties, how might you perceive the fund providing for Albertans in the future? I know that the term "in the future" is possibly a difficult one for you to deal with this afternoon, but assuming that the general terms, references, and policies remain as are presently in place, in the three areas -- the past, during the period of economic difficulty, and possibly the future -- how do you feel the fund is providing for most Albertans?

MR. LOUGHEED: Mr. Chairman, I'll try to dramatize it, and I use that word intentionally, by turning back my mind and those of all of us involved to September 7, 1982. We had an incredible boom, a resource-based economy, a downturn that was sharp, and high interest rates at the same time. With the resource revenues we have, it seems to me absolutely crucial that the Premier, the government, and the Legislature of this province should be in a position in the future, as I was in September 7, 1982, to be able to be dramatic about the mortgage interest reduction plan, the small business and farm operators' interest shielding program, and others as well. But you can do that only in a province such as ours because we've got the financial muscle to do it. Other provinces could not and have not been able to do it to anywhere near the same degree.

So, Mr. Nelson, the only way I can respond to you is to say that that really counted, that proved to the citizens of the province, perhaps more than in any other way, how important the Heritage Savings Trust Fund was.

MR. NELSON: Mr. Premier, one other question relevant to the fund itself. In general terms, I'm sure that the fund has been quite well managed, looking at the rate of return that

we're obtaining even now with low interest rates and what have you. It seems to be really good compared to just having a bank account out there.

In the area of investment, I'll deal with one in particular, Vencap, where we've invested a considerable amount of money as a loan. Do you feel that investments of that nature — where they are given as a loan to make an effort to have risk capital or investments in an equity situation in corporations, be they small or large, for the good of Albertans when, in some of our minds, that investment has not been pursued as quickly or as energetically as it might have been — might possibly have been better utilized for the benefit of Albertans in another area where they may have been processed through the system a little quicker for either investment or assistance to a particular group, be it agriculture or any other thing? How do you feel about something of that nature?

MR. LOUGHEED: Mr. Chairman, I feel very good today about the process of Vencap, and I'd like to explain why. The real question is a people question. You use the words "Vencap, they" as though it's a mysterious "they" out there or some people who are involved in it as though it just happened. The fact of the matter is that Vencap is run by a board of directors of private-sector businesspeople who were asked to participate. As far as I know, there isn't a single member of that board of directors who needs to participate; they were asked to participate, and they're outstanding businessmen. This is a new venture, a new process that we're into.

In private- and public-sector relationships the key is people. You have to structure it in a way that you can attract people to participate. Over the years we've had lots of debate in this Legislative Assembly about issues like the management of Pacific Western Airlines and the Alberta Energy Company. From time to time we've frustrated the opposition and others by taking the position that we don't run the Alberta Energy Company and that we did not run Pacific Western Airlines. If I'd been sitting here, I would have been equally frustrated with the answers. But the answers were important, because what's involved there is that government can't keep that constant string on. If it keeps the string on, it won't

attract the type of people who are on the board of Vencap.

They were slow. A year ago, I think, you asked me a question along those lines. But today they're on the move. They're doing what we asked them to do. They'll make decisions. I could even admit that the Alberta Energy Company and PWA made decisions that I don't personally agree with. The fact of the matter is that we got quality people, and we got quality people because we have been prepared to let them function at arm's length. That's something we do in this province. I'd like to say this without too much patting ourselves on the back, but this is something we've done in our province that literally has been looked on by others as something to emulate.

So the concept of Vencap Equities is right. You had to have it at arm's length. You couldn't attract good people without doing it. They'll turn down applications, Mr. Nelson, where you'll say, "That's a mistake." Or they will approve some that you won't agree with. But the basic concept of private-sector people giving their time — and they don't need to give it to operating an entity like Vencap Equities — in my judgment significantly ensures the success over a five- or eight-year term of an organization of that nature.

MR. NELSON: That's fine. Thank you, Mr. Premier.

In closing, I'm sure that, like everyone else here, I'd like to thank you for your participation. Certainly it's been great working with you, and I wish you all the success.

MR. ALEXANDER: Mr. Chairman, there's a page in the heritage fund report entitled Where the Funds Come From. I haven't heard it being referred to so far today, so I'd like to ask a relatively simple question of the Premier, if I may. Now that he's in a position of, shall I say, new-found impunity in terms of his ability to make forecasts, would he care to venture a forecast about the revenue possibilities of such things as crude oil and natural gas and other sources of revenue for the heritage fund? It's a kind of overview question, but you did it last year and I wouldn't mind hearing what you say about it this year.

