

Standing Committee on The Alberta Heritage Savings Trust Fund Act

Wednesday, September 17, 1980

Chairman: Mr. Payne

9:06 a.m.

MR CHAIRMAN: I'd like to bring to order this meeting of the select committee on the heritage fund. I would like to welcome with us Mr. Adair. Before we get into our discussions of those expenditures from Mr. Adair's department related to the fund, I just want to summarize my scheduling intentions for the day. As you will be aware, we have the Premier scheduled for 10 o'clock, and Mr. Kroeger scheduled for 11:30.

There are several outstanding policy matters that need to be discussed by the committee. It's difficult for me to indicate specifically when we will do that, but my intention would be to do it at the conclusion of Mr. Adair's time with us, unless it goes the full hour. In that case, we would take advantage of any time between the conclusion of the Premier's meetings with us and Mr. Kroeger's 11:30 appearance. If there is no time there, I'm left with really no alternative but to defer until next Tuesday, the 23rd, on which occasion we'll have ample time to discuss those policy considerations, because we only have one remaining minister, Mr. Hyndman. Is that agreeable to the committee?

HON. MEMBERS: Agreed.

MR CHAIRMAN: With that, Mr. Adair, can I ask you then to introduce your departmental official, and perhaps if you feel so disposed, to make a preliminary comment, and then we'll proceed from there.

MR ADAIR: Thanks very much, Mr. Chairman. I'd like to introduce to the select committee Roy Parker, the managing director of the Alberta Opportunity Company. Roy has been with the company for quite some time. As of June, I believe it was, he has taken over as the managing director, and I might say publicly that he is doing an excellent job for the people of Alberta. Maybe what I can do, Mr. Chairman, is just give you some statistics, a little bit of update relative to the number of loans that are out through the Alberta Opportunity Company.

MR CHAIRMAN: Although we are in the chambers, we are a somewhat informal group. If you would like to remain seated while you speak to us, that is entirely agreeable to us. Thank you.

MR ADAIR: I'd rather remain seated, if I can -- at my age. Two things I thought would be important. One is part of the operational mechanism that the Alberta Opportunity Company uses relative to the issuance of loans and the capacity for the managing director, the assistant managing directors, the loans committee, the various branch managers in their capacity -- what particular percentage of dollars they can approve on their own, which has a direct effect on the kind of questions that may arise as to the procedure time involved in getting loan approvals. The managing director, in this case, Mr. Parker, has the capacity to approve loans up to \$100,000. The loans committee, which is made up of the managing director, senior management, and the branch managers, collectively has the ability to approve loans up to \$250,000. Depending on their seniority and the particular branch, the branch

managers, either \$30,000 or up to \$50,000; the two deputy managing directors can approve loans up to \$75,000.

I think it's important for the committee and the public to know that, in the sense that loans in that particular range and applications that generally are filled out properly -- in essence, most of the requested information is there -- would then see a general turnaround time that is, in my mind, improved to where it could be two to four weeks. Now above that particular amount -- the quarter of a million dollars -- and between \$250,000 and \$750,000, the officials of the Alberta Opportunity Company will review the loan, prepare and make recommendations to the board, and they then will review that. The board meets twice monthly. So you could have the hypothetical situation of the loan coming in on a Thursday, after a board meeting that would take two weeks before it would appear before the board. That is one of the small problems we are still attempting to wrestle with. The board is made up of 14 private sector businessmen. It's chaired by Bob Chapman, who is the chairman of the Alberta Opportunity Company, and it has representation from Medicine Hat, Lethbridge, Calgary, Ponoka, Camrose, Vermilion, Edmonton, Edson, High Prairie, and Grande Prairie, along with Mr. Parker as the managing director. Any loans above \$750,000, once approved for recommendation by the staff of the Alberta Opportunity Company, are presented to the board. If it receives the approval there, it is then presented to cabinet for final approval -- that's loans over three quarters of a million would then have to have cabinet approval as well.

So having said that, and looking at the history of the Alberta Opportunity Company, to this particular point in time, over 2,000 loans have been approved through the company. At the end of the fiscal year 1980, 1,412 loans were outstanding; in other words, quite a number are paid off. But those are the loans and the value of the loans -- \$121 million -- that are outstanding, or were outstanding as of March 31. For the five-month period from March 31 until now, new loans to the end of August have been \$159,000; last year's total, \$180,000. The average loan has increased slightly, from \$86,000 last year to \$110,000 this year. With that, Mr. Chairman, possibly we could get into the questions.

MR CHAIRMAN: Thank you. I just might indicate to hon. members that the primary references to those departmental expenditures are on pages 16, 17 and 32 of the annual report.

MR R CLARK: Mr. Chairman, to the minister. I'd like to ask questions on two areas. I'm very interested, Mr. Minister, in the process that take place once the Alberta Opportunity Company has made a recommendation over the \$750,000. If I recall your own words properly, you said that the procedure is then for cabinet approval. Once the recommendation comes to the minister, what is the procedure from there on? Who views it then?

MR ADAIR: It will be placed before the finance and priorities committee for approval of cabinet, as quickly as possible after that. I think I can say in my term of office -- I can't speak beyond that; and Roy could substantiate this -- that any of the applications -- and I believe there have been three or four; I may be wrong on that -- have been received by my office on, say, a week prior, on the agenda for that Monday on cabinet for that Tuesday or the following Tuesday. So I guess what I'm trying to say, Mr. Chairman, is that the time frame involved in the final approval of those particular ones would be not more than two weeks.

MR R CLARK: Mr. Minister, on those four occasions when recommendations have come from the company, have they been approved by the cabinet?

MR ADAIR: I'm just trying to recollect, Mr. Chairman. I believe all but one have.

