

Standing Committee on the Alberta Heritage Savings Trust Fund Act

1:02 p.m.

[Chairman: Mr. Dunford]

THE CHAIRMAN: Okay. We'd like to get started. I'm calling the meeting to order. It's 2 minutes after 1.

As our committee members know but for the information of the minister and his guests, we will proceed for two hours or whenever the questions cease, whichever first occurs. We would ask that you provide us with an opening statement, but we would want you to confine it to 15 minutes. When we start the questioning, we will have an opposition member begin and then it will go to the government side, and it will just rotate back and forth until one side or the other is finished or both.

We are not as strict as question period, Mr. Minister, in the sense that at each position the member will have three questions. They don't necessarily have to relate to each other. It could be three main questions; it could be one question with two supplementaries. It is my job to attempt as best I can to make sure that the questions are at least remotely related to the '94-95 report of the heritage savings trust fund. I've been allowing a fair amount of latitude, but certainly if it goes beyond my flexibility, I will hop in. I would just indicate to you that you may use discretion. If you feel that the question is not part of the reason that you are here today, you can certainly express that to me and I would make a ruling, or if I see you looking uncomfortable, I'll hop in as well. We want this thing to be as pleasant an experience for you as we can make it, but we also want it to be meaningful in the sense of information for the members and then of course, through *Hansard*, the people of Alberta.

So with those remarks I just have one little House duty that I have to take care of. Any recommendations to be read into the record?

Okay. Mr. Minister, if you would proceed, we would be happy to hear what you have to say.

MR. SMITH: Well, thank you very much, Mr. Chairman, and season's greetings and best wishes for a happy holiday season to all. In fact, I think it can remain pleasant at this festive time in the season. We all have so much to be thankful for living here in Alberta and enjoying the bounties of the Alberta advantage, which I could dwell on indeed for some two hours of the allotted committee time. But knowing that the members of the committee are very familiar with the Alberta advantage and of course seeing the news of the expansion of NorTel and the movement of CP Rail, the consolidation of that into Alberta, and in fact yesterday seeing a small technology company opening called Agents of Change, I think that everybody is going to be able to sit back at Christmastime and see how they benefit each and individually from the Alberta advantage.

Mr. Chairman, I'd like to introduce on my right, sometimes on my left, Mr. Al Craig, who is the Deputy Minister of Economic Development and Tourism. On my far left – and this is not political in orientation but only in seating order – is Peter Crerar, assistant deputy minister, corporate and policy development. To my immediate left is Brian Williams, assistant deputy minister of business finance and all remaining members of the department since an effective rightsizing initiative, taken place since the benchmark '92-93 business plan, has resulted in some 47 percent reduction in spending and staff.

Mr. Chairman and members of the committee, when the heritage trust fund was set up some 19 years ago, three goals were in mind: one, to save for the future; two, to strengthen and diversify Alberta's

economy; and the third, to improve generally the quality of life in Alberta. There's no doubt in my mind and I'm sure little in the minds of the members of the committee of the benefits that the heritage trust fund has made towards this contribution. The fund has provided financial support to a number of economic development initiatives: projects that diversified the economy, stimulated new industries and investments that generated economic benefit to Alberta.

An update to members of the trust fund committee on economic development projects funded by the Alberta heritage savings trust fund for fiscal year 1994-95. Of course one which is near and dear to my heart is the Alberta Opportunity Company. In fact, since its inception in 1972 the Alberta Opportunity Company has provided assistance to over 7,200 businesses, totaling some \$720 million. Approximately 90 percent of these loans have been successful, creating and indeed saving jobs and operating efficiently through a very difficult period of Alberta's economic past. They have been instrumental in introducing improvements in productivity and technology and developing in some fashion Alberta's export and tourism potential.

The Alberta Opportunity Company has been around since 1972 and has taken on different visions. Its aim coincides with those of this government in terms of creating more job opportunities through a better environment for the private sector and a better export infrastructure. The company has made a large contribution to Alberta's economic growth, being mindful, Mr. Chairman, that it indeed has a mandate of being a lender of last resort, and of course, it is critical that taxpayers receive the best value for their investment.

We have asked the Alberta Opportunity Company to continue to make administrative efficiencies, and that's part of why we're reviewing its operations now. As a matter of fact, we are very fortunate today, Mr. Chairman, to have the MLA who is coordinating that review with this department, and that would be the Member for Red Deer-South, Mr. Victor Doerksen. In fact, I would say that in the give-and-take of amicable questioning perhaps Mr. Doerksen would be jumping at the opportunity to participate in debate.

Let me turn to the heritage trust fund's investment in the Alberta-Pacific pulp mill project, affectionately known as Al-Pac. Al-Pac is one of the largest capital investments that Alberta has attracted in the past decade. The total annual pulp production capacity is some 530,000 tonnes, about 1,500 tonnes of pulp daily. In fact, upon visiting that site and looking over the trust fund's investment, they are a world record holder for pulp mills of that class for output. Interestingly enough, Mr. Chairman, that is a non-union shop, and when I was there, there was a millwright who is generally charged with maintenance duties operating a forklift and loading the last remaining pallets of pulp in the warehouse onto the boxcars. So this ability for flexible assignment of task can contribute to the increase in efficiency at Al-Pac.

In Al-Pac and around the site, Mr. Chairman, there are about 2,800 people-years of employment that have been created through construction and subsequent infrastructure completion. The company employs approximately 411 persons at the mill and 625 persons in the woodlands area. The project was completed on time, probably due to the fact that one of Alberta advantage's main benefits is the productivity of its workforce. In fact, some 50 percent of the workforce in Alberta hold some form of secondary education, a postsecondary certificate or specific education that makes them tops in the world in being able to bring things together, complicated projects, on time and on budget.

1:12

Since beginning operation in August of '93 Al-Pac has become well established in the market and the company has generated

positive cash flows. In short, Al-Pac proceeds. I know, just judging from the quick jotting down of numbers and notes by members of the committee, there'll be burning questions on the topic afterwards, and I'll be more than pleased to entertain them.

One thing that I would like to cover, Mr. Chairman – it seemed it was exhaustively covered in the previous heritage trust fund meeting with the Premier but no doubt will want to be scrutinized again – will be Millar Western Pulp. I'd be pleased to address any questions the committee may have with regard to the operations of Millar Western Pulp and its operation in Whitecourt. In fact, Millar Western Pulp employs 167 Albertans in its operations in Whitecourt, and it is estimated that over 230 woodland and other direct jobs have been created due to the project. The company spends approximately \$100 million annually in goods and services here in Alberta, which includes salaries and taxes.

The fund provided assistance to finance Alberta's first chlorine-free chemithermomechanical pulp mill, affectionately known in the trade as CTMP, a process which is particularly attractive to environmentally conscious customers. The project increased international awareness of Alberta's forest resources and in fact put that recognition in the world marketplace. To realize the benefits of not only that project but the other projects, Mr. Chairman, is to note that the forestry industry is now the number three revenue-producing industry in Alberta, followed closely by tourism.

I'm sure, Mr. Chairman, there is a desire by the committee and by its members to speak towards something we are no longer involved in, that being Vencap Equities Alberta Ltd. I felt actually proud to be able to bring forth the Vencap repeal Act, and I think it's a clear sign as to the new scope of government coming forth from the Alberta government. I think it reflects a growth in the marketplace, that now there are venture capital opportunities out there that have developed over the last 10 years that can now operate efficiently in the marketplace without intervention by government. Unfortunately, in some other levels of government run by different political affiliations we're not able to get that same message through and there are still those types of agreements and companies intervening in the marketplace.

Vencap was created in 1983. The company's objective was to assist in the creation of new Alberta-based companies and to broaden the economic base of the province. Since its inception and up to March 31, 1995, Vencap invested and/or committed \$265 million in 78 companies which contribute largely to ongoing diversification of the Alberta economy.

Mr. Chairman, 10 years ago if one took a snapshot look at the Alberta economy, one would have noted that over 35 percent of the GDP was directly attributed to energy. In fact, in 1994-95 the dependence on energy in the Alberta gross domestic product is down to some 23 percent. So the economy is growing. It is diversifying. Our critical mass is at work in Alberta, and I think to a large extent that's a function of how successful we've been in our export growth. In fact, 35 percent of our GDP is export.

