

## Standing Committee on the Alberta Heritage Savings Trust Fund Act

10:02 a.m.

[Chairman: Mr. Dunford]

THE CHAIRMAN: Okay. I would like to call the meeting to order. It's 10:02. So we'll proceed for two hours or whenever the questioning is completed, whichever first occurs.

Now, do any members have any recommendations they wish to read into the record? A little early? Okay.

Well, Mr. Premier, I'd like to welcome you to the 1995 set of hearings of the heritage savings trust fund. I'm glad that you could join us. We would ask that you perhaps make some opening remarks but hopefully confine them to 15 minutes or less. We'll then start the questions. Each member is allowed three questions. We'll start with the opposition members then move back and forth between the government members. People understand that the mandate is the '94-95 report of the heritage savings trust fund. The supplementaries don't necessarily have to relate to that first question. We're providing some flexibility in giving members the opportunity, when it's their turn, to ask you three questions if they so choose. So if you would introduce the person that's with you for the record, we would appreciate that very much and have you begin.

MR. KLEIN: Thank you. I think you all know Allister McPherson from Treasury. Allister is here to answer any detailed questions that members of the committee might have.

Thank you, Mr. Chairman and members of the committee. I'd like to make a few opening remarks to the committee. Just to recap quickly on where we were and where we are now with regard to the heritage savings trust fund. In 1993 my colleagues and I committed to review the heritage fund, to look at its role in the future of this province, and that commitment was made here in this committee. This review, as you know, was launched back in December of 1994 and asked a number of key individuals like you, Mr. Chairman, and the Member for Edmonton-Whitemud to help us see this task through, to take the question on the future of the heritage fund to Albertans.

We asked Albertans to give us their opinions about the future of the heritage fund. I believe it was, by and large, one of the most significant consultations we've ever done in Alberta. Over 990,000 households received a copy of a questionnaire asking them what they wanted us to do with their fund, with their money. I believe the members of this all-party committee did a tremendous job to bring together this huge consultation. As a team you traveled from points north and south in our fair province to hear what Albertans had to say about the direction of the fund.

This review of the heritage fund pointed out that its history means something important to Albertans, that the rich history of the heritage fund is still something that Albertans remain staunchly proud of. Although the turnout at the public gatherings was limited, the responses we received by mail – and I'm pleased to say more than 50,000 responded to the questionnaires – were very clear that Albertans see value in keeping the heritage fund and they did not want to see a future without the Alberta heritage savings trust fund. The review committee told all Albertans that the people of this province want to keep the heritage fund intact but not stick to the status quo, to instead bring the fund into the '90s and build a solid plan for its future. Mr. Chairman, that is the task before us now, and that task is to come up with new objectives for the heritage fund that better reflect the Alberta we are today and the Alberta we will be down the road.

Till now the heritage fund has been managed according to three objectives; that is, to save for the future, strengthen and diversify Alberta's economy, and generally improve the quality of life in our province.

The tasks that we are working on are these: one, to review the role of the heritage fund to ensure it continues to secure a better future for our province and our children; two, to clearly describe its future and detail how that fits with the future of this province.

The advice Albertans gave us will help us do that well: to redefine and restructure the heritage fund as an important component of the financial course of this province. The recommendations of the committee who heard what Albertans think about their rainy day fund were given general approval. Now we must carve out a plan to implement these good ideas into the future of the heritage fund, which of course is very much a part of our Alberta legacy.

We must also remember to keep in mind that no matter how it is redesigned, Albertans are entitled to know exactly how their heritage fund is being managed and who is managing it, that we work into this new plan a regular schedule when we report back to Albertans, clearly explaining to Albertans what is happening with their fund, explanations that tell why decisions were made and the consequences of those actions.

As members of the committee know and as I know, the job is far from finished. We have before us the second leg of the journey to bring the heritage fund through to the other side: to update the objectives of the fund; to develop and fine-tune a new direction for the fund, taking into account the results from the review; and to build a solid transition plan, an investment strategy for the heritage fund that works in conjunction with the province's fiscal plan and the Balanced Budget and Debt Retirement Act; essentially to rethink how we manage this fund.

Albertans told us to keep the heritage fund and to improve it as an investment vehicle for our children, to keep intact our legacy, and I'm hopeful that the Provincial Treasurer will bring you some of our thoughts when he appears before this committee in January.

THE CHAIRMAN: All right. Thank you, Mr. Premier. Again just a reminder quickly for the members about the mandate. Also, the Premier as head of the government has overall responsibility, but the actual specifics of that, of course, have been delegated to various ministers. So I just hope you would keep that in mind with your questions.

Now, we're ready to begin. Mike Percy.

DR. PERCY: Thank you, Mr. Chairman, Mr. Premier, Mr. McPherson. My first question relates to the role of the heritage savings trust fund in the Alberta economy. It was clear from the public hearings that people viewed it as a rainy day fund. Some viewed it as a tool of stabilization, as well, in a very volatile economy. The debt retirement and balanced budget plan means that you can't touch the principal of the fund during periods of financial stringency. All of the interest income from the fund presently goes into general revenue. So in a sense there's no way that we can use it now if we should ever have to use it during a period of restraint. The only option that is left, it appears, is to cut programs within the year as opposed to subsequently in the next year. So my question is: what is the role of the fund now? It's neither a rainy day fund nor a stabilization fund because we've sort of legislated ourselves out of being able to use it as either.

MR. KLEIN: Mr. Chairman, I see it still as a rainy day fund, but in the short term I see it as a stabilization fund. There is no doubt that over the next three to four years we will have to use the interest from that fund to offset general operating costs. Unfortunately, this past

year – and I was sure the question would come up – the interest didn't exactly match our debt servicing costs. The interest earned was something in the neighbourhood of 8.8 percent. As you know, our debt servicing charges are about 10 percent, but hopefully that will improve next year as we capitalize some projects, like bringing into account the proceeds from Vencap, the sale of Syncrude to Torch. Over the next three or four years the interest from the fund will be generally used to offset operating, but we hope that we will be in a position by that time to not depend on those revenues and be able to use the fund for which it was originally intended.

Allister, do you have anything to add?

10:12

DR. PERCY: My second question is a little more detailed. It relates to Millar Western Pulp. The concern there is with the restructuring in 1994 which saw this shell company set up that holds a portion of the debenture; I think about \$30 million. Then \$90 million remained with Millar Western Pulp Ltd. My question is: at a time when that company was expanding and setting up a CTMP plant in Saskatchewan – during that period they made no interest payments, no payment on principal – how is it that the company could still find the cash to expand elsewhere, buy a nice corporate jet, yet at the same time not meet the debenture payments to the heritage savings trust fund?

MR. KLEIN: Well, I can just give you a general answer. For the nine months ended September 30, 1995, Millar Western has operated on a profitable basis, and this has been a significant improvement over the prior year's results. Of course this comes about as the result of a general sharp increase in the price of pulp worldwide and for value-added paper products. It's my understanding that during the first nine months of 1995 Millar Western retired some \$32 million of the \$178 million bank debt, which ranks in priority to the heritage fund's loan. Current market price predictions indicate a leveling in the demand for pulp, and this could postpone any further pricing increases for the balance of this year and into 1996.

Millar Western Industries recently received government approval for an FMA to supply wood chips for the pulp mill subject to negotiation of a volume supply agreement, and negotiations are now continuing with the Department of Economic Development and Tourism, which is taking the lead on behalf of the province.

Allister, maybe you can comment further on where we are relative to the loan guarantee and the questions specific to where they got the money to finance the Saskatchewan project and buy the jet. I have no idea.

MR. McPHERSON: Thank you. Mr. Chairman, the question kind of suggests that Millar Western is in default of some of the provisions under the agreements, and to my knowledge that is not the case.

Now, where did they get the funds for other projects? I'm not sure we can answer that question in the sense that Millar Western Industries is a separate company. They have separate assets, separate cash flow, and it may be that they've done the investment there. To my knowledge they have not done those investments out of the companies where the heritage fund loan is involved.

