

10:01 a.m.

Thursday, October 31, 1991

[Chairman: Mr. Ady]

MR. CHAIRMAN: I'd like to call the meeting to order and welcome this morning the Minister of Economic Development and Trade with his department officials. We appreciate them taking time to be with us.

A couple of small matters of business prior to getting to the formal part of our hearings this morning. You recall that earlier this week we changed a date to November 19. I anticipate there will be some representation from members of the committee wanting to move recommendations on those two departments to that date from the 12th. You will recall we had agreed that recommendations would be in by November 12. In fairness to the committee, if they so choose, we could allow recommendations on those two departments to come in on the 19th, the day of the hearings, or perhaps by 10 o'clock on the morning of the 20th, if that's agreeable to the committee. The others would be in by the 12th to give our clerk an opportunity to assimilate them and get them back out. If there's no discussion on that, we'll assume that's acceptable by the committee.

MR. HAWKESWORTH: Did you say noon on the 20th?

MR. CHAIRMAN: I'd hope for 10 o'clock if that's possible. The two departments before us would be Advanced Education and the Workers' Compensation Board, which are not big spenders from the Alberta Heritage Savings Trust Fund. So hopefully that would be acceptable to the committee.

Mr. Minister, again we appreciate you being here with us this morning. I would draw to the attention of the committee that this minister is no longer responsible for the rail hopper cars, nor is he responsible for the facility at Prince Rupert known as Ridley Grain. They're under the direction of the Department of Agriculture and were during the fiscal year this report pertains to.

MR. TAYLOR: Is Ridley Grain not in . . .

MR. CHAIRMAN: No, it's not. It's under Agriculture.

It would be acceptable to direct questions to this minister on the Alberta Opportunity Company, Millar Western Pulp Ltd., and Vencap.

Mr. Minister, we would welcome some initial remarks from you to the committee, with the request that they not be too extensive to allow the committee to have adequate time for questioning.

MR. ELZINGA: Mr. Chairman and members of the Heritage Savings Trust Fund committee, it's a delight to be here with you again, sir, and I will take your advice and be very short in my introductory comments.

Let me begin by introducing the officials here with us and, in doing so, indicating also on behalf of the government and myself our deepest thanks to these officials who on an ongoing basis offer us good, sound advice and direction as it relates to the government's thrusts. I begin with Mr. Al McDonald, the deputy minister of our department, who is on my immediate left; Mr. Roy Parker, the president and chief executive officer of the Alberta Opportunity Company, who's on my immediate right. One seat over beside Mr. McDonald is Mr. Terry Eliuk, the director of finance and administration within our department, and Mr. Laurie Pushor, beside Mr. Roy Parker, is the executive assistant in my office.

As you indicated, sir, there have been some shifts to Agriculture as it relates to both the rail hopper cars and the Prince Rupert terminal. This year also, the year we're responding to, '90-91, we saw no new projects undertaken by our department through the Heritage Savings Trust Fund. Instead we have some projects attributed to us as you have highlighted, and let me first deal with the capital projects division under which Vencap Equities indirectly responds to our ministry with regard to its performance in 1990-91.

I'm sure committee members have reviewed the annual report of Vencap, so that will be self-explanatory. But let me say that Vencap has had an extremely active year. They looked at over 440 submissions, acquired 10 new investments, and sold six investments acquired in previous years. As of March 31, 1991, their portfolio included a total of 38 investments. In discussions I had with Mr. Sandy Slator, the president and chief executive officer of Vencap, he extended an invitation to your committee to meet with them at Vencap if you so desire. So I extend that invitation to you on behalf of Vencap, because I'm sure there will be questions asked here as it relates to Vencap. I'm sure members are also aware that they are a private corporation with a loan from the provincial government, setting direction themselves. Recognizing that they are an entity unto themselves, as I have indicated on a consistent basis in the Legislative Assembly, I will not be responding in a direct way to some questions that might come forward, but they want you and your committee members to be aware that they would be delighted to host you over coffee and buns if you so desire so they can have an opportunity to have further dialogue with the committee itself. They are a public company. I close with those comments.

As it relates to our Alberta investment division, as you have so rightly indicated, Millar Western pulp mill responds to this department. They have been leaders in environmental technologies that they have used in their plant. Their product sales are going extremely well. As individuals here are aware, markets for the products they produce are somewhat down, but the Millar Western chemithermomechanical pulp plant was fully operational during the year 1990-91. I understand it was producing its annual capacity of some 240,000 tonnes of custom-made hardwood and softwood pulp.

As it relates to the second area of responsibility under the Alberta investment division, the Alberta Opportunity Company, I'm delighted that Mr. Roy Parker is here, because we want to be forthcoming with the committee. As we have done in the past, I will defer a number of questions to Mr. Parker. Let me say that once again the Alberta Opportunity Company has had a very active year. It has received some 946 loan applications and numerous inquiries for venture funding and seed capital investments. The company took a careful look at these proposals and ended up making a total of some 412 loans, loan guarantees, and venture and seed investments, worth some \$36.2 million. Financially the Alberta Opportunity Company rebounded from the year 1989-90 to record a profit of some \$5.8 million in the year 1990-91. This performance enabled the company to reduce its accumulated deficit to \$36.2 million.

Recognizing your direction earlier, sir, let me close and put myself in the hands of committee members and share with you that as I indicated at the opening of my statement, there were no new projects attributed to Economic Development and Trade during the fiscal year 1991. Instead we have concentrated on working closely in monitoring the projects we already have in place, which has provided guidance and strength and a helping hand as we continue to strengthen the Alberta economy and further diversify it.

Thank you very much, sir. It's a delight to be with you here again.

MR. CHAIRMAN: Thank you.

The Member for Calgary-Mountain View.

MR. HAWKESWORTH: Thank you, Mr. Chairman. Welcome, Mr. Minister and your staff, to the committee this morning. I'd like to begin - I don't imagine it will be much of a surprise to you - by asking some questions about note (j) in the annual report for the trust fund in regards to joint ventures of Alberta-Pacific pulp mill and the participation of the Alberta government in the form of lending money on a debenture to that consortium. My question is along these lines. As I understand the project, it's expected to be in the order of \$1.3 billion, and most of that is going to be debt financed. A very small portion of that amount is in the form of equity. I believe \$310 million is what is being provided for that. So there's a great deal of debt involved in this project. I take it from the note that appears on page 52 of the annual report that the Alberta government has put the trust fund money in the form of a subordinated debenture. I'd like to ask the provincial minister of economic development if he would indicate why the Alberta government decided to take such a high-risk position with heritage savings trust money by only assuming a subordinated debenture for the \$275 million loaned to the consortium from the heritage trust fund.