So those are the basic four projects from the fund that we're prepared to discuss today, along with anything else you in your wise judgment deem appropriate. I believe we can continue forward, and I look forward to your discussion.

Thank you very much.

THE CHAIRMAN: Okay. Thank you, Mr. Minister. Quite timely and also quite prophetic, I would think, based on your comments and what I understand and know of my fellow committee members.

We'll begin the questioning with Mike Percy.

DR. PERCY: Thank you, Mr. Chairman. Mr. Minister, gentlemen, my question relates to Millar Western. On March 1, 1994 – although that doesn't appear to fall within the scope, it has a tremendous impact in terms of the value of the debenture and the continued absence of any interest payments – the restructuring agreement was struck, which basically allowed Millar Western to get a \$30 million loan from the CIBC. That restructuring involved, then, setting up Millar Western Pulp, Millar Western (Whitecourt), with \$30 million of the debenture being put into Whitecourt and the remaining \$90 million, I guess, in Pulp, with Mr. Williams actually being on the board of Whitecourt. At this period, when this money is being borrowed, Millar Western is also heavily involved in other activities, whether it's a sawmill in Boyle or whether it's a CTMP plant in Saskatchewan. Question: why was the province of Alberta going out of its way to in effect cross-subsidize investments in other provinces by being a willing patsy in the restructuring?

THE CHAIRMAN: While you're thinking about an answer, I want to say "Hi" to some guests that we have in the gallery and indicate to them that what they're witnessing today is a hearing of the standing committee on the heritage savings trust fund.

Yes, you should wave. A lot of these people are your friends.

I don't know if you can see on the side of the House to my left, but the fellow in the light suit with sort of reddish hair is the Hon. Murray Smith, who is the Minister of Economic Development and Tourism, and he is appearing before us today. In the House to my right side, sitting in the front rows, are the opposition members from the Liberal Party, and behind them are government members here today from the Progressive Conservatives. It is their job to question the minister about the activities that his department has had as it relates to the heritage savings trust fund.

I don't know if you were given programs, but we are not required to sit in our normal desks during these hearings, and gentlemen are welcome to take off their jackets, which is not normal if you were here to view a normal sitting of the Legislature of Alberta.

So we're glad you're here. I see angels, and I see wise men, and I see a number of other folks who are represented in your group. Shepherds? We're very happy that you'd come and visit us today.

MR. SMITH: Thank you, Mr. Chairman, and in fact that does substantially increase the ratio of wise men to shepherds in this building.

In response to the member's keenly crafted question, yes, he is right. In fact, it is not in the scope of this discussion today, but I will respond. It is not a cross-subsidization. In fact, it was refinancing and restructuring taking place to limit the government's exposure so that the government would tie a fence around the amount of money it would put in. In order to secure the investment, this restructuring took place so that they could secure additional cash injection from the bank, continue to employ Albertans, limit the provincial government's exposure, and draw a fence around what we would be expected to contribute. It's not cross-subsidy. I can't relate a business example to the member because he's not been in business, but as a university professor, perhaps I can . . .

DR. PERCY: Oh. Maybe you could talk to Norman Green, who's quite capable of cross-subsidizing, like Mac Miller.

MR. SMITH: Well, how can one address that flagrant breach of topic?

The fact is that the operations from Millar Western Pulp (Whitecourt) are all the part that the government's involved in, and we do not have money in place outside of that investment.

1:22

DR. PERCY: A second question. According to – what is it? – the amended and restated Crown loan agreement, the amount of interest that is owed on the original \$120 million is \$93,910,437, owing not only on the principal, but interest is also due on the interest that is accruing. Yet at the very time Millar Western owes \$94 million in interest to the province of Alberta and to the good citizens of the province of Alberta, this company is actively engaged in expansion elsewhere, in Saskatchewan. How could they afford to build a plant in Saskatchewan when at the same time they owed \$94 million in accrued interest to the province of Alberta?

MR. SMITH: I'm going to ask Brian Williams from the department to answer that question.

MR. WILLIAMS: First of all, I think I would just echo what the minister said, and that is that the \$120 million original loan was to Millar Western Pulp only. There were no guarantees by Millar Western Industries, and they're involved in many other business transactions.

Building another pulp mill in Saskatchewan under a separate company was no different than the Millar Western Pulp mill here. It's a separate entity. They made a deal with the Saskatchewan government. I have no idea what it is. But certainly there were no funds from Millar Western Pulp put into that mill or any other businesses of Industries.

DR. PERCY: Okay. The fact that they wouldn't or couldn't pay the \$93 million in interest meant that they had \$93 million that was owed the province of Alberta. They didn't pay that, yet there were funds available for Millar Western to undertake investments elsewhere. Had they paid that interest, I doubt very much whether investments would have gone forward in Saskatchewan. So my question, I guess. Although you can say that no funds directly went in, the fact that they had such sweetheart agreements from day one and a restructuring that, on one hand, you can say limited the exposure, put that \$30 million way at the back of the bus when it comes to precedence. It strikes me that we in fact basically gave them the money to find investments elsewhere by giving them an interest free loan, and for a government that wants to be out of the business of being in business, that strikes me as just, well, not consistent with what has been argued by this government.

MR. WILLIAMS: Well, perhaps I could carry on on that one. In 1988, when a \$120 million loan was given to Millar Western Pulp, in the agreements that were in place at that particular time, any excess cash flow would go first to pay the interest – okay? – on a \$120 million debt. Now, during the period '88 to June '94 the Millar Western (Whitecourt) plant did not generate any positive cash flow. So those were the agreements that were in place: a separate entity, a separate agreement. I mean, whether in the meantime Millar Western Industries and their other subsidiaries in lumber and a number of other sectors were making money, that I don't know. We're not part of Industries; we're not privilege to their financial statements.

THE CHAIRMAN: Okay. Thanks.
Victor Doerksen.

MR. DOERKSEN: Thank you, Mr. Chairman, and welcome, Mr. Minister. Even though I'd really love to ask some questions about AOC, I'll leave that for another time later on down the list. I want to ask you about a policy question to start with, and it has to do with the Alberta investment division.

I'm looking at two investments, one being the Canadian Western Bank and the other being Nova Corporation of Alberta. These are investments that are being made into shares, which I am assuming carries, then, some ownership privileges with those companies. Do we have a policy within the heritage fund as to the percentage of ownership that we can participate in? Are we limited to an amount? In the case, for instance, of the Canadian Western Bank, are we able to get out of these investments relatively easily? Do you follow my drift?

THE CHAIRMAN: I'm sure the minister follows your drift. I just want to again indicate to all members that over the period of time that the heritage savings trust fund has been in place and activities have been generated with the particular funds, there's been quite a number of ministers. The minister we have in front of us today is, of course, responsible for the portfolio. Again, the chairman, in his organizing of the committee, sent to the minister, one, an invitation to appear before us, but, secondly, we then indicated on that items which he should be prepared to discuss. My recollection of that note did not include either Canadian Western Bank or Nova.

Now, I don't want to inhibit, of course, any member in their questioning. I would just simply again offer to the minister the opportunity to say, "It's beyond what I'm prepared to discuss today," and we can let it go at that, or you're entirely free to develop an answer for the question. However, I must caution you in the sense that in your answer you then, of course, may potentially expand the record for this particular meeting, and then I think you should be prepared to feel that you would have to respond to some of these other activities that have taken place over the years which it was not our intention initially to question you on.

MR. DOERKSEN: Mr. Chairman, if I might clarify, my questions were not specifically addressed to the two companies that I referenced. They were merely used as an example in relating to what a policy decision might be with respect to investment in regards to the Alberta investment division.

THE CHAIRMAN: Okay.

Again we've had a clarification on the actual question. With all due respect, we clearly understand you were not at the cabinet table when those decisions were made back in 1977 or whenever it was. So, once again, you're free to use your own discretion as to how you wish to respond.

MR. SMITH: Well, thank you very much for that clear guidance, Mr. Chairman. In fact, I would defer that to the Treasury division. It has a deputy minister responsible for revenue. I believe he appeared here a month prior with the Premier and addressed some of these questions that were general in nature. In fact, I would think it would be in the best interests of the committee to leave it at that and pursue that from a Treasury perspective.

