

[Chairman: Mr. Oldring]

[2 p.m.]

MR. CHAIRMAN: Good afternoon. We will reconvene our meeting at this time. With us this afternoon we have the Hon. Dick Johnston, Provincial Treasurer. With the hon. Mr. Johnston is the Deputy Provincial Treasurer for finance and revenue, Mr. Allister McPherson. Mr. Johnston, if you'd like to make any opening remarks at this time, please feel free to do so. If not, we will proceed with the question portion of our meeting.

MR. JOHNSTON: Mr. Chairman, it's probably unusual to pass up an opportunity to make opening remarks. If I see that as an invitation, then I'll do just that — accept. Let me say that we are probably experiencing one of the greatest successes of any government in the civilized world by today celebrating a decade of the Alberta Heritage Savings Trust Fund. Very few governments can look back on a clear set of policies which were put in place at a particular economic time which diversified the economy and dealt with humanitarian needs more successfully and, more particularly, more consistently in their direction than we have seen with respect to the Heritage Savings Trust Fund. So it's quite a milestone for us to be sitting here after 10 years, contemplating the terms under which the fund was set up, reflecting upon the decisions which allowed it to be incorporated, and talking about the fundamental values which are important to all Albertans.

Those fundamental values deal with such things as savings, a vision of the future, and a set of objectives which you can target and attempt to achieve by fiscal and monetary means and, by these kinds of measurements, reinforce the decision that was made some 10 years ago. This fund is so significant to Albertans and has been such a major success in its form that it really is unmatched in any other civilized jurisdiction in the free world that I know of.

I'd be the first to admit that from time to time you can review the policies. You obviously can debate the degree of success. You can debate the way in which investment was made. You can debate several of the policies which are implicit in the direction reflected in this 10-year growth record. Of course, that's what

we're here for. If I were someone looking at this proposal, this record, this 10-year history, I would also bring forward some challenges to the principles. But in doing so, of course, I would expect to reflect upon the successes. I'd expect to admit the very important contributions which the fund has made. I would talk about the achievements which are implicit and measurable in this statement we have before us today.

Naturally we make decisions as time unfolds. We make decisions on the economic backdrop. We make decisions on the political backdrop that we all face as decision-makers. That also is implicit in this record of achievement. So it's a bit of an emotional period, since I was here as a young minister and a young MLA in 1975-76 when this was contemplated, when the genesis of this was put forward. Now, one decade later, it's quite a remarkable feeling to have seen the contributions that this savings fund has made to Albertans in diversifying and strengthening our economic profile and the humanitarian aspects that are implicit in it.

Frankly, on the very simple savings side, that is so fundamentally important to Albertans, it is a really rewarding opportunity to be able to debate both the past, in the context of why these decisions were made and, of course, the future, because all of us, certainly our government caucus members, are doing just that — debating the future of this fund in the context of the imperatives, new objectives, and new realities. That is one of the major challenges which this committee faces and certainly which this government must accept as we move into the next decade of the Alberta Heritage Savings Trust Fund.

I look at some of the really remarkable experiences I have had personally as a result of the contributions the fund has made to Alberta society: writing letters to about 6,000 students who were able to receive special assistance from the Alberta Heritage Savings Trust Fund scholarship program, the Rutherford program in particular; remarkable medical successes which have been achieved as a result of the medical research foundation program; and in my part of the province in particular the substantial investments in the future assets of this province as reflected in irrigation. We can go on and on about these investments, these kinds of

contributions, but when we sit here today, all of this is coming together. It's a decade; it's a 10-year history; it's an anniversary. It is, in fact, a celebration.

As I say, though, we must be careful about the future. All of us know that the changes before us in the economy, in both agriculture and energy, are real, and we have to accommodate those in our plan for the future. Mr. Chairman, those are the general comments.

I know that the issues before us probably will focus on: will you allow this heritage fund to be capped? Will you allow it to grow? Will you shift resources internally? Are the resources, the assets shown in the Heritage Savings Trust Fund, properly reflected? These are questions which are expected, and these are reasonable kinds of debates which we would see in this kind of a committee.

Mr. Chairman, those are my introductory comments, obviously in a more general sense than perhaps we will get into here in some time. Nonetheless, I did want to characterize my attendance here in that context, because it is a remarkable success story, a remarkable set of achievements, and this progress has been in fact appreciated by the citizens of Alberta. I know that as we move into the next decade, similar kinds of successes can be achieved, and we expect to do just that.

MR. CHAIRMAN: Thank you, Mr. Johnston. You just asked yourself five or six good questions, but about nine members are ahead of you.

MR. McEACHERN: I'd like to welcome you, Mr. Johnston, to the hearings.

MR. JOHNSTON: These aren't hearings, are they? Do we call these hearings?

MR. McEACHERN: Whatever.

MR. JOHNSTON: Meetings of the committee.

MR. McEACHERN: Meetings of the committee.

I agree with you that it has been 10 years of very good times and that to some extent it should be a celebration. But we should also be tightening our belts for the decade ahead as we go into a \$2.5 billion planned deficit which may turn out to be \$3.5 billion or \$4 billion.

Sometimes to hear Conservatives talk — and you put yourself in that category this morning — you'd think you had raised the oil prices on the world markets yourself to \$30-odd U.S. a barrel. It was really done by OPEC and had nothing to do with Alberta. We just happened to have oil. However, we've enjoyed the good times, and now the time has come.

As to the handling of the fund, I would perhaps be a little less generous than you were on how it was handled. I think you were right when you said that you would make the decisions as the times unfold. I've often accused the government of doing things by ad hoc decisions as things happen. The plan for diversification didn't seem to go too well. Now we're faced with whether or not it really is a savings account and how much we're going to use it to mitigate the bad times. I guess that's where the reassessment should start. I'd like to tell you that this morning the Premier did not agree with us that it was time for a really full and thorough reassessment, talking to all the people of Alberta and finding out what they think as we move into this next, more difficult decade.

I want to ask about a particular aspect of the fund. If we look at the three Crown corporations — Alberta Opportunity Company, Alberta Agricultural Development Corporation, and Alberta Mortgage and Housing Corporation — their total portfolio, according to both their annual statements and the heritage trust fund debenture statement, would add up to approximately \$5.4 billion. That's a very major part of the \$8 billion Alberta division of the heritage trust fund. The thing that bothered me as I tried to look at the numbers and get a handle on what's happening — I've looked at some bank statements and that sort of thing — is that companies doing similar business, as much to do with real estate as those three companies do, have had to write down their value from 5 to 10 percent per year over the last four or five years, depending on when you consider that the crunch started. That varied for some companies and some people. It would seem to me not an unreasonable assumption to make that the three corporations I just named are probably worth something in the neighbourhood of \$3 billion rather than \$4.5 billion.

My question to you really is: what validity has the claim that the Alberta division of the

heritage trust fund is making 14 to 15 percent on its Alberta division, which is right in the annual statement, if, in fact, the value of those debentures is only maintained at that level by injecting money from the general revenues of the Treasury of the province? I know they've been doing some writing down, but at some point you have to say that if you wanted to get out of those companies, cash them in, so to speak, they really are only worth \$3 billion or \$3.5 billion or whatever it might turn out to be. In any case, if you're going to maintain the fiction — wait, it's not a fiction: if you want to make it so, the heritage trust fund can claim its 14 or 15 percent on that investment. But if it's just coming out of our left pocket as taxpayers of Alberta, because you're taking it out of the general revenues, and putting it into our right pocket, the heritage trust fund, then there really isn't much gain.

It's not the same as when some other province meets its commitments to pay 14 or 15 percent. It's not the same thing at all. If it's the same people of Alberta who are meeting that commitment to see that the heritage trust fund looks good, then it's really not fair to say that that heritage trust fund is worth \$12.7 billion. My question is: how do you reconcile that particular division of the heritage trust fund?

MR. JOHNSTON: First let me say that I hope that when each of you speak, you will tell me what the Premier said this morning. I don't want to get countertrended with him. I appreciate your telling me that the Premier didn't agree with your need for reassessment. I hope that will continue.

MR. McEACHERN: Not with the assessment but to hold public hearings around the province.

MR. JOHNSTON: I see. Well, as long as you give me his context, then I won't go too far astray.

When you look at the makeup of the investments of the fund, there's no doubt that there are going to be certain challenges on principle as to whether or not those values are properly reflected in the statements. Moreover, I suppose there's also a challenge as to whether or not certain assets should be reflected in these Alberta Heritage Savings Trust Fund statements. That's a debate that

can go on to some extent, as to whether or not the assets are deemed, whether or not those advances to Crown corporations are in fact at real values, and whether or not there is a certain degree of General Revenue Fund support which keeps these asset values at today's value.

If you look at the makeup of those funds — and I won't debate with you as to what numbers you have, because as soon as you mention a number, I'm not too sure which one you're talking about. My reconciliation of the numbers of the Alberta investment division is not the same as yours. I'll simply talk in the general context of those advances. Therefore, I will say first of all that in some cases those investments through the Alberta investment division are essentially investments which are to those corporations which are income-producing corporations, in that each one of the investments put out by the corporation is a matched investment and there is revenue produced, usually above the cost of borrowing, to the entity itself.

Two things: there is an income stream guaranteed by the province, and moreover these debentures are guaranteed as to principal by the province. Therefore, similar to other debentures which are guaranteed by the government, it is true that if they were put on the market, they would immediately have a market value. They could be 'securitized', in the jargon of the game, and they probably would be salable in the market itself.

As to the income flows, yes, there have been some losses in the entities you talk about. Moreover, there have been losses in one entity in particular, which you may argue was not expected, and that is the housing side. But the other ones were expected to have losses. We expected fully that there would be losses in AOC and ADC, and of course those losses are provided for through the General Revenue Fund. Nonetheless, the current demands on the Heritage Savings Trust Fund for additional money for these entities is probably at a very nominal rate. It will not be at the rate it was before.

Let's come back and focus on the makeup. AGT, of course, is a utility-based enterprise, and therefore any cost of . . . Well, you may shake your head, but any cost in these debentures, which is part of the Alberta investment division, is covered by the rate

base. I think most Albertans would be more satisfied in paying the rate, or the interest on that cost of capital to the Alberta Heritage Savings Trust Fund, to Albertans, and sharing to some extent in the benefits and the cost. It's a sort of balancing act. Nonetheless, that's a rate of return which is set by the market, set by the Public Utilities Board, and which continues to provide perhaps the most substantial investment in a telephone utility of any province in Canada — very sophisticated and very substantial. And we'll continue to maintain AGT in that sense. As to its future, I think that could probably be open to some debate.

