

[Chairman: Mr. Oldring]

[10:01 a.m.]

MR. CHAIRMAN: Good morning, everyone. We'll call the meeting to order if we can, please.

I want to begin by welcoming Mr. Johnston, the hon. Provincial Treasurer, to another meeting of the Alberta Heritage Savings Trust Fund select committee. With Mr. Johnston this morning we have Mr. Allister McPherson, Deputy Minister of the Treasury Department.

Mr. Minister, the format hasn't changed here in the committee. We still extend an opportunity to you, sir, to open with some brief comments, followed by a question-and-answer period. The Chair recognizes each individual member as he sees their hand rise. They have the opportunity to ask one question, followed by two supplementaries.

I should also note that it was one year ago today that Black Monday occurred, and that of course stimulated some discussion in your last appearance before this committee. On that note, perhaps I can turn the floor over to you, sir.

MR. JOHNSTON: Well, thank you very much, Mr. Chairman. It is in fact a pleasure to be here today to discuss this important and unique part of the fiscal plan and the heritage of Alberta, the Alberta Heritage Savings Trust Fund.

And you're right. It is exactly one year ago today that the market did suffer a significant adjustment. A year ago today Allister and I were in Zurich, Switzerland, as a matter of fact, talking to investment bankers there, and the description that comes to mind is a reign of terror. When the market plunged so dramatically, the so-called gurus of Switzerland were running about trying to decide what their losses were and were being called upon every moment to sign off new liquidity requests and sale of assets.

But, you know, the market was just that; it was a crash. It was suggested that it was similar to the great crash of 1929. But in fact a year later it's turned out that it was much different, as the central banking authorities in particular provided the additional liquidity necessary for the markets to perform. Of course, the response was as you've seen. As a matter of fact, the stock markets, as a matter of information, on October 19, '87, were around 3,191 in the Toronto stock exchange. That market later moved to about 2,838 in terms of the index and today roughly around 3,385 points.

So what you've seen is a fairly significant recovery of the potential losses in that equity market over the year. I think most people have decided that given the economic forces which were at play here, the strength of the American economy in particular, the strength of the Canadian economy more specifically to us, and in fact the strength of the Alberta economy on top of it, really the correction was just that, not a significant crash that was continuous but an adjustment.

However, it did give many people an opportunity to reflect upon the nature of financial markets, to point to the way in which the market responds and can dictate responses to fiscal policy or monetary policy, which are not necessarily in line with the market view of what should be done. I think to a very great extent you've seen adjustments in monetary and fiscal policy as a result of the crash of October 19, 1987, and a lot of that has been the so-called participation and harmonization of monetary policy and exchange rate policy among the G-7 countries.

So, if anything, it was a lesson for us to look at the way in which the market can respond. I think there's been some corrective action taken by the major governments of G-7 countries,

including Canada, as a result of those alignments. Fortunately, the impact on the Heritage Savings Trust Fund has not been all that significant.

Let's just recall what the heritage fund essentially does for us in Alberta. I don't think I have to recite all the statements or positions the government has taken going back to the inception of this fund, nor should I go on about the position I've outlined to this committee. But let's just remember that over the past few years, a period when the Alberta economy has been characterized by very sharp changes in the oil and gas prices which drive a large sector of our economy, and to a certain extent a significant recession in Alberta driven by the impact on that sector, the fund has been a very useful part of the fiscal policy of this government. And as you well know, the transfer of income specifically from the fund to the General Revenue Fund has assisted us in providing a stability factor to the General Revenue Fund in terms of our expenditures and our revenues and our tax regime, allowing us to manage the economy through this period of volatility. At the same time, of course, the financial support for the General Revenue Fund is an intrinsic part of the revenue source of the province and, as we've indicated previously, in fact allows us to maintain this high level of services and the lowest tax regime of any province in Canada.

So the two objectives there of the fund are, in fact, intrinsic and parallel to the fiscal plan; that is, to provide support for the General Revenue Fund in terms of revenue support and to allow us to manage the economic volatility of this economy by the vast amount of money which is now invested in the Heritage Savings Trust Fund. Of course, the other major objective, which probably was more important in the inception of the fund, was to strengthen and diversify the Alberta economy, and I think that by most measures the strengthening and diversification opportunity which the fund has afforded this province and this government has been probably its largest significant achievement over the 11 or 12 years it has been in place.

Over the past year this committee has seen the fund capped, if you like. This is the first year that the transfers of resource royalty have ended within the fund. Of course, when that decision was made by the Legislative Assembly, by legislation, you would expect that obviously the fund is not going to grow in size. That was the implicit assumption behind the decision to cap the fund. Of course, any transfers — for example, the 15 percent transfer of resource royalties — which had taken place historically ended up in the General Revenue Fund to assist us with the deficit problem. But it is automatically known that obviously the fund will not grow. But as I said earlier, Mr. Chairman, that doesn't mean that the fund has not been able to provide major assistance to the General Revenue Fund, to the province, and is a very large part of the fiscal plan moving out over the years ahead.

The fund, generally speaking, has become more liquid than less liquid over the past couple of years. We have seen some conversions of our investments in the Canada investment division, and we've even seen some conversions of investments in the Alberta investment division, and we have pursued a more liquid position for the fund itself. I think that at the end of March 31, if you'd forgive me for the rounding, there's about \$2.8 billion in liquidity in this fund, which is now being invested in a variety of short-term commercial investment opportunities.

Obviously, as that transition takes place, wherein higher yielding investments such as advances to Newfoundland or Manitoba through the Canada investment division are converted

to cash, we must expect that the yield to the fund itself will reduce, at least in the short term, because some of those investments were very high-yielding investments, moving between 9 and 15 or 16 percent, I think has been reported. Obviously, if you convert a 15 percent debenture into a short-term investment, you can expect that the yield in terms of current market will probably reduce by about 3 or 4 percent. Now, that's on the assumption, Mr. Chairman, that the current short-term market performance would give you on a T-bill basis, for example, 10.36, someplace in there. Therefore, the actual earnings of the fund are down. And that has also tracked the transfers from the fund to the General Revenue Fund. That is to say that the transfers are down as well.

But if you look out over the next period — say, six months to seven months — I think there is a great opportunity for the fund to earn a little more than we expected. Because on the short term, on the short side of the yield curve, the actual interest rates are moving up, and since the central bank has taken on a view that it wants to protect inflation, then the yield curve itself is starting to move up and has moved up over the past year based on some assumptions on inflation based on a central banking policy of taking on the inflationary pressures. Obviously, that shows up in the short-term yields. Some people are calling for a bull market in bonds right now, and obviously the investment people in Treasury are watching that very carefully. Needless to say there is an opportunity for us over the next year, in my view and, I think, the view of the investment committee, to take advantage of increasing yields on the bond market. Because of our liquid position, obviously we can reap additional interest earned on that side.

The additional or new investments in the Alberta investment division in particular, which I'm sure many of you may want to talk about — I would flag particularly the investment in Nova Corporation. That was a very unique opportunity for the heritage fund to invest in one of the most significant Alberta-based, transnational corporations and to ensure that that company maintains its Alberta-profile head office operation and the economic benefits flow back to this province as a result of its worldwide activities. In a deal struck with the management of that committee, the heritage fund was able to secure a \$150 million convertible debenture in the Nova Corporation. I'm not too sure specifically what the profits are, but the conversion on those shares over the 20-year period ahead is at \$10.70. The current market on Nova shares, for example, is about 12.375 today. The rough or the approximate profit on that investment has been of the order of \$20 million to \$23 million just since that deal was done, together with a 6 percent rate of return on the debenture. It would be my view that this particular investment, which we secured over the year, will probably add a dramatic value to the balance sheet of the Heritage Savings Trust Fund over the 20-year period ahead. I think it's our view and certainly the market's view that Nova is one of the picks to click, if you like, in terms of securities in the world. It's now listed in New York, as you well know.

The reason I point to this one, Mr. Chairman, is that many of the investments in the heritage fund are recorded here at cost, but in fact their market value is far above the cost figures that are reflected in the financial statements, and therefore right across the board, with the possible exception of some losses I could talk about on some of the Alberta investment division assets, we think the value of the fund is probably above the book value that is reflected in the financial statements.

Certainly, I think the management performance of the fund

has been fairly good. With respect to the commercial investment division itself, we've referred already to the October 19 scenario. As you've seen in the statements, the market value of that commercial investment division, the equity stocks of Canadian corporations, is far above the cost of those shares. Obviously, that's a profit which, when recognized, can in fact be transferred to the General Revenue Fund. But, indeed, until it is recognized it shows up, in my view, as asset appreciation which adds dramatically to the value of the fund.

We could talk about other assets which are of like nature and which, in fact, are worth much more than reflected on here. In any event, the pool of liquid assets of the fund is running around \$2.8 billion. Obviously, that's a very significant part of the asset potential of the government. Although it's earmarked in the fund here, we are using it, as the statements show, on a short-term borrowing basis to provide an opportunity for us to judge or to outjudge the market and to borrow from that pool of assets for the General Revenue Fund, or other funds if necessary, to finance us over that interim period. As I've said before, any funds which are borrowed from the heritage fund, either for the small business equity fund or for the Farm Credit Stability Fund or for the General Revenue Fund, are in fact to be paid. We're into the market quite regularly now and will secure longer term financing if there's a market window for our bonds, and we would replace the short-term borrowings from the heritage fund. But it should not be understated how important this pool of liquidity is to the overall financial debt management of the province. At the same time, besides allowing us to borrow without going to the market and then judge the market on our own terms, the fact that we've used it to finance the Crown corporations in particular also has a major impact on financial markets in that if these corporations had to borrow on the marketplace, obviously there'd be more Alberta paper out there and therefore the scarcity value, which the market now perceives to be the case in Alberta bond issues, would be to some extent lost.