MR. DOERKSEN: Second question. I hate picking on my co-chairman this way. Well, then I'll have to go to AOC whether I like to or not.

THE CHAIRMAN: AOC wasn't in our documents for today.

1:32

MR. DOERKSEN: Okay. I just want to reference a comment and I know I have a colleague who also wants to ask questions about AOC, so I don't want to take his question. Mine has to do with a comment that's made on page 23 of the Alberta heritage savings trust fund annual report. It says:

Effective April 1994, the Heritage Fund is no longer providing financing of provincial Crown corporation requirements. The Crown corporations are meeting their financing requirements by having the province borrow in the financial markets on their behalf.

So I'm going to make an assumption and then ask a question to do with that. As the debentures for AOC mature, they will be paid off and replaced, then, as the Alberta Opportunity Company sees fit from the borrowings through the general revenue fund, I guess. The question is: are we allowing the Alberta Opportunity Company to be able to match funds to their borrowers so that they can get a spread between what they lend out at and what they pay back at?

MR. SMITH: In fact the Alberta Opportunity Company did not borrow from the heritage trust fund in 1995. The two financing vehicles that they have now – one I believe is from the small business revenue grant, which is basically an operating grant that was as high as \$13.8 million and is now budgeted to be under \$7 million for the next fiscal year. The AOC will borrow from the general revenue fund, and they will then lend out that money. There is a requirement that they lend out at 2 percent, two points, above prime, and there are now prepayment penalties built into their loan agreements. In fact information given to me from the board of directors indicates that they are in a far better position with respect to borrowings from the GRF, repayments, and managing their business in a competent lending fashion. So we expect reductions there as well as from the small business revenue grant.

THE CHAIRMAN: Another question, Victor?

MR. DOERKSEN: No. You can carry on.

THE CHAIRMAN: Okay. Debby Carlson.

MS CARLSON: Thank you. Good afternoon, everyone. I'll refer to the annual report and ask my questions about the Prince Rupert grain terminal. In the report it talks about "\$34.3 million of interest accrued and capitalized but not recorded on the Heritage Fund books." How are you handling that at this point?

MR. SMITH: The Prince Rupert grain terminal has its primary responsibility housed in agriculture, Debby, and I would think that when the hon. minister of agriculture appears here, he'd be pleased to detail that investment and its current position for you.

THE CHAIRMAN: We did notify the minister of agriculture of that.

MS CARLSON: Okay. So he'll be answering all the questions with regard to that?

THE CHAIRMAN: If you bring it up, yeah.

MS CARLSON: Okay. Good. Then I'll return to AOC.

MR. SAPERS: Is a representative of Prince Rupert here with us?

MS CARLSON: No. They're saying no.

Is there a current market value of what that company would be valued at if it were independent?

THE CHAIRMAN: Are you asking about Prince Rupert?

MS CARLSON: No, the Alberta Opportunity Company. Sorry.

MR. SMITH: No, there isn't.

MS CARLSON: No? Do you have any plans to establish a market value for it?

MR. SMITH: Given the way that the company is funded from both the GRF and from the small business revenue grant, the ability to provide a market evaluation on the operation of the company I believe would be not worth while to undertake. To evaluate the security, the portfolio – how secure is the portfolio, and what would be a discount factor you would apply to that portfolio if you were to sell off the portfolio? – would probably be a more realistic type of evaluation. The ability to evaluate it as it stands now would really serve no fruitful purpose. In other words, it could not be sold the way it runs now, as in fact a commercial lender, because the Act does not allow it to work in a commercial lending sort of way.

MS CARLSON: Okay.

THE CHAIRMAN: That was your third.

MS CARLSON: Oh, was it?

THE CHAIRMAN: Do you need some clarification on that last answer?

MS CARLSON: No.

THE CHAIRMAN: We'll come back to you then.

MS CARLSON: Does my Prince Rupert question count as a question?

THE CHAIRMAN: I'm sorry?

MS CARLSON: That was just two questions on AOC.

MR. SMITH: No. It was three.

THE CHAIRMAN: You'd asked about Prince Rupert.

MS CARLSON: Oh, okay. Fine. That's fine. Good.

THE CHAIRMAN: We'll give you another opportunity.

MR. SMITH: If we can just pursue the value side of AOC on – now, this is page 58 of the annual report of the Alberta heritage savings trust fund. The Alberta Opportunity Company has a market value of \$79 million.

THE CHAIRMAN: We might want to think about that one tomorrow when we have the Auditor General in front of us as well. Okay. Moe Amery.

MR. AMERY: Thank you, Mr. Chairman. Mr. Minister, my question deals with Vencap and government control of the investments that were made by Vencap. I think that over the last 12 years Vencap has made investments in over 75 companies. Some of these investments were viewed as bad investments. So I wondered: to what extent does the government have any input in these investments made by Vencap?

MR. SMITH: As we know, one of the reasons why we were able to move forward with the orderly disposition of Vencap is the fact that Vencap Equities Alberta Ltd. is a public company. All know that their shares are traded publicly on the Alberta Stock Exchange. I myself have none of those, Mr. Chairman.

The Alberta government does not have representation on the board of directors of Vencap. In fact, investment decisions are made at the sole discretion of Vencap and its board of directors, who are accountable to the over 13,000 shareholders, who are the people of Alberta who have undertaken to buy shares in the company. The directors have a fiduciary responsibility to those shareholders to act in the best interests of the 13,000 shareholders. I believe they've done that. They've done that with the investments on the 78 companies and also have indicated that it is in the best interests of the 13,000 shareholders to divest the Alberta government interest in it as well.

MR. AMERY: My second question is: was there any income received or realized by the Alberta heritage trust fund as a result of Vencap investment in the K-Bro linen supplies company?

MR. SMITH: Well, a keen question, colleague, and one that I'd be pleased to answer. I don't know how you came up with that one. In fact the trust fund receives a participation payment equal to 50 percent of Vencap's net income before income tax. The Vencap financial statement does not show any income from a company called K-Bro Linen Systems Inc. as interest or as dividends for the fiscal years ended March 31, '93, '94, and '95. The detail was not provided prior to March 31, '93.

MR. AMERY: Thank you.

THE CHAIRMAN: Murray, I didn't indicate to you that we have a speakers' list but we have found that in the interest of time, sometimes we will allow members to trade their spot. We have one of those situations in front of us now. Peter Sekulic has traded his spot to Mike Percy. It's in the interests of continuity.

1:42

DR. PERCY: Thank you, Mr. Chairman. Mr. Minister, gentlemen, the government has said that it's out of the business of being in business and loan guarantees in particular, but if you read the contract, the agreement, it allows the province of Alberta – I think it's phrased really delicately. It's entitled to cure any default by Whitecourt of any of its obligations to CIBC through additional advances. There's a very delicate language there that if the province so chose, it could come forward and correct a deficiency. Under what circumstances would it happen that the province would come forward were Whitecourt to default on its obligations to CIBC?

MR. SMITH: I'm glad that you were able to trade your question with the soon-to-be-ambulatory Peter Sekulic.

The wording of the agreement I don't think, Mike, is as important as the intent of the government. Certainly to go through all the restructuring that had taken place to try and, one, save the people working there so that in fact those people are working today and able

to get, hopefully, a Christmas bonus and hopefully put some turkey on the table – without having reached a restructuring agreement, Mr. Chairman, in fact those people may not have had jobs. What it has done is limited where the government sits in terms of not providing further money into the Millar investment.

Certainly this minister would never at this juncture be advocating further support of a loan guarantee to or intervention in the private sector by direct infusion of government cash. In fact, that strategy is clearly outlined in the January 21 business plan of the department, where in fact we feel there is a far greater upside in influencing the growth of the Alberta economy through taxation strategy – M and E as an example – and, secondly, through regulatory reform. Although there is, in the member's words, delicate wording, I think it's clear that this government's intent is not to participate further in the direct intervention in the economy. In fact, I'm sure that had not the Member for Edmonton . . .

THE CHAIRMAN: We're informal here. If you wish to call him Mike, it's fine. Otherwise, it's Edmonton-Whitemud.

MR. SMITH: The guy with the crutches.

MR. SAPERS: Edmonton-Manning.