With respect to the Alberta Municipal Financing Corporation, the arguments are similar. These advances through the Alberta Municipal Financing Corporation to local municipalities are first charges against the tax base. As you know, the very dynamic base the municipalities have allows them to retire these debts, both principal and interest, over a period, again earning funds for the Alberta Heritage Savings Trust Fund.

Now look at the other ones. I talked about the Ag Development Corporation and AOC in a bit of a reference in that these are still income-producing certificates of the fund, that the entities themselves put this money out at a rate above their cost, and therefore they also receive interest and principal collected on these dollars. A lot of that is reinvested in the fundamentals of this province, agriculture and small business. That was the clear intention and the clear mandate we had when this was set up -- to ensure that diversification and to provide that necessary reinforcement to the agricultural sector, in terms of both primary production and the upgrading of agricultural production and processing, to ensure that both the entity and value-added stay in this province. That has been accomplished. That is, in fact, the reason this money was used. I think this entity, with its own board of recommendations, is operating fairly effectively.

Then you come to the Alberta Housing Corporation. If any of the corporations is under some question as to the valuation, you would have to look at that one first, as do I. This isn't new information that has suddenly sprung upon us. These are concerns which have been raised by members of our caucus historically, by the people who have been responsible for the fund,

and by people in Treasury themselves.

Yet you must consider the economic and political backdrop, which I referred to earlier, when this fund was conceived and we stepped up our investment in housing. At that time there was almost zero vacancy in apartments, and there was no way in which we could properly provide single-family accommodation to those people in Alberta who wanted it. In fact, the private sector was not responding to the demand for money in our province, because they found they were being required to put too much money into housing in Alberta.

Nonetheless, the politicians of the province, the government, had the problem to deal with. So in 1975 we set up the Alberta Housing Corporation, later the mortgage corporation, to deal with the problem I've just outlined. Of course, we had to provide the wherewithal for that corporation to operate. Properly, in my mind, we used the Heritage Savings Trust Fund, because it was a flow of funds and we had the money on hand. We could transfer the money quite legitimately from the heritage fund as investments into the Housing Corporation. When you invest in mortgages, for example, those are normally rate of return investments above the cost of money, and you're secured by the house, your real charge against the property. That's essentially how that entity operated.

There's no question that we had to take some risks and no question that we had to put in place some developments that were probably more expensive. We were pressured by the time and the forces we had to face: a rapidly growing economy, a high in-migration, and a high demand for accommodation. Remember, the whole scenario was just that when it came to the housing question in the period from, say, 1974 to 1979-80. That was the way it was characterized. It was also characterized in that period by very high interest rates.

What is the value of these investments, particularly in the Alberta Housing Corporation? As I've outlined to you, the income is guaranteed. To some extent you'll argue that it is a requirement that the flow of money moves from the General Revenue Fund to the Heritage Savings Trust Fund but not to any great extent in this year or in future years. Yes, there could be some question about the value of the assets of the Mortgage and Housing Corporation if, in fact, that company

were liquidated. However, my bet is that it won't be liquidated, and my bet is that land values will start to increase through the three-to four-year period ahead of us, simply because I think they've gone beyond the low period and started to move up to a great extent. Therefore, I have confidence, in terms of asset values within the Alberta Housing Corporation, that these will be substantiated by real assets in that entity.

Nonetheless, the government does guarantee them. Because that guarantee is there, I suggest we could put them on the market and could sell them very easily. It has been recommended to me, for example, that similar to other mortgage loans across Canada we should be packaging these up in some fashion, as they've done with CMHC loans or [inaudible] loans, and taking them to some sophisticated broker and selling them in a package form, because they're very attractive investments right now. I'm sure these Alberta Mortgage and Housing Corporation investments would be just as attractive if they were packaged and dealt with in a similar fashion. I don't intend to do that, because I want to maintain the income flow in the fund at the present time. That's the synopsis of that investment.

There's no question that it is a large amount of money. I think we made the right decisions. You can't look at the snapshot decision and criticize the policy. What you must look at are the imperatives and the kinds of backdrop we had at the time these decisions were made. That's the real problem. That's the real question you have to ask yourself. It's convenient to say that today they're not worth as much as they were yesterday, but we had to make the decisions when, in fact, the political and economic pressures were such that other financial institutions were not responding to the need here in Alberta. Fortunately, we had the fund in place, so we could respond with the surplus money.

MR. McEACHERN: Thank you for quite a comprehensive answer. I think, however, that when you get into AGT and the Alberta Municipal Financing Corporation, you're clouding the issue a little bit. I was very specific as to the three I named: the Alberta Opportunity Company, the Agricultural Development Corporation, and the Alberta Mortgage and Housing Corporation. I don't

doubt the social value of those programs. They're exactly the kinds of things that we might have done ourselves, although perhaps we would have left ADC and AOC in the administration of the Treasury Branches. So I'm not questioning their social value or the reasons for doing them.

What I am trying to get at, however, is the claim that they somehow return 14 or 15 percent to the heritage trust fund. They can do that in a technical kind of way, but the reason I picked out those three companies is that they are the ones that we Albertans, the people that buy the homes and pay the mortgages, finance. It's the taxpayers that make up the shortfall.

I note a shortfall, for instance — we don't have the latest statement; we seem to be behind on a lot of the annual statements this year — in the '84-85 annual report of the Alberta Mortgage and Housing Corporation. Some \$185 million was allocated to that corporation sometime in the year '84-85, a contribution by the province of Alberta. So that was, in a sense — to me, anyway — like taking money out of my left pocket and then claiming that somehow I'm making a gain when I put it in my right pocket. Of course, that's only one example.

We must have been doing the same thing to ADC and AOC and certainly to the Alberta Mortgage and Housing Corporation. To claim that somehow we are getting 14 or 15 percent on our money in that section, that \$4.5 billion out of \$8 billion in the Alberta division, just doesn't seem to make sense to me.

MR. JOHNSTON: Do you have a different set of calculations to show a different rate of return?

MR. McEACHERN: No, I'm just saying . . .

MR. JOHNSTON: That you haven't got a different set of calculations.

MR. McEACHERN: I'm just saying that in order to maintain that 14 or 15 percent — in a sense, almost a fiction — you have to assume that the Alberta government keeps on pumping things like this \$185 million, and in other years it will show the same in those three corporations, to maintain the cash flow and the value of AOC, ADC, and AHMC, to maintain those inflated

numbers.

MR. JOHNSTON: No. The additional money is on top of the collections and return of principal which have been made by those people who have borrowed from the Alberta Housing Corporation plus the additional needs which the corporation has to have to meet the current demand for mortgages. That's why you have additional money going to the entity. At the present time it's essentially balanced. Although there are some cumulative losses in the housing corporation, those are not enough to cause us any problems with respect to either General Revenue Fund requirements or, for that matter, the Heritage Savings Trust Fund requirements. Therefore, the additional dollars which go to these corporations are not just for interest costs that you suggest stabilize the value of the heritage fund — and to some extent that's probably true — but they are for additional funding requirements that the mortgage corporation needs for new mortgages, above their collections and interest and return on the investment they have made.

MR. McEACHERN: A final question. If you are going to debate whether or not to cash in AGT debentures, I think that's a whole different debate than these three. I singled these three out for the reason I said, that it's Alberta taxpayers' money that we're dealing with. So my question to you would be: would it not make sense to actually fund these Crown corporations just out of general revenues and never mind trying to claim that somehow it makes sense for the heritage trust fund to maintain them on its books?

MR. JOHNSTON: Two points. First of all, while you accuse me of being too general and sweeping in all Alberta corporations in terms of defence of our policy for the Alberta investment division . . .

MR. McEACHERN: No, that's a whole new argument.

MR. JOHNSTON: . . . I must also say that you are being somewhat narrow in your criticism by dealing with only those that may be questionable. So that's a fair debate.

MR. McEACHERN: Other times, other

questions.

MR. JOHNSTON: Sure. But I think that all the Alberta investment division is making a return for the fund. That's clear. If you can show me some other way that the numbers can be calculated, then I'll accept those. But I think our numbers are fairly accurate in terms of what actual return these investments have made for the fund.

Finally, I would be glad to use the General Revenue Fund or some other source if you could provide for me that pool of money. Where is the money? What do politicians do? Well, they look for the variety of sources of funds that are available for them short of borrowing. That's essentially what we did in terms of making this fund work. Where were the dollars? The availability was in the Heritage Savings Trust Fund. They were good rate of return investments for the fund. There was a need for housing in the private sector. There was a need for Alberta Government Telephones, a need for all these Crown corporations to be funded.

If we hadn't funded them from the Heritage Savings Trust Fund, this money would have gone someplace else. It may have gone to eastern Canada. It may have gone offshore in some cases if we had to fund it off in the normal public markets. But we decided that we would maximize the benefits for this so-called closed circuit called Alberta, that we would use the Heritage Savings Trust Fund and generate the interest from the citizens of Alberta back into the fund. The citizens of Alberta knew they were also getting additional benefits from their interest accumulated in the fund and being used for those special purposes which we've already talked about — the very imaginative, creative purposes which are there. That's the way in which the fund has been used.

At the same time, part of that income stream, which is reflected in the income earned by the Alberta investment division, has been channelled into the General Revenue Fund, as you well know, to save sales tax, allow us to maintain the low tax regime, and to protect the expenditure side to maintain those services. That's the way the system has operated.

MR. HERON: Mr. Chairman, I was glad that the Provincial Treasurer said it is a time for contemplating the future. This morning there was some discussion about the message we were

sending out about the Heritage Savings Trust Fund not only to Albertans but to eastern Canadians. I would like to focus for just a moment on the capital projects division; that is, the \$5 billion. If, in fact, we are creating a wrong perception out there, a perception that we have a pool of capital that is there for the dipping into, in spite of what I would say are some very high-calibre statements comparable to any statements produced in the private sector, we still have to deal with that perception.

I'm wondering if the Treasurer's department, in looking into the next decade, has given some consideration to changing the accounting treatment for the deemed assets. I ask this question recognizing that the capital projects division has been of immense benefit to Albertans, but I ask it to stimulate debate in terms of the future direction of the capital projects division. I would like to suggest that it has perhaps created the image that in Alberta we are not as poor as we might be in this state of the economy and that given this tremendous change or turnaround in the province's fortunes, we may be looking at an idea such as this, a different accounting treatment of these. I am wondering if direction will be taken towards a change.

MR. JOHNSTON: There's no question that during the periods of significant excess dollars in the province the heritage fund, with its savings context and special nature, was seen and understood by the people of Alberta to be just that. It set the province apart in a unique sense, provided special security which the people of Alberta really enjoy and appreciate, and allowed for that uniqueness which could not be achieved by other governments because of the size of the dollars required and the impact on borrowing of the provinces, for example. In that context, there is this very clear attachment by the people of Alberta to the objectives, to the intrinsic values of the fund, to their understanding as to how the fund touched them in each part of the province.