MR R CLARK: Not specifically about that one, but what I'm interested in is, other than the Alberta Opportunity Company, where does the cabinet or the Treasury Board or whoever it is -- do they get advice from Economic Development? What other government agencies have input at that time?

MR ADAIR: Mr. Chairman, once we receive it, it is immediately sent to Treasury for their input. Now I can't speak for Treasury as to who they involve in their process of making a recommendation on that, but that process does take place and that recommendation may be pursued in there. I should point out that the one application that was turned down was relative to land developing, and we weren't in the land developing business.

MR R CLARK: A further question to the minister, Mr. Chairman. Mr. Minister, in pretty simple, down-to-earth terms, what are the basic objectives of the company?

MR ADAIR: Primarily, number one is to assist businesses in Alberta where -- and I guess I have to use the words "last resort", because that's the key to the whole operation of the Alberta Opportunity Company. They are a last resort lender in the province of Alberta, to assist where other agencies have not seen fit to assist. I guess in the simplest of terms, having been turned down by one or two agencies, be it the private sector lending institutions or even the FBDB, that they could make application to us. That doesn't mean that it automatically is approved. It means that they then have access to the Alberta Opportunity Company, which then would review that application on its merits and possibly in conjunction with the applicant, make some adjustments to it and then make a loan or turn it down. In the simplest form, the ability to provide some lending mechanism where in fact none was there before, is what predicated the formation of the Alberta Opportunity Company.

MR R CLARK: Mr. Chairman, to the minister. What role does the Opportunity Company have in the area of diversification?

MR ADAIR: I would term it a very important role, in the sense that the primary objective of the Alberta Opportunity Company -- and that is structured in the way the base rate of the company is struck and the lending rates that are considered to be 3 up or 2 down. I can explain that a little bit, in the sense that in the metropolitan areas of Edmonton and Calgary, the rate could be the base rate of 12, or up to 3 per cent up, in other words, up to 15 per cent. In small communities in rural Alberta, it could be as low as 2 per cent down. That would be small communities as defined by the Alberta Opportunity Company: 10,000 or less; 25 employees or less.

MR R CLARK: Mr. Minister, though, I think perhaps we're confusing -- maybe I'm confusing terms. When you talk diversification, I get the impression you're talking really about locations across the province. I guess when I talk diversification, I'm really asking, does the company see itself having a major responsibility in rather seeing that Alberta's economy, regardless of where it may be located, Mr. Minister, if I could use that, is far broader than our overdependence on oil and gas? That's what I mean when I talk about diversification.

MR ADAIR: In essence, what you're responding to, Mr. Chairman, is the ability to cover areas other than the oil and gas industries. Yes. My first question

on that area is yes, because the loans we -- I say we when I'm speaking here; I was speaking as the minister responsible for the Alberta Opportunity Company -- have provided cover any number of ranges from motel operations to any number of small businesses, be it a welding shop . . . Well, the diversification covers almost any particular business that may in fact make application to the Alberta Opportunity Company in any location in the province of Alberta. They have been approved from the likes of, say, High Level. I think that's the most northerly application -- Indian Cabins; that's as north as you can get; on the western side of the province, that's the last community before the 60th parallel -- down to the southern part of the province. And it may be in the manufacturing area; it may to some degree be in the area of agribusiness, because at that particular point there may be some arrangement between the two companies, the Ag. Development Corporation and AOC, to define who has the responsibility in that area. Because of that, we have a member sitting on the board of AOC, Lorne Ordze, the managing director of ADC, so that they can define those particular areas of responsibility. In essence, from the standpoint of businesses other than the oil and gas primarily, yes, that is the role for the company to play.

MR R CLARK: Mr. Chairman, I'll just move along the next step. What kind of involvement does the AOC have in resource loans?

MR ADAIR: Would you possibly define that a little bit?

MR R CLARK: In terms of natural resources development.

MR ADAIR: Natural resources development? I might ask Mr. Parker to respond to that one if he will. I'm not aware of any that you have in the area of resource loans.

MR PARKER: No, we're not involved in resources in the sense of exploration for gas, oil, coal, and things of this nature. We do provide assistance in the lumbering industry and in the further developing of the base products.

MR ADAIR: And some of the service industries.

MR R CLARK: I'm just having a little difficulty reconciling what I've just heard, the company's being involved in diversification, institution of last resort, not involved basically in resource development, with the opening sentence of the description on page 16, where it says the Opportunity Company "has the objective of promoting the development of resources and the general growth and diversification of . . . Alberta". I read that, frankly, as a far wider mandate than I've ever heard from any of the ministers or the managing directors of the company. That's really why I've followed the line of questioning I have. Frankly, I see this first sentence, which I suspect was prepared by whosoever prepared this, and certainly up until now I haven't seen the Alberta Opportunity Company having that kind of major responsibility in the area of diversification -- not relocation, but diversification. As I read it, this reads as if the Alberta Opportunity Company is the government's major tool as far as diversification and resource development. What I really want to ascertain is, is the Opportunity Company now broadening its base tremendously and getting away from, really, an institution of last resort for small business, which is what it was initially set up to be?

MR ADAIR: Mr. Chairman, first of all, my interpretation of what you have said is that you have provided an interpretation as you read it. The AOC has not changed its particular philosophy from day one, as a lender of last resort.

It is still that. As a lender of last resort, those opportunities are available in any community in the province of Alberta, in almost any range. And when I say that, that doesn't necessarily cover the primary extraction areas of the natural resources. But where you're dealing with, say, the lumber industry -- which is a natural resource -- where you're dealing in some of the service industries that in fact relate as small businesses to the resource areas, we have a very great part to play, and have had from day one.