MR. SMITH: It's Edmonton-Manning; isn't it? He is probably burning up inside to ask a question about furthering a guarantee at Al-Pac, for example, which, if one were to carefully read the agreement, one would find out that it would say: subject to government policy at the time. I think that the government policy at the time has been very clear. It's been spelled out by actions on numerous occasions as well as the reporting system that you see now happening on a quarterly basis in the financial statements. I mean, we're just not in direct intervention anymore. I appreciate the member's diligence in finding that delicately worded statement.

DR. PERCY: I'll be less delicate now in terms of the way I phrase the question, Mr. Chairman. This agreement was negotiated on March 1, 1994. That is not: that was then; this is now. It was the government of the day which is in government today that negotiated this agreement. It was a then different minister of economic development and trade. When you read this agreement, it does everything but give a guarantee. It gives every conceivable mechanism possible for the government to come forward and correct any deficiency on the part of Whitecourt with respect to CIBC. What you've suggested, then, is that it's got to be a Horatius at the bridge that precludes a government or subsequent government from providing that advance, but it's been clearly written into the agreement that if the government so chooses it could. You know, if it smells like a guarantee and it looks like a guarantee, it virtually is a guarantee. So why is it there if it's not to be used?

MR. SMITH: I'll have Brian supplement my answer, but I think that on the political part clearly you're right: I wasn't there at the time. I didn't undertake any discussions or was not consulted about the restructuring agreement. I can tell you that, you know, the intent from this ministry at this point in time is that we would not entertain that.

As to the specifics of how that agreement was put together with that wording, I'll ask Brian Williams to supplement.

MR. WILLIAMS: You're absolutely right. One of the things that you did mention is that it's at the government's discretion whether they're going to come in and, through a guarantee, correct a default. As you know, 60 percent of the common shares of the Whitecourt

mill, the ownership, are assigned to Alberta. After June 1, '99, we have the right to really sell that interest on the public market, albeit Industries has a 14-day period to step to the plate to match an offer. I guess the thought behind there was that we did not want to get into a position where it was close to June 1, '99, when we could step in, assuming just for hypothetical purposes that the pulp market was very good and the value of the mill was up around \$300 million or more, yet some small default would come up and put the bank in a position where they could come in and realize on their security. So we could correct that, if we so chose, to protect our security, being the 60 percent shareholdings.

DR. PERCY: Okay. It certainly goes double edged.
A final question, Mr. Chairman.

MR. SMITH: Mike, just before you do that we have . . .

DR. PERCY: Oh. Sorry.

MR. CRAIG: It's just my recall, Mike, that at that point in time we were dealing with the bank, the government, and a company in trouble. We were asked to put additional money into the company, and we said no. So, you know, the dynamics there were a little bit tricky, because the leverage probably then flowed to the bank because the bank was going to put up the money. So between those three parties it got a little interesting as to how that restructuring was going to fall out and how, one, we were going to look after the government's interests, presumably keep the company viable, and obviously the bank was looking after their interest.

DR. PERCY: A final question. Had there been a default, obviously we would have lost our money. In fact, we've written off the \$90 million, and the \$30 million has been written down to \$21 million because of the lack of interest payments. But the plant would have been there, and there would have been those turkeys on the table. All that would have happened is that Mac Miller and crew would have not been there. The plant would have been there. It's a physical, tangible asset that would have continued to operate, and those employees would have been there working. It's a real asset that generates money, and perhaps under different management it would generate enough money to pay off its interest. So I guess I would just come back to the hon. minister and say: what's wrong with sometimes letting the market take a run at this? We had written down the loan in any case.

MR. SMITH: Again, I wasn't there; I wasn't consulted, Mike. I think the undertaking was as Al said, that there were three groups in trouble that had a very heavy cash call, and it was a matter of the government having no expertise in running a plant of that nature. In fact, having sold an asset that had nobody in the building and was not an up-and-running asset, I can tell you that a building without people in it, a mill that isn't pulping, has substantially less value than something that is up, running, and is being maintained. I can only suggest, not having been a part of it, that the decision was made to keep it up, keep it running, keep it as a viable enterprise and structure the deal in this way.

1:52

THE CHAIRMAN: Okay. Thanks.
Shiraz Shariff.

MR. SHARIFF: Thank you, Mr. Chairman. Mr. Minister, good afternoon. I've had some questions about the Alberta Opportunity

Company. I'm referring to the annual report, page 24, where it stipulates that the AOC "provides loans, guarantees, financial and management assistance to small . . . businesses." These are services that are available out there in the private sector at the present time. My question is: is there a continuing demand for AOC to be in the financing sector?

THE CHAIRMAN: Now, Shiraz, on that question, there were no funds from the heritage savings trust fund in '94-95 extended to AOC, so we need a little more preamble, I think, on your question as to how you're tying it to this report.

MR. SHARIFF: I will do that. The minister in his opening remarks did indicate that he had a lot of support and that this was a project he felt needed to be in existence. Therefore, I am questioning whether there is still a continuing demand for AOC's existence.

MR. SMITH: The degree of involvement that an arm's-length, private sector run, government-funded company could have in rural small business financing is open to debate and in fact could be argued in both ways effectively. One, you have banks saying that there's over \$39 billion worth of small business financing at work in the marketplace in Alberta with over 81 percent of all applications that are sent to them being approved. So you make the decision: is a 19 percent rejection rate acceptable to the marketplace? In fact, if I recollect, the same bank that declared a \$1.26 billion profit just recently has also established a \$300 million fund for small business lending. One could say that the banks are moving in the direction of providing more financing for small business.

One of the traditional discussions in Alberta that's made lending to Alberta small business, the backbone of our economy, difficult is the fact of the higher security requirements, the higher collateral requirements, and the lower lending levels for real property and storefront fixtures in leasehold buildings in rural Alberta. In fact, for one that you would have 30 percent collateral on in the cities, you would be asked for 50 percent in rural Alberta. It reflects the risk, reflects the smaller market.

The Alberta Opportunity Company in fact bridges some of those areas in the small markets where people who want to expand their business or buy real property have been turned down by two traditional lenders. They have to be turned down by two lenders before they can approach the Alberta Opportunity Company. Then the Alberta Opportunity Company lends on a businesslike basis with an appropriate amount of surety and guarantees in place. This is not just the government giving out money. In effect, there are personal guarantees in place. In effect, there's security and collateral given as per a conventional or normal lender.

As banks grow and continue to find it profitable from a return basis to lend money into smaller Alberta markets, the role of the Alberta Opportunity Company will probably diminish somewhat in that line. The lending profile of the Opportunity Company as you look at it now actually is leaning more and more towards larger cities, and in fact 60 percent of its lending profile is in cities over 20,000 population with only 40 percent going to the rural areas.

The lending business continues to change. The Opportunity Company has been tasked with being able to provide services to Albertans that have found it difficult to attract interest from the banks on a conventional basis with what they lend in the urban markets. So that is the particular niche that the Alberta Opportunity Company fills in today's marketplace.

MR. SHARIFF: Thank you.

Then I'm just wondering: if that's the case, do we have any either strategy or policy in place or do you foresee a time when AOC can be self-sufficient, self-funding, and independent?

MR. SMITH: Not under its present structure, no. In fact, one of the things that will diminish its lending profile is that it's dependent on economic growth. Part of that is tied to the basic policy of this government to, one, provide the environment that allows business to grow. I know everybody would like to go over each individual facet of the Alberta advantage. I won't spend that time telling you about no provincial sales tax, lowest corporate income tax, but I will talk about taxation strategy and particularly the machinery and equipment initiative. When you look at that, which is primarily a rural-based initiative for growth, that growth creates investment opportunities in rural Alberta that lead to further growth, that lead to further interest by conventional lenders in those smaller markets. In fact, as that critical mass for wealth creation occurs, as the economy grows, as those areas grow, the conventional lenders are more and more interested in being able to lend money under normal security rates, under normal collateral, or under comparable collateral rates. So that in fact will push down the demand for AOC.

THE CHAIRMAN: All right. Howard Sapers.

MR. SAPERS: Thank you. First, Mr. Chairman, a point of clarification on a judgment you made earlier about questions to do with the Prince Rupert grain terminal. I recall that when the Premier appeared in front of the committee earlier in this session, part of his answers indicated that since he was no longer the minister responsible for economic development, questions this committee posed to him in previous years would be best directed towards the minister now responsible for ED and T.

