

[Deputy Chairman: Mr. R. Moore]

[10 a.m.]

MR. DEPUTY CHAIRMAN: I call this session of the Public Accounts Committee to order. First of all, I'd like to get approval of the minutes that were distributed.

MR. ALGER: I move that the minutes be adopted as circulated.

MR. DEPUTY CHAIRMAN: All agreed?

HON. MEMBERS: Agreed.

MR. DEPUTY CHAIRMAN: Well, today we're honoured by having the Hon. Larry Shaben, Minister of Economic Development and Trade, with us. He has brought two of his officials, and I would ask Mr. Shaben if he would introduce them to the committee.

MR. SHABEN: Thank you, Mr. Chairman. I'm sure most of the members here would recognize on my left Mr. Clarence Roth, who is Deputy Minister of the Department of Economic Development and Trade, with particular emphasis on the planning section of the department, and on my right Roy Parker, who is the president of the Alberta Opportunity Company.

MR. DEPUTY CHAIRMAN: Thanks, Mr. Shaben.

Well, we operate here in Public Accounts fairly wide-ranging; we're covering the year 1985-1986 of public accounts. Each member will have an opportunity to ask questions and two supplementals. Usually, Mr. Shaben, the minister opens with opening remarks. If you would care to do that, give us a sort of overview of that year, then we'll go right into questions.

MR. SHABEN: Thank you, Mr. Chairman. It seems like such a long time ago that the Auditor General and I were chatting: '85-86. We were, I think, scheduled to appear before the committee earlier, in June, and we had to have it postponed. But I'll try and touch on some of what I think were the highlights of '85-86.

All of us will recall, in sort of the total economic sense in the scene of '85-86, that we'd experienced a deep recession beginning in some say early '82 and some say late 1981. That was a part of the worldwide recession that involved rapidly increasing interest rates, a recession that hit a number of countries, and a low activity level in certain commodities as a result of it. That persisted through '82, '83, and '84. In Alberta '85 was a fairly good year, quite a buoyant year. Members will recall that activity in oil and gas exploration and development was at a pretty good level. So the year that we're looking at in terms of public accounts was principally that '85-86 period when the economy was fairly buoyant. Then about February-March of '86 was when another shock hit Alberta, with rapidly declining oil prices that dropped down to as low as \$9 a barrel in August '86. But in terms of that fiscal year and the year we're dealing with in Public Accounts, some of the highlights that the department was involved in, I'll just briefly touch on them, Mr. Chairman, and it might provoke some questions of the members in terms of the detail.

We made a decision to expand the small business equity corporation program and increase the amount of funding in the program from \$15 million to \$50 million, so that was an important initiative in '85-86.

I just commented on what was occurring nationally and

internationally in '85-86, and our trade exports from Alberta to places outside of Canada increased quite dramatically to about \$13 billion in that period. So it's a terrific year for Alberta exporters. We had conducted a major trade show in Beijing, China, in order to introduce the Chinese market to Alberta's oil and gas capability, engineering capability, and one of the major thrusts of our trade activities was into China. It was important because it was tied to the Chinese five-year plan putting emphasis on oil and gas transportation communications, and we tied into our involvement with their five-year plan.

Another key involvement of the department in that fiscal year was our development of Alberta Intermodal Services. It was an innovative company that was established as a result of our understanding of the difficulty faced by Alberta shippers in getting freight rates that were competitive. So we established Alberta Intermodal Services, a company that contracted with CP Rail for a certain amount of volume over a period of time and resulted in tremendous savings. As a matter of fact, we've had a look at the savings Alberta shippers achieved in 1986 as a result of the establishment of AIS: minimum savings of \$3 million and possibly \$5 million in terms of freight costs for Alberta companies as a result of the establishment of Alberta Intermodal Services.

With respect to Alberta Opportunity Company it was an interesting and very busy year. It was the third largest number of loans in the history of Alberta Opportunity Company, and 316 loans were provided to Alberta companies in that fiscal period.

One of the projects we were involved in was the Sturdi-Wood project, which is really an exciting project that evolved from our continued interest in expanding the use of aspen and making it more functional. It's been a real success story in terms of the establishment of the Sturdi-Wood OSB plants at both Edson and Drayton Valley. The government was involved by way of a debenture purchase in the Drayton Valley project.

We did a lot of work with LSI Logic. In those days this department was responsible for the technology area, prior to the creation of the Department of Technology, Research and Telecommunications. I know you probably will, or have, questioned Les Young, but one of the companies we worked with at that time was LSI Logic, which has since established in Alberta in the manufacturing of highly advanced computer components. It's the masking component of the computer chip.

Rail relocation. We had the Fort Saskatchewan rail relocation project, which was completed this year. That was an important one. I think it was the second the government has been involved in under the current policy -- Lethbridge and Fort Saskatchewan.

Alberta stock savings plan was developed and, I think, launched in January of 1986, which was the fiscal year even though the reference to it shows up in the Provincial Treasurer's. But we were involved in our department in developing the Alberta stock savings plan.

We completed the methanol pipeline test of testing the feasibility of pipelining methanol to tidewater. That was an important one because it resulted in the decision recently of Neste and Celanese and Trans Mountain to enter into a joint venture to build an MTBE plant in Alberta. A lot of that decision was as a result of the feasibility of piping methanol from Alberta to tidewater.

There was a lot of activity in our department in terms of our involvement in the petrochemical industry, examining what the potential was for more petrochemical investment, particularly in the downstream, the secondary and the tertiary areas. There has

been some significant movement in that regard subsequent to that fiscal year.

Our activity level in the small business sector was at a very high level. I mentioned the SBEC program, the Alberta stock savings plan, Alberta Opportunity Company's involvement in small business. But we did a calculation of the activity level or the interface between people in our department and the small business community, and 18,400 small businesses received consulting advice or assistance of some kind from the folks in the Department of Economic Development and Trade. We undertook a number of our management assistance programs for small business where we provide them with management assistance that is a hands-on program in cooperation with local chambers of commerce and had our economic development officers actively involved throughout the province with the business community in providing information and consulting advice.

Mr. Chairman, that I believe highlights some of the activities of the department during fiscal '85-86. I'd be pleased to try and respond to questions.