MR R CLARK: Thank you. I'd just ask the minister one last question. Mr. Minister, to you and Mr. Parker -- and I'm sure you've read the description on page 16. The first sentence there doesn't outline the objectives of the Alberta Opportunity Company, as I've seen them. I ask you, does that first sentence outline the objectives of the company as they're viewed from the minister's chair?

MR ADAIR: I guess the point for me is that my interpretation of that is consistent with what the Alberta Opportunity Company has had to do. Now, it's an interpretation that you have placed on it and I have placed on it. So at that point, I guess we may have a different. . .

MR PAHL: Mr. Chairman, Mr. Minister, I note on page 16 of the Heritage Savings Trust Fund report it says, "In its lending activity, priority is given to businesses located outside the major growth centres of Edmonton and Calgary". I would just wonder at that priority. My feeling would be that loans should be available to all Albertans and all Alberta businesses on an equal basis.

MR ADAIR: Well, Mr. Chairman, what it does say is that the priority is given to businesses other than in the metropolitan centres of Edmonton and Calgary. That not only is consistent with that priority, but it is in the structure of the interest rates that are provided. That happened as a result of the fact that when the company was structured, mechanisms were in place for businesses to pick up loans primarily in the metropolitan centres of Edmonton and Calgary, and there was a gap -- if I can use the term -- in those other areas. And by going in to the lender of last resort concept and filling that particular gap outside those areas and placing a higher priority on those particular businesses that may apply -- that was the general reasoning behind -- and it's still behind the concept of having the base rate of 12, with the metropolitan centres being at least generally consistent with the going rates for the availability of money in metropolitan Edmonton and Calgary.

MR PAHL: Perhaps if I can supplement that question, Mr. Chairman, and try to make the point that in my experience in a suburban constituency where we have a high number of small businesses -- and some are fairly sophisticated; service industry in the oil field -- that perhaps a case could be made for greater support by the Alberta Opportunity Company in the city, where startup costs are obviously greater, you have higher rents, generally higher wages to pay; if you're dealing with a market area, you have greater advertising costs. Even to place the same size ad in the only available local newspaper, there's probably a thousand dollars difference between Edmonton and Airdrie. I suppose the other case is that failures might be more spectacular in the city. Would you accept the thought that in terms of diversification -- and I think that diversification has to mean more than dispersion in our economy -- Alberta Opportunity Company, with more funds, could perhaps address that gap in what I would call a less discriminatory way in terms of higher interest rates and priorities?

MR ADAIR: My response, Mr. Chairman, would be that as long as we were consistent with the lender of last resort concept, we would be prepared to look at any improvements in the system, whatever they may be. In other words, the system is not necessarily written in stone. If there is some capacity to show or for us to be shown that there is a need in that particular area. I think it should be pointed out -- and I'll get you to confirm this, if you will, Roy, just to make sure that my mind is right on it. At the present lending rates -- and I'm speaking now of AOC as it is today, with the lending rate base at 12, and with the 3 per cent, up to 15, if it's in the metropolitan areas. Even today, that is one and an eighth to one and a quarter below the present lending institution rate, is it not?

MR PARKER: Yes. For term projects.

MR ADAIR: So there is still a priority. One question I might ask Mr. Parker is that I'm not sure of the exact number. You might be able to give us the number of loans that are approved for the cities. There are loans that have been approved for the two metropolitan areas, where in fact there was no capacity to borrow from the other lending institutions.

MR PARKER: By numbers, 15 to 20 per cent of our loans are in the cities of Calgary and Edmonton. This varies from year to year. The major reason we don't have a higher percentage is that funds are generally readily available in Calgary and Edmonton, where they may not be so readily available in other constituencies in the province.

MR PAHL: Thank you. I accept your point, except for this small business man, you're a quarter of a point off.

MR SINDLINGER: On that point . . .

MR CHAIRMAN: Is this a supplementary to Mr. Pahl's question? Okay.

MR SINDLINGER: For clarification, please. You're talking about the priority given to businesses located outside the major growth centres. Are you saying that priority is reflected in the structure of the interest rates? I wonder if you could make that clear. I'm not too sure I follow that. If so, how is that priority given, and how can it be justified, giving the higher rate to urban people as opposed to rural people?

MR ADAIR: The structure of the interest rates have not changed in the sense that it's been consistent with a base rate. When the company was set up, it was set up to assist in that gap area, as I said earlier, where there was not financial assistance available outside the two metropolitan areas, and where AOC considers a small community of 10,000 or less, a company 25 employees or less, they may get a reduction from that base 12 down to 10 per cent, if they're in small-town, small-business Alberta. If they are in the cities of Edmonton or Calgary, that base rate of 12 may go as high as 3 per cent, up to 15 per cent. And I use "may" in there because it's a decision that would come from the company relative to the discussions with the applicant, as to what it is. A number of factors would be considered in there. That has been consistent from day one. It has primarily been to assist in the areas where the private sector lending institutions have not provided funds historically. Therefore, we were attempting to assist in getting businesses started, primarily in rural Alberta.

MR NOTLEY: I have three or four questions more or less in the same vein, but just before we go into those, you mentioned 15 per cent by total numbers. I take it you're talking about total numbers of applicants. I'd be interested in whether we have any figures on the percentage of total dollars, which it strikes me could be somewhat different and somewhat higher.

MR ADAIR: It is slightly higher. If you put the two together in dollars, it's roughly 22 to 24 per cent. Okay? About a quarter.

MR NOTLEY: So about a quarter would be in the two major cities, then.

Mr. Chairman, to either the minister or Mr. Parker. I realize the AOC is a lender of last resort, and that it's primarily set up to fill a role in rural Alberta, where it is difficult, where private lending institutions aren't doing quite as adequate a job. But do we have any figures in terms of the AOC role, compared to the total needs of the small, private business sector, and any figures with respect to our lending compared to the industrial development bank?