MR. KLEIN: It could be out of the profits from the sawmill, because there still is a very good market for sawlog timber.

DR. PERCY: My final question. It appears, though, that the fund is last on the list in terms of getting any payment. The company has had the financial wherewithal to finance activities elsewhere. The Auditor General has written down the debenture to zero. Yet the

company as a collectivity – and it's owned by the family – has had money to do projects elsewhere yet not pay the province even the interest on the debenture or the heritage savings trust fund. I can't believe, since the government has a member – I believe that in Millar Western Pulp, the holding company that's been set up, somebody from Economic Development and Tourism actually sits on that board along with a rep from CIBC – that we don't know how they get the money to finance projects elsewhere but not provide interest payments to the fund.

MR. KLEIN: Well, if you would like, I can undertake to get that answer from ED and T.

DR. PERCY: Much appreciated, Mr. Premier.

THE CHAIRMAN: This, then, is a matter of formality on that, Mr. Premier. We would ask that that document be provided to the chairman. We'll accept the responsibility then of circulating it to all the members.

Okay. Victor Doerksen.

MR. DOERKSEN: Thank you, Mr. Chairman. Mr. Premier, the heritage savings trust fund has invested in Hydro-Québec in the neighbourhood of about \$350 million. With the political climate in Quebec continuing to be tenuous, what is our investment strategy with respect to Quebec?

MR. KLEIN: Well, this was an interesting question that was asked about a year ago, and I thought I provided a good nonpolitical, noncontroversial answer, that turned out to be very controversial. So I don't want to raise any alarm bells vis-à-vis Quebec, because I suspect that we're going to be again into another dicey political situation as Mr. Bouchard takes over the reins.

We hold two Hydro-Québec bonds, one for \$200 million and the other for \$110 million. The \$200 million bond is at 11 percent, and the \$110 million bond is at 11.8 percent. The \$200 million bond is due in the year 2004, and the other one, in July 2005. Hydro-Québec can repay these bonds prior to maturity, and they are fully guaranteed by the province of Quebec.

Quebec is still part of Canada and hopefully always will be part of Canada. Notwithstanding some of the financial problems facing Quebec in terms of deficit and debt, it still is a province rich in assets and has the ability to maintain that guarantee. So basically we have no concerns with this investment, because Quebec, like any other borrower, like any other province that owes us money, must repay all its obligations. I will say this: if they don't pay their obligations, they risk very serious consequences in the financial markets. I don't think Quebec wants to take that risk at this particular time, because as they deal with the political problem vis-à-vis Mr. Bouchard's agenda of taking Quebec out of Canada, they understand fully that they have to have the security of the world financial markets to meet their own domestic and provincial problems.

MR. DOERKSEN: Thank you.

THE CHAIRMAN: Second question, Victor?

MR. DOERKSEN: That's fine.

THE CHAIRMAN: Okay.

MS CARLSON: Good morning, Mr. Premier, Mr. McPherson. My first question is with regard to one of the guiding principles that the fund's review committee based its recommendations on; that was

that the fund should be more transparent, that the fund manager should be more directly accountable to the people of Alberta. Could you give us your views on how this is to be achieved?

MR. KLEIN: Well, as I said, the Provincial Treasurer will be reporting in January or will be appearing before this committee in January, and we'll have some detailed recommendations as to how we implement these recommendations.

As you know, the report has said that the government, as I pointed out, should keep the fund, that we should have a debate in the Legislature as to whether the originally stated objectives of the fund are still appropriate in 1995 – that debate I'm sure will take place during the spring session – and that the government should appoint an independent board of directors. This is an area in which I was particularly strong and somewhat adamant relative to my own thoughts that really the day-to-day management of the fund certainly should be part of the administration of government but that the policy decisions relative to the use of the fund and the long-term direction of the fund should be taken out of the hands of the political body and put in the hands of some severely normal Albertans. There will have to be some political responsibility, you know, down the road, but certainly I think the policy decisions should be made in conjunction with the politicians by an independent body of citizens of this province, because it is their money.

How that appointment will be made I don't know. I really haven't put my mind around it. I'm sure the Provincial Treasurer will have some recommendations as to the process for selecting that body. I would make this commitment here today: just as the process for redefining the fund and getting the thoughts of Albertans on the fund, the process for the selection of the board should be an all-party process as well. I would make that recommendation to this committee and support that kind of a process.

10:22

MS CARLSON: So in terms of transparency the only real thought you have at this point is that it would be debated here in the House, that there'd be no other venue for people to have access?

MR. KLEIN: I would say that once the board is in place, the independent board to set policy for the fund, there's no reason why that board couldn't set up a process for ongoing reporting to the public, just as we have done relative to our fiscal situation and our requirement now for quarterly reporting periods. I don't see why that kind of a process couldn't be established for the fund.

THE CHAIRMAN: Paul Langevin.

MR. LANGEVIN: Thank you, Mr. Chairman, Mr. Premier, and Mr. McPherson. If you look at the statement, in Alberta Housing we have well over \$1 billion invested in that corporation, and they are divesting themselves on a month-by-month basis of a lot of their assets and holdings in this province. I was wondering: as they are divesting themselves, are they paying back to the heritage trust fund an equal amount of money as they have obtained for the financing of these assets? I would hope that we're liquid in that department. I know that Alberta Housing is forging ahead with this.

MR. KLEIN: I'm just going to the report, hon. member, page 25. I understand that as these properties are sold, then there is a repayment to the fund.

Could you maybe supplement that, Allister?

MR. McPHERSON: Thank you. Yes, that is exactly right. As the corporation sells various assets, the proceeds are used to repay debt

that was used to acquire those assets, in effect. So, yes, that is happening.

MR. KLEIN: But the question was: are we getting . . .

MR. LANGEVIN: When the Alberta Housing Corporation takes a debenture on some of their investment, they probably have a certain number of years to pay that back, but what's happening now is that they're divesting themselves of properties before the term of the bond comes up. The question is: what's happening in the interim? Are they paying in advance?

MR. McPHERSON: Yes, Mr. Chairman, as the proceeds are realized from the sale of assets, they are then applied to repaying debt at that point.

MR. LANGEVIN: I'd like to touch on the heritage trust fund review. In your opening remarks, Mr. Premier, you touched quite a bit on that. You said that the interest at the present time is used in our annual budget. We heard in the hearings, and quite loudly, that we should retain the fund at least to its present value if not invest more. If we use all the interest on a yearly basis, we're not keeping up with inflation. So probably in real terms the value of the fund is decreasing. Are we taking any steps to balance this off?

MR. KLEIN: It's not really decreasing. There are some capital projects that have been sold that will go back into the fund. Hopefully the interest situation will pick up, and of course even if it stays lower, we'll have a larger fund as a result of increased assets going into the fund. I think that over the next three or four years we'll be able to sustain, generally, the present value of the fund, but we certainly aren't anticipating that that value will increase. We are anticipating, though, that after, say, 1998, 1999, as the province's economy grows and as we settle into the luxury of having a balanced budget and a good debt pay-down schedule and we fulfill our commitments, we will be generating significant revenues, that we won't have to use the interest to the extent we are now using it, and that interest or at least part of that interest could then go back into the fund.

MR. LANGEVIN: Thank you, Mr. Premier.

THE CHAIRMAN: Okay. Howard Sapers.

MR. SAPERS: Thanks, Mr. Chairman. Good morning, Mr. Premier. I'd like to go back to a question about the Alberta Social Housing Corporation. The \$1.2 billion of investments in the form of assets that are currently held by the fund – and I understand that there is a schedule for disposition of many of those assets – I'm wondering what proportion of the \$1.2 billion is currently targeted for sale, and if you know, what the book value is versus the expected revenue from the sale of that portion of the assets.

MR. KLEIN: Honestly, this is a question that I'll have to defer to the minister. I just don't have that information.