10:11

MR. ELZINGA: Mr. Chairman, forgive me. I'm a bit confused, because this doesn't relate to our responsibilities whatsoever. That would be more correctly put to the Provincial Treasurer.

MR. CHAIRMAN: Hon. member, it doesn't fall under his jurisdiction.

MR. CARDINAL: And the question was asked last time by the Member for West Yellowhead.

MR. HAWKESWORTH: Oh, you mean the Al-Pac pulp mill is not economic development then; the minister of economic development has no role to play in Al-Pac financing?

MR. ELZINGA: All in the government have a role to play, but each individual minister has direct responsibilities. I must say I'm surprised the hon. member does not recognize the individual responsibilities individual members and ministers have. If you are sincere in your determination to seek information, you should put this question to the appropriate minister, not one who has a peripheral interest and concern. We are very concerned as it relates to the economic development of our province, and I'm more than happy to get the individual minister responsible to respond to the hon. member if he wishes, but I believe the three areas that fall under our jurisdiction were indicated three times in our opening remarks and by the chairman.

MR. CHAIRMAN: Hon. member, that question was asked to the appropriate ministers by the member.

MR. HAWKESWORTH: Well, it's interesting that the government doesn't consider that project to be economic development.

MR. CHAIRMAN: In fairness, I'm not sure you can draw that conclusion, but the bottom line is that this minister does not have direct responsibility for that loan or that guarantee under the

Alberta Heritage Savings Trust Fund. As you recall, hon. member, I believe you did ask that question of both the Premier and the Treasurer, who are appropriate people for the question to be put to. Do you have a further question?

MR. HAWKESWORTH: I'd like to perhaps ask the minister, then, what are the policy considerations in the department of economic development in terms of having a role to play in determining whether the investment committee makes equity investments in economic development projects or debt instruments in terms of providing money from the trust fund to various economic development projects. Does he have anything to say about that, and what are the policy considerations?

MR. CHAIRMAN: Hon. member, the minister sits on Executive Council, so by that venue would have input, but the type of question you just asked - I believe he explained to you the part he plays, but he does not have direct bottom-line responsibility. The Treasurer has been before the committee and has responded to that very issue, as has the Premier.

MR. HAWKESWORTH: My question is not tied to note (j). It's the policy considerations his department uses in deciding whether to provide equity financing, take an equity position in economic development projects, or to provide debt financing. What are those policy considerations?

MR. ELZINGA: I'm more than happy to respond to that. As the hon. member is aware, our department takes a lead role as it relates to all economic development projects within the province. We do have an overall co-ordinating function with various departments in our government as it relates to involvements we might have to further strengthen diversification and employment opportunities within the province. Each project has to be looked at on an individual basis also as to the overall contribution it will make to the economic well-being of our province, and there are different requirements for different projects. Each ministry, though, takes very specific leads as it relates to individual projects too. But we examine very carefully the contribution they are going to make to the ongoing well-being of our province.

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

MR. CARDINAL: Yes. Thank you, Mr. Chairman. I, too, welcome the minister and his staff for their presentation here today.

I just have a couple of quick questions in relation to Millar Western Pulp Ltd. The company received a total of \$120 million from the Alberta heritage investment division. Can the minister comment on what portion of the funds was used for the purpose of promoting the environmentally sound portion of the technology of the project?

MR. ELZINGA: We have been assured and overall examination of their involvement shows that their environmental technologies are some of the finest in the world. As I indicated in my opening comments, we're delighted that they are leaders. As the hon. member is aware, they were one of the initial companies that helped us further access this renewable resource within the province of Alberta, and they have been leaders as it relates to the development of forestry products both from an economic standpoint and, more importantly, from an environmental standpoint. We have done that with all the pulp mill production

within the province. We've made sure that they meet the highest world standards possible.

MR. CARDINAL: My supplement, Mr. Chairman. The economic benefit projected as far as jobs for that particular project was about 140 jobs. The project has been operating now for a number of years. I just wonder: did they really come up with 140 jobs, and what is the spin-off beyond that for the whole community?

MR. ELZINGA: I'll not just refer specifically to this one project, but the spin-off benefits to the province have been enormous. We were just involved in the official opening of Du Pont, whereby their production of hydrogen peroxide, which is an environmentally safe bleaching agent, is one of the many spin-off benefits that have accrued to the province as it relates to the forestry industry. We're delighted that there are those additional spin-off benefits. I'll have to check, unless one of my officials could help me, as it relates to the actual jobs. I don't have the figures in front of me, but I will get back to the hon. member as it relates to those jobs, because that's a very important component of our diversification strategy. I'm delighted the hon. member highlighted it, and I will get back to him on that.

MR. CARDINAL: Okay. Thank you very much.

MR. CHAIRMAN: The Member for Westlock-Sturgeon.

MR. TAYLOR: Thank you, Mr. Chairman. I also welcome the committee, the whole regiment you have with you. I won't go through all the names. I can't remember them, but I remember all the faces.

I guess to begin, I'll get to the philosophy of the AOC. Has the minister thought at all of privatizing AOC; in other words, issuing shares to the public and putting an independent board in, thereby recovering some of the investment the government has in AOC and letting it operate at arm's length?

MR. ELZINGA: That has not been a policy discussion to date. If the hon. member would like to give it consideration, we would be open to his advice on that, but it's not a consideration we have given to date.

MR. TAYLOR: The supplemental is jumping around a bit. In this age of privatizing, actually open-ended investment trusts are going over pretty well. I thought it might be an idea for the government to get some shekels and help your fellow Treasurer balance the books.

The second thing: I noticed you mentioned you have debentures secured by the assets of Millar Western. There are a number of ways debentures are secured. I don't suppose it's a first charge, but is it a first or second or third? Just who ranks ahead now of the government's debenture in Millar Western's debt?

10:21

MR. ELZINGA: I'll have to get back to the hon. member on that, as to who has first charge with Millar Western.