MR. DEPUTY CHAIRMAN: Thank you very much, Mr. Minister. That was a very good overview. You must be very popular, I must say. As soon as I walked in here, even before the meeting was called to order, everyone here was waving his arms. Whether they were waving to you or wanted to ask questions I don't know, but it was like a forest over there after we called this to order. So I think you have a first; everyone here has his name on the list. So we're in for a good morning; I can see that.

MR. ALGER: Why don't we go alphabetically?

MR. DEPUTY CHAIRMAN: First of all, Mr. Downey, followed by Mr. Bradley.

MR. DOWNEY: Thank you, Mr. Chairman. I appreciate your impartiality here. Through to the minister. Page 7.2, vote 4.1 in volume 2: there's \$9.6 million, more or less, that has been expended as financial assistance via the Alberta Opportunity Company. I wonder if the minister could review the significant activities of the Alberta Opportunity Company during the year.

MR. SHABEN: Mr. Chairman, I indicated in my opening remarks that it was a very busy year, the third busiest year on record, for AOC: 316 new loans and guarantees authorized, a total of \$23 million in authorizations. We calculated, in discussion with Mr. Parker, that some 570 new jobs were created in the province as a result of that activity by AOC. Alberta Opportunity Company has responded over the years. I think, Mr. Parker, more than 4,000 businesses have received financial support through the company. It was an interesting factor that in '85 there was such a high number, being the highest number. In addition, during that summer -- and I think we had some earlier discussions here in the Legislature on AOC providing support for students -- and during that year, Alberta Opportunity Company, Mr. Downey, provided about \$120,000 to students for summer businesses. That's a program where students can receive up to \$3,000, and they pay it back at the end of the school year.

In addition, AOC provides a lot of ongoing consulting advice to its clients, to the clients that it has loaned money to. It's an important role for the corporation to continue to provide that advice, because all of us know that the companies that have re-

ceived this financial support are those that have been refused by conventional financial institutions.

MR. DOWNEY: Mr. Chairman, a supplementary. I appreciate knowing that it was a very busy year for AOC. Dealing with the same vote, I wonder: could the minister provide us with some details of the company's total portfolio -- the mix of real estate, energy, small business, and perhaps as well his comments regarding arrears and the general health of the portfolio?

MR. SHABEN: Maybe I'll deal with the latter part of the question first in terms of . . . Our total loan losses or provision for loan losses in AOC amounts to about 10 to 11 percent. It has risen from what it was two years ago, in the neighbourhood of 5 to 6 percent, which isn't surprising considering the economic circumstances we have faced in Alberta between 1982 and 1986. I'm going to ask Mr. Parker to give us an idea of the present mix of the portfolio. But we have, I think, over the history of the company provided financial support that totals nearly \$450 million and, as I indicated earlier, to more than 4,000 companies all across this province. Generally, they're not in the large range but in the under a million dollar range, so they're small business loans. The present outstanding loan amount is \$167 million?

MR. PARKER: Yes, \$167 million outstanding and committed.

MR. SHABEN: One hundred and sixty-seven million dollars is the present outstanding and committed. I'll ask Mr. Parker to give you an idea of the variety of the portfolio.

MR. PARKER: Surely, I would be more than pleased to. As the minister said, the overwhelming majority of our loans are in smaller centres outside Calgary and Edmonton, although we do have offices in those cities. We have at the moment about 1,600 accounts under administration, and in the 80 to 85 percent range -- probably about 82 percent are in smaller centres outside Calgary and Edmonton. The reason for this is that generally speaking, funding is more readily available to businesses of any size in larger communities due to a number of reasons but certainly based upon the private-sector lenders' criterion as far as security, equity, and so on is concerned.

The average size of our loans since our inception has been about \$100,000. In most recent years it's ranged from probably \$80,000 to \$110,000, depending on the year. So as you can see, they're relatively small businesses -- proprietorships, small limited companies, partnerships. The range of what type of industries they're in is from manufacturing, which is usually in the 12 to 15 to 18 percent of the total number of loans approved, to service sectors, including tourism, construction, transportation, business services, et cetera. Tourism and entertainment ranges in any one year from 12 to 20 percent. We have personal services, other services that make up a wide variety of small types of businesses.

One of the interesting things about AOC's policy is that any business is eligible other than specific ones mentioned in our Act, like residential housing -- things of that nature -- exploration, and so on. In other provinces similar agencies quite often will restrict their funding only to manufacturing, yet as most of you know, the wide majority of new jobs in the economy across the country has been in the service sector over the past 10 to 15 years. So that's kind of an overview of the size, the type of loans we make.

I think there was one other part of the question, in regard to

our arrears. One interesting thing I think you will find -- I got some figures yesterday just for my own interest that possibly you might be interested in -- is receiverships, which peaked for AOC in fiscal 1983, which was the year ended March 31, '83, at 52. Each year since then they have gone down: 45, 41, 39 in 1986. In the current calendar year -- no, these are calendar years; excuse me -- for 11 months we're down to 32 receiverships, which is an indication of a lessening in difficulties in the economy and actually in improvements since the peak in calendar '83.

As far as arrears go, they will vary in any particular time from 10 to 15 percent in the past five years. The past six months has seen a decrease in arrears, which we again think is a hopeful sign, although I have to admit that when they start to creep up a bit, like any other lender we get on our loans officers' backs and say: "Come on; get out and collect that money. That's what you're there for as well as making loans." Because a loan is only good not just when you approve it but when you collect it as well. So that's the situation we find ourselves in at the present time.

MR. SHABEN: Mr. Chairman, maybe I can just supplement that. I've got some cumulative figures that Mr. Downey might be interested in. I'd indicated more than 4,000 loans; it's 4,230 loans cumulatively, total loan value of \$440,112,000. The split by region is quite interesting: 26.5 percent, northern Alberta; 11.9 percent, Edmonton; 22.1 percent, central Alberta; 14.9 percent, Calgary; and 24.6 percent, southern Alberta.

MR. DEPUTY CHAIRMAN: Further supplementaries, Mr. Downey?

MR. DOWNEY: Yes, thank you, Mr. Chairman. I appreciate the extensive overview by Mr. Parker, and just to comment on the minister's final figures there, it looks like central Alberta's running a little behind. We'll have to do something about that.