MR. SAPERS: Mr. Premier, it might help in referring the question – what I'm specifically looking at as well is: are there various segments of the portfolio that are targeted for more immediate sale? I'm interested because I've heard some concerns expressed that the social housing versus some of the seniors' housing versus some of the other types of housing is taking a disproportionate hit, if I can put it that way. So I'd be interested in learning a little bit more about that.

MR. KLEIN: Disproportionate hit?

MR. SAPERS: Well, specifically, housing for the disabled and some assets that are being sold and expressed to me in terms of fire sale prices, getting out of that kind of housing as opposed to some of the other areas. So that's the direction that my subsequent questions would have been going in.

MR. KLEIN: Yeah, okay. I don't know when the Minister of Municipal Affairs is appearing, but I'll try and get those answers for you in preparation for any follow-up.

10:32

MR. SAPERS: Thanks.

THE CHAIRMAN: Perhaps just some clarification. I guess it's not possible for the chair to anticipate all of the questions. We don't have the Minister of Municipal Affairs scheduled this time around. I guess we can discuss as a committee whether to have him or, once we get an answer, then, from the minister to the chair and circulated, whether we need any further information from him. So we'll play that one a little bit by ear. For the time being, I guess, the question will stand of course, and then we'll look for a return of information to the chair on that.

MR. SAPERS: Thanks, Mr. Chairman. For my second question, if I could refer you to the report as well, Mr. Premier. It's noted in the report that Agriculture Financial Services Corporation, AFSC, did not borrow from the fund last year because it was able to meet its financing requirements from loan repayments and the sale of farm properties. Do we know how much revenue was realized from the sale of farm properties and the circumstances under which those sales occurred?

MR. KLEIN: Again, I just don't have that information. It's the kind of detailed information that should be more appropriately directed to the minister. I don't know if the minister is scheduled to appear.

THE CHAIRMAN: Yeah, he is.

MR. KLEIN: I'll alert him to that particular question so that you may follow up. I guess I'm at somewhat of a disadvantage here because last year when I appeared before this committee, I was also the Minister of Economic Development and Tourism; therefore, I had numerous programs. I guess I'm here to talk about the fund generally. I apologize. I just don't have the answers to those detailed kinds of questions.

THE CHAIRMAN: That's fair enough, Mr. Premier. We certainly would understand that.

Before going to Howard's third question, I note that we have some visitors today in the gallery and would like to welcome all of you. You're witnessing today the hearings of the Alberta heritage savings trust fund. We have in front of us, as you're now already aware perhaps, the Premier of the province, Mr. Ralph Klein. You may have to stand to see Ralph, and I would certainly encourage you to do that.

The people that are engaging in the questioning today are an all-party committee. Along the front benches you'll see members of the opposition Liberal Party and then on the second row members of the government of Alberta. I don't know if they've handed you the seating arrangement with our little pictures on it, but if they have, you'll soon be able to figure out who they are. There is no requirement at these hearings to sit in their own place, so you'll have

to do a little investigative work. Also, you will note that we have coffee and water in front of us, and that some members are without jackets. Again, this is because we're not in a regular Legislative Assembly session. As a hearing we provide here a little more informality, and perhaps you'll even hear me address people by their first names, whereas if you were watching the Legislative Assembly, I would have to address them by their legislative constituency. So I hope that you will enjoy what you are witnessing today, and we'll now carry on.

Howard, your third question.

MR. SAPERS: Thank you, Mr. Chairman. Mr. Premier, just in terms of clarification then. If the question about AFSC is to be referred to the minister, I want to pursue whether or not the sales were really in the form of forced sales and through repossessions and if in fact there is a policy that AFSC has regarding financing of its activities through repossessions versus financing through new investment from the fund, if there's a percentage or a target there.

My final question, then, Mr. Premier, has to do with Vencap. Of particular topical interest I note that Vencap has a 39 percent interest in K-Bro industries, based, initially at least, on a \$3 million investment back in 1990. Because of the policy that up to 50 percent of Vencap's pretax net income can be returned to the heritage savings trust fund, I'm wondering whether or not we know how much income the fund received as a result of its holdings in K-Bro.

MR. KLEIN: Well, that is a very interesting question. I'd like to know that as well. I haven't asked the question, but I will. I understand that the company is a very successful company here in Edmonton and indeed throughout Canada and North America. So I would like to know, as I would like to know about some other assets that were Vencap sponsored.

THE CHAIRMAN: Okay. Well, we'll look for that information again.

Heather Forsyth.

MRS. FORSYTH: Thank you, Mr. Chairman. Good morning, Mr. Premier and Mr. McPherson. I have just one question I'd like to ask, and I'll refer to the annual report on page 41. If you look under the administrative expenses, such a huge difference from 1994 to 1995. In 1994 it was \$86,000, and in 1995 it was \$447,000. I'm wondering what the increase was for.

MR. McPHERSON: Mr. Chairman, there were at least three special situations that account for a good part of the increase. First of all, there was the cost of the market value study that was done about a year ago as part of the heritage fund review, and from recollection that was approximately \$65,000. There were legal fees related to the disposition of the biprovincial upgrader. Again from memory that was approximately \$150,000. Thirdly, there was some initial consulting work that we had on Vencap in terms of the disposition of the fund's Vencap interest, and I think that was in the order of \$45,000. So that explains a good part of the increase. We could come back with details if you like, but I think the balance of it probably relates to just increased investment activity as the size of section 10 has increased and, you know, the administrative costs of doing more transactions than in the prior year.

MRS. FORSYTH: If I could get some more information exactly, I'd appreciate it. Thank you.

THE CHAIRMAN: Okay. Thank you, Heather.

MR. SEKULIC: Good morning, Mr. Chairman, Mr. Premier, Mr. McPherson. My question pertains to a paragraph on page 9 regarding the future and as I would link it to the previous objectives of the heritage savings trust fund. When it was first established in '76, there were three objectives that were stated: saving for the future, strengthening and diversifying the economy of Alberta, and improving the quality of life for Albertans. On page 9 there's a statement. It's the last sentence, which says:

A transition plan outlining new objectives and investment strategy with amendments to the Alberta Heritage Savings Trust Fund Act are being developed.

I'm just curious, Mr. Premier; could you give me some insight into what the new objectives specifically would be?

MR. KLEIN: When the review committee went out, people said that there are some fundamental principles relative to the fund. I went through those with Debby. Those fundamental principles should be adhered to. That is that there should be the transparency that she alluded to, that there should be more citizen involvement in the decision-making process relative to the policy direction of the fund, that there should be perhaps consideration given as to how the fund is not only managed but whether or not our investments are wise – are we getting the best value and the best return on our investments? – and whether we're using the fund in the long term for the proper kinds of things.

Right now, as I indicated, and for the next four years or so we will probably still have to use the interest from that fund to offset our debt servicing charges. I anticipate that after that period of time, this province would be in a good position relative to generating legitimate revenues and creating surpluses, fulfilling our commitment to the Deficit Elimination Act; in other words, we won't be in a borrowing position. We'll be able to fulfill our commitments to the debt retirement Act. At that time I don't think that we will have to use all of the interest of the fund.

10:42

What do we do with that money? Do we return it to the fund? Do we use it for program development or to sustain programs? These are the kinds of decisions I think that we will have to make down the road. No doubt as we anticipate what the fund will look like three or four years down the road, we can now be developing policy, in conjunction with the private citizens who hopefully will be part of this board, as to how we invest in programs and the human and physical infrastructure of this province and really how we use the funds that will be surplus to our needs relative to the Alberta heritage savings trust fund. I think it's an exciting time. I just don't have the answers right now. The Provincial Treasurer is now developing some strategies and some proposals that he will recommend to this committee so that when the management organization is restructured, then you will have something to take to that organization and say: is this the direction you want to go?

THE CHAIRMAN: Second question.

MR. SEKULIC: Yeah. From the committee's work, the review process, I found – at least it was my interpretation – that Albertans consistently believed in saving for the future. I think the other two elements, the second and third, “to strengthen and diversify the economy . . . and to improve the quality of life for Albertans,” were there as well. I'd like to know whether those are objectives that the government has as well for the future, because when you refer to new objectives, I'm wondering: are you keeping the old objectives, or is this just a savings fund?