MR PARKER: We don't have any figures relating to the total borrowing of small businesses in the province, but in regard to the Federal Business Development Bank, we provide approximately 80 per cent of the number and dollars that they provide with their branches. I might add that their accent is on the major urban areas, Calgary, Edmonton, and the other larger cities in the province.

MR NOTLEY: Just to follow that up, Mr. Chairman and Mr. Parker. By 80 per cent . . . We would not be providing quite as much, four-fifths as much.

MR PARKER: Yes.

MR NOTLEY: I see. And on page 32, I see we have \$91 million invested, but under the notes, another \$54 million. What is the total capitalization now of the Alberta Opportunity Company, from the heritage trust fund?

MR ADAIR: \$150 million.

MR NOTLEY: Right now. I see. And what percentage of the cases . . . Now you indicated approximately 1,400 are active loans. How many of those are in arrears?

MR ADAIR: I'll answer that, and possibly you can confirm it. I believe around 13 to 15 per cent could be in arrears to some degree.

MR PARKER: Yes, that's correct.

MR NOTLEY: And how would that compare . . . I believe that would be somewhat higher than normal commercial . . .

MR PARKER: Certainly it's significantly higher than most commercial lenders. I can't speak for any of them, but my best guess would be in the 5 per cent range, as opposed to the Federal Business Development Bank. Historically, they run about 8 to 10 per cent. I might add that of the 13 to 15 per cent that we have in arrears, about 5 to 7 per cent would be having some difficulties, and the rest would be due to laxness on their part or the mails or just an ordinary business problem.

MR NOTLEY: I see. So that there'd be about 5 per cent you'd be quite worried about.

MR PARKER: Yes.

MR NOTLEY: You'd be looking at perhaps as much as \$7.5 million of this \$150 million that could be jeopardized by a slowdown in the economy or something of that nature. What has been the range in interest rates? You indicated 12 per cent now, plus 3 per cent in the urban areas, down to 10 per cent in the rural areas. That's the situation now, but could you perhaps bring us up to date over the last year? I recall a little over a year ago that it was somewhat lower. Has it gone up automatically with the Bank of Canada rate, and how have we adjusted those figures with respect to higher interest rates across the board?

MR ADAIR: Historically, up until last November when the interest rates started to climb, there was a period where AOC would in essence track the rates. In other words, they would adjust as the rates adjusted. I believe in early November we froze the rates, in essence. They have remained consistent at this point, with a 12 base, 15 high and 10 low. Prior to that, the highest they had ever been was 15, was it not?

MR PARKER: Yes.

MR NOTLEY: Mr. Chairman, my additional question is somewhat along the lines of questions that have been raised before. AOC has a flexible formula of 3 per cent more and 2 per cent less, depending on the area, and I certainly applaud that. I think it's primarily set up to fill a role in rural Alberta. I think one can justify that kind of interest rate setting. But the question I'd like more clarification on is, what interest reduction is given in the area of diversification? Let us take the example of a small business enterprise. It was my understanding at one time that if you were going into a new type of operation, you were also eligible for the lower interest rate.

MR ADAIR: That same thing does apply. I guess it's an overall application of that. If it's a new business in a small community, small number of employees, that would apply. And then you're looking at -- I'll pick a name: Etzikom -- and you're going into a new manufacturing operation in that community in southern Alberta, that they would or could be eligible for a reduction down to that 10 per cent level. It may be 10.5 or 11 or 11.5, in whatever the cases may be. But they have the capacity, if all other factors are met, to be as low as 10 per cent. So it could be a new business. It could be in the smaller community, as long as it's under the 25 employees, as defined by the Alberta Opportunity Company at the present time.

MR NOTLEY: Mr. Chairman, with respect to the definition of 25 employees, what consideration has been given to changing that restriction? Because it seems to me, if we're talking seriously about diversification -- I think that's a goal everyone in this House supports -- and if the AOC is going to play a role in furthering that goal, it seems to me there are going to be occasions where projects will get under way where there could conceivably be more than 25, and yet it would be a new type of operation that would diversify the economy of the province. It seems to me we have to take a look at that and perhaps begin to reassess what has been a policy now since, I believe, 1972 when the AOC was established.

MR ADAIR: Initially, Mr. Chairman, in response to that, something that maybe hasn't been that clear in what I've said up to now, is that each application is treated on its own merits. I think there have been cases -- and I could verify that with Roy -- where there have been a small town, a small business,

and maybe more employees, but the basis of that was the application itself, the type of particular operation that it was getting into. So all of those points are taken into consideration. I guess if there's anything that we could do, it's look at it a little stronger or delve a little deeper into that particular concept. But at present, the company operates on the basis of small towns being 10,000 or less. And I think even that could be questioned to some degree as to whether 10,000 people is a small town in the minds of some people. But you have to draw the line somewhere. We attempted to draw it at that particular point -- we being the Alberta Opportunity Company. And then the 25 employees or less were taken into consideration as the bench mark you worked from. But there has been some consideration relative to that in the number of applications that have been received to this point.

MR NOTLEY: Mr. Chairman, just one more brief question. In terms of determining the lower interest rate, which can be as much as 2 per cent down, or on the other hand, as much as 3 per cent above, how does one really deal with that in any objective way? It seems to me that there are so many subjective aspects that . . . What is the process of determining whether Joe Blow in Etzikom, Alberta, is eligible for the full 2 per cent less instead of 1.5, 1, 0.5, or whatever the case may be? For example, if a person is two or three months behind, do they lose their interest rebate? That kind of thing.

MR ADAIR: What I might do is ask Mr. Parker to explain on behalf of the company the process that they use.