I wonder if as a final supplementary, Mr. Chairman, does AOC provide any types of assistance other than credit and counseling? Perhaps just to acquaint me again with AOC's total mandate.

MR. SHABEN: I'd indicated that AOC's involvement was principally in the provision of creative financing, but the corporation provides advice and assistance to its customers in areas such as marketing, merchandising, cost accounting, production flow, plant layout, construction, as well as general financial advice from its loans officers, and it's an important role because of the nature of the financing provided. We recently announced government policy in AOC as pursuing that, and that is changing from a lender of last resort to a provider of creative financing, where the corporation is now working at developing its capability to provide venture capital and has provided, I think, 10 offers to companies thus far. So that's a new role for AOC which we believe is a tremendously important one in the area of primarily under \$1 million for the smaller companies.

MR. DEPUTY CHAIRMAN: Mr. Bradley, followed by Mr. Ady and Mr. Roberts.

Pardon me?

MR. ALGER: Are there no more supplementals allowed?

MR. DEPUTY CHAIRMAN: No, there are three supplements.

I have your name on the list; you can come in then. You're just down the list a little ways.

MR. BRADLEY: Mr. Chairman, looking at page 7.2 in volume II, vote 1.4, I note that some \$8,900,000 has been shown as being incurred under international trade expenditures. It appeared to me that a significant part of that is the development of foreign markets for Alberta's goods and services. Can the minister comment on what has been achieved in that area?

MR. SHABEN: Mr. Bradley, would you repeat the final part of the question?

MR. BRADLEY: There's been \$8.9 million expended in that area. It seemed to me that an important part of that international trade program would be to develop foreign markets for Alberta goods and services. Could you comment on what has been achieved in that area in the '85-86 fiscal year?

MR. SHABEN: In my opening comments, Mr. Chairman, I indicated the volume of export business achieved by Alberta companies. It was in the neighbourhood of \$13 billion. To put that in perspective, that has grown from \$1.4 billion in 1971. The focus of the department on expanding our trading capability is a critical part of what we do. That involves a whole range of activities, including missions where we involved Alberta-based companies in assisting them to access markets. We respond to incoming missions by working with the buyers who come in and try and match them with the companies, provide support to companies in terms of providing them with information. We have some programs that provide them with small seed amounts of capital support to help them with their missions, and that is complementary to federal programs. So generally, it's one of assisting Alberta companies to access foreign markets, is the role and the responsibility.

MR. BRADLEY: Continuing along with this area of international trade, I appreciate that there's been quite a bit done to develop export markets. Could you give an example of a major development that has resulted from expenditures under this program?

MR. SHABEN: Mr. Chairman, there are quite a number of them. I hate to pick one, but I'll choose one because it's pretty graphic. We have concentrated in terms of our support of Alberta companies on the strengths that Alberta has to offer, and one area, obviously, that we have strength in is oil and gas technology and equipment and engineering. In looking at what's happening around the world, companies identify along with us where potential markets are. Our largest market, of course, is the United States, in total terms. Our second is Japan, and third is, surprising, I think, to a lot of people, the Soviet Union. That's a fairly new market. A Calgary-based company working with us over the years has developed and grown to a stage where it has undertaken about \$200 million worth of business in the Soviet Union in the oil and gas business over the past four years. This is a result of co-operation between the government and the company and working with them in that Soviet market, which is a very competitive market. That particular company, Lavalin, is located in Calgary, but it has offices, of course, in Montreal and so on. We keep track of the percentage of work that is undertaken out of Alberta as compared to out of other parts of Canada, and in this particular case the percentage was

quite high, 60 percent out of Alberta, which is important in the job creation and the technology aspects of what it does for Alberta. That's an example. There are a number of others.

MR. BRADLEY: Finally in this area, I note there's a special warrant passed for some \$872,000, and it seems at the other end of the expenditure there on 1.4 you ended up with \$902,000 that was unexpended. What was that special warrant for, and what was the reason for the fact that you actually expended about what the estimate was? It appears that the special warrant actually wasn't expended.

MR. SHABEN: Good question. Special warrant of \$872,000 . . . When we do our initial budgeting, sometimes an unforeseen event occurs that we hadn't anticipated. I had indicated in my opening remarks that one of the major activities of the year was our international trade and the Beijing oil and gas show, and a major part of the funding of the special warrant was to involve Alberta significantly in that oil and gas show.

MR. ADY: I'm not sure if my question should go to the Auditor General or to the minister, but it has to do with the Auditor General's report on page 32, vote 2.9.1. It makes reference to the SBEC program being transferred from the department of small business over to the department of economic development. It also indicates that an extensive review of SBEC's investments was undertaken and that the Auditor General raised some concerns at that time. Could we have someone enlarge on that? What were they, and have they been addressed and resolved?

MR. SHABEN: Mr. Chairman, Mr. Ady is correct in that the Auditor General observed that "formal compliance verification procedures were not established until several months after the program became operational." I'd like to assure all members of the Public Accounts Committee that the procedures for the approval of grants and the release of trust funds were established in accordance with the legislation and were in place before any grants were paid or any trust funds released. From the inception of the program, all applications, requests for grants, certificates of investments, and release of trust funds undergo intensive review to ensure compliance with the legislation prior to the disbursement of public funds.

The Act provides for payments of grants and/or tax credits based upon proof by the applicant's financial institution that the SBEC is sufficiently capitalized. Once the SBEC is incorporated and registered, 30 percent of the equity capital must be placed in a trust fund held by the trustee jointly for the SBEC and the Crown. When this trust fund is in place, individual investors may apply for a grant equal to 30 percent of their investment in the SBEC. Corporate investors apply for a certificate of corporate investment, which they file with their income tax return, yielding a refundable tax credit equal to 30 percent of their investment. The trust fund acts as the Crown's collateral until such time as appropriate investments in small business are made.

The compliance verification procedure previously referred to by Mr. Ady was established in July 1985. The function of the line staff, which is supplemented by independent private-sector auditors when necessary, is to serve as the program's internal auditors, with the emphasis on ensuring that SBEC investments are eligible and that the use of investment funds does not contravene the legislation. They perform a three-phase verification

program, including review of all investments, review prior to the release of trust funds' investments where the amount released is in excess of \$150,000, and review of those investments where there is concern that the proposed investment contravenes legislation.