When you talk about it in very objective economic or accounting terms, you tend to misplace why this fund emerged and developed and why, in fact, this fund is so significant to all parts of the province. Therefore, you must look at it in that context when you examine how you treat the disclosure and the reporting

requirements of the fund.

There's no doubt that the emergence of this fund to a great extent triggered the Liberal Party's national energy program. There's no question at all that the Liberal Party was directing its policies towards Alberta, because they could see that fund growing at an abounding rate — such a large rate that it would establish a disequilibrium among the provinces and among the governments in Canada. That's why the Liberal Party brought down the national energy program: to confiscate the growth rate. There's absolutely no question about it. If you read most historians who report it, you'll find that that, in fact, is the case, and my good friend Jean Chretien essentially told me that, so it's a question of record.

That's the legacy that Alberta had to take on, but of course we survived and we managed to accumulate these dollars. But when you have success, you also have resentment. The success of this fund has in fact engendered some resentment across Canada. To some extent people look at the fund and say: "Gee, there's Alberta starting to talk about the importance of a national industry such as energy, but it really has its Heritage Savings Trust Fund in place. Why should the central government be concerned about the national industry? Why should the national government be interested in that kind of industrial concept?"

MR. McEACHERN: Mr. Chairman, a point of order.

MR. CHAIRMAN: A point of order?

MR. JOHNSTON: Nonetheless, because there has been this criticism of the fund, this criticism of the way in which the province manages its resources, no doubt some people in Canada believe that the fund is such a large surplus that it would in fact distort the way in which the province vets its own fiscal and economic policies.

MR. CHAIRMAN: Member for Edmonton Kingsway, do you have a point of order?

MR. McEACHERN: Yes. I thought the question was about the deemed assets.

MR. HERON: No, the question is about the capital projects division, Mr. Chairman, and I'm

quite interested in the response.

MR. CHAIRMAN: Carry on.

MR. JOHNSTON: If you don't want the answer, that's fine. It may burn some of your ears, but that's another story.

That deals with the heritage fund in the provincial context. Note, by the way, that other provinces are copying the heritage fund: my good friend Roy Romanow and Allan Blakeney did put one in place in Saskatchewan. It was started with a few dollars; it's still in place. I think other provinces are trying to find that similar kind of appropriation -- taking surpluses and earmarking them for very special humanitarian and economic purposes. They are provincial in nature, I agree, but with a very major impact on the Canadian way of life -- not necessarily seen to be provincial building but seen to be as well Canadian building in their context. Clearly, that's what has happened here. The principle of this has been copied, particularly by other provinces, and to a great extent I think it's a model to be used.

That sets in place a discussion about Alberta, about Alberta's surpluses, about the view of Alberta by other governments, and certainly the view of Alberta by other national governments. That the success of this program engendered its own resentment is a question. It's fundamental. One thing I've learned in terms of nonmeasurable reaction to the fund over the past decade has in fact been that. That sets in place a variety of those things I've talked about.

With respect to the deemed assets, by definition an asset is something which has a use potential, which has a longer horizon as opposed to a major expenditure. What we always get caught in, of course, is the comparison of public accounting measurements with private accounting measurements on the other hand. This is classically what has happened here. Most accountants believe that if an asset has a use potential beyond one year, it should be shown in some special form. Why do they do that? Simply because it's a pool of assets, of use potential, sitting there, and some parts of it are going to be used some year in the future as opposed to some immediate expense which will take place today. You buy a pencil, it's used, and it's gone; its use potential is relatively short.

What this heritage fund is doing here is measuring use potentials. When you see use potentials, you put aside whether or not they have a title to them, whether or not they are caught by the clear and objective measurements used by accountants when they measure government or private-sector expenditures. What you have here is a major use potential. We've already talked about the uniqueness of these expenditures, about the way in which they've characterized Alberta and moved Alberta into the forefront in a major number of areas.

I believe they have to have these deemed assets on the Heritage Savings Trust Fund balance sheet. I believe they have to be carried forward even if it engenders this resentment we've talked about. As I said earlier, when you hang your hat on the way in which the heritage fund is seen in each part of the province -- whether it's irrigation in the south, medical research in the north, grazing reserves, or a variety of other very important projects in the capital division of the Heritage Savings Trust Fund -- each one of these allows each one of our citizens in a particular part of the province to say: "You know, I'm really proud of this heritage fund. I really can measure the successes which are implicit in these expenditure plans. I believe that without the heritage fund, this money would have been expended or invested elsewhere, we would have had no idea where it had gone, and we would have built in a complement of expenditures which would not be affordable in today's regime given the downturn in energy." That's how the people see this fund, and that's why it's important for us to disclose to the people of Alberta that they in fact do have a capital investment division which is *sine qua non* anywhere else in the world.

You simply go down and look at the heritage fund. Every one of those people knows that with respect to advanced education, which I talked about, we put in place the Heritage Scholarship Fund; that the library development was important; that the oil sands technology research, which opens the door to synthetic production, the one salvation Canada has to energy self-sufficiency -- all of these initiatives are reflected in the capital projects division. All of these initiatives were responses by the government to particular requests by MLAs across the province, and all of these are sincere



contributions of this government to the people of Alberta which are not measurable beyond any other province in Canada and which have a use potential, a success rate, that will carry us well into the next decade ahead. To take them off the balance sheet would be to take away part of the feeling that people have about this fund, part of the heritage that this fund has left to the people of Alberta. That would change the legacy of the fund forever. I would oppose it at this particular time, not in the context of accounting principles, which I can debate as well as anyone, but in the context of how the people of Alberta have grown with the fund, the sincere commitment of the people of Alberta to the fund, and the way in which it has provided major successes to our citizens.

MR. HERON: Turning to the investment division, and given that the Provincial Treasurer's department has the authority for the investment criteria and allocation of investments, I wonder to what extent these funds are invested with a view to supporting Alberta research and investment expertise. I'm thinking of whether you could provide us with some idea of the breakdown of the business allocated to, say, Alberta investment dealers acting as agents or brokers. The other point would be if, in fact, we do have Alberta-registered investment counsellors advising your department on the investment selections.

MR. JOHNSTON: First of all, as with all of us, we seek knowledge from a variety of sources. We know that information is key to making these kinds of critical decisions. Therefore, we seek out and use a variety of information sources on a day-to-day basis, on a near-term basis, and on a long-term basis in terms of directions or certain phenomena which have major impact on our province. Energy is classic among them.

Let me come at it the other way. The only consultants that I know we pay on a fee basis are two consultants which we have had in place which are shared between the General Revenue Fund and the Heritage Savings Trust Fund on a cost-shared basis. Those two firms have been in place for some time. I should say that their contract has ended and is up for renewal. One of those is Morgan Grenfell. The reason they were in place is that they have a very good energy sense. They have good connections in

the gulf coast countries. They deal on a daily basis with leaders in the OPEC countries and obviously could provide us with some insight as to what was happening on the energy side. As well, they provided some investment information and probably will play a role as we go to the borrowing market, but that's a secondary element. The other is a Montreal-based company whose name escapes me for the moment, but it plays a role in providing information on investment strategies to both the General Revenue Fund and the Heritage Savings Trust Fund.

Nonetheless, most of the decisions within the fund itself, gathering information from a wide source, are made by investment people within the Treasury Department working on a general set of guidelines which essentially say to maximize the rate of return on the investment and, I guess, to some extent to diversify; I know that's in the legislation. We use a variety of people who obviously provide us with counsel and advice. We seek information from them. They probably constitute 30 to 50 people across the province of Alberta, whom we would use essentially on a transaction basis as opposed to a consulting basis. If there were a particular need we had to deal with, I guess we would probably go out and hire a consultant, provided there was some specialized report. But that's normally how we deal with it.

Obviously, we attempt to deal with Alberta-based institutions wherever possible, and then we give our preference to national companies with Alberta offices. Then if there is a need to handle larger transactions, obviously we look to other markets to handle the sale or purchase of securities in particular. I don't know if that's a comprehensive answer for you, Mr. Heron, but that's generally the way in which we operate with respect to consultants and brokers.

MR. HERON: So it's safe to say then that you do encourage at the least an Alberta office of the, say, national investment dealers. There is encouragement of that.

MR. JOHNSTON: If we were to deal with a national house, we'd want to give preference to a national house with an Edmonton, Calgary, or Lethbridge office, for example.

MR. HERON: On my last supplemental, I would just like to ask for your opinion on the status of

the investments to other provinces. There was some considerable criticism some period back about your investments in other provinces. In this market and given these interest rates, I was just wondering what these investments are now doing for the heritage fund.

MR. JOHNSTON: We were criticized early on when these investments were made to various provinces. You all have schedule 2, that sets out the par value of investments, about \$1.8 billion of secured loans. These are fairly high interest rate bonds. I'm not too sure what the average is, but as I look through it, you'll find that very few of them are less than double digit. Most of them rise towards 12 percent; some go as high as 16 percent, which is the one I see. Therefore, you can make some quick calculations. Applying that to \$1.8 billion, you very quickly come up with a fairly significant cash flow, and that cash flow is returned to the Heritage Savings Trust Fund initially. But that income stream, as you all well know, is transferred to the General Revenue Fund, as I say, to reduce taxes. Certainly part of the \$1.6 billion that was transferred this past year must be seen to be interest from these debentures from other provinces. That's a very important source of funding to us.

Although the cost and the par value is shown here at \$1.8 billion, given the direction of the J curve right now in Canada, I would say that these probably would have a market value far in excess of \$1.8 billion, simply because interest rates have softened over the period. As well, these are preferred bonds which probably would be negotiable in the market.

From my point of view, I would rather have the income stream as opposed to having the cash, because I can do much better with the investment in this form than I could, say, in T-bills or other sorts of short-term securities which are now available off the Canadian market. So I think it's a very sound investment. It returns an excellent rate of return to us. It has increased in market value; its market value is above its cost in par value. I'm using those funds to transfer to the General Revenue Fund as part of the income stream from the heritage fund which reduces taxes or maintains a low tax regime and maintains the expenditure level that I talked about.

MR. R. SPEAKER: Mr. Chairman, to Mr.

Johnston. In October of this year our provincial credit rating, as we all know, has gone down from triple A to double A. Two of the reasons stated were the declining oil prices and the potential deficit from \$2.5 billion to possibly \$3.5 billion in the coming year. In my question to the Premier this morning, we were looking at various revenue sources. I'm sure you're studying the various mixes that can be presented for the next budget. One point made when we discussed the topic of maintaining the integrity of the Heritage Savings Trust Fund was the possibility of borrowing more money in the General Revenue Fund so that an amount, even an inflationary factor, could be taken into consideration to maintain the fund. Or maybe we could still divert the 15 percent or less to assist in maintaining that integrity of the fund; that was a possibility.