MR. LOUGHEED: Mr. Alexander, I'm mindful that even though I'm in the situation you

describe, the record will be in Hansard tomorrow.

We obviously couldn't find a more difficult area from the commodity market point of view to forecast than oil, and natural gas will follow oil to a fair degree. I believe the best information we have today is that the range of probabilities of a significant drop in world oil pricing over the course of the next year and a half is not great, that there'll be fragility and some downward pressure but that we won't likely see a major fall.

Conclusions that are reached on that basis, of course, relate to the high cost of North Sea production and that there's a built-in floor there with regard to pricing, as I suppose one would see with regard to yesterday at Syncrude. There's also the view that if it did come down dramatically, it would rise relatively quickly so that the down period would not be long. But I think we have to accept that the balance of probabilities is for a fragile world oil pricing situation for perhaps a few years, and certainly not keeping up with inflation or with real cost, but then an upward movement as we find that the demand starts to take hold, that we've reached the limits in conservation, and that some of the supply sources are not as strong as they were thought to be.

I think the biggest -- first of all, a comment on the past year. The discovery situation in China and the South China Sea has been a major disappointment. That was a key variable. Secondly, Mexico, clearly because of their position with regard to their debt position, is limited in the effort they can make in that country. But I think the biggest variable, the most interesting one, is that in the first six months of 1985 the Soviets, with very strong pressure to maintain their foreign currency, haven't been able to keep their oil production up.

So the best forecast we can make collectively, with all the information that comes into our government, is fragility for a couple of years but a very significantly positive position coming toward the end of this decade. When we come down to tough negotiations on oil sands plants, others that are going to risk their money might hold to a different view, but that's the one we hold to. On a total revenue side, though, and this comes down to the comprehensive trade arrangement with the United States, if we can keep the doors fully

open, without any discrimination to Canada, our natural gas revenue flow into the United States will begin to improve fairly quickly, because even with the lower price the volume of the flow will be such as to increase our revenues. The best prospect for revenue improvement for the province of Alberta comes about by way of the natural gas flow.

Incidentally, just a footnote: encouraging results by the assessment of the Canadian Petroleum Association, in that 1984 Alberta reserves of oil are up on the conventional side, a tribute, by the way, to the explorers we have and to our small companies in this province particularly, relative to their success.

MR. ALEXANDER: Just one more. I don't mean to be too specific, Mr. Premier, but last year you quoted a useful and valid statistic from Petroleum Intelligence Weekly, which indicated that in the six largest markets the increase in consumption was 1.2 million barrels a day. It strikes me from things I've read that on a decade-over-decade basis the consumption level has decreased from about 75 million barrels a day 10 years ago to about 55 million now. There's the big trend and there's the little trend. As I said, I don't mean to get too detailed about this.

Have you any information or views about consumption patterns at the present moment? I fully agree with what you're saying that the prospective outlook on supply, from our point of view, looks good over the longer term. That will have to be related, of course, to demand. Is demand up or down or sideways or where it was, from your viewpoint?

MR. LOUGHEED: With regard to oil, other than heavy oil or used for heating purposes, I believe that the demand situation on the oil side, particularly gasoline, is clearly at the bottom of the cycle and will start to rise. Your figures are right in the magnitude of it, and of course that's very dramatic.

The interfuel shift is what is really interesting for a province like Alberta. Taking the North American energy market into consideration, coal's position has not materially increased, nuclear energy is clearly having a dwindling share of the market, hydroelectric will have some increase, but where the shift seemed to be going on in the last year is from crude oil to natural gas. In other words, crude

oil is holding up in terms of the light fuels but is losing its very significant share in the residual fuel oil. What is really good for Alberta, with sound resource management, is that we get it either way; in other words, if it's the shift to natural gas that strengthens the natural gas market in the United States. So where we might lose on the oil side, we'll gain on natural gas. Any area in the world which is producing both oil and natural gas is in the best position to take advantage of the future.

MR. ALEXANDER: So it's fair to say, in summary, that you see the global amount of revenue maintaining a fairly steady level from our point of view, although the shift within this pie, if you like, may change to somewhat less crude oil and somewhat more natural gas.

MR. LOUGHEED: Subject to the caveats I made and the fact that I would think that OPEC is more difficult to chair than a meeting of federal/provincial ministers.

MR. HYLAND: Mr. Chairman, as this is probably one of the last times I'll get the opportunity in this Legislature, I've been asked by the chairman of the Irrigation Projects Association and many others to thank you personally for the support you've given them under the capital projects division for the various upgradings through the irrigation systems. They want it to be publicly known that they're very thankful for the support and the hard work you did with the caucus toward that upgrading system.