There's additional information that I could provide, but I don't know whether the Auditor General wanted to supplement my response.

MR. SALMON: Mr. Chairman, maybe I'd just make one comment. We've examined the concerns subsequent to our report and are satisfied that the department is following the policies and procedures they've laid out. And of course we'll continue to monitor that in the future as well.

MR. DEPUTY CHAIRMAN: Thank you, Mr. Salmon. Further supplementary, Mr. Ady?

MR. ADY: The supplementary that the Auditor General gave really answered my question -- that he's satisfied that the department is complying with his concerns and that they are taken care of -- so all right.

MR. DEPUTY CHAIRMAN: Mr. Roberts, followed by Mr. Alger.

REV. ROBERTS: Thank you, Mr. Chairman. I'd like to go back to the AOC for a minute and ask some questions out of the financial statements for the company, out of volume 1, [page] 5.66, I believe, which gives some information about the long-term debt and accumulated deficit of the AOC. Despite all the good work that we've heard AOC doing and needing to do, it does appear to me, Mr. Chairman, that there's some hiding of the accumulated deficit in how we're accounting for it. It shows there that in fact it's growing. In note 7 it shows that the accumulated deficit has now grown to \$21 million.

There are grants from the province of \$1.6 million each year; they don't seem to abate that growth. Yet in the other account from general revenue, there's no mention of it growing or how it's being handled. Of course above that, in the long-term debt from the Heritage Savings Trust Fund, there's the debenture of \$162 million, as has been pointed out. But I'm just wondering why that isn't shown more clearly, how that deficit and accumulated deficit is either impacting on general revenues or impacting on the Heritage Savings Trust Fund.

Would Mr. Parker like to respond to how that's being managed and accounted for?

MR. SHABEN: Mr. Chairman, I'm not sure that I understand, because both in the public accounts and also in the annual report of the Alberta Opportunity Company, it's clearly described that the accumulated deficit has increased, as the hon. member indicated, from the previous year, and that is noted as required by generally accepted accounting practices.

Now, the reason for an accumulated deficit is a different sort of a question. In terms of the reporting, my understanding, though I'm not a qualified accountant, is that it meets the test in terms of recording the activities of the Alberta Opportunity Company. But the reason for the accumulated deficit is one that is a result of what I described in my opening comments: our loan loss or provision for losses is running at about 10 or 11 percent, which to the uninitiated may seem high but for a company like AOC I think is a reasonable amount.

When one understands that the source of funds of the Alberta Opportunity Company are debt funds -- they borrow the funds through the heritage fund and pay a rate of interest that is set from time to time according to the market and then loan the funds out at a rate very close to market rates -- the losses that occur as a result of activities of companies are going to reflect themselves in a loss by the AOC.

MR. DEPUTY CHAIRMAN: Anything to add, Roy?

MR. PARKER: The only thing that I would like to add relates to part of Mr. Roberts' comments that something may have been hidden here. And I would like to assure all those who are here that as far as our accounts on the books are concerned, we review each twice a year and determine which of those are in difficulty and which there should be an allowance for and which there should be a write-off for, so that at the end of each six-month period, and particularly at the end of the fiscal year, we have I think what could be called a very clean balance sheet; there are no hidden significant problem accounts. I think certainly the Auditor General's staff who are there are completely satisfied that we have made allowance for everything there should be an allowance made for.

REV. ROBERTS: Perhaps I could ask the Auditor if he's satisfied with how the trust fund is accounting for what amounts to, in some sense, just a bad debt that AOC is owing to the fund. Is that really accounted for properly in the trust fund in terms of it being a debt to the fund?

MR. SALMON: If I might clarify it, are you talking about heritage?

REV. ROBERTS: Yes.

MR. SALMON: Mr. Chairman, let's talk about the AOC for just a moment. As you recognize, I've given what you'd call a clean opinion from the point of view of the audit. Note 4 describes the allowance for doubtful accounts netted against accounts receivable. We've examined all of those loans in detail, as Mr. Parker has indicated, and have satisfied ourselves with the amount of the provision. We believe that the Opportunity Company's financial statements were fairly presented.

If it comes to the aspect of the heritage, if I just may comment again -- and I've done this before in another committee -- the aspect of the investments by heritage in the Opportunity Company becomes a circular situation with respect to the fact that with AOC being in the Alberta division, those debentures are held at full value by the heritage because all of the payments are being made by the Opportunity to keep those current. Because of that, then there's no reason to change those within the heritage itself. What happens, of course -- and these gentlemen can comment if they would like -- is that because of the shortfall in the Opportunity Company, that shortfall would come from the General Revenue Fund, and of course at the present time it's based on the flow of dollars as indicated in note 7. If that were to change or to become more difficult, then that would probably require additional dollars.

MR. SHABEN: Just, Rev. Roberts, one additional comment that from year to year the Provincial Treasurer makes a decision as to the amount of funds it's appropriate to transfer to AOC, either in the ordinary sense of the word or to reduce the operat-

ing deficit. The year following the year we're looking at, there was a contribution toward reducing . . .

MR. PARKER: Up from 5 to 8 percent.

MR. SHABEN: Yeah, an increase in the contribution toward reduction of the accumulated deficit.

REV. ROBERTS: Perhaps that could be my -- it bears on my last supplementary, which really is: what's happening now and in the future? Though it's not in these public accounts, what are you saying then? Is the accumulated deficit larger or is the grant from the province larger? What's going to be, over time, this year and next year? Do you expect it to grow and exacerbate the situation the Auditor General is describing, or is it going to be resolved?

MR. HERON: Point of order, Mr. Chairman. The line of questioning may create an inaccurate representation -- and it didn't come out -- but perhaps either the minister or the Auditor would like to confirm that those debentures held by the heritage fund bear the guarantee of the province of Alberta and, in doing so, that they're arm's-length transactions, that we should be indifferent as to whether they're held by Nova Scotia Power or the province of Alberta. And the line of questioning, I think, is creating a false impression as to the security value of the heritage fund.