With the indulgence of the hon. member, could I come back to his first question also as it relates to AOC, because there are a number of successes the president could highlight, if the hon. member would allow it. As I indicated in my opening comments, this past year has seen a significant milestone for the Alberta Opportunity Company, whereby they have done extremely well. If you'll allow Mr. Parker to highlight a few of the points, we would appreciate it. I'm in your hands, sir.

MR. TAYLOR: Well, I just thought it might be a good time to be privatized when you have a good year. Get 'em while they're hot.

MR. PARKER: Well, one of the things I would like to say in response to the initial question is that we do in fact have an independent board of directors. We have a board that is appointed from across the province, people representing various geographic areas and business backgrounds. This board has revolved on a continuing basis since their inception. They do, in fact, provide us arm's length from the government with the kind of leadership and decision-making you are suggesting. Our results in fiscal 1991 saw us have the second largest number of approvals in funding since our inception, only exceeded by the previous year, 1990, when we had 428 versus 412 financing approvals for the businesses we assist. So we're pleased with the level of activity we've been faced with and continue to be faced with. Beyond that, one thing that pleases me is that while we've had a modest increase in the past six months in the number of accounts we're faced with in arrears, certainly the dollars we had in arrears as of mid-September, our last in-house report, indicated we are as low as any time since the late '70s, early '80s. So things within our portfolio are doing well, and we think it reflects favourably on the client base we have.

MR. TAYLOR: The last supplement, I guess. Do you keep a breakdown of the investments by sector, both geographic and subject; in other words, geographic – rural, urban, Alberta, Canada, U.S. – and then subject, like agriculture versus manufacturing?

MR. PARKER: Yes, we do. We have several criteria. The geographic area we publish in our annual report is northern, central, and southern Alberta and Edmonton and Calgary. These historically have been the ones we publish. But we can have figures available, for anyone who's interested, by electoral district or various subareas of the province and are more than pleased to share with anyone who requests those.

In regard to the type of clientele we deal with, again in the report we indicate not so much a different manufacturing or service area – although we can have those – but funds to establish new businesses, funds to expand existing businesses, and funds for changes in ownership and things of that nature. Whether it's manufacturing service and so on, we can ultimately break those down into various geographic areas.

MR. TAYLOR: Would it be all right, Mr. Chairman, to ask him to send us the list broken down by electoral division?

MR. PARKER: To respond, yes, I'd be more than happy to.

MR. CHAIRMAN: Thank you.

The Member for Ponoka-Rimbey, followed by West Yellowhead.

MR. JONSON: Thank you, Mr. Chairman. Good morning to our guests and to the hon. minister. I'd just like to start out with a few comments. I'd like to direct them towards the Alberta Opportunity Company and pay tribute to the important role they play in the province in terms of lending – lending as a last resort, as it's often phrased – and also the somewhat newer initiatives in terms of equity financing and venture capital. I quite often receive comments from satisfied customers, and I just thought I should pass that on because quite often it's the problem cases which get the publicity.

I do have a question and something of a general concern regarding what might be a trend in the governance of AOC. I noticed, Mr. Chairman, to the minister, that the last time I looked at the list of the board of directors, it had somewhat mushroomed. It seems to be growing over what I thought was the set number of directors. I looked at it a little bit further, and I thought that perhaps this was because we were representing additional parts of the province. However, I notice that there are a number of directors from the same spot in the province. So I just wanted to inquire as to whether I'm correct in my assessment of the number of directors and what the rationale for this might be.

MR. ELZINGA: Mr. Chairman, through to Mr. Jonson, our desire was to make sure that we had a broad spectrum of individuals with various backgrounds involved so that when proposals do come through to the Alberta Opportunity Company, they can receive the thorough assessment that they deserve. We have attempted to do it on a geographical basis also. We recognize that the geographical areas have not always been as representative as we'd have desired. I have had discussions with Mr. Parker, though, and we are looking at reducing the number again. We have the flexibility to have the numbers included. We thought, especially as we go through this - and we've gone through a period of economic downturn - we wanted to make sure that they continued to play a very important role in the diversification of our province. We wanted to make sure that we had as broad a background of various involvements in our province as possible on the board, and that was the initial reason for that.

MR. JONSON: A supplementary question on that topic, Mr. Chairman. Is the policy - which is, I think, fairly common across government - in effect here whereby they are three-year terms and roughly one-third, depending on certain circumstances, of course, for individuals, are rotated each year?

MR. ELZINGA: The hon. member is correct on both counts. They are three-year terms. We have it staged, though, whereby there is a continuity of members that do serve on the board. With the expiration date, even though it's not on a consistent basis, some expire after a greater time period than others. We do attempt to have continuity on the board whereby the new members will have the benefit of their wisdom as they go through this initial stage of induction. They traditionally are three-year terms for two terms. The tradition has been that they serve for a six-year period even though the terms are specified for a three-year basis.

MR. JONSON: One other question on a somewhat different topic, Mr. Chairman. This is with respect to the venture capital division and the rationale for the particular model of venture capital financing that was adopted. Recently members of the committee made a visit to the capital of Alaska and spent some time examining the Alaska fund. One of the most intriguing aspects of the approach that they have to venture capital funding is that they utilize a certain amount of government money or, in this case, oil revenue to lever or attract a much greater percentage of private capital into the formation of a venture capital fund. I wondered if this particular approach was considered when the venture capital division of AOC was set up and whether anybody would want to comment as to the merits of such an approach.

MR. ELZINGA: If it's agreeable, I'll allow Mr. Parker to respond to that because he's involved with the nuts and bolts of the venture capital division.

10:31

MR. PARKER: Yes. We don't have a specific policy that says that for each dollar we invest in a company, there has to be so many private-sector dollars, because if we did that, we would find that very few of the deals that we are involved in would go through. Venture capital is quite a wide-ranging area of business financing. What we're involved in is, while we call it venture capital and seed capital, actually, I think, in industry standards a misnomer. We're in seed capital and pre seed capital, which means very early stage, very high-risk investing. The earlier the stage and the higher the risk, the less the private sector is interested in going in.

Now, saying that, in all the investments we make, there has to be an investment in some form by the people involved. We will not come up and provide a hundred percent financing to an individual with a good idea. He has got to have some stake in that. Usually, there's a reasonable amount of money, and there's also a significant amount of what is called sweat equity where he has spent one, two, three years working for no money developing this project. That in general terms is what we call our seed capital, which is the pre venture group of people.