I have three questions in line with those comments. First of all, what effect do you see the Heritage Savings Trust Fund currently or in the future having on the credit rating of the province? Has it been able to stabilize it somewhat in those discussions or observations by Moody and other organizations?

Secondly, in your budgeting process, how do you see maintaining the integrity of the Heritage Savings Trust Fund, and are you committed to doing that as the Provincial Treasurer?

Thirdly, the mix of resources or revenues that will come into the province: are we looking at some new type of taxation, or is there enough capability to cut back in terms of programming or diversion of funds from the Heritage Savings Trust Fund to not only re-establish our credit rating but keep our deficit down to the lowest possible place? The third question specifically then is: are you considering a new tax for the province of Alberta?

MR. JOHNSTON: Those are good questions. First, let me talk about the view of the rating agencies with respect to Alberta and, I guess, my view as to what they said. These rating agencies recognize that Alberta is the strongest province in Canada with respect to its financial position. Understand fully both the fact that Alberta entered 1986 with no debt and the very dramatic implications of the Heritage Savings Trust Fund and its contribution to the so-called surpluses of the province. And, of course, know

that there is a substantial amount of tax room in the province itself and, finally, that we have made significant investments in the so-called infrastructure of this province which are probably unparalleled as well in terms of universities, colleges, sewers, streets, roads, et cetera.

In that context, they absolutely agree with the so-called economic and industrial policy of the province, and they see it to be a model for most governments. They often use us as a reference point for other governments as to how you can fiscally balance expenditures and revenues and deal with the question of excess revenues over certain periods and how you can modify the so-called troughs in others. There is no real dispute with the government's policy and certainly mostly kudos, I guess, for the way in which the fund is operated, the way in which the balance between the fund and general revenue has operated, and the way in which we have stabilized the economy to some extent by achieving a fairly sophisticated infrastructure and great people programs without encouraging any debt.

When they looked at our pro formas and what they had seen based on both the annual statements they had, the record of the province as outlined in the budgets, and the understanding they had of the province, it must have been a tough choice then to reduce our rating. They did that reduction of rating essentially on the basis of the economic backdrop facing the province, driven not by provincial forces but by world forces. Those are soft energy prices in particular and soft agriculture prices as well.

This chimera, as you can refer to it, this two-headed monster which Alberta had to deal with, was a difficult problem for them in the context of what Alberta could do over the next period. It was because of these economic forces in particular that the two rating agencies believed they should reduce the rating of the province of Alberta if, in fact, we were going to go to the market.

My view is that they acted too soon and that really they could have waited until early in 1987 when they saw our new fiscal policy. If there was one criticism they could levy at us, it was, in fact, that the expenditures were too high and that we had to tail down or trend down or downsize those expenditures to some extent to meet our revenue side or go for substantially

increased revenues as a result of tax hikes. But I think they should have waited to see how determined we were to make the latter happen, in particular to see the shape of our fiscal plan as to how we were going to deal with the deficits over the four-year period, a plan which has now taken shape and which will be recommended to our caucus very soon, and to see how we would deal with the deficit, the expenditures, and the revenue side.

The borrowings weren't particularly a problem for them, because no other province has less debt than we do. All provinces can probably manage a certain amount of debt in their financial plan over a five-year period, providing they have a plan, which we do, and providing they've shown some clear determination to be clear on the expenditure side, which we will do as well. So that's the essential problem with respect to the investment side.

You've already mentioned the integrity of the Heritage Savings Trust Fund. We have talked about that to some extent. One of the issues is whether or not we continue with the transfer of the 15 percent resource royalty into the Heritage Savings Trust Fund from the General Revenue Fund each year. There is a fair debate, and I will respect the opinions of this committee as to any recommendations they may have on that side. I won't come down in favour or give you a particular view except to say that we understand the difficulty, and I know you understand the difficulty as well.

If we have to increase taxes or increase borrowing and still continue to transfer that money into the fund, the people of Alberta may raise some questions. On the other hand, if we do not allow the fund to continue to grow or if, as some say, perhaps improperly, we cap the fund, then we have the other side of the problem. We haven't quite sorted that out, and I can't say which direction I'll go. I'll be discussing this with a variety of people across the province, talking to many constituencies as to how they see this problem emerging and what recommendations they may have for us.

I would not want to reduce the fund. I can probably give you that one variable measure, that one point; that is, I would not contemplate our encroaching on the capital. You'll probably say, "Does that mean real dollars or nominal dollars?" For the time being, just leave it that I do not contemplate encroaching on the

capital. I will explain that simply by saying that I don't expect to withdraw funds from the capital of the Heritage Savings Trust Fund into the General Revenue Fund to support the expenditure program which we have in place. My bias, as you've seen here, is to reinforce and redirect and re-energize, I guess, if that's a word, the benefits to Albertans from the Heritage Savings Trust Fund.

I haven't got the solutions as to how to do it in the near term, but I do believe that in the longer term, the recovery of energy, particularly energy pricing, certainly in the next two to three years, and perhaps some abatement in the requirements on the expenditure side will allow us to maintain the growth of that fund, maybe not in '87 but certainly after '87 as a variety of economic factors start to swing in favour of Alberta again. That's a bet on the future of Alberta that I'm willing to make, but I'm not willing to cut into the capital of the fund.

With respect to the plan itself, though, and the General Revenue Fund — which I guess is an applicable question, because in fact we're taking the income stream from the heritage fund and using it in the General Revenue Fund — I would continue to use that income stream. I would transfer that income stream into the General Revenue Fund on the same basis we have historically. It is an important part of our resource revenue base. It shows the way in which the fund is being applied on a day-to-day, year-to-year basis to the general purposes of the citizens of Alberta, and it reduces the load on the back of the average citizen of Alberta via the tax form but still allows us to maintain fairly high levels of expenditure in those necessary people program areas.

As to tax increases, obviously every Treasurer must look at a variety of mixes. There are three simple variables that you can deal with. One is to reduce expenditures. One and two are to reduce expenditures and increase taxes. One, two, and three: reduce expenditures, increase taxes, and increase borrowing. I can't tell you the mix and match of that particular scenario. I can simply tell you that we'll look at all possibilities as we get closer to early '87. Obviously, we'll have to deal with it in the context of what's happening in the real world in '87 in terms of agriculture and energy being the two fundamental drivers of our economy. We will put together at that

point both a short-term fiscal plan which would deal with the immediate problems of the province in terms of its fiscal regime and fiscal policy, and we'll also spell out a longer term plan which would deal with the deficit which may be in place at this point. That roughly, Mr. Colleague, is essentially how I see the fiscal plan emerging.

MR. R. SPEAKER: I asked three questions. Do I get one supplementary yet?

MR. CHAIRMAN: We'll let you stretch it into one supplementary.

MR. R. SPEAKER: To the Treasurer. You mentioned a plan that you will be establishing. Are you talking about the presentation of the next budget, or will it be your intent to present a white paper, a financial plan of the government, say for the next four or five years, to the Legislature as a supplement to the next budget, which will also incorporate projections as to what will happen to the Heritage Savings Trust Fund?

MR. JOHNSTON: I don't want to give away too many secrets now.

First of all, I believe that the people of Alberta know now that the economic backdrop has changed dramatically. They understand that we know the problem in the province of Alberta, in the government of Alberta, and that we have a plan to deal with the problem — a short-term plan, a midterm plan, and also a long-term plan. Part of the long-term plan will deal with the Heritage Savings Trust Fund, its future, and the way in which it articulates with the overall economic fiscal position of the province as we diversify the economy and build on those strengths which are there. So that long-term plan must encompass and incorporate in a significant way the Heritage Savings Trust Fund.

I'll put that aside just for a second. In the midterm plan, which deals with the problem of the deficit and the problem of less than strong economic growth in the province in energy and agriculture in the near term, we obviously have to maintain, in simple Keynesian terms, the same relative level of expenditures. I'm talking "relative," because of course there is a major impact on the the economy if major curtailments or cutbacks take place.

Nonetheless, the profile I have suggested to my colleagues in terms of building both this year's budget and next year's budget is, as my information officer Mr. Martin suggested, to show a minus 10 and a minus 5 percent cutback. That's essentially what we are striving at right now, and we intend to maintain that in some fashion. That's the midterm plan.

We need to show and clearly we will show the people of Alberta that we have a plan to work out a five-year position which will deal with the existing deficit and any additional deficit — you'll see that deficit start to reduce in '87 and '88, as I see it — and to come up with a balanced budget at some point four to five years in the future. But to do that, of course, requires the determination of my colleagues in government and a recognition by the people of Alberta that they want to work the plan out, that this plan is worth striving for and suffering some short-term pain for, and that rather than give up and leave a legacy of debt, we must make some tougher decisions today. That's essentially the deal I want to put to the people of Alberta.

As to how to do it, obviously I'll look to a variety of sources for that information. The white paper has a different connotation to me because I spent a lot of time on that before. I might look at some kind of discussion paper, however, which would deal with this. I will find an opportunity — I hope our Premier will do it, as a matter of fact, in the near term — which will set forth a set of plans, a set of understandings, and a way in which we'll work ourselves out of this. That will come at least by the next budget statement. That budget statement, if I have anything to say about it, will deal not just with the near-term problems but with the longer term workout, a longer term financial plan, and it will show that we do have the leadership to take us through this tough period and to survive and not to leave a legacy of debt. That's what I am committed to.

MR. PAYNE: Mr. Johnston, I suspect that a number of our committee members still have some additional questions to raise, so I'm really reluctant to go back to already tilled soil. But I would like to return to the question of brokerage firms and the use the heritage fund administrators make of such firms. As I mentioned briefly to the Premier this morning, I had come with what appears to be a

misconception that a number of our buy and sell transactions, section 9 transactions, and possibly commercial investment division transactions are placed through brokerage firms in central Canada. I infer, however, from your response to Mr. Heron's earlier question that that is not the case. I wonder if I could just clarify for my own sake the position with respect to heritage fund administrators making use of brokerage firms here in Alberta so that there is no outflow of potential commission income to brokerage firms in central Canada.

MR. JOHNSTON: Sure. In this case I hope you won't mind if I call on my colleague Allister McPherson if he wants to add or supplement or, in fact, tell me I'm wrong. That happens from time to time.

MR. PAYNE: Very few enjoy that opportunity or capacity, so I hope he would do so.

MR. JOHNSTON: I don't have any claim to infallibility.