So while it's prudent both in terms of its investment activity, it also does have important impact on the acceptable nature of Alberta bonds on the marketplace, and I should only say on that point that our bonds on the world marketplace are well received. We can access the market at about the same rate as any other national sovereign borrower can, and our bonds have performed extremely well on the international markets. Our borrowing potential is exceptional for the reasons I've outlined with respect to keeping assets off the market because of the investment in Crown corporations; secondly, because we have the opportunity to move around the market peaks and troughs by using the funds of the heritage fund; but finally, because Alberta is the only province still with net assets, and those net assets essentially are accounted for in the equity which remains in the Heritage Savings Trust Fund.

One final comment then, Mr. Chairman, with respect to the disclosure. I've referred before, I think in the two times I've been here, that we have had a discussion with the Auditor with respect to the disclosure of deemed assets. You will recall that in the 1985 financial statements the Auditor, Mr. Salmon, provided us with an unqualified report, and in the disclosure at that time we totaled all the assets together, bringing the financial assets and the deemed assets together under one total. There was not a qualification to that point, and of course it did satisfy the generally accepted accounting principles. Subsequently we then went on with the Auditor to discuss how we could improve the disclosure, recognizing his fear that these deemed assets were not properly disclosed, contrary to our view. We then, as

the disclosure now shows, separated the financial assets from the capital assets so that the total amounts are not added together. Recognizing that we improved our disclosure and recognizing that we had the same Auditor, Mr. Salmon, who in the last two years has found it professionally necessary to provide the qualification with respect to the deemed assets, note carefully, however, that he does not say anything about the disclosure, about any irregularities with respect to accounting procedures or any other difficulties with respect to disclosure of both financial and deemed assets of the Heritage Savings Trust Fund.

Let me just conclude on the deemed asset side that in my view the disclosure is appropriate, that these deemed assets are so significant to the province. They've allowed us to do those unique kinds of things that no other government could do and have allowed us on a balanced basis across the province to provide major investments in diversification opportunities and infrastructure investments which are unmatched anywhere in Canada. Therefore, as an appropriate signal to all Albertans, who take very great pride in this fund and can participate directly by identifying their project in their community, this deemed asset disclosure is quite appropriate in my view and totally should be included in the asset value of the fund.

Well, Mr. Chairman, I look forward to the discussion today. The recommendations from this committee are important to us. We watch them very carefully. I know you spend a lot of time evolving these recommendations. They are taken seriously by government, and I know you'll continue to give us some good advice, sound recommendations as to how we should proceed with the fund. But let's just remember that we're in an interesting period right now, a period where oil prices are in fact soft, where the economy is emerging quite vigorously and with a great new spirit of economic growth. We have to perhaps to some extent park the new initiatives or new review of the fund until the value of oil moves up to some new level. Nonetheless, the fund will continue to be one of those amazing opportunities for us to provide safe and secure access to dollars, to diversify the economy, to allow the province to maintain a very strong fiscal position overall in Canada, and to continue to provide the kinds of economic growth and diversity which this province needs, which this province can secure largely as a result of the Heritage Savings Trust Fund.

Thank you, Mr. Chairman, for the invitation to be here and these opening comments. I look forward to the exchange and the questions and the discussion.

MR. CHAIRMAN: Thank you very much, Mr. Johnston, for an excellent and helpful overview. You, sir, seem to know how to bring out the best in this committee. I would point out that there are 13 members plus the chairman in attendance, and on the chairman's list we now have 13 people who would like to ask you a question or two.

Member for Little Bow.

MR. R. SPEAKER: Thank you very much, Mr. Chairman. I appreciate being first on the list. It's a good sign.

I welcome the Provincial Treasurer. In my first set of questions, I want to follow up some questions I started yesterday with the Auditor General. On page 43 of the report is footnote (c), which refers to the participating debentures to Millar Western Industries Ltd. The first question I have to the Provincial Treasurer: this participating debenture seems to be rather an unusual form, unique and different, something I haven't been

confronted with before. I was wondering if the Provincial Treasurer could indicate why that form was used, and is there any opportunity to table the actual agreement that was made between the company and the government?

MR. JOHNSTON: Mr. Chairman, with respect to the Millar pulp mill investment, which shows up here at \$50.693 million, the total exposure of the government is, I guess, Allister, \$185 million, of which \$51 million had been drawn down at the point of the statement. Is that accurate?

MR. McPHERSON: One hundred and fifty.

MR. JOHNSTON: Sorry; \$150 million.

MR. McPHERSON: I'm sorry; \$120 million.

MR. JOHNSTON: One hundred and twenty million. Okay. So it's \$120 million total potential for the fund to invest in this diversification initiative, remembering that this was one of the first major step-outs of the private sector to expand pulp processing in this province. It was done by an Alberta-based company, and therefore it did satisfy the tests of the Heritage Savings Trust Fund. That is to say, it was a diversification, because it was forestry — which was a new initiative, to expand economic growth in that sector — and it did provide a return to the fund, which is the investment return side.

The problem we're facing with respect to the disclosure, Mr. Chairman, is that these are commercially sensitive decisions, and I think the history of these kinds of investments is that we do not disclose them fully, because of course there are a variety of other companies now accessing the forestry sector in Alberta. In fact, it's a very big play, as you well know. Therefore, we would not want to provide additional information to competitors to the Millar Western group in terms of their natural competitive advantage.

MR. CHUMIR: I'll give them a copy.

MR. JOHNSTON: Well, if you give them a copy, Mr. Chumir, that's fine, but you realize the responsibility you're taking in doing that.

Then of course the fund does receive a rate of return on this investment. It to some extent is based on the cash flow, tests of the entity, and if the cash flow tests of the entity are not met at some point — that is to say, the agreed rate of return is not paid to the fund — then a participation in the equity of the company is triggered. In my view, given the forecast for this entity, given the workout we've seen in terms of the projection, given the pricing of this commodity in particular, we think the company will repay the amount; no doubt about that. Secondly, the investment will earn a rate of return; and finally, I think it's a very secure opportunity for the fund, both in terms of the intrinsic nature of the investment but also in terms that it triggered a new round of investment in the forestry sector.

MR. R. SPEAKER: Mr. Chairman, to the minister. Could the minister just confirm — and I think this is in the note that came from Treasury, as I understand it, note (c) — that no interest is due until the full principal amount has been repaid? Does that mean that we as the heritage fund will not receive any kind of return until after the 15-year period into the year 2004?

MR. JOHNSTON: Allister was involved in the details of this contract. Maybe you want to just answer that one, the point being that I could go to my briefing notes and dig out the facts if you like, but I don't think that's the case. Allister, do you want to just comment on that?

MR. McPHERSON: Yes, Mr. Chairman. The transaction is based on the cash flow, and all this note is indicating is that in allocating the cash flow which comes to the province, it gets allocated to the principal first and then to the interest, so that we would fully expect on any projections done that the interest in fact would be fully paid prior to the 15-year period expiring. So both principal and interest repaid to the province before the 15-year period is over.

MR. R. SPEAKER: Just for clarification, Mr. Chairman, does that mean that we pay principal first and then interest and that there would be a delay, though — at least a delay, some period of time in this 15-year period — when we will not receive any return? We'll get a principal return but we will not receive interest return for maybe five, six, seven, eight years, depending on the profits of the company. Would that be correct?

MR. JOHNSTON: That's a possibility. But that scenario would require that the cash flow would be down for those five or six or seven years. The intention of this loan as a structure is to assist the company in its start-up years but, when the profitability is there, to ensure that the fund gets its return, plus principal repayment.

MR. R. SPEAKER: Have I one more question, Mr. Chairman?

MR. CHAIRMAN: One supplementary.

MR. R. SPEAKER: In terms of the security, have we first security, or does the bank in terms of its investment or its loan in this operation have security prior to the Heritage Savings Trust Fund loan?

MR. McPHERSON: The bank would have the first security.

MR. R. SPEAKER: I'm sorry?

MR. McPHERSON: The bank has first security, the heritage fund second.

MR. CHAIRMAN: Before I recognize the Member for Ponoka-Rimbey, the Chair would point out that I've been able to show a lot of discretion in terms of questions and supplementaries. There have been times when we've had three and four supplementaries for the purpose of clarification, but perhaps it would be in the best interests of all the members if I could enforce it a little stricter today so that everybody can get through.

I would then recognize the Member for Ponoka-Rimbey.

MR. JONSON: Yes, Mr. Chairman. In the opening remarks the Treasurer made he expressed some interest in the recommendations of this committee, and I would just like to refer to a recommendation that was made last year. It was recommendation 3, sponsored by the Member for Lethbridge-West, and it proposed that

as the Alberta Heritage Savings Trust Fund has now been in existence for 11 years ... the government of Alberta consult

with business, labour, and the general public as to the goals and objectives of the fund for the next 10 years.

My question is: aside from the usual feedback from MLAs, who in turn are consulting with their constituents, has there been any special initiative or any plan to provide for this type of consultation?

MR. JOHNSTON: Not a plan, Mr. Chairman.

MR. JONSON: Well, Mr. Chairman, I'd then like to pose a follow-up question. Does the Provincial Treasurer feel that there is currently in place an adequate and accurate communication network for the various features of the fund?

MR. JOHNSTON: Well, Mr. Chairman, one of the problems we've always faced with respect to the Heritage Savings Trust Fund is to have Albertans understand as fully as possible what the fund has been doing for them, what it can do for them, the intrinsic strengths of the fund, and the context of the fiscal plan. From time to time we have conducted a fairly significant advertising campaign, a media event if you like, wherein hard copy and TV copy is provided for Albertans to more fully understand what the fund is about. I think that's been fairly successful. Obviously, because of the uniqueness of this fund there are still misunderstandings about it. Some of that is perpetuated by some politicians, some is perpetuated by the press, and some is still perpetuated by others who really don't understand the operations of the fund.

But we have done a lot over the past four or five years to ensure that that communication takes place. The publication of the annual report, for example, is in itself a statement of what the fund can achieve, its record of achievement, and the makeup of the assets in the fund. The Heritage Savings Trust Fund committee, I know, has reviewed irrigation projects in southern Alberta that I'm concerned about and has in fact had an opportunity to discuss with the proponents, the users of the fund, how they can better or best use the resources of the Heritage Savings Trust Fund to improve the diversification in investment opportunities for which the fund is intended.

