

[Chairman: Mr. Oldring]

[10:03 a.m.]

MR. CHAIRMAN: Good morning. Welcome to another meeting of the Heritage Savings Trust Fund Committee. With us this morning we have the Hon. Larry Shaben, Minister of Economic Development and Trade. With Mr. Shaben is Clarence Roth. Welcome, gentlemen. We'll maybe turn the meeting over to you for some opening remarks and comments, if you wish, Mr. Minister. Failing that, we can move on to questions, if you prefer.

MR. SHABEN: Thanks very much, Chairman. I appreciate the opportunity to appear at the heritage fund select committee, particularly since I was a member of the committee when it was first formed and always appreciated the opportunity of dealing with the issues of the heritage fund and the questions that arose in regard to it.

The Department of Economic Development and Trade is represented in the annual report of the heritage fund in areas like the railway hopper cars, the Prince Rupert grain terminal system, Vencap Equities, Alberta Opportunity Company — those are the principal areas — as well as the Microchip Design and Fabrication Facilities which in February were shifted to Technology, Research and Telecommunications. I believe, Chairman, you dealt with that when Mr. Young was at the committee. Another item in the heritage fund is the Continental Canal system. Those are the areas of involvement by Economic Development and Trade that I'd be prepared to respond to.

A general comment with respect to the heritage fund and its impact on Alberta's economy. In my view, the heritage fund has served the people of Alberta very well. It's unfortunate that in spite of the efforts of your committee and others to make it generally known how this fund has impacted on the economic vitality of this province, I don't think it's understood as well as it can be. A lot of citizens will isolate the Alberta Opportunity Company, but all of us know that that company, which has provided enormous support to small business throughout Alberta and caused a great deal of diversification to occur, likely would not have been established had it not been for the fund; similarly, our ability to respond in transportation-related matters in support of

agriculture: our investment in railway hopper cars provides assistance in moving Alberta commodities to market; Prince Rupert grain — again to improve our capacity to market products; and a whole variety of others in the high-tech field which you've already dealt with.

Because of the fund we've been able to respond in a way in Alberta that we would not have been able to otherwise. So your work, Chairman, and the work of the committee members is very important in terms of suggestions for the government with respect to the utilization of the fund and the resources contained therein.

I look forward to any questions you might have and, obviously, would appreciate any suggestions any members might have.

MR. CHAIRMAN: Thank you, Mr. Minister. We'll begin, then, with the Member for Lloydminster, followed by the Member for Lacombe.

MR. CHERRY: Thank you, Chairman John. Mr. Minister, I guess my question has to do with the hopper cars. I have a direct interest in agriculture myself, so I was wondering what utilization the government is getting out of the hopper cars, with that type of money that was spent on them, the \$54 million. I wondered if you could just give us an overview on that.

MR. SHABEN: Thanks very much, Chairman. The hopper cars have been very valuable to Alberta farmers and producers of grain for export. Our assessment is that in the '85-86 crop year the tonnage was somewhat less than the previous year's, and that's attributable to the drought that occurred and the grasshopper infestation. So there was a slight reduction. We estimate that just over a million tonnes were moved with Alberta's hopper cars in the '85-86 crop year. That would total in the neighbourhood of 13,500 hopper car loads of grain, so it's pretty significant in terms of its benefit to Alberta agricultural producers.

MR. CHERRY: My second question would be: how many cars were damaged in the Hinton disaster? Was there a lot of damage to hopper cars?

MR. SHABEN: Doug, none of the Alberta-

owned hopper cars were damaged in the Hinton train disaster, but two cars were damaged or destroyed during the '85-86 year. One was damaged, one was destroyed.

MR. CHERRY: Thank you.

MR. R. MOORE: Mr. Chairman, you've distributed an interesting sheet here on Vencap Equities. I'm very impressed with its investment portfolio. I wonder about Vencap. We invested \$200 million into it, and we have an equity position in all these companies here. Are we realizing a return now on this investment? What are we doing here in that area?

MR. SHABEN: Yes, there is an arrangement. As you know, when Vencap was established, there was the combination of \$200 million from the heritage fund and then the offer to the public of Alberta of a combination of shares and debentures totalling, I believe, \$44 million. When the company was structured, part of the agreement was that the government would receive approximately 50 percent of its pretax profits in lieu of interest. As a result of that, the return to the heritage fund on the \$200 million is approximately 4.5 percent. So there is a return on the investment, plus the activity that is generated by the fund, which is so vital to economic development.

MR. R. MOORE: Mr. Chairman, to the minister, again on Vencap. What is the demand on Vencap? Is there a demand, or has it pretty well levelled off now in the utilization? Are we increasing our participation out there, or have we sort of levelled off and are we sitting back?

MR. SHABEN: There's an increasing awareness of Vencap and its presence by the business community. That's obvious by the level of venture capital investments, particularly the increase in the last year. As a result of a recent investment, I think that Vencap has now placed some \$62 million in equities in the province. When it established Vencap, the government clearly outlined to the board a direction and focus that we expected Vencap to pursue. Principally they were to be involved in larger equity investments; that is, \$1 million or more. Because it is a private-sector operated company with no day-to-day involvement with the government, we're not aware of the

numbers of applications that Vencap has received, but obviously, when you look at the investments, particularly the increase in the last year and a half, there is an awareness of Vencap's role and companies are accessing Vencap.

MR. R. MOORE: From your answer, Mr. Minister, I take it that you're satisfied with its playing its original role, the area that we intended it to play. When we look at that \$200 million endowment, just how much have we got left out there? How much of that fund is still unexpended?

MR. SHABEN: I don't have Vencap's financial statement in front of me, but \$60 million-plus has been invested, and the capitalization of the company is \$240 million. Simple arithmetic then tells us that there are venture funds available in Vencap.

MR. R. MOORE: There's considerable available in it. If our economy changes, it should then be an encouragement to our private sector to help us turn around the situation we're in, if there are still available funds.

MR. SHABEN: Yes.

MR. PAYNE: Mr. Chairman, I wonder if could continue, Mr. Minister, with the Vencap interests this morning. The 1985-86 annual report says in the Vencap equities section:

Vencap provides equity-linked capital for business activities that it assesses as beneficial to Alberta's economic development.

Obviously, that's an objective I'm supportive of, but that objective and my support lead me to ask a question or two about one of the largest transactions involving the Vencap people last year. That was the \$7 million in equity capital to Relax Development Corporation Ltd. of Calgary, for which Vencap obtained — I think it was probably all in convertible preferred shares.

I'm not that familiar with the Relax Development Corporation, but I understand they're very active in the United States. I believe it's a matter of public record that some of this financing will be used to refurbish or build hotels in the United States. In light of the stated objective of benefitting or strengthening Alberta's economic development, I wonder if

the minister could comment on that particular convertible preferred share transaction and how it relates to the stated objective of building Alberta's economy rather than developing economic activity elsewhere, say in the United States.

MR. SHABEN: Mr. Chairman, obviously, it's difficult to respond in detail to any particular investment, since the company is an arm's length company. But all of us are aware that in building an economic base in Alberta, it's important that we have a variety of opportunities. In the major hospitality industry, particularly in the chains of hotels, Relax Inn can become a significant North American, Canadian, Alberta player. We believe, and I've always believed, that it's important that business people who are making financial decisions are domiciled in Alberta and that the benefits of those decisions flow through to the people of Alberta.

Relax Inns is a very aggressive Alberta company that has grown rapidly and is providing a tremendous service in Alberta in terms of its hotel developments in this province. It also provides an opportunity for skilled people in Alberta to be influential in the hospitality industry around North America. We think it has spin-off benefits in terms of skilled people being involved in an Alberta-based company that has a reach beyond this province.