MR. KLEIN: I'm sorry, Peter?

MR. SEKULIC: Once again back to the objectives. I'm not sure. Previously we had three objectives clearly stated. Now there's an indication that there may be new objectives. I'm wondering: how will those differ from the previous objectives of the heritage savings trust fund?

MR. KLEIN: When we're talking about new objectives, I don't think that we're talking about those objectives in terms of the fund and for which it was originally designed. I think we're talking about objectives in terms of management of the fund. You know, we're talking about an entirely new management structure for the fund. So when we're talking about new objectives, I think we're talking about management objectives as opposed to the fundamental reasons for which the fund was established.

THE CHAIRMAN: Third question.

MR. SEKULIC: I just want to link this one. I'm looking at the capital projects division, pages 29 through 34. I think of my own scenario in my home life, that you earn so much money and then have certain fixed costs that you cover, be they the heating, the insurance, and whatever else. What you do with the surplus is you look to expend so much on recreation. You set a ceiling for yourself. You have an expectation perhaps in that category for savings or donations. Now, does the government do the same? When they're looking at capital projects, do they have some foresight as to how much they are going to allocate specifically? Particularly when we're speaking about diversification, do they set amounts and then try to achieve those targets? As an opposition member or as an Albertan where would I see that indication, let's say, for the next two or three years, the targets that you've set out for expenditures and diversification?

MR. KLEIN: There are no further programs anticipated at this particular time. They have all come to an end, and if you go through the list, you will see the end of all those programs and the investments that were made and the targeted outcomes. The one that I'm most familiar with, of course, is the irrigation rehabilitation and expansion program, the program that involved the reconstruction of a number of main headworks and canals. It was anticipated that that program would be completed by 1995. It was anticipated that so many miles of canals and main headworks would be upgraded. That has been achieved. Now, subsequent to the program being developed, it has been discovered that there are some main headworks that are still in disrepair that were not included in the original plan. That will simply have to be covered out of the normal capital works budget in subsequent years.

THE CHAIRMAN: Okay. Thanks, Peter.  
Moe Amery.

MR. AMERY: Thank you, Mr. Chairman. Some of my questions have been answered. Mr. Premier, when the review committee toured the province consulting with Albertans on the future of the fund, suggestions were made over and over that some of the money generated from the fund should be reinvested back into the fund. When we said that some of that money had been spent on programs, people said that there are some cuts that must be made. So my question is: do you see any area or areas in government where some cuts can still be made so that some of that money could be reinvested back into the fund?

MR. KLEIN: You mean relative to programs funded by the Alberta heritage savings trust fund?

MR. AMERY: Right.

MR. KLEIN: Well, no. The capital projects, as I've indicated, have all come to an end. We have a portion of the fund, as you know, that sponsors those things that are deemed, that simply are untouchable, like the Alberta heritage scholarship fund, the medical research endowment fund, which is now \$700 million out of an initial investment of \$300 million, and there are some other programs that are deemed assets. All other programs have come to an end. They have all been sunsetted; you know, the sun is down on them. So for the next three or four years, ostensibly, unless the new management committee decides otherwise, I suspect that all of the interest generated by the fund will be used to offset the interest on our operating debt.

MR. AMERY: Thank you.

THE CHAIRMAN: Okay. Thanks, Moe.  
Danny Dalla-Longa.

MR. DALLA-LONGA: Thank you. I have sort of a general question relating to Vencap and the sale of Vencap. I just know what I read in the papers, and we know that that's not always totally accurate, so I wonder if the Premier could describe in his own words: what was the business logic or the rationale for linking the Vencap sale with the Bovar sale?

MR. KLEIN: Well, it was thought at that time that basically we could – it is now politically incorrect if I say kill two birds with one stone, because I guess we don't kill birds anymore or throw stones – solve two problems with one transaction. It simply didn't work out. We didn't force the issue. We recommended a solution to Vencap. It was a business deal that simply would not come together. So we backed up and we said: okay, let's put it on the market and see what we can get. The fundamental problem we faced was getting out of the business of being in business and getting as much of our investment in Vencap back.

10:52

THE CHAIRMAN: Danny, before you proceed, you're aware that your second and third questions don't have to relate to the first question, but if you are going to relate your second and third questions to your first question, which the Premier has graciously answered for you, I must caution you perhaps, in a sense, that we need it directed toward the '94-95 report. So I'd ask for your consideration and discretion as you do that.

MR. DALLA-LONGA: Well, I looked at the '94-95 report – and I don't have the page in front of me – but, you know, it does talk about the sale of Vencap. Although it wasn't completed by the time this report came out, it was certainly contemplated. So I thought it was certainly within the . . .

MR. KLEIN: Well, Danny, I can tell you that that was one of a number of proposals that was being considered at that particular time. There were other proposals also on the table. The situation relative to Bovar vis-à-vis Vencap was one that could have been advantageous to the government had that deal come through, because we could have perhaps solved the sale; that is, we could have resolved the sale of Alberta's interest. Well, I guess "sale" is not the right word. We could have resolved Alberta getting out of

the Alberta special waste plant, and at the same time Bovar could have had an opportunity to become the substitute investor in Vencap. That deal simply didn't come through, and when it was obvious that it wasn't going to be consummated, we, as I said, stepped back and said we'd pursue something else. As you know, the firm of Richardson Greenshields reviewed all of the proposals received and recommended that we do the deal with Onex.

THE CHAIRMAN: Okay, Danny. Second question.

MR. DALLA-LONGA: Well, on the subject of Onex . . .

THE CHAIRMAN: How does Onex fit now, as it came after March 31, '95? How does that fit?

MR. DALLA-LONGA: I was just about to lead you through that logic.

THE CHAIRMAN: Please do.

MR. DALLA-LONGA: Okay. We did an evaluation, although the heritage savings trust fund wasn't included in that last year. I think it was done, as I recall, by a consortium of three firms. Then there was a discussion about the sale of Vencap, as discussed on page 19, and then subsequent to year-end Vencap was sold. Some Albertans have expressed concern to me that Vencap – there was about \$20 million or \$30 million left on the table with the subsequent sale. I was just wondering if the Premier could comment. On this sale to Onex, which we had sort of covered off in the previous year with some valuations, how did we end up leaving \$20 million or \$30 million on the table? In other words – if I could maybe explain that – the value of the investments contained within Vencap: people who are quite intimate and familiar with the transaction have said to me that we didn't get full, maximum value on the sale of Vencap.

MR. KLEIN: Well, I think that if you look at it, there was an audited and justifiable write-down of the Vencap loan from \$200 million to \$144 million, that was recorded on the books. It was a justified write-down, if you go back and look at the Auditor General's investigation of this particular matter. When we put the loan out to the market through Richardson Greenshields, they concluded that \$174.4 million was indeed a fair price. You know, I'll take \$30 million any day.

THE CHAIRMAN: Third question.

MR. DALLA-LONGA: I don't have any other questions. Thank you.

THE CHAIRMAN: Okay. Jon Havelock.

MR. HAVELOCK: Thank you, Mr. Chairman. Good morning. Mr. Premier, I have just a couple of general questions, and I'll use Millar Western as the example. Unfortunately, that investment didn't pan out the way we wanted it to; we haven't seen much money flowing back to us. Have you given any thought as to what types of guidelines or processes you would consider to be necessary to put into place, I guess, to preclude or prevent future governments from making these types of investments which just don't seem to generate the type of return that we expected?

MR. KLEIN: That's a very good question. As you know, some of these loans and loan guarantees were funded through the Alberta heritage savings trust fund. Some of these loans and loan guarantees

and grants were funded through other sources of government funds, but it's all the people's money. I've said that we are now out of the business of the business as a government sitting around the cabinet table or caucus table making these business decisions and picking winners and losers.