One of the problems, of course, is simply dealing with large-size transactions. You can imagine that in the commercial investment division we have large-size transactions. For some strange reason people in the investment business do not necessarily want to use the Alberta Stock Exchange in Calgary, simply because it tends to trigger these large block transactions. Maybe it's because there are not enough institutional buyers interested in that particular local market to handle the size of the transactions we talk about. Therefore, most people want to move them to a larger market.

You know, for goodness' sake, if we ever bought Bank of Montreal or the Canadian Imperial Bank of Commerce or some of those kinds of stocks and moved 100,000 shares through the Toronto market, it probably wouldn't be seen to be that unusual, and so to some extent you could camouflage that transaction. That is part of the problem we have in terms of mixing the expenditures here and mixing the expenditures in Toronto.

I can't tell you where these locally based companies take their trades. I would suspect a lot of them take those trades into the Toronto market. But we do go out of our way wherever possible to ensure that Alberta-based companies have a preference, a priority, for making transactions and for providing us with advice. I

guess the government did hire somebody from a Calgary firm to provide us with some small energy company information recently. One of the outstanding investment counsellors in Canada happens to live in Calgary, and he was used to provide us with some short-term information on that basis. But we do go out of our way to deal with them.

The problem is that some of these smaller companies may not have the same kind of connections into the Toronto market, but wherever possible we are attempting to use the local companies. At the same time, we do tend to use Alberta-based institutions. Even though they may have a larger parent operation or branch operation in some other eastern city, we try to go out of our way to deal with those companies.

Allister, maybe you want to comment additionally on how you operate, since you are in fact charged with the responsibility of making sure the commercial investment division operates.

MR. McPHERSON: Mr. Chairman, I think the Treasurer has really said it in very good terms. Our objective is to use the local financial community wherever we can and, in fact, to make sure they get a better than fair shake in terms of what they can do vis-a-vis oncomers. Having said that, I think it is important to realize that with the way financial markets have developed over the past five years, it simply would not be possible to deal only with people living in Alberta. The system just doesn't work that way. So we have to strike a sort of balance, and it would really also depend on the kind of market you're dealing in. If you're dealing in the money market, that's quite a different operation than if you're dealing in equities or longer term bonds or whatever. I can't really add much, other than to say that we certainly do try to do as much business as possible with the local Alberta sort of people.

MR. JOHNSTON: But if you have recommendations as to how we could improve that, or should you know of ways in which we're missing a bet somewhere, I'd sure appreciate hearing from you, Bill.

MR. PAYNE: I appreciate that invitation, Mr. Chairman, and I will certainly consider it.

I guess another factor in the matter is the

perception of the local financial community, which is certainly 180 degrees out of whack with the remarks that have been made by both Mr. Johnston and Mr. McPherson. Perhaps at some point that misperception should be dealt with also.

MR. JOHNSTON: It's a good point.

MR. PIQUETTE: Mr. Chairman, if the government caps the general revenue injection into the trust fund, where will the money come from to maintain and expand the current and future capital project investments? Since all the revenues are probably going to be transferred back into general revenues each year, I think we're going to be looking at a shortfall fairly quickly. Some of the high-yield investments are coming off at approximately — my figures are that around 25 percent of the high yields are now being converted into basically lower yield investments. How are we going to be maintaining some of these capital projects that we have already undertaken?

MR. JOHNSTON: I'm sure that one of the responsibilities of the committee — is it not? — is to recommend ways in which the Legislative Assembly will manage the fund. Of course, if there are to be changes to legislation, I would imagine they would have a foundation in discussion in this committee. However, as a matter of fact, first of all, the existing commitments of the CPD probably would bring us to the legislative maximum percentage somewhere in the next — what, Allister? — three years. It's close but not perilous.

Obviously, you raised a good question. You raised two questions, I guess, implicit in your comment. Do we have any way in which we can determine that the CPD will continue to expend dollars? That depends on whether or not there is (a) money to expend or (b) a resolution of our Legislative Assembly, fundamentally, to spend that money. Those are the two ways in which the actions are triggered.

Secondly, I guess it doesn't prevent us from legislatively changing the rules by which the CPD operates. Who is to say that 20 percent of the total fund is the magic number? I don't know if it is or isn't. Nonetheless, we could, for example, still leave the income stream transfer to the General Revenue Fund. But as certain debentures come due — and I know that some of

the commercial investment division debentures are coming due in the next year or so -- that money can go from one fund, I guess, to another fund without decreasing the overall size of the Heritage Savings Trust Fund but in fact providing money to carry out the existing commitments under the CPD.

Those are some suggestions, but more fundamentally I imagine that this committee will examine those problems, deal with them as recommendations, and via the chairman will suggest to the Legislative Assembly and to government ways you can remedy those problems. You have obviously given some thought to the problem. You're perceptive enough to see that that's a problem that the fund is having, and I look to you to give us some recommendations. I could give you some, but I think that's probably more properly your task.

MR. PIQUETTE: As Peter Lougheed indicated, a good part of the whole aspect of the Alberta heritage fund was to create economic diversification. In terms of the total permanent job-creation projects the fund has generated so far, has the committee or the government a figure on that? How many permanent jobs have we created because of the so-called economic diversification in terms of the pet projects we have put together, like the Prince Rupert terminal, the irrigation projects, et cetera? What is the total of permanent jobs?

MR. JOHNSTON: One million, seven hundred and fifty-six thousand, three hundred and twelve.

MR. PIQUETTE: How many?

MR. JOHNSTON: A vast number.

MR. PIQUETTE: Have we done an accountability study of the job creation?

MR. JOHNSTON: Sure. Of course we have.

MR. PIQUETTE: Where's the report on that?

MR. JOHNSTON: Where's the report? That's the second question.

What happens is that you're dealing with short- and long-term jobs. Dealing first of all with whether or not there is diversification, I do not need to recite to you the fact that there has

been diversification engendered by, driven by, and as a result of the Heritage Savings Trust Fund. Those steps in diversification are significant to Alberta's diversification. That's why, for example . . .

MR. PIQUETTE: Why can't we have a job figure on each of those projects?

MR. JOHNSTON: . . . the softening in agriculture and energy has not created the major distortions or disruptions in our economy that some expected. There has been a significant trend from the so-called goods-producing sector to the service sector. A lot of it has been driven by investments in the Heritage Savings Trust Fund, which are more focussed on diversification, contemporary technology, and perhaps even medical research, sort of prompting the local government side as well where there is some flexibility on the income side.

In terms of actual job creation, however, there has obviously been significant job creation as a result of these investments; for example, in near-term jobs in the construction phase. You well know that I could give you some measure which would suggest that every million dollars of capital investment made by a government generates -- I think the last calculation was that every house you build in Alberta generates two and a half full-time jobs. So when you use the Heritage Savings Trust Fund through the Alberta Mortgage and Housing Corporation, which somebody just criticized as a bad investment, every time a mortgage is put in place to build a new house in Alberta, it generates two and a half new full-time jobs. That's what happened, and that's why the economy was fairly hot with construction over that period up to 1982, when the disastrous national energy program came into place under the Liberal government. That's why we had a very strong economic profile in that period.

At the same time, during the construction period, we can see that there's excitement. Right now there's an awful lot of excitement being generated by developments through the heritage fund which are short-term construction jobs. But there is also a complement of longer term jobs being created by the significant investment by the fund in these very significant areas such as the Syncrude equity; through Vencap, for example, on an indirect basis, by



supporting a major number of small corporations in this province to diversify and to strengthen; and through a variety of other programs which you're all familiar with. There's a very large component — AEC is a classic one — of people who are now employed full-time as a result of the heritage fund.

As to numbers, I can't calculate them. I can simply give you a range of opportunities, a range of choices, and tell you what happens on the income side with respect to job creation when the government spends a dollar on capital or a dollar on maintenance, as we have to do in some cases. We know that in terms of our budgets, the budgets of universities, where there is a significant expenditure amount, and hospitals in particular, the largest component of the budget is jobs. Seventy-five to 80 percent of their budget is jobs based. Therefore, every time you spawn a new building and a new budget for operations — some driven by the heritage fund, by the way — you therefore complement the job opportunities.

In terms of kinds of jobs, I think this is where the significant successes are found in the heritage fund. These are the kinds of jobs that you really want to bring to your province. These are the kinds of jobs where other jurisdictions, whether in the United States or the provinces, spend a great deal of time suggesting ways in which they can lure those companies into their provinces. We've been able to bring a variety of companies into this province, a variety of high-tech people. I don't like that word "high tech," but these high-tech people, who are intellectually inclined, who strive for a quality of life like you find here in Alberta, who believe in the free-enterprise system you find here in Alberta, who believe there are unique opportunities through the Heritage Savings Trust Fund for medical research, high technology, electronics, chip design, and research in a variety of areas, are the kind of people that are being attracted as a result of initiatives taken through the Heritage Savings Trust Fund. Those are valuable kinds of people. That's what's happening here.

Moreover, I guess you can also argue that there is this indirect investment in the intellectual levels of our province through the Heritage Savings Trust Fund by the Rutherford scholarship and by the scholarship program, because we are providing a major opportunity for those with ability, but not necessarily the

ability to pay, to go to university. This fund is so unique and so dynamic that we are encouraging those people with academic excellence to go on to university. That's a fundamental investment that we are making through the fund in the quality of people who are available for work, who are available for jobs, and who are part of our society. Those are some of the major multiplier effects that take place as a result of the Heritage Savings Trust Fund.

MR. PIQUETTE: The thing that I really can't believe I hear from a Conservative government is that we have a heritage trust fund which is very interventionist, because it is basically government pet projects that they are initiating in a certain segment of the economy. We have not allowed the private sector. For example, we've invested about \$162 million in AOC, where small business can have their own creative ideas and have access to risk capital or whatever. But we have not, in my mind, looked at small business in creating a pool of money. For example, your \$1 billion for small business that you just created: a lot of that was simply recapitalizing old debt. If that \$1 billion had been to create to new business, new ideas, a new economically diversified type of economy, I would say that would have done a lot more for job creation. But if you're just going to take money and recapitalize old, existing jobs for which you could have borrowed the money elsewhere — they had the money borrowed already — there seems to be a lack of direction there.

In terms of getting a lower yield return on the investment, what is your opinion about having more of that money available to the small business sector so that they can use their ingenuity and creativity to look at new business development in Alberta, whether it be a meat packing plant, equity investment, or a lot of other projects? How about that as an idea for getting things going in this province?