I can't comment, Bill, with respect to the percentage of application of the funds within or outside Alberta. I would try and obtain that for you, but I don't have it at my fingertips.

MR. PAYNE: That's very kind, but I have no particular interest in the specific dollar amounts that are flowing across the border. My greater interest was in the principle, the concept, of Vencap dollars generating jobs and construction activity outside the province. I appreciated the minister's justification for it.

Thank you, Mr. Chairman.

MR. HYLAND: Mr. Chairman, my question is related to the Prince Rupert terminal and the amount of grain that terminal has handled this year. Is the amount shown in our report, \$134 million, the final investment? I note that there was \$5 million invested in '85-86, bringing it to \$134 million. Is that it?

MR. SHABEN: The investment in Rupert was a combination of heritage fund and General Revenue Fund investments. I believe the original investment by the government totalled \$231 million. I'll just get a breakdown of that. The heritage fund participated in first mortgage bonds, \$106.3 million, and the GRF \$125.2 million. Subsequent to that there has been a capitalization of interest of \$27.7 million.

The terminal has a capacity of handling three and a half million tonnes annually. I believe in the current year it will handle about 2.4 to 2.5 million tonnes.

MR. ROTH: It can handle a total throughput of 3.5.

MR. SHABEN: Yes, I gave that. But it's not at that point yet.

MR. HYLAND: The next question that follows — I remember when I was on the last committee, when we went to Prince Rupert and had a reception at the council out there — is the issue of the taxes, some \$6 million dollars or something.

MR. ROTH: Property taxes.

MR. HYLAND: Has that issue been resolved to any extent? I can see where it would play an important factor in it as that terminal is working toward its maximum capacity. Any lesser amount of grain going through it, it's got to be a prorated charge back to the producer, because that's how the thing is run.

MR. SHABEN: Obviously, the initial property tax assessment of \$5.5 million on the terminal was really onerous, particularly with the earlier year's throughput being low. Our government corresponded with the British Columbia government and joined in with the consortium to appeal, and as a result the taxes were reduced to \$3.8 million.

MR. HYLAND: As income to the city, that's not bad for not having to provide too many services to it.

My last question is on a different topic, the Alberta Opportunity Company. I wonder if the minister would like to comment on the accusation that we're not getting diversification through the trust fund and through many things

in the trust fund. I wonder if you could outline the number of businesses that receive loans from AOC, and if it's possible, how they're distributed regionally in the province and what effect they have on that region.

MR. SHABEN: Before I respond, I should indicate that we had a thorough question and answer session on the Alberta Opportunity Company during discussion at the Public Accounts which I think was useful to the members because there is the record of that. But in the year ended March 31, 1986, there were 316 loans provided through the Alberta Opportunity Company, for a total investment of just over \$22 million, which brings the number of businesses that have been assisted by the Alberta Opportunity Company to 4,000 — and they're largely small businesses, Alan. It has provided tremendous assistance when you consider that, by and large, these companies that have been assisted by the heritage fund through the Alberta Opportunity Company were companies that were not able to obtain financing through conventional lenders.

MR. HYLAND: What about the regional mix of loans?

MR. SHABEN: I don't have that, but it has been predominantly responding in the areas outside the major centres of Edmonton and Calgary, because there tends to be more competition in the financial institutions in the major centres. That's not exclusively so, but the major part of the portfolio has been outside Edmonton and Calgary.

MR. McEACHERN: Mr. Shaben, you made an opening comment that I think leads me to take a slightly different line of questioning than I had intended. You said that the heritage trust fund has served the people of Alberta well, and to some extent I agree with you. However, we are now faced with: out of the \$15 billion, \$2.4 billion is in capital assets, which the Auditor said should not be part of it. You've given us \$12.7 billion as being the worth of the fund.

I would like to raise a question with you. Most of the Alberta section of that — the \$8.2 billion in the Alberta section — is tied up in Crown corporations. Most other provinces have Crown corporations somewhat similar. I'm sure most of them have a municipal financing

corporation. Saskatchewan certainly has a government telephones, the same as we have Alberta Government Telephones. AOC and ADC may be unique, but the Alberta municipal housing corporation is probably not that unique; other provinces would have similar corporations.

Those five corporations make up \$7.5 billion of the \$8.2 billion. Taking money from the heritage trust fund for those corporations has led to a kind of double accounting: we get our annual statement from each of those Crown corporations, plus we get a statement from the heritage trust fund, claiming in effect a 14 or 15 percent return on their investment in those Crown corporations. To some extent that's a false figure, because those three corporations in particular — AOC, ADC, and AMHC — are only worth \$4.5 billion. That is what they total according to the heritage trust fund, if you accept that they haven't really taken the kind of losses we know they've taken over the last few years. We have to keep putting money in to maintain that kind of cash flow that says they're worth that much. I suggested to both the Premier and the Treasurer, for instance, that they were worth only about \$3 billion instead of \$4.5 billion, and I thought they more or less agreed with me in their comments.

Anyway, where I'm leading is: is this \$8 billion we're claiming in the Alberta portion of the heritage trust fund giving a false picture across this country of the value of the money we have set aside? Now, at a time when our oil industry is in trouble, we're having real trouble making the point to the rest of the country that this economy is in a certain amount of trouble — oil in particular is in a lot of trouble — and that we need some help and we're having trouble getting it. People say, "Use the heritage trust fund." They think we have that \$15 billion sitting there.

MR. SHABEN: I guess there were a number of questions and comments, Mr. McEachern. First of all, with respect to the overall fund, I'm sure the Provincial Treasurer responded to that. In terms of the legislation that established the fund, the manner in which the accounting is done meets completely with the criteria laid out in the legislation. The returns on the investments from the fund are valuable to the province in terms of creating — for example, with the revenue from the fund now being

transferred to the GRF, it's very beneficial and has allowed Alberta to retain an environment of low taxation, no sales tax and a number of other things that cause us to have an environment that is attractive for business activity to occur. The kind of economic environment in which you live is really important when a business person is making a decision in terms of investment. So the heritage fund has provided a huge benefit that isn't readily seen as a result of providing that support to the Alberta economy.

Those entities, whether it's the Alberta Mortgage and Housing Corporation or AGT or any others, have to be financed, and because of their nature a portion of their financing is debt. The advantage we have is that that debt is obtained here in Alberta as opposed to offshore. That's vitally important, because it spins off into our economy. In terms of the accounting for each of those entities, they are also audited by the Auditor General. For the Alberta Mortgage and Housing Corporation, for example, which I was responsible for, there was a separate item in the budget that looked after the subsidy. Each year the company has earned a return prior to the social costs of the programs, and those are dealt with as a budgetary transfer from the General Revenue Fund. In terms of the value of our debentures, depending on where they're invested, those are marketable, but they're marketable based on any similar criteria for paper that is based on a certain term and a certain interest rate.

The fact that the fund is there and, finally, does it cause a sort of view from the rest of Canada that we're extraordinarily well off: I think some people have the view that because of the heritage fund, why does Alberta need special assistance? But that's partly as a result of individuals not clearly understanding the fund. You could look at the [caisse de depot] in Quebec and say that in Quebec there's an investment fund that is in the neighbourhood of \$20 [billion]; why does Quebec need assistance for agriculture or whatever? After you've looked through the argument and if we communicate it well, I think other Canadians would understand, particularly if we're clear in explaining that that fund is a capital fund that has resulted from the sale of a declining capital resource and that it's entirely different from a fund whose basis isn't on the sale of a depleting resource.

MR. CHAIRMAN: Member for Edmonton Kingsway, just before you go to your supplementary, I might point out that the Chair is again being lenient and has allowed you two or three questions already, but I will allow you one more supplementary.