MR PARKER: In answer to your last question, the interest rates are set at the time the loan is approved and are fixed for the term of the loan. So whether you make your payments on time or fall in arrears, your interest rate is maintained until the account is either paid up or wound out one way or another. In regard to how we determine what interest rate will be applied, the loans officer who does the investigation and makes the report is encouraged to make a recommendation that will give the best break possible to the individual applicant, bearing in mind such factors as competition, whether it's a new business or not, the size of the community, and so on. The ultimate decision is made by the individual or group that approves the loan. As I say, there are a number of primary factors, which we have mentioned, and there are secondary factors in determining a loan application. An example I might give you would be a new business in a small town where there is existing competition, and we would feel it would be unfair to the existing man who is obtaining his funds from the private sector at a higher rate, for us to provide a loan at a significantly lower rate than he was obtaining. So that would be a consideration. But all things considered, we attempt on the basis of our formula, to give the person who is applying the best break we can.

MR BORSTAD: I guess my question is somewhere along the same line. I applaud the aid to the smaller centres. Does this loaning pattern outside the two major centres have any pattern north or south, or is it pretty well scattered across the province? How are the delinquencies in this 15 per cent you mentioned -- is the majority in the north or the south or are they scattered across the province? I guess I'm concerned about the north, so my following question is, where you have a complete default, is that across the province or is it in the north?

MR ADAIR: If I can start off, to give you an idea -- this is basically in the dollar area. Northern Alberta has roughly 29 per cent of the moneys that are loaned out; central Alberta 23 per cent; southern Alberta 24 per cent. Now if you're looking at loan applications, the north has 28 per cent of the

applications; 25 per cent in central Alberta; 22 per cent in southern Alberta. I might get Mr. Parker to respond on the delinquency side that you related to.

MR PARKER: The delinquencies are fairly widespread and even throughout the province. We'll have periods where there will be a surge in one area, then that will drop off, and a surge in another. But generally, they follow the pattern of authorizations. I might add to supplement what Mr. Adair has just said, that we have found in the last 18 months that there has been a significant increase in activity as a percentage of our overall business in northern Alberta, largely because of the development and activity that is going on there. I'm not sure if I answered all of your questions, but if there are more, I would be glad to.

MR ADAIR: Mr. Chairman, what I might do is indicate that from 1976 through to the fiscal year 1980, those figures I gave you have been reasonably close to consistent. They've been up and down. For example, the highest in the northern region was 32 per cent in 1979. The fiscal year this year is up to 36 per cent. Consistently, they go down: central Alberta, 24, 26, 27, 27, 26. So they're fairly close to even throughout the five-year period.

MR OMAN: Mr. Chairman, I'd like to ask the minister a follow-up in a couple of areas, one in defaults and the other in the area of where the investment is going. If I could just clarify it for my own mind, did you say your defaults, actual losses, would be in the area of 5 per cent? I just wanted to . . . Write-offs.

MR ADAIR: Yes.

MR OMAN: And what would the commercial banks be? You said the federal industrial bank was somewhere around 9 per cent.

MR ADAIR: Maybe I can get Mr. Parker to respond to that.

MR PARKER: I was talking about arrears when I was saying that; 9 per cent delinquencies in arrears. We're up around 13 to 15 per cent. As far as write-offs and losses go, we're roughly 5 per cent. Up until this year, the Federal Business Development Bank was about 2.5 per cent, and standard lending agencies less than that.

MR OMAN: Okay. That's better. I just wanted to clarify that in my own mind, because I wanted to know if we were taking enough risk in comparison. Let me go into the area aspect. I think you said somewhere in the area of 15 to 20 per cent went to the cities of Calgary and Edmonton and the rest was basically rural or the smaller centres. I have no objection to money going to the smaller centres, and I'm not suggesting that it should be less. Maybe it should be more. But I question the 15, 20 per cent figure to Edmonton and Calgary, because populationwise those two centres take up two-thirds of the population of the province. I'm sure that the economic activity in those two centres would be at least that, maybe more. It seems to me that the opportunity for industrial expansion . . . There's a snowball effect. In other words, industries like to locate -- some of them at least -- in the larger centre, simply because of the labor pool that is there and the integration that they have with other industries. It's the policy of the Alberta government to diversify secondary industry particularly, and I do have the feeling from some people from the larger centres who have talked to me, saying, hey, we're being discriminated against, as over against the rural areas. I wonder about this, really. You say, okay, there's more opportunity

for financing in the larger centres. I can't see that either, really. I'm sure that the banks in the smaller centres are just as anxious to lend on a regular commercial basis as the ones in the cities, and I cannot see why these people would not go to the city, if there were other banks there -- I'm sure that they could and would if other banks and lending agencies were there, because that happens all the time. So I'm wondering about whether there's an actual policy of discrimination against people in the larger centres. I get that feeling.

MR ADAIR: Well, up until the last couple of words . . . The actual policy against discrimination in the centres: no. But I think the policy that was struck was based on two factors. And I will take issue with you in the sense that you talk about the bankers in small communities. They may well be willing to loan; they don't have the capacity or the authority to in fact do that. You have to go back to their regional or head offices to get that approval. So you have some difficulties the further away you get from the two metropolitan centres. The primary idea behind it was, one, that there was in fact a larger pool of funds available through the private sector for any of the applicants who may be seeking funds in the metropolitan centres of Edmonton and Calgary. The area that was the major problem for us when AOC was set up was that area out there, wherever it was. And the further you got from the two metropolitan centres, the more acute the problem was. Therefore, it was struck in such a fashion that the opportunity to obtain a loan is still there and it is still a favorable position if it is an application of last resort, even today, in the cities of Edmonton and Calgary. And I don't know how you can determine that that is discriminatory. If they're using the same concept as everywhere else -- the lender of last resort and making the application after refusal -- obtain a loan in Edmonton and Calgary, all other things being equal, at a rate that today is even better than the rate that is obtainable in the private sector lending institutions. So in essence, what we did when we structured it was to try to provide the funds that could be made available to an area that didn't have any funds available, out there in the rural areas, and yet not discriminate against the other areas, the metropolitan centres, by saying, yes, those funds would be available too, but again, on the condition that it be the lender of last resort and that it in fact then had to go through the process of not being able to get money. And in most cases moneys were available to those people who were applying in those two metropolitan centres -- not all of them, because there are applications that have been approved.