If need be, I would entertain the concept of legislation that would actually prohibit the government – that is, the government – outside of ordinary programs such as AOC, AADC, and the Alberta Treasury Branches, to make these kinds of decisions in the future. I would think that the Liberals would like to support that kind of legislation. This is something that I haven't thought out in detail. Certainly it hasn't gone through any kind of a legislative process at this particular time, but I think it's the kind of progressive legislation and safeguard kind of legislation that we should bring forward to make sure that governments now and in the future simply don't have the power to make those decisions.

THE CHAIRMAN: Second question, Jon.

MR. HAVELOCK: Yes, just to follow up on that. Mr. Premier, I appreciate your comments. Would you be prepared to make a commitment to this committee to sit down with the appropriate minister and have that minister or perhaps yourself bring forward the legislation dealing with that very issue in the near future?

MR. KLEIN: In the spring, yes. Whether it'll be passed in the spring I don't know. You know, I think it would be a very key piece of legislation. I don't think it would be very difficult; it would be very straightforward. It's the kind of legislation I would like to see. I know it is now government policy, but policy is so easily changed; right? Legislation is much more difficult.

MR. HAVELOCK: Yeah. It's not easily changed, nor is it easily implemented.

The final question, Mr. Premier, deals specifically with Millar Western. I've certainly had these questions raised by my constituents. Are there any plans at this stage – and I don't want you to be divulging anything that's confidential – to extricate ourselves from this agreement at this point in time and try and recover at least a portion of what we've invested and set Millar Western free to get on with business and making money and, concurrent with that, trying to secure a reasonable deal for the taxpayer?

11:02

MR. KLEIN: Quite simply, without going into the details – and I couldn't even if I wanted to – the answer is yes. There's a lot of work being done on this particular portfolio.

THE CHAIRMAN: Thanks, Jon.  
Mike.

DR. PERCY: Thank you, Mr. Chairman and Mr. Premier. The issue of loan guarantees is one we've addressed. In fact, had the session not ended as abruptly as it did, we had a Bill that we were going to introduce on guarantees. The issue that comes up of course is where you draw the line. The Agriculture Financial Services Corporation provides guarantees. AOC is a lender of last resort. There's a gray area there. In fact, in Social Housing you'll find that the government is involved extensively in providing loan guarantees. All of them are related to the heritage savings trust fund because at one time or another they provided funds to AOC or Social Housing or Agriculture Financial Services Corporation. Where in your own mind do you draw the line in terms of a guarantee?

MR. KLEIN: Mike, philosophically we have to consider what is in the public's good, what is in the public's interest, not what is in the interest of a particular business. If it's something to do with social housing, is that in the public good? Is this something that we should do to make sure that those who are less fortunate in our society have the kind of housing they need?

AOC. Again I guess we can look at the governance of AOC. It's my sense – and perhaps you get this sense – that this is one agency where a lot of small businesses, particularly in these times of very difficult financial markets, now are saying: keep this agency; this agency is performing a duty or a function that no other agency is performing at this particular time.

The banks are certainly not going out of their way to help small business. As a matter of fact, I was interested to hear the comments of one of the recipients recently of a pinnacle award, a lady who has a catering company. She had some very harsh words – well, you were there – relative to the banks and the access to capital for small businesses.

We put in place a board, as you know, just recently. The people on the AOC board are generally perceived to be free enterprisers, people with a strong entrepreneurial spirit. We challenged that board to really do an examination of AOC and determine whether this government should be sponsoring that kind of a program. I was quite surprised. I thought this board would come back and say: "No. Scrap it. Let the private sector prevail. Turn it all over to the banks." They came back and said: our sense of this situation is that AOC is fulfilling a function that no other financial institution in Alberta now is fulfilling, and therefore it should continue until we see some demonstration on the part of the private-sector financial institutions that they're willing to step in and take some risks relative to small business.

THE CHAIRMAN: Mike.

DR. PERCY: Yes. Certainly that was our sense as we asked around a particularly strong rural constituency about AOC.

MR. KLEIN: Just to answer that. You know, if there's good governance of AOC and the decisions are properly made – independent, separate and apart from political interference – then I'm somewhat comfortable. What I'm not comfortable with is the situation where people would sit around the cabinet table and act as a board of directors and say: "You win. You lose."

DR. PERCY: I'd like to return to the issue of Millar Western because, parenthetically, to me it's very reminiscent of Stewart Green in terms of the ability of a firm or an entity to shift funds around from one pocket to another pocket. The province is actively involved, as I've mentioned, through this holding company. ED and T has a rep on it, the CIBC has a rep on it, and I think the firm has reps on it. Could you tell us, in a sense, what that board actually does? Does it just monitor the flow of funds? Is it there to provide direction? Is it there to protect the taxpayers' interest? Certainly the rep from CIBC is there to protect the bank's interest, but I'd like to know, given the restructuring of that loan, who is there speaking out for the taxpayer.

MR. KLEIN: Are you talking about an elected representative?

DR. PERCY: There is somebody from ED and T there. But are they passive? Are they there to get our money back? What is the role of that member?

MR. KLEIN: I can honestly say that I really have no idea. I would hope that they wouldn't be there as a passive observer because we're really trying to get ourselves out of this guarantee. So the whole idea is to make sure that the profitability, I guess, of Millar Western is sustained and, at the same time, that the profits go to paying down their loan and getting us out of this.

MR. McPHERSON: Mr. Chairman, just a further comment on the agreements. I don't have the agreements here, but I think they're public. I'm sure that if you look in that, you will find that there are fences around what the company can do with cash. I think from memory that there's a fairly well-ordered sequence as to what happens with cash generated in the operating company. Again from memory, I'm sure that audited financial statements would be provided to the government. So the first line of defence, if you like, is the audit of that company's activities and the reporting in the audited financial statements as to where the cash goes. Certainly if cash were to go in any direction not contemplated in the agreements, then clearly they would be in default of the agreements and presumably action would be taken.

MR. KLEIN: I'd like to see those agreements.

THE CHAIRMAN: I might supplement, though, as chair that on Wednesday, December 13 we have the Hon. Murray Smith, the Minister of Economic Development and Tourism, in front of us. So maybe this will be a little notice for him that this question's likely to arise about the proactiveness or reactivity of economic development's position at that board.

DR. PERCY: My final question. If you look at the investments of the fund, you see the debenture with Al-Pac, you see Millar Western, and one has to ask whether or not there was ever the necessity for the province to become involved given that the timber resource was a tremendous resource in itself. We may have sped up investment, but it's not clear that it was really required for us to backstop Al-Pac, for example. I guess the question is – it's always said – in hindsight, would you do it again?

MR. KLEIN: No. The answer to that is definitely not. Of course this was the line of questioning in the early '90s to the then minister of forestry, lands, and wildlife and to the then minister of Economic Development and Tourism and to the then minister of the environment. It all pertained to: was there necessity to backstop these forestry projects to the extent that the government did? Certainly the attitude at the time – and this goes back to the mid '80s, when the buzzword was “diversification,” and certainly the key component of that diversification was the development of the northern forests. In order to do that, it was thought that incentives had to be put in place. It certainly served to spur on the development. As a matter of fact, in hindsight a lot of that development probably came on too fast, and that's why there was such an environmental uproar at that particular time. I mean, that portfolio was even hotter than being the Premier – it was – with the speed and the extent to which these projects were coming onstream. Of course, stumpage rates were low. The incentives were very generous. If you were to ask me today, “Would we do it?” I would say: no, absolutely not.

11:12

THE CHAIRMAN: Okay. Thank you.

Before we move to Yvonne, again we have some young visitors in the gallery and I'd like to welcome them. You're witnessing a hearing of the Alberta heritage savings trust fund. Thanks for the wave; I appreciate that. If you'd like to stand, you can see that the

Premier is in attendance today. He is the person that we are questioning. The people to my right in the front bench are members of the opposition Liberal Party, and in the second row are members of the government Progressive Conservative Party. You might have to use whatever materials you have to figure out who they are, because in this committee we are not required to sit in our designated seats. Also, we are able to remove jackets and bring coffee or water in with us. I hope you enjoy what you are witnessing today.