MR. McEACHERN: Thank you.

I think the investment committee, which is basically the cabinet, should seriously consider those funds from the heritage trust fund which are invested in Albertans -- and that's most of the Alberta division; I guess I would accept the oil ones: Luscar and the energy ones and Syncrude. But if you took the other ones that are in those five Crown corporations out from under the heritage trust fund and sort of said that it's part of general revenues, you would still accomplish the same things but would not give other provinces and other parts of Canada the impression that we have \$8 billion sitting there. You see, as long as we're the ones paying the interest to the fund, it's a bit like I said the other day: you're taking the money from the left pocket and putting it into the right.

It would seem to me that if we just took it and put it into general revenues, we would get a truer picture of where we stand; we wouldn't have other people telling us that we have this \$8 billion or \$7.5 billion sitting there. Somehow they say use the heritage trust fund before they get around to being concerned about our concerns in terms of energy and the economy.

MR. SHABEN: Mr. Chairman, I have difficulty following the argument because of what I've already said in terms of the alternatives to financing AGT and the Alberta Mortgage and Housing Corporation. I believe we've made a decision to move some of these Crown corporations into the market in terms of accessing their funds.

The advantage of being able to finance internally for any business or any corporation is a huge advantage. The perception which you're referring to of this being a liquid fund and that sort of thing -- we need to do a better job of communicating the divisions of the fund and what it's used for. I would agree with that, and that was my earlier comment, that notwithstanding the efforts of this committee in communicating the nature of the fund and how it's helped diversify its strength in the Alberta economy, we may not have been as

successful as we could have been.

MR. BRADLEY: Mr. Chairman, in his opening comments the minister mentioned the investment in, I believe, Continental Canal. I wonder if he might just expand on exactly what that investment means to Alberta and give us a status report on it.

MR. SHABEN: When the government made a decision a number of years ago of the importance of upgrading our irrigation system in southern Alberta — and it's a long-term decision and a commitment to improve both the existing canal system and the water supply — one of the aspects of concern to the farmers in the region and to the people who were involved was the lining of the canals, the seepage, and the loss of water. We felt that there was an opportunity to continue to have Alberta in the forefront in terms of the technology of water management and irrigation. Through the joint efforts of the departments of the Environment, Agriculture, and Economic Development and Trade, we're supporting an experiment in building continuous canals, a machine that lays down the canal using a fiberglass base that could be a terrific boon to the farmers in southern Alberta and also be a technological breakthrough in water management.

So there is an investment, I believe, of a million dollars in experimental activity. We're fortunate in having the chairman of the Water Resources Commission here as a member of your committee. He's been closely involved in this project and has, in fact, examined the equipment. I believe the machine, Henry, is now ready for testing.

MR. KROEGER: It's going into operation in Seattle on Thursday, I believe.

MR. SHABEN: One of our thoughts was that we would test it there before bringing it up here. Some members of the Water Resources Commission will be travelling down to make sure that the tests are positive prior to the machine coming up and being tested here in Alberta.

MR. BRADLEY: On a different topic, Mr. Chairman, if I may be permitted some latitude. There's been some discussion before the committee that as debentures come due, we

get the principal back from our investments. I think the Premier suggested that we might consider raising the cap on the capital projects division up to 25 percent.

If we were to proceed in that vein, has the minister any views in terms of investments from his particular portfolio perspective of new thrusts we might take which would benefit the Alberta economy through investments through the capital projects division or perhaps other divisions of the fund that would benefit Alberta? There has been some suggestion for an international business institute or a school for entrepreneurs, for one, that would be something that would be useful for the province to get into. Another that has been suggested before from the academic community and universities is to look at an endowment fund similar to the Alberta heritage medical endowment fund but on the basis of engineering, applied and physical sciences which could complement our current investments in, say, the electronics test centre and microchip designs, some of the things we're doing in the — I don't like to use the word — high-tech area to bring together that critical mass.

Could the minister comment on his views and perspectives of the usefulness of moving in some of those directions or perhaps other thrusts that he would have which would benefit the Alberta economy if we were to raise the cap on the capital projects division?

MR. SHABEN: I think you've outlined some of the considerations that would go into increasing the cap on the capital projects division of the heritage fund. I'm not sure that it's absolutely essential to raise the cap in order to accomplish those things, because under the present circumstances, with the declining revenue flow as a result of reduced royalties, since the government is in a position where it has to borrow — whether or not that is a choice we would make. I think the choices in terms of initiatives we take should be taken whether or not the cap is increased. The funds could be accessed through the GRF, because right now because of the present circumstances the funds would have to be increased by way of borrowings in a net sense.

When we held our white paper discussions, there was a proposal for establishing an international business centre. One of the things I'm particularly pleased about recently is that a

number of postsecondary institutions have taken the lead and established entrepreneurial centres. The University of Calgary is moving very aggressively. I visited Scurfield Hall a couple of weeks ago, and the work they're doing in terms of business training and international business training, within the scope of their budget but with some additional assistance from advanced education, is tremendous. What NAIT is doing is very positive in terms of providing an opportunity for retraining in business and entrepreneurship.

The question of the allocation of funds is one that we would look forward to a recommendation from your committee on. I think it would be helpful if your committee gave it consideration and advised the investment committee of your views.

MR. BRADLEY: Thank you, Mr. Minister. One further idea that has come to my mind again — if we were to move in this direction, it would be in terms of principal payments coming in — is in terms of the question of being able to get our Alberta or western coal into the Ontario marketplace. There have been a lot of suggestions made. There have been some useful recommendations from various task forces, one, the Alberta/Ontario task force. The environmental federal/provincial task force is looking at that. I guess there have been various options suggested. Some suggestions have been that we should look at a freight rate subsidy. I think whatever we do has to make economic sense. Just looking in terms of the heritage trust fund, there have been some suggestions, and there is work going on now in terms of the upgrading of coal. A lot of research is being done on that basis, where we can upgrade our lower quality coals and remove some of the impurities. We might be able to make some significant breakthroughs in that area that could make our coal competitive in that eastern Canadian market and offshore.

I just wanted the minister's thoughts and comments that if we got to the point where we're looking at a commercial or pilot plant, would that be an appropriate investment from the heritage fund and one of the appropriate divisions for us to look at or perhaps consider? There was a question of just the economic viability. Perhaps some sort of convertible debenture similar to Prince Rupert or something like that just might make something

like that go.

MR. SHABEN: I think there is a tremendous opportunity for western Canada, particularly Alberta, to market coal with Ontario Hydro. The ministers of Energy and Environment and I are working closely together on the opportunities, and the potential has been estimated in the neighbourhood of \$4 billion worth of coal sales into the Ontario Hydro market.

You've identified that transportation could be a critical matter. There are others as well. I raised this issue at the federal/provincial ministerial meeting in Ottawa in the context of regional economic expansion. There was good response from other ministers in that if there was the will, particularly by Ontario Hydro, and the commitment by Saskatchewan, Alberta, and British Columbia to find a way to move western Canadian coal as a substitute for U.S. coal into that market, I believe it can be done. There are some reserves of coal that have a high enough Btu value, and of course with our low sulphur coal that I believe is economic right now — and I don't want to get into identifying which coal reserves those are, but there are some in Alberta that are economic.

I think we need to examine some other reserves and balance those that are immediately economic with those that may be upgraded, either as a result of research or by way of striking an arrangement with the railway companies to move it at a high-volume, bulk rate that makes it competitive with U.S. coal. But there is coal in Alberta that is competitive with U.S. coal right now, and the potential is huge. That potential could be accessed by not just Alberta but Saskatchewan, and possibly to a lesser extent British Columbia, which would be important to our total western economy, our balance of payments, and all the other things that go with it.