MR. JOHNSTON: Good ideas, good points. When you talk about intervention in the economy by the government, it is true that we have been traditionally an interventionist government. Yet we differentiate between intervention and nationalization — a clear distinction in our mind. Whereas your party talks about the nationalization mode, we talk



about the way in which governments can come to the assistance of the private sector to ensure that there is new investment, that there is an economic growth plateau, and that there is, in fact, some necessity to counterbalance those other natural forces which go against a particular jurisdiction. That has been the way in which we've operated. Intervention is not a pejorative word, as a matter of fact, in my mind.

It is a word which I have discussed considerably across the province, going back to the white paper in July 1984, when we took on that very issue that you characterize as intervention. We did it in a different way, though. We asked the people of Alberta how the province could come to their assistance. What was it that the province should do, given its resources such as the Heritage Savings Trust Fund, to diversify the economy, to strengthen what we can do well in terms of competitive advantage to ensure significant job opportunities for the people of this province through the resources and leadership we have shown? So we talked about intervention in that sense -- not pejorative, as I noted, but in a positive support way.

Since you mentioned it, there are varieties of interventions which come from the Heritage Savings Trust Fund which have placed private-sector businesses in Alberta at a unique advantage and to some extent have equalized those companies against other forces which have not provided the same equilibrium; that is to say, transportation in particular, distance from market and, perhaps, opportunities to access readily available financing sources. All of those are characterized as being some of the problems which industries in this province face.

When you talk about industrial policy, I would have to say that over the past 10 years Alberta probably has had the most sophisticated industrial policy of any government in Canada, one which focusses on the key elements of industrial strategy and which transfers or redistributes, I suppose, resources from the province to the private sector.

Let me just think out loud about those for a moment, because I've talked about them to some extent already. One would be the investment in infrastructure, which is a necessary part of a government's responsibility. Many governments talk about the investment in public services. But clearly,

if you invest in public services -- which may be a subdivision, for example, around a megaproject, as we did in the Fort McMurray case to deal with the housing side -- you are essentially distributing the public wealth to a particular large, private-sector entity, as we did in the case of Fort McMurray, as we did in the case of the synthetic development. But it was a necessary development, because that assistance to the private sector spawned a variety of other spin-offs for the province which, in a very conceptual way, were a plus-plus to the province as opposed to a zero-sum gain. So there was a point where that investment was substantiated in terms of economic returns, enhancing that very large resource, and providing job opportunities and, to some extent, research.

That's the infrastructure side. As well, there are a variety of other elements in terms of restructuring of existing businesses, organizations, and sectors which require that concentration of resources and leadership and, to some extent, simple jawboning for the government to get them to do something that is effective and positive, job stimulating, and economic in its essence. We've done that as well in a variety of cases, and no doubt we will continue to do that.

We use, for example, the complementary spending powers of both the province and the federal government through something called the Nutritive Processing Agreement, which is one classic case that I always turn to. It is a very limited case in terms of federal government exposure in the province of Alberta, but it is one which happened to work. Nontaxable capital grants provided to the meat processing and food processing industry particularly allowed them to expand their plants, add new equipment, and, as a third variable, add new jobs. In doing so in certain areas of the province, we restructured part of that industry, and we did it by joint grants through the province and the federal government under the so-called Nutritive Processing Agreement, which I thought operated fairly effectively. Here's a way in which we restructured that organization by allowing it to upgrade its machinery to be contemporary, to reflect the most recent technology applicable to that industry, and to deal with other sorts of changes which made the production stream more efficient and allowed

the market to respond in a new way to the kinds of products they were putting through.

So on that side, in terms of restructuring, if that's intervention, we will do that. If that's intervention, we will do it here as well, through the electronics testing lab and the use of rail hopper cars, for example. These are all attempts to focus in on certain sectors of our economy which need a little additional shot in the arm to make them competitive, to allow them to have a little extra opportunity to get their product to market, to upgrade their plant, to establish themselves in Alberta on a competitive basis, because in a lot of cases our comparative advantage has been eroded by the treasuries of other provinces, as you well know and as you have mentioned before.

Then of course there's the manpower side. Another element of any industrial strategy which we have followed here in this province deals specifically with this manpower training question. I've alluded already to the very substantial investment the province has made in the infrastructure of universities and colleges. We'll continue with that as an objective. We will continue to train people, essentially at the cost of the government, to allow them to respond to the demand-driven needs in the private sector, whether it's in construction, high technology, electronics, or other forms or areas where we think there is a need. From time to time we tend to shift the resources of the colleges and universities to respond to those job-driven demands. Yes, that's intervention, and yes, that's using provincial spending to direct manpower training programs where we see the need driven by demand. To some extent we have overshot the target in some cases. There is no question about it; in terms of trades and technology, we have done just that. So we find the need on the restructuring side to be important.

The final side of that deals with the one you referred to; that is, how do you assist these small or midsize business corporations on the financing side? My colleague Mr. Mitchell has talked about the lack of financial infrastructure in the province. That may be a reasonable criticism. Nonetheless, I think we have put in place a significant number of entities which respond to this need for financing. We already talked about the way in which the central banks, the central financial institutions, for example, backed away from the mortgaging of

our houses, from the provision of assistance for those important needs, so we had to move in. At one time I think we in Alberta were building houses second only to Ontario, and we were financing a very large percentage of those from the Heritage Savings Trust Fund. That was responding in a way to the finance needs. We also put in place other good programs, I think, which provide for the financing . . .

MR. PIQUETTE: Can I interject? For example, let's take the . . .

MR. JOHNSTON: I'm just coming to your point; give me a second.

MR. PIQUETTE: I just want you to respond before you come to my point.

MR. HERON: Hit the fast forward button, Leo.

MR. PIQUETTE: Take for example the Alberta North Agreement for economic development in northern Alberta, which is some funds available to create new jobs. There was only \$40 million put in that whole kitty for northern Alberta. Why couldn't some of that money be kicked in? That's going to generate more new jobs in northern Alberta for very few dollars. What we've done is all the megaproject investment. Why can't we direct some of our funding into small business creation out there? I don't see it going out; there is no priority.

MR. JOHNSTON: I'm glad you raised that point, because it allows me to get on my fed-bashing side again, if you like. Let's look at those joint cost-sharing programs which other provinces have received from the central government. I'll put aside the footnote characterizing manpower training programs, which is now a contemporary problem in the province. You saw today in the Toronto Globe and Mail that the statements by Rick Orman with respect to transfer money to the province under specified job training programs were in fact accurate. The federal government does not transfer anywhere near the required amount of money to the province of Alberta to carry out that mandate. That goes back to this whole concept of Alberta being in Confederation. Nonetheless, during my period in intergovernmental affairs I worked for a considerable amount of time trying to put in

place these joint-costed programs, yet there was a significant reluctance — not just a reluctance; there was a significant and clear refusal by the then Liberal government to participate in Alberta. They would not come to the table with any of the traditional cost-shared programs that were seen to be contemporary in other parts of Canada, eastern Canada in particular.

The Alberta North Agreement is a classic one; they didn't want to have an agreement with Alberta. Tourism is a classic one; they refused to have an agreement with Alberta. Other kinds of DREE agreements were nominal in their context and did very little for Alberta. Therefore, what are you supposed to do? Is the province supposed to step in and take over all these expenditures when in fact our colleagues in other parts of the [country] are getting cost-shared dollars on some fundamental measures? Not at all. Alberta doesn't get any equalization, and Alberta was transferring a significant amount of money, some \$50 billion, to the rest of Canada through reduced energy prices. Then the feds wouldn't come to the table with the nominal kinds of programs which were acceptable to the rest of Canada.

MR. PIQUETTE: You're still not winning under a Conservative government.

MR. JOHNSTON: I'm talking to you about the real point of this Alberta North Agreement and why it isn't in place in a more significant fashion. I'm telling you why it is. How much more can the province of Alberta do to take away the responsibility of the central government? Frankly, I don't think they can do that. But we do have in place programs — and that's why I have enumerated a very extensive number; I can go on if you want — which in fact replace the lack of assistance given to this province by the federal government on these cost-shared programs. The only one that has worked effectively is the Nutritive Processing Agreement, which is essentially as you have described here. It took us a long time to get the federal government to the table on the Alberta North Agreement. It was an impossible contest to get them to the table on the tourism agreement. They were funding ski resorts in Fernie, yet they wouldn't assist us in Westcastle. That's the classic kind of case. That's why there's no job creation and that's

why this province had to move in: to take over that responsibility. There is an extensive list of self-help programs which we've done just to do that.

MR. PIQUETTE: We're poor negotiators, Dick; that's why. We say, "If you don't do it, we'll pay ourselves." It's time that we . . . We've always backed out; that's the whole trouble.

MR. CHAIRMAN: Order please. Going on to the Member for Lacombe.

MR. R. MOORE: Mr. Chairman, I have certainly appreciated the overview and the informative way the Provincial Treasurer has presented his facts. It doesn't leave much for us to go into in the internal operation of the fund. I for one have a real good understanding of what's going on and where we're going in that area, so I have some questions more on the opinion or philosophical end of it that could help down the road.

In talking to the Member for Athabasca-Lac La Biche about recommendations for future projects, you said that it's up to the committee what they come forward with. It does bring up the question of how you see the role of the standing committee for the next few years, Mr. Treasurer, taking into consideration the economic facts that we see ahead of us. Do you see us continuing as a financial watchdog? Does that take preference over making recommendations or suggestions as to capital projects?

MR. PIQUETTE: We're a lapdog committee right now. Let's make it a watchdog.

MR. MITCHELL: Could you answer that in the context of the Public Accounts Committee?

MR. JOHNSTON: I'll come there and answer.

MR. R. MOORE: That leads to the commercial investment division, Mr. Treasurer. When we're looking at projects, there are two trains of thought out in the public. One, we should be getting the best competitive yield for the fund, and I think that's an excellent one. But there's another thought out there that the benefit to Albertans should be over-riding on the competitive return on the fund. When we're looking at projects, in your opinion what should

we be looking at in those two areas?

The other one ties in as an opinion; I might as well give you my three all at once. This morning we heard from the Member for Edmonton Kingsway. He had a concern that there was not enough feedback to us from the public to allow us to carry out the role the public saw we should be doing with the fund. He was referring basically to public hearings and things such as that. As an MLA I have had no problem getting input from any of my constituents on it at any time and being able to pass that on to your office. Have you in your important position in relation to the fund seen as a problem having input coming back from the public as to the way they see the fund should be handled?

MR. HERON: In five minutes or less.

MR. McEACHERN: He's trying to get you to justify Mr. Getty's decision not to hold hearings.

MR. JOHNSTON: We've talked already about some of the possibilities of the future of the fund. Mr. Moore, I guess you're essentially directing our attention in that manner as well to the very fundamental way the fund will be used and the fundamental test as to how you evaluate the measurements and form pure public policy to establish the future directions of the fund. The interaction of that, of course, requires the wisdom of many people. My comments are only very cursory, because others have a more profound understanding of where it could go and perhaps even a more profound set of recommendations.