Our venture capital group, which is still very early stage and is viewed in the industry as seed capital, attempts to coventure, which we do in probably a third to 40 percent of our cases. We have coventured with Vencap. We have coventured with Alta-Can Telecom. We have coventured with private individuals who have put money in. We're involved in boards of directors, and we attempt to get other people who have industry background and strength to go on the boards to help these companies have a chance to go ahead.

After a rather long-winded dissertation, for us to say that we're going to lever \$2 or \$3 for each one of our dollars that we invest certainly initially I think is unrealistic, because the area that we have been given to provide funding for is very early, very high risk, and the availability of private-sector funding is minimal.

MR. JONSON: Mr. Chairman, I'd just beg your indulgence. I know I've had my three questions. I just wanted to clarify something because perhaps I didn't make myself clear initially. What I was proposing was the use of a government venture fund to lever private money for a pool, which in turn would then be directed into capital ventures such as the president has described. I just wanted to clarify that.

MR. CHAIRMAN: Thank you.
West Yellowhead.

MR. DOYLE: Thank you, Mr. Chairman.

My first question regards Vencap. We have some \$200 million investment in Vencap. At the same time, we have banks out there on the street corners of municipalities throughout Alberta working on loans that normally return money back to that particular bank. I was wondering: due to the fact that we had a return of less than one and a half of 1 percent on Vencap this year, is the minister now going to take the initiative to either recall the \$200 million that was loaned to Vencap or ensure a better rate of return to the Treasury and especially to the Alberta heritage trust fund?

MR. ELZINGA: Mr. Chairman, through to the Member for West Yellowhead, Mr. Doyle, I appreciate very much his question. I must share with the hon. member that I'm just a wee bit surprised as to the position the New Democratic Party takes on occasion. Consistently they are critical of the government's role and

involvement during the period of economic downturn, and they've suggested on a number of occasions that we should have a more arm's-length approach. Yet when we do have an arm's-length approach such as with a group like Vencap, they're critical of that too. The hon. member can't have it both ways. I recognize that's one of the luxuries one has in opposition, but to put on record what the New Democratic Party has said, that Vencap loses too much money and they do not take enough risk: well, doggone it, if they're going to take risk, you have to accept also that there are going to be some of those companies that do not work out as well as you had hoped.

If you look at the record of Vencap, they have contributed substantially to the further diversification of our province, because their mandate itself does not allow them to invest in either conventional oil or primary agriculture or the banking institutions. If you look at the start-up companies that they've been involved in – high-technology computer companies, secondary agricultural processing – they have contributed substantially to the extent whereby they do have a significant component in the companies that they're involved in as it relates to the private-sector labour force. We can look at companies such as PTI Group in Edmonton or Westronic in Calgary.

I share with the hon. member that the assets of this company are strong. We recognize that there are going to be those companies that don't work out as well as we had hoped, but there has been a return, even though it has been a small return as it relates to a financial return. The economic benefits as it relates to job creation, the attraction of additional companies to the province have been substantial.

I just reinforce what I indicated earlier. I extend an invitation through the chairman to members which has been extended to us by the president and chief executive officer, Mr. Sandy Slator, for members to attend with them so that they can have a thorough discussion and gain a greater understanding as to their involvement in the Alberta economy.

MR. DOYLE: Thank you, Mr. Chairman. I do have some great understanding of the Alberta economy, and I'm surprised the minister – I know he's had a tough year – didn't mention the Churchill group or some of these Lakeside farm industries and those companies that have failed because of poor ventures.

Mr. Chairman, my next question is with regards to Millar Western, the \$120 million that was put forward to assist Millar Western in Whitecourt for development of the pulp mill. I wonder: could the minister tell me when some of that money will be paid, how it is being paid back, and what interest we are getting on the \$120 million loan?

MR. ELZINGA: There is a schedule of repayment that was agreed to when we originally involved ourselves with the company. If the hon. member will allow me, I'll get back to him as it relates to some of the specific terms. The repayment scheme associated with this debenture requires Millar Western to pay 80 percent of its cash flow to the Alberta government for the first 10 years, until the outstanding bank debt is repaid, and 90 percent of the cash flow for the next 10 years. The loan must be repaid in full by October 31, 2009. The agreement provides for a return on investment of up to 11 percent. There's also an option on our part to acquire 10 percent of the common shares of this company.

MR. DOYLE: Thank you, Mr. Chairman. With regards to Millar Western, of course they have that \$120 million. The government will have the 10 percent, I believe the minister just said, in Millar Western at Whitecourt. There's a sawmill at Peers, in the

Whitecourt riding just outside of the West Yellowhead riding, that has been shut down since last February because of loss of funds. I was wondering if the minister thinks it's fair that Millar Western is bidding against the private sector, Mr. Rehn and company from the Lodgepole area, who would like to take that mill over and start that mill up, to employ local people in the sawmill at Peers. I don't think it's fair, and I want to know if the minister thinks it's fair. Does the minister think it's right that companies like Millar Western have the right to bid on private companies where somebody has no financing?

MR. CHAIRMAN: Hon. member, you've made your point. Perhaps the minister will answer it, although it really is stretching the mandate of this committee to get into that.

MR. DOYLE: I wanted to make sure that he understood the question, Mr. Chairman.

MR. CHAIRMAN: He understands the question. Please proceed.

MR. ELZINGA: Well, I appreciate the hon. member's desire to make sure that we have the facts on the table. First I should indicate that his facts are incorrect. I indicated to him, and I hope that he would listen, that there is an option to acquire 10 percent. That's not to say that we're going to exercise that option. So firstly, the facts on which he bases his question are inaccurate; secondly, as it relates to those other companies involved in the industry, Mr. Fjordbotten is working closely with them. We recognize that the markets are not that great as it relates to pulp and wood production right now. We are working with those other companies to see how best we can be helpful to them through Mr. Fjordbotten.

MR. CHAIRMAN: Thank you.
The Member for Calgary-Foothills.

10:41

MRS. BLACK: Thank you, Mr. Chairman. I'd also like to welcome the minister and the various department heads and thank them for coming before us again.

I'd like to go back to the Alberta Opportunity Company. In the overall makeup the intent was to help develop and secure business development and opportunities, particularly in smaller parts of rural Alberta. AOC is almost a lender of last resort in many respects. I'm wondering: what would be the average size of the loans made from AOC?

MR. ELZINGA: With the hon. member's permission, I'll ask Mr. Parker to give her those details.