MR. BRADLEY: Since I've run out of questions, maybe I'll have to come back and listen. Thank you very much for your very interesting and forward-thinking comments.

MR. CHUMIR: Mr. Chairman, I have a few questions pertaining to the financial statements of the Alberta Opportunity Company, first relating to the very high proportion of salary and administrative costs in relation to the loans

disbursed. The salary and administration costs for the year ended March 31, 1986, come to approximately \$6 million in relation to \$24.3 million of loans which are disbursed. I would appreciate an explanation from the minister as to why the inordinately high administration costs in this situation.

Perhaps I might also add the comment with respect to the presentation of the financial statements that I note from the statement that there are several other activities of the Opportunity Company aside from the loan activities. There's the student loan program, and there is a business assistance and consulting program. If to some extent some of these explain the additional and inordinately high expense, my comment would be that it seems to me that the financial statements themselves should set out and stipulate differing categories of activity, if these are of any significant magnitude. With that general comment, which perhaps anticipates your answer, I'll let you begin the question.

MR. SHABEN: Mr. Chairman, a very important question because of the role of AOC in Alberta's economy, particularly as it responds to the needs of small business in Alberta. I dealt with those similar questions extensively in Public Accounts, but I think it would be useful to just give some general comment.

Because of the nature of the Alberta Opportunity Company in responding to clients who have been turned down by at least one financial institution, a great deal of consultative work and review is required on each loan application. The amount of work that goes into reviewing a loan application is significantly more than it would be for a chartered bank or a Treasury Branch, because of the risk and generally the fact that the company has been refused by other lenders.

The second aspect is that the Alberta Opportunity Company has offices throughout Alberta in order to make it more readily accessible to companies throughout the length and breadth of this province. So there is staffing of offices throughout Alberta. The company undertakes a consultative role with small business and attempts, wherever possible, to help them put together a financial plan that would allow them to deal with a bank. In a number of its loans, the Alberta Opportunity Company is providing assistance side by side

with a conventional lender, so there is a terrific amount of consultation. I did have the numbers of businesses that the company lending officers consulted with. I don't know whether I have it here, but it is in the thousands each year as opposed to the numbers of loans that are finalized. So it does.

You raise the example of the student loan program for young entrepreneurs. It's been really successful. It's been run for a number of years, and I believe that the number of students that have not been able to meet their obligations has been a very small percentage of the numbers that have obtained support under that start-up small business program for students.

So in a nutshell, yes, AOC does a great deal of business consulting and assisting companies in doing their financial planning prior to its going forward to either the senior level or the board level. I think that in a large way accounts for the fact that with about \$160 million invested from the heritage fund in about 4,000 small businesses, it's phenomenal that the loss ratio is about 10 percent.

MR. CHUMIR: Thank you, Mr. Minister. You mention that a lot of the expense arises from the fact that we have a number of branches throughout the province. I would appreciate if you would comment as to why we don't use the existing Treasury Branch system we have, make the Alberta Opportunity Company a branch or division of the Treasury Branch, and take advantage of the staff and efficiencies that could be utilized there.

MR. SHABEN: I think a similar suggestion has come out of this committee in the past. Because they don't fit within the national legislation, the Treasury Branches are not a bank but function as closely as they can to the manner in which a bank functions in terms of equity requirements and the expectation of the manager for the client to have his business plan in place when he gets there and in terms of all of the other things that are normal within the banking system. In Treasury Branches across Alberta, depending on the size of the branch, you would generally see a loans officer and a manager. Because of the nature of the applications that go to AOC, the people in the Treasury Branch simply don't have the time, nor are they geared to provide the support the



Alberta Opportunity Company does.

Your question is: could you combine it? I don't know what would result. If it's a proposal to change the role of the Treasury Branch from a typical lending institution to one that assumes the role of AOC, that's one we would have to look very long and hard at. There are advantages to separating the very high risk from those that are generally bankable. I would see some considerable difficulty in trying to put those two together.

What I've done in meetings with the chairman of the board of the Alberta Opportunity Company is ask them to shift their emphasis from straight debt financing to more creative financing. Notwithstanding the fact that we've established the SBECs, the Alberta stock savings plan, and Vencap, there are still a lot of small companies that have a really good business plan but don't have the capacity to service the kind of debt load they need in order to operate. So we've asked AOC to begin to shift their direction from that of a lender, a provider strictly of debt, to a company that provides creative financing, either by way of debentures or preferred shares, so that they'd consider companies that are worthy and have merit but wouldn't succeed with heavy debt loads. The board is beginning that process now.

MR. CHUMIR: Mr. Minister, I can well understand the very clear difference in functions between the Alberta Opportunity Company and normal banking functions. However, we're in an era when the banks are moving heaven and earth to get the federal government to allow them to expand into stock brokerage and merchant banking and different forms of investment. It seems to me that since we have jurisdiction within this province as to what the Treasury Branches do, perhaps with a little imagination it might become a little more efficient and not have that high administrative cost.

One final question with respect to the financial statements. I note in the statements ended March 31, 1986, there is a note 6 relating to long-term debt. It deals with the series B debentures, which total \$47 million and bear interest rates of 15.6 to 18.4 percent. These are very high interest rates, of course. There is an auditor's note to the statements which says:

The Company has been informed by the Province that the holder of the Series B

debentures, meaning the heritage trust fund, will not accept early redemption of the debentures although this is allowed for under the terms of the debentures. The Company will then maintain the debentures until their maturity at the repayment terms in effect at issue dates and forgo any interest rate reductions which may be available through early redemption and concurrent refinancing of the debt.

If I had a business and was paying 15 to 18 percent and I could pay that off and borrow at 11 or 12 percent, which are the more current rates, I'd certainly do that. It appears that the Alberta Opportunity Company was legally entitled under the debentures to do that, and here we have an auditor's note indicating that the province, the heritage fund, has refused to accept it. This is incomprehensible if the legal relationship permits it. Perhaps the minister could explain why this situation was allowed to take place.

MR. SHABEN: Chairman, I don't think I can respond. I would have to speak with the Provincial Treasurer and then respond directly to the member.

MR. McEACHERN: Would you do that in writing to all of us?

MR. SHABEN: Sure, I'd be happy to.

MR. HERON: Mr. Minister, earlier you mentioned a return of 4.5 percent flowing from Vencap to the heritage fund. Is this instrument of debt or ownership structured so that the heritage fund can take advantage of the growth in the investments? Over the long term and given that many of these companies may do extremely well, does this debt instrument provide the potential for much, much higher rates of return to the heritage fund?

MR. SHABEN: Yes, it's designed so that as the proportion of the total capital base of Vencap Equities increases, particularly the portion that has been provided by way of the loan through the heritage fund, the return to the heritage fund will increase as the profitability and the investment level of Vencap increase.

MR. HERON: So it's positive. Putting on your rose-coloured glasses and looking at the examples of venture capital such as the [inaudible] or the computer company where the original investment was \$45,000 and the annual dividends are in excess of \$3 million, is there some potential of this magnitude built into this relationship with Vencap and the heritage fund?

MR. SHABEN: Significant potential. I indicated earlier that Vencap had invested somewhere in the neighbourhood of \$62 million in ventures to date out of a total capital pool of around \$250 million. When you think of that — and I think you're an old venture capitalist, Jim — that's a huge sum of equity investment in a province the size of Alberta. When you add to that the pools that have been created through the SBEC corporations — the private SBECs — and Alta-Can Telecom, Spurt, and a number of others, there has been a significant shift in Alberta in the availability of venture funds.