MR OMAN: Mr. Chairman, with regard to the first comment. Even the local bank in the city, of course, has its limit as far as its authorization of loans, and beyond that they have to go as well to headquarters. That's a phone call, as the case may be, from either position I think -- maybe some papers and supporting material. But I still am trying to get at here . . . You said that funds were left over? In other words, more could have been lent in the major metropolitan areas?

MR ADAIR: No, I didn't infer that. I hope I didn't, anyway. Funds are available on the same basis as they are to anyone else out there in Alberta. The key is that they are lender of last resort; in other words, we still maintain that philosophy. It's a lender of last resort. The ability to obtain money in the cities of Edmonton and Calgary is much greater than it is in rural Alberta. Therefore, the number of applications would be less. And when they come before the board, they review them in that particular capacity. I should point out, too, that we do work with the banking institutions. There's a very close working relationship with them. In fact, the members of

the Alberta Opportunity Company will contact those sources that were listed as turndowns, to find out why. In some cases, there have been arrangements worked out where the bank and AOC have co-operated to in fact provide funds together. So that opportunity is still there for the metropolitan person.

MR OMAN: Mr. Chairman, I accept that. I just have to reflect what I'm hearing from some people. I realize they could be saying sour grapes because they've been turned down, but what I do hear, nevertheless, is that if you're not from a rural community, and you're making an application, you've got two strikes against you. So I'll continue to listen, Mr. Minister.

MR ADAIR: One factor you could provide as an option to that is that roughly 15 per cent of the applications come from the metropolitan centres and 22 to 24 per cent of the dollars provided to all applicants in Alberta are out of the two metropolitan centres.

MR R CLARK: To the minister. I go back to the initial discussion that we had where we ended on a point of disagreement or different interpretation. I raised the question because, quite frankly, I get the feeling that the people from Economic Development are trotting around the province, and we have the Opportunity Company people trotting around the province. I'm being positive, but I see Economic Development having some pretty major responsibilities in diversification. Now we're saying that the Alberta Opportunity Company has. I notice that no one from Alberta Economic Development is on the board. I'm very interested in knowing. From talking to some of the people in the two organizations -- not on a critical basis at all, but simply: what's the interplay, what's the relationship between the two, and what changes have been made in the Alberta Opportunity Company to take into consideration the formulation of the Department of Economic Development some two years ago? Because I think if we're not careful here, we'll have the two working a bit at cross-purposes. And that's why, very frankly, I'm surprised to see in the annual report that one of the major responsibilities of the Opportunity Company is economic diversification. So I'm interested in knowing: in the last two years, what changes have been made to take into consideration the Department of Economic Development, so that in fact we're working together here, rather than going over some of the same paths a second or third time?

MR ADAIR: I don't have any problem responding to how Tourism and Small Business and Economic Development are working together. I was just going back to where it said it was "a major objective", because that's not what it does say. That should be clarified before we get . . . Again, maybe that's our interpretations . . .

MR R CLARK: Mr. Minister, you and I can quibble all we want, but it's the very first sentence in the description of the Opportunity Company.

MR ADAIR: "The Alberta Opportunity Company has the objective of promoting the development of resources and the general growth and diversification of the Alberta economy". A very general statement indeed. But getting back to your question, the Department of Economic Development and the Department of Tourism and Small Business -- now, I'm setting aside AOC because we do work very closely together, both in the area of diversification and regional business opportunities. Where people may come to Tourism and Small Business as a department and in essence be a major manufacturer or in the primary industries, we would then, in essence, escort them over and work with them, so that they're not going through the same process they may have with our officials. We will have eliminated that process by walking them right across

to Economic Development and plugging them in with that department. There is a very close working relationship between the two. I guess the best way to put it is that they are meeting constantly on applications on opportunities, on areas of the province where there may be some developments where they've had requests from companies outside, inside the province, or where, so that you have that kind of working relationship there.

Now there is no direction, in essence -- I guess that would be the key word -- at this particular point in time that would be such that I, as minister of Tourism and Small Business, would direct the Alberta Opportunity Company to provide a loan for whatever. Those loans, again, are made on the basis of a last-resort lending institution, on the application made by the applicant, and on its own merits, and reviewed in that particular capacity. The same would apply to any department, or, in essence, to any MLA. I wouldn't be in a position to have you, sir, come to me and say, Joe Blow at community X must have a loan. That person has the right to make an application for a loan, and all things being equal, may well get that particular loan, but it isn't a direction that might be given. I think there was an inference that some direction might be given by the Department of Economic Development or such. I think when they come up with a particular project, certainly, they would indicate to them that one of the opportunities that they may have to obtain financing is the Alberta Opportunity Company, recognizing that it's a lender of last resort.

MR R CLARK: Mr. Chairman, I . . .

MR CHAIRMAN: Mr. Clark, if I may interrupt for just a moment. It's four minutes before the hour, and I guess we have an option. That is, perhaps to wind this up with a final supp and a final brief response to the supp; or alternatively, for me to send a message to the Premier indicating that we won't be ready for him at 10. Mr. Clark, can you shed any . . .