The difficulty you find, however, is that, as I said in my opening comments, because the fund is really not growing right now, we don't have as much discretionary opportunity to initiate new programs. We have extended the cap on the fund this year by increasing the capital projects division to 25 percent from 20 percent, which allows us to meet the commitments of the capital projects division side, and that is a major expansion of the infrastructure of investments across the province. But I think it is being de-emphasized simply because it does not have the same growth potential that it did have in the period, say, of 1976 to 1980 when a large percentage, probably 60 or 70 percent, of the fund's assets were accumulated. Therefore, you would not want to have hopes or objectives in the minds of Albertans that could not really be achieved by the direction of the fund, and therefore I think we have been modest in the way in which we have advertised the fund.

Nonetheless, let's remember that at least two elections were actually campaigned on the strength of the fund, and I think the support of the people of Alberta was clear. They wanted us to have this savings account. They wanted us to put some money away for a rainy day, if you like, and we have done just that. I think, as I've said earlier, Mr. Chairman, the remarkable achievements of the fund have reinforced the decision to set it up in the first place.

MR. JONSON: Yes. Perhaps, Mr. Chairman, I could be a little more specific under the very broad topic of communication. The Treasurer was referring to elections, and we are currently in the midst of a federal election where the major commercial agreement sometimes known as the free trade agreement is very much an issue. One of the areas where I think there is a communication issue or problem concerns the effect or lack of effect that the free trade agreement might have on the utilization of the Heritage Savings Trust Fund to help with diversification initiatives. So my question would be: is there any possibility that the Canada/U.S. trade agreement could affect the province's ability to use the heritage fund for this purpose?

MR. JOHNSTON: It would be my view, Mr. Chairman, that in the strict interpretation of the free trade draft agreement that has now been signed by the United States, and then probably November 15 or so will be completed by the government of Canada, there is nothing in the fund itself which would be caught under the so-called subsidy side. I mean, these are normal kinds of expenditures, in the case of infrastructure investments, which would not be in conflict with the free trade arrangement, at least as I understand the interpretation and the intention of the free trade arrangement. Yet the fund itself, because of the significant investments that we have made through the fund, would assist us in meeting the challenges of the free trade arrangement, particularly with the United States. We mentioned already the investment in Nova, the investment in the Rupert terminal, the investment in the Alberta Energy Company. These are all very significant investments, and these companies in particular would probably be allowed to expand under a free trading opportunity with the United States in energy and petrochemicals or in grain.

At the same time, some of the infrastructure investments that you have seen — the research in technology with a medical side, the investment in the coal research facility, the investment in the electronics testing facility — are all important to bring new investment to this province to allow us to enter and access with a great deal of competency the California markets and the United States markets in general. So these investments have enduring value that will attract on a longer term new diversifications in a variety of other industries to this province, and I would expect that that will be the result. I would say that the fund here could well be strategically placed to allow us to diversify the economy more significantly with the investments already in place and to continue to attract new industries which would basically diversify our economy to even a larger extent.

Specifically, I can't see the fund being in conflict with the intention or legal words of that free trade arrangement.

MR. CHAIRMAN: Before I would recognize the Member for Calgary-Forest Lawn, perhaps the Chair on behalf of the committee could welcome the parents and teachers and students in the visitors' gallery. The meeting here this morning is the select standing committee on the Alberta Heritage Savings Trust Fund. There are 15 MLAs who serve on this particular committee, and we are presently reviewing the 1987-88 annual report on the Alberta Heritage Savings Trust Fund. Appearing before the committee this morning is the Provincial Treasurer, the Hon. Dick Johnston, and his deputy minister, Mr. Allister McPherson. So welcome, students and parents and teachers.

The Chair would then recognize the Member for Calgary-Forest Lawn.

MR. PASHAK: Thank you, Mr. Chairman. While the minister this morning has gone on at length to extol the virtues of the heritage trust fund and its support for economic activities here in the province — he's called it a remarkable achievement, among other terms — a number of people, experts looking at this fund, would have used the term "smoke and mirrors" to describe it. As an example, they would say that the assets of the fund are dramatically overstated. Even in terms of support for the general revenue account — in the opening statement to the report, the Provincial Treasurer's statement, he mentions that \$1.3 billion, or 14 percent, was transferred to the "General Revenue Account to help fund education, health and other important services," but I find that nowhere in the report does it mention any funds going from the General Revenue Fund to help support any organizations, corporations, Crown corporations, or whatever that have obligations to the fund. I wonder if the minister would care to give us some approximate idea of how much money comes out of the general fund to support the obligations of other corporations that have received funding through the heritage trust fund.

MR. JOHNSTON: Mr. Chairman, I certainly agree with the Member for Calgary-Forest Lawn that the virtues of the fund are in fact great and it has been an amazing success. If that's what he's saying, we certainly agree on that point.

MR. PASHAK: I'm saying that that's what you said.

MR. JOHNSTON: Well, I'm just echoing your words.

So I think there's no doubt that the students up here who will benefit from the Heritage Savings Trust Fund scholarship fund — some 4,000 students, for example, will benefit from that every year — will be glad to hear that there's no asset value in that fund, Mr. Calgary-Forest Lawn. Because, in fact, it's not right at all. You know full well that the fund itself is probably understated in terms of the cost value here. There is no doubt that the value of this asset, the \$15 billion in that asset, is fairly reasonably stated. I would say modestly that the actual value of the fund is much more than that, because, as I pointed out, we have made profits, increases in the market value of those assets. Therefore, I think it's important that that should be recognized and noted.

Now, the member also talks about experts who have adjudicated this fund. Well, we deal with experts, Mr. Chairman. Experts in the world financial markets are always interested in this particular aspect of our fiscal plan. We have people from all over the world coming to talk to our department about the imagination that's implicit in it, the great decision that was made to invest in it, and the success of the fund itself. Very few of them criticize the investment profile. Most of them talk about the uniqueness, as I've outlined, in supporting the fiscal plan of the province, in assisting us to achieve a good position in the world capital markets, which is important to any province. The diversification initiatives which are founded in this fund are beyond belief to most people worldwide who deal and review these kinds of investments. It is a result of the fund itself that our credit rating worldwide has been sustained and that we can access the capital markets as good as any national sovereign, as I've indicated, usually, and that our bonds in fact have been well received in the world markets. In a period when a government has to go to capital markets, this is a very major asset.

Now, it is true that because we did invest in Crown

corporations — which is a specific point that the Member for Calgary-Forest Lawn was referring to — there is a circular flow of money from the General Revenue Fund to the heritage fund, back from the heritage fund to the General Revenue Fund. But the net flow, of course, to the General Revenue Fund is far greater than the cost to the General Revenue Fund.

I could go on in the General Revenue Fund itself, Mr. Chairman, but it is my view that the review of the transfers from the General Revenue Fund is in fact the responsibility of the committee that you chair, Mr. Pashak; that is, the Public Accounts Committee. It is fully disclosed in the Public Accounts Committee as to what those expenditures are, and they're well disclosed there; there's no secret about them. They in fact do take place, as I've indicated.

But to argue that the asset value of these Crown corporation investments is anything but what is disclosed here at a minimum is false. Take, for example, the advances to the Alberta Municipal Financing Corporation which simply were redeemed this year. They were shown at cost, they came back at cost, plus they earned a rate of return. That's all fairly clearly stated.

I know it is difficult because we have two funds in operation here, and there are transfers back and forth. But, nonetheless, because the bonds of Alberta Mortgage and Housing Corporation are guaranteed by the province, therefore they're worth what they're worth, at least their cost value. Their market value would probably be a touch higher because of the yields on them. But because we do have a commitment to the housing side through the General Revenue Fund, there is some debenture support or cost support of Alberta Mortgage and Housing Corporation which does show up in the Alberta savings trust fund. In the case of Alberta Opportunity Company, for example, I think there was about a \$5 million difference, a \$5 million cost to the General Revenue Fund in terms of supporting Alberta Opportunity Company.

But that information is disclosed. The member can work it out as easily as I can. He simply has to do some work on the public accounts side, where he's now an expert after two years of chairing that committee. He can derive the numbers as fast as I can.

**MR. PASHAK:** Well, that's the longest nonanswer I've ever heard. My point is simply that that's not an adequate reflection of where we're really at in terms of the economic condition of this province, to state that we transfer \$1.3 billion from the heritage trust fund into the general revenue account without at the same time disclosing in the same statement the amount of funding that comes back into the heritage trust fund from the general revenue account.

My second point has to do with your assertion that this fund has been used to diversify the economy of Alberta in important ways. I'm going to give you an opportunity to go on at length by asking you to give us some indication of just where this diversification has taken place. In doing that, I would prefer that you exclude from your answer any diversification that touches on the energy sector, because we have an oil industry here. It's quite capable of developing on its own, and the real concern in this province is to develop other lines of manufacturing and economic activity that are quite independent of oil and gas. So if the minister could just give us some idea of how this fund has been used to truly diversify the economy.

**MR. JOHNSTON:** Well, it is an interesting trap, Mr. Chairman, to suggest that we will use only one definition of diversification,

and therefore upon that definition there will be zero diversification. To me, therefore, the Member for Calgary-Forest Lawn is suggesting that petrochemicals, for example, is not a diversification of the Alberta economy. I would strongly disagree with that suggestion. To think, for example, that petrochemicals is not a diversification reflects the naiveté of the question itself.

Petrochemicals is a remarkable achievement of this province which goes back to 1976-77 sometime and is now in its second phase of development with the new ethane policy in this province which will allow Dow and Nova Corporation — note the words "Nova Corporation" — to expand aggressively with new petrochemical expansion plants in this province, adding jobs — presumably diversification brings jobs, and it does in fact take place here — and to allow us to add value to a very valuable resource, natural gas in particular, so that we're not exporting the raw product itself with its downstream value-added opportunities but are adding them here in Alberta.