We'll carry on now with Yvonne Fritz.

MRS. FRITZ: Thank you, Mr. Chairman. Mr. Premier, my question is a general question about the capital projects division. You had mentioned earlier that it provided moneys for long-term benefits for Albertans and also that no funds are to be spent from that division beyond March 31 of 1995. I'm concerned about the amount of money that may be required in the area of technology for Albertans, in the area of education – for example, I know I've had a number of schools in my own constituency that have asked that we provide computers for our young people, and technology there is expanding – and as well in the area of health care. We've been talking about enhanced technology actually having a cost savings. I can see that there are going to be significant expenditures for government in technology, and it doesn't really generate funds. It's just a general question on whether or not you have any thoughts about providing those funds from the heritage savings trust fund.

MR. KLEIN: Well, some of these funds were allocated to set up organizations such as AO STRA, organizations such as the renewable energy research and other research activities, the Alberta Heritage Foundation for Medical Research. Most of these research activities that were set up and are now seen as deemed assets are generating private-sector dollars through program development. What we are trying to do now, rather than taking more money out of the fund and beefing up these dollars, is consolidating and bringing together all the research dollars in government, save for the Alberta foundation for medical research, which is a stand-alone, very separate, very successful fund which will co-ordinate its activities with the new Science and Research Authority. What the authority is trying to do is to bring together all these research funds and bring about some co-ordination so we can better lever those dollars that are in place. But, no, we won't be taking any more money out of the heritage fund to develop new research projects. We think that there is enough money there already that can be leveraged to get private-sector dollars.

MRS. FRITZ: Thank you, Mr. Chairman.

THE CHAIRMAN: Okay. Debby.

MS CARLSON: Thank you, Mr. Chairman. Mr. Premier, back to your remarks about AOC. You're satisfied at this time that it's fulfilling a role in the economy and it's dependent on good governance, according to your earlier comments. How, in your opinion, is good governance evaluated, and how often can we expect a review of AOC?

MR. KLEIN: Well, AOC, like every other Crown agency, is reviewed once a year. They have to submit their annual report. They are subject to audit by the Auditor General.

You asked me how my assessment of AOC came about. It was simply in talking to the directors on a very informal basis. It also came about as the result of the cards and letters I got and the phone calls. I mean, when things get out on the street, people become concerned. There was some rumour that perhaps we were going to



do away with AOC or perhaps incorporate it into one of the other financial institutions; i.e., the Alberta Treasury Branches. When people hear these kinds of things or when those rumours are out, I usually get a lot of phone calls and a lot of letters.

It's my sense that this agency is serving a useful purpose. I think it might be worthwhile to get a more formal, you know, assessment of this operation, and if this committee so desires, I would be glad to take the instructions of the chairman and maybe have such a review conducted. This is just my sense. There's been, to my knowledge, no formal polling or formal process put in place to get a consensus on what people feel about AOC, but I know that those people who have been helped by AOC certainly have some good things to say about it.

MS CARLSON: So, Mr. Chairman, then we could put forward a recommendation at the next committee meeting? Would that be the process?

THE CHAIRMAN: That would be, sure.

MS CARLSON: Okay, good. We'll do that then.

Mr. Premier, back to the Alberta investment division. You talked in your opening comments about diversifying the economy as being an ongoing mandate for this committee. I'm wondering what the criteria will be and is now for making debt or equity investments to strengthen or diversify the economy of Alberta? Could you comment on that for us, give us your opinion?

MR. KLEIN: I would defer to Allister relative to the investment policy, but I guess the policy generally is to invest in those projects and in those areas where we can get the biggest bang for our buck.

MR. McPHERSON: Mr. Chairman, in terms of the Alberta investment division, I think that right now and certainly currently there would not, to my knowledge, be any new investments that would be undertaken. One of the issues, as the Premier mentioned, that would be dealt with in the new objectives of the fund is whether that kind of activity should continue at all. I think our sense out of the review process was that Albertans were saying that economic development type of investments should not be part of the fund's future.

MR. KLEIN: Allister, relative to the past, how were the investment decisions made outside? I know that the recommendations would come to cabinet, which is in fact the board of directors for the fund. But how were those decisions made?

MR. McPHERSON: Each investment was considered on a one-by-one basis relative to the expected rate of return, which would be one criteria, and relative to what the economic impact of the project or investment might be. So it was that kind of dual analysis, if you like, that the investment committee of the fund would have considered.

11:22

MS CARLSON: So if part of the mandate of the fund is to still diversify the economy and it looks like the direction you are going is not to have an Alberta investment division, how will that be accomplished?

MR. KLEIN: Again, the Treasurer will be bringing some recommendations forward in January. These will be recommendations only. I would suspect that the new governing body, however that body may be structured, will make those

decisions. But clearly Albertans have said that they want the fund to sustain the economy, to sustain quality of life, but they don't want – this is my sense, and I stand to be corrected – us generally as a matter of policy to risk their money in investments and economic development activities.

THE CHAIRMAN: Okay. Thank you.  
Shiraz Shariff.

MR. SHARIFF: Thank you, Mr. Chairman. Mr. Premier, I have two questions here today, and the first one you have partially just addressed from Debby's questioning. It has to do with the Alberta investment division and in particular that this division is a policy-based objective division. I was wondering: with regards to diversifying our economy and taking into consideration the changes that are going on, are we going to be investing in people to adapt to the new technology and the new changes that are happening?

MR. KLEIN: Well, I think, Shiraz, we're already doing that, and the fund will continue, you know, to do that through the investments that we already have and the interest that we will earn off those investments. As I've said, over the short term we're still going to have to use that interest to offset our debt servicing charges. Over the long term that interest, those earnings, then can be invested in the human and the physical infrastructure that I talked about, certainly in sustaining programs and enhancing programs and the general quality of life in this province. Taking the principal of the fund and risking it on future investments or on economic development projects: the people are generally saying, "No, don't do that, but certainly when the time comes when you can use the earnings from the fund, then make a determination as to how that money is to be spent and how it is to be spent wisely." That's my sense of where the people through the review committee told us to go relative to the long-term management and use of the money from the heritage savings trust fund.

MR. SHARIFF: So, Mr. Premier, if I can just clarify what you just said. With that being the long-term intent, will that position be articulated in a policy statement?

MR. KLEIN: Hopefully it would be, but that's up to the heritage savings trust fund of the future. There is going to be a new governing body for this fund. In January the Provincial Treasurer will bring forward some of his thoughts and some of his recommendations based on the findings of the review committee. Whether these recommendations will be accepted or not by the new governing body I really don't know, but I would suggest that the suggestions will be sound ones and will be worthy of very serious consideration. So I just can't answer those questions. All I can say is that what will go to the heritage savings trust fund board is basically the thoughts and the recommendations of the review committee and a plan of implementation and some additional thoughts from the Provincial Treasurer which will be brought forward in January.

MR. SHARIFF: Mr. Premier, my second question was pertaining to the commercial investment division. At the present time we invest in Canadian stocks. Looking at the global economy, the way it's moving and the opening of free markets, can we foresee investing in some international ventures or stocks or equities to take advantage of the growing economies?

MR. KLEIN: Yes. We would monitor these situations; in other words, all of our investments will be very, very secure investments

that will provide a reasonable rate of return. Albertans have clearly said: let's not get into risky ventures. So if there were any overseas investments, we would want to make sure that those investments are as secure as any investments we might make in Canada.

MR. SHARIFF: Thank you.

THE CHAIRMAN: I might make a note that Shiraz is a new member, but he's already quickly latched onto a technique that members use quite often, when he said: just to articulate, then, what I just heard. He went through that, managed to slip in another question and said, "My second question." So you're going to be a welcome addition; you learn very, very quickly.

Okay. Your third question.

MR. SHARIFF: I only had the two.

THE CHAIRMAN: Okay.

All right. Howard.