MR R CLARK: I'd be quite prepared to, say, perhaps have Mr. Adair come back later on this morning.

MR CHAIRMAN: Mr. Adair, what are your availabilities later in the day?

MR ADAIR: Later today?

MR R CLARK: After 11. The Premier can only stay until 11. Is that right?

MR CHAIRMAN: We have him scheduled until 11:30. I haven't communicated with him to determine how long he can be with us. Karen, do you know? Mr. Adair, would you be agreeable to returning at some time that would be mutually agreeable to you and to this committee, to deal with . . .

MR ADAIR: That may not necessarily be today. I do have to go to Grande Cache.

MR R CLARK: And I have to meet with some Ontario people.

MR CHAIRMAN: Thank you. Well, Mr. Adair and Mr. Parker, on behalf of the committee, I'd like to thank you for joining us for this hour. I'll be in touch with you, Mr. Minister, when it becomes clearer as to what would be an appropriate time for us to conclude our deliberations with you. Thank you.

MR ADAIR: Okay.

MR CHAIRMAN: Would the committee like to take a three-minute adjournment?

The meeting with Mr. Adair adjourned at 9:57 a.m. and recommenced at 11:10 a.m.

MR CHAIRMAN: I'd like to bring this impromptu adjournment back to order. Perhaps we could resume by having the minister complete the answer to the question that had been posed by Mr. Clark at the time that we concluded.

MR ADAIR: Well, I'm not sure the word is "complete" the answer, but I'll give the answer to what I think is my satisfacton; it may not be to the satisfaction of the members. As I recall it, the question from the Leader of the Opposition was relative to the role of the Department of Economic Development, AOC, and I think I should include in there Tourism and Small Business, and what may appear to be some competitive features of it -- I think the term was, running around Alberta; not in the sense of being facetious, but there were people in both departments moving around the province.

In the case of Economic Development, promoting diversification and industry, large or small; then of course, we have our regional people in the Department of Tourism and Small Business, working as well in the regional offices we have and with the regional boards. One of the points I might add that I wasn't able to add when we were finishing up at 10 o'clock was that the Department of Economic Development -- and not just the ministers, Mr. Planche and me -- we meet every Monday. The makeup of that particular meeting . . . The meeting is structured at the call of the Department of Economic Development, and they have their deputy ministers, assistant deputy ministers, and directors as they may see fit, and at every meeting we have the deputy minister, Al McDonald, and myself, and, where necessary, other officials, whether it be Ron Blake, Assistant Deputy Minister of Small Business, or officials from the Small Business sector, or even the Tourism sector, that may relate to an item that they have on the agenda. So there is a very close working relationship between the Department of Economic Development, the deputy ministers, assistant deputy ministers, directors, and other officials as may be called by the Minister of Economic Development to that meeting. I guess that's the point I'm really trying to make. The items that are discussed, if they happen to be, in the sense, the Alberta Opportunity Company, I am there, along with Al McDonald, to respond to those questions or to bring back answers if we aren't able to provide them at that particular meeting. So there is a very, very close working relationship between them. I guess that is in response to what appeared to be a concern you were expressing, sir, relative to what appeared to be people running in different directions and not necessarily talking to each other. That's the way I took it, to start with.

MR R CLARK: Mr. Chairman, I should say that, as the minister left, he and I had a brief exchange, and I made the suggestion to the minister that I think there'd be some advantage in having someone, if not a member of the board, certainly in an ex officio capacity, from Economic Development, on the board of the Alberta Opportunity Company. I'd like to relate that to a situation like Cold Lake, Grand Centre, and Bonnyville, and ask Mr. Adair or the manager of the Opportunity Company: if in fact the Opportunity Company has made loans in that area -- and I don't want to know individuals or specifics -- then what's the general state of those loans, given the uncertainty of the situation at this time? And I use Cold Lake-Grand Centre-Bonnyville because it's involved in the whole question of negotiations, but also because it's part of an area that I think all of us in this committee want to see move ahead.

MR ADAIR: There are two ways to respond, and I think I'll respond from my particular perspective as Minister of Tourism and Small Business. I'll ask

Roy to respond to the specific question relative to the number of loans and the state of those loans; and I would add to that, the state of those loans in perspective to the state of other loans generally, if there is a concern in that from the standpoint of Tourism and Small Business. One of the concerns I think that we jointly have -- and I'm speaking now of the board of directors of the Alberta Opportunity Company and the Department of Tourism and Small Business -- is the concerns related to management and management assistance; in other words, to digress just for a moment, one of the major problems that appears to be at the head of the list is the management of any business, as it begins to get into trouble, if it should be getting into trouble at all.

In the case of your concerns relative to the Cold Lake-Grand Centre-Bonnyville area, we have a representative for the Small Business sector right now who lives in St. Paul, who covers that immediate area. As a matter of fact, I was just in Bonnyville within the last two weeks, where we released the tourism study for that area, and also a study that was related to the department of northern development, and it was really an inventory of businesses in the area, and the likes of that, and some information that they may be able to use. Our representative in that area is on call at the request of the businesses. One of the concerns that was expressed at that meeting that we had was that we should maybe be going into the businesses and talking to them. I expressed a deep concern about the fact that if I were going into your business, sir, whoever you may be, and suggesting to you that you might be in trouble, I would probably get a fairly short direction as to where I could go and what I could do with my particular side of it. But I think I had to explain it in that particular fashion; that the onus was on the individual in that particular business to come to us and that it would be treated in confidence with our regional business analyst, and that, if necessary, business counsellors or other officials could be brought in to sit down with them, if they were experiencing any degree of problems out of the ordinary, or even if they are just experiencing some problems, we have that capacity to sit down with them. At their request. The initiation has to be made by that particular business. I think we had an excellent meeting in that case. There's no question, as they stated and as I stated to them, there were frustrations on both sides. I think from our standpoint, with the delay in the negotiations and the likes of that, which do affect what may be the start of businesses, or for example, businesses that have been in place for quite a number of years there. Having said that, I'll defer now to Mr. Parker to respond to your specific question about the number of loans that may be in that area. I'm not sure he can give you the exact number, but he may be able to. The ballpark number and then the relationship of the condition of those loans and what that may be in relation to the province. I think we do need both to be able to make that comparison.