The fact that we're adding asset value here in Alberta to raw material products, both in agriculture and energy, is in itself by definition a diversification of this economy. To argue differently, Mr. Chairman, would not be the view of diversification that I hold or this government holds and certainly not the kinds of diversification which have taken place as a result of the Heritage Savings Trust Fund.

Now, I'm not going to reiterate all the diversification elements. I can list them here for you, but they are in fact reflected in this statement. Let's just take a look at these, I guess, for a second to see what we do have here. Well, Farming for the Future: one of the important aspects of any policy is the research element. Now, many experts will tell you that without research, without the intellectual potential to develop new ideas, new processes, new technologies and to ensure that they are commercially viable, in fact no diversification has any fundamental opportunity to begin. What we have done here in the Heritage Savings Trust Fund to trigger major diversifications in a variety of areas, including energy, agriculture, medical research, high technology, is that we have invested in significant infrastructure assets which will add to that fundamental initiative. Again, diversification must come as a result of research, and we are starting with the fundamental building block by investing significantly in this research potential. I would suggest that Farming for the Future is a major form of research, allowing us to develop such things as new canola products.

Now, you notice the free trade arrangement. My colleague from Ponoka-Rimbey mentioned the free trade arrangement. Well, I . . .

**MR. CHAIRMAN:** Perhaps, Mr. Treasurer, you can save a little for the next supplementary.

**MR. JOHNSTON:** I could go on for an hour and a half on the subject of diversification, but you're right, Mr. Chairman. Forgive me. I get so excited and so really wrapped up in the opportunities that this fund provides in diversification that I could go back and spend many, many moments if not many, many hours on these elements. And they're described here in the fund. They diversify in agriculture; they diversify in energy; they diversify in medical research; they diversify in high technology, and on and on it goes.

Finally, let me say one thing. This fund has invested dramatically in the Alberta Oil Sands Technology and Research Authority. A new OSLO plant has been committed; a new

Husky Oil has been committed.

MR. CHAIRMAN: Thank you, Mr. Treasurer.

MR. JOHNSTON: That's how diversification works in this . . .

MR. CHAIRMAN: Final supplementary. [interjection]

MR. PASHAK: I'll ask a very specific . . .

MR. CHAIRMAN: Well, just on a note to the Member for Athabasca-Lac La Biche, who probably asks the longest questions in this Assembly: I think the Member for Calgary-Forest Lawn in asking the question recognized at the outset that it was inviting a lengthy answer. If you don't want the lengthy answer, then don't ask the question.

Member for Calgary-Forest Lawn, final supplementary.

MR. PASHAK: The minister in his response mentioned Nova. We know there are plans under way; the government has made a commitment to support an upgrader in the Lloydminster area. How does the government propose to transfer funds out of the heritage trust fund? I assume that's where it would be coming from. What are the specific mechanics by which these funds would be transferred to support that project?

MR. JOHNSTON: As a matter of fact, Mr. Chairman, that's a reasonable question. That's the kind of question we should be dealing with, because in fact they are in the future and do require advice to government from the fund itself and, I think, on balance could appropriately be housed in the Heritage Savings Trust Fund. But I should say that we have not come to any specific conclusion yet as to how we will fund this very attractive opportunity we have to invest in the Husky Oil upgrader in the Lloydminster area, bringing strength and vitality, diversification to that sector, assisting Saskatchewan, one of our collegial people across the border, and to invest as well in OSLO, synthetic production from the largest deposits of oil in the world, adding to Canadian energy self-sufficiency, diversifying our economy, using the investment opportunities and the research opportunities, and providing jobs and long-term benefits.

Well, there will be a rate of return on both of these opportunities. Clearly, in the case of Husky the rate of return is there, because we are taking a pure equity investment. I would suggest that it satisfies the tests of the Heritage Savings Trust Fund. I would think it would be an appropriate investment for the Canadian investment division of the Heritage Savings Trust Fund, and I think I would recommend, on further consideration of this committee and my colleagues in caucus, that that would be an appropriate first step.

With respect to OSLO, similar to our investment in Syncrude, which has increased dramatically in value since its inception in 1979, we would also, I think, recommend that the investment for our equity participation in our investment in OSLO would come from the Heritage Savings Trust Fund as well. The mechanisms are fairly simple: you buy equity position — equity has an asset value; it has a rate of return — and you simply transfer cash from the heritage fund, the liquidity, \$2.8 billion, to Husky, and you transfer the portion of OSLO to the company: a normal kind of venture participation as you would do in any kind of an investment.

MR. CHAIRMAN: The Member for Calgary-Buffalo.

MR. CHUMIR: Thank you, Mr. Chairman. It's nice to see the minister here, looking none the worse for wear after his grilling by Mr. White.

Just as a prefatory matter I must say in all seriousness that the minister has referred to his respect for the recommendations of this committee, and I must say that I find the total opposite of respect for the committee. I see answers in the nature of filibusters and I see a total absence of information, which is really verging on contemptuousness of the time and the duties of the committee. In terms of that information, I just wanted to say that I would like to know why it is that we don't have tabled before us the information we asked for and received last year belatedly with respect to a breakdown of the investments in the commercial division. We asked for it last year. You know that we're interested in it. It's very relevant. It's just unacceptable that we have to poop around and not have that information. Similarly, there's a . . .

MR. HYLAND: On a point of order, Mr. Chairman. If the hon. member wanted the information before, he knew at the scheduling when the Provincial Treasurer was coming. Why on earth didn't he come to another meeting and say at the end of the meeting when we had the opportunity, "Mr. Chairman, I would like the Provincial Treasurer to supply X"—whatever it may be — instead of filibustering and grandstanding the day the Provincial Treasurer comes?

MR. CHAIRMAN: Order. It's not really a point of order but perhaps an observation.

The Member for Calgary-Buffalo.

MR. CHUMIR: With all respect, the information we need should come from those who have it.

If there's a suggestion that the fair market value of the fund is worth more than the book value, I'd like to see some estimates of that. I mean, he must have them. If we're here to perform the role of an effective committee, we should be getting that information. I've complained for two years now. [interjections] No, I haven't been to every meeting of this committee, and I'm not going to come to every meeting of this committee because it's more in the nature of a waste of time.

AN HON. MEMBER: Oh, what kind of respect is that, Mr. Chairman, for us?

MR. CHAIRMAN: Order please.

MR. CHUMIR: Now that I've got that off my chest, perhaps I might get on to a question to follow up on an earlier . . .

MR. CHAIRMAN: Those weren't your first two questions?

MR. CHUMIR: I would trust the Chairman is not making a ruling that those were questions, in which event the chamomile tea that we discussed will not be materializing.

MR. CHAIRMAN: Perhaps you'll get on then with your first question, please.

MR. CHUMIR: I'd like to follow up on a question that was raised earlier with respect to the . . .

MR. JOHNSTON: Mr. Chairman, I'm presuming the first ques-

tion is: will you provide information on the commercial investment division?

MR. CHUMIR: No, that's not the . . .

MR. JOHNSTON: Oh, okay; so you don't want it then. Fine.

MR. CHUMIR: That's not the first question, Mr. Chairman. I want it, and I hope we'll get it.

MR. JOHNSTON: You can either ask for it, as a question, or, you know, you can't complain. No one's asked me for that information, Mr. Chairman.

MR. CHUMIR: It should have come without requiring any asking, Mr. Chairman. But in any event . . .

MR. CHAIRMAN: Perhaps we can get on with the question very quickly so we can get a response.

MR. CHUMIR: I want to get on with the question here, and that is that to deal with the income of the fund — which in fact is spectacularly overstated. The financial statements are misleading; the income flow is circular. It's like a ponzi game. My calculations are that the income was overstated by \$316 million in 1987, which was the General Revenue Fund contribution to Alberta Mortgage and Housing Corp, Alberta Opportunity corporation, and the Alberta Agricultural Development Corporation. From the two financial statements we have this year it looks like we're even going to exceed that. The two statements are Alberta Mortgage and Housing and the Alberta Opportunity Company, and we have a \$235 million contribution from the General Revenue Fund already for those two.

Now, in the 1987 financial statements the return to the Heritage Savings Trust Fund is stated to be 12 percent, and in 1988 it's stated to be 11.4 percent. I'm wondering whether as an accountant and as the Provincial Treasurer and as the person responsible for giving the citizens of this province an honest and fair indication of what the heritage fund is actually doing he would agree that in fact the return to the heritage fund and the people of this province was more like 9 instead of 12 in 1987 and will be more like 8 rather than 11.4 in 1988 because of that circular ponzi game-like approach to accounting. It reminds one of the worst excesses of the Principal Group.

MR. JOHNSTON: Mr. Chairman, I must say I'm not too sure, after the brief introduction by the Member for Calgary-Buffalo, what it is he's attempting here of me. Presumably I'll make a couple of comments.

First of all, it is unfortunate that the member takes this committee with such crass disrespect. This committee provides a very useful service in monitoring for the people of Alberta the fund itself, evaluating the way in which it's been appropriately invested, and making recommendations for the future. I would hope that this attitude is not reflected in the very valuable contributions made by others who consider this to be a very important priority and, I think, are proud to serve on this committee. For the member to suggest that this is a waste of time — perhaps he should consider whether or not he should serve on the committee.

Secondly, Mr. Chairman, it is also unfortunate that the Member for Calgary-Buffalo chooses to criticize the Auditor General. Now, he could have been here the last couple of days, because I

understand the Auditor was here, and if, as he said, these statements are misleading, he more appropriately should have taken that up with the Auditor General. The Auditor General, as I said in my opening comments, has in fact qualified the report with respect to deemed assets, but in all other aspects of financial disclosure — in terms of accounting, precedent, comparability, general agreement on accounting principles — the Auditor has said it's perfect, well done, no problems, or he would have qualified the report.