MR. SAPERS: Thank you. Mr. Premier, in the capital spending division many projects have been terminated. One that was terminated was the funding over three years, I believe to the tune of \$3 million, of the Alberta Family Life and Substance Abuse Foundation. Could you tell us what exactly it was that Albertans got for that \$3 million investment of heritage savings trust fund money?

MR. KLEIN: I guess I would have to get you the annual report of the foundation to get a determination of what the organization accomplished. I recall when that organization was set up and its terms of reference, but it's the kind of detail I just don't have.

THE CHAIRMAN: Well, I would think, too, that that report was public and would be on file somewhere for you, Howard.

MR. SAPERS: Well, I appreciate that.

MR. KLEIN: I would imagine that most of it was public education. I don't think that program was set up to provide – or perhaps it was; I don't know. I'm getting myself into a situation where I just don't have the answers, but I suspect all of it was education. I don't know if there were direct rehabilitation programs and so on.

MR. SAPERS: Mr. Premier, I believe the language used in setting up the foundation and then subsequently in its final report included the phrase, "the discovery and application of new knowledge." Of course, there was always a fair bit of discussion whether or not that duplicated AADAC. It was very fuzzy why it was set up, and after a \$3 million investment – and I am familiar with their final report – the final report doesn't really answer the question: did it achieve what it was set up for? The reason why it doesn't answer the question, Mr. Premier, is because there are no real performance measures or outcome statements. So I'm wondering whether or not through the heritage savings trust fund and particularly cabinet's role in evaluating expenditures under the trust fund a different kind of assessment or evaluation was done that led to the termination of the foundation and the cessation of funding to the foundation.

MR. KLEIN: No. I think it was set up as a three-year program. It had a very specific mandate. Your question is valid, you know, as to whether there was the proper evaluation of the program: did it achieve its goals and so on. I would have to go back and have a look at this. All I know is that the annual reports of the foundation are tabled in the Legislature, and I would assume that at that particular

time there would be time for debate or questions relative to the question that you just asked.

11:32

MR. SAPERS: Thank you, Mr. Premier.

My last question this round in some way relates to the questions about the foundation but more specifically to access to information about activities funded by the heritage savings trust fund. I'm wondering whether or not you would commit to instructing the various departments that utilize trust fund dollars or who have a relationship with projects funded by the Alberta heritage savings trust fund to waive application fees pursuant to freedom of information requests, as the Act would allow for. I believe it's section 18 of the freedom of information and privacy legislation that allows for that discretion. This would, of course, be consistent with the fund and its management being transparent.

THE CHAIRMAN: Just as guidance, Mr. Premier. You may answer if you so desire, but that has clearly gone beyond the mandate of this committee. So you're at your own discretion.

MR. KLEIN: First of all, I can't direct that. That is a decision of the board. I would suggest that you put it right back to your own committee and have that debate as to whether that should be a recommendation that should be put to the board. You know, I would like to know the extent to which this information is required, what kind of information, what the costs associated with it are. I mean, there are so many questions to be answered. I don't think that there's anything to be hidden here. I would hope not anyway.

THE CHAIRMAN: Okay. Thank you.

Victor Doerksen.

MR. DOERKSEN: Thank you, Mr. Chairman. Mr. Premier, we've talked a bit this morning about the recommendations coming from the review committee, which says that "the role of government is to set objectives for the Fund." You've indicated that the Treasurer is going to be tabling some recommendations on that in January. In addition to that, the standing committee report of May 1995 in its Resolution 16 says "that the Treasury Department be required to prepare a three-year business plan on the specific goals, objectives, actions, and results." Will that be tabled at the same time with the Treasurer, or is this something that's coming in the future?

MR. KLEIN: I see it, yes. We've agreed to it.

MR. DOERKSEN: When specifically might that be? After we have determined the objectives?

MR. KLEIN: Right. That, as I said, will be brought to this committee in January by the Treasurer.

MR. DOERKSEN: Okay.

Two projects out of the capital projects division – one, the Alberta heritage scholarship fund, which started with \$100 million, has maintained an inflation-proof investment now sitting at \$224 million. The other one, which has been well received, has been the Alberta Heritage Foundation for Medical Research endowment fund, which started at \$300 million and is now at \$682 million. As we discuss the objectives – and I'd maybe just invite your reaction – I'm wondering if it would be possible to set aside, say, a \$200 million figure as a fund where the proceeds from the investment of that fund would not only maintain it inflation proof but also provide for technology improvement in the school system. You could set aside

a fund to do that so that the interest money would be allocated to improve technology in the schools.

MR. KLEIN: Well, we're getting into policy decisions that will have to be made down the road. You know, I really can't preclude what the new governing body might have to say about this, but I would have to repeat, I think for about the third or fourth time now, that I suspect there will be no new programs developed from the fund, at least not for the next three or four years. The earnings from that fund will have to be used to offset the interest on our debt repayment.

I would suspect after that, as we anticipate generally in our overall budgeting – and we anticipate a sustained balanced budget, an orderly schedule for the pay-down of the debt – when we're generating revenues, that our dependency on that interest will be somewhat diminished. At that time we can look at how we take that interest to set up the kinds of things that you're now talking about, whether we can create new endowments and so on off the earnings, but I suspect that now is not the time.

MR. DOERKSEN: My last question, Mr. Premier. I think we need to clarify something. As I remember the guidelines or the recommendations from the review committee, it was that the government sets the objectives and that the governing board executes the objectives. Is that correct?

MR. KLEIN: It says, "The role of government is to set objectives for the Fund." Yes, you're absolutely right. That's what the Provincial Treasurer will be bringing forward in January: the objectives for, again, his recommendations. This committee then will have to either accept or reject those recommendations relative to the objectives, and when the new governance body is put in place, these will be the general objectives that that board will be required to achieve.

Relative to the policy decisions and so on that will be made in achieving those objectives, that will be entirely up to the new governance structure.

THE CHAIRMAN: Okay. Thank you.  
Peter.

MR. SEKULIC: Thank you, Mr. Chairman. Mr. Premier, based on what I've heard in terms of your response, is it fair to say that you endorse the performance, the purpose, and the continued existence of the provincial Crown corporations as they're set out?

MR. KLEIN: I'm sorry.

MR. SEKULIC: I'm wondering: is it fair to say, based on what you've said, that you endorse the performance and the continued existence of the provincial Crown corporations AOC and the Agriculture Financial Services Corporation?

MR. KLEIN: Yes, unless there's evidence to the contrary. Again, I have to go back to the question as it was asked previously, and that is: has there been a formal assessment? No, there hasn't been a formal assessment to my knowledge. I'm just acting on, I guess, my political instincts and what I hear. People are saying that those two agencies, AADC and AOC, perform a function that is not now being performed by any other private-sector institution. Therefore, until there's demonstrable evidence that the private-sector institutions are willing to step in, these Crown agencies should continue to operate. That's my sense.

MR. SEKULIC: Good. Thanks.

One of the things that I've been doing over the past six months is I've actually been attempting to develop a Bill – and I'm into the final draft – a loan guarantee and indemnity restriction Act. I know that your government is currently working on that as well. When I was going through it, I found that the government currently has somewhere over 200 different vehicles for grants, loans, loan guarantees. To try to whittle it down, the minimum that I could come up with is around 28, and that is protecting some of these that I think have social value and wouldn't otherwise be carried out. I'm just curious. Perhaps in assisting me on the final draft of this Bill, you could give me an idea of – first of all, has your government come up with a number that you're going to do away with, eliminate? I said that there are over 200. You know, being in opposition, information isn't always readily available, so it's difficult to determine default rates.

11:42

MR. KLEIN: Well, this is very interesting to me. I don't know what the figure is, but I wouldn't argue, you know, with your figures. I think that what we've got to do is find out what kinds of mechanisms there are to do these kinds of things and put in appropriate legislation to prevent loans, loan guarantees, grants, and so on unless they are for, as I said, the public good, social causes, and those kinds of things that we are expected as a government to fund as a government responsibility; in other words, one of the core businesses of government. That basically gets these major kinds of business decisions out of the political realm. I think that's what we want to do and still not take away from AOC, understanding that there will be good governance of these agencies, their power to make reasonable business decisions.