MR. MITCHELL: Point of order, Mr. Chairman. It's difficult to understand how that particular argument can really be argued effectively, given that in fact on the one hand, the AOC under the terms of the debentures has to pay interest to the Heritage Savings Trust Fund. The Heritage Savings Trust Fund rates that as real income. On the other hand, if AOC loses money, the province of Alberta General Revenue Fund has to reimburse AOC. And on the other hand, if I can use a third hand -- I'm not finished yet, Mr. Moore -- the Heritage Savings Trust Fund takes the money that it has received from AOC and pays it back to the General Revenue Fund. I think it's very . . .

MR. DEPUTY CHAIRMAN: We're not on heritage trust fund now; we're on public accounts. Gentlemen, your points of order -- you've made them. You've rambled a little, both of you, from the points of order. However, the gentleman over here, Mr. Shaben, and his group of officials will answer Rev. Roberts' questions and take into consideration what you said.

Would you continue, Mr. Minister.

MR. SHABEN: The specific question was with respect to what's happened to the accumulated deficit. The most current annual report indicates a reduction in the accumulated deficit by about \$1 million from the previous year. So that's the status now.

MR. ALGER: Mr. Chairman, to the minister. In volume 2, page 7.5, vote 2.2.1, you've estimated \$425,000 for a Prince Rupert grain terminal expenditure. With regard to the expenditure on that terminal, can the minister indicate the status of the renegotiation of the Alberta/Prince Rupert grain agreement with respect to that terminal?

MR. SHABEN: Mr. Chairman, I don't know if I can be very helpful to Mr. Alger. The early performance of Prince Rupert

terminal had not met the expectations of the government with respect to their capacity to service debt. There had been some preliminary discussions between officials of Treasury and the Prince Rupert consortium on that matter. However, in this past year the performance of the terminal has exceeded its design specs. We had expected the terminal to be able to handle about 3.5 million tonnes annually, and I think it handled more than 4.5 million tonnes in this past crop year. But in the year that we're dealing with, the terminal handled 2.2 million tonnes.

Now, our involvement by way of debenture and mortgage -- they are in arrears with us. A portion of the arrears, I believe, has been capitalized, and the discussions with the Treasurer involve how the consortium is going to deal with the financial relationship between the government and the consortium. The government's initial involvement was about \$230 million, of which \$106 million was a loan -- or a mortgage, you'd call it -- and \$124 million was debentures.

MR. ALGER: I hate to lose a supplementary question, Mr. Chairman, but I just happened to think of the answer maybe. Would it have something to do with the start-up year? Obviously, that year wouldn't have paid out like it should have because we were late getting it kicked off, and then there was some style of grain strike; there was quite a bit of kerfuffle. I wonder if we did get the grain handled that we expected in our start-up year.

MR. SHABEN: That's a part of the problem, Mr. Alger, that they didn't handle the volume of grain that was expected, but that's not the entire problem.

MR. ALGER: On the same page, Mr. Chairman, to the minister. In vote 2.1.2, I noticed that you've spent \$3.36 million on railway relocation, having to do with the Fort Saskatchewan project. I confess that I don't know much about that project, and I wondered: what is the relocation policy, and what projects were initiated therefrom?

MR. SHABEN: We have a rail relocation policy, Mr. Chairman, where we will assist communities in moving the rail out of the centre part of their community provided that the longer term recovery of the land that is freed up will repay the front-end costs that the government has provided. Under that policy we have undertaken two relocation programs, one in Lethbridge and one in Fort Saskatchewan. The funds that are referred to here are for the Fort Saskatchewan rail relocation project.

MR. ALGER: Mr. Chairman, am I allowed a supplemental under a different subject?

MR. DEPUTY CHAIRMAN: Yes, if you want to come back -- you had a concern on Mr. Downey's; did you want to get in on that? I cut you off there.

MR. ALGER: I'm under the impression from the remarks made this morning that there is no way you can borrow money anywhere else before you can get money from Alberta Opportunity Company. That's news to me; I didn't realize that. In short, you're the lender of last resort. I would have thought that there was -- even though you could get money at the banks at, say, 11 percent, we could come to Alberta Opportunity Company and get it at 9 percent. Am I mixed up in my thinking?

MR. SHABEN: Mr. Chairman, if that's an acceptable supplementary, initially the mandate of the Alberta Opportunity Company was to be a lender of last resort, and it was to focus principally on areas outside of the major urban centres, Edmonton and Calgary, where businesses had far greater access to a variety of lending institutions, and to address itself to other parts of Alberta. And this was consistent with the government's policy of achieving balanced growth.

Now, as the company matured, we recently made a decision, in consultation with the board of directors, to adjust the mandate of the corporation from a lender of last resort to a provider of creative financing. In other words, they do not necessarily strictly adhere to being a lender of last resort, and they are now capable of providing venture capital or, in some rare cases, providing financing where other sources are available.

MR. PARKER: Could I add to that?

MR. SHABEN: Mr. Parker.

MR. PARKER: I think it should be borne in mind that one of the kind of unspoken mandates we have is not to provide unfair competition. In looking at any application, we look at the marketplace that people are operating in and if, for instance, you have a fast-food outlet and it looks as though it's going to be very successful but there are half a dozen others in the town and some of those are going to be hurt, then we say no. We should not use the taxpayers' money to do harm to another taxpayer. So that is another factor. If the competition they're involved with is borrowing at market rates, then that is a factor that has to be considered. It would be unfair for us to give your competitor 9 percent money when you're paying 12 percent for yours. So in most cases, if the funds are available at market rates, then we say: yes, that is where you should get them. That is the reason for this.

But as the minister says, there can be unique situations other than venture capital where for a specific reason we will do something, but they are few and far between. In the venture capital end of things we are not a last resort. We are looking at it the same as anyone else does, and we're finding that the market niche we have looked at is far more active than we had anticipated, and there is a need to be filled. And that is something that probably in future years you will hear more about.

MR. ALGER: You could have already financed the competitor too in that case, couldn't you?

MR. PARKER: Pardon?

MR. ALGER: You could have already financed the competitor, possibly, and then you'd be inclined to draw in your . . .

MR. PARKER: That's a possibility.