So, Mr. Chairman, it is regretful that the Member for Calgary-Buffalo has taken this position, both criticizing the opportunity for the MLAs who serve on this committee to deal with this important aspect — none of us takes it quite as casually — and, secondly, for criticizing the Auditor General. And since he introduced this problem, I think it's only appropriate that I comment, because I will probably take a little more stronger point of view than others who have been criticized would take.

Now, with respect to the cash flow, Mr. Chairman, I have indicated already that it is in fact true that the General Revenue Fund does support the costs of debentures of the Alberta Mortgage and Housing Corporation, Alberta Opportunity Company, and the Ag Development Corporation. That is an obligation of the General Revenue Fund, to fund the costs of those operations, and because it ends up on those companies, it could be argued that part of the General Revenue Fund support for those three Crown corporations may well be by way of debenture interest. Now, it's not altogether clear that we can identify it that specifically, and it's not altogether clear that it's specifically for debenture interest support, but of course there is a circular flow that when you borrow money, somebody has to pay for it. When you borrow money, someone has to pay the cost of using that money over the annual basis. And every Crown corporation has a responsibility. Whether the debt is to the Heritage Savings Trust Fund or to a New York banker or to a Swiss banker, someone has to pay the interest on that bond. It seems to me that on balance, Mr. Chairman, if that cost has to be paid somewhere, it's better that the income flow goes back to the General Revenue Fund and into the Heritage Savings Trust Fund, where in fact we can maximize the benefit.

Now, this isn't a pure and simple world, because we have taken the initiative to devise a new fund, the Heritage Savings Trust Fund, and it does have some unique complexities in terms of accounting from government disclosure. Obviously, some of these problems will creep in. Nonetheless, Mr. Chairman, the heritage fund does receive transfers from the General Revenue Fund; that is a fact. Nonetheless, it seems more appropriate in my mind that those transfers go to the heritage fund as opposed to going offshore somewhere, because the General Revenue Fund would have to backstop the obligations of these three Crown corporations in any event, and therefore it seems appropriate that it does come back to the General Revenue Fund, to the heritage fund, via the Crown corporations. I don't think that's inappropriate. It's not unusual. It's unusual in the case of the way we funded it, but it's a traditional kind of funding mechanism that any government would have. But, of course, the difference is that here it goes back into the heritage fund indirectly and then comes back to the General Revenue Fund via transfers from the Heritage Savings Trust Fund to the General Revenue Fund.

Well, so be it. You can analyze the numbers and you can do what you want, but it is totally unacceptable to suggest that in

fact these statements are misrepresenting the facts, are not disclosing the facts, or in any way misleading, Mr. Chairman.

MR. CHUMIR: Mr. Chairman, the minister has indicated that in his view the fair market value of the assets in the heritage fund is above the book value. I've already asked him to provide some documentation with respect to that. But I note that \$4.5 billion of asset value in the trust fund consists of loans to three Crown corporations which are all in trouble: Alberta Agricultural Development Corporation, Alberta Opportunity Company, and Alberta Mortgage and Housing Corporation. My instincts are that of that \$4.5 billion, \$1.5 billion to \$2 billion has been lost. I wonder whether the minister might tell us what his estimate is of the fair market value, not the accounting, book value, because we've seen through the Principal Group how accounting figures differ from reality, and the same situation pertains here. But I'd like an estimate from him as to what the fair value is of the outstanding loans receivable by the heritage trust fund out of that \$4.5 billion to those corporations. If he doesn't have a statement, I'd like to know why.

MR. JOHNSTON: Mr. Chairman, what the Member for Calgary-Buffalo fails to understand is that if these Crown corporations had not borrowed from the Alberta Heritage Savings Trust Fund, they would have had to borrow somewhere else. They'd have had to go to the banks on a promissory-note basis, would have gone to one of the investment capital markets across Canada or the United States or London; somewhere they would have had to borrow this money. I mean, they had to borrow the money somewhere to support the priorities of housing, agriculture, and small business. I'm not debating that these are not the member's priorities. I know he shares the same priorities to ensure that these kinds of objectives of government are met to provide the best level of services to Albertans. That's behind us in terms of the debate.

But if Alberta Mortgage and Housing Corporation were to borrow in the capital markets worldwide, they would not be able to do it on their own hook, so to speak; they would require a guarantee from the government of Alberta. So if Alberta Mortgage and Housing Corporation wanted to borrow \$100 million on the market, it would require a guarantee. Similarly, when Alberta Government Telephones now accesses the Canadian capital markets — for example, \$200 million just recently — it requires the government of Alberta guarantee. All Crown corporations that sell bonds require the General Revenue Fund guarantee, the guarantee of the government of Alberta, so the investor knows that the province stands behind this debenture.

So what does that mean? In very simple terms it means that if the government guarantee is attached to all sale bonds, Crown corporations and others, then of course the market value is exactly as I have discussed: a few basis points off long-term treasuries, essentially equal to the par value of the stock, depending on what the yield is, and therefore the value of these bonds, whether it's Alberta Opportunity Company, Ag Development Corporation, Alberta municipal housing corporation, is approximately equal to its book value, its cost as shown on the financial statements, because it's guaranteed by the government of Alberta and because, depending on what the yield is, it's about equal to what the market is. So the value, Mr. Chairman, is approximately equal to what's disclosed in the financial statements, because if we hadn't borrowed from the heritage fund, we would have had to borrow off the capital markets, and the government guarantee would have to be put there, and therefore

the value of those bonds would be just as disclosed. So there are no major losses because of the government guarantee in the heritage fund investment in these securities.

MR. CHUMIR: Well, if Alberta Mortgage and Housing Corporation had borrowed elsewhere, the lenders would probably be taking the gas pipe now instead of reporting values and income as has been done in the heritage trust fund reports.

The minister mentioned the respect he has for recommendations of the committee, and last year one of the recommendations was that the heritage trust fund, as holder of Alberta Opportunity Company debentures, accept early repayment of the debentures, allowing AOC to refinance the debt. That was recommendation 14 of the committee in its report of March 1988, and that was that Alberta Opportunity . . . The minister seems a bit astonished at that, but in any event it's there, and I can give him a copy if he wants.

But the same difficulty pertains with respect to the Alberta Mortgage and Housing Corporation and the Alberta Agricultural Development Corporation in the sense that they have loans outstanding to the Heritage Savings Trust Fund of 13, 14, 15, sometimes 18 percent. It's those high interest rates that inflate the income of the heritage trust fund, and these companies have the option, with your consent, to pay these off at an earlier stage. Any commercial company would pay them off as quickly as possible. That is one of the primary sources of the inflated income and the problems with that circularity. I keep raising it every year, and I'm wondering whether the minister would agree that now is the time to accept the recommendation of that committee with respect to AOC and extrapolate to these other companies and get a greater sense of reality into what the financial relationship is between the heritage trust fund and those companies.

MR. JOHNSTON: I'm not sure of the question, Mr. Chairman. Are you saying . . .

MR. CHUMIR: Well, is the minister prepared to change his policy and accept early repayment from those companies of those high interest rate debentures to the trust fund in light of the fact that they're financial cripples and we have to subsidize them? They can't pay without money from the General Revenue Fund.

MR. JOHNSTON: Mr. Chairman, I'm a bit lost, because the member referred to recommendation 14, which deals with the commercial investment division. I don't think he's talking about that from the second, follow-up explanation he's given me. You're not referring to recommendation 14, I understand, Mr. Chumir?

MR. CHUMIR: I'm referring to recommendation 14, and it relates to the borrowings of the Alberta Opportunity Company.

MR. JOHNSTON: The recommendation 14 I have deals with the commercial investment division: investment in other securities of other stock markets outside of Canada. You don't want that.

MR. CHUMIR: What I'm concerned with is that concept. We'll get this thing sorted out; I'll show the minister what I'm dealing with. But I'm interested in his response to the concept of early repayment.

MR. JOHNSTON: Mr. Chairman, what happens, obviously, is that when you sell a debenture or sell a bond or invest the Heritage Savings Trust Fund money in some kind of security, you get the best market rate you can. The market rate is set off the market, essentially off long-term treasuries, and we pay the premium, whatever it is, for accessing the market on that basis. Now, most of the investments of the Canada investment division, for example, are paying rates which are far above the current cost of borrowing in the Canadian capital markets, first of all. But those provinces are not paying or refinancing their debt; they are waiting for maturity and refinancing at that point. They're taking advantage of the lower cost of money in the marketplace; that's true.

Similarly with respect to Crown corporations. These are essentially five-year debentures, and if there was a high interest rate in 1981-82, it would be my view that most of those debentures have now been refinanced at the lower rate of interest. Obviously, a corporation does not uniquely deal with one opportunity. They do their financing based on when they need the money on a repayment based on their business plan, and they take an average cost of money from various points of access to the market. But in the case of the Crown corporations I would guess that anything of a high interest rate will sustain until maturity, and I would also guess that maturities have in fact rolled over recently. I think in the case of Alberta Municipal Financing Corporation, a rollover took place this year, and that's been converted from an income-earning asset at some rate of interest to a short-term security investment. That's the kind of process these people follow, and that's the kind of process we follow with respect to the investment of the funds in the Heritage Savings Trust Fund as well.

MR. CHUMIR: I'm sorry, Mr. Chairman. The number of the recommendation last year was 12, that "Crown corporations be allowed to redeem high-interest debentures purchased from the Fund." I was looking at a page which was dealing with recommendation 14 from an earlier year. So my apologies for the numbering error.

MR. CHAIRMAN: I recognize the Member for Lethbridge-West.

MR. GOGO: Thank you, Mr. Chairman. Mr. Johnston, first of all, I want to commend you for an excellent presentation as the Provincial Treasurer and chief adviser to the investment committee, recognizing that recent days have not been all extremely pleasant for you. With regard to the annual report, on pages 6 and 7 — Mr. Johnston, this is the finest annual report I've ever seen, and I would want to commend you or your staff, whoever was responsible for preparing it, notwithstanding that perhaps the nature of the paper could have been a little less glossy.