MR. PARKER: Historically the average size of our loans has been about \$100,000. It varies from year to year, as high as \$140,000 and as low as \$80,000, but those variances really depend on whether or not we have any or many very large loans in the million-dollar-plus range in a specific year.

MRS. BLACK: Mr. Chairman, if I might. We have several economic development vehicles of government across the country – with FBDB, Western Diversification, AOC, and several that I've noticed since I've been elected – economic authority bodies that seem to be sprouting up within communities themselves. I'm wondering if there's a co-ordination of approach to development

by all of these groups. Are we co-ordinating our efforts for the development sector?

MR. ELZINGA: I should share with the hon. member that that is part of the process that we're consistently involved in: to make sure that there is an overall co-ordination. I met on Tuesday evening with the Alberta Economic Development Authorities Association whereby all the various local development authorities gather together for their annual conference. Also, what we're doing as an ongoing item in this process is our Toward 2000 paper whereby we're asking for input as to how we can best ensure that there is that proper co-ordination. AOC plays a very important role in that further diversification.

I'll ask Mr. Parker, too, if he'd just expand upon that somewhat. He indicated the closeness that they do have with some other groups that are also involved, such as Vencap and whatnot, but he could elaborate to a greater degree again if the hon. member would allow it.

MR. PARKER: Yes. We work quite closely with these other groups that you're talking about, such as Western Diversification; Industry, Science and Technology federally; Stats Canada. I can't think of the name of them but the smaller federally funded groups who provide funding for small businesses in their communities. They co-operate with us not only in providing funding jointly where it is appropriate. As you likely know, we put on conferences on a regular basis; annually, an entrepreneurs' conference. We bring these people in; they make presentations, let themselves be known to the business community around the province. We're kicking off this year, actually within a week or so, the first one of a series of seminars we're conducting across the province this winter whereby we, Economic Development and Trade, and Stats Canada will be letting people in these communities know what is available. We're not in competition with each other. We each bring our own area of strength and expertise, and where they can work in harmony together, then we do provide assistance to them.

MRS. BLACK: Mr. Chairman, just as a final supplementary. With the information and the experience that all of these various groups have been able to gather over the years, I understand that AOC was developing a major data base of information that would be shared for development of small businesses throughout the province. Last year you were starting to get operational or were thinking of getting this data base operational, and I'm wondering if in fact you've been able to collaborate with these groups and develop a complete, comprehensive data base that can be used not only within Alberta but throughout the country.

MR. PARKER: Well, if I'm correct, the data base that I think you're talking about is one that Stats Canada have. We have worked with them. They have developed it, and we're having this information available in each of our offices, not only for our own people to use in their assessment of proposals, but for any individuals in those communities who wish to take advantage of this information, which will range from population statistics, income statistics, the average sales for a specific industry per thousand people, and so on. We want to have this available to the business community of Alberta. That is in the process now of being put into place in our offices around the province. StatsCan are training our people in the use of it with our computers, and I would anticipate that by early 1992, in the first quarter, certainly the first six months, this will be in place and in effect and being used.

MRS. BLACK: Mr. Chairman, I just have one more little question.

MR. CHAIRMAN: Hon. member, I'm sorry. The Chair would open up something that he couldn't control if we allowed that. The Member for Wainwright.

MR. FISCHER: Thank you, Mr. Chairman, and good morning to the minister and our guests. I would like to ask you a little bit about the AOC program. We hear so much negative whenever something goes bad. Could you elaborate just a little bit on the success record of our Alberta Opportunity loan portfolio? I think I'd like to hear some of the names of the companies that have been very successful and what kind of a percentage, success rate, we have.

MR. PARKER: Well, certainly since day one we have approved in excess of 6,000 loans to small and medium-sized businesses in Alberta for \$601 million, give or take a little bit, which funding was not available to these businesses from the private sector. Of those businesses, approximately 80 percent were successful in that they were still operating profitably when we were paid out, or they're still operating profitably now, during the course of their loan. Of the funds that we disbursed, the \$600 million-odd, we have written off between 11 and 12 percent, so we're very close to 90 percent return of the funds that we have disbursed. I for one and we as a group think that when it's realized that we are providing funding for businesses that can't get it from banks, credit unions, et cetera, for their own good and valid reasons, and that we also went through a very severe economic downturn from 1981 to 1986, when not only AOC had significant write-offs but every financial institution operating in the province, this is an excellent record.

As far as names of companies, I don't have any here, but one example of a situation that was viewed back six or eight years ago as a calamity, where we lent \$8 million, was a company called Ram Steel in Red Deer. We got involved by providing funding for them in the amount of \$8 million. The company went broke. With our assistance and perseverance we were able to find another group to take it over. The company has operated and to the best of my knowledge is still operating, although we've been paid out three or four years. Had it not been for our funding, the company would have been dismantled, the assets sent across Canada and across the world. It has employed up to 150 people on a continuing basis in the Red Deer area. We got our \$8 million back, and I think we've had a major impact by taking this very high risk in this particular situation in central Alberta. Yet at the time there were grave doubts expressed from many quarters about the wisdom of that.

In thousands of cases we have made loans, not as noticeable or spectacular as that, to small businesses, to individuals, partners, small firms that have worked diligently, made profits, paid themselves, paid their employees, and contributed to the economy and diversification of things in Alberta.

10:51

MR. FISCHER: Thank you. My other question would be: on some of our loss rates – and we do take our security and end up with some of the assets – have we got many assets out for sale now? What do we do with that? Do we try and stay away from that as much as possible? How is that handled?

MR. PARKER: Well, we take whatever security is available. Now, quite often the security does not have the dollar value

equivalent to what it is that we're lending, and that's part of our mandate. That's one of the reasons why some of the other financial institutions will not provide the funding. What we do in the case of a business that fails: we attempt to give it as much chance to succeed as possible, but there comes a moment where action has to be taken. Generally, we will appoint a receiver, quite often at the request of the individuals operating the business, and the receiver will liquidate those assets through public tender, through auction, through takeover, whatever appears to make the most sense. We get funds back to us based upon the security position that we have. There will be situations where we will have to take over, particularly real estate, land and buildings throughout the province, where there is no market for the time being.