Now, the minister before us today is in fact the minister responsible for economic development, and economic development obviously would have some overlap with the government's interests in the handling of grain, the Prince Rupert grain terminal, and other areas – Canadian Western Bank, AOC – a number of things that he may not have been specifically advised we were going to ask. But certainly the previous history of this committee, as I understand it, is that a fairly wide prerogative has been granted members of the committee in questioning the minister responsible for Economic Development and Tourism. So I'm curious as to your exclusion of those questions for this minister at this time.

THE CHAIRMAN: You've asked for clarification, and what I might give by way of clarification – and I'll accept the responsibility for the note. It is customary as we are attempting to get the hearings lined up for us to send a list to the Premier, cabinet ministers, and invited guests who have the responsibility for investment projects. I believe, if I'm not mistaken, Diane, that this is a summary list that you and I use.

2:02

MRS. SHUMYLA: Right, and that summary list is in the front of everyone's binder as well.

THE CHAIRMAN: Right. The summary list that is in the front of your binder is a summary of the individual letters that we sent to the various people we were asking to come in front of us. The Premier would not have had access to this whole list, and I'll accept that responsibility for not providing him with it. So in his comments here he would have wanted to refer the question, and his reaction at

that particular time was to refer it to the Minister of Economic Development and Tourism. Unfortunately for me the letter that we sent to the Minister of Economic Development and Tourism simply listed the Alberta Opportunity Company, the Alberta-Pacific pulp mill project, Millar Western Pulp, and Vencap Equities Alberta. The Prince Rupert grain terminal was actually included with the items that were sent to the Minister of Agriculture, Food and Rural Development.

So we have a situation here where you're quite right. The Premier did in his comments make reference to this minister, but I would simply point out to you that as chairman I had not asked the minister to be prepared in that particular area. I had asked the minister of agriculture to be prepared in that particular area. I'm not trying to exclude the question. I'm just wanting people to understand why a minister may not want to respond. I think you're correctly pointing out, Howard, that you should be entitled to ask your question about Prince Rupert grain to this minister, and you can go ahead and use a question that way. I'm simply clarifying that Murray probably isn't here armed with the information to answer your question, but it will be up to him. It will be up to you, first of all, if you want to carry on and ask in that area. It'll be up to the minister, though, whether he wishes to answer.

MR. SAPERS: Thank you. That reminds me a little bit of question period. Maybe we can talk about some procedural things at the recommendation stage, if we ever have an opportunity to do this again as a committee.

Let me go back to Millar Western Pulp then, which the minister is certainly well prepared to respond to. I'm wondering if the minister will tell the committee what specific safeguards were in place and continue to be in place that would stop Millar Western or any of its subsidiary operations from simply shifting assets and liabilities around, given the wording of the agreement, so as to guarantee that there will not be a positive cash flow upon which to base repayment of the interest.

MR. SMITH: Good question. I'm going to ask Brian, who is involved in it in detail, to give you the detailed technical side of that so that you will in fact be comfortable at night.

MR. WILLIAMS: Okay. I'd like to do that. First of all, let me just discuss the capital assets or the assets of the company. They are all registered with the bank and with the government. Any changes under a very small amount in sale of capital assets have to be approved by the bank and the government. So there's a specific charge, everything going down to Caterpillars for example.

With respect to intercompany dealings – for example, industries selling wood chips to the pulp mill. The audited statements: when the auditors do that, they look in particular at those agreements that are in place, that in fact they're operating as they should, and then each month when we get the statements of Millar Western (Whitecourt) we have the senior officers sign a declaration that all the agreements that are in place between the government and the company have in fact been complied with in accordance with the terms.

MR. SAPERS: Mr. Chairman, just to clarify that. Were those the agreements, my question said, that were in place and are now in place? Were those the protections or the safeguards that were in place prior to the '94 restructuring or subsequent to the '94 restructuring?

MR. WILLIAMS: Both.

MR. SAPERS: Okay.

There's been a 53 and a half million dollar write-off on the principal, as I understand it, on the loan to Millar Western. There's been a \$45 million or \$46 million write-down on the value of the loan. There are untold dollars lost in forgone interest payments on the loan. Does the minister have an estimate of the total losses that the people of Alberta will have on this venture and what'll have to be absorbed ultimately by the heritage savings trust fund?

MR. SMITH: The ultimate balance sheet, Howard, will be determined at the point of sale, when you know what your revenue side is. That revenue side takes place with the discharge of the bank debt. Contrary to what a member had earlier suggested, that we were way, way down the line, we're just down the line, in second place in fact. So once the bank debt is discharged, either a sale kicks in through an initial public offering or an offer to purchase. At that point we would be able to tally up the positive side of the ledger minus the negative side of the ledger. Of course, as we all know, the balance left over would be either losses or profit.

MR. SAPERS: So you've done no forecast.

MR. SMITH: There's an ongoing forecast that takes place when the financial statements come in. Also, remember that as the company becomes profitable – and it certainly is profitable in today's marketplace – that as primary bank debt is retired, it increases the level of the investment by the Alberta government.

MR. SAPERS: Thanks.

THE CHAIRMAN: Howard is always able to get four or five or even six questions out of me. I took that as a clarification of your answer to his second question. So he has another one.

MR. SMITH: Usually when he's in this building, Mr. Chairman, he tables some mail. So perhaps there's something to be tabled.

THE CHAIRMAN: Okay. Here are two hours.

MR. SAPERS: Thank you, Mr. Chairman. I'm glad to see that the minister is in a jovial mood, because my next question I think will be softened by the goodwill and good humour that we share. I am concerned in part about the minister's response to my colleague from Edmonton-Whitemud which seemed to suggest to me that we've changed from that was then to this is now to this is now and this is now again, with the minister declaring several times during his answer that he wasn't at the table, he wasn't the minister at the time, and that's why this government, which has said there aren't going to be more guarantees, did a guarantee. What I'm concerned about is that this means that policy in this area varies according to who sits in the minister's chair and that the policy varies as ministers come and go and that it's in fact not government policy. So I'm just wondering whether or not the minister would like to clarify whether this is ministerial discretion and that's why it's okay to say you weren't the minister of the day or whether in fact it's government policy and a mistake was made.

THE CHAIRMAN: I should rule the question out of order, but I can't let him just have the only definitive word on this. You're free to answer, Mr. Minister.

MR. SMITH: Thank you very much, Mr. Chairman. In fact, I would almost need three questions to get ultimate clarification of the question that was just tabled by the committee member. What I was

pointing out for the committee was the fact that I was not at the table at the time of negotiations. I was not asked to advise and therefore I'm not in a position to be able to provide the type of specific detailed information that the Member for Edmonton-Whitemud had so asked for.

With respect to the specific, what I thought was a question coming from the Member for Edmonton-Glenora, I would have to ask him to clarify the question and be more specific about exactly what the question is, Mr. Chairman.

2:12

THE CHAIRMAN: I appreciate your wanting further clarification of that, but I think we should move on to other questions. You may find an opportunity to address that another time.

Paul Langevin.

MR. LANGEVIN: Thank you, Mr. Chairman. Mr. Minister, my question is in relation to Al-Pac. It seems to be a very successful company at this time. They're operating at over 30 percent of their design capacity. Also pulp at this time seems to be at a premium price. In our annual statement we state here that we advanced Al-Pac another \$5 million during 1994-95. I was wondering why that would be needed when they seem to be quite successful.

MR. SMITH: Can we get some clarification on that, Paul?

MR. LANGEVIN: If you look on page 27, right at the top left-hand corner: "in 1994 . . . \$5 million cash advance."

MR. SMITH: Brian, can you give the answer to that?

MR. WILLIAMS: Yeah. What had happened there is the original line of credit that was established was for \$250 million with \$25 million extra for cost overruns. As I recall, that \$5 million cash advance was the balance of the \$250 million. It was brought up from \$245 million to \$250 million, and then the \$25 million line of credit that was available was never called upon. Then, as it says, the interest on the \$250 million is capitalized until 1997.

MR. LANGEVIN: Okay. Thank you for that answer.