As a matter of fact, a recent analysis showed that venture capital in Alberta that has been invested is about the same as what was invested in a similar period in Ontario. So one of the things the venture capitalists do very carefully is examine the project that's brought to them, and yes, as the proportion of the assets of Vencap are invested in equities, the return to the heritage fund should increase, provided they're investments that are as successful as those that have already been made.

MR. HERON: Thank you. By that comment, you've certainly destroyed the myth that westerners are not prepared for the ownership investments.

Shifting a bit to AOC, the government announced earlier the shift in investments. You mentioned a moment or two ago that AOC could take on debentures or preferred shares. When will this new creative financing actually reach the street-level business, and will it go so far as to permit the taking of, say, minority holdings in common shares?

MR. SHABEN: Since its inception AOC has had the legislative capacity to do that. It's in the Act. However, as a result of policy direction it focussed on providing debt financing. The shift for the administration, the people who were involved, and the board to creative financing from debt financing is not one that can occur

instantly. In discussions with the chairman of the board, the board's willingness to move in this direction is predicated on their moving slowly and not sort of leaping from one area where AOC has provided a tremendous service, focussing all their attention on creative financing. The intention of the board is to gradually provide that sort of service and develop the skills among the senior lending officers to be able to develop those sorts of proposals which they haven't been accustomed to.

For those who are familiar with the differences between financial institutions that provide debt and those that provide equity, there are tremendous differences in terms of administering, handling, managing, and focussing on it. I would expect that it will be a gradual evolution, with perhaps 10 percent of their finance packages being creative or venture type quiet money, or whatever term you'd like to use to describe it: gradually increasing but continuing their role as a provider of debt. We have also asked them to work closely with other financial institutions to share in the financing of projects rather than taking on a project on their own.

We think that over a three- to five-year period there will be more and more emphasis by the board and better ability by the staff and the officers involved in AOC to be able to respond to those kinds of requests, beginning right now.

MR. HERON: Then given that you have Vencap in equity financing and AOC moving into equity financing, do you think there will be criticism that they're competitive rather than complementary in providing a service to the Alberta businessman?

MR. SHABEN: No, because Vencap is clearly focussing on the larger projects, generally \$1 million or more. They have made some investments at the \$800,000 level, they've invested in Spurt in order to create another entity that would respond to high tech, and they've invested in Churchill, which is another investment pool. But AOC would respond to the smaller — and it was designed to respond to small business.

MR. HERON: Thank you, Mr. Chairman.

MR. GOGO: Minister, I've enjoyed very much

your response to these questions. With regard to Vencap you indicate that it's at arm's length and the government's and the people's involvement is a \$200 million loan. I've had various comments from constituents about the reluctance of Vencap to deal with them. I've tried to explain that we have vehicles if it's under a million, notwithstanding your recent program that was so successful with small business loans. Yet they continue to infer and insist that because it's government money -- i.e., the heritage fund, \$200 million -- the government has to be more and more involved.

Could you indicate to the committee, Mr. Minister, if the members of the board of Vencap are indeed government appointments or how they are made and what influence the government has with Vencap?

MR. SHABEN: The legislation clearly outlines that Vencap is at arm's length from government. The mandate of the company was to provide venture capital in a range that we've talked about and to make a profit for the shareholders. The shareholders are represented by thousands of Albertans who bought shares in the company. I think there are about 26,000 shareholders in Vencap, principally Albertans; about 90 percent of them are Albertans.

The government has never taken a hands-on approach with Vencap, John. There is the provision in the Act that would allow the government to step in and take control of the company should the government not feel that it's responding in the way it was asked to by way of the legislation and the instructions from the former Premier in a letter that was tabled in the Legislature. I know what you're asking me, because I have had a number of companies or individuals call me and say: "We went to Vencap and they didn't respond. What are you going to do about it?" The government has not involved itself other than in periodic discussions that I might have with the chairman of the board. We do not direct Vencap.

With respect to appointing board members, the government doesn't appoint the members, the shareholders do; that is, the shareholders at large at their annual meeting. We haven't been involved in appointing members of the board.

MR. GOGO: Thank you. With regard to the canal system, Minister, you have already stated -- I think it was about 10 or 11 years ago that

the previous Premier announced a major \$200 million irrigation project in southern Alberta from the heritage fund. Mr. Bradley has made the case time after time that 4 percent of our arable land produces almost a fifth of the total crop in terms of agricultural products. There's no question that irrigation has a long-term benefit to Alberta; it's of major, significant importance. I guess what tends to concern me, Minister, is your involvement as the Minister of Economic Development and Trade. We now see that on the one hand the question of water supply via the Oldman dam is a certainty; it's well under way, notwithstanding that the cost and the capacity have been increased. We have the ministers of the Environment and Agriculture involved in the upgrading and the expansion of the irrigable acres by half a million acres.

I guess what concerns me, Minister -- and I think it falls directly under international trade particularly in your portfolio -- is that we've now put together an infrastructure for increasing the producing capacity of the irrigation system, and yet I'm told that for a variety of reasons it's becoming tougher and tougher to sell the products on the international market, which I think falls directly within your bailiwick. We have unique transportation problems in getting that to market. Could you just share with the committee, Minister, your involvement with the other two ministers, the ministers of the Environment and Agriculture, the net result of all this activity in southern Alberta in irrigation, and how as a result of the direct capacity for increasing production, it's going to come to fruition in terms of marketing the products.

MR. SHABEN: I can make a contribution to that debate, John, but obviously around this table we're going to have a difference of view. There are those who would say that because of the world glut of food we should not place a high emphasis on agriculture because we won't compete. Recently I had the opportunity to meet with Dr. Clay Gilson, who is dean at the University of Manitoba, and we chatted about all the factors that are going into it: the surplus, the trade war between the EEC and the U.S., and the [inaudible] subsidies. He brought a real philosophic look to it and said that if the people of China increased their caloric intake by 100 calories, that food surplus would

disappear virtually overnight. He said that if that current that comes up the coast of South America and through the Pacific -- El Nino, I think it's called -- shifts its direction, we could have crop failures all over the world and the surplus would be absorbed almost immediately. I think that from the perspective of Albertans, not just from the economic side but from the part of the social fabric, we must maintain our ability to be in the forefront in technology in being able to produce food. It's not just an economic factor; it's a social and a philosophical factor. I think it's a part of our country, and we need to be able to devote whatever resources we can to continuing to be able to produce food as efficiently or more efficiently than anywhere else in the world.

All of us know what happened in Poland when Poland made a decision with their central planners to say: "Agriculture is a bummer. We're going to devote our attention to industrializing our country." Poland had been known historically as a part of Europe that had the capacity to feed itself, and the difficulties that it has caused the people of Poland not to be able to be technologically current in their ability to grow food have caused devastation in that country. I don't think Albertans want that to happen.

The nature of the supply and demand of wheat has always been subject to world droughts or climatic conditions, and it will continue to be that way. John, we may have marketing difficulties for a number of months into the future, but I tend to agree with Dr. Clay Gilson when he says that two or three factors could change that dramatically virtually overnight. So I believe it's of economic, social, and other benefit to Alberta that we continue to be in the forefront of agricultural production technology and have the capacity to produce food on agricultural land, irrigated land, dry lands, or wetlands. We need to be able to continue to do that.

MR. GOGO: The final question, Minister, as the minister responsible for international aid. I believe the aggregate of Alberta's aid is greater than the sum of all the provinces in Canada. Again as it relates to irrigation and products, to your knowledge, is any of our international aid given to other countries to produce agricultural products that are counterproductive to the production in Alberta of agricultural products

under the irrigated area?