At one stage back in the mid-1980s we had some 65 to 75 properties in our ownership; we were kind of the only people bidding on them, and therefore they went into our portfolio. We were the owners that wound up the situation. We're now down to 11 properties. We're attempting to sell these. We're not going to sell them at a price which will disrupt local markets. We think it would be irresponsible of us to sell properties at well below market value and then cause problems within those communities for other people who are attempting to sell properties. We want to get a reasonable price for them. We're not going to hold out for the moon because the sooner you get rid of them, the happier you are, and you can get on to something more worth while. We had quite a number of motor inns during the mid-80s; we almost had a small chain. All of those are gone now, and we're delighted that they are gone. As I say, we're down to 11, and if we could get down to zero, that would be just perfect.

MR. FISCHER: Thank you.

MR. CHAIRMAN: Thank you.

The Member for Calgary-Fish Creek.

MR. PAYNE: Thank you, Mr. Chairman. I wonder if I could raise a couple of questions also on the Alberta Opportunity Company but focused on the venture and seed funding part of the AOC operations. As I recall, something like 23 loans were made in the '90-91 reporting year for 5 and a half million dollars. I guess my first question would be the rationale behind the venture and seed funding part of AOC's operations. Perhaps I could phrase it this way: are we to assume that private venture capital firms are not available to provide this kind of investment? You know, 5 and a half million dollars just doesn't strike me as a lot of money, especially spread over 23 loans. I'm wondering: is the very existence of the venture and seed funding activity testimony to the fact that private venture capital firms are not around to provide this kind of modest seed funding?

MR. PARKER: In general terms, yes, that is the case. We have two divisions. We have our seed capital division, which is really kind of a preprototype stage, where people have convinced us at least that they have very good ideas for something that's new and different. Either it's leading-edge technology in a particular industry or just a better way to do something that's already being done. When you're in a preprototype stage – that is, something that's an idea that you're working towards, or the prototype is finished but maybe it isn't working as you envisaged it – private-sector funding is not readily available in large amounts. You may be able to get what is known in the industry as love money, which means that your grandmother or your cousin or your uncle thinks you're a good guy or a good gal and they'll put some of that

money in, expecting to write it off, but you need more than that. In our situation in this particular industry we provide investments of up to \$250,000 in our seed capital division, and in a great many cases there will be these other individuals who will put in \$50,000 or \$25,000 or what have you along with what the company puts in from its founders.

The regular venture capital companies are in business to make a profit, and the more profit the better. It costs just as much money to administer – sometimes more, in fact, because there's a lot more work involved – an investment of \$200,000 or \$150,000 as it does a \$3 million dollar one. If you've got 10 of those at \$250,000, you have 10 times the administration, 10 times the cost, so the interest isn't there at that stage. They would be interested two or three or four financings down the road, when this particular idea hopefully is proven successful and gets to the stage where significant commercial production is needed; then that's where they would step in.

Our venture capital division is a step beyond the seed capital, and they're still very early stage. As I said earlier, we do coventure on occasion with Vencap and others, but a significant number of the deals that we look at are high technology, leading edge, very risky. Again, they're amounts under a million dollars, and the ability to find people with any significant amount of money is difficult. That's the situation we're in.

MR. PAYNE: That's very useful background information, Mr. Chairman. I'm wondering, by way of a first supplemental, could the minister comment on the perception in some parts of Calgary that Vencap and whatever it's called – is it called venture and seed funding division? I'm sorry; I don't have the right pages in front of me. Is that what it's called?

MR. PARKER: Yes.

MR. PAYNE: There's a perception, in any event, whatever its label is, that the venture and seed funding activities of AOC to a certain extent overlap the functions of Vencap. Of course, there was a lot of resistance to Vencap in the first instance; now they see something that was undesirable as being duplicated or partly overlapped. I would draw the minister's attention to page 18 of the heritage fund annual report, where it indicates that 35 percent of the Vencap investments "were start-up or early stage ventures," and that "technology investments represented 16 per cent" of these. At least in the language there appears to be some kind of an overlap, and I'd welcome an opportunity to be advised differently if that's the case.

MR. ELZINGA: If I could just underscore what Mr. Parker has indicated, too, as to their types of involvements, because AOC has traditionally got involved with those smaller companies that require a smaller amount of cash. That's increasing their overall administration and their administrative cost, where Vencap traditionally has gone for the larger companies. In meeting with Mr. Sandy Slatore and Mr. Parker over the course of the last while, a number of those companies that have gone to Vencap have been referred to the Alberta Opportunity Company because they are more involved with these smaller companies. So we don't believe that there is an overlap. If that perception exists, it's not borne out by the facts, where AOC does involve itself to a greater degree. If Mr. Parker would like to comment . . .

11:01

MR. PARKER: Yes, I would. We do on occasion, as I said earlier, coventure with Vencap. For instance, we may have a

company where we're the lead investor, and they get to a point where things are looking promising and a second or third round is needed. At that stage Vencap may come in with us so that we're not providing all of the funds. In our view, and I think in theirs, two heads are better than one; two different looks at it can very often point out problems that can be corrected beforehand. But we're always looking – I can't speak for them, and I assume they are too – for others, particularly in the private sector, to co-venture with us. The overlap area that I see between AOC and Vencap is in their lower end of investment that they generally take and close to our upper end, but we're not head to head in competition, because our markets are significantly different.

The way I see it – and I was talking to someone the other day – really you've got three phases of venture capital in Alberta: the preprototype, which is our seed capital division, which is taking the very smallest of ideas and attempting to get them to something that might be viable; then the early-stage, which is our venture capital division; and then the later stage, with quite often more mature companies that Vencap is interested in. All of these three can interplay with each other, just depending on circumstances.

MR. PAYNE: That also is useful information to the committee, Mr. Chairman.

My final supplementary then. These 23 loans that were made out of the venture and seed funding area in '90-91: did AOC take any kind of a controlling interest in the investee companies to which they provided seed funding? In other words, what's the form of its investments, and is there a measure of control thereafter?

MR. PARKER: Okay. In our investments we always start off with a minority position because we want to leave room for further rounds, which inevitably happen in virtually every investment. I don't know of one where the first one went in and everything ended up happily. So we look at generally from 20 to 40, 49 percent. As things progress, and if we're the only one left to provide additional funding, our share in the shareholdings will go up. Now, that looks as though it leaves us in a vulnerable position. However, there are shareholders' agreements which will give us, as probably the major source of dollars, the ability to take control – maybe not ownership but management control – in the event that the targets that were set for the company are not met or there are problems with the other shareholders fighting amongst themselves, so that we can take action then to hopefully salvage the company if things go wrong. But we want to leave significant areas for the people who founded the company to maintain large ownership and have something in it for them to reward them in the event that they are, in fact, as successful as they hoped to be.