Al-Pac is now in the process of doing a feasibility study, or probably has completed one, on the addition of a pulp mill. If that goes ahead, does that increase our liability to Al-Pac and does that change the accounting procedure where we are now capitalizing the interest? Are they going to require more time to start paying their payment and interest if they make another investment, or are they tied down to meet these contract requirements at this time?

MR. WILLIAMS: Yes, you're right. There is a feasibility study being done. However, whether the paper mill proceeds or not does not have anything to do with the repayment of this \$250 million loan plus the capitalized interest. As I indicated, starting in March '97 a certain percentage of interest is payable depending on the cash flow. If the cash flow is there, the interest is paid. If it isn't there, it's in turn capitalized. The balance of the loan plus any interest outstanding is repayable in five equal installments commencing in 2006 through to 2010. So there will be no change whether the paper mill proceeds or not.

MR. LANGEVIN: Okay. That was one of my concerns.

My last question. If the paper mill proceeds, that will affect their cash flow because it's one company.

MR. WILLIAMS: That's right. The cash flow under the agreements relate strictly to the pulp mill.

MR. LANGEVIN: To the pulp side.

MR. WILLIAMS: That's right.

MR. LANGEVIN: Thank you. That answers my question.

THE CHAIRMAN: Okay.

Mike Percy.

DR. PERCY: Thank you, Mr. Chairman. Mr. Minister, gentlemen, I'd like to focus yet again on Millar Western. One question is that Pulp will repay or begin to repay first on the principal, and then after the principal is repaid, on the interest if their available cash balances exceed \$250,000. They've never been able to do that in the history of the mill, yet they've been able to go set up another mill in Saskatchewan. My question is: what do they know about Saskatchewan that they don't know about in terms of operating the mill up in Whitecourt? What is it about the mill in Whitecourt that does not allow them to in any way meet the requirement that they have sufficient cash balances to start paying the debt? It strikes me, just naively, that it almost looks like Swan Hills. There's just no incentive in there to ever turn a buck, because if they turn a buck, well, it just means they get less of the guaranteed return. In this case: not a guaranteed return; they just don't have to pay anything to the Crown in terms of paying off the principal.

MR. SMITH: I'll have Brian answer the mechanics of the question, Mike, and I will answer the political part, where we start to move off the grandstanding of issues from 1986 and 1983, times back like that.

MR. WILLIAMS: First of all, I can't comment on the Meadow Lake company. I will say that if we go back, as I indicated before, because of the price of pulp Millar Western Pulp never did have a positive cash flow. It's just been in this fiscal year that they have had.

Now, you're right. The interest is payable out of Pulp from available cash flow, but in fact there is no cash flow to Pulp. It is simply now nothing more than a holding company. All the cash flow is generated by Whitecourt. So the only way Pulp would ever get any cash flow would be if in fact Whitecourt were to turn back and pay dividends to the holding company. I would say that they would not do that nor could they until such time as the bank debt was paid off and our debenture.

MR. SMITH: The cite that it has never made a profit is that pulp prices were below \$350 a tonne when they brought the mill on. It subsequently climbed to as high as \$1,100, and it backed off about \$50 to \$85 a tonne in the last futures side of it. This has been the first year that there has been positive action in that operation. In fact they continue to pay down the bank debt and operate in a businesslike fashion for a company that (a) has no personal security behind it and (b) is running it under a restructured company that has an opportunity to make money from it if they are successful in their operation on a profitable basis.

DR. PERCY: I'd like to read just for a second just so it's on the record. What I'm going to cite from is the amended and restated Crown loan agreement: Millar Western Pulp Ltd. and Her Majesty the Queen in right of Alberta. It's from page 32, and it's section 6.5,

Performance by the Alberta Crown. I'm starting on the second sentence. It says:

Without limiting the generality of the foregoing, the Alberta Crown shall, at its option, be entitled to cure any default by Pulp of any of its obligations to the Alberta Crown hereunder or under the Security. Any additional advances made by the Alberta Crown together with all costs incurred by the Alberta Crown in curing such default shall be deemed to be advances made hereunder, shall form part of the Indebtedness, bearing interest as herein provided on the principal amount of the Indebtedness and shall be payable on demand and secured by the Security.

Bottom line, that strikes me – and I make this point again – that it is a backdoor way of giving a guarantee. I mean, it doesn't require the government to correct any default, but it certainly provides them the vehicle by so doing. Mr. Williams provided a reasonable, cogent explanation of why that might be there. Can you tell us how this could be amended such that the province would never provide additional funds, in fact a de facto guarantee? Is there a mechanism to tighten up this specific paragraph so that it doesn't provide the mechanism to provide a guarantee to Millar Western?

2:22

MR. SMITH: Actually, I would welcome any initiative by the member that would in fact move any process further to advance the interest of the Alberta taxpayer in either maintaining its security or realizing its security back. In fact, in all seriousness, I think what Brian has said about having that there gives you the opportunity to get you over a difficult spot in a sale agreement. Would you be in a better position to sell that asset or divest of it on a reasonable basis quickly and efficiently without that paragraph in there? I think that would be the key question.

You know, if you tie up your option that you can't have something that you need in order to facilitate the transfer sale of the agreement – I don't know if you want to be that particular when nailing down a legal agreement. There's going to be a point in the life of government and opposition, which is made up of people, where discretion and human judgment come into play.

MR. CRAIG: Well, the agreement had to also provide for the fact that if the restructuring was a success, then that's one option, but I think we also had to be mindful of the fact that the restructuring might fail. I mean, you could still end up, as you suggested earlier, with a company that was essentially bankrupt, where the bank would not have advanced any more cash. We were not going to advance any more cash, so the agreement has to – you know, you have to be pretty prudent in how you structure that because you can't forecast what's going to happen. Your expectation and your supposition are that the restructured company will be successful, but it may also not be.

DR. PERCY: I guess it is a de facto guarantee. I would read it as that, and that's how I read it when I initially saw it.

My final question on this. Here's a company – you know, pulp prices are low – that has not been able to generate a positive cash flow, yet they rush into Saskatchewan and build another plant. Are they just a glutton for punishment or what? Why would they do that? Have they learned something? I guess I have to ask: is it the management of the mill? Is it the fact that they're basically hiving off resources or finances by some mechanism? If they've never been able to turn a profit on this and haven't been able to pay the interest on the principal, yet they're quite willing to build another mill despite depressed pulp prices, I have to ask: how can they afford to do that in Saskatchewan, yet they've got this plant here in Whitecourt which appears to not be able to generate a positive cash flow? What type of prudent business sense is that?

MR. SMITH: Those questions, of which there are about eight, I guess, Mr. Chairman, fired in machine-gun-like fashion from Dr. Percy I think would be best asked of the chairman of Millar Western Industries. In fact, those are the participants in those investments that you've alluded to. It's my understanding that there are no heritage savings trust fund investments being asked for any investment in Saskatchewan and would be even surprised that the member would bring that up.

When you're paying down bank debt, you also don't generate a lot of profit. They have paid down a substantial amount of bank debt in this last year. In fact, you know, should Dr. Percy want to talk further about how the Alberta investment has become more secure and have a better chance of returning, I would be more than pleased to discuss that with him on an informal basis.

THE CHAIRMAN: Okay. Thank you.
Mark Hlady.

MR. HLADY: Thank you, Mr. Chairman. I'd like to go back to the Alberta Opportunity Company. The question was raised of whether there was the possibility of the Alberta Opportunity Company in essence breaking even, making money on the loans that it does in the niche market that it works in. I guess the question I'll present to you – and it's hypothetical in essence – is on the spread of the money. Obviously, the banks work in the very narrow spread at the front end, and this corporation has to borrow money at market rates. Therefore, the amount of money that it has the ability to make would be tougher, staying with competitive rates. The question in essence is: is there room for them to expand the top end on the rate that they charge, therefore creating a greater revenue? Supposedly they're going after a market where there is potential for these companies to make money but unable to get financing in the traditional way. Is there room for the AOC to move at the top end to charge a higher interest rate and still allow these companies to be successful, therefore leading to the point that AOC would be able to make money rather than be in this position?

MR. SMITH: Well, there are a number of options, Mark. If you really wanted to put AOC out of business, you'd just write a rule that said they have to lend all their money at 5 percent over base. At that time it becomes unattractive to anybody to borrow money at that rate, to most loans. It would diminish its presence in the marketplace.