MR. SHABEN: Our international aid is a very important program that we've had for a number of years and, of course, our support is not government to government. We provide support to nongovernmental agencies or volunteer groups that do work in other countries. Yes, a number of the nongovernmental organizations do get involved in helping other less developed countries improve their agricultural capability. Though the funds are significant, we've done a cost/benefit and an impact on Alberta, and we have a budget of \$7 million in our international aid program. We generally match it. I think on average we make a contribution equivalent to 43 percent of the net amount that is raised by nongovernmental agencies. That spin-off benefit to the Alberta economy is about \$12 million in a year.

MR. GOGO: So it's not necessarily counterproductive to . . .

MR. SHABEN: No, it provides a benefit to Albertans.

MR. GOGO: Thank you, Chairman.

MR. R. MOORE: Mr. Chairman, I wasn't thinking of that particular area of irrigation in the handout. You bring up some interesting thoughts related to it. This past week we've just received a very extensive report on the potential and future of the South Saskatchewan. If we were to proceed along and develop that South Saskatchewan basin to its full potential, we're looking at a lot of dollars in future expenditures. I'm glad to hear your philosophical look at and opinion of what we're doing in food production and where we're going, the need to continue our effort to improve our production, because this blends right into that report.

It comes out again to a question of dollars. We know the revenue situation. We don't need to go into that, the decreased revenue coming to the fund and so on. But the demands are always increasing. In your opinion, where do we balance this off? You have a responsibility towards it. We have now in this irrigation area -- again, we expand the demand or expectation of the development of the Saskatchewan River basin to its potential related against other areas

that require assistance to bring them along. Where do you feel we're going with irrigation? Can we maintain the present situation, or are we in a position to keep pursuing these expectations? An opinion call is what I'm asking for.

MR. SHABEN: First of all, with respect to the report on the South Saskatchewan basin study. I thought it was an excellent report, very well done, balanced, and not containing unreasonable projections as to the opportunities. With respect to devoting resources, that's a matter, and always will be, of priorities which become very difficult when the resources of a province are squeezed. We believe that we've got to carry out the commitments we made about 10 years ago that John referred to, in terms of refurbishing the existing system, assisting the irrigation districts, and improving the utilization of the water. Water is a tremendous asset to Alberta. It's not just an asset for agriculture; it's a vital asset in terms that it's limited, and yet we're in a wonderful position in Alberta of having a lot of the water that's available in Canada or in North America. So I believe that it's incumbent upon us to use that water wisely. It doesn't necessarily mean huge expenditures, but it means setting priorities so that we are responsible in terms of how we function so that our grandchildren are not disadvantaged as a result of decisions that we might make.

As I say, I think it was an excellent report. It didn't make unreasonable recommendations upon us, but the general recommendations were very important if you're looking ahead 30 years as to the husbanding of our resources and the utilization of water. Balancing that with our priorities and our fiscal capacity is what is going to be difficult.

MR. R. MOORE: The one I worry about is: when does it come out of the area of the responsibility of general revenues and into the heritage trust fund? I see we have a demand for irrigation, for heritage trust fund moneys playing a major role in the commitments we've made to rejuvenate the whole system and we could make it more productive. Looking at the new — I just wonder, is it a general revenue area that we should be looking at or the heritage trust fund? They both play a role.

MR. SHABEN: You're on a similar question that Fred Bradley was on earlier in terms of whether or not we should increase the cap on the capital projects division from 20 to 25 percent or whether, when we make those decisions, it doesn't matter whether it's GRF or the heritage fund. Recently a decision was made to shift the Three Rivers dam from the heritage fund to GRF, in order, partially, that we didn't breach the 20 percent, and also to make sure the funds are there to do it. So I think it's a matter of priorities and our capacity for looking at our resources, whether in the heritage fund or in our resources through the GRF.

MR. R. MOORE: One area that keeps coming up from time to time, and over the years we've had a lot of talk on it, is the need for an international business institute, the old situation for the U of A to develop one. Has it proceeded anywhere, or is it still just a proposal that's up in the air? Has the U of A taken any steps toward that?

MR. SHABEN: Of course, we have three universities: Lethbridge, Calgary, and Edmonton. Calgary and Edmonton have taken slightly different approaches to responding to the debate that was generated during the white paper discussions. I think it's useful that they have taken that different approach. All of us know that universities are autonomous; the government provides them with a block of funding and they choose their priorities. The government has been reluctant, and properly so, to say to boards of universities, "We want you to put your money here," or "We want you to put your money there," because the tradition and importance of autonomy is crucial to postsecondary institutions.

Rather than building a freestanding international school of business, both universities have allocated funds and responded in different ways to that need. I'm not sure whether it's absolutely essential to build a new campus with bricks and mortar that is freestanding and separate from the two. I think there is a capacity for the three universities to respond to the needs they recognize for training in international business, and they're doing it. We're pleased that they're doing it, though they're doing it in different ways.

MR. R. MOORE: I take it from your statement

then, Mr. Minister, that you don't feel it's a role for trust fund money, that it's for the universities to meet that need within the revenue they have.

MR. SHABEN: The answer to that is in the setting of priorities within the financial limits of this province.

MR. HYLAND: Mr. Minister, my question is again related to AOC. The first question, a two-pronged one, is: what were the losses of AOC last year, and what was the average loan?

MR. SHABEN: I had indicated earlier that there were 316 loans. The average size -- I guess we could do the arithmetic there: about \$22 million for 316 loans. I haven't done the arithmetic.

MR. McEACHERN: That would be 21.8.

MR. SHABEN: Your ability to do that division is as good as mine.

What was the second part of the question?

MR. HYLAND: What was the loss last year?

MR. SHABEN: Our provision for doubtful accounts was \$5.181 million. Income loss on property held for sale -- and that's referred to in Note 8 -- is \$708,000. It's difficult to know what the losses are. There's a provision for losses established in the accounts, but you don't know what those are until they wash through the system.

MR. HYLAND: I guess that brings my other question then. My second question is: if AOC is a lender of last resort, are they doing their job when their loss accounts are that small a fraction of the total amount of money lent out? I forget what the numbers were, but the \$5 million that is budgeted for, which we don't know whether is actual or not, is a small percentage of the total loan portfolio even though it's a lot of money. If it's a lender of last resort, is it really doing what we designed it to do, with low percentage losses like that?

MR. SHABEN: Conventional lenders, chartered banks, expect a loss ratio of half of 1 percent. In the initial years of AOC, prior to the 1982 recession when interest rates skyrocketed to 21

and 22 percent and the results of the NEP and the world recession started through the system, AOC had been experiencing loan losses in the neighbourhood of 5 percent. Subsequent to that the overall rate is running at about 10 percent. I don't know how you could say that it would be more effective if we said, "It's okay for you to have a loan loss rate of 30 percent."

I think Alberta Opportunity Company since its inception has done an outstanding job of balancing its responsibility to the taxpayers in terms of using wise investment decision-making as well as providing an opportunity for business to grow. I couldn't answer your question as to whether 10 percent is right or whether 15 or 5 percent is right. Basically, I think AOC has done a very good job through its history in terms of responding, notwithstanding the fact that we as MLAs have businesses who come to each of us and say, "AOC turned me down." They're going to turn down a lot, but on balance I think they've done a very good job within their mandate.

MR. HYLAND: Have we any idea of how many of the small business loans, the 9 percent loans, AOC participated in and the clients were able to write down the interest rates?

MR. SHABEN: If my memory serves me correctly, and I'd have to check this, of the \$1.026 billion taken up by small business, I think about 7 percent of the total was AOC conversion to the small business term assistance program. So it's a pretty significant amount.

MR. McEACHERN: I want to get back to Vencap. I can't help wondering, in view of some of the conversations we've had today, if the \$200 million into one pool of venture capital wasn't more than was necessary. Perhaps you could comment on that further.