MR. MUSGROVE: Mr. Chairman, my question is on page 7.5, vote 1.2.2. Now, there is an expenditure there of pretty near \$300,000 in the estimates which was underspent approximately \$160,000. Now, I have to presume that this is the Crow benefit payment to do with the Western Grain Transportation Act. Could the minister briefly review the issues as related to that Crow benefit payment?

MR. SHABEN: I can't, Mr. Chairman, acknowledge that the

item referred to by the hon. member is the one he refers to because I'm still looking for it. What's the vote number again, Mr. Musgrove?

MR. MUSGROVE: The vote is 1.2.2. It's on page 7.5. It's known as transportation services branch.

MR. SHABEN: Mr. Chairman, that is the operating expenses for that branch in the Department of Economic Development and Trade, our transportation branch. It is not program funds for the Crow offset program. It is salaries, wages, the normal operating expenses for our transportation planning division of the department.

MR. MUSGROVE: A supplementary question, Mr. Chairman. In vote 2.4.2 -- it's called rolling stock; I noticed that there were no estimates for that and there was a payout of some \$20 million. Now, was this for new technology to develop transportation technology?

MR. SHABEN: Mr. Chairman, in my opening remarks I had referred to Alberta Intermodal Services and the establishment of that corporation, and in the '85-86 year the appropriation was to do research on the appropriate kind of rolling stock to meet the needs of the Alberta shippers for containers. A major part of the expenditures was to test the viability of double-stacked articulating rail cars and to look at the type of technology that was available in Europe and the U.S. and actually test a rail car on the system. So that's what the appropriation is for. In terms of the final decision with respect to acquisition of railcars, it will be made in this current year. In addition to that, there was research involved with Siemens to develop the propulsion system for rapid transit cars, and that work is now virtually complete. Two cars have now been completed and will be tested in Edmonton and Calgary in their transit systems. So that's the vote.

MR. DEPUTY CHAIRMAN: Mr. Heron, followed by Mr. Fischer.

MR. HERON: Thank you, Mr. Chairman. I'd like to stay on the same page -- that is, page 7.5 -- and look a bit at the vote 2.3 under the category of high technology. We see in there medical and pharmaceutical, estimated at \$2.5 million with an actual of \$1.5 million expended. What sort of returns can the province expect from these, and what are some of the projects that it's involved in?

MR. SHABEN: I think, Mr. Chairman, the specific question is with respect to our investment in Chembiomed, which has been an investment spread over, I think, three or four years. Mr. Heron is asking me to sort of speculate on what the results might be.

The area of biotechnology is a tremendously exciting one, and I think the establishment of the medical research foundation and the research that has evolved from that and the potential for biotechnology products and research is really exciting. Chembiomed is one company. There are other private companies that have been established, like Biomira. There's SynPhar, which is a joint venture between the Japanese and an Edmonton scientist. So there are some really exciting things that are occurring.

I'm not sure what the ultimate outcome of Chembiomed will be, but the total industry is really exciting. Chembiomed has experienced some significant successes, and they're marketing

products worldwide. Alberta is becoming known as a centre of excellence for biotechnology, and I think it's an important diversification aspect of our economy and has considerable potential.

MR. HERON: If we just move down one line to vote 2.3.2, can the minister explain what the \$1.171 million-odd spent on high technology energy projects went towards and explain how seriously the declining oil prices have affected expenditures in this type of investment?

MR. SHABEN: That specific investment was an investment in a Bassano-based company, Global Thermo. Since that investment was made, there has been some restructuring of the company. The company is experiencing considerable success in its marketing activities, although in its early years it focused on research and was not as successful in marketing as it is. So we have written off a portion of the investment and have retained an active involvement, though, in the company by way of common shares. So there's been a conversion to common shares. The company is growing and has had in this current year a successful year.

MR. HERON: Thank you, Mr. Minister. In looking down the page, there's an obvious emphasis on international trade and exports and, in general, just the trade activities. I've often heard you say that developing exports is one of Alberta's three goals, one of your objectives and your goals. Can you give us any idea of how we've accomplished those goals, say, from 1971 to now in terms of total export growth, and what does it really mean when you develop a billion dollars worth of export trade in terms of jobs? Do you have some ballpark measures for what the growth means to Alberta?

MR. SHABEN: Mr. Chairman, I guess the simplest translation of the importance of exports is jobs, because obviously with our relatively small population of 2.4 million and our limited consumption capability -- in other words, only a certain amount of our gross domestic product can be driven by consumption -- we must be active in our export activities. That's been a clear focus of the government for a number of years. And that focus, I think, is beginning to bear fruit, because I'd indicated earlier that our exports in 1971 were \$1.4 billion and in 1985 approximately \$13 billion. We've tried to do an estimate of what that export business translates into in terms of jobs, and it's well over 200,000 jobs for Albertans.

So I think it's important for us to, in an intelligent way, continue to expand our export markets based upon the strength of Albertans to compete in those markets. We cannot compete head-to-head with Japan or France or the United States across the board, but there are certain strengths that Alberta companies have, and those are the ones that we need to expand and build upon. You just raised the issue of biotechnology, and that's an area of obvious strength that I think we can grow in.

MR. DEPUTY CHAIRMAN: Well, Mr. Heron, that's your three. I'll put your name at the bottom of the list for that. Mr. Fischer, followed by Mrs. Mirosh.

MR. FISCHER: Thank you, Mr. Chairman. I might have a couple of supplementary questions before I get on to my main question. On the Intermodal distribution system -- and we spent \$20 million roughly in '85-86, and that was basically for the capital expenditure to get the thing going -- what ongoing costs

do we have from that now?

MR. SHABEN: The corporation is operating at very close to a break-even point right now. The volume of container movements has exceeded our expectation in terms of the number of containers moved annually. I think in the current year we'll approach 19,000 TEUs, against projection that they would move about 14,000. So the Alberta Intermodal Services generates revenue as a result of movement of containers for Alberta shippers.

In addition, the company has not expended the full \$20 million and has some financial reserves for developing further infrastructure as required. The interest from those reserves -- and I think the reserves are about \$8 million or \$9 million -- contribute toward the revenue of AIS, so the company does not call on the taxpayer for additional ongoing operating support.