As I understand it, your question, though, is: how high can they charge? They must charge 2 points above the base rate, which is presently 8.25. So they're lending at 10.25 now, and then they have the authority to move up to what the market will bear, depending on the risk side. They have that flexibility. So they're becoming more and more accountable from an operations standpoint as to their drawdown from the GRF based on the operation itself plus the small business revenue grant.

MR. HLADY: I guess it comes back to: are they truly challenging what the market will bear and not being loan-sharking rates?

MR. SMITH: Well, I know that in this festive season, none of us would like to have a government agency that would be accused of usury. However, perhaps Victor Doerksen would like to comment on the issue, because he has been involved in working with it on the management side.

THE CHAIRMAN: No. We appreciate your offer, Mr. Minister, but that would be quite inappropriate to our procedures. The two of

them are sitting beside each other, I note. They might want to have a little chat.

Did you have a third question?

MR. HLADY: No. That's fine for now. Thank you.

THE CHAIRMAN: Okay.
Debby Carlson.

MS CARLSON: Thank you. When I look at these project investments, it states in nearly all of them that the debt is payable to the extent of available project cash flow. Can you provide to us at some future point but soon the terms of reference to define cash flow in these projects?

MR. SMITH: Could you just tell me which specific projects?

2:32

MS CARLSON: Well, particularly Al-Pac and Millar Western.

MR. SMITH: Okay. The question is terms of reference for cash flow.

MS CARLSON: Yeah.

MR. SMITH: What is the definition of cash flow in the agreement?

MS CARLSON: Yes, and what kinds of charges are accounted for prior to there being an assessed available cash flow to repay your debt.

MR. SMITH: Well, we can go back and look at the original agreements and provide you with references to definition of cash flow. You know, they are bound by generally accepted accounting principles, as you would know even better than I, in concordance with the CICA. I would expect that cash flow would fall under those definitions.

THE CHAIRMAN: Excuse me. The question is in order, so we would ask that when you take that back to get that information, you then provide it to the chairman, who would have the responsibility of circulating it to the members.

MR. SMITH: Absolutely, Mr. Chairman, and thank you for clarifying the process of communication.

THE CHAIRMAN: Second question.

MS CARLSON: A point of clarification on that one.

THE CHAIRMAN: Okay.

MS CARLSON: I'm looking specifically, Murray, as you would know, for the amounts of things like management loans or directors' fees payable prior to, that kind of stuff.

MR. SMITH: You bet.

MS CARLSON: Okay. Thank you. Now, I might have missed it when I was going through these agreements, but I couldn't see anywhere any points where there were caps on expansion prior to their paying out any of the money that's owed, particularly in accrued interest situations. If it's there, can you point it out to me? I'm wondering why you wouldn't have negotiated that. I mean,

you're basically the second charge, and it seems to me that in agreements I've seen, they're normally quite tight. It doesn't look like that's happened here.

MR. SMITH: A question as a point of clarification then.

THE CHAIRMAN: Yes. Go ahead.

MR. SMITH: Thank you, Mr. Chairman. If I understand you correctly then, Debby, you're asking, with particular singular reference to Millar Western Pulp . . .

MS CARLSON: And Al-Pac.

MR. SMITH: . . . and Al-Pac, if there are specific conditions within any agreement as to binding the company towards any investment by the direct company into expansion.

MS CARLSON: Yes. That's it.

THE CHAIRMAN: All right.
Peter Sekulic.

MR. SEKULIC: Good afternoon, gentlemen. Thank you, Mr. Chairman. With all this talk about Millar Western, I've got a couple of questions, and they're more general than those that were asked previously. Mr. Minister, in your opening comments you indicated that there were 167 direct and 230 indirect jobs that were related to this what I would consider an investment. Now, just generally do you believe that these sorts of investments by government using public dollars distort the marketplace?

MR. SMITH: Well, perhaps you've hit on the Achilles' heel of government policies that vary not only in this province but throughout North America and in areas of jurisdiction. I would almost think, Mr. Chairman, that that is a leading question. I think it's clear that the government of the day undertook certain policies that resulted in certain investments by the heritage trust fund, and we're now here discussing the 1994-95 events of these particular projects in the heritage trust fund.

MR. SEKULIC: The only reason I ask that question is that once again in your preamble you indicated that forestry is Alberta's third leading industry. I guess I just played that against the news the other night that there's an Alberta company with 90 employees – their feedstock is timber – and they're going out of business today or tomorrow because they can't get feedstock. This is a company which has value added. In effect, it's that diversification component we so often speak of. But here they are without subsidy. The only thing they require is this feedstock, and they're going out of business. So I'm just playing that against this type of investment.

My second question . . .

THE CHAIRMAN: I'm sure the two of you can find a different forum than this to discuss this.

MR. SEKULIC: This is true.

MR. SAPERS: The people at Claresholm want to know though.

MR. SEKULIC: This is true, the people who have 90 jobs in Claresholm against these 167 that we've already spent \$90 million on.

The next question. In creating, I think, the Alberta advantage for Millar Western, would the minister agree that we created an Alberta disadvantage for many companies, be they existing or potentially existing, by issuing – well, pardon me, but I have to refer to it as this – a loan guarantee to this entity?

MR. SMITH: Could I ask for clarification of the question?

THE CHAIRMAN: Well, he seems to be talking about the initial one back whenever it was, and it's been done. We're here to discuss.

MR. SMITH: In 1983?

MR. SEKULIC: In '94.

THE CHAIRMAN: Well, we've already had an explanation by the group here on at least two occasions in my recollection, maybe more than that, as to why it was done. Now, there is obviously a political agenda on everyone that's here in the room, and I don't mind that, but certainly a political agenda that is obvious here is to attempt to get the minister to admit that there was a loan guarantee. He has not admitted that; he will not admit that, I am sure. So we are really spinning our wheels.

MR. SMITH: Mr. Chairman, could you find a synonym for the word "admit"?

THE CHAIRMAN: Well, that's true. One cannot admit to what one hasn't done, so I have misspoken in using that word.

MR. SMITH: Well pointed out.

MR. SEKULIC: In that case my final question. When there's a consideration, be they 1993, '94 – and once again this is a policy question – as to the extent of financial assistance to a private entity, do you take into consideration the Alberta disadvantages of provision of such financial assistance? I'm just trying to figure out what the criteria are and how broad they are. There are consequences to providing financial assistance to one entity and perhaps not to others.

THE CHAIRMAN: With all due respect to your line of questioning – and it's an important line, and we all need to know that and especially the taxpayers of Alberta need to know that – I'm simply attempting to point out that this is not the forum for that debate. So do you have a . . .

MR. SEKULIC: Yeah. I could have another try at this, but I'm afraid it would be similar.

THE CHAIRMAN: You have those crutches sitting there beside you, and I'm feeling like the Christmas ogre. I'm giving you an opportunity to ask a question on topic, so please accept it.

MR. SEKULIC: Okay. Just to think that I went to the hospital taking a friend to the hospital, and I came out with crutches. There's something wrong.

Mr. Chairman, I'll try one more time. This is my final question. It's once again somewhat general. As a businessman the minister will know well that profits and returns are most often determined by the associated risk. Does the minister feel, in his policy direction which he spoke of earlier, that in effect financial assistance to any entity will distort that relationship of profit to risk?

MR. SMITH: At the risk of digressing in a very, very minor fashion from the true intent of the committee, I would be pleased to comment on my particular and my personal approach to government in the marketplace. No marketplace will function to its highest level of efficiency, Mr. Chairman, without regulations that ensure honesty, fair play, and honest competition and in fact create an environment where marketplace forces can interact on a competitive basis with the intent to maximize profits.

One has seen the shift in macroeconomic discussion now from where governments would soothe the blow of the declining business cycle by investing in the marketplace and then taxing it back when times are good. In fact, what's probably been proven over the last 40 years with any government is that the governments lack the will politically to get the money back when times are good that they have invested when times are bad. So in fact because that occurs, because they cannot get the money back in the good times that they've spent in the bad times, throughout governments in North America it will probably stop the softening of blows of business cycles that were basically called recessions. At what price will that be to the populace, to the people who both vote and pay taxes in that marketplace? I don't know. But we do know that the price that they have paid in terms of debt servicing and unproductive costs paid in the form of taxes and in the form of interest on debt will probably more than surpass the harshness of a downturn in a business cycle.