MR. SHABEN: I think the jury is still out. Venture fund operations are relatively new to western Canada, particularly in terms of western Canadian based pools of that size. When the legislation was enacted the intention wasn't that Vencap would immediately put \$240 million or \$250 million into the market. The market simply can't absorb those sums. In the earlier years we had not been particularly pleased with the pace at which Vencap was making its investments, but in the last 18

months I think they have made a significant number of very important investments, particularly in the high-tech area, agricultural processing, and the areas of diversification that we're anxious to achieve in Alberta. So the pace has really picked up. I think the jury is still out on whether or not the size of the pool is too large.

MR. McEACHERN: I'd like to turn to the arm's length statements that other people were raising and the accountability, or the lack of being able to be accountable, because it seems to me it's left us with an inability to have much input in terms of policy. For instance, the million dollar lower limit has not been helpful to smaller businesses. There was a statement by Mather the other day that the company's main concern was profit before diversification of the economy, and that may not necessarily be what the government had in mind, or at least I would hope not.

To follow up on that line, why should 26,000 shareholders get \$200 million of Alberta government money — it's now \$266 million total capital, according to the latest annual statement — when in fact they've only been able to invest some \$60 million? The whole \$200 million is still sitting there for us to take back, if we want it. We started something that's not in our control, and they're sitting there with \$200 million of Alberta government money when in fact we're running a deficit. So the arm's length idea doesn't seem to me to be too helpful in this particular instance.

MR. SHABEN: That's a point that's debatable.

MR. McEACHERN: That's why I raised it.

MR. SHABEN: Yes. The question of politicians making those investment decisions versus having an arm's length entity with a board of directors of competent businesspeople from across the province: my view would weigh toward its being arm's length. And of course that is consistent with the legislation and with the way AOC functions.

There is the capacity of that letter that was tabled in the Legislature with instructions to Vencap to review and make modifications in terms of policy direction. To this point the government has not considered amending AOC's mandate because they have a responsibility, as

outlined in the letter to the shareholders, to make a profit, because there are thousands of Albertans that have invested in it, based on the criteria that were laid out at the time the share issue was made available to the public. Vencap has responded by investing in Spurt, for example, to provide an opportunity for smaller companies to access venture capital, and recently in the Churchill development corporation, which has the same focus. So from what we've seen in terms of their response in those areas, we believe that they're conscious of their role. At the same time — the concern that Sheldon raised about the staffing levels of AOC — as you go down to smaller and smaller units of equity capital, you need a larger and larger staff complement in order to cope with it.

So I think that the decisions of Vencap to invest in Spurt 1 and Churchill are good examples of that corporation responding to the opportunities for smaller pools of venture capital.

MR. McEACHERN: Thank you. I take it that in the final analysis you could really just say then that the \$200 million acted as a catalyst, because they've still not actually invested any more than their own money, in a sense. They've now raised another \$66 million — it was \$44 million, the amount raised at that time — but according to this they've got \$266 million total capital. So it seems to me the \$200 million is not being used.

You mentioned the Churchill Corporation, and I wanted to raise that also. Vencap just recently invested \$10 million in it. I believe it's true that Churchill Corporation had an SBEC. If they got that first, I suppose that makes a certain amount of sense. But I guess that when you have myriad projects, like we do in Alberta, for financing various businesses, it's almost inevitable that some of them will get crossed up and get money from two or three different sources. But if Churchill got an SBEC already and then they're also getting money from Vencap, is that making a lot of sense? Are we putting too much government money into one corporation? Certainly if they had gotten the money from Vencap first to get their original \$100,000, and then had gotten the \$30,000 because they could get it, you could see the kind of problem. I do think it came the other way round in this case, so . . .

MR. SHABEN: Yes.

MR. McEACHERN: But would you comment on those? What kind of control is there on how many different kinds of government programs one company can qualify for?

MR. SHABEN: That's a question that comes up periodically in terms of stacking loans or programs that are available within one business. I think that in the case of Vencap you've answered your own question, that Vencap came into it as an investment that fits within their mandate, in that sense, and also strengthening that pool of equity capital that will respond to smaller businesses. So I believe it's very positive. If you get direct stacking, then that becomes more of a concern. For example, if you get AOC and Treasury Branch and something else in a single project, then it becomes -- you would wonder about why that stacking occurs. But I think the way each of those entities is established -- they do it on a business decision basis as opposed to any other basis, and that pretty well answers your question with respect to the wisdom of the company being arm's length and not arm's length. That's where the advantage of its being arm's length occurs.

MR. CHUMIR: Mr. Chairman, I'd like to address some questions with respect to the \$2 million investment in 1985-86 in the Microchip Design and Fabrication Facility as part of the Alberta Microelectronic Centre. With an expenditure of that magnitude, it's important that we get good and objective advice from the people who are involved in the Microelectronic Centre and who are advising the provincial government on investments to be made. In addition to the \$2 million, of course, most members of the committee would be aware that the province is investing \$20 million in the Alberta Microelectronic Centre, in the approach to buy technology from a company called LSI.

As I mentioned, the concern I have is with respect to obtaining objective and impartial advice from people who are involved in the Alberta Microelectronic Centre. The concern I have is that four members of the board of the Alberta Microelectronic Centre, who are there to advise the government on what is an appropriate investment to be made for and

through the Alberta Microelectronic Centre, have been involved in a rather spectacular and unacceptable conflict of interest in respect of the advice they have given the government to make the \$20 million investment in the technology of LSI Logic Corp.

It's my understanding that these four members of the board -- the president, two vice-chairmen, and another board member -- were also shareholders in a company known as Exmos Semiconductor Ltd., that they were retained in February 1985 by the Economic Development department to determine whether Alberta should and could attract a semiconductor company to the province and that they received \$125,000 in fees for an initial survey with respect to bringing a chip company to Alberta and apparently a further several hundred thousand dollars for a second study. The recommendation which was made was apparently to invest \$20 million in bringing the technology of LSI Logic Corp. At the same time we discover that these individuals who are sitting on the board of the Alberta Microelectronic Centre, which we're financing and who are advising us as to what the Microelectronic Centre is doing, are also receiving fees to advise the provincial government through Exmos and at the same time have received the rights to 1 percent of the shares in LSI Logic Corp.

As I mentioned, on the face of it, this is a very spectacular and unacceptable conflict of interest. I understand that these gentlemen are still involved in the board of the Alberta Microelectronic Centre. Some, if not all of them, are involved in the Alberta Laser Institute, which is also advising the government. I find it hard to understand how we can expect to get objective and reliable advice with respect to the LSI Logic investment from a group of individuals who will benefit financially if the government follows their advice, which is the essence of what conflict of interest is all about. I was wondering if the minister could explain why the government allowed that conflict of interest to take place.

MR. SHABEN: Chairman, I think it would be useful to review the government's thinking and the processes that were involved in us as a government moving aggressively in developing some important building blocks in the high-tech area. A lot of the initiative sprang from the



excellence of our postsecondary institutions and the growing recognition that this was an area in which Alberta could excel because of the low freight nature of high tech and the high brain content. So my predecessor sought advice from senior people at both the University of Calgary and the University of Alberta and travelled extensively to centres around the world to determine what were reasonable priorities in developing a high-tech environment or the building blocks to support the capability of Albertans being involved in the third wave or the information society. Those missions that Mr. Planche undertook to California, Texas, France, and Japan to look at what they were doing examined what we needed to do in order to attract investment in high tech and support the fledgling high-tech capabilities that could be grown here.

So in addition to seeking advice from paid consultants, the people you are referring to, we sought the advice of talented people at the universities and elsewhere around the world. The key people in Bell-Northern were involved in suggesting priorities for the government. One of the recommendations that came through, not just from our own evaluation but from the universities, was the importance of a microchip design and fabrication centre, because of changing from mass-produced chips to specialized chips and their specialized application. That was part of the rationale that went into the decision.