MR. FISCHER: Thank you. My other question was to do with international trade. We have \$10 million here in salaries and employee benefits and so on. When we get out in the international market, do we have actual salesmen out selling? We realize the importance of it, but how does that operate? Do we get the private sector to come in and help out with that, or do we do it ourselves?

MR. SHABEN: Mr. Chairman, our role is to assist the private sector. In order to do that we have trade directors who are involved both geographically and sectorally. Also, we have people -- for example, we have one of our people located in London, Hong Kong, New York, Houston, and Los Angeles, in addition to the trade directors that work out of our offices in Alberta. Their role is to support the private sector, to lead trade missions, and to respond to incoming missions. So it's really a supportive role to the private sector.

MR. FISCHER: Now my main question; I better get back to it. The development of industrial programs is \$5 million. Could you elaborate a little bit on this program? What benefits do we get from that?

MR. SHABEN: Could the member give me the vote? I'm not sure . . .

MR. FISCHER: Page 7.2, vote 1.3.

MR. SHABEN: A good portion of that has now been moved to TRT, but in the particular year that we're dealing with, 1985-86 fiscal year, it was principally for infrastructure in the science and technology area and included the Alberta Microelectronic Centre, which provides microelectronic technology to industry; the Electronics Test Centre institute; the development of laser systems; the electronics information centre, and that's a computerized information bank; the supercomputer at the University of Calgary; some support to the Calgary Advanced Technology Centre, and that's that incubator facility; as well as the Alberta Research Council biotechnology pilot project, which is an important one; and the Centre for Frontier Engineering Research, which is a private-sector/government co-operative venture to research cold weather materials, particularly as they relate to oil and gas. So those are some of the key areas.

Also, I'd referred earlier to its support of investigating the feasibility of getting involved with a joint venture with LSI Logic out of California and also examining opportunities that

I'd referred to earlier in petrochemicals and software industry and food processing. Basically, the whole industrial milieu was this vote that provided us with both infrastructure and research in those sectors.

MR. FISCHER: There's nothing in direct grant form that goes to them then?

MR. SHABEN: Yeah, there was, because there was infrastructure into these specific high-tech facilities, and they were grants.

MR. CHAIRMAN: Mrs. Mirosh, followed by Mr. Mitchell. Mr. Fischer, you had another question coming, so we will add your name to the bottom of the list. It's getting quite long here.

MRS. MIROSH: He's such an important minister.

Thank you, Mr. Chairman. I would like to refer to page 7.2 and vote 1.5 with regard to small business. Roughly \$5.5 million has been spent in small business, and I understand the role of small business in development of diversification has been getting a great deal of attention, both by this province and federally. I'm wondering if this money has been spent to assist small business. Will this be there over a number of years, or is this just a short-term expenditure?

MR. SHABEN: Mr. Chairman, it's not short term. Our commitment to small business is, I think, the key commitment that we make, because from the perspective of what happens in Alberta, particularly in job creation, the small business sector is key to that growth and expansion. Just to give you an idea: in the first six months of 1987, there were more than 8,000 new incorporations in Alberta, and 1986 was also a significant year in terms of formation of new businesses. And that's a constant process. We provide consulting advice to small businesses; we provide the management assistance program which has now been used by some 6,000 Alberta businesses, and we do that in co-operation with the chambers of commerce and provide that kind of consulting advice that they wouldn't be able to afford otherwise if they had to one-on-one retain the services of a consultant. We have our regional business development officers who work throughout the entire province and provide support and assistance. I'd referred to the SBEC program and the Alberta stock savings plan, and of course subsequent to that, we developed the Small Business Term Assistance Fund.

Our support and commitment to small business remains very strong, and it's a one-on-one kind of a support. I've given you the numbers, that our involvement with small business in this particular year was with nearly 19,000 businesses, where we provided consulting service or advice. And one of my targets in this reorganization of the department is to have small business be fully aware and, if possible, involved in the opportunities for export. We are working with our regional business directors so that pipeline of information between businesses throughout the length and breadth of Alberta are as knowledgeable as possible about the opportunities for export. We think that's important, because evolving from the small businesses that exist in Alberta, a few of them, and maybe a large number, become medium- and large-sized businesses and become a more important element in the Alberta economy. So small business is crucial because it's the base of all of the things that we do.

MRS. MIROSH: Mr. Chairman, I don't know if my next supplementary is a regular question because it doesn't specifi-

cally refer to this budget. You mentioned some of the initiatives that are contemplated, but would you be looking at providing more grants or loans to small businesses who are currently struggling in this province? I don't know if this is an irregular question or not, Mr. Chairman.

MR. DEPUTY CHAIRMAN: It's kind of hypothetical, and it doesn't relate, but if the minister wants to reply, he may.

MR. SHABEN: At the moment there isn't any program other than those that the hon. member is well aware of. If she or other members have suggestions of programs that might be supportive -- although in one of the areas, in spite of the work we're doing with Alberta Opportunity Company and the expanding of its role into venture capital, there remains difficulty for small businesses, not just in Alberta but all across Canada, in being able to access seed capital. That's one of the most difficult areas that small businesses face, and it's very difficult to design a government program that provides seed capital, because the costs of examining a business' potential viability often exceed the amount of money that the business is looking for. But if the member has some useful ideas or thoughts, I'd be happy to hear from her.

REV. ROBERTS: Dianne's fashion show.

MRS. MIROSH: Manufacturing fashions. That's all; thank you, Mr. Chairman.

MR. DEPUTY CHAIRMAN: Mr. Mitchell, followed by Mr. Nelson.

MR. MITCHELL: Thank you very much, Mr. Chairman. Mr. Shaben, I wonder if you could just outline specifically what distinguished, during the period under consideration, an AOC loan from a private-sector loan. Was there a distinction in the way in which collateral assets were assessed or track record was assessed? I'm wondering whether there was ever an effort made to take a risk on behalf of an Alberta entrepreneur in a case where entrepreneurs simply could not find money elsewhere. I think it addresses your seed capital issue, and that's something that I would like to discuss further as well.