MR. PAYNE: Thank you, Mr. Chairman.

MR. CHAIRMAN: The Member for Calgary-Mountain View.

MR. HAWKESWORTH: Thank you, Mr. Chairman. I'm still in a bit of a state of shock about the minister for economic development not being responsible for Al-Pac. I'm just wondering, given that his department had responsibility and still continues to have responsibility for Millar Western, what is different about Millar Western that it's under his department, whereas Al-Pac is not.

MR. ELZINGA: Mr. Chairman, I can understand the hon. member being under some shock because he has been under shock during the entire time that I've known him.

As I understand, too, all he has to do is refer to earlier discussions in this committee, and the information is there in black in white. If he would take the time, rather than wasting the time of this committee, to review previous *Hansards*, he would see it there.

MR. CHAIRMAN: Do you have a supplementary?

MR. HAWKESWORTH: Yeah. Why is his department responsible for one and not the other?

MR. CHAIRMAN: Hon. member, you've asked that question, and the minister responded earlier that he's not responsible, that it's under the venue of another department. I'm not sure what else he can answer unless he wants to supplement something there. I can only say that it must be at the discretion of cabinet or the Premier as to how those things are allocated by department, and hopefully that will have to suffice for the answer.

MR. HAWKESWORTH: Thank you, Mr. Chairman, for answering on behalf of the minister. I find that interesting, as well, that you are more forthcoming than the minister. What were the policy considerations that took responsibility away from the minister of economic development for the Al-Pac project and put it in the hands of the Provincial Treasurer?

MR. ELZINGA: Mr. Chairman, there are none so blind who do not wish to see, and that's obviously a good quotation as to the way the hon. member conducts himself, because I responded to that in his first question that he put earlier, when it was explained to him in great depth as to the reasoning behind this. I would refer him to it, if he is willing to put in the effort. I don't think the hon. member is willing to put in the effort, just by his actions here, but if he would put in the effort and just review the notes of *Hansard*, he would see that fully explained to him in the earlier question he put, leading off the discussion in the committee.

MR. CHAIRMAN: The Member for Westlock-Sturgeon.

MR. TAYLOR: Mr. Chairman, there's a class in here now.

MR. CHAIRMAN: Yes. If we could digress for just a moment, I believe we have a class in the gallery. I assume it's a school class. We want to welcome them. They're witnessing the proceedings of the annual meetings of the Alberta Heritage Savings Trust Fund select committee, whereby ministers who draw funds for their departments from the Heritage Savings Trust Fund appear before the committee to respond to questions. The meetings run for approximately two hours for each minister. We welcome you here with us this morning and hope you'll enjoy your visit at the Legislature. Perhaps the committee would give them a welcome.

Now, if the Member for Westlock-Sturgeon has collected his thoughts, we'll have him proceed with his questions.

MR. TAYLOR: Buying time.

Thank you, Mr. Chairman. It's to the minister on the Alberta Opportunity Company's – I follow along the questions of the Member for Calgary-Fish Creek – venture and seed funding programs. I was running through the mathematics that you came out with when somebody said \$600 million for 6,000 loans; that's \$100,000 a loan. The venture thing was 5 and a half million dollars, 23 loans. That's \$240,000 an average loan. I think if something has called itself venture and seed funding, it should

probably be doing some very small loans. Admittedly, as you so well pointed out, it costs just as much to administer a \$200,000 loan as \$2 million, and probably you gain just as much to administer a \$5,000 loan. The only difference is, as you know, when you borrow \$200,000, you lay awake wondering how to pay it back. If you borrow \$2 million, you let the banker lay awake wondering how you're going to pay it back. But for this particular case of venture funding and seed funding, do you put out any loans as low as \$5,000? If you do, how many?

MR. PARKER: No. The lowest we've done, I believe, is about \$25,000, which was followed by several further increments as things progressed. We just haven't had applications that fall within the criteria we have to do this for lesser amounts.

For the benefit of the committee I should point out that we have some degree of restrictions in that we will not provide equity funding of any type for a business that is going into direct competition with an existing taxpaying Alberta business. By that I mean if, for instance, there's a manufacturer of plastic widgets in Alberta, we won't invest. We might lend to someone else, but we will not invest because that would be an unfair advantage they would have with this equity money. However, if someone came along with a new and different and better product that would replace that, then we would consider it. The overwhelming percentage of businesses in Alberta would not be eligible for our venture or seed funding because they're involved in the marketplace with similar types of businesses. It's just the new, leading edge, high tech, or something of that nature that's going to add something new and different to the landscape we are able to look at.

11:11

MR. TAYLOR: Yeah, Mr. Chairman, I've reached a feeling often, touring Alberta through the years, that the need we have is not so much for the \$200,000 and \$2 million loans, although I suppose they have their point. I'm thinking of the \$5,000, \$10,000, and \$15,000 loan for somebody who has an original idea. In particular, it's often women who want to open up a small business or have an idea to fill a niche, a market in a community. Yet the AOC I think has made the mistake of a lot of big financial institutions and are off looking at the efficiency of lending money, whereas I think AOC should be out promoting ventures and seed and concepts and so on.

MR. CHAIRMAN: Hon. member, could you move on to the question, please?

MR. TAYLOR: I was just getting my chance to give a speech.

Therefore, I wanted to know, then: if you've only given out \$5,000 to \$25,000, could you supply the committee or maybe myself - I don't know who of the others are interested - with how many loans you have made in the under \$25,000 level and then how many you've made between \$25,000 and, say, \$50,000?

MR. PARKER: Well, I can give you those figures out of our annual report right at the moment; not those specific numbers, but \$50,000 and under in fiscal 1991 were 230; \$50,000 to \$100,000, we had 88; \$100,000 to \$200,000, 56; \$200,000 to \$500,000, 31; and over \$500,000, seven. So you can see that the overwhelming percentage of the loans we do make are the small ones, \$50,000 and less: \$50,000, \$40,000, \$30,000. We've made loans as low as \$1,100. Now, generally when you get down under \$5,000, those are personal loans that most people should and could get from their banks, and it's an unusual situation.