LSI Logic, in the forefront of, the expression is, masking -- I suppose that's the key area of their technology -- are world leaders based in the United States, Japan, and Europe. They were considering establishing elsewhere in the world, and we believe it was a stroke of good business to attract LSI Logic to Alberta. Part of the infrastructure that would be required was one that was identified as having this capability.

With respect to the suggestion that there is a conflict between consultants the government has retained, I can't comment on it, Sheldon, because I wasn't aware, and I'd have to check on their ownership or option on shares of LSI Logic. I would have to check that and get back to you before I comment on your suggestion that there is a conflict of interest.

MR. CHUMIR: I would appreciate it if you would do that for the committee, Mr. Minister,

in writing if possible. The information I have is that the department was unaware that Exmos had a joint venture agreement re shares with LSI Logic when Exmos first recommended the government try to attract LSI to Alberta. It looks like the individuals who were involved were working both sides of the street at the same time. This raises questions of the reliability of the advice. I was wondering whether you might be able to advise whether or not these four individuals -- Henry Baltes, Robert James, John Kendall, and Norman Arrison -- are still on the board of the Alberta Microelectronic Centre.

MR. SHABEN: I'll respond to that as well, but I should make it clear that the microchip design and electronic centre is not there simply to serve LSI. It is there to provide that capability for a wide-ranging number of companies in Alberta; it's not the exclusive domain of LSI. Just so that misimpression isn't left.

MR. CHUMIR: I understand that, but we're talking about when you select -- the government funds the Alberta Microelectronic Centre, and then you appoint a board of directors to advise you. The question is with respect to the reliability of the board of directors. Here we have a suggestion and apparent information that the board of directors which is advising government, saying, "Yes, we should go into this deal with LSI Logic because it's a good deal for the province," at one and the same time has rights to potentially a million dollars worth of shares in LSI Logic. So there's a question of the reliability. I'm very dubious. I'd have great suspicion about the advice and the reliability of that advice. If you have it in one instance, credibility is an issue.

My final question would be: we're aware that the government does not have conflict of interest guidelines for its ministers, but are there any conflict of interest rules with respect to individuals that the government appoints to boards such as the Alberta Microelectronic Centre in which the government invests significant amounts of money based on the advice of those board members?

MR. SHABEN: If I heard you correctly, you said that the government doesn't have guidelines for ministers?

MR. CHUMIR: That's my perception.

MR. SHABEN: That's not accurate. There are clear guidelines to ministers and, of course, to deputy ministers with respect to conflict of interest and the manner in which they conduct themselves.

MR. CHUMIR: Aside from the Legislative Assembly Act?

MR. SHABEN: Yes, there are instructions through Executive Council to each minister and to the deputies that are clearly laid out in terms of how they function.

MR. CHUMIR: Would it be possible to get a copy of those?

MR. SHABEN: You'd have to ask the Premier for that.

MR. CHUMIR: I've understood we've been trying for some long period of time.

MR. CHAIRMAN: Maybe we can get back to the . . .

MR. SHABEN: With respect to the specific question, I think a serious accusation has been made by a Member of the Legislative Assembly at this committee that there is a conflict of interest. I don't want to respond to that accusation without checking it, but I did want to make it clear that these facilities are available and will be used and accessed by a variety of companies. There is tremendous enthusiasm for that facility being in place for our high-tech industry. Clearly, one of the companies that will make use of the facility is LSI Logic. It will not be the exclusive domain of LSI.

The other comment I'd like to make -- and I'd like to reserve comment on the accusation -- is that there are skilled people in Alberta whose talents we're fortunate to have to provide us with advice. We want to continue to be able to access advice from people in the private sector and not hamstring them in terms of their business opportunities. I'd like to take some time to look at the linkage that the member has described to determine whether or not it constitutes a conflict of interest. I'm sure the member would agree, being a person who is

oriented toward entrepreneurial development and the opportunity for individuals to succeed in business, that he wouldn't argue that simply because an individual provides consulting advice that individual shuts himself out from any business opportunities which might occur. But the timing and circumstances of it are something that I'd have to check.

MR. CHUMIR: On the other hand, I could never take a fee from someone for advice and be receiving a commission from the party on the other side.

MR. CHAIRMAN: Member for Pincher Creek-Crowsnest.

MR. CHUMIR: But, Mr. Chairman . . . Sorry. In terms of the question relating to conflict of interest guidelines, we seem to have digressed as to whether we had conflict of interest guidelines for ministers. Are there conflict of interest guidelines covering . . .

MR. CHAIRMAN: I don't think that's necessarily an appropriate question for our committee at this time anyway.

MR. CHUMIR: Pardon me? Whether or not there are . . .

MR. CHAIRMAN: You've had your questions and two supplementaries, and the Chair recognizes the Member for Pincher Creek-Crowsnest.

MR. BRADLEY: Mr. Chairman, I note that our time is quickly running out. I just wanted to get back in with regard to the initiative with the Ministers of Environment and Energy which the minister described with regard to coal. Getting back to the Heritage Savings Trust Fund, I don't think the minister answered the question I was asking. I'd like his comment on it. Is there a role for the trust fund in terms of the initiatives which that group of ministers is taking to increase our sales of coal into eastern Canadian markets?

MR. SHABEN: I think the investment in the coal research facilities is an important adjunct to the opportunities for exporting coal, adding value, or reducing the volume in order to increase the Btus and is a critical role that can

be played by the coal research centre at Devon. It fits in very well with the point you're making in terms of improving the economics of marketing coal. I know how important it is to your constituents. We believe the opportunities in Ontario could play a significant part in expanding opportunities throughout Alberta. The coal research centre at Devon I think can be supportive of this initiative, so that research component or capability is in place.

MR. BRADLEY: We have coal research through the office of coal research and technology in the Department of Energy, and the Alberta Research Council has some exciting initiatives in terms of coal research. There seems to be a focus there. I was thinking in terms of the broader initiatives that the minister was undertaking in reviewing with his colleagues and whether he saw a role in terms of a particular initiative through the trust fund that would be complementary to the work he's doing. Do you see that occurring outside the trust fund through general revenues? What type of involvement do you see the government in a fiscal sense in this initiative, or is it just a catalyst role in terms of bringing these groups together?

MR. SHABEN: I think the capacity is there, and we would be principally catalytic. We would draw upon the capabilities that are, as you identified, long-term research in the Alberta Research Council and the capabilities of the coal research centre at Devon. As well, if it's necessary for us to undertake some specific transportation-related evaluations, those funds would probably be sought through the GRF.

MR. BRADLEY: Just one final comment. We've made some initiatives and investments in rail hopper cars in terms of grain transportation. Is there a role perhaps for the government in terms of a similar investment in coal transportation cars that could bring down the cost of the transportation component? Is that a particular [inaudible] that should be researched and looked into as a possible investment in the future?

MR. SHABEN: Obviously, it's one of the factors that has to be examined. In the next generation of railcars some experimentation has been undertaken here in Alberta of using the triple

axle so that you can increase the weight and volume. It would clearly be a part of that transportation component of causing our coal to be more competitive in central Canada. It has to be part of it. We are doing some work now on transporting containers and getting the best possible rate through Alberta Intermodal Services, and some of that technology might be applicable to the movement of coal eastward.

MR. CHAIRMAN: Mr. Minister, on behalf of the committee we want to thank you and Mr. Roth for appearing before us this morning and sharing some very frank and informative answers with us.

The committee now stands adjourned until 2 p.m. this afternoon, at which time we shall hear from the Minister of Community and Occupational Health.

[The committee adjourned at 12:02 p.m.]