MR. LOUGHEED: Thank you. I just want to say that another challenge for the committee is going to come next year when you decide whether the capital projects division should go from 20 to 25 percent.

MR. R. SPEAKER: Mr. Chairman, possibly not on that specific subject, but that's certainly one of interest. During our discussion here we've used the words the "integrity" of the fund and "flexibility" and "maintaining the capital base of the fund". I must say that I support that very much; we should maintain that capital base. My feeling at this point is that we should be able to try to funnel the earnings of the fund, the \$1.5 billion, into the fund so we can maintain not only an inflationary factor but an opportunity to

continue good programs and maybe expand into some new ones as well. I would like to see that. As I look at it that way, I also see that reflecting an attitude in terms of general revenue budgeting. As legislators we often think we can expand that budget because we have these easy funds out of the Heritage Savings Trust Fund. It brings about an air of more expenditures rather than accountability. In my own observation I'd like to see that change now.

In terms of the question of flexibility, when the Premier mentions the word "flexibility" with the fund, as legislators the problem that has arisen in all our minds, and I know in yours as Premier as well, and we talked about this earlier, is that the Legislature starts to extend ongoing general revenue programs through the Heritage Savings Trust Fund. I've often felt that we had lost our feeling for priorities and accountability.

I wonder if the Premier could comment on that. It's part of the definition of flexibility. I don't think that was what you meant when you were saying "flexibility".

MR. LOUGHEED: Mr. Chairman, important, because I certainly didn't mean that; I meant flexibility of the fund. But the meshing together in the way the hon. Member for Little Bow describes — well, if we can't do it in the budget, we'll do it in the heritage fund — I didn't mean that sort of flexibility. I meant overall policy with regard to the use of the income from the fund for general revenue purposes.

One option this committee could look at is a formula where you say: it's 100 percent of the income next year, it's 90 the year after, it's 80 the year after, and so forth. That's an option the committee could consider. But by "flexibility" I didn't mean that whatever pocket we want to take it out of we should do that. That would be wrong. What I meant is that we've shown with the Heritage Savings Trust Fund that we can be dramatically flexible, such as applying the income of the fund to general revenue now, and we should do that in the future. We shouldn't tie ourselves to a position. I think that's why we had a good debate here in the Legislature whether the 15 percent amount should be long term or just year by year. I think the pressure should be on the Legislature to make those decisions year by

year. That's what I meant by that. I'm sorry if I was misunderstood.

MR. R. SPEAKER: Right. I appreciate that.

MR. MARTIN: Just to follow up. I believe it was 1980 when you commissioned the Foster report to look into and analyze how the heritage trust fund had done. I guess I have a twofold question. Was that a useful exercise? How much of the Foster report was used in terms of changing directions? Is that the type of thing that should be done from time to time: bring in a private consultant, say, every five years?

MR. LOUGHEED: Mr. Chairman, without being disrespectful of the Foster and associates report, perhaps it was at the most difficult time ever to have asked them to make their analysis. As I said once, they shared with 99 of 100 of us a forecast of world oil prices that proved to be wrong, and I've yet to find that one individual who was right. So as I see it, Mr. Martin, it's difficult to relate the Foster report to the decision process we make here. That's why, instead of going to a private consultant, we went with our white paper approach and made that public. That was then part of the overall debate both here in the Legislature and in the community.

To me the most useful part of the white paper is the description of those things that have changed since 1971, the negative and positive factors. One, of course, that we've mentioned in the past and that is so important is that our oil and gas reserves have not declined as dramatically as we thought they would.

It is my view that there are times for the private consulting report, but that the better approach is for government to establish their own assessment and then call upon the private consultant to make an analysis of it. I preferred that approach relative to the white paper over the approach we had in the past. I don't mean that with any disrespect to the Foster people, but they were in a time frame where everybody had a view of commodity pricing of oil and natural gas that was so much higher than it proved to be.

MR. MARTIN: Mr. Premier, is there not a danger, though, that if it's done internally in government — obviously, this is ongoing in

government — it can tend to be inward-looking and that from time to time you need an outside look at it, whether it's the Foster report or something like this, and that that should be done maybe every eight years? I don't know what that magic time is.

MR. LOUGHEED: Yes, I'd concede that that has to be assessed. I feel pleased about the way the white paper process went, because although it was developed internally, it became a matter of good public debate. We had presentations by you and others, and that was a good public debate on the issue. There is a role for outside people to look at it, but if it gets to be regular — and I suppose this would get us into our debate over the need for an Alberta economic council — then I really don't know that that has proven to be that useful, at least nationally. But you're quite right; there are times when external assessment has a lot of merit.