Mr. Johnston, I recognize that this is probably a question for the chairman of the committee or the Premier, but as chief financial adviser to him I'd like to ask you. Looking at page 6, we see the original concept of the fund was to contribute 30 percent of the nonrenewable resource revenue into a savings fund for the future. The future, I suppose, is here. We've now gotten to the point where 100 percent of the revenue, both in terms of income and from the primary source of the fund, the nonrenewable resource revenue, is going into, for the sake of argument, expenditures. As the chief adviser to the committee could you, if you'd care to, speculate when this may turn around, where the original objectives of the fund may come back; i.e., investment?

MR. JOHNSTON: Mr. Chairman, as I understand the question from the Member for Lethbridge-West, he has asked us to give some view about when it'd be viable for us to use the royalty flow to the General Revenue Fund to allow the heritage fund to grow again. I think that's essentially what he's asking. You can see on page 6 the history of how through a period of high oil prices, 1973 to 1983 in fact, we put 30 percent of all royalties into the Heritage Savings Trust Fund. It was during this period that you saw the significant growth in the heritage fund as well. Then recently, based on the recommendation of this committee, as a matter of fact, we've capped the fund so that there's no royalty flow into the Heritage Savings Trust Fund, and all the income goes back to the General Revenue Fund.

I'm not too sure how many of us will be around in the future or how dedicated we'll be to the concept of the fund, but assuming that we are there and that there is a dedication to ensure the fund continues, because of its uniqueness, I think it would be my wish that we would at some point start to put more money back into the fund to allow the fund to grow again, if you like, as a permanent savings account for the province.

Really what you're asking is when the price of oil is going to go back to some level which will allow us to do three things: one, to meet the general obligations of the General Revenue Fund without unduly increasing taxation and maintaining a high level of services; two, presumably to have a debt retirement plan in place for the General Revenue Fund; and thirdly, on a balanced basis provide some savings to the Heritage Savings Trust Fund. It's hard to forecast what the price of oil will do. We've gone through the 1988 summer already, and the real price of oil there is probably lower than it was in 1986. There is an abundance of supply worldwide; as to when that supply will be taken off is a good guess. It seems to me, though, that given the current demand for liquid hydrocarbons worldwide, and given the worldwide supply, it would seem that the order of 1993, maybe going out four and a half to five years, could be a reasonable period where you'll see the price of oil rebound to some real level above the current price which would be at such a level that the royalties of the province would be regenerated, if you like, to the extent that there are surpluses provided. At that point it would seem to me we could increase the value of the heritage fund through royalty transfers. Some point out there: that's the rough estimate most experts are giving us. It also just about matches the time when OSLO and the new Husky Oil upgrader will be either on stream or performing well, and therefore we'll have an additional source of synthetic revenue royalty coming back to us. In fact, the investment from the Heritage Savings Trust Fund will probably start to trend down because of the investment in those two projects. It would be nice if we could match the increase at some point with additional royalty transfers.

MR. GOGO: Thank you, Mr. Johnston.

You made reference earlier to the capping of the fund, which was a government policy decision recently. Recognizing again on page 1 that the revenue in the past six years alone is almost equal to one year's annual budget of this province, the revenue is extremely important for expenditures. Regarding the capping, however, you're well aware, perhaps more than anyone else, that the effective inflation on anything — and inflation is running generally 4 to 5 percent, and on a \$15 billion fund or even the financial assets of \$12.5 billion we're talking about \$400 million to \$600 million a year in terms of lost value in the fund because of inflation. Recognizing that there are no further earnings go-

ing into the fund and recognizing that inflation will undoubtedly take its toll notwithstanding the projection of increased inflation, would you be recommending to the investment committee that contributions be made into the fund to at least maintain the corpus of the fund at its present level?

MR. JOHNSTON: That's a very interesting thought, Mr. Chairman. There's no doubt that some of the assets probably have suffered from inflation, but those would be mostly the financial assets of the fund. It's true that if you're investing in a bond, for example, you do have an inflationary, negative impact on that investment. But because we are fairly agile in our investment strategies within the fund itself and the liquid portions certainly, we are attempting to receive rates of return which are probably right now of the order of 10 to 10.5 on a short-term basis. As pointed out, the yield at maturity on some of our assets is up around 10, 11 percent. If you assume that inflation is 4 percent, then you have a real rate of return of about, say, 6 to 7 percent on those financial assets, which isn't too bad, really. I think most experts will tell you that if you can generate a real yield on a long-term basis, a real rate of return of 3 or 4 percent, in fact the value of your corpus or the value of the fund itself will continue to increase in real terms.

With respect to the deemed assets themselves, Mr. Chairman, I'm not too sure if I can express a view as to whether or not they've increased or decreased. Presumably some of those assets, based on replacement values, would have a larger cost right now in replacement value than they would on a cost basis. Certainly, in the deemed asset section we find two interesting funds: the medical research fund and the Heritage Savings Trust Fund scholarship fund. Both of those are far above the value ascribed in the statements. In fact, I think the medical research fund is worth about \$500 million and some, and the Heritage [Scholarship] Fund is worth about \$170 million. So there has been some capital appreciation there. Moreover, as I've pointed out already, other assets where we have equity positions have increased in value. I note Alberta Energy Company and Nova Corporation.

Now, this isn't news to the member, I know. I think it might be interesting for the committee to suggest that we provide some basic support to the fund to allow it to deal with inflation on some of the assets, remembering always that if you take the income flow and hold it in the fund, something has to be given up in the General Revenue Fund as well.

MR. GOGO: Mr. Johnston, earlier with regard to questions from Mr. Speaker on Millar Western, you or Mr. McPherson responded that the banks were the first creditor with regard to loans to Millar Western. Is it a policy of the investment committee that loans from the Alberta Heritage Savings Trust Fund be done in such a manner that they're not the first creditor, that they're not the preferred creditor, but in effect are holder of a second mortgage? Could you share with the committee the reasons why you think that's a correct policy; instead of being the first creditor, it takes second place to other lenders?

MR. JOHNSTON: Mr. Chairman, subject to what Allister may want to add, I think the Millar Western loan is probably the only case where we have almost a second position, if you like. I can't right now think of others where we would have a unique kind of security position. In most cases, obviously, we take the best covenant, the best position we can, and I don't think there's any other investment of the order of the Millar Western loan

where we probably have a second position to a bank.

The reason we have the second position, of course, is that we've guaranteed the position of Millar Western in terms of securing its longer term funding for this plant. I think the total price of the plant was about \$200 million. Obviously every financial institution wants to get the first security in all the assets, and to get the project to go, we provided the guarantee plus some up-front debenture support, participation debenture. The banks for the rest of the money, because of the nature of the investment, wanted the first position. That doesn't mean that we're not covered or not secure. It simply means that we'd have to wait for the bank to get paid off before we started to make our action. I think it's unique. Each one of these is done differently, and we're flexible enough to respond to the need to diversify the economy, to get the economy going, and to generate jobs. That's the kind of response that government should be making in these kinds of situations.

MR. GOGO: Mr. Chairman, just for clarification. The Treasurer has said there is no contradiction or no change in any policy that may have been established with regard to priorities.

MR. JOHNSTON: Not that I know of; no.

MR. CHAIRMAN: Member for Athabasca-Lac La Biche.

MR. PIQUETTE: Thank you, Mr. Chairman. After listening to the minister and looking at his press release, I'd like to basically indicate to the minister that I believe he's deceiving the public in the way he's indicating that the contribution to the provincial budget revenues total \$8.375 billion from 1982 to 1988, when in fact he doesn't tell the public in his news release that when you subtract the nonrenewable resource revenue transfers to the heritage trust fund from general revenue, when you subtract General Revenue Fund transfers to the supported Crown corporation, you're looking at a net contribution to the budgetary revenues of about \$2 billion in that same time span. Why does the minister basically choose to use that kind of smoke and mirror type of public release and even use this in the highlights of the heritage trust fund when in fact he knows it's not correct? I mean, you're only telling 50 percent of the story here.

MR. JOHNSTON: Well, Mr. Chairman, again I'm only using the information that's provided by the Auditor General. As I said before, if you want to criticize the Auditor General, then take it up with him. I guess that's what you're doing: criticizing the Auditor General. My information is taken right from his statements. It is not deceiving; it is in fact an accurate statement. To suggest that it is deceiving is misleading on your behalf.

MR. PIQUETTE: Why don't you put both balances? I mean, this is the question we're asking: why don't you come out with the full information at the beginning of your statement, indicating the money that the general revenue receives from heritage trust fund as well as the money which the general revenue pays into the heritage trust fund, which gives you your net balance? I mean, that's the fairly . . .

MR. JOHNSTON: Mr. Chairman, I'd be glad to run through this again for the member, but I think, as the record would show, we've discussed this already. I put on the table all the information we have, the dollar amounts we provide in the General

Revenue Fund. I've explained that if a Crown corporation had to borrow, it would have to borrow with a government guarantee. The government would have to stand behind the interest costs if there was a deficit in the cost of operation. That's essentially the same mechanism that's in place here. The advantage I see to this structure or this model, Mr. Chairman, is that if we have to support the interest costs of these Crown corporations as an appropriate policy of government to recognize the social obligations and diversification needs in these areas — agriculture, housing, and small business — then I'd rather the money went back to the heritage fund as opposed to going offshore to New York or Swiss or London or Kuwaiti investors. To me it's just more reasonable.

Yes, we've already indicated that there's a certain lap effect here, but it's only because we're investing money in the heritage fund and General Revenue Fund guaranteed debentures that it happens. You can make the calculations all you want, but that's the amount that's generated by these investments, and that is singularly how we account for it, and it's consistent with previous years.

MR. CHAIRMAN: Final supplementary.