MR. SHABEN: AOC, with its mandate of basically providing debt financing for small business where other conventional financial institutions don't go, obviously takes greater risks than conventional lenders, particularly banks or other financial. . . But when it comes to once that project is assessed -- and the principal decision, and I'm sure Mr. Mitchell is well aware of this, is based on the individual, because often there isn't the collateral there to support the loan that is made by AOC, and so a great deal of the weight of the decision is based on the individual entrepreneur. That usually weighs in favour of, or against, that track record of the individual or the quality or experience. So that's the key factor, I think, from AOC's perspective: the individual entrepreneur. And then once that decision is made, the AOC takes the appropriate collateral that a financial institution would take, including, on some occasions, personal guarantees. And often those are necessary because the collateral is minimal.

MR. MITCHELL: Thank you. I would like to pursue that, but there are another couple of questions I would like to pursue as

well, so I think I'll get to them.

A question was asked about the process of evaluating trade activities, and you gave an answer. I would like to know more specifically what area in the department and what resources and what techniques are used to follow up a trade mission, for example, or to assess the role of a trade representative in one of our foreign offices to equate investment in, if you will, under the financial assistance to exporters, with results.

MR. SHABEN: We do, first of all, a constant evaluation of the programs, and there are three basic programs that we use to assist exporters that involve government funds. One is the market development assistance program, where we assist companies in preparing their bids on foreign projects, and our success ratio on that -- we have now invested about \$6 million over a three-year period, assisting Alberta companies in bidding on projects. The total amount of business that has been generated by Alberta companies as a result of that investment is confirmed at \$55 million and the potential of another \$150 million that would result from that market development assistance. We had calculated on that program -- and I may be low -- as a 50 to 1 return in terms of our investment versus Alberta business.

We have another program where we assist the companies in a portion of their travel costs, and we do a follow-up with the companies in terms of whether they've achieved success in marketing a product. We don't pick up the entire cost, and we only come in to supplement the federal PEMD, which supports exporters. So that's another program.

Another one we use that we find very useful is a loan guarantee for confirmed orders. A number of companies aren't large enough to finance the orders they're able to get offshore. If they're successful in tying down a contract, we'll provide a loan guarantee for a portion of the bank financing in order that they can finance the filling of that order. We have provided some \$60 million worth of guarantees since the program was in place, and our total loss under that guarantee program has been about -- I don't think we've had any; I can't remember any. So it's been a really good program.

It's a long answer because the question was about what we're doing and how we follow up. Our individual trade directors maintain pretty close contact with the companies that they take on missions. One of the things we're doing that we think is really important is we're doing a canvass of Alberta companies. We began that a year ago. We have our manufacturers' indices and so on in the different indexes, but we're doing a canvass to find out which Alberta companies would be interested in an offshore joint venture partner. We have now identified and confirmed about 150 Alberta companies that would be interested in talking to someone from offshore who'd like to form a joint venture partnership. Now we're going to do more matching rather than simply having them come in and talk and then go away. We want to do more direct one-to-one matching.

So that's sort of the role of the folks that are involved in international trade.

MR. MITCHELL: Great. I think I understood this to be the case: as an example of the success of some of your programs, I think you mentioned Lavalin, which has an office in Calgary, and 60 percent of its business is done outside Alberta. That was an indication of the success of whatever, exporting services. Maybe it's just an oversight. I understand Lavalin is a Quebec firm, and one would expect that a great deal of its activity would be outside Alberta. Is there some specific benefit accruing to its

Alberta office because of the activity outside Alberta by Lavalin, or are you specifying that Lavalin itself, its Alberta office, does work outside Alberta?

MR. SHABEN: It might have been a poor example. I was asked to give an example, and I gave Lavalin as an example. On the particular work on oil and gas in the Soviet Union, 60 percent of the work is being done out of the Alberta office, so it does strengthen the employment and the technological capability in Alberta. Lavalin is a Quebec head-officed company, but its presence in western Canada is growing, and it's partly because of its ability to access trade offshore.

A better company might have been Propak, which builds gas processing plants. That's another example where their business in the past, because of the downturn in Alberta, has shifted to where about 80 percent of it is offshore. They employ about 400 people in Alberta building gas processing plants here in modular form and selling them all over the world. Of course, working with them, I think they've been, you know, another success story but an Alberta-based company.

Mr. Mitchell, there are about 800 companies that we view as being successful in marketing offshore. The target that I have set for our trade directors and for our department is to triple the number of Alberta companies over the next four to five years, because I think we've got to broaden the base. That's what I referred to: making the small businessman available, aware of the opportunities offshore, and providing them with support.

MR. DEPUTY CHAIRMAN: We're running out of time here. Mr. Nelson and Mr. Downey have advised the Chair that their concerns have been addressed. We just have a couple of moments left. Mr. Bradley?

MR. BRADLEY: Yeah, I wanted to ask a question with regards to the investment under 2.3.14 on page 7.5. It has to do with the investment in the Alberta Stock Exchange, some \$400,000. Could the minister advise as to what exactly that expenditure

was? Is it going to be an ongoing expenditure, or was it a one-shot expenditure?

MR. SHABEN: Mr. Chairman, the total amount of that commitment to the Alberta Stock Exchange was \$1 million, and it was to improve their electronic capability. It was a loan to the Stock Exchange, and it's been very well utilized in terms of expanding the capability of the Alberta Stock Exchange to handle the activities. It was sort of tied to the policy decision of establishing the Alberta stock savings plan and anticipating a formation of a lot more Alberta companies, which has in fact happened, where the Stock Exchange has grown pretty dramatically. This assistance by the government has been instrumental in allowing them to handle in a businesslike way all of the data processing and the electronics that are involved. So it's a portion of the \$1 million commitment.

MR. BRADLEY: Mr. Chairman, in light of the hour, I move that we adjourn.

MR. DEPUTY CHAIRMAN: Just before we accept that move for adjournment, I'd just like to announce to the members that the next meeting will be next Wednesday, December 9, at 10 a.m., when the Hon. Marvin Moore, Minister of Hospitals and Medical Care, will appear before the committee.

Mr. Shaben, I want to thank you and your officials for coming, and Mr. Salmon and his officials. We appreciated your frank overview and your replies to our questions. Thank you very much for appearing before us.

We will now entertain Mr. Bradley's move for adjournment.

HON. MEMBERS: Agreed.

MR. DEPUTY CHAIRMAN: All agreed.

[The committee adjourned at 11:30 a.m.]