It seems to me that this committee must first of all recognize its responsibility. It must see itself as a key factor in structuring the direction of the Heritage Savings Trust Fund. It must come up with some difficult decisions within the committee as to recommendations, the way in which we establish the fund in the future to maximize its benefit over, say, the next two-, three-, or four-year period, given the economic backdrop we're facing, particularly on the resource revenue side.

In doing so, I would appreciate — and I'm sure all of us in the Legislative Assembly would appreciate — some views as to whether we should assign a higher priority to maintaining the intrinsic capital value of the fund; whether it's important for us to establish in a very

careful way some special projects the fund could undertake which are unique and distinct and serve a variety of variables, a variety of tests that we've talked about already; or whether it's important to maintain the income stream of the fund to protect the General Revenue Fund and show that all people are benefitting on a day-to-day basis from the Heritage Savings Trust Fund by lower taxes on the expenditure side.

That's the difficult problem we're facing. We've also put on top of that the problem as to whether or not the resource revenue transfer from GRF takes place. But I would think that anyone who recommends that the committee itself does not have the intellectual skills or the power to come up with some recommendations would be suggesting that this committee is not very creative and probably isn't doing its own job.

In the case of understanding the fund, I would suggest that there are some difficulties in fully comprehending the fund. I think my colleague Mr. Payne probably has more precise information on that than I do, given his last responsibility. I think there are some uncertainties about it. Nonetheless, as we talked about earlier, in terms of the intrinsic value, the way Albertans feel about the fund, I think this is well understood and was in fact one of the fundamental reasons for several elections in this province: to ensure that the fund would stay in place, to ensure the future of the fund. I think that was settled by the elections themselves. So the public has that opportunity. But I believe that the MLAs fundamentally must take the first responsibility, both in terms of the future and the way in which the cast is set for the future of this fund.

Dealing with some of those problems I talked about in terms of the efficacy of the capital of the fund and the general revenue flows, those are fundamental recommendations that I would expect this committee would spend a lot of time on. I know that when I go to my constituency in Lethbridge, people understand several fundamental things. They know about irrigation, the hopper cars, and the opportunity for grain to get to the B.C. coast. There's a variety of things. They also understand that there's this medical research facility, probably somewhere in Calgary or Edmonton, not in Lethbridge. They understand they're part of

that. These are the kinds of unique programs which serve all people.

I think that's what this committee has to do. You can give me or Treasury or the Legislative Assembly some recommendations as to how to move, give us some advice as to whether we should be maintaining the income stream, whether we should try to internally regenerate or free up more money for new unique projects. Those are the fundamentals you have to deal with. We could probably go around this table and go through a show of hands and everyone here would say, "Let's try and keep the capital intact." I imagine that might be the quick response. It may not be unanimous, but it would probably be the majority view. I think those are some of the things we have to think about in terms of the fundamental elements of the discussion before us as we go into the next decade.

MR. GOGO: Mr. Treasurer, one has only to look at page 2 of the annual report that we're discussing — and I really think, Mr. Chairman, that the figures we should be using are in the annual report supplied to the committee — to see that almost \$6 billion in terms of income has provided for so many of these programs in the province.

I want to ask the Treasurer with regard to two exclusive areas of his responsibility, primarily the commercial investment division, which is included in the report. If one looks at page 50, I think one would come to two conclusions. One, an over 50 percent increase in return: I think that's nothing short of remarkable in terms of appreciation of the fund. Secondly, I guess a reasonable observation would be that it's really a large mutual fund, by any other name. The question I have for the Treasurer, or maybe Mr. McPherson, if it's primarily his responsibility, is: taken that it's a given that the guidelines from the investment committee to the Provincial Treasurer are to achieve maximum return or maximum yield, could the Treasurer advise the committee whether they're attempting to achieve maximum appreciation in that portfolio as opposed to yield, as opposed to dividend or interest? Well, obviously not interest, looking at the portfolio. Mr. McPherson, would it be a given that the objective is to achieve capital appreciation?

MR. JOHNSTON: First of all, obviously that is the major direction, and there are a lot of theories to portfolio management that everyone here is probably familiar with. Essentially the results of this fund have been very successful. We've really added a lot to the value of the Heritage Savings Trust Fund as a result of increases in the size of the yield — I suppose, more properly, of the investments. Essentially, we do it through this information process, through advisers. I don't know if we use a computer buy-or-sell yet, Allister, but maybe you would just like to outline your decision criteria, what triggers the buy and what triggers the sell. Don't quote Markowitz; put it in terms you and I can understand.

MR. McPHERSON: Mr. Chairman, when the commercial investment division was set up, the basic approach was to have a well-diversified, balanced portfolio that over time would approximate the yield on the equity market, as measured by the index or whatever. The reason for that, as I understand it, was to — looking at the historical evidence, it's been very difficult to consistently outperform the indexes in the market, if you take long periods of time. The other decision was that it was not to be a sort of high-risk portfolio in the sense that you would have a lot of variability from year to year away from the general market. The basic approach is to make decisions that primarily relate around the market index, and the buy and sell decisions are really dictated in one sense by what happens on the index. I think that's why the performance has been very good.

MR. MITCHELL: You're referring just to the stocks and bonds portfolio?

MR. McPHERSON: I'm talking about the commercial investment division.

So in this particular portfolio it's not seeking out a particular firm that you think is going to double in three years time or whatever.

MR. GOGO: Mr. Treasurer, I recall the discussion six years ago, in 1980, that the portfolio of the heritage fund was too much debt and there should be some equity. I remember that argument vividly. We then came up with the policy decision to have about \$200 million, according to the report of 1984-85, to go into equities. It would then follow, it

seems to me, that if we look at the primary purpose of the fund, which is to provide either revenue or appreciation for increasing the benefit to Albertans in terms of programs, the natural question would be: is the investment committee recommending that the amount of funds in the commercial investment division go a long a way from the \$200 million to perhaps \$1 billion? Is that being considered in terms of a policy by the investment committee?

MR. JOHNSTON: That we increase the size of the commercial investment division to \$1 billion?

MR. GOGO: By a substantial amount. I say that in context, Mr. Treasurer. When I look . . .

MR. JOHNSTON: We could diversify the economy if we bought CP or something.

MR. GOGO: That's going to be the final comment. It just seems to me that when one looks at the success of the commercial investment division and the total portfolio of debt versus equity which the commercial division has, one is almost led to the conclusion, based on the Premier's comments this morning, that the long-term growth is obviously to be found in common stocks as opposed to debt investments.

MR. JOHNSTON: Of course, you're stating essentially the same point we debated some time ago, John. I think it was important that we made the move to the commercial investment division. It didn't engender the kinds of problems that many skeptics talked about, and it did yield a very high return to the fund itself. Obviously, as you can appreciate, there has been some increase in the fund's overall dollars as a result of the successes. The cost of the commercial investment division has only gone up about \$16 million, yet it has earned a fair amount of money. I think our policy, Allister, has been to reinvest the dividends, leave the dividends in the fund, but any superprofits or net profits above the cost go into the money available for redistribution back to the General Revenue Fund.

I would guess, Mr. Chairman, to my colleague from Lethbridge West, that if he wanted another recommendation, we would look to you to suggest that we allow this fund to go to \$500

million. That is one of those priorities we talked about earlier when I discussed it with Mr. Moore. If the committee believes we should do more in the commercial investment division, then we'll do it, but at this point we are guided by the constraints of the legislation and the guidelines of the Legislature to some extent. We would appreciate your views as to how we can more effectively use the fund to maximize those kinds of returns.

MR. GOGO: The final question, Mr. Chairman. Recognizing that the policy is no more than 5 percent ownership with any one company and maintaining a passive role, perhaps this is a technical question for the deputy. Looking at the commercial investment division, are we anywhere near 5 percent? Is it not generally far less than 1 percent equity position in any of those companies?

MR. McPHERSON: I don't have the maximum at my fingertips, but I would anticipate that on the vast majority it's well under 5 percent.

MR. JOHNSTON: Mr. Chairman, would it be helpful if we circulated the details of the commercial investment division, the breakdown of the stocks?

MR. CHAIRMAN: Yes.

MR. JOHNSTON: We have it available if it would be helpful to anyone. I hope you guys don't go out and sort of preguess us in the marketplace or anything like that. This is not seen to be investment counsel at all; nor would we charge a fee for it. I do hope you simply treat it on that basis. This is the profile of the fund as of March 31, '86, simply showing you the diversification of the dollars invested. These are done on rate of return investments. I sure hope we're not over 5 percent on any of these, Allister.

MR. NELSON: Mr. Chairman, I'd like to delve into the area of the AOC-Vencap-Treasury Branch triangle, shall we call it — my usual hit list. I'd like to know if there has been any consideration given for the government to invest \$4 million, for example, in Vencap to really take over that investment, which they are able to do under legislation; return that \$200 million to another entity such as the

Treasury Branches; and remove AOC as a separate entity and not fund it through the Alberta Heritage Savings Trust Fund and create it as a division under a special mandate to the Treasury Branches, which in turn would also be given a different mandate and possibly even created as a class A bank within the Canadian banking system for the purpose of allowing more investment opportunities by Albertans through this particular enlarged opportunity, with the additional capitalization from the moneys of Vencap and also the enhancement or enrichment of the Treasury Branches through moneys allocated to the AOC.

MR. JOHNSTON: First of all, sure you could make AOC a separate entity, and perhaps AOC should be funded elsewhere. Maybe it shouldn't be funded from the heritage fund. Some people suggest that AOC should be a larger risk-taker, and in fact AOC isn't performing well unless its losses are 25 or 35 percent, something of that order. Perhaps there should be an opportunity for AOC to be involved in other kinds of financial instruments, whether it's pref stock or ownership, I don't know. That's part of the discussion which obviously that board and the minister and to some extent the government will be undertaking.

With respect to Vencap, it's my view at least now that after perhaps a slow start Vencap is starting to play an important role in the financial systems of Alberta. The Vencap company is stepping in to advance patient money or venture capital dollars to those corporations which I think are important to Alberta, which forward diversification, deal with job creation, put Alberta in a marketing position similar to other provinces, and carry the Alberta market presence into a variety of markets. I can go through them with you. I'll simply mention that I think the largest one happened to be to a Lethbridge firm — which has nothing to do with me — a small company, Relax Inns, head officed in Lethbridge. It grew as a family enterprise and through creative, imaginative leadership by that family and to some extent by Vencap is now a North American entity. It's expanded in that sense. It used all the levers available. It's been a significant success story. Vencap came to their assistance. The investment in Relax Inn isn't a secret; it's probably public. It was in the order of \$7 million, and that was enough patient

money for that firm to embark on a very significant expansion. The stories go on and on. I can give you a long list. I even see a significant investment in one of these investment companies you talked about, Mr. Payne, in Alberta.