THE CHAIRMAN: That's one you owe me, Peter. You kind of slid that one through on us.

Your third question.

MR. SEKULIC: I'm very encouraged to hear that. In fact, I would anticipate – and perhaps the Premier could just confirm this – that he would support my Bill when it comes forward in the spring. It'll be probably the most restrictive Bill in terms of issuing loan guarantees.

MR. KLEIN: Let's see who has the best Bill; right?

MR. SEKULIC: Work with me, Mr. Premier.

MR. KLEIN: I would support yours if you'd support ours too.

THE CHAIRMAN: I think the Speaker would interrupt at this point and say: "Order. Order. Order." All right. Well, I admire your persistence. You got one and you went for two, but you're not going to get it.

Let's see. Who's next? Yvonne, did you have any further questions?

MRS. FRITZ: No. Thank you.

THE CHAIRMAN: Okay.  
Shiraz? No.

DR. PERCY: This is a question of the overall philosophy of the fund and as a member of the committee. Most people, when they were asked about the direction of the fund or what it should do, thought in terms of its existence and thought in terms of whether the money should go back into general revenues or be plowed back into building up the principal. There is one other alternative, which is

perhaps less paternalistic in terms of keeping the money out of the hands of government, and that is the distribution of the funds or the interest to Albertans, as is done in Alaska. That's a philosophical issue really, and it's an issue related to the size of government and the role of the fund. I'd be curious about your views on that.

MR. KLEIN: Well, it's an interesting one. It's one of the issues that I thought we would hear a lot about; in other words, give the money back to us. My sense of the responses that came in is that the people were saying: no, you keep it and make sure that the earnings are spent wisely and make sure that there is the transparency that Debby talked about and make sure that there is a more independent form of governance. I just didn't hear the people say to me, "Give it back to me." You know, I just didn't hear that, Mike. I was really quite surprised, because my sense was that the people would say, "Well, you keep half and give half back to us," but I didn't.

DR. PERCY: No. That was what was a real surprise given that the Social Credit had a social dividend and wasn't there.

With regards to the overall direction of the fund though, my impression, then, from what you said earlier is that the next three to four years is passive administration of the fund and then in the fourth year something dramatic happens in terms of the restructuring or there's more flexibility with regards to how the fund can operate.

MR. KLEIN: Well, we're just doing some crystal ball gazing here, you know. I mean, we're making predictions. But we have to predict five years into the future, and we think that we're going to be in good shape, that there will be diminished dependency on the earnings from the fund to offset our interest payments. So I think that whatever policy is developed, relative to the fulfilling of the objectives, it should be developed in more of a long-term sense, a four- or five-year sense, rather than immediate, because I just don't see how we're going to be able to develop anything new out of the fund. In other words, as you say, it's in sort of that passive stage for the next three or four years.

DR. PERCY: A final question. Presently in terms of the investment strategy, I mean, it mimics the TSE in terms of the structure of the portfolio, and that's sort of – mindless isn't the right word – a simple rule to live by, a safe rule to live by. I guess the issue then is: what is the government's perspective of the appropriate trade-off between risk and rate of return?

MR. KLEIN: I'll let Allister answer that.

MR. McPHERSON: Thank you. Clearly that's one of the important questions that has to be answered in guidance given to the folks that manage the fund, whoever they might be, and hopefully the Treasurer will address that issue when he brings forward some proposals. I think at this stage from within the department we would see a transition to investments that have higher risk but higher expected returns over a period of time. So in that sense it may not be appropriate, to use your example, to continue to manage the Canadian equities as sort of a passive index fund. You might want at least part of that to be more aggressively managed but within the overall framework of the objective of the fund and the tolerance for variability in returns.

THE CHAIRMAN: Okay. Thank you.  
Debby.

MS CARLSON: I defer to Danny.

THE CHAIRMAN: Danny. Okay.

MR. DALLA-LONGA: Thank you. I have a question relating to AOC, which we know is a fund that's there to help beginning businesses. Certainly having had experience with clients in the past going to access funds at Alberta Opportunity Company, they don't do you any favours in terms of security and interest rates. I've had some constituents over the last couple of years express concerns to me about this fund versus what's in the agricultural department for beginning farmers, and that's the beginning farmer program. The Auditor General's report mildly chastises this program as well for the lack of accountability and lack of information that it gets back from farmers. I'm getting around, Mr. Premier, to the disparity between starting up a new farm and starting up a new business and accessing funds. In the beginning farmer program you can get a loan of up to \$200,000 at 6 percent. Certainly at AOC you wouldn't see anything close to that. There is 10 times the amount of money in the beginning farmer program than there is in the AOC program. As a general overall philosophy how do you rationalize this disparity?

11:52

MR. KLEIN: Well, I think in terms of agriculture there has been an identification of agriculture as really the backbone of our economy. It's a thing that will always sustain the economy long after oil and gas have gone. There was certainly evidence that the family farm was diminishing and there was a lack of interest in farming. Basically there was a very deliberate government decision that said that if we are going to sustain agriculture and make sure that it is the strongest overall component of our economy, then there has to be some incentive, some investment in terms of getting people back on the farms. It was done for that reason. I mean, agriculture is the thing that will sustain us, really, into the future, and we've got to make sure that there are people there who cannot only grow the agricultural products but who have the wherewithal also to bring those products into a value-added mode.

MR. DALLA-LONGA: But clearly in this province here, I mean, agriculture is important, the oil and gas industry is important, which doesn't get hardly any financial assistance in terms of . . . [interjection] Well, I know what you're referring to, but we'll leave that one aside.

MR. KLEIN: When the oil and gas industry is down, again through royalty and tax structures we try to assist. When the farm community was down and was suffering – and we're still having problems getting people back on the farm and developing family farms.

MR. DALLA-LONGA: I don't mean to get into debate, but I clearly draw a distinction between varying the levels of taxation in times of business cycles and outright funding. I just don't see the two as being the same. Notwithstanding agriculture is important. It will always be important, but business is important as well. Although it's not the buzzword these days, we probably still want to look at ways of diversifying ourselves. If there is a commitment made to the agricultural industry, I think in the interest of fairness the same sort of commitment should be made to business. I mean, the family farm sort of tugs at your heartstrings, but there are family businesses. There are businesses that need assistance in getting started. I'm not in favour of loans and that sort of thing at nonmarket rates, but if we're going to do it on one side, we should do it on the other side or not do it at all.

MR. KLEIN: Well, again, AOC is the lender of last resort. AADC was never intended to be the lender of last resort. You know, the functions of the agency are somewhat different, and part of the function of AADC was really to get people back on the farms, was really to sustain probably the most important component of our economy. I would suggest to you that there are probably four or five engines, some larger than the other, driving this economy, and certainly I would say that the number one engine today is energy, but it won't always be there. As you know, we're dealing with a depleting resource. The strongest engine overall and the one that will last the longest is agriculture. Forestry, again, is a sustainable kind of industry along with tourism, and there are probably some ancillary primary industries. Without these industrial sectors being sustained, particularly agriculture, there wouldn't be any small business. So I think what you have to do is make sure that your primary industrial sectors, the engines that drive your economy, are sustained, because without these there would be nothing. But it's something we can look at, Dan.

MR. DALLA-LONGA: It's a possible recommendation.

MR. KLEIN: Yeah.

THE CHAIRMAN: Okay. Debby, did you have questions?  
Howard?

MR. SAPERS: No, Mr. Chairman. Thank you.

THE CHAIRMAN: Okay. Well, we've come to the end of the questions then. I want to thank you, Mr. Premier, for your candidness, as usual, and thank the members for their participation. I want to make note that we are meeting at 1 o'clock. Originally it might have shown 2 on some agendas, but the new one shows 1 o'clock. We're now adjourned, and we'll see you then.

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