MR. MARTIN: Just one follow-up. If I recall, I think this was alluded to in the Foster report, and we've talked about it in this committee. In fact, a couple of years ago I believe it was a recommendation. Dealing with the Alberta investment division, many people have been critical of our putting so much into our own Crown corporations, like Alberta Government Telephones. Because we have a triple-A credit rating in the province, they can borrow on the open market just as well as they can from the trust fund, and it would be more valuable to have this in a more liquid form, where it could be used in other areas. What's your assessment of that type of criticism?

MR. LOUGHEED: We've responded to it in the past with our decision that Alberta Government Telephones and the Alberta Municipal Financing Corporation should in fact go to the market. I presume that the question relates to whether we should go to another step. I think that does get me clearly into the sort of specific that I should hold on, because that's a question of the evolution of the fund. It's a policy decision that should be left for the future. That's the only question I've ducked all day.

MR. CHAIRMAN: Would there be additional questions?

MR. GOGO: One very brief one. Premier, now

that you're actually leaving, do you have any regrets that the heritage fund was not used to purchase the CPR?

MR. LOUGHEED: You'll never know.

MR. CHAIRMAN: Would there be additional questions forthcoming from committee members? If not, Mr. Premier, do you have a concluding statement you'd like to make?

MR. LOUGHEED: Just a couple of observations, if the members wouldn't mind. If my announcement had been made while the House was still sitting, I would have made some comment. I would like to make it now, if the members will be tolerant.

I gave a lot of attention, of course, to the fact that I was in public life for 20 years and that I was Premier of the province for 14, but I've been in this Assembly for 17 years. I want to add some observations about the Legislative Assembly of Alberta. I have a multitude of memories of exciting times, difficult times, and frustrating times, but overall an extremely good feeling about this Legislative Assembly. There's some particular relationship that develops about working on this floor that every one of us has tried to describe to a friend or an associate and has been completely unable to communicate what we're talking about. They look at us and don't really understand until they're actually here and come onto the floor of the House. It's very special.

The legislative process, in my experience, has been — and I hope you'll join with me — that there are lots of difficulties with the parliamentary system, but when I assess other systems, the parliamentary system seems to me so far superior. I believe so strongly in the accountability factor that's related here in our daily question period and overall that that's one of the real strengths of the parliamentary system. We couldn't have a Watergate in the parliamentary system, because you're in, you're there, and you're required to answer. We've got the seating arrangement correct here, and I can fire my shots at the Premier. I think the accountability portion of it is really important.

The second thing — and I know there are some of you who disagree, but I feel very, very strongly about this. This Legislature has had a decorum that is unparalleled in Canada: the decorum of the approach of the Speaker. I don't

mean to be partisan, but I think it's fair to say that I accepted that decorum when I was in opposition, and I believe it's right. When those citizens and students come and observe, we've got a Legislative Assembly that we as individual members can be proud of and we're not out defending it, as is the case in other parts of Canada. That's a tradition that was passed on to us by our predecessors that I think is very, very important.

So when I look back at my memories of being involved in this process, I do not want to minimize how deeply I feel about the Legislature of Alberta and its traditions. Thank you for being so tolerant in giving me an opportunity to express those views. [applause]

MR. CHAIRMAN: Mr. Premier, as this is the last opportunity this committee will have to meet with you in your capacity as Premier of Alberta, may I say on behalf of not only the current members but all past members of the standing committee on the Alberta Heritage Savings Trust Fund a sincere thank you for the many years of unselfish service you've provided to the people of Alberta. The Alberta Heritage Savings Trust Fund was your idea and, without doubt, is one of the most unique ideas to have been developed in contemporary international political thought. Far too few of your peers throughout the world today are concerning themselves with a view to the future. Your initiative and determination in seeing both the creation of the Alberta Heritage Savings Trust Fund and the successful implementation of the fund for Albertans of the present and the future will serve those who follow you as outstanding examples of responsible management and stewardship of resources and finances.

Albertans of today and our children of tomorrow want us to say thank you. You have left a legacy that will be well remembered and appreciated. Thank you for our future. May we wish you the very best in your future.

MR. LOUGHEED: Thanks very much.

MR. CHAIRMAN: We'll now adjourn and reconvene tomorrow afternoon at 2 o'clock sharp.

[The committee adjourned at 3:16 p.m.]