2:42

THE CHAIRMAN: Okay. Thank you.
Howard Sapers.

MR. SAPERS: Thank you. My colleague from Edmonton-Manning raises an interesting question in terms of the operating principles in the context of decisions made in the Alberta investment division, Mr. Minister. I'm wondering whether or not the minister could tell the committee about the potential for the Alberta investment division and its mandate coming to the assistance of small independent operators in the forestry industry such as the shake mill in Claresholm, which is facing going out of business, closing its doors because it can't get timber. Does the minister see any role at all for the heritage savings trust fund and the instrument of the Alberta investment division being involved in that industry?

MR. SMITH: Do you want me to answer all three of those questions, Mr. Chairman?

THE CHAIRMAN: Well, I'm just going to say that clearly now, you know, we've completed the questioning on why you were here. We're an hour and 45 minutes approximately into this. I love to sit and listen and hear your philosophy about marketing and business cycles and industry generally. He's provided you with another opportunity in which to do that. You know, we can stay here for two hours if you wish to respond. Again, it's simply your choice.

MR. SMITH: I'll elect not to respond, Mr. Chairman.

MR. SAPERS: Mr. Chairman, I have another question, to do with Vencap. I would like to say that on page 23 of the 1994-95 annual report of the Alberta heritage savings trust fund, which I understood was the subject matter of this committee's proceedings and questionings, it is noted in a highlights box that the Alberta investment division under the policy investments discussion returned \$332 million in income, that the book value of the division was in excess of \$3 million, and that it earned a book value rate of return of over 9 percent.

It seems to me that this is well beyond just a nice, speculative conversation between myself and the minister, that it's directly within the purview of this committee and certainly within the minister's jurisdiction as Minister of Economic Development and Tourism and not only that but of course as a member of the group of the Premier's business partners that sit behind closed doors and make investment decisions about the heritage savings trust fund. So, Mr. Chairman, given that the minister has already elected not to answer my question based on your ruling, I would like to suggest that that ruling was a little bit pre-emptory, given that this is supposed to be the basis of our discussion.

THE CHAIRMAN: You know, you and I can enter into a discussion, if you like, about the ruling, and there are mechanisms to attempt to revise a chairman's rulings, which you're completely entitled to use. However, I feel that the tone of the session was going along relatively well. Of course, then there was the opportunity perhaps for members on this committee to say, "Well, I wonder if this chairman really is awake during this situation." So there were little gems that were tossed here and there to see if in fact I was paying attention. I want to indicate to the member that yes, I was, and I was trying to continue with what I think has been established as a chairmanship that has been fair and perhaps more than fair to any of the members sitting on this committee.

However, even I have a line which I'm not about to cross. When things start to come into play that have absolutely nothing to do with the '94-95 report and continue to go from one member to another to become part of a preamble and then finally into questioning, I feel it's my responsibility as chair of this committee to put a stop to it. I am attempting to do that and will continue to attempt to do that.

MR. SAPERS: Thank you, Mr. Chairman, and I am the first to acknowledge and to congratulate you on your chairmanship of this committee, because it is a model for all select committees of the Legislature. It seems to me that when we have discussed in this session with this minister the losses of close to \$100 million in terms of one forestry project that's been backstopped by the heritage savings trust fund and therefore through the taxpayers of Alberta, I believe it is a legitimate policy question to say, "Why would \$100 million be spent here and not in another part of the industry?" But we have had that discussion, and maybe we'll have it again another time.

THE CHAIRMAN: Okay. Thank you. All right.

MR. SAPERS: My question about Vencap, Mr. Minister. I'm just curious about the role of Vencap and the original loan of Vencap's to K-Bro industries. Vencap has a major interest still in K-Bro. At the time that Vencap made its investment in K-Bro, K-Bro's business plan called for expansion through acquisition, and of importance, acquisition of surplus government capacity in the institutional laundry sector. That must have been known to government. Certainly it must have been known at the time that cabinet discussed some other decisions regarding health care restructuring. I'm just wondering whether or not there is a policy that exists regarding the relationship between the future business interests or the business plans of companies that Vencap has invested in and the relationship those businesses may have with the government because of subsequent government policy decisions. Mr. Chairman, I'm trying very much to put that within your context of the '94-95 report, because I know that we won't be having this discussion about Vencap in the future. This will be, I believe, our last opportunity to discuss the government's role, the heritage savings trust fund's interest in Vencap. It's in that spirit that I offer the question.

MR. SMITH: And it would be, of course, in that spirit that I would respond to it, Mr. Chairman. In fact, I would note from the minutes of your Monday, November 27, meeting that the hon. member brought up the same question to the Premier and talked about the Vencap plan. I think the Premier's comments were applicable here as well. I understand that the company is a very successful company here in Edmonton and indeed throughout Canada and North America. That's important, and I believe, according to the minutes, you've responded, Mr. Chairman, that more information was coming on that specific topic. So it was good that you brought that question up again: more grist for the political mill.

2:52

I think it's very clear, as we have stated earlier and I'm certainly prepared to state again, that the government has not examined business plans put forth to the 78 investments that Vencap made, that they have operated as a private board. Under a fiduciary agreement that board is responsible to over 13,000 shareholders in the province of Alberta. The member seems to believe there is more of a relationship that exists between Vencap and the government than what is actually written on paper and under what the agreement for sale and divestiture of the provincial government's interests were.

I can assure the member that I have never seen the business plan of K-Bro. I have no idea what motivated the decision by a venture capital company to make that investment. They were operating within their guidelines as a publicly traded company under the Alberta Securities Commission. We continue to report on the status of our relationship—that is, the government of Alberta's relationship—with Vencap, and in fact all those operating authorities and relationships have been honoured. They have been reported in an appropriate forum. The subsequent agreement for sale and the elimination of the government of Alberta's interest have been duly recorded in the public and shared in fact with careful co-operation with the opposition in terms of being able to proclaim the repeal of the Act just prior to assuring the integrity of the sale. We've done that. So everything has been in absolute compliance with the rules of the Securities Commission as well with the terms of the agreement of Vencap Equities Ltd. with the Alberta government.

THE CHAIRMAN: Thank you.
Last question.

MR. SAPERS: I've had my share, Mr. Chairman.

THE CHAIRMAN: Any other questions?

MR. SMITH: Wait till they get to the dog-eared Millar file.

DR. PERCY: My question, just to take up the hon. minister on his offer: I would be very much interested in knowing how much of the

bank debt Millar Western has paid down and to what extent its inability to generate cash flow sufficient to meet payments on principal is due to pay-down of the debt. If I could be provided with that information, I would very much appreciate it.

MR. SMITH: It's certainly something, Mike, that I'd be prepared to discuss with you without violating the commercial confidential side of the agreement. Absolutely.

THE CHAIRMAN: I would encourage the two of you to do that, but if in the investigation of it you arrive at a point where there is information that perhaps all members of this committee should be aware of, then again we'd invite you to provide it to the chair and we'll circulate it to the members. However, we are not making that a requirement right now. The understanding that the committee has is that there will be some informal discussion between the two of you as Members of this Legislative Assembly.

MR. SMITH: Thank you for that clear guidance, Mr. Chairman.

THE CHAIRMAN: Okay. All right.

MR. HLADY: Mr. Chairman, I just thought I'd mention that that clock is slow. I think the real time is about 3:01.

THE CHAIRMAN: Well, we used that clock to call to order.

MR. HLADY: Fair enough. I just thought I would throw that out to the committee.

THE CHAIRMAN: I think it's important that you do bring things up, because then it offers me the opportunity to say that all members are aware of course of the schedule and the schedule clearly indicates two hours.

Does anyone wish to read a recommendation into the record at this particular time?

AN HON. MEMBER: Tomorrow.

THE CHAIRMAN: Okay.
Thank you, Mr. Minister and guests.

MR. SMITH: Thank you, Mr. Chairman. If I may wish members of your committee in attendance today and yourself and staff the very merriest of Christmases and best wishes for the holiday season. Thank you.

[The committee adjourned at 2:57 p.m.]