I agree with what you say totally. That is where the overwhelming percentage of our thrust in terms of numbers of loans is, to those people who in many cases the banks aren't interested in because the amount is too small for them to make any money on. In the last four years, for \$50,000 and under, we've had 218, 195, 270 and, most recently, 230, and that's out of 412.

MR. TAYLOR: The final supplementary. That's good news, although still I don't think the numbers of loans match what we could do out there.

MR. CHAIRMAN: Hon. member, you admitted that you took time for a speech before the last question. Would you preclude that for this one and move to the question?

MR. TAYLOR: If you'd quit nattering, I'd get to the question.

The next question, then, on the loan aspect is - you mentioned how many loans you had given out. I'd like to know, of the number you've given out, what percentage is that of the requests you've had?

MR. PARKER: Okay. Historically we have about 10,000 inquiries per year. Of those, we look at, get an application, and do a study on between 1,000 and 1,200. In 1991 we had 1,139 applications that were given a full study. Of those 412 were net approvals, and that is the figure that after the total approval - I don't have the figure with me, but it would be in the range of 460 to 475 of those that would be approved, and 412 are net. The difference between those are the ones who, once they got the loan approved, for one reason or another decided not to go ahead with it. Either they didn't expect it in the first place and said, "Oh my gosh, what am I getting myself into?" and said "No, I don't want to," or they said they could give us security that ultimately they couldn't, or suddenly their bankers said, "Yeah, I'd like to do it," so they get their funding there. In the last few years it's generally in the 40 to 45 percent approval range for the full studies, and it was as low as 23 to 25 percent in the early '80s, when things were very difficult. We end up with about 40 percent, certainly last year, that went through to disbursement.

MR. CHAIRMAN: Thank you.

The Member for Calgary-Mountain View.

MR. HAWKESWORTH: Thank you, Mr. Chairman. I'd like to ask the minister, for those assets that fall under his jurisdiction, responsibility, whether his department has ever done an analysis of what the market value of those assets might be. If they have, great, could you maybe share that with us? If not, perhaps why you might not have done that.

MR. ELZINGA: There is an analysis of the assets as it relates to our investments. We do that during the course of our investigation as to whether we will involve ourselves with a company. The same thing holds true with Vencap. They have given us an overview, too, of their assets, and as I indicated in my opening comments, I'm sure they'd be more than happy to do so with the hon. member also, whereby as it relates to Vencap, they feel the assets they have invested in put them in a very good position.

We do an analysis. I should share with the hon. member - and maybe this will help him somewhat - that Treasury has a follow-up responsibility as it relates to a number of our involvements, too, because traditionally we are the initiator, and then once we have completed a certain stage, Treasury officials are very involved.

They carry the majority of the load as it relates to the follow-through.

MR. HAWKESWORTH: Okay. I appreciate that, Mr. Chairman. I think perhaps I should rephrase my question a bit. It's the policy of the trust fund to record its assets at cost, and I think that's part of one of the notes. That gives a certain picture of what those assets are worth, the value of those assets, but it doesn't necessarily give an indication of what their value is in the marketplace. I guess my question's more related to the loans that are outstanding — let's say, for example, Millar Western, the debentures outstanding to Vencap, and the value of Alberta Opportunity Company — and whether any effort has been made at any time to try and determine what those entities might be worth in the marketplace, assuming down the road at some point a government made a policy decision, perhaps, to privatize them or to sell them in the market. Would they achieve more than their recorded cost or less? I'm just wondering if an effort's been made to determine that.

MR. ELZINGA: I recognize and respect the form in which the member has put his question, but I would respectfully suggest that the Provincial Treasurer would be the best one to respond to that because it's under his responsibility that the report is issued.

MR. CHAIRMAN: Supplementary.

MR. HAWKESWORTH: Then it won't be a question; I'll just perhaps make a point of sending the minister an assessment done by Professor Mumey at the University of Alberta for your consideration, who indicates that he feels the market value of those assets are considerably below what's recorded at cost in the trust fund. I think you'd probably be interested in his assessment.

MR. ELZINGA: I appreciate that very much.

MR. CHAIRMAN: The Member for Westlock-Sturgeon.

MR. TAYLOR: Yes. My question is along one of the resolutions that was moved last year but didn't pass. That was that the heritage trust fund call in \$100 million of the \$200 million that had been loaned to Vencap Equities. In your opinion, is that a possibility? Could part of the loan be called in, or is it a fixed loan?

MR. ELZINGA: It is fixed by agreement. Forgive me; what prompted that question? You indicated somebody had suggested that?

MR. TAYLOR: Yeah, that some of the committee had felt that \$200 million was too much to have out at risk with Vencap, and we should try to recover part of our capital, and consequently they would just try to call in the loan. If it's a fixed debenture, you can't do that unless you have a right to convert to cash in it.

MR. ELZINGA: If there were to be any changes, it would require the agreement of both parties. There's nothing to say that we could not have negotiations with the Vencap board, but my understanding of the agreement is that it's a fixed agreement, whereby if there were to be any alterations to it, it would require agreement on the part of both parties.

11:21

MR. CHAIRMAN: Supplementary.

MR. TAYLOR: Yeah. Is this is my last one or second last one?

MR. CHAIRMAN: The last one.

MR. TAYLOR: Of course, I guess. By the sound of it we could go on forever here.

The next question is: in view of the fact that the interest rates . . . [interjection] Lacombe always belches about this time of day.

In view of the plunging interest rates — it's down now to 8 and a half and maybe going down further. Yet in many of these debentures that you've taken, the loans are written to the companies at probably 10, 12, 13, 14 percent. Has there been any examination that there'd be a wholesale payoff of those things, rewriting the loans? In other words, does the borrower have the option to kick you out, pay you out and go for cheaper money?

MR. ELZINGA: Forgive me; I would suggest respectfully that the Provincial Treasurer would be the best one to respond to that, because he does have overall responsibility for the . . .

MR. TAYLOR: He keeps the file on debentures; I see.

MR. CHAIRMAN: Thank you. The Chair doesn't have any other questions from the members. Consequently, I would like to thank the minister and his officials for being here with us today and for the good information they have passed through to the committee. Hopefully, it will be beneficial to the committee when they embark on their recommendations for this year.

The Chair would entertain a motion for adjournment from the Member for Lloydminster. All in favour? Thank you. We stand adjourned until 2 p.m., when the Minister of Municipal Affairs will appear before the committee.

[The committee adjourned at 11:22 a.m.]