MR. PIQUETTE: Yes; changing the topic to basically an opinion by the government. The direction the government is going in terms of stimulating the economy using the Alberta heritage trust fund is very definitely using the megaproject approach — if you look at the OSLO project, the Husky upgrader, Millar Western — with a lot of questionable kinds of projecting the future in terms of a lot of these developments, when in fact the small business sector had been generating about 85 to 90 percent of the new job creation in the province in the last four or five years. Why isn't the government moving towards injecting more money into the small business sector at a reduced rate of interest — as you're giving a lot of the Nova Corporation, Millar Western — which would be creating probably many more jobs for every dollar expended from the provincial government account?

MR. JOHNSTON: There's no doubt, Mr. Chairman, that the member and I agree at least on part of what he's indicated, that the engine for economic growth in this province should be the small investor, the small businessman, the small entrepreneur. Those good, conservative people generally are driving this economy. They're the ones who are taking risks, investing their own personal dollars, generating jobs, involved in technology transfer, new kinds of opportunities. They're the ones who are to a great extent the reason our economic performance has sustained through the recession of 1986 and in fact grew recently and is growing very strongly right now. In fact, we have placed a high priority as a government on the small business sector.

Since 1986, of course, we established the small business fund, which allowed those small businessmen in Alberta to receive long-term funding at 9 percent, far below the going market rates. That's a fixed rate; it's not going to vary with changes in the market situation. Interestingly enough, Mr. Chairman, of course \$200 million of the Heritage Savings Trust Fund has been advanced to the small business equity fund, allowing access by small businessmen to a secure source of funding at 9 percent, guaranteed by the province, allowing them to invest and continue to expand. It's this kind of activity, Mr. Chairman, which has in fact allowed us to maintain a strong, significant

small business sector in this province. We'll continue to meet those objectives with new initiatives, and I know that my colleague the minister of economic development is looking at others.

Now, where we disagree, however, as I understand the member, is that when he refers to Millar Western, he does not see it as a significant diversification or an important objective of the province to ensure that forestry, for example, continues to expand, meet the assistance of the province to ensure that that sector is strengthened to add real economic growth to our province and to otherwise expand a forestry sector which has perhaps not been receiving the kind of attention it has. I hope the member remembers his position carefully when the two major developments now proposed for his own constituency come to the government for similar kinds of assistance. I want to know what the record states clearly, because of course if he's saying, "Don't do it," I would sure like the good people in the Lac La Biche area to know that. I wouldn't take that narrow position. I think we need to help diversify the economy, to use the resources available to this province to expand in that forestry sector. Even though the member is opposed to forestry activity with government support, I can't agree with his position.

MR. CHAIRMAN: The Member for Stony Plain.

MR. HERON: Thank you, Mr. Chairman. Right glad am I, Mr. Minister, that in response to the Member for Calgary-Buffalo you so strongly stated that the statements met with generally accepted accounting standards, that they are conservatively stated at lower of cost or market, and that exchange transactions are specifically mentioned in there on the conservative translation.

I would like, then, to move on to an interpretation of what the fund is really worth, since we have such idiotic demonstrations by some of the popular media, saying that it's only worth \$3 billion, and we hear some of the response. I would like, by example and observation and then asking you a question, to get at this point, not meaning, sir, to insult your intelligence, because I know in the portfolio management and financial circles it is very substantial, but I think that in response to some of the questions, you feel the committee is grasping for an answer to some of these interpretations.

I would like by observation to focus on pages 41, 42, 43, and 45. To me there can be no doubt that the cash and marketable securities would put the fund at, say, some \$2.8 billion, and one must then add to that the \$445 million market value of the commercial investment division, bringing a cash value of \$3.2 billion. So if that's a given, I would like to then focus on pages 42 and 43. If we can accept the numbers there on, say, the Canada investment division that the maturities are from '88 to 2005, that's 17 years at the outside. The debentures bear interest from 9.5 to 16. We would have to make some assumptions about the average yield and the average maturity. We would have to do the same with the Alberta investment division, which has 27 years as the outside maturity and investments earning between 8.6 and 18 percent. In financial communities a rule of thumb is that on a 20-year bond, a 1 percent fluctuation in interest will create a 10 percent capital gain or loss. So then by simple example, if we held a \$100 bond today, and interest rates went from 12 to 11, your bond would be worth \$110 market value.

I would like to take this thinking forward and ask you a question. The question would be based on putting some market value to these securities. Let us assume for the moment that we

were given the task of liquidating this portfolio in the open market, that we would be liquidating the province of Manitoba down to Ontario or Hydro-Québec, that we would be liquidating Alberta Agriculture, Alberta Government Telephones securities, which have the double A plus credit rating — that we were to liquidate these on the Canadian financial markets. Now, that's irrational, but for purposes of example I think we have to look and say that while we're reluctant to entertain the thought of having to liquidate something just to prove that the value is there, we should do it by example from time to time, and this committee, I think, should look seriously at those values.

Is it then safe, based on the example I gave you and the assumptions it was based on, to say that many of these securities would bring a 20 percent capital gain, many of them could bring a 30 percent capital gain? So then if we add 20 percent to the investments shown on pages 42 and 43 and add to that some \$3.2 billion already given, we could come up with a value on this portion alone of the Heritage Savings Trust Fund of some \$14 billion — that it could be possible to do that? Now, I understand when I ask you this question that we're not, under generally accepted accounting standards, allowed in statements to ascribe qualitative market values to nontrading securities. But based on the questioning of your appearance here today thus far, I think it's most important that you answer this question and lend some of your professional knowledge to this whole topic.

MR. JOHNSTON: Mr. Chairman, I think this is an important issue the Member for Stony Plain raises, and it is one which has been referred to by other speakers when it comes to: what is the relationship between the accounting numbers, the cost numbers, and the value of the portfolio itself. The member has talked about two or three of the cash market securities in the Canada investment division investments. I think, with respect to the value of the cash and marketable securities, they probably are well described at that value. They're probably worth a touch more but, approximately, the cost here is equal to market value because they are short term and they're continually rolled over.

But you're right with respect to the Canada investment division. These assets have a higher-than-average yield. That is to say that we've invested those dollars, and therefore the other provinces have to pay us something above the market rate right now. That can only mean that there has to be a value appreciation, that the market value of these investments has in fact gone up above the cost reflected here of \$1.469716 billion.

I accept your view that a 1 percent improvement in a yield would generate a 10 percent value increase. It may not be quite that much in the case of these kinds of securities, but certainly, since up to the end of March 1987, as disclosed in the statements, the Canada investment division did generate about 12 to 12.2 percent, and it's probably higher now — I'm sorry; it's probably about the same right now for the last six months — given that the market cost of money for these similar kinds of debentures would be about 10 to 10.25, you can see that there has been a premium earned on this portfolio. And it's not going to be flipped; the provinces aren't going to refund it, Mr. Chairman, so we have the income stream advantage.

But yes, without giving an opinion about what value increase there would be, clearly if we were to sell these securities in the market, we would get far above the \$1.486 billion that's now reflected there. In fact, if you added that to the other assets — only the other assets you talked about — you would have a value running pretty close to \$5 billion, in my view, for a

cost which is reflected here at about 4 something.

So you're right. And this goes right across all investment divisions. In the case of the Alberta investment division, of course, you have to look at the value of Syncrude; you have to look at the value of the Alberta Energy Company. Syncrude is shown here at \$508 million. The value of that entity is far greater than that, in my view, and could be securitized quickly. The value of the Alberta Energy Company you can take off the market. We've already talked about Nova in terms of its valuation. And on and on we go.

When it comes down to the provincial Crown corporations — and I'll just make a note here, Mr. Chairman, that I know the member hasn't asked this specifically — because these are guaranteed debts of the province of Alberta generally, these bonds could be securitized in the marketplace exactly at their value as shown here at cost.

MR. CHAIRMAN: Just before I recognize the Member for Stony Plain for a supplementary, perhaps with permission of the committee I could recognize the Member for Lacombe to introduce some guests in our members' gallery.

HON. MEMBERS: Agreed.

MR. R. MOORE: Thanks, Mr. Chairman. It's a pleasure this morning to introduce to you and through you to the members of the committee here, 40 energetic students, teachers, and parents from College Heights, the Canadian Union College in my constituency. They're up here visiting the Legislature, some of them for the first time, and we're sure pleased to have them here.

Just as an explanation to them of what we're doing here, this is the heritage trust fund select committee. We review the spending of heritage trust fund money by various ministers of the Crown. This morning we have appearing before us the Hon. Dick Johnston, Provincial Treasurer. Members of the committee are sitting here on this side, and we're questioning him as to how he spent your money and the benefits that flow from that.

So we're very glad to have you here, and I ask my colleagues to extend to you the normal show of welcome.

MR. CHAIRMAN: Thank you. I should point out to the students that the Member for Lacombe is on the speakers' list and will be following the Member for Stony Plain.

MR. HERON: Thank you, Mr. Chairman. Mr. Johnston, you earlier spoke of our credit rating being one of the highest of the national sovereign borrowers. Personally, I think this is quite remarkable, given that we're a province and we're compared in this league. But given that our credit rating is one notch below triple A, or double A plus plus, in your estimation is it important that world recognized borrowers look at these financial statements in terms of their assessment of what the market value is? Is it important specifically that we show as a breakdown the deemed assets on page 47 to arrive at the province's total financial strength?

MR. JOHNSTON: Mr. Chairman, there is no doubt that the Heritage Savings Trust Fund is one of the major assets the government has and discloses when it enters the capital markets worldwide. It is uniquely outlined in our prospectus, and it serves to show that the province has more assets than liabilities, which makes it unique among governments worldwide. And

secondly, you're right: Alberta has been in the capital markets over the past couple of years. We usually go for size, and we go for unique offerings. We do it seldom. We can acquire money in the world markets about as cheaply as most people can, with the possible exception of the United States or Canada, and that is largely because of the heritage fund, because of our position, because of the limited amount of debt which the province has outstanding.