MR PARKER: For your information, AOC also has a branch office in St. Paul looking after that area. We are located in the same premises, side by side with the Tourism and Small Business gentleman. There's a very close relationship between our branch personnel and that individual. I can't give you the number of loans we have in the St. Paul-Bonnyville area, because I don't have them at my fingertips. Certainly, it's one of our more active branches. I would say again, just from memory, that the level of activity in the Bonnyville-Cold Lake area has decreased in the past year as a result of uncertain economic conditions up there. We will accept any application and look at it, and if there's a basis on which we can feel there's a reasonable possibility of success for that business, we'll provide the financing. On the other hand, due to the excess capacity in a number of areas up there, we will also decline if we feel there is an excellent possibility of its going broke, because we'd be doing it more harm than good by providing financing. Of the

accounts that are on our books now, there is no indication that there are a greater degree of arrears either in that whole area or in the specific sub-area of Bonnyville-Cold Lake, among our customers. That's about as definite or precise as I can get without having a chance to look through our figures.

MR R CLARK: Mr. Parker, could I ask you through the minister and the Chair, if you would do a bit of checking, in light of the question I asked about Bonnyville-Cold Lake-Grand Centre, that general area that's regarded with the oil sands' uncertainty. And if there is any change from the general impression you've given us -- and I take the general impression to mean that there are no more arrears there than there are generally speaking across the rest of the province; that would be about 5 per cent where there were real difficulties and about what, 15 per cent where . . . Right. If there's a difference in that, if you'd advise the committee, I think that'd be helpful, because I think all of us share the concern.

I'd like to go one step further, if I might, with the last question I have, Mr. Chairman. That'll make you breathe easier, I'm sure. It's basically this: when an application comes from this area, let's say, and it comes up through your representatives in the area to the board. Mr. Parker, where does the board get a feel from what the overall economic picture of the area is, the negotiations with the federal government and the province, and so on? Does the department go to the Department of Economic Development? I'm sorry. Does your office, sir, or one of your people have some contacts in Economic Development or in Energy and Natural Resources, or wherever?

MR ADAIR: If I can maybe respond on that, Bob, I think the key people that are involved in that application are those two on-site people; that is, the local representative, if it happens to be an AOC office. In that case where we're talking about in that region; similarly, in Grande Prairie, where you have a boom situation of a type, and have a small business development office. Those two people are the key people. If it's in the area of forestry, they will work with officials from the Department of Energy and Natural Resources, or any of the other people involved, be it Economic Development, be it the tourism side, if it's specifically a tourism project -- a motel, hotel operation, food outlet, or the likes of that. They will get that kind of background information to assist them. It may be that Mr. Parker's representative in AOC will ask our officials to do that. He may be able to get that direct. I'll let Roy speak directly as to how they, in their particular capacity, deal with that. But we work very, very closely together, and I think that's probably been one of the major changes since the creation of the Department of Tourism and Small Business, the ability of the regional people in Tourism and Small Business and the people in the Alberta Opportunity field staff level, to work together, because where possible, we're attempting to keep them almost in the same building, so that you're not going from one side of town to the other; that they have the capacity to holler right out the door even and have that other person come into the office with them, and they're all right together then. It saves a step for that potential applicant in that particular area, and certainly provides some opportunity for an understanding of what may be requested as additional information, because they're right in that from the start. Roy, you might want to respond as to how the AOC people pick up any of the additional information.

MR PARKER: Okay. As the minister has said, we have a close relationship with our colleagues in Tourism and Small Business. We also have a good working relationship with the people in Economic Development. We have some of our people attend their meetings on occasions when they'll have kind of a management group annual meeting, to answer any questions about us, and we have

them to our meetings from time to time. They have experts in specific areas: metallurgy, lumber, and so on. And when we get an approach that is involved in one of these, if there's a degree of expertise that we don't have, we will contact their people and say, look, can you give us a hand on this? Can you give us a report in this particular area?

You mentioned earlier how the board determines what's going on in an area. One of the things we have been doing for several years is to have four or five board meetings a year with a tour of the town, meeting with local business people in specific communities. This year, we've been in Rocky Mountain House; we've been to Calgary; we're going to be in Lethbridge and Medicine Hat. In addition to these specific, one-day board meetings where we meet and talk to people, for the past four years we also have had board tours of various areas of the province. This year we're going to be in the Lloydminster-Cold Lake-Bonnyville-St. Paul area. This is a two-and-a-half day tour, whereby board members meet not only people in the chamber of commerce and business people, for instance, but they go from small community to small community and meet mayors, business people, customers, and so on, in order to familiarize themselves with what is going on in that area and to get an idea of whether the people think we're doing good, bad, or indifferent. And they get a number of different types of stories from time to time, as you can imagine.

MR CHAIRMAN: With that then, Mr. Minister and Mr. Parker, thank you once again for meeting with us today in the chambers. I know I can speak for the committee when I say that your comments will be most useful to us in our subsequent deliberations. Thank you.

MR ADAIR: Thank you. That's very kind of you.

The meeting with Mr. Adair concluded at 11:25 a.m.