MR. PIQUETTE: Can we have a copy?

MR. JOHNSTON: I don't think I can give that, because I don't have responsibility for Vencap. You could probably apply to the board of directors, and they would give it to you in any event.

MR. NELSON: It's in Skyward Magazine on PWA if you want it.

MR. JOHNSTON: There you are. So I don't have to recite it.

I think they're going to become more aggressive in the marketplace. They're going to become a big player. From our point of view there is a complex formula which dictates the way in which the heritage fund return is paid off, and that's based on a formula with 50 percent of the profits going to the fund before taxes, I believe, Allister, and that income flows back to us as well.

With respect to coupling Vencap or Treasury Branches and taking Treasury Branches to a class A bank, I'm not too sure that would really benefit Alberta, and I'm not too sure if that is constitutionally possible for us in Alberta. From time to time — I guess three times over the past few years — we've been challenged in the Supreme Court. So our legal friends find ways to argue that TB legislation is beyond the legislative jurisdiction of the province, and therefore they say their client doesn't have to pay the loan back because we're acting illegally, ultra vires particularly. Very simple, fundamental arguments but they have been tested at least three times. Going back over the history of Treasury Branches, I can say that it's found to be, by precedent as much as law, within our jurisdiction. Therefore, we're comfortable with the way in which it is now set up and operating.

We have, however, done some things to take Treasury Branches outside the province, not in the Canadian context so much as in the international context. These have not been large or significant. They have simply been

accommodations of their clients' needs to secure positions in world markets — external financing for offshore sales, et cetera — and coupling their position with other offshore bankers to ensure that their clients have an opportunity to expand in international markets.

But I would simply say, Mr. Chairman, that I don't think it would be prudent to change the way in which Treasury Branches are now set up. They are continuing to expand at a remarkable rate. It is a matter of record that we had a loss this year in Treasury Branches. It is my view that we should take that loss up front and show that the portfolio, because it was aggressive and to some extent prompted in Alberta-based investments, did generate some losses for the company, I think some \$50 million or so, and that's a public position. What is a problem to the Treasury Branch, however, is that it doesn't have any equity base to fall back on. If it were to abide by the clear rules of other financial institutions, I guess it would have to re-establish its equity base to some level. But its comfort is of course that its deposits are guaranteed by the province, and therefore whatever surplus the province has is at risk, I suppose, in terms of the Treasury Branches. So it does have this pyramidal or fundamental support of the government itself.

If I understand your recommendation, Mr. Nelson, it would seem to me that you would like to see the Treasury Branch strengthened in terms of its own fundamental financial structure and in terms of how it can serve this diversification in the financial needs of Albertans and you would like to see a rethinking of a variety of those companies which operate as provincial corporations or under provincial jurisdiction . . .

MR. PIQUETTE: That's NDP policy.

MR. JOHNSTON: . . . to ensure that they operate as effectively as possible. I think that's a reasonable request, given the time we're in and the experience we've had with some of these entities. If I understand you, I don't disagree with you, but you understand the way in which our hands are locked to some extent.

MR. NELSON: It's certainly not socialist philosophy, as far as the NDP is concerned. I hear comments from one of these left-wing activists, and I certainly don't want to get

involved with that. Being that this is a nonpartisan committee, we won't deal with those kinds of issues.

I guess the reason for the question is that, first of all, I understand that Vencap — I had a little read of the article in the Skyward magazine that was on the local airline a couple of days ago, and they have some of these investments listed there. For example, it's my understanding that the investment the Relax Inns had from Vencap went to the United States and did not in fact benefit job creation within Alberta, other than possibly to solidify the position of the Relax Inns, give them some financial stability for expansion of their product to the United States. I question whether or not that is a prudent investment, to the extent that it did not directly create jobs or an investment opportunity in Alberta itself. I would question that.

Of course, I'm not totally apprised as far as whether or not some of the other investments were totally in Alberta and how many jobs they created, if they created very many at all. I know that one item out of Minnesota, I think, with that agricultural thing didn't create too many local jobs. It was five point some million dollars to start with, and I believe it's going to be \$16 million or \$17 million in total. So I can assure you that I'm not a fan whatsoever of Vencap.

MR. JOHNSTON: I noted that.

MR. NELSON: As far as AOC is concerned, I'm not a very big fan of theirs either. Therein lie the reasons for the questions. I'm not sure they're actually living up to the total mandate, considering the cost and size of some of the bureaucracies involved with these particular organizations for the amount of money they actually deal in. You might want to comment on that sort of statement, Mr. Johnston.

MR. JOHNSTON: Many of us who debated the need for Vencap during the pre or current white paper era suggested that there was not enough patient money in this province to allow the needs of the entrepreneur to be developed properly, and therefore the Vencap proposal was an important development, I thought. Maybe over the past few years it hasn't totally fulfilled what we considered to be a best mandate.

Don't forget that, first of all, we as



legislators locked its hands to some extent. We said, "You shall not be investing in oil and gas development, real estate, mutual funds, and trust companies." To some extent that sort of thing sort of locked where they could invest and what kind of potential they had. As with any other large organization, once you start to set it in operation, you always move by degrees as opposed to 360 degrees or in circles, if that's a fair comparison. You have to set in place an institution, a set of guidelines, and policy constraints, and that required the board to think about its position.

Thirdly, because Vencap was coming and because Vencap was there with support from the province and from the people of Alberta, everyone who had a good deal took their good deal to Vencap. Vencap was immediately submerged in a large number of applications, all believed in the applicants' minds to be legitimate and some of them even prompted by people around this table. Instead of saying to their friend, "Look, you're no damned good," they said, "Take it to Vencap." Then Vencap were the ones who had to say, "You're no damned good," if that in fact happened.

There were a lot Vencap had to deal with, and they did sort them through and come up with some which I thought were significant both in the way they balanced their portfolio of diversification and in the way it allowed these companies to reach prominence not just in Alberta but in Canada and even in North America to some extent.

MR. PAYNE: I said: allow only the good ones.

MR. JOHNSTON: You're more responsible than some of us are.

The other problem Vencap faces, as does any other venture capital company, is exiting the investment. It's okay to say, get into this and have it and hold it, but venture capitalists only make money when they sell. That's why there were so many dollars made by venture capitalists in the Palo Alto or Silicon Valley context. They could exit the market very quickly. They would bring a company on. Within a year it would have sales of \$100 million in some chip companies, the stock would perform miraculously in the market, and the venture capitalists could reduce their investment. Unfortunately, that opportunity doesn't really exist in Alberta at the present

time. It may, and some are moving in that direction, but a lot of these venture capital moves are essentially in private-sector corporations or unlisted public companies.

Therefore, as we move through the period and as people like you, Mr. Nelson, give advice to the Vencap board, I think they'll start to respond and reflect upon their own policy questions. You'll see the shape of that emerging in their investments. I think that is happening with respect to the profile of the investments that have been made.

I must come back to your criticism of the Relax Inns corporation. Maybe they did take some of that money and build something in the United States, but surely with the head office here in Alberta and with the intellectual command and the decision-making being done here in Alberta, it must be nice to have dividends flow from the United States to Alberta for a change, as opposed to the converse, which we have experienced historically. It must be nice to know that an Alberta company has the courage and the imagination to diversify in a very difficult market, up against very largely financed corporations such as the Ramada and the Holiday Inn, and take on these people on on a one-to-one basis. That's something we should wear on our arms as a stripe as opposed to making apologies for the fact that that money flows into the United States.

I would not disagree at all with the way in which that money was employed, and I know that in both the case of the representation made by Relax Inns and the response of the board of governors, it was clearly understood that that would be part of a joint venture proposal in the United States. This is part of the transnational need we have here in Canada to bring major head-office corporations to our province and to develop the intellectual impetus here for new and imaginative things as opposed to transferring that technology somewhere else. That's what's happened in this case.

MR. NELSON: Just to sum up then . . .

MR. CHAIRMAN: In light of the hour, I think we'll have to conclude the question period at this time.

MR. NELSON: I have one remaining.

MR. JOHNSTON: Oh, I was just getting warmed up.

MR. CHAIRMAN: Mr. Treasurer and members, a couple of comments before we conclude. First of all, Mr. Treasurer, your pride in and enthusiasm for the fund was very evident in your comments this afternoon, and we want to thank you for some very comprehensive answers. We noted that you were not lost for words at all this afternoon, but we did appreciate your overview and clear perspective of the fund. I'm sure I speak for all the committee in accepting your challenge for us to be more creative in our final recommendations, and I'm looking forward to delivering the final report to you.

Before we adjourn, members, as you know, tomorrow afternoon we have scheduled a tour of the Walter C. Mackenzie facility here in Edmonton, and I need to know how many of you will be taking your own vehicles and how many would like us to arrange transportation for you.

MR. McEACHERN: Could I just ask a quick question? When the Premier was here last time, you said we would decide at some other time who we would have back. Would it not be appropriate at this time to indicate that we would like to see the Treasurer back before this committee at least once, perhaps later in the committee?

MR. CHAIRMAN: Certainly we can.

MR. JOHNSTON: I'd love to come back.

MR. CHUMIR: We were totally enthralled, Mr. Treasurer.

MR. JOHNSTON: Oh, was Calgary Buffalo here too?

MR. NELSON: Let's deal with one issue at a time.

MR. CHAIRMAN: Certainly we'll have the opportunity for that debate. Thank you again, Mr. Johnston and Mr. McPherson. I didn't introduce the other person from Mr. Johnston's department. With him this afternoon is Randy Dawson. Thank you, gentlemen, for coming. We appreciated your input.

MR. MITCHELL: Was it not the decision of the committee that observing MLAs would be able to ask questions after each member had received one set of questions?

MR. CHAIRMAN: No, the intent was that members were to have the opportunity to ask questions first, and if and when the members of the committee had their questions answered, we would open the question period up to other MLAs as well, time being available.

MR. NELSON: That's only fair, you know.

MR. CHAIRMAN: I regret that there are a number of members who would have liked to have asked questions and didn't have that opportunity this afternoon.

Again, can I ask for an indication? If not given any indication, we will assume that all members are going to arrange their own transportation to the Walter C. Mackenzie. At noon we'll head over for a 12:30 luncheon. I'll give you the details tomorrow morning if I can.

We stand adjourned until tomorrow at 10 a.m., at which time we'll hear from the Auditor General.

[The committee adjourned at 4:01 p.m.]