Although Ontario has just recently been moved from double A plus to triple A, the reason that has happened is mainly because of the economy of that province. Rating agencies look critically at the economy and the economic performance of a province, and that, as much as anything, serves to verify the credit rating of the province. We would expect, if our economy continues, we will have a good shot at increasing ours as well, providing the price of oil doesn't fall much below where it is currently.

It seems to me that investors or the market performance — the people who evaluate sovereign borrowers or offerers, such as ourselves, recognize the importance of the fund, factor it into the calculations they use to provide a credit rating, and that allows us, where necessary, to borrow money at a more reasonable rate than other provinces could. So it's significantly important. The member's position is accurate. And it's really fortunate that we have this fund sitting there to provide the asset base, the asset backing to a province so it can borrow on the markets.

MR. CHAIRMAN: Final supplementary.

MR. HERON: Thank you, Mr. Chairman. The Member for Calgary-Buffalo also focused upon the writing down of the interest rates to some of the Crown corporations. Undoubtedly the same argument would not have been made for writing down interest rates to other provinces. I would question this wisdom, given that these are arm's-length deals, and I don't think we'd ever be entertaining writing up the interest rates, if the interest rate had been negotiated at a lower level.

So I would ask this question. Given that our average yield on our portfolio is substantially greater than what we're borrowing money at today in the long-term market, does the Provincial Treasurer have any intention of liquidating part of the heritage fund to meet some of our short-term and long-term borrowing needs?

MR. JOHNSTON: Mr. Chairman, that's a very important question, because it brings into focus the policy of managing the heritage fund and its income stream and the General Revenue Fund in terms of its borrowing or liabilities.

As the budget projections show, for the year 1988-89 we're forecasting in the General Revenue Fund that the cost of borrowing will be around the \$450 million range. That means that's the cost of us borrowing in the capital markets of the world to secure dollars for our programs here in Alberta.

The transfers from the heritage fund to the General Revenue Fund, based on income-earning assets of the heritage fund, are of the order of \$1.3 billion approximately. That means that the net asset value of the fund allows us to move ahead or be ahead in terms of revenue and interest costs by about, say, \$800 million. That means that it is more appropriate to balance your portfolio in this fashion, to use the income stream for the heritage fund to support the General Revenue Fund, to continue to generate high yields in the heritage fund so that income transfer

can take place, and that we can then borrow offshore in capital markets below the yield that's been generated in the heritage fund. In other words, we're playing a bit of a spread game on some of the fund assets, and in other cases we're making a real profit, because as a province we are ahead by \$800 million in income earnings.

But it's a very appropriate question. It's the kind of judgment that we have to apply to the borrowing and investment strategies at all times, and at this point we're ahead because of the heritage fund assets. The income stream is about \$800 million more than our interest costs, and that's because we can generate a high yield in the heritage fund by moving quickly with the liquidity as opposed to having to use those dollars to pay for General Revenue Fund obligations. So it's still an appropriate policy. Depending on what happens over the next decade, of course, you may have to re-evaluate that case. But naturally, right now we're on an advantage. We're one of the few provinces that has more income earned from investments than the costs of borrowing.

I should just note, Mr. Chairman, on the Stony Plain question as well, some quick calculations on other assets. For example, in Alberta Energy Company, since this is the first part of your question, Alberta Energy Company is worth probably \$200 million more than is disclosed here. Alberta Government Telephone bonds are worth about \$60 million more than disclosed here. And of course I've already mentioned that Nova Corporation is worth about \$20 million to \$25 million more than disclosed here. So if you start to total all these items up, as the member first pointed out, obviously the market value of most of these assets is far above its cost as disclosed in the financial statements.

MR. CHAIRMAN: The Member for Lacombe, followed by the members for Wainwright, Cypress-Redcliff, Lloydminster, Innisfail, Little Bow, Athabasca-Lac La Biche.

MR. R. MOORE: Thank you, Mr. Chairman. When I came in this morning, I had a lot of questions regarding the capping and the future of the fund, and they've been very well covered during the last hour and a half or two hours. The value of the fund as far as the citizens of Alberta has always been a question mark in a lot of people's minds. Now, the Member for Stony Plain certainly brought into focus the value of our investment portfolio, and the Provincial Treasurer did his usual excellent job of explaining that section.

However, there is the other area that seems to carry all the misconceptions, the innuendos, and a lot of untruths about it. That's the one on schedule 7 of this, under the capital projects division investment, deemed assets. Now, when I look down that list, Mr. Chairman, there are 13 departments involved here. There's the Food Processing Development Centre at Leduc; there's Kananaskis Country, microchip design facilities, the Alberta Heritage Foundation for Medical Research, on and on. The Alberta reforestation nursery and those types of things are all listed on schedule 7. Now, these pay dividends to the citizens of Alberta, every one of them. They pay dollar dividends, yet it's something you can't put on here in actual dollars.

If we looked at the spin-off benefit of any business, it's very realistic to say it's 1-7. For every dollar spent in a business, a spin-off returns \$7. And I think in every one of these 13 departments in the various projects listed in here, there is a tremendous spin-off benefit back to Alberta. That shows that every one of them has a tremendous — again, using that word three or

four times, because that's the way to explain it — return to every citizen in Alberta dollarwise. There's land reclamation, the forestry industry, the agriculture industry and through the irrigation projects, and to say that deemed assets are not an asset that's creating dividends and money for Albertans is wrong. And that's the impression a lot of people have out there.

Now, my question to the Provincial Treasurer on this section, schedule 7: could he outline basically the return to Albertans from that, so there's a clear understanding that it is an excellent investment?

**MR. JOHNSTON:** Mr. Chairman, I think I fully ascribe to the position outlined by the Member for Lacombe when he very clearly speaks to the importance of the assets in the capital projects division, assets which, as he outlines, provide research, diversification, and in fact touch all parts of the province in some unique and special way, affording infrastructure assistance, providing special kinds of services to the people of Alberta, in particular focusing on those unique opportunities which Albertans have as a result of the fund.

It's true. Starting from the one side of the equation, it's true that some of these assets are probably less solid than others and probably don't have the same kind of value that's shown in the cost here. But they are in fact assets nonetheless, and they're important, unique projects. On the other hand, there are so many significant assets reflected in these deemed assets that have much longer opportunities for us in Alberta that it's important that these be disclosed so the people of Alberta can see how valuable the fund is to them. In still other cases there are in fact increases in value. We know for sure that the scholarship fund and the Alberta Heritage Foundation for Medical Research fund are far above the \$400 million that is reflected in the financial statements. In fact, I think I've said that they're probably closer to the \$600 million to \$650 million value just based on the market value of the investments.

And of course those funds are being used every day, are being drawn down every day for student scholarships through the Heritage Scholarship Fund — the Rutherford scholarship, very popular with high school students — and the importance of medical research can never be outlined. That in itself is a second-round generator of economic activity, because as you bring the best minds to a province who do research here in your province, who accommodate the research initiatives of a university, they attract additional research money themselves to the province. They identify with excellence and achievement in medical research within a province. Finally, they also become a focus for new investment as that technology transfer goes into the private sector and diversifies the economy. And that's taking place in the case of the medical research foundation in particular.

It's hard to say, though, specifically what happens when you invest a dollar in an irrigation headwork or an irrigation ditch, for example. We know that the first-round investment of a dollar in terms of construction probably generates an immediate multiplier effect of about 1.25 to 1.3 times the investment and that the total impact of an investment of this order is probably close to two times the capital investment. So that generates economic activity surrounding these investment initiatives. With respect to irrigation again — because it's one that affects me more personally than others — we know as well that had it not been for irrigation investments in the summer of 1988, you

would have had a catastrophic drought in southern Alberta and you would have had to move in with massive subsidies to support the farming community. But as it was, they got by fairly well. They earned their own return, largely as a result of investment in irrigation. But the point is that the economic benefits — in the cost/benefit analysis with respect to irrigation investment — provide a benefit of about one to one and a half times the cost, just on its cost/benefit, present value approach.

Similarly, with other assets the same things take place; reforestation, for example. As a result of the reforestation initiatives, I'm sure forestry is becoming a high priority in this province. The technology, the research, the new reforestation projects that this fund has allowed are unique. I mean, you can go across the whole range of these items and come up with an asset value far greater than the cost. It is in many cases difficult to quantify whether or not this asset is worth more than its cost here, but certainly there's no doubt that without the heritage fund, these long-term legacies to the future generations in Alberta would have been impossible.

**MR. R. MOORE:** Yes. Mr. Chairman, I had other questions to ask, but knowing that the Provincial Treasurer's office is always open to every MLA and that they can pursue any other questions they have, and looking at the time, I move we adjourn.

**MR. CHAIRMAN:** Just before we adjourn, I want to again thank the Treasurer for appearing before the committee this morning and sharing with us some very frank and helpful answers. A thank you as well to Mr. McPherson.

**MR. JOHNSTON:** Mr. Chairman, I just would comment, since the Member for Calgary-Buffalo did raise it — or did not; I'm not too sure what he did — if members want an analysis of the commercial investment division, I'd be glad to provide it. We're not holding anything back, but I have to be asked before I can give, and no one asked me for it. Mr. Chairman, if you want to have that circulated, I'd be glad to give it to him.

**MR. CHAIRMAN:** Good. Thanks very much.  
Member for Little Bow.

**MR. R. SPEAKER:** Mr. Chairman, before we adjourn, I'd like to ask about the procedure in this afternoon's meeting. The Provincial Treasurer may leave if he wishes; I appreciate his interest in my question.

We deal with the mortgage and housing authority this afternoon. We received their report this morning, which I appreciate very much, but will we be able to — what kind of latitude will you give us in our questioning? There's always been a question with regards to this, as to whether we can ask about the operation of the Alberta Mortgage and Housing Corporation. Are you going to restrict us to just focusing on the debentures?

**MR. CHAIRMAN:** The chairman will try to give as much latitude as we can, and I would think it would be appropriate to ask some questions about the operation itself.

Good. We then stand adjourned until 2 o'clock this afternoon.

Thanks very much, everyone.

[The committee adjourned at 11:58 a.